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**REPORT**

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COMMITTEE	
CLERK AT THE TABLE	GEORGE

**OF**

**THE AUDITOR-GENERAL**

**ON**

**KAHUTI WATER AND SANITATION  
COMPANY**

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

*Kahuti Water & Sanitation Company*

**Reports and Financial Statements  
As at June 30, 2019**

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21 FEB 2020

**KAHUTI WATER & SANITATION COMPANY**

**REPORTS AND FINANCIAL STATEMENTS**

**FOR THE FINANCIAL YEAR ENDED  
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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**Reports and Financial Statements  
As at June 30, 2019**

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**Reports and Financial Statements**

**As at June 30, 2019**

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**KEY ENTITY INFORMATION**

**Background information**

Kahuti Water and Sanitation Company was established by the Companies Act of Parliament on 10<sup>th</sup> April 2006. At cabinet level, the entity is represented by the Cabinet Secretary for Environment, Water & Natural Resources, who is responsible for the general policy and strategic direction of the entity.

**Principal Activities**

The principal activity of the entity is to provide quality water & sanitation services at an affordable rate.

**Vision**

To be the leading water and sanitation provider in the country.

**Mission**

To ensure provision of quality water and sanitation services to its customers in an affordable and sustainable manner.

**Core objectives**

1. To increase access and coverage to water services within the area of jurisdiction
2. To reduce non-revenue water
3. To achieve operational financial stability
4. To strengthen the company's institutional capacity
5. To improve communication with stakeholders
6. Facilitate improvement in access to sanitation services
7. Mainstream cross cutting issues of poverty, Hiv, environment.

**Directors**

The Directors who served the entity during the year/period were as follows as appointed and re-elected during our Annual General Meeting held on

1. Mrs.Frasiah Wanjiku Kamau - Chairperson
2. Mrs. Margaret Mworia
3. Mr. Stephen Kamau
4. Mrs. Martha W. Wanguku
5. Mr. Erastus Thuku Nyingi

**Corporate Secretary**

Mr. Gikuhi Kiana  
P.O. Box 1271-10100  
Nyeri

**Reports and Financial Statements**

**As at June 30, 2019**

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**Headquarters/Registered Office**

Kahuti Water Building  
Off Kangema-Kanorero Road  
P.O. Box 118-10202  
Kangema, KENYA

**Corporate Contacts**

Telephone: (254) 728 828 168 or 020 2061816  
E-mail: [kahutiwater@yahoo.com](mailto:kahutiwater@yahoo.com)  
Web-site: [info@kawasco.co.ke](http://info@kawasco.co.ke)

**Corporate Bankers**

Equity Bank Ltd  
Kangema Branch  
Private Bag  
Kangema.





**Legal Advisors**

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

**Independent Auditors**

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

I. THE BOARD OF DIRECTORS

<p>1.</p>  <p>Frasah W. Kamau – Chair Person</p>	<ul style="list-style-type: none"><li>- Bachelor of Education(Arts)</li><li>- Works as a teacher</li><li>- Representing Education institution</li><li>- Born -1965</li></ul>
<p>2.</p>  <p>Margaret Mworira – Board Member</p>	<ul style="list-style-type: none"><li>- University graduate-B.E.D</li><li>- Representing business community</li><li>- Retired high school principal.</li><li>- Born – 1958</li><li>- Business woman</li></ul>
<p>3.</p>  <p>Martha W. Wanguku – Board Member</p>	<ul style="list-style-type: none"><li>- Certificate in Early childhood.</li><li>- Women leader and farmer</li><li>- Representing Women groups</li><li>- Born - 1971</li></ul>
<p>4.</p>  <p>Erastus Nyingi T – Board Member</p>	<ul style="list-style-type: none"><li>- Certificate in GCE</li><li>- Community leader</li><li>- Representing C.D.F</li><li>- Born - 1948</li></ul>

**Reports and Financial Statements  
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5.



Mr. Stephen M. Kamau – Board Member



- Diploma in School of Management
- P1 Teacher training
- Head Teacher
- Representing professional bodies
- Born -1956

MANAGEMENT TEAM

1.  BSC –Civil Engineering	Eng. Ephantus Kamau – General Manager
2.  BSC-Water & Environmental Engineering	J.K. Kiarie – Technical Manager
3.  Master's in Business Administration(MBA)	Titus M. Mukunda – Commercial Manager
4.  B.Com- HR Option	Ceciliah Nthigah – HR/A Officer

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<p>5.</p>  <p>Bachelor of Business Administration-(BBA)</p>	<p>Josephat Macharia– Internal Auditor</p>
<p>6</p>  <p>Richard Gikuhi Kiana</p>	<p>Company Secretary</p>

**CHAIRPERSON'S STATEMENT**

I am pleased to present the company's annual report and financial statements for the years ended 30th June 2019

The company has continued to grow upward by carrying out its strategies focusing on its customer service delivery objectives. In doing this, the company continues to be guided by our vision, mission, values and strategic objectives.

Some of the positive indicators on this include increased number of active customers, extension of services to some hitherto unserved areas and the gradual decrease of non-revenue water.

The extension of services has been achieved through internal funding and assistance from the National Government. We've for example received assistance worth over ksh 45million under the Murang'a Community Water project for the boosting of some of the distribution lines within our area of jurisdiction. This is part of the National Government's Corporate Social Responsibility package for the Northern Collector Tunnel project. Once completed, this is going to improve our service greatly. The project is still on-going and is being implemented by Athi Water Services Board.

In order to reduce water losses, the company is now using the HDPE pipes for the new lines. These are more durable, and less prone to bursts. If resources allow, we intend to sustain this approach.

