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**REPORT**

**OF**

**THE AUDITOR-GENERAL**

**ON**

**GUSII WATER AND SANITATION  
 COMPANY LIMITED**

**FOR THE YEAR ENDED  
 30 JUNE 2019**

PAPERS LAID	
DATE	10/02/2022
TABLED BY	SENATE MAJORITY LEADER
COMMITTEE	
DESK AT THE TABLE	GETRUPU



**International Financial Reporting Standards (IFRS)  
Annual Financial Reporting for  
Commercial Government Owned Entities**

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**GUSII WATER AND SANITATION COMPANY LTD**

**ANNUAL REPORTS AND FINANCIAL STATEMENTS**

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

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

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## I. KEY ENTITY INFORMATION

### Background information

The Company was established by the Water Act of Parliament on 12<sup>th</sup> June 2006 at cabinet level, the Company is represented by the Cabinet Secretary for Water and Irrigation who is responsible for the general policy and strategic direction of the Company. The Company is domiciled in Kenya and has branches in Kisii town, Nyamira, Ogembo, Tabaka, Keroka, Nyansiongo, Birongo, Gesusu and Kibirigo.

### Principal Activities

#### GWASCO Vision

To be the premier company in the provision of potable water and sewerage services in Kenya

#### GWASCO Mission

To provide safe water and sewerage services efficiently and effectively to sustainably meet expectations of the customers and other stakeholders.

#### GWASCO Core Values

The core values are the fundamental principles that guide the behaviour of every person or entity working with GWASCO. They should be practiced and embraced to create the organizational culture to drive GWASCO's vision.

#### The core values guiding GWASCO are:

- Customer focus
- Integrity
- Gender Responsive
- Professionalism
- Team work
- Innovation

### Directors

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

- |     |                        |                               |   |
|-----|------------------------|-------------------------------|---|
| 1.  | Mongeri Mirieri        | - Chairman                    | - Appointed on 5 <sup>th</sup> September 2018 |
| 2.  | Osborn Nanga           | - MD                          | - Appointed on 5 <sup>th</sup> April 2019     |
| 3.  | Joseph Tirimba Onserio | - Director                    | - Appointed on 5 <sup>th</sup> September 2018 |
| 4.  | Justus Nyamweya Omari  | - Director                    | - Appointed on 5 <sup>th</sup> September 2018 |
| 5.  | Dr. Skitter Mbugua     | - Director                    | - Appointed on 5 <sup>th</sup> September 2018 |
| 6.  | Fredrick Nyamweya      | - Director                    | - Appointed on 5 <sup>th</sup> September 2018 |
| 7.  | Samwel Maiko           | - Director                    | - Appointed on 5 <sup>th</sup> September 2018 |
| 8.  | Jackline Mirieri       | - Director                    | - Appointed on 5 <sup>th</sup> September 2018 |
| 9.  | Timothy Kambuni        | - Alternate to CECM (Finance) | - Kisii County                                |
| 10. | Fanice Mose            | - Alternate to CECM (Finance) | - Nyamira County                              |

**Corporate Secretary**

There was no appointed Company Secretary at the time of preparing these financial statements.

**Registered Office**

Gusii Water & Sanitation Co. Ltd.  
P.O. Box 3880 - 40200  
Kisii. KENYA  
Next to Ministry of Housing  
Opposite Kisii - Kilgoris Junction

**Corporate Headquarters**

Gusii Water & Sanitation Co. Ltd.  
P.O. Box 3880 - 40200  
Kisii, Kenya

## **KEY ENTITY INFORMATION (Continued)**

### **Corporate Contacts**

Telephone: (+254) 0208029088/058-31345

Email: info@gwasco.co.ke

Website: www.gwasco.co.ke

### **Corporate Bankers**

1. Kenya Commercial Bank Ltd





### **Independent Auditors**

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




### **Principal Legal Advisers**

1. The Attorney General  
State Law Office  
Harambee Avenue  
P.O. Box 40112  
City Square 00200  
Nairobi, Kenya
2. Reuben Masese & Company Advocates

## II. THE BOARD OF DIRECTORS

	Details	Date of Appointment
 Mongeri Mirieri	<p>Name: Mongeri Mirieri Age: 66 Years Qualification: Holds Bachelor of Education (Second Class Honors) from University of Nairobi. Representation: He joined the Board on 5<sup>th</sup> September 2018 and represents Business Community in Kisii County</p>	5 <sup>th</sup> September 2018
 Osborn Nanga	<p>Name: Osborn Nanga Obaigwa Age: Qualification: MSC, BSc. GEng, EBK, P Eng. Tech. KETRIB Representation: Managing Director</p>	5 April 2019
 Mr. Joseph Tirimba Onserio	<p>Name: Mr Joseph Tirimba Onserio Age: (61 Years): Date of Appointment: Joined the Board of the Company on 5<sup>th</sup> February 2014. Qualification: He holds diploma in administration and management from Co-operative College of Kenya. He has a wide experience in financial management at Government and Local Governments having worked in the Institute of Public and Private Partnerships, Washington USA. Representation: He represents manufacturing community in the Board of Directors.</p>	5 <sup>th</sup> February 2014
 JustusNyamweya Omari	<p>Name: Justus Nyamweya Omari Age: 60 Years Qualification: He holds MSC Engineering and Management from JKUAT and BSC Agricultural Engineering from JKUAT, Certificate in Agricultural Engineering from Eldoret Institute of Agriculture. He worked with Ministry of Agriculture as Agriculture engineer. Representation:</p>	5 <sup>th</sup> September 2018
<p>Fredrick Nyamweya</p>	<p>Name: Fredrick Nyamweya Nyangweso Age: 57 Years Qualification: He holds Kenya Certificate of Education from St Mary's Ekerubo Secondary School. Representation: He joined the Board on 5<sup>th</sup> September 2018 and represents Manufacturing Community in Kisii County</p>	5 <sup>th</sup> September 2018

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 <p>Jackline Mireri</p>	<p>Name: Jackline Mireri          Age: 44 Years          Qualification: She hold Bachelor of Public Administration from Bugema University and Diploma in Public Administration from Kenya Institute of Management and currently working with Standard Media Group as regional Business Manager (Nyanza)          Representation:</p>	<p>5<sup>th</sup> September 2018</p>
 <p>Dr Skitter W. Mbugua</p>	<p>Dr Skitter W. Mbugua is the CEC for Energy, Water and Environment &amp; Natural Resources. She previously served as CEC in Education, Labour and Manpower Development; Energy, Water, Environment and Natural Resources; and Roads departments within Kisii County. Prior to that, she worked as lecturer, Masinde Muliro University of Science and Technology (MMUST). She holds a Doctorate Degree in Physics, a Masters Degree in Physics from Moi University and a Bachelors Degree in Education (Science) from Egerton University</p>	
 <p>Samwel Maiko</p>	<p>Samwel Maiko is the <u>ECM, Environment, Energy, Mining &amp; Natural Resources</u>, at Nyamira County Government.</p>	

### III. MANAGEMENT TEAM

	<p>Osborn Nanga Obaigwa Managing Director MSC, BSc, GEng, EBK, P Eng. Tech. KETRB</p>	<p>Planning, implementation, monitoring and evaluation.</p>
	<p>Wilfred Marita Onsomu Procurement Manager MKISIM, MBA-PSCM,BBA&amp;MGT,DSM,CSP</p>	<p>Supply and storage of materials and equipment</p>
	<p>Mark Dom Ongonge Operations Manager Dip., Water Technology</p>	<p>Timely, economic and reliable maintenance of installed services.</p>
	<p>Naom Manyara Human Resource Officer BA(Social Sciences)</p>	<p>Formulate, Enforce and regularly update human resource policies</p>
	<p>Justus Kebaso Momanyi Debt Manager B.Com (HRM), Dip. HRM</p>	<p>Monitor the debts and prepayments</p>
	<p>Dalton M. Ogero Internal auditor BSC with IT, CPA</p>	<p>Ensuring integrity of the assets and quality of management decisions</p>
	<p>CPA Thaddeus Mogesi Mogoi Financial Accountant BBM, MBA, CPA (K), MKIM</p>	<p>Implement and enhance management information and accounting systems</p>

#### **IV. CHAIRMAN'S STATEMENT**

**To our esteemed Shareholders,**

It gives me great pleasure to share with you an update on the overall performance of your Company in the year ended 30 June 2019. It was yet another difficult year for the global economy, particularly Kenyan economy characterized by low growth and geopolitical uncertainties. In Kenya, rural demand for water continued to be sluggish in the most parts of the year on the back of monthly consecutive rainy seasons coupled with poor water supply infrastructure. The overall market showed signs of recovery in the latter quarter of the year but faced a temporary slowdown in June due to heightened political temperatures owing to scheduled elections.

In this challenging business environment, Gusii Water and Sanitation Company Ltd delivered a resilient performance for the year ended 30 June 2019. In the year under review, the company made significant steps despite the difficult operating environment brought about by slow economic growth and the continued rise in input prices in form of electricity and chemical costs notwithstanding threats for industrial action by the staff who have been demanding for attractive remuneration. Climate change equally affected our production due diminished sources caused by prolonged drought from January to around April like Nyamira, Ikonge and Nyansiongo water supplies. This was worsened by eucalyptus trees planted along the water sources that contributed to reduced flows.

##### **Expansion programmes**

The company has a production capacity of 6,000m<sup>3</sup>/day of water per day which comprise of the treatment works of New Kisii, Keroka, Nyamira, Ogembo, Tabaka, Ikonge, Keumbu, Nyansiongo and Gesusu. The estimated demand in our area of jurisdiction is 30,000m<sup>3</sup>/day. To meet the growing demand as well as grow our market share, the company is undertaking an integrated approach that encompasses improvement of production capacity, expansion of the network and enhancement of operational efficiency. In this regard, through Lake Victoria South Water works Development Agency Kisii water supply and Nyamira water supply will inject an additional 21,000m<sup>3</sup>/day and 1,200m<sup>3</sup>/day respectively after the ongoing expansion works are completed. Additionally, a major sewer network expansion project will also be undertaken in areas of Kisii to increase coverage and connectivity in CBD, Nyanchwa, Jogoo, Bobaracho, Suneka, Nyankongo, Daraja Mbili and other environs.