We've also submitted a number of proposals to the National Government for various distribution lines, including Mukarara-Kiamara-Nyakahura, Kawariua –Githiga-Gatang'ara among others. Let me also state that we've submitted proposals worth over ksh 500 million to the County Government, and we look forward to a positive response.

Over the years, we've also expanded our scope on Corporate Social Responsibility. In partnership with the Murang'a County Initiative, we've admitted a number of interns to join the company as they await their admission to university. This is in addition to the attachees that we engage regularly from the various institutions. We've also installed some water catchment facilities (gutters and tanks) to some needy families. We promise to continue and enhance our Corporate Social Responsibility as a way of being part of the community.

Let me also point out that recently, we've been experiencing some challenges. The major one has been brought by the misunderstandings by various parties on the approach and extent of devolution of the Water Sector within the County. This led to the imposition of irregular tariffs by the County Government, which greatly affected our revenue and hence our service delivery. Some matters are in court and we may not

**Reports and Financial Statements**

**As at June 30, 2019**

discuss them in more details here. Adverse weather, characterised by long dry periods followed by extremely heavy rains is also a challenge that we've to contend with.

Looking forward however, the future is bright. The National Government is supportive and there's hope that the many proposals we've submitted will bear fruits.

I take this opportunity to assure our stakeholders of the continued commitment towards availing clean & affordable water to all the residents within our area of jurisdiction in an efficient manner. And to achieve this, we will continue to uphold our values which have so far guided us in our endeavours.

Finally, may I take this opportunity to extend my sincere thanks to the Board of Directors, whose tireless effort has seen the company continue to progress. We have continued to receive a lot of support from Tana Water Services Board, and the National Government. My sincere thanks to them.

The management and staff of the company have worked tirelessly to achieve the said progress. I sincerely thank them. To you our stakeholders, your continued support is highly appreciated.

God bless you all. Thank you.

FRASIAH W. KAMAU  DATE 17<sup>th</sup> Feb 2020

**REPORT OF THE CHIEF EXECUTIVE OFFICER**

I am happy to comment about the company's performance for the financial year ending 30<sup>th</sup> June 2019.

**Key indicators**

In regard to other sector performance parameters, the company fairs as follows:

**i. Non-Revenue Water (NRW):**

This is the water that has been produced at abstraction but is not billed. At incorporation of the company in 2006, the NRW status was not known. The company took measures to establish the same and found it was about 89%. At the time of audit of 2016-2017, it was 77% while currently, it is 66%. This is a progressive decline and we hope to reduce further. To achieve this, we've adopted use of HDPE pipes instead of the PVC, as the former is less prone to damage. We've also adopted the policy whereby new consumers get fittings from our stores directly in order to control quality of fittings used. This is bearing fruits in terms of NRW reduction.

**ii. Service Coverage:**

This is the number of customers served as a percentage of the total population within our service area. There has been significant growth over the years, as during the incorporation of the company, the number of active connections was hardly 3,000, which is about 12% while currently we are at 48%. On this, we've a long way to go to achieve the sector bench mark of 80%, but with the continued assistance from the National Government as indicated here below, we believe it is achievable.

**iii. Operations & Maintenance coverage:**

This is the extent to which internally generated funds cover the cost running the company. It is a measure of the company's financial sustainability. The recommended sector benchmark is 150%, although anything above 100% is considered safe. The company has maintained an operation & maintenance cost coverage of above 100% over the years.

**iv. Collection efficiency:**

This is the ratio of amount collected to amount billed. Sector benchmark is that collection efficiency must be above 95%. The company has maintained a collection efficiency of over 92%.

**v. Drinking Water Quality:**

I am happy to report that all our drinking water quality tests have passed. This means that our water is well treated and safe to drink. This is also verified by low number of water borne diseases in our service area.

**On-going developments**


With the assistance of the National Government, the company has initiated a number of development projects as follows:

**i. Murang'a Community Water project:** This is on-going and estimated at ksh 45 million. It involves laying HDPE pipes in various lines in all the five wards to boost service. The project is being implemented through Athi Water Services Board as part of the Corporate Social Responsibility for the Northern Collector Tunnel. It is at 79% completion level.

**Reports and Financial Statements**

**As at June 30, 2019**

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ii. It is anticipated that over-haul of phase II line will commence soon. This will involve replacing the  pipes with HDPE and also increasing the diameter to boost supply. This will not only reduce the cost of maintenance, it will also improve services in Mugoiri area. The contractor is on site pending way leaves.

Other plans/proposals

i. We are following up on a proposal to construct a treatment plant in Tuthu, together with laying transmission lines to Nyakahura and Gatheru areas.

ii. We've also submitted a proposal to the National Government covering laying of various distribution lines, among them:

- Mukarara-Nyakahura line
- Kanorero –G3 line
- Kanyenyaini Githiga – Kahuti line
- Gitiri-Mbari ya Hiti line

ENG. E. KAMAU.....



Date:.....

17<sup>th</sup> February 2020

**CORPORATE GOVERNANCE STATEMENT**

KAWASCO is committed to operating under clear governance frame work and adheres to sound management practices.

We are committed to ensuring compliance with all the provision of the water Act 2002, Service Provision Agreement granted by Tana Water Services Board and the Companies Act CAP 486.

**Board Committee**

In order to enhance corporate governance, the KAWASCO Board of Directors has constituted the following committees;

- (i) Audit Committee: The committee addresses audit reports from internal and external auditors and also evaluates the financial reporting standards adopted by the company. The committee also ensures compliance with financial regulations and soundness of internal control systems.

The members of the committee are;

- a) Margaret Mworira
- b) Erastus Nyingi
- c) CEC Water

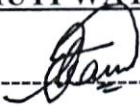
- (ii) Administration, Finance & Technical committee: The Committee is responsible for all human resources, technical issues and effect utilization of resources. It also approves capital investment and ensures they meet technical standards and are well maintained and deals with general finance matters of the company.

- a) Stephen Kamau
- b) Martha Wanguku
- c) CEC Finance
- d) Fresiah Kamau

By order of the Board

For and on its behalf

MRS. FRASHIAH W. KAMAU  ----- DATE 17<sup>th</sup> Feb 2020  
CHAIRPERSON KAHUTI WATER & SANITATION COMPANY

Eng. E. KAMAU  ----- DATE 17<sup>th</sup> February 2020  
GENERAL MANAGER KAHUTI WATER & SANITATION COMPANY

**Corporate Social Responsibility Statement**

We are cognisant of the fact that we belong to the wider community and cannot be blind to the needs and challenges within it. It is the policy of the company therefore to always give back to the society in accordance with our ability. In the past, we've engaged in various CSR activities like donating food and detergents to Kombi Children's home, planting trees (in partnership with banks and education institutes). We also regularly engage attaches from the various Institutes within our locality to gain on the job experience. Currently we've admitted five (5) interns who are waiting to join university. These were sourced from among those who were supported by the Murang'a County Initiative for their secondary school education, and are thus from needy family. We've also been installing tanks and gutters for rain harvesting for the needy cases.

**Challenges**

- i. Unsustainable water tariffs: as noted above, the tariff imposed by the County Government has made the company not achieve full operation and maintenance cost for the first time. It is also affecting our service delivery as we've to scale down some of our activities e.g. We've reduced standby staff on weekends.
- ii. Unfavourable political environment: this is occasioned by misunderstandings by various parties on devolution of the water sector within the County. It has continued to have adverse effect on service delivery.
- iii. Aging infrastructure contributes to water loss and hence high NRW.
- iv. Pipe damage by road contractors contracted by the County Government and KERRA . A lot of pipes have been damaged and no compensation has been forth coming despite our appeals. The damage so far is estimated to be over ksh +50 million.

I believe with your continued support, we will be able to overcome the above challenges. I take this opportunity to thank all those who've contributed in making the year a success for the company. They include the management of Kawasco, the Board of Directors and our customers and stakeholders. To you all, your valuable support is highly appreciated.

Thank you.

E. Kamau



Date

17<sup>th</sup> February 2020

**Reports and Financial Statements**

**As at June 30, 2019**

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**REPORT OF THE DIRECTORS**

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

**Principal activities**

The principal activities of the entity are provision of quality water & sanitation services at affordable rates.

**Results**

The results of the entity for the year ended June 30, 2019 are set out on page 17.

**Directors**

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

**Auditors**

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

D.K Wambua & Associates Certified Public Accountants were nominated by the Auditor General to carry out the audit of the *KAWASCO* for the year/period ended June 30, 2019.

By Order of the Board

Corporate Secretary  
Nairobi  
Date:.....

**Reports and Financial Statements**

**As at June 30, 2019**

**STATEMENT OF DIRECTORS' RESPONSIBILITIES**

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


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

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

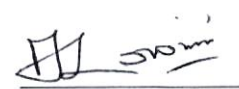
Nothing has come to the attention of the Directors to indicate that the entity will not remain a going concern for at least the next twelve months from the date of this statement.

**Approval of the financial statements**

The entity's financial statements were approved by the Board on 17<sup>th</sup> Feb 2020 and signed on its behalf by:

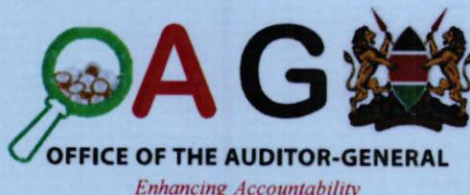
  
\_\_\_\_\_  
Director

  
\_\_\_\_\_  
Director

  
\_\_\_\_\_  
Director

# REPUBLIC OF KENYA

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



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

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

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

#### **Adverse Opinion**

I have audited the accompanying financial statements of Kahuti Water and Sanitation Company Limited set out on pages 17 to 37, which comprise the statement of financial position as at 30 June, 2019, and the statement of profit or loss and other comprehensive income, statement of changes in equity and the statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, 2015. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

In my opinion, because of the significance of the matters discussed in the Basis for Adverse Opinion section of my report, the financial statements do not present fairly the financial position of Kahuti 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 do not comply with the Companies Act, 2015 and Water Act, 2016.

#### **Basis for Adverse Opinion**

##### **1.0 Presentation of the Financial Statements**

The financial statements do not comply fully with the format prescribed by the Public Sector Accounting Standards Board (PSASB) in the following aspects:

- (i) The set of financial statements does not include the statement of comparison of budget and actual amounts.
- (ii) The Notes to the financial statements are not properly done, as in several instances, the comparative balances reflected in the statements do not tally with the audited account balances for the previous (2017/2018) financial year.
- (iii) The order of balances reflected in the statement of financial position does not follow the format prescribed by the PSASB: The statement reflects equity at the top, followed by non-current assets, current assets, current liabilities and finally

long-term liabilities instead of starting with non-current assets, followed by current assets, then capital and reserves, non-current liabilities and current liabilities.

- (iv) The set of financial statements does not include the statement of comparison of actual and budgeted amounts.
- (v) The audit report for the previous year had highlighted matters relating to unconfirmed balances and lawfulness and effectiveness in the use of public resources. Management did not include in the financial statements for the year under review a report on progress made in resolving the issues.

## **2.0 Unconfirmed Balances**

The following balances reflected in the financial statements were not supported with sufficient records and other relevant information:

### **2.1 Administrative Expenses**

The statement of profit or loss account and other comprehensive income reflects administrative expenses totalling Kshs.16,453,890 for the year under review. Included in the balance is Kshs.3,118,682 spent on motor vehicle running expenses, as disclosed in Note 6 to the financial statements. However the balance differs by Kshs.334,058 with the sum of Kshs.2,784,624 reflected against the item in the expenditure ledger.