In our endeavour to improve service delivery, we strive to build rapport with donors and other financiers and particularly I unequivocally report that Water Sector Trust Fund has funded the company in water extension projects in Ikonge Water Supply, Keumbu Public Sanitation Facility, Gusii Household sanitation Project under Up scaling Basic sanitation for the Urban Poor project (UBSUP) at a total cost of KShs.30 million.

In the year under review, Nyangori treatment works were constructed with the funding from African Development Bank was commissioned and is fully operational. KIWASH also supported the company in installing solar panels in Ikonge Water Supply and replacing UPVC Pipes with HDPE as a strategy to minimize NRW.

##### **Financial Performance**

I am pleased to report a year of continued progress for Gusii Water and Sanitation Company Ltd and present to you the company results of a successful operating year in which our financial performance showed improvement. Billed revenues increased to KShs.114.8 million in the year ended 30 June 2019 down from KShs. 89.7 million in the year ended 30 June 2018. This increase is attributed to increased sales volume under increased Regular Tariff Adjustment in the year under review.

### **Customer service and social responsibility**

Satisfying our customers and creating stakeholder value remain our cherished goals. As we look into the future, our resolve is to remain focused to achieve these goals through securing adequate water supply, distribution capacity, reducing Non-Revenue Water and expansion of our customer base.

We are also expanding our social responsibility by providing our services to the low income areas through construction of water kiosks where water is affordable to all residents of those areas.

During the period, we received a water bowser and exhauster truck which has extended services to our customers.

### **Future Outlook**

Our new constitution places the water and sanitation services under the county government and also declares access to clean water a human right. This, together with the new Water Act 2016 has presented major changes in the sector.

Kisii and Nyamira towns under Kisii and Nyamira Counties respectively have witnessed increased economic activities and therefore demand for water and sanitation services has more than tripled. The Company Board under whose chairmanship I hold is formulating a comprehensive blueprint to spearhead the provision and improvement of the Water and Sanitation Services Provision to meet the water demand of Kisii and Nyamira Counties.

It is my humble believe and wish that with continued support from the Government of Kenya, County Governments of Kisii and Nyamira, Lake Victoria South Water Services Board, business development partners and unwavering commitment of our staff, the company will resiliently overcome economic challenges in the sector and sustainably achieve its stated mandate.

### **Tribute**

I wish to take this opportunity to thank all our stakeholders for their support without which our remarkable performance would not have been achieved. I also take this opportunity to sincerely thank our Ministry of Environment, Water & Natural Resources both at the National Government and the two Counties for their invaluable support, Water Services Regulatory Board, other water sector institutions, our development partners and the stakeholders for the continued support of all our activities.

The Directors remain committed to provide the necessary leadership to facilitate continued improvement of the Company's operations. I remain confident that we have the skills, abilities and resources necessary to manage the significant opportunities and challenges that lie ahead of us.

Sign:



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**Mong'eri Mirieri**  
Chairman  
28 January 2020

## V. REPORT OF THE MANAGING DIRECTOR

### General overview

Following the end of the financial year 2018/2019, strategies aimed at securing adequate water supply, expanding water access to the residents, improving the quality of supply and service to our customers, as well as the financial performance took the centre stage of our operations. Accordingly, the company embarked on negotiations with our development partners to source for funds for investment in infrastructure expansion and rehabilitation. The Company's performance has continued to improve despite the many challenges facing it. This include but not limited to: teething problems during the implementation of the new tariff, challenges with the billing software, dwindling sources due to drought like Gesabei dam for Nyansiongo water supply, Nyamira water supply, Nyakomisaro water supply and Eucalyptus trees along the water sources. In the face of these challenges, the company has managed streamline its revenue growth and service delivery to some extent as evidenced in the latest WASREB impact report.

During the period the company has formed a good rapport with our external financiers and partners and we expect more support in the coming year in the following ongoing and upcoming projects:-

1. Completion and commissioning of New Kisii Treatment Works and Rehabilitation of Water System in Kisii and Nyamira Towns funded by Kfw through Lake Victoria South Water Services Board at a cost of KShs. 2 Billion.
2. Completion and commissioning of Ikonge water project funded by WSTF at a cost of KShs.21 million.
3. Completion and commissioning of the Gusii Household Sanitation Project funded by WSTF at a cost of KShs. 14 million
4. Non-Revenue Water management tools and capacity building through the benchmarking project funded by USAID members through Kiwash.
5. Strategic Planning through the help of USAID by Kiwash. The strategic plan 2017-2022 was launched during the year.
6. Installation of solar pumping and distribution system in Ikonge through funding from Kiwash.
7. Supply and delivery of one Water Bowser, one Exhauster, one double Cab, one single cab, a mobile workshop and eighteen motorcycles under KFW funding to enhance service delivery as well as operation and maintenance.

To deliver our priorities and a strong customer proposition, everyone in the business needs to be engaged with our vision and values and the needs of our customers. This is why I've been bringing managers in the company together to talk about what our values mean to them, what our customers expect and what our strategy needs to deliver. As Gusii Water family, we all need to be committed to driving changes that will really deliver for our customers.

I fully recognise that the privileges of running a water company come with important responsibilities, and I understand the significant impact on our customers and the environment when we fall short of the standards our customers rightly expect of us. During the last year we've seen a series of major bursts on some of our Victorian water pipes and we've missed our leakage target. Leaks are inevitable on a network of our enormous size and age, but it's vital we invest wisely and continually to improve our resilience. This is a huge priority for us.

We are in a hugely privileged position with life-long investment from our customers through their bills, and everything we do impacts them, their children, their grandchildren and beyond. We're Custodians of their money so we need to be smart and disciplined about how we spend it. Our customers also play an active part in operating our water and waste-water networks, every time they turn on a tap, use a washing machine or flush the toilet. So the way we engage with them and explain our business is a continuing priority.

#### **Human resource**

The company's human resource has continued to be a valuable asset in achieving business objectives, targets, customer satisfaction and stakeholder expectations. Consequently, the company's work ethics are founded on team-work.

In order to enhance staff productivity, the company has embraced a performance management system as a basis for rewarding and identifying areas of improvement.

#### **Information Communication Technology (ICT)**

The company recognizes that ICT is the nerve centre of the company's business. It is a vital component for the establishment and support of all existing and new business and customer service initiatives, as well as company's operations.

The company has therefore continued to embrace new technology and has during the years under review acquired a new billing and customer service software. It has also operationalized the use of M-Pesa services for bills payment as part of improved customer service. In managing its debts, the company has collaborated with credit bureau agency, Metropol to rate its customers to enhance prompt payment of billing services. This is in addition to the dedicated debt collection team that has been instituted.

#### **Health and the Environment**

The company has continued to expand its services to the un-served areas where raw water has been used for domestic use. By providing potable, clean, safe and affordable water to such areas, the company is playing a major role in improving the health of the residents under its jurisdiction.

The company has also invested in maintenance of Suneka sewerage ponds and conducting environmental audits through National Environment Management Authority to achieve a clean and safe environment. To this end, continuous laboratory tests and analysis of both treated water and water discharged from our sewerage treatment works ensures that we comply with the stringent regulatory standards and legislation.

#### **Conclusion**

We acknowledge that our company plays a major role in the socio-economic development of our two counties and the country at large. We shall therefore continue to actively pursue strategies aimed at increasing access to safe water, improving the quality of supply, services to our customers and securing our sustainability. With the commitment of our staff, the guidance of the board, support of the stakeholders and the Government, we are confident that we shall continue to satisfy our customers' expectations.

**Sign:**



---

**Osborn Nanga**  
**Managing Director**  
**28 January 2020**

## **VI. CORPORATE GOVERNANCE STATEMENT**

Transparency and accountability are the two basic tenets of Corporate Governance. Gusii Water and Sanitation Company Ltd envisions laying the foundation stone for good governance. Responsible corporate conduct is integral to the way we do our business. Our actions are governed by our values and principles, which are reinforced at all levels within the Company. We are committed to doing things the right way which means taking business decisions and acting in a way that is ethical and is in compliance with applicable legislation. Our Code of Business Principles is an extension of our values and reflects our continued commitment to ethical business practices across our operations. We acknowledge our individual and collective responsibilities to manage our business activities with integrity. Our Code of Business Principles inspires us to set standards which not only meet applicable legislation but go beyond in many areas of our functioning.

The Board of Directors is responsible for and committed to sound principles of Corporate Governance in the Company. The Board plays a crucial role in overseeing how the management serves the short and long term interests of shareholders and other stakeholders. This belief is reflected in our governance practices, under which we strive to maintain an effective, informed and independent Board.

### **THE BOARD OF DIRECTORS**

The Board of Directors is entrusted with the ultimate responsibility of the management, general affairs, direction and performance of the Company. The Company has been vested with requisite powers, authorities and duties to sustainably achieve its core mandate of Water Service Provision. The Management Committee of the Company is headed by the Managing Director and has business / functional heads as its members, which look after the management of the day-to-day affairs of the Company.

### **Composition**

The Board of our Company has a good mix of Executive and Non-Executive Directors with half of the Board of the Company comprising of Independent Directors. As on date of this Report, the Board consists of ten Directors comprising one Non-Executive Chairman, Eight Independent Directors and One Executive Director who is the Managing Director. The Board is constituted taking into account Articles and Memorandum of Association, diversity of skills, age, value addition, gender, academic qualifications and experience necessary to help Gusii Water and Sanitation Company achieve its goals and objectives.

The composition of the Board represents an optimal mix of professionalism, knowledge and experience and enables the Board to discharge its responsibilities and provide effective leadership to the business. The positions of the Chairman of the Board and the Managing Director of the Company are held by separate individuals, where the Chairman of the Board is a Non-Executive Director. None of the Directors of our Company are inter-related to each other.

### **Evaluation**

During the year under review, the Board did not conduct a self-evaluation exercise to gauge its performance. The evaluation could have assessed the effectiveness of the Company leadership giving members an opportunity to reflect on their responsibilities.