As a result, the accuracy and completeness of administrative expenses for the year under review could not be confirmed.

### **2.2 Trade and Other Receivables**

The statement of financial position reflects trade and other receivables balance totalling Kshs.46,904,918 as at 30 June, 2019, as further disclosed in Note 12 to the financial statements. The balance includes trade receivables totalling Kshs.43,677,735 less a provision for bad debts totalling Kshs.8,735,547. However included in the trade receivables balance are debts totalling Kshs.224,540 described as unrealized income which were, however, not supported by ledger or any other records.

Further, as previously reported, the trade receivables balance includes Kshs.13,512,583 inherited from the defunct National Conservation and Pipeline Corporation. Although recoverability of this debt is doubtful, no specific provision for bad and doubtful debts has been made in respect thereof.

Consequently, the level of recoverability of the trade and other receivables totalling Kshs.46,904,918 as at 30 June, 2019 could not be confirmed.

### **2.3 Property, Plant and Equipment**

#### **2.3.1 Additions of Fixed Assets**

The statement of financial position reflects property, plant and equipment balance totalling Kshs.61,391,698 as at 30 June, 2019. However, Management did not update the fixed

assets register in the year under review in spite records indicating that asset increase of Kshs.50,309,844 in the aggregate fixed assets value in the year under review.

Further, log books for a double cab pick-up inherited from Tana Water Services Board and three motor cycles were not presented for audit review.

In view of these anomalies, the valuation and validity of property, plant and equipment balance totalling Kshs.61,391,698 as at 30 June, 2019, and ownership of the two vehicles could not be fully confirmed.

### **2.3.2 Revaluation of Property, Plant and Equipment**

During the year under review, the Company revalued various classes of fixed assets and thereby increased their book value by Kshs.10,491,533 as disclosed in Note 11 to the financial statements. However, the financial statements do not provide disclosure on the method used to revalue the assets, and whether the revaluation was done by a qualified assessor.

In addition although, International Accounting Standard No.16 provides that where the revaluation of an asset results in an increase in its value, the change should be credited to other comprehensive income and accumulated in equity as a revaluation surplus, no disclosure has been made on how the increase in value of the assets was treated in these financial statements. As a result, it was not possible to confirm whether the revaluation estimate and the closing fixed assets balance totalling Kshs.10,444,843 and Kshs.78,683,352 respectively reflected in the financial statements are fairly stated.

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

### **Key Audit Matters**

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

### **Other Information**

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

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

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

## REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

### Conclusion

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

### Basis for Conclusion

#### 1.0 Lack of Ethnic Diversity in Staff Establishment

Examination of personnel records revealed a staff establishment of seventy-three employees out of whom sixty-four or 88% were from the dominant ethnic community in the County of Murang'a contrary to the requirements of Section 7(2) of the National Cohesion and Integration Act, 2008 which requires the establishments of public entities to reflect the diversity of the people of Kenya.

#### 2.0 Non-Revenue Water

Water production records indicated that during the year under review, the Company produced a total of 3,342,706 cubic meters (m<sup>3</sup>) of water out of which only 1,130,000 cubic meters (m<sup>3</sup>) were billed to customers. The remainder totalling 2,212,706 cubic meters (m<sup>3</sup>) or approximately 66% of the total water produced represented Non-Revenue Water. The NRW was four (4) percentage points above the threshold of 25% prescribed in guidelines issued by the Water Services Regulatory Board (WASREB). The non-revenue water may have resulted in loss of sales estimated at Kshs.114,950,077 at the selling price of Kshs.51.95 per cubic meter charged by the Company in the year under review.

The high level of NRW water indicates that the Company's water distribution system is inefficient, or many of its customers access water free of charge. It denotes wasteful use of resources and poses a major risk to sustainability of the Company's services. Management has not disclosed the measures it has taken, or intends to take, to correct the unsatisfactory situation.

The audit was conducted in accordance with ISSAI 4000. The standard requires that I comply with ethical requirements and plan and perform the audit to obtain assurance about whether the activities, financial transactions and information reflected in the

financial statements are in compliance, in all material respects, with the authorities that govern them. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

## REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

### Conclusion

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

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 OTHER LEGAL AND REGULATORY REQUIREMENTS

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

- (i) I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of my audit;
- (ii) in my opinion, proper books of account have not been kept by the Company, so far as appears from the examination of those books;
- (iii) the Company's statement of financial position and statement of profit or loss and other comprehensive income are not in agreement with books of account; and
- (iv) in my opinion, the information given in the report of the directors on pages 14 and 15, is not consistent with the financial statements.

### Responsibilities of Management and the Board of Directors

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and requirements of the Kenyan Companies Act, and for maintaining effective internal control as the directors determine 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, Management is responsible for assessing the ability of Kahuti Water and Sanitation Company Limited to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern

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

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

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

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

### **Auditor-General's Responsibilities for the Audit**

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

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

Further, in planning and performing the audit of the financial statements and audit of compliance, I consider internal control in order to give an assurance on the effectiveness of internal controls, risk management and governance processes and systems in accordance with the provisions of Section 7(1)(a) of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution. My consideration of the internal control would not necessarily disclose all matters in the internal control that might be material weaknesses under the ISSAIs. A material weakness is a condition in which the design or operation of one or more of the internal control components does not

reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Because of its inherent limitations, internal control may not prevent or detect misstatements and instances of non-compliance. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the 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 Management.
- Conclude on the appropriateness of the Management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the ability of the Company to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in the auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my audit report. However, future events or conditions may cause the Company to cease as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information and business activities of the Company to express an opinion on the financial statements.
- Perform such other procedures as I consider necessary in the circumstances.