### **Company's Corporate Governance Cont'd Remuneration**

Directors are entitled to sitting allowance for every meeting attended, lunch allowance (accommodation allowance and mileage reimbursement where applicable), within set limits of Board Minutes upon approval by shareholders in an Annual General Meeting in accordance and within the approved limits set in the guidelines by the Government to all state corporations. Furthermore, Chairman is paid a monthly honorarium.

### **Work plan and meetings**

Dates of Board meetings in the ensuing year are decided in advance and scheduled in a work plan. The Board meets once a quarter or more when necessary to transact Company business.

### **Accountability and audit**

The Companies Act, 2015 vests sole responsibility on Directors to prepare financial statements for each financial year that give a true and fair view of the state of affairs of the Company. Director's responsibility stems from the premise that suitable accounting policies are consistently applied supported by reasonable and prudent judgments and estimates on proper accounting records kept disclosing with reasonable accuracy the financial position of the Company. Additionally, applicable accounting standards which include International Financial Reporting Standards and Relevant Laws of Kenya, Water Act, State Corporations Act, Public Financial Management Act, 2012 among others are followed as well as the duty to exercise care, skill and diligence. To achieve this, they have a fiduciary duty to ensure adequate internal control systems are in place to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

### **Directors' shareholding**

None of the Directors owns Company shares in their individual capacity.

### **Ethical standards**

The Company works towards ensuring that Directors and staff conduct themselves with integrity and professionalism in accordance with the Company's Code of Ethics for employees and the Directors Code of Conduct issued by WASREB. These are public statements that stipulate expectations and hold us accountable for our business conduct. Directors and all employees are required to read, understand, sign and remain bound by their provisions. The Company intends to carry out integrity awareness, training, risk assessments and enforcement of corruption prevention measures. The Company remains open to receiving complaints and making follow-ups on allegations and cases of unethical conduct. Objective analysis of reported cases will be done and appropriate action instituted to control and mitigate any risk arising. The Company continues to collaborate with external partners to entrench a culture of ethics and integrity.

### **Communication with Stakeholders**

The Company values and maintains good relations with stakeholders as fostered through effective communication. Company reports are available on the Company website at [www.gwasco.co.ke](http://www.gwasco.co.ke) and shared at the Annual General Meeting with the shareholders.

### **Company's Corporate Governance Cont'd**

All shareholders are entitled to attend and vote at the AGM for which notice is published at least 21 calendar days before the meeting. Stakeholders are also given an opportunity to ask questions or seek clarification on any matter relating to Company business during the AGM. In addition, the Company maintains an open-door policy and stakeholders have direct access to the Managing Director.

### **Board Committees**

The following standing committees assisted to effectively discharge various business functions and responsibilities.

To enhance corporate governance, the Board has three committees namely; Finance, HR & Procurement, Technical and Audit Committees. These standing committees assist the Company to effectively discharge various business functions and responsibilities. The committees submit reports of their activities to the Board on a regular.

### **Finance, HR & Procurement Committee**

The Finance, HR & Procurement committee is responsible for ensuring that the Company's financial and administrative policies are adequate and has the right staff, at the right place and doing the right thing at the right time for the right course. The committee is also responsible for reviewing the Company's annual budget and quarterly financial reports. They also collaborate with Technical Committee in reviewing the viability of the Company's new projects.

### **Technical Committee of the Board**

The committee is responsible for strategic planning, exploration of opportunities and developing proposals for funding and investment programs for the Company. This committee has oversight responsibility of ensuring that Company is complying with the agreements signed between it and the financiers. It also ensures that there is adequate asset development, maintenance and infrastructure improvement to ensure sustainability of all water infrastructures.

### **Audit Committee**

The committee comprises three non-executive directors and regularly invites Internal Audit Manager to its meetings. The Internal Audit Manager of the Company is the Secretary of the Committee. The committee is charged with the responsibility of ensuring adequate operating and control process are applied to safeguard the Company assets by reviewing internal Controls Measures of the Company and recommends appropriate remedial action where necessary. The committee also reviews all areas of risk and weaknesses in the Company and considers Internal Audit reports. They also ensure that appropriate action is taken on the recommendations of both Internal and external Auditors.

## VII. MANAGEMENT DISCUSSION AND ANALYSIS

The financial statements comprise two components:

- a) Financial statements
- b) Notes to the financial statements

As part of the financial statements, included are the statement of financial position, statement of comprehensive income, statement of changes in equity and the statement of cash flows

Results of operations are recorded using accrual basis of accounting whereby transactions are reported when underlying events occur regardless of the timing of cash flows. In this regard, revenues and expenses are reported in these financial statements for some items that will result in cash flows in future fiscal periods which include accounts receivable and accounts payable.

The statements of cash flows present the flow of cash and cash equivalents during the last two fiscal years. The notes to the financial statements provide additional information that is essential to the full understanding of the data provided in these financial statements.

### Financial and operational review

During the year, the company's revenue improved by 28% from Shs 89.9 million in the financial year 2017/2018 to Shs 114.8 million in the financial year 2018/2019. The increase can be attributed to the increase in Regular Tariff Adjustment regime that is aimed at improved sustainability. In the same vein, our net loss was Shs (6,304,200) down from (10,290,100) the previous year occasioned by improved revenue despite the increase in costs of production manifested by the increase in chemical, electricity and other operational costs.

### Service to the Poor Settlements

In line with our social mandate of providing services to the less privileged, the GWASCO continued implementing the pro-poor interventions aimed at improving the lives of the people living in the urban poor settlements. Activities related to this included the construction of Safisan toilets through funding from Water Services Trust Fund, in the areas covering Nyanchwa and Nubia areas

### Investment Performance

Key among the projects undertaken during the year was the extension of the water intakes at Nyamira and Kegati treatment works. The project was aimed at addressing the water production challenges associated with the deteriorating raw water quality in the treatment process and at the raw water Intake. These projects were financed through a concessionary loan and grant from the Kfw.

Other projects undertaken during the year included; rehabilitation works in New Kisii water Supply and Sewerage systems and the Company undertook some key restructuring and enhancement of the network in Kisii, plus the replacement of some of the electro-mechanical equipment at the water works. These were aimed at reversing the water shortages being experienced in some parts of the Kisii Town

We have comprehensive systems of internal control and risk management and we monitor their effectiveness regularly in compliance with the principles of our corporate governance code. This risk management framework is also closely linked to the way we monitor and measure our performance and compliance with our statutory obligations and commitments which is subject to external assurance by third parties. This ensures that the board and the audit and risk committee review all material controls including financial, operational and compliance controls.

The audit and risk committee monitors the effectiveness of our systems of risk management and internal controls on an ongoing basis.

**Risk: Water resources and climate change**

Risks description: Failure to develop our infrastructure, to improve its resilience and to manage demand would mean that we would not be able to meet our statutory duties and meet future demand. Climate change will increase instances of severe flooding and drought which can affect the availability of resources and the operation of our infrastructure.

Mitigation: We operate in an area of serious water stress and manage demand through our metering programme. We have also consistently endeavoured to meet our NRW targets. Our Water Resources Management Plan is developed to take account of opportunities for cooperation between WASREB and WARMA.

**Risk: Regulatory and legal compliance**

Risks description: Our business operates within a specific legislative and regulatory framework and many of our activities have an impact on the environment. Failure to ensure compliance with regulatory and legislative requirements may lead to criminal and civil liability, regulatory enforcement actions and disruption to the business and loss of management time. It will also affect the perception of GWASCO by customers, regulators and others with a stake in our business. Mitigation: We have a wide range of policies, processes and controls to ensure that we meet our duties and obligations. We also monitor compliance with our statutory obligations for the purpose of reporting on our performance and for the purpose of our compliance. We review annually compliance performance and processes with the relevant department. We monitor changes to compliance requirements in order to adapt our processes and policies when required.

**Risk: Security and information security**

Risks description: The security and resilience of our information infrastructure is essential to maintain our service to the public. We must protect ourselves from loss of data and systems, and cyber-attacks and keep customers' data up-to-date and safe. Failure to protect personal data may lead to enforcement actions and legal actions and would cause reputational damage. Loss or corruption of data would result in disruption to the business and additional costs.

These financial statements are designed to provide a general overview of the company's finances. Questions regarding any information provided in this report or requests for additional information should be addressed to the Managing Director.

## VIII. CORPORATE SOCIAL RESPONSIBILITY STATEMENT/SUSTAINABILITY REPORTING

### **Our Commitment**

The heart of our Corporate Social Responsibility (CSR) is reflected in our priorities that are central to the success of our business. They are the issues that will define our commitment over the near term. They focus equally on lessening our direct impact through our operations as they do on our relationship impacts with staff, customers and key stakeholders across the Australian electrical, construction and energy industry. We regard CSR as 'business critical' and have refined our priorities and developed a more robust methodology enabling us to provide a CSR scorecard for all our stakeholders. We know that for our program to be successful it must pervade all our operations. Hence Ethics, Environment, People and Community are an everyday commitment and I look forward to sharing great examples of our progress year on year.

Over the years GWASCO Ltd. has had the pride on its regular contribution towards community regeneration activities. We have continued this long-standing tradition of providing the communities with high quality and affordable Water and Sanitation Services. Within the past years, we concentrated on the improvement of the infrastructure and made substantial contributions towards the construction and maintenance of water and Sewer networks in our areas of our Jurisdiction and promoted sanitation. These have surely controlled to a lower level diseases caused by contaminated water.

### **CSR Policy**

We maintain a level of social responsibility that complements our economic activity. The Company Corporate Social Responsibility (CSR) framework connects activity with responsibility. It governs our business operations and engagement with stakeholders including employees, government, business, regulating bodies, customers and community.

CSR frameworks are self-regulating mechanisms that monitor alignment with global standards and local expectations with regard to business conduct. The framework ensures CSR is embedded in values and behaviour core to our business and in line with Company's leadership and identity. Many initiatives impact more than one quadrant within the framework.

### **Community Reach**

We encourage all employees to stay engaged with the community. We offer to pay leave to our employees if they wish to get involved in charity work during business hours.

### **Corporate Partnerships**

The Company has entered into a partnership with learning institutions who play a role in teaching primary, secondary schools, colleges and university students how water, waste water and sanitation services are treated, supplied and why it is such an important part of our lives.

Gusii Water also sponsor many regional ASK business excellence awards, Country Charities and environmental activities through our partnerships with various stakeholders.

## **IX. REPORT OF THE DIRECTORS**

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

### **Principal activities**

The principal activities of the entity are provision of water and sewerage services.

### **Results**

The results of the entity for the year ended June 30, 2019 are set out on page 1 to 48. Below is summary of the profit or loss made during the year.

### **Dividends**

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

### **Directors**

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

### **Auditors**

The Auditor General is responsible for the statutory audit of the Company in accordance with Article 229 of the Constitution of Kenya and the Public Audit Act 2015 for the year/period ended June 30, 2019 in accordance to section 23 of the Public Audit Act, 2015 which empowers the Auditor General to appoint an auditor to audit on his behalf.

By Order of the Board



**Osborn Nanga**  
**Managing Director**  
**28 January 2020**

## **X. STATEMENT OF DIRECTORS' RESPONSIBILITIES**

Section 81 of the Public Finance Management Act, 2012 and section 14 of the State Corporations Act, the Companies Act, and the Water 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/period and the operating results of the Company. The Directors are also required to ensure that the Company keeps proper accounting records which disclose with reasonable accuracy the financial position of the Company. The Directors are also responsible for safeguarding the assets of the Company.

The Directors are responsible for the preparation and presentation of the Company's financial statements, which give a true and fair view of the state of affairs of the Company for and as at the end of the financial year (period) ended on June 30, 2019. This responsibility includes: (i) maintaining adequate financial management arrangements and ensuring that these continue to be effective throughout the reporting period; (ii) maintaining proper accounting records, which disclose with reasonable accuracy at any time the financial position of the entity; (iii) designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of the financial statements, and ensuring that they are free from material misstatements, whether due to error or fraud; (iv) safeguarding the assets of the 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 financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgement and estimates, in conformity with International Financial Reporting Standards (IFRS), and in the manner required by the PFM Act, 2012, the Company 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.

### **Going Concern**

The financial statements have been prepared on a going concern basis. 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 these financial statements.

As at 30 June 2019, the statement of financial position reflected an excess of current liabilities over current assets. The working capital deficit was primarily caused by the Weak credit and collection policies. Moreover, during the financial year ended 30 June 2019 the Company experienced operating losses of (6,304,200) (2018: loss (10,290,017)). This extremely disappointing performance reflected the continued difficult trading conditions suffered by the Company demand management and service area coverage caused by the increased level of Non Revenue Water in the distribution system. The continuing viability of the Company and its ability to continue as a going concern is dependent upon the Company being successful in its continuing efforts in growing its revenue base and/or accessing additional sources of capital from financiers.

The directors are satisfied that the Company is able to meet its working capital liabilities through the normal cyclical nature of receipts and payments.

The Company has successfully expanded its revenue base by securing a major loan through the Government of Kenya for expansion works at Kisii and Nyamira which will have additional net cash inflows.

Consequently, the directors have proactively sought to address the deficiency in net current assets and improved cash performance via the following initiatives:

- a) Continued focus on debtors invoice collections, keeping inventory levels at a minimum; and
- b) continued focus on cost management and containment in all areas of business.

As a result of the above matters, the directors are of the view that the Company will continue as a going concern and, therefore, will realize its assets and liabilities and commitments in the normal course of business and at the amounts stated in the financial statements. The directors remain confident about the successful achievement of projected income targets and therefore no adjustments have been made to these financial statements relating to the recoverability and classification of the asset carrying amounts.

The directors believe that the Company will be successful in the above matters and, accordingly, have prepared the financial statements on a going concern basis.

#### **Approval of the financial statements**

The Company's financial statements were approved by the Board on **10 December 2019** and signed on its behalf by:

**Sign:**



---

**Managing Director**  
**28 January 2020**

**Sign:**

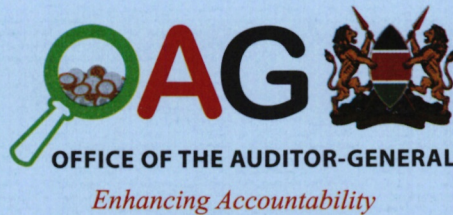


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**Chairman**  
**28 January 2020**

# REPUBLIC OF KENYA

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NAIROBI

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

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### **REPORT ON THE FINANCIAL STATEMENTS**

#### **Qualified Opinion**

I have audited the accompanying financial statements of Gusii Water and Sanitation Company Limited set out on pages 1 to 40, 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 and statement of comparison of budget and actual amounts for the year then ended, and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, 2015. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

In my opinion, except for the effects of the matters described in the Basis for Qualified Opinion section of my report, the financial statements present fairly, in all material respects, the financial position of the Gusii 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 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 Trade Payables**

The statement of financial position and as disclosed in Note 27 to the financial statements reflects trade and other payables balance of Kshs.39,670,600 as at 30 June, 2019. Included in this amount is an amount of Kshs.35,155,141 which was due to various suppliers for the acquisition of water assets and which had accrued for more than 90 days. However, the management did not provide supporting documents for the balance.

Consequently, the accuracy and completeness of the amount of Kshs.35,155,141 could not be confirmed.

## **2.0 Inaccuracies in Agency Account**

The statement of financial position and as disclosed in Note 28 to the financial statements reflects agency account balance of Kshs.40,662,700. Included in the agency account balance are amounts due to Lake Victoria South Water Service Board of Kshs.25,355,600, Water Services Regulatory Board (WASREB) of Kshs.9,956,000 and Water Resources Management Authority (WARMA) of Kshs.5,351,100. However, Management did not provide supporting documents in respect of these amounts.

Consequently, the accuracy, completeness and validity of the balance of Kshs.40,662,400 could not be confirmed.

## **3.0 Unregularized Share Capital Ownership**

The Company was registered with share capital of Kshs.100,000 divided into 20,000 ordinary shares of Kshs.5 each. The shares were issued to the defunct Municipal Council of Kisii and the defunct Municipal Council of Nyamira. The shares were later taken over by the Kisii County Government and the Nyamira County Government. However, the shares had not been transferred and paid for by the two County Governments.

In the circumstances, the Company ownership could not be confirmed.

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

## **Material Uncertainty in Relation to Going Concern**

The statement of profit and loss and other comprehensive income indicate that the Company incurred an operating loss of Kshs.6,304,200 during the year ended 30 June, 2019 (2018: loss of Kshs.10,290,100). The operating loss continued to deplete the retained earnings from negative Kshs.9,712,300 as at 30 June, 2018 to negative Kshs.16,016,500 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.

My Opinion is not modified in respect of this matter.

## **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.

## 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**

The Company produced 1,829,417 cubic meters (M3) of water out of which only 992,910 cubic meters were billed to customers. The balance of 836,507 cubic meters or approximately 46% of the volume represented the Non-Revenue Water (NRW) which is 21% over and above the allowable loss of 25% in accordance with the Water Services Regulatory Board Guidelines, 2010.

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 Non-Compliance with the Law on Fiscal Responsibility - Wage Bill**

The Company incurred expenditure of Kshs.78,777,800 on compensation of employees during the year which constituted about 69% of the total revenue. This is contrary to the provisions of regulation 25(1)(b) of the Public Finance Management (County Governments) Regulations, 2015 which limits the County Executive's expenditure on wages and benefits to not more than 35% of the total revenue for the year.

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 sections 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**

### **Lack of Risk Management Policy and Strategy**

The Company Management had not put in place risk management policy, strategies and risk register to mitigate against risk. It was, therefore, not clear how the management manages risk exposures. This is in contravention of Regulation 158 (1)(a) and (b) of the Public Finance Management (County Governments) Regulations, 2015 which requires the Accounting Officer to ensure that the county government entity develops risk management strategies, which include fraud prevention mechanism; and the county government entity develops a system of risk management and internal control that builds robust business operations.

Consequently, the Company Management was in breach of law.

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 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 LEGAL AND REGULATORY REQUIREMENTS**

As required by the Kenyan 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, proper books of account have been kept by the Company, so far as appears from the examination of those books;
- iii. The Company's statements of financial position and statement of profit or loss and other comprehensive income are in agreement with the books of account; and
- iv. In my opinion, the information given in the report of the Directors on pages xix and xx is consistent with the financial statements.

### **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 are aware of the intention 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 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

29 December, 2021

**Gusii Water and Sanitation Company Ltd**  
**Annual Reports and Financial Statements**  
**For the year ended June 30, 2019**

**XII. Statement of Profit and Loss and Other Comprehensive Income for the year ended 30 June 2019**

<b>REVENUES</b>	Note	<b>2018-2019</b>	<b>2017-2018</b>
		Kshs	Kshs
Revenue	6	114,807,900	89,860,500
Production Costs	7	(108,969,300)	(86,883,900)
Gross profit		<u>5,838,600</u>	<u>2,976,600</u>
Grants from the County Governments	8	33,962,400	37,348,200
In-Kind Donations	9	486,000	1,533,500
Other Income	10	15,705,200	6,414,000
<b>TOTAL REVENUES</b>		<u><b>55,992,200</b></u>	<u><b>48,272,300</b></u>
<b>OPERATING EXPENSES</b>			
Administration Costs	11	50,934,800	51,909,100
Operational Costs	12	5,807,600	3,618,400
Finance Costs	13	273,200	129,600
Depreciation of property, plant and equipment	17	3,699,000	1,845,400
Amortization of Intangible Assets	19	150,500	150,500
Provision for doubtful debts	21	1,431,300	909,400
<b>TOTAL OPERATING EXPENSES</b>		<u><b>62,296,400</b></u>	<u><b>58,562,400</b></u>
<b>PROFIT/(LOSS) BEFORE TAXATION</b>		<u><b>(6,304,200)</b></u>	<u><b>(10,290,100)</b></u>
<b>INCOME TAX EXPENSE/(CREDIT)</b>		0	0
<b>PROFIT/(LOSS) AFTER TAXATION</b>		<u><b>(6,304,200)</b></u>	<u><b>(10,290,100)</b></u>
<b>OTHER COMPREHENSIVE INCOME</b>			
Fair value through comprehensive income		0	0
Surplus or deficit on revaluation of PPE		0	0
<b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR</b>		<u><b>(6,304,200)</b></u>	<u><b>(10,290,100)</b></u>