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

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

  
CPA Nancy Gathungu, CBS  
AUDITOR-GENERAL

Nairobi

11 January, 2022

## Reports and Financial Statements

As at June 30, 2019

**STATEMENT OF PROFIT & LOSS ACCOUNT AND OTHER COMPREHENSIVE INCOME  
FOR THE PERIOD ENDING 30<sup>TH</sup> JUNE 2019**

		2018/2019	<u>2017/2018</u>
	Note	Shs	Shs
Revenue	1	58,707,296	63,145,720
Direct Costs	2	9,423,160	2,594,851
<b>Gross profit</b>		49,284,136	60,550,869
Other income	3	11,723,086	4,065,201
Gross Income		61,007,222	64,616,070
Repair & maintenance Expenses	4	4,243,138	9,299,760
Personnel costs	5	29,142,071	27,557,099
Administrative expenses	6	16,453,890	14,764,082
Professional services	7	335,000	1,594,800
Directors Expenses	8	723,360	1,072,004
Depreciation on property, plant and equipment	9	10,488,400	4,704,479
Total Expenditure		61,385,858	58,992,224
<b>Profit before tax expense</b>		(378,636)	5,623,846
Tax expense/income	10	(3,320,457)	1,071,319
<b>Profit/loss after tax</b>		2,941,821	2,499,745

**STATEMENT OF FINANCIAL POSITION AT 30TH JUNE 2019**

	Note	<u>2018/2019</u> Kshs	<u>2017/2018</u> Kshs
<b>EQUITY</b>			
Capital fund		13,512,583	13,512,583
Capital Reserves		1,988,918	1,988,918
Retained earnings		21,696,184	18,801,054
Revaluation Reserve		12,857,835	2,366,302
<b>Total equity</b>		<u>50,055,521</u>	<u>36,668,857</u>
<b>Non-current liabilities</b>			
		<u>50,055,520</u>	<u>36,668,857</u>
<b>REPRESENTED BY</b>			
<b>Non-current assets</b>			
Property, plant and equipment	11	61,391,698	28,373,508
<b>Current assets</b>			
Inventories	2	2,199,212	1,618,598
Trade and other receivables	12	46,904,918	43,522,495
Cash at bank and in hand	13	14,352,185	15,323,905
		<u>63,456,314</u>	<u>60,464,998</u>
<b>Current liabilities</b>			
Trade and other payables	14	33,741,985	34,627,890
Current tax	10	707,918	4,028,375
Deferred Grant Income	3b	4,214,075	-
<b>Long Term Liabilities</b>			
ADB Loan		13,344,063	13,513,383
Grant Deferred Income	3b	22,784,451	-
		<u>74,792,492</u>	<u>52,169,649</u>
<b>Net current assets/(liabilities)</b>		<u>(11,336,178)</u>	<u>8,295,349</u>
		<u>50,055,520</u>	<u>36,668,857</u>

The financial statements were approved by the Board on 17<sup>th</sup> Feb 2020 and signed on its behalf

by: [Signature]  
Chairman

[Signature]  
Director

**STATEMENT OF CHANGES IN EQUITY FOR THE PERIOD ENDING 30<sup>TH</sup>**

**JUNE 2019**

	<b>Capital Reserves Kshs</b>	<b>Capital funds Kshs</b>	<b>Revaluation Reserve Kshs</b>	<b>Revenue Reserves Kshs</b>	<b>Total Kshs</b>
<b>At 1st July 2017</b>					
<b>As restated</b>	<b>1,988,918</b>	<b>13,512,583</b>	<b>2,366,302.00</b>	<b>16,301,310</b>	<b>34,169,113</b>
<b>Changes in equity in 2017</b>					
Profit/(loss) for the year	-	-	0	2,499,745	2,499,745
<b>At 30th June 2018</b>	<b>1,988,918</b>	<b>13,512,583</b>	<b>2,366,302</b>	<b>18,801,054</b>	<b>36,668,857</b>
<b>At 1st July 2018</b>					
<b>As restated</b>	<b>1,988,918</b>	<b>13,512,583</b>	<b>2,366,302</b>	<b>18,754,364</b>	<b>36,622,167</b>
<b>Changes in equity in 2018</b>					
Profit/(loss) for the year	-	-	-	2,941,821	2,941,821
Revaluation on Mgt Estimate			10,491,533		10,491,533
<b>As at 30th June 2019</b>	<b>1,988,918</b>	<b>13,512,583</b>	<b>12,857,835</b>	<b>21,696,185</b>	<b>50,055,520</b>

Reports and Financial Statements

As at June 30, 2019

**STATEMENT OF CASHFLOWS FOR THE PERIOD ENDING 30<sup>TH</sup> JUNE 2019**

	Note	<u>2018/2019</u> Kshs	<u>2017/2018</u> Kshs
<b>Cash flows from operating activities</b>			
Receipt from trade debtors		60,724,346	60,142,528
Payment to suppliers		(29,812,170)	(28,237,168)
Payment to Employees			
		(29,865,431)	(28,629,103)
<b>Net cash generated from/(used in) operating activities</b>		<u><b>1,046,745</b></u>	<u><b>3,276,257</b></u>
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment	11	(1,849,146)	(2,038,323)
<b>Net cash generated from/(used in) investing activities</b>		<u><b>(1,849,146)</b></u>	<u><b>(2,038,323)</b></u>
<b>Cash flows from financing activities</b>			
Repayments of long-term borrowings		(169,320)	(338,640)
Interest on loans			
<b>Net cash generated from/(used in) financing activities</b>		<u><b>(169,320)</b></u>	<u><b>(338,640)</b></u>
<b>Net increase in cash and cash equivalents</b>		(971,722)	899,294
<b>Cash and cash equivalents at 1st July</b>		<u>15,323,907</u>	<u>14,424,613</u>
<b>Cash and cash equivalents at 30th June</b>	10	<u><u>14,352,185</u></u>	<u><u>15,323,907</u></u>

## NOTES TO THE FINANCIAL STATEMENTS

### 1. GENERAL INFORMATION

Kahuti Water and Sanitation Company was established by the Companies Act of Parliament on 10<sup>th</sup> April 2006. At cabinet level, the entity is represented by the Cabinet Secretary for Environment, Water & Natural Resources, who is responsible for the general policy and strategic direction of the entity.