**Gusii Water and Sanitation Company Ltd  
Annual Reports and Financial Statements  
For the year ended June 30, 2019**

**XIII. Statement of Financial Position as at 30 June 2019**


	Note	2018/2019 Kshs	2017/2018 Kshs
<b>ASSETS</b>			
<b>Non-Current Assets</b>			
Property, plant and equipment	17	47,418,800	42,704,600
Capital Work in Progress	18	0	9,282,000
Intangible assets	19	301,500	195,900
<b>Total Non-Current Assets</b>		<b>47,720,300</b>	<b>52,182,500</b>
<b>Current Assets</b>			
Inventories	20	1,708,300	2,144,100
Trade and other receivables	21	88,485,600	75,603,300
Bank and cash balances	22	6,416,900	4,431,300
<b>Total Current Assets</b>		<b>96,610,800</b>	<b>82,178,700</b>
<b>Total Assets</b>		<b>144,331,100</b>	<b>134,361,200</b>
<b>EQUITY AND LIABILITIES</b>			
<b>Capital and Reserves</b>			
Ordinary share capital	23	100,000	100,000
Retained earnings	24	(16,016,500)	(9,712,300)
Capital reserves	25	67,053,200	57,771,200
<b>Capital and Reserves</b>		<b>51,136,700</b>	<b>48,158,900</b>
<b>Non-Current Liabilities</b>			
Customer Deposits	26	12,861,100	11,533,100
<b>Total Non-Current Liabilities</b>		<b>12,861,100</b>	<b>11,533,100</b>
<b>Current Liabilities</b>			
Trade and other payables	27	39,670,600	41,796,300
Agency Account	28	40,662,700	32,872,900
<b>Total Current Liabilities</b>		<b>80,333,300</b>	<b>74,669,200</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>144,331,100</b>	<b>134,361,200</b>

The financial statements were approved by the Board on 10 December 2019 and signed on its behalf by:

**Managing Director**  
Osborn N.Obaigwa

Sign  \_\_\_\_\_

**Head of Finance**  
CPA Thaddeus M. Mogoi  
ICPAK M/NO: 10736

Sign  \_\_\_\_\_

**Chairman of the Board**  
Mongereri Mirieri

Sign  \_\_\_\_\_

XIV. Statement of Changes in Equity for the Year ended 30 June 2019

	Notes	Ordinary share capital Kshs	Reserve Kshs	Retained earnings/(Accumulated Deficit) Kshs	Total Kshs
<b>At July 1, 2017</b>	23	100,000	26,093,200	4,561,800	30,755,000
Issue of new share capital		0	0	0	0
Transfer of Completed Work in Progress to PPE		0	27,434,000	0	27,434,000
Deferred tax on excess depreciation		0	0	0	0
Total comprehensive income		0	0	(10,030,900)	(10,030,900)
Dividends paid - 2017		0	0	-	0
Interim dividends paid - 2017		0	0	-	0
<b>At June 30, 2018</b>		<b>100,000</b>	<b>53,527,200</b>	<b>(5,469,100)</b>	<b>48,158,100</b>
<b>At July 1, 2018</b>	23	100,000	53,527,200	(5,468,300)	48,158,900
Issue of new share capital		0	0	0	0
Transfer of Completed Work in Progress to PPE		0	9,282,000	0	9,282,000
Deferred tax on excess depreciation		0	0	0	0
Total comprehensive income		0	0	(6,304,200)	(6,304,200)
Dividends paid - 2017		0	0	0	0
Interim dividends paid - 2017		0	0	0	0
Proposed final dividends 2018		0	0	0	0
<b>At June 30, 2019</b>		<b>100,000</b>	<b>62,809,200</b>	<b>(11,772,500)</b>	<b>51,136,700</b>

**XV. Statement of Cash Flows for year ended 30 June 2019**

	Note	2018-2019 Kshs	2017-2018 Kshs
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Cash generated from/(used in) operations	13	9,939,600	19,308,300
Interest received		0	0
Interest paid		0	0
Dividends paid		0	0
Taxation paid		0	0
<b>Net cash generated from/(used in) operating activities</b>		<b>9,939,600</b>	<b>19,308,300</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Purchase of property, plant and equipment	17	0	(147,000)
Work in progress	18	(9,282,000)	(9,281,978)
Purchase of intangible assets	19	0	(293,500)
<b>Net cash generated from/(used in) investing activities</b>		<b>(9,282,000)</b>	<b>(9,722,478)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Proceeds from issues of new share capital		0	0
Proceeds from borrowings		0	0
Revenue from Customer Deposits	26	1,328,000	843,600
<b>Net cash generated from/(used in) financing activities</b>		<b>1,328,000</b>	<b>843,600</b>
<b>INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS</b>		<b>1,985,600</b>	<b>10,429,422</b>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>		<b>4,431,300</b>	<b>5,998,200</b>
<b>CASH AND CASH EQUIVALENTS AT END OF THE YEAR</b>		<b>6,416,900</b>	<b>4,431,300</b>

NOTES TO THE FINANCIAL STATEMENTS (Continued)

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

	Original budget	Adjustments budget	Final budget	Actual on comparable basis	Performance difference	Variance %
	2018-2019	2018-2019	2018-2019	2018-2019	2018-2019	
	Kshs	Kshs	Kshs	Kshs	Kshs	
<b>Revenue</b>						
Income from Water	158,848,800	0	158,848,800	72,268,200	(86,580,600)	-55%
Income from Sewer	69,313,000	0	69,313,000	39,843,600	(29,469,400)	-43%
Income from Meter Rent	2,274,700	0	2,274,700	2,696,000	421,300	19%
<b>Total Income from operations</b>	<b>230,436,500</b>	<b>0</b>	<b>230,436,500</b>	<b>114,807,800</b>	<b>(115,628,700)</b>	
Collection Efficiency	93%	0%	93%	103%		
Projected/Actual Collections	214,305,900	0	214,305,900	118,713,600	(95,592,300)	-45%
Grant from County Government	31,585,200	0	31,585,200	33,962,400	2,377,200	8%
In-Kind Donations	0	0	0	486,000	486,000	#DIV/0!
Other Income	0	0	0	15,705,200	15,705,200	#DIV/0!
<b>Total Income</b>	<b>245,891,100</b>	<b>0</b>	<b>245,891,100</b>	<b>164,961,400</b>	<b>(93,215,100)</b>	
<b>Expenses</b>						
Personnel Emoluments	79,387,600	0	79,387,600	78,777,800	609,800	1%
Directors Remuneration	6,496,800	0	6,496,800	4,013,600	2,483,200	38%
Administrative expenses	22,664,700	0	22,664,700	15,078,900	7,585,800	33%
Production Costs	79,370,300	0	79,370,300	62,033,600	17,336,700	22%
Operational Costs	22,898,300	0	22,898,300	5,807,700	17,090,600	75%
Finance Costs	0	0	0	273,200	(273,200)	#DIV/0!
Depreciation of property, plant and equipment	0	0	0	3,699,000	(3,699,000)	#DIV/0!
Amortization of Intangible Assets	0	0	0	150,500	(150,500)	#DIV/0!
Provision for doubtful debts	0	0	0	1,431,300	(1,431,300)	#DIV/0!
					0	

Investments	35,073,600	0	35,073,600	0	35,073,600
<b>Total expenditure</b>	<b>210,817,700</b>	<b>0</b>	<b>245,891,300</b>	<b>171,265,600</b>	<b>74,625,700</b>
<b>Surplus for the period</b>	<b>35,073,400</b>	<b>0</b>	<b>(200)</b>	<b>(6,304,200)</b>	<b>(167,840,800)</b>

- i. Performance difference of (-)55% Income from Water was due to newly approved increase in Regular Tariff Adjustment that was under implementation in the period under review.
- ii. Performance difference of (-)43% Income from Sewer was due to newly approved increase in Regular Tariff Adjustment that was under implementation in the period under review.
- iii. Performance difference of (+)19% Income from Meter Rent was due to newly approved increase in Regular Tariff Adjustment that was under implementation in the period under review.
- iv. The management will institute stringent measures to control administration, operational and production costs to cover for budgetary shortfalls where cash flow was insufficient to cover for planned recurrent and investment expenditures.

## NOTES TO THE FINANCIAL STATEMENTS

### 1. GENERAL INFORMATION

The Company is established by and derives its authority and accountability from the Water Act. The Company is wholly owned by the County Governments of Kisii and Nyamira and is domiciled in Kenya. The Company's principal activity is provision of Water and Sewerage Services.

For Kenyan Companies Act reporting purposes, the balance sheet is represented by the statement of financial position and the profit and loss account by the statement of profit or loss and other comprehensive income in these financial statements

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

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

The financial statements have been prepared and presented in Kenya Shillings, which is the functional and reporting currency of the Company and all values are rounded to the nearest one hundred shillings.

The financial statements have been prepared in accordance with the PFM Act 2012, the State Corporations Act, the Companies Act 2015, the Water Act 2016 and the International Financial Reporting Standards (IFRS). The accounting policies adopted have been consistently applied to all the years presented.

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

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

#### ***IFRS 16: Leases***

The new standard, effective for annual periods beginning on or after 1st January 2019, introduces a new lessee accounting model, which requires a lessee to recognize 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)

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

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

Application of IFRS 16 requires right-of-use assets and lease liabilities to be recognised in respect of most operating leases where the Company is the lessee.

#### *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)

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

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

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

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

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

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

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

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

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

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

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

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

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

##### *IFRS 17 Insurance Contracts (Issued 18 May 2017)*

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

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

Together with the revised *Conceptual Framework* published in March 2018, the IASB also issued *Amendments to References to the Conceptual Framework in IFRS Standards*. The document contains amendments to IFRS 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. 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)

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

#### iii) Early adoption of standards

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

### 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

#### a) Revenue recognition

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

- i) **Revenue from the sale of goods and services** is recognised in the year in which the Company delivers products to the customer, the customer has accepted the products and collectability of the related receivables is reasonably assured.
- ii) **Grants from County Government** are recognised in the year in which the Company's 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 Company's in the form of actual goods and/or services rather than in money or cash terms. These donations may include vehicles, equipment or personnel services. Where the financial value received for in-kind contributions can be reliably determined, the Company includes such value in the statement of comprehensive income both as revenue and as an expense in equal and opposite amounts; otherwise, the contribution is not recorded.