The principal activity of the entity is to provide quality water & sanitation services at an affordable rate.

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

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

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

### 3. ADOPTION OF NEW AND REVISED STANDARDS

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

#### **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)

**Reports and Financial Statements**

**As at June 30, 2019**

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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.

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

**iii) Early adoption of standards**

The entity did not early – adopt any new or amended standards in year 2017.

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

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

ii) Grants from National Government are recognized in the year in which the entity actually receives *such* grants. Recurrent grants are recognized in the statement of comprehensive income. Development/capital grants are recognized in the statement of financial position and realized 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 recognized in profit or loss on a time proportion basis using the effective interest rate method.

iv) Dividend income is recognized in the income statement in the year in which the right to receive the payment is established.

v) Rental income is recognized in the income statement as it accrues using the effective lease agreements.

vi) Other income is recognized as it accrues

**b). In-kind contributions**

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

**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

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

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

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

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

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

Land and Building	2.5%
Treatment plant	2.5 %
Motor vehicles, including motor cycles	25%
Computers and related equipment	30%
Office equipment, furniture and fittings	12.5 %
Water Pipeline	12.5%

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

**Intangible assets**

Intangible assets comprise purchased computer software licenses, 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.

**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 and the rate of amortization is 33.3%.

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.

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**As at June 30, 2019**

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**.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.

**Trade and other receivables**

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

**Provision for bad and doubtful debts,**

It is the WSP's policy to provide for uncollectable debts at the rate of 20% as general provision for trade debtors

**).Taxation**

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

**l).Cash and cash equivalents**

Cash and cash equivalents comprise cash on hand and cash at bank. Bank account balances include amounts held at various commercial banks at the end of the financial year. For the purposes of these financial statements, cash and cash equivalents also include short term cash Imprest and advances to authorized public officers and/or institutions which were not surrendered or accounted for at the end of the financial year.

**m).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. Amortized 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 capitalized as part of the cost of the project.

**n).Trade and other payables**

Trade and other payables are non-interest bearing and are carried at amortized 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.

**o).Retirement benefit obligations**

## **Reports and Financial Statements**

**As at June 30, 2019**

The entity operates a defined contribution scheme for all full-time employees from July 1, 2013. The scheme is administered by an in-house team and is funded by contributions from both the company and its employees. The company also contributes to the statutory National Social Security Fund (NSSF). This is a defined contribution scheme registered under the National Social Security Act. The company's obligation under the scheme is limited to specific contributions legislated from time to time and is currently at Kshs.200 per employee per month.

### **p).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.

### **q) Provision for long term dues**

It is the WSPs policy to provide for gratuity payment at the rate of 31% of their basic pay of management staff who are on fixed term contract after its expiry.

### **r).Comparative figures**

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

### **s).Subsequent events**

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

### **t) Financial risk management policies**

The company'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:

#### **Credit risk**

The company has exposure to credit risk, which is the risk that a counterparty 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.

**Reports and Financial Statements**

**As at June 30, 2019**

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**Market risk management**

The Water Company takes on exposure to market risk, which is the risk that changes in market prices, such as interest rate and cost of production and distribution. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while transferring other risks to other partners. Monitoring of market risk is done by management in conjunction with the Board of Directors. Market risk exposures are measured by the use of sensitivity analyses.

**c) Retained earnings.**

The retained earnings represent amounts available for recouping to the Company's expansion activities.

**d).Determination of Production cost**

Cost of sales has been determined as expenditure incurred in water treatment until its ready for storage prior to distribution as from this financial year.

**e).Finance cost**

These have been determined as aggregate of Cost of operating bank accounts and interest on loans.

**f).Revaluation Reserve**

The revaluation reserve relates to the revaluation of certain items of property, plant and equipment. As indicated in the Statement of Changes in Equity, this is stated after transfer of excess depreciation net of related deferred tax to retained earnings. Revaluation surpluses are not distributable.

## Reports and Financial Statements

As at June 30, 2019

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

	2018/2019	2017/2018
	Kshs	Kshs
<b>1. Revenue</b>		
Reconnection Fees	313,400	479,600
Connection Fees	142,200	1,782,300
Water Sales	58,166,546	60,773,723
Other Service Charges	85,150	110,097
	<u>58,707,296</u>	<u>63,145,720</u>

**DIRECT PRODUCTION COST**

	2018/2019	2017/2018
	Kshs	Kshs
<b>2. COST OF RAW MATERIAL CONSUMED</b>		
Opening stock	1,618,598	1,580,038
Purchases	10,003,774	2,633,412
Closing stock	<u>(2,199,212)</u>	<u>(1,618,598)</u>
	<u>9,423,160</u>	<u>2,594,851</u>
<b>3a. Other income</b>		
Operational Grant from MOWI&Athi	2,042,622	533,952
Decrease in Provision		
Water Connection Fittings	4,973,505	19,000
Grant Deferred Income	4,214,075	
In-Kind contribution	0	2,939,575
Other income	66,916	-
Interest Earned	425,968	572,674
	<u>11,723,086</u>	<u>4,065,201</u>

3D. Total Capital Grants as at 30th June 2019

	2018-2019 KSHS	2017-2018 KSHS
Pipeline	23,419,881	
Water Meters	5,292,720	-
Vehicle	2,500,000	-
Total Grants	<u>31,212,601</u>	-
Transfer to comprehensive income statement		
Deferred Grant Income	(4,214,075)	-
Balance as at 30/06/2019 to the statement of financial position	<u><u>26,998,526</u></u>	-

The Capital grants include Pipeline Infrastructure, water meters and motor Vehicle that have been granted by Athi Water Services Board (AWSB) and Tana Water Services Board (TWSB) during the year under consideration and have been amortized annually at normal rates as below.

<u>Asset</u>	<u>Rate%</u>
Water pipeline	12.5%
Water meters	12.5%
Motor vehicle	25%

Operational Grant of Kshs.3,420,966. These include salaries for a staff seconded by the ministry, pipes for burst repair given by Athi Water & Services Board and Chemicals given by the Ministry of Health.

**Reports and Financial Statements**

**As at June 30, 2019**

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	<b>2018/2019</b>	<b>2017/2018</b>
	<b>Kshs</b>	<b>Kshs</b>
<b><u>4.Repair&amp; Maintenance</u></b>		
Repair & Maintenance (pipeline)	1,594,020	2,288,335
Repairs and Maintenance	1,767,906	6,314,814
Repairs of intakes	89,880	25,000
Vehicle repair and maintenance	694,932	575,811
repairs of office	29,200	56,750
Computer expenses	67,200	39,050
<b>Total</b>	<b>4,243,138</b>	<b>9,299,760</b>

	<b>2018/2019</b>	<b>2017/2018</b>
	<b>Kshs</b>	<b>Kshs</b>
<b>5. Personnel costs</b>		
Salaries and wages	27,462,098	26,110,451
Provision for long-term service dues	1,679,973	1,446,648
<b>Total personnel costs</b>	<b>29,142,071</b>	<b>27,557,099</b>

**The average number of employees at the end of the year was:**

Permanent employees – management	5	5
Permanent employees – union stable	20	22
Temporary & contract employees	52	42
	<u>77</u>	<u>64</u>
	==	==

**Reports and Financial Statements**  
**As at June 30, 2019**

	2018/2019 Kshs	2017/2018 Kshs
<b>6. Administrative Costs</b>		
Licenses Administrative Fees	2,563,187	1,353,429
Postages and telephones	564,787	692,669
Security Services	991,431	904,500
Vehicle running	3,118,682	2,693,153
Printing and stationery	537,596	577,020
Electricity and water	237,360	208,796.45
AGM Expenses	1,575,910	0
Increase in Provision for Bad Debts	218,782	1,420,745
Bank charges and commissions	200,072	87,808
General Expenses	360,356	338,982
Staff welfare	534,993	738,940
Staff Uniforms	1,600	54,643
Staff training expenses	1,611,713	1,350,295
Corporate Social Responsibility	581,654	115,935
Insurance	338,071	28,440
Staff travel and Subsistence	2,252,647	3,323,602
Advertising and sales promotion	628,000	660,725
Subscription	137,050	214,400
<b>Total</b>	<b>16,453,890</b>	<b>14,764,082</b>
	2018/2019 Kshs	2017/2018 Kshs
<b>7. Professional services</b>		
Legal and professional fees	335,000	1,028,790
Audit fees		
- Current year Provision		514,555
- KENAO fees		51,455
<b>Total</b>	<b>335,000</b>	<b>1,594,800</b>
	2018/2019 Kshs	2017/2018 Kshs
<b>8. Directors expenses</b>		
Directors emoluments	723,360.00	1,072,004
	723,360.00	1,072,004

## 9. Depreciation on property, plant and equipment

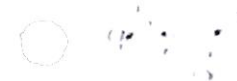
<b>10,488,400</b>	<b>4,704,479</b>
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## 10. Tax expense/income

	2018/2019 Kshs	2017/2018 Kshs
Current income tax	(113,591)	1,071,319
Deferred income tax	0	-
Income tax expense/(credit)	<u>(113,591)</u>	<u>1,071,319</u>

The tax on the company's profit/(loss) before income tax differs from the theoretical amount that would arise using the statutory income tax rate as follows:

<b>Profit/(loss) before income tax</b>	<u>(378,636)</u>	<u>5,623,846</u>
Tax effect of:		
Expenses deductible for tax purposes	10,488,400	6,125,224
Expenses/Income not deductible for tax purposes	21,177,954	8,178,006
Change in tax rate		
Recognition of previously unrecognized deferred tax assets		
Taxable Income	<u>(11,068,190)</u>	<u>3,571,064</u>
Balance b/f	4,028,375	2,957,056
Payment during the year		-
Provision for the year	<u>(3,320,457)</u>	<u>1,071,319</u>
	<u><b>707,918</b></u>	<u><b>4,028,375</b></u>