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

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

**c) Property, plant and equipment**

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

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

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

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

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

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

Depreciation on property, plant and equipment is 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:

<b>Item of PPE</b>	<b>PERIOD</b>	<b>RATE</b>
Pipeline		5%
Building & civil work	2.5 years	10%
Plant & machinery	12.5 years	12%
Motor vehicle	4 years	15%
Computers	3 years	33.33%
Office equipment, furniture and fittings	12.5 years	15%

A full year's depreciation charge is recognized 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 recognized so that the asset is written down immediately to its estimated recoverable amount.

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

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

#### e) Intangible assets

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

#### f) Amortization and impairment of intangible assets

Amortization 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 recognized 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.

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

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

#### i) Fixed interest investments (bonds)

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

#### j) Quoted investments

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

#### k) Unquoted investments

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

#### l) Inventories

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

#### m) Trade and other receivables

Trade and other receivables are recognized at fair values less allowances for any noncollectable 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)

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

#### n) Taxation (Continued)

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

Current income tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting date in the area where the Entity operates and generates taxable income. Current income tax relating to items recognized directly in net assets is recognized in net assets and

Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

##### *Deferred tax*

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

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

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

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

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

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

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

#### n) Taxation (Continued)

##### *Deferred tax (Continued)*

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

#### o) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and cash at bank, short-term deposits on call and highly liquid investments with an original maturity of three months or less, which are readily convertible to known amounts of cash and are subject to insignificant risk of changes in value. Bank account balances include amounts held at the Central Bank of Kenya and at various Commercial Banks at the end of the reporting period. For the purposes of these financial statements, cash and cash equivalents also include short term cash imprests and advances to authorized 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 amortized 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.

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

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

#### r) Retirement benefit obligations

The entity operates a defined contribution scheme for all full-time employees from July 1, 2018. The scheme is administered by County Pension Fund Financial Services (CPF) 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. 200 per employee per month.

#### s) Provision for staff leave pay

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

#### t) Exchange rate differences

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

#### u) Budget information

The original budget for FY 2018-2019 was approved by the Board of Directors on June 2017. No Subsequent revisions or additional appropriations were made to the approved budget.

The Company'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)**

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

#### **u) Budget information (Continued)**

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

#### **v) Service concession arrangements**

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

#### **w) Comparative figures**

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

#### **x) Subsequent events**

There have been no events subsequent to the financial year end with a significant impact on the financial statements for the year ended June 30, 2018.

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

The preparation of the Company'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.

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

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

#### Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. The Company 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 Company. Such changes are reflected in the assumptions when they occur.

#### Useful lives and residual values

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

- The condition of the asset based on the assessment of experts employed by the Company.
- 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 here below:

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.

Provision for doubtful debts are estimated at 10% of the total accounts receivable.

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 6. REVENUE

	2018/2019	2017/2018
	Kshs	Kshs
Water Sale	72,268,235	47,989,100
Meter Rent	2,696,050	2,567,800
Sewer	39,843,569	39,303,600
<b>Total</b>	<b>114,807,900</b>	<b>89,860,500</b>

Revenue involves income from water sales, sewer services and meter rent

### 7. COST OF SALES

	2018/2019	2017/2018
	Shs	Shs
Production Staff Salaries and Wages	46,935,700	45,170,800
Service Provision Agreement Administration fee (LVSWSB)	4,497,500	2,721,100
Regulatory Levy (WASREB)	3,424,800	898,600
Abstraction Levy (WRA)	1,067,300	1,087,500
Chemicals	10,176,800	4,903,200
Electricity	42,867,200	32,102,700
	<u>108,969,300</u>	<u>86,883,900</u>

### 8. GRANTS FROM NATIONAL GOVERNMENT

	2018/2019	2017/2018
	Kshs	Kshs
County Government (Electricity)	33,962,400	32,993,700
National Government (WSTF)	0	4,354,500
<b>Total</b>	<u>33,962,400</u>	<u>37,348,200</u>

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

**9. IN-KIND DONATIONS**

	2018/2019	2017/2018
	Kshs	Kshs
Buildings and office space	0	0
Motor vehicles and other transport equipment	0	0
Plant and machinery	0	0
Computers and related equipment	0	0
Office equipment, furniture and fittings	0	0
Seconded personnel	<u>486,000</u>	<u>1,533,500</u>
<b>Total</b>	<b><u>486,000</u></b>	<b><u>1,533,500</u></b>

**10. OTHER INCOME**

Change of Name	192,500	172,100
Exhauster Charges	2,542,000	2,163,000
Meter Testing	0	7,500
New Connection	1,145,900	1,313,500
Re-connection Fee	416,900	280,200
Sewer	7,132,500	0
Sewer Charges	108,100	0
Sewer Discharge	61,000	775,900
Sewer New Connection	1,948,500	1,031,200
Statement charges	31,600	19,000
Surcharge	178,200	121,300
Survey Fee	6,800	143,200
Termination	26,600	10,800
Ton	10,700	0
Water Bowser	1,803,900	326,300
Water Bowser Permit	<u>100,000</u>	<u>50,000</u>
	<b><u>15,705,200</u></b>	<b><u>6,414,000</u></b>

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

**11. ADMINISTRATION COSTS**

	2018/2019	2017/2018
	Kshs.	Kshs.
<u>Staff costs 11(a)</u>	31,842,100	<u>36,388,900</u>
Directors' emoluments	4,013,700	712,300
Travelling& accommodation	2,238,000	3,258,400
Transport & Lunch	1,509,200	1,937,300
Staff welfare & donations	213,300	191,000
Protective clothing/ Uniforms	196,400	3,500
Staff entertainment & others	255,100	821,900
Printing & Reproduction	62,400	36,400
Stationery	815,400	415,500
Consumables	15,800	36,800
Newspapers	35,100	27,200
Advertising & Publicity	417,700	665,700
Office Landlines (Telephone)	2,000	200
Mobile Airtime	68,200	29,100
Postage	16,000	31,900
Bulk sms	175,000	353,700
Repair of office equipment	700	-
Computer Repairs	67,000	19,200
Computer Software	86,900	136,800
Insurance Expense	2,109,300	186,200
Security Services	4,328,000	4,815,000
Audit fee	446,600	446,600
Legal fees	1,181,200	185,000
Consultancy Services	50,000	-
Internet Broadband	634,700	446,400
Subscriptions and Dues	88,100	37,400
Donations	66,900	224,500
Hired Services	-	58,500
Upholstery	-	35,800
Rent	-	96,000
Repairs and Maintenance	-	25,700
Casuals Wages	-	172,500
Plant and Machinery repairs	-	72,700
Hired Labour	-	41,000
<b>Total</b>	<b><u>50,934,800</u></b>	<b><u>51,909,100</u></b>

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 11(b). STAFF COSTS

	2018/2019	2017/2018
	Kshs	Kshs
Salaries and allowances of permanent employees	21,078,700	21,404,900
Wages of temporary employees	546,000	576,000
Compulsory national health insurance schemes	-	1,454,000
Compulsory national social security schemes	253,300	591,000
<b>Other pension contributions</b>	-	-
CPF Financial Services	1,585,500	1,023,700
LAp Fund	56,500	284,000
NW Pension	1,290,100	1,127,000
Leave pay and gratuity provisions	7,032,000	7,098,100
Staff welfare	-	2,830,300
<b>Total</b>	<b><u>31,842,100</u></b>	<b><u>36,389,000</u></b>

### 12. OPERATIONAL COSTS

	2018/2019	2017/2018
	Kshs	Kshs
Ground maintenance	3,800	2,100
Electrical appliances	18,100	5,600
Cleaning materials	24,300	18,900
Maintanance of buildings	114,400	400
building materials	14,700	11,600
Plant/tanks repairs and maintenance	23,600	44,000
Sewer network repairs	387,800	406,200
Pipe network repairs	1,494,700	313,400
Tools & equipment for repairs	568,700	654,700
Fuel & Oil	2,429,600	1,441,700
Hired Transport	18,400	173,700
Vehicles repair & maintenance	587,200	203,900
Exhauster Repairs	25,700	228,600
Motor Cycle Repairs - Other	11,600	14,700
Servicing/Repairs	85,000	98,900
<b>Total</b>	<b><u>5,807,600</u></b>	<b><u>3,618,400</u></b>

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

**13. FINANCE COSTS**

	2018/2019	2017/2018
	Kshs	Kshs
Charges on cash and bank balances	273,200	129,600
Interest expense on loans	0	0
Interest expense on bank overdrafts	0	0
<b>Total</b>	<b>273,200</b>	<b>129,600</b>

**14. OPERATING PROFIT/(LOSS)**

	2018/2019	2017/2018
	Kshs	Kshs
The operating profit/(loss) is arrived at after charging/(crediting):		
Cash receipts from customers	117,385,700	0
Cash paid to suppliers	(28,668,300)	0
Staff costs	(78,777,800)	21,135,400
Depreciation of property, plant and equipment	0	(1,845,400)
Amortisation of intangible assets	0	150,500
Provision for bad and doubtful debts	0	(909,400)
Directors' emoluments - fees	0	330,500
	0	0
Auditors' remuneration - current year fees	0	446,700
<b>Total</b>	<b>9,939,600</b>	<b>19,308,300</b>

**15. EARNINGS PER SHARE**

The earnings per share is calculated by dividing the profit after tax of Kshs. (6,304,200) (2018: Kshs (10,030,878) by the average number of ordinary shares in issue during the year 20,000 (2018:20,000). There were not dilutive or potentially dilutive ordinary share as at the reporting date.

**16. DIVIDEND PER SHARE**

Proposed dividends are accounted for as a separate component of equity until they have been ratified and declared at the relevant Annual General Meeting (AGM). At the AGM to be held before the end of 2019, a final dividend in respect of the year ended June 30, 2019 of Kshs.0 (2018: Kshs. 0 for every ordinary share of par value of Kshs.0 is to be proposed. An interim dividend of Kshs. 0 (2018: Kshs. 0) for every ordinary share of par value of Kshs.0 was declared and paid during the year. This will bring the total dividend for the year to Kshs.0 (2018: Kshs.0).