NOTES TO THE FINANCIAL STATEMENTS (Continued)  
11. PROPERTY, PLANT & EQUIPMENT

	Buildings	Water Pipelines	Motor cycles / vehicles	Furnitu re & fittings	Treatmen t Plant	Computer s, copiers & faxes	Office Equip ments	Water Meters	Intang ible Asset	Restated Total
<b>At 30th June 2018</b>										
Cost as at 1st July 2017	5,029,070	9,161,553	4,022,480	731,152	-	2,097,260	160,000	11,496,149	-	32,630,964
Additions	-	1,200,692	-	35,345	13,852,023	66,700	-	735,586	-	15,890,346
	<u>5,029,070</u>	<u>10,362,245</u>	<u>4,022,480</u>	<u>766,497</u>	<u>13,852,023</u>	<u>2,097,260</u>	<u>160,000</u>	<u>12,231,735</u>	<u>-</u>	<u>48,521,310</u>
<b>Provision for Depreciation</b>										
Balance as at 1st July 2017	1,254,361	4,134,431	3,300,781	359,565	-	1,500,418	117,902	4,775,860	-	15,443,318
Depreciation charge for the year	125,727	1,295,281	721,699	95,812	346,301	596,842	42,098	1,527,415	-	4,752,687
Balance as at 30th June 2018	<u>1,380,088</u>	<u>5,429,712</u>	<u>4,022,480</u>	<u>455,377</u>	<u>346,301</u>	<u>2,097,260</u>	<u>160,000</u>	<u>6,303,275</u>	<u>-</u>	<u>20,196,005</u>
Closing Net Book Value	<u>3,648,983</u>	<u>4,932,533</u>	<u>(0)</u>	<u>311,120</u>	<u>13,505,722</u>	<u>(0)</u>	<u>-</u>	<u>5,928,460</u>	<u>-</u>	<u>28,325,306</u>

Reports and Financial Statements  
As at June 30, 2019

	Buildings	Water Pipelines	Motor cycles / vehicles	Furnitu re & fittings	Treatmen t Plant	Computer s, copiers & faxes	Office Equip ments	Water Meters	Intang ible Asset	Restated Total
<b>At 30th June 2019</b>										
Cost as at 1st July 2018	5,029,070	10,362,245	4,022,480	766,497	13,852,023	2,097,260	160,000	12,231,735	-	48,521,310
Additions	-	82,250	-	-	-	-	-	1,506,896	260,000	1,849,146
Grants	-	23,419,881	2,500,000	-	-	-	-	5,292,720	-	31,212,601
Revaluation on Mgt Estimate	5,691,017	-	3,380,936	339,880	-	464,500	615,200	-	-	10,491,533
	<b>10,720,087</b>	<b>33,864,376</b>	<b>9,903,416</b>	<b>1,106,377</b>	<b>13,852,023</b>	<b>2,561,760</b>	<b>775,200</b>	<b>19,031,351</b>	<b>260,000</b>	<b>92,074,590</b>
<b>Provision for Depreciation</b>										
Balance as at 1st July 2018	1,380,088	5,429,712	4,022,480	455,377	346,301	2,097,260	160,000	6,303,275	-	20,194,493
Depreciation charge for the year	268,002	4,233,047	2,475,854	138,297	346,301	464,500	96,900	2,378,919	86,580	10,488,400
Balance as at 30th June 2019	<b>1,648,090</b>	<b>9,662,759</b>	<b>6,498,334</b>	<b>593,674</b>	<b>692,602</b>	<b>2,561,760</b>	<b>256,900</b>	<b>8,682,194</b>	<b>86,580</b>	<b>30,682,892</b>
Closing Net Book Value	<b>9,071,997</b>	<b>24,201,617</b>	<b>3,405,082</b>	<b>512,703</b>	<b>13,159,421</b>	<b>(0)</b>	<b>518,300</b>	<b>10,349,157</b>	<b>173,420</b>	<b>61,391,698</b>

NOTES TO THE FINANCIAL STATEMENTS (Continued)

	2018/2019	2017/2018
	Kshs	Kshs
<b>12. Trade and other receivables</b>		
Trade receivables	43,677,735	42,583,826
Less: provision for impairment losses	(8,735,547)	(8,516,765)
Net trade receivables	34,942,188	34,067,061
Vat Recoverable	11,664,494	9,399,838
Former staff advance	41,440	41,440
Salary advance	32,256	14,156
Unrealized Income	224,540	0
	<u>46,904,918</u>	<u>43,522,495</u>

**Note:**

The Opening trade receivables were overstated with kshs.5, 946,451 resulting to overstated income of the previous year thus adjusted against the water sales which is current income for the year 2018-2019..

	2018/2019	2017/2018
	Kshs	Kshs
<b>13a. Cash and cash equivalents</b>		
For the purpose of the cash flow statement, cash and cash equivalents comprise the following:		
Cash and current account balances	14,352,185	15,378,145
Cash at bank and in hand	0.00	(54,240)
	<u>14,352,185</u>	<u>15,323,905</u>

**Reports and Financial Statements  
As at June 30, 2019**

13b.	<u>ACCOUNT NUMBERS</u>	<b>2018/2019</b> <b>Kshs</b>	<b>2017/2018</b> <b>Kshs</b>
Equity Bank Current Account	30290276210	1,936,721	2,155,739
Equity Bank Savings Account	30190309493	970,265	511,907
Equity Bank Fixed Deposit	30377379971	8,000,000	7,000,000
Family Bank Current Account	90000010652	3,445,199	5,656,259
<b>TOTAL</b>		<b>14,352,185</b>	<b>15,323,905</b>

14.	<b>2018/2019</b> <b>Kshs</b>	<b>2017/2018</b> <b>Kshs</b>
<b>Trade and other payables</b>		
Trade payables	12,865,653	15,348,284
Other payables	20,876,332	17,171,941
	<b>33,741,985</b>	<b>32,520,225</b>

**14b. ADB loan Amortisation schedule**

Date	Detail	Amount(Kshs)
15/04/2017	Balance b/f	13,852,023
18/10/2017	RTGS: RTO00301023249TWSBADD(WSBSP)Loan	(169,320)
16/01/2018	RTGS: RTO00301023249TWSBADD(WSBSP)Loan	(169,320)
28/06/2019	RTGS: RTO00301023249TWSBADD(WSBSP)Loan	(169,320)
Balance as at 30/06/2019		<b>13,344,063</b>

**15. INCORPORATION**

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

**16. EVENTS AFTER THE REPORTING PERIOD**

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

**17. CURRENCY**

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