NOTES TO THE FINANCIAL STATEMENTS (Continued)

17. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment	Pipeline	Buildings/ Civil works	Plant and Machinery	Motor Vehicles	Computers	Office Equipment	Capital Work in progress	Total
Cost	Shs	Shs	Shs	Shs	Shs	Shs	Shs	Shs
At 1 July 2016	17,153,000	2,529,000	5,714,500	2,433,000	2,103,000	892,000	12,516,000	43,340,500
Additions	-	-	-	-	39,000	33,000	14,918,000	14,990,000
At 1 July 2017	17,153,000	2,529,000	5,714,500	2,433,000	2,142,000	925,000	27,434,000	58,330,500
Additions	-	-	-	-	147,000	-	9,282,000	9,429,000
Transfer/Adjustments	-	-	-	(2,433,000)	(2,103,000)	(892,000)	-	(5,428,000)
WIP capitalized	27,434,000	-	-	-	-	-	(27,434,000)	0
At June 2018	44,587,000	2,529,000	5,714,500	-	186,000	33,000	9,282,000	62,331,500
Additions	-	-	-	-	-	-	-	-
Transfer/adjustments	-	-	-	-	-	-	-	-
Transfer/Adjustments	9,282,000	-	-	-	-	-	(9,282,000)	-
At 30 June 2019	53,869,000	2,529,000	5,714,500	-	186,000	33,000	(0)	62,331,500
Depreciation	5%	10%	12%	15%	33%	15%	-	-
At 1 July 2017 (Fully Depreciated Assets)	-	-	-	3,562,800	3,634,100	1,216,300	-	8,413,200
At 1 July 2017	4,980,900	781,900	3,605,500	-	-	-	-	9,368,300
Charge for the year	857,650	252,900	685,700	-	49,000	4,950	-	1,850,200
At 30 June 2018	5,838,550	1,034,800	4,291,200	-	44,100	4,950	-	11,213,600
Charge for the year	2,693,450	252,900	685,700	-	62,000	4,950	-	3,699,000
At 30 June 2019	8,532,000	1,287,700	4,977,000	-	106,100	9,900	-	14,912,700
Net book values	-	-	-	-	-	-	-	-
At 30 June 2019	45,337,000	1,241,300	737,500	-	79,900	23,100	(0)	47,418,800
At 30 June 2018	38,748,400	1,494,200	1,423,300	-	141,900	28,000	9,282,000	42,704,600

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

Item of PPE	Cost	Accumulated Depreciation
Motor Vehicle	2,433,000	3,562,800
Computers	2,142,000	3,634,100
Office Equipment	925,000	1,216,300
<b>Total</b>	<b>5,500,000</b>	<b>8,413,200</b>

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**18. TRANSFER OF CAPITAL WORK IN PROGRESS TO PPE**

	2018/2019	2017/2018
	Kshs	Kshs
WIP for the Year		
Ikonge Water Project	5,427,100	5,427,100
Keumbu Sanitation	-	-
UBSUP	3,854,900	3,854,900
	<u>9,282,000</u>	<u>9,282,000</u>
<b>Add WIP b/f</b>		
Nyaura Project	-	-
Keumbu Sanitation	-	-
UBSUP	-	-
Ikonge Water Project	-	-
	-	-
<b>Total</b>	<b>9,282,000</b>	<b>9,282,000</b>
Less Transfer to PPE	(9,282,000)	-
<b>WIP c/f</b>	<b><u>0</u></b>	<b><u>9,282,000</u></b>

**19. INTANGIBLE ASSETS**

	2018/2019	2017/2018
	Kshs	Kshs
<b>COST</b>		
At July 1	452,000	158,500
Additions	-	293,480
At June 30	<u>452,000</u>	<u>451,980</u>
	-	-
<b>AMORTISATION</b>	<b>451,980</b>	
At the beginning of the year	256,100	105,561
Amortization	150,500	52,781
Amortization of additions	-	97,729
At June 30	<u>150,500</u>	<u>256,070</u>
Impairment loss	-	-
At the end of the year	150,500	256,070
Net book value	<u>301,500</u>	<u>195,910</u>

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 20. INVENTORIES

	2018/2019	2017/2018
	Kshs	Kshs
Calcium Hypochlorite	425,100	478,195
Soda Ash	65,400	137,261
Aluminium Sulphate	<u>1,217,800</u>	<u>1,528,619</u>
	<u><b>1,708,300</b></u>	<u><b>2,144,075</b></u>

### 21. TRADE AND OTHER RECEIVABLES

	2018/2019	2017/2018
	Kshs.	Kshs.
Trade receivables (27b)	98,317,300	84,003,700
Staff receivables	-	-
Other receivables	-	-
Gross trade and other receivables	<u><b>98,317,300</b></u>	<u><b>84,003,700</b></u>
Other: Provision for bad and doubtful receivable	<u>(9,831,700)</u>	<u>(8,400,400)</u>
Net trade and other receivables	<u><b>88,485,600</b></u>	<u><b>75,603,300</b></u>

#### 21(a) TRADE RECEIVABLES

	2018/2019	2017/2018
	Kshs	Kshs
Gross trade receivables	<u><b>98,317,300</b></u>	<u><b>84,003,700</b></u>
Provision for doubtful receivables	<u>(9,831,700)</u>	<u>(8,400,430)</u>
	<u><b>88,485,600</b></u>	<u><b>75,603,270</b></u>

At June 30, the ageing analysis of the gross trade receivables was as follows:

0-30 days	40,061,900	25,752,200
31-60 days	2,630,700	5,783,600
61-120 days	4,088,100	16,168,000
Over 1 year old	<u>51,541,200</u>	<u>36,299,800</u>
	<u><b>98,321,900</b></u>	<u><b>84,003,600</b></u>

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

**22. BANK AND CASH BALANCES**

	2018/2019	2017/2018
	Kshs	Kshs
<b>Cash at Bank</b>		
KCB - 1106368436	5,949,000	2,743,300
KCB - 1132172489	90,500	478,900
Mpesa Business - 993600	169,200	800,900
<b>Water Service Trust Fund:</b>		
KCB - 1179035151		
KCB - 1171489226	0	408,200
<b>Add: Cash in Hand</b>	<u>208,200</u>	<u>0</u>
	<u>6,416,900</u>	<u>4,431,300</u>

**23. ORDINARY SHARE CAPITAL**

	2018/2019	2017/2018
	Kshs	Kshs
<b>Authorized:</b>		
20,000 ordinary shares of Kshs. 5.00 par value each	<u>100,000</u>	<u>100,000</u>
<b>Issued and fully paid:</b>		
20,000 ordinary shares of Kshs. 5.00 par value each	0	0

**24. RETAINED EARNINGS**

The retained earnings represent amounts available for distribution to the Company's shareholders. Undistributed retained earnings are utilized to finance the Company's business activities.

	2018/2019	2017/2018
	Kshs	Kshs
<b>Retained earnings</b>		
Reserves as at 1st. July	(9,712,300)	318,600
Profit/(Loss) for the Year	<u>(6,304,200)</u>	<u>(10,030,900)</u>
	<u>(16,016,500)</u>	<u>(9,712,300)</u>

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 25. CAPITAL RESERVE

The capital reserve relates to the amount of property, plant and equipment. As indicated in the Statement of financial Position, this is stated after transfer of completed capital projects funded through grant from Water Sector Trust Fund. The amount funded is not repayable.

	2018/2019	2017/2018
	Kshs	Kshs
Reserves as at 1st. July	57,771,200	30,337,200
Additions	<u>9,282,000</u>	<u>27,434,000</u>
As as 30 June 2018	<u><b>67,053,200</b></u>	<u><b>57,771,200</b></u>

### 26. CUSTOMER DEPOSITS

The Customer deposits relate to amounts paid to secure water supply contract with Company Customers. At the termination of this contract, the amount is refundable at the request of the Customer.

	2018/2019	2017/2018
	Kshs	Kshs
As at 1st July	11,533,100	10,720,000
Current Year	1,328,000	843,600
Less: refund	<u>-</u>	<u>(30,500)</u>
	<u><b>12,861,100</b></u>	<u><b>11,533,100</b></u>

### 27. TRADE AND OTHER PAYABLES

	2018/2019	2017/2018
	Kshs	Kshs
Trade payables	22,621,000	22,305,800
Accrued expenses	-	-
<u>Other payables</u>	<u>17,049,600</u>	<u>19,490,500</u>
	<u><b>39,670,600</b></u>	<u><b>41,796,300</b></u>

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

**28. AGENCY ACCOUNT - RELATED PARTY DISCLOSURES**

**(a) Government of Kenya**

The County Governments of Kisii and Nyamira are the principal shareholder of the Company, holding 100% of the Company's equity interest. These have provided full guarantees to all long-term lenders of the entity, both domestic and external.

Other related parties include:

- i) The Parent Ministry;
- ii) County Government of Kisii
- iii) County Government of Nyamira
- iv) Lake Victoria South Water Services Board
- v) Key management
- vi) Board of directors
- vii) Water Services regulatory Board
- viii) Water Resources Authority

**(a) Transactions with related parties**

	2018/2019	2017/2018
	Kshs	Kshs
<b>i) Agency Account</b>		
SPA Fee	25,355,600	21,858,100
WASREB Fee	9,956,000	6,731,000
WARMA Levies	5,351,100	4,283,800
<b>Total</b>	<u>40,662,700</u>	<u>32,872,900</u>
<b>ii) Grants from the Government</b>		
Grants from National Govt		0
Grants from County Government	33,962,400	32,993,700
<b>Total</b>	<u>33,962,400</u>	<u>32,993,700</u>
<b>iii) Key management compensation</b>		
Directors' emoluments	4,013,700	330,500
Compensation to the MD	2,440,800	4,059,000
<b>Total</b>	<u>6,454,500</u>	<u>4,389,500</u>

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

**29. RETIREMENT BENEFIT OBLIGATIONS**

The entity operates a defined contribution scheme for all full-time employees from July 1, 2017. This involves Lap trust, and Lap fund. The company does not operate defined benefit contribution and therefore valuation at the end of the year remained zero.

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.200 per employee per month.

**30. PROVISION FOR LEAVE PAY**

	2018/2019	2017/2018
	Kshs	Kshs
Balance at beginning of the year	0	0
Additional provision at end of year	0	0
Leave paid out or utilised during the year	1,261,900	0
<b>Balance at end of the year</b>	<u><u>(1,261,900)</u></u>	<u><u>0</u></u>

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

**31. DIVIDENDS PAYABLE**

No dividends were declared during the year

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

**32. NOTES TO THE STATEMENT OF CASH FLOWS**

	2018/2019	2017/2018
	Kshs	Kshs
<b>a) Reconciliation of operating profit/(loss) to cash generated from/(used in) operations</b>		
Reconciliation of operating profit/(loss) to cash generated from/(used in) operations		
Operating profit/(loss)	(6,304,200)	(10,290,100)
Depreciation	3,699,000	1,845,400
Amortisation	150,500	150,500
(Gain)/loss on disposal of property, plant and equipment	-	-
<b>Operating profit/(loss) before working capital changes</b>	<b>(2,454,700)</b>	<b>(8,294,200)</b>
(Increase)/decrease in inventories	435,800	-
(Increase)/decrease in trade and other receivables	12,882,330	(1,489,900)
Increase/(decrease) in trade and other payables	(2,125,700)	8,185,800
Increase/(decrease) in retirement benefit obligations	-	(2,120,200)
Increase/(decrease) in Agency Account	7,789,900	-
Customer refunds	0	3,550,600
<b>Cash generated from/(used in) operations</b>	<b>16,527,630</b>	<b>(167,900)</b>
<b>c) Analysis of cash and cash equivalents</b>		
Cash at bank	6,416,900	4,431,300
Cash in hand	-	-
<b>Balance at end of the year</b>	<b><u>6,416,900</u></b>	<b><u>4,431,300</u></b>

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 33. CONTINGENT LIABILITIES

No contingent liabilities existed as at the date of preparing these financial statements.

### 34. FINANCIAL RISK MANAGEMENT

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

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

#### (i) Credit risk

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

34 FINANCIAL RISK MANAGEMENT (Continued)

(i) Credit risk (Continued)

	Total amount performing	Fully Past due	Impaired
	Kshs	Kshs	Kshs
<b>At 30 June 2019</b>			
Receivables from exchange transactions	83,222,900	0	0
Bank balances	6,416,900	0	0
<b>Total</b>	<b>94,902,500</b>	<b>0</b>	<b>0</b>
<b>At 30 June 2018</b>			
Receivables from exchange transactions	75,603,300	0	0
Bank balances	4,431,300	0	0
<b>Total</b>	<b>80,034,600</b>	<b>0</b>	<b>0</b>
<b>At 30 June 2017</b>			
Receivables from exchange transactions	67,417,500	0	0
Bank balances	4,431,300	0	0
<b>Total</b>	<b>71,848,800</b>	<b>0</b>	<b>0</b>

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

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

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

ii) Liquidity risk management

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

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

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

**34 FINANCIAL RISK MANAGEMENT (Continued)**

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

	Less than 1 month	Between 1-3 months	Over 5 months	Total
	Kshs	Kshs	Kshs	Kshs
<b>At 30 June 2019</b>				
Trade payables	2,492,100	1,805,500	30,929,200	35,226,800
Current portion of borrowings	0	0	0	0
Provisions	0	0	0	0
Deferred income	0	0	0	0
Employee benefit obligation	0	0	0	0
<b>Total</b>	<b>2,492,100</b>	<b>1,805,500</b>	<b>30,929,200</b>	<b>35,226,800</b>
<b>At 30 June 2018</b>				
Trade payables	1,928,000	10,833,000	18,390,000	31,151,000
Current portion of borrowings	0	0	0	0
Provisions	0	0	0	0
Employee benefit obligation	0	0	0	0
<b>Total</b>	<b>1,928,000</b>	<b>10,833,000</b>	<b>18,390,000</b>	<b>31,151,000</b>

**(iii) Market risk**

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

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

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

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

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

### **34 FINANCIAL RISK MANAGEMENT (Continued)**

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

##### **a) Foreign currency risk**

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

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

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 34 FINANCIAL RISK MANAGEMENT (Continued)

#### (iv) Market risk (Continued)

#### b) Foreign currency sensitivity analysis

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

#### c) Interest rate risk

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

##### *Management of interest rate risk*

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

##### *Sensitivity analysis*

The entity analyses its interest rate exposure on a dynamic basis by conducting a sensitivity analysis. This involves determining the impact on profit or loss of defined rate shifts. The sensitivity analysis for interest rate risk assumes that all other variables, in particular foreign exchange rates, remain constant. The analysis has not been performed on the same basis as the prior year.

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 34 FINANCIAL RISK MANAGEMENT (Continued)

#### Fair value of financial assets and liabilities

##### a) *Financial instruments measured at fair value*

#### Determination of fair value and fair values hierarchy

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

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

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

##### a) *Financial instruments not measured at fair value*

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

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 34 FINANCIAL RISK MANAGEMENT (Continued)

#### iv) Capital Risk Management

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

	2018/2019	2017/2018
	Kshs	Kshs
Revaluation reserve		0
Retained earnings	(16,016,500)	(10,030,900)
Capital reserve		-
<b>Total funds</b>	<b>(16,016,500)</b>	<b>(10,030,900)</b>
Total borrowings		-
Less: cash and bank balances	6,416,900	(4,431,300)
Net debt/(excess cash and cash equivalents)	(9,599,600)	4,431,300

### 35. INCORPORATION

The entity is incorporated in Kenya under the Kenyan Companies Act 2015 and is domiciled in Kenya.

### 36. EVENTS AFTER THE REPORTING PERIOD

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

### 37. CURRENCY

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

### 38. GOING CONCERN

The financial statements have been prepared under the historical cost convention. The financial statements have also been prepared on a going concern basis.

As at 30 June 2019, the statement of financial position reflected an excess of current liabilities over current assets. The working capital deficit was primarily caused by the Weak credit and collection policies. Moreover, during the financial year ended 30 June 2019 the Company experienced operating losses of (6,304,200) (2018: loss (10,290,017)). This extremely disappointing performance reflected the continued difficult trading conditions

suffered by the Company demand management and service area coverage caused by the increased level of Non Revenue Water in the distribution system. The continuing viability of the Company and its ability to continue as a going concern is dependent upon the Company being successful in its continuing efforts in growing its revenue base and/or accessing additional sources of capital from financiers.

The directors are satisfied that the Company is able to meet its working capital liabilities through the normal cyclical nature of receipts and payments.

The Company has successfully expanded its revenue base by securing a major loan through the Government of Kenya for expansion works at Kisii and Nyamira which will have additional net cash inflows.

Consequently, the directors have proactively sought to address the deficiency in net current assets and improved cash performance via the following initiatives:

a) Continued focus on debtors invoice collections, keeping inventory levels at a minimum; and

b) continued focus on cost management and containment in all areas of business.

As a result of the above matters, the directors are of the view that the Company will continue as a going concern and, therefore, will realize its assets and liabilities and commitments in the normal course of business and at the amounts stated in the financial statements. The directors remain confident about the successful achievement of projected income targets and therefore no adjustments have been made to these financial statements relating to the recoverability and classification of the asset carrying amounts.

The directors believe that the Company will be successful in the above matters and, accordingly, have prepared the financial statements on a going concern basis.

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

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

Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Focal Point person to resolve the issue (Name and designation)	Status: (Resolved / Not Resolved)	Time frame: (Put a date when you expect the issue to be resolved)
1.	Valuation of Property, Plant and Equipment	In progress	Procurement Manager	Not Resolved	February 2020
2.	Unpaid Share Capital	In Progress	Managing Director, Board of Directors	Not Resolved	Financial Year 2019/2020
3.	Agency Account	The schedules supporting the amounts in the financial statements are available for audit review.	Finance Manager	Resolved	30 September 2019
4.	Failure to disclose material uncertainty in Relation to Going Concern	The Company is in the process of crafting mitigating measures to improve the Company's going concern position	Managing Director, Board of Directors	Not Resolved	31 December 2019

Managing Director  
Gusii Water and Sanitation Company Ltd

Sign  \_\_\_\_\_

Date 28/01/2020

Chairman of the Board

Sign  \_\_\_\_\_


Date 28/01/2020

**APPENDIX II: INTER-ENTITY TRANSFERS**

ENTITY NAME:			
<b>Break down of Transfers from the County Governments</b>			
<b>FY 2018/2019</b>			
<b>a. Recurrent Grants</b>			
	<u>Direct transfer to Kenya Power</u>	<u>Amount (KShs)</u>	<u>Indicate the FY to which the amounts relate</u>
		33,962,400	2018/2019
	<b>Total</b>	<b>33,962,400</b>	
<b>b. Development Grants</b>			
	<u>Bank Statement Date</u>	<u>Amount (KShs)</u>	<u>Indicate the FY to which the amounts relate</u>
	<b>Total</b>	<b>0</b>	
<b>c. Direct Payments</b>			
	<u>Bank Statement Date</u>	<u>Amount (KShs)</u>	<u>Indicate the FY to which the amounts relate</u>
	<b>Total</b>	<b>0</b>	
<b>d. Donor Receipts</b>			
	<u>Bank Statement Date</u>	<u>Amount (KShs)</u>	<u>Indicate the FY to which the amounts relate</u>
	<b>Total</b>	<b>0</b>	

The above amounts have been communicated to and reconciled with the parent Ministry

**Finance Manager**  
 Gusii Water and Sanitation Company Ltd

Sign 

Date 28/01/2020

**Head of Accounting Unit**  
 County Government

Sign \_\_\_\_\_ Sign \_\_\_\_\_

Date \_\_\_\_\_ Date \_\_\_\_\_



Annual Report and Financial Statements for the financial year ended 30 June 2019

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*Kisii County Assembly Car and Mortgage fund*  
**Reports and Financial Statements**  
**For the year ended June 30, 2019**

**12. APPENDIX 1**