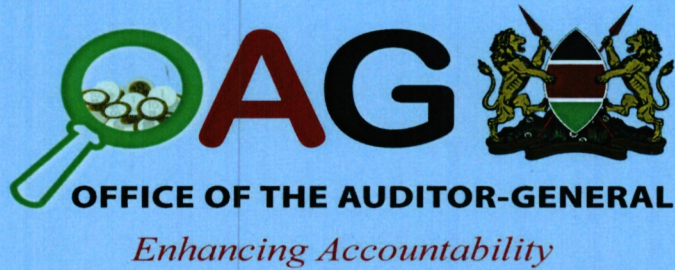


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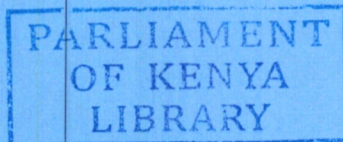


## REPORT

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OF

**THE AUDITOR-GENERAL**



ON

**BUSIA WATER AND SEWERAGE SERVICES  
COMPANY LIMITED**

**FOR THE YEAR ENDED  
30 JUNE, 2020**

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# **BUSIA WATER & SEWERAGE SERVICES CO LTD**



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**BUSIA WATER AND SEWERAGE SERVICES COMPANY LIMITED**

**ANNUAL REPORTS AND FINANCIAL STATEMENTS**

**FOR THE FINANCIAL YEAR ENDING  
JUNE 30, 2020**

---

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



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## **KEY ENTITY INFORMATION**

### **Background information**

Busia Water and Sewerage Services Company (BUWASSCO) was incorporated on April 14, 2014 under the Companies Act Cap.486. At county level, the company is represented by the Executive Committee Member in Charge of Finance and ICT and the County Executive Committee Member in charge of Water Environment, Irrigation and Natural Resources, who are the members of the Board which is responsible for the general policy and strategic direction of the company. The company is domiciled in Kenya and has branches in Busia town, Nambale, Matayos and Malaba/Kocholia.

### **Principal Activities**

The principal activity of the BUWASSCO is to:

- i). Provide water and sanitation services to the residents of Busia County
- ii). Ensure that county assets for water service provision entrusted to the company are maintained and are in good working condition.

### **Vision, Mission and Core Values**

#### ***Vision***

A leading, sustainable and reliable provider of quality, affordable water and sanitation services

#### ***Mission***

To provide safe, reliable affordable water and sewerage services in a sustainable manner to the residents of Busia County

#### ***Core Values***

- Professionalism
- Accountability
- Customer Focus
- Equity
- Integrity
- Teamwork



# **Busia Water and Sewerage Services Company Limited**

## **Annual Reports and Financial Statements**

**For the year ended June 30, 2020**

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

#### **Directors**

The Directors who served the Busia Water and Sewerage services company limited during the year/period were as follows:

|    |                   |                            |                                               |
|----|-------------------|----------------------------|-----------------------------------------------|
| 1. | Dr. George Kwedho | - Chairman                 | - Appointed on 1 <sup>st</sup> December, 2018 |
| 2. | Hellen A. Mukanda | -Member                    | - Appointed on 1 <sup>st</sup> December, 2018 |
| 3. | Dr. Isaac Alukwe  | - CEC.DWINER               | - Appointed on 1 <sup>st</sup> December, 2018 |
| 4. | Phaustine Barasa  | -CEC. Finance and ICT      | - Appointed on 1 <sup>st</sup> December, 2018 |
| 5. | Francis Omondi    | - Chair, Finance Committee | - Appointed on 1 <sup>st</sup> December, 2018 |
| 6. | Darya Susan       | - Member                   | - Appointed on 1 <sup>st</sup> December, 2018 |
| 7. | Joseph Esemé      | - Member                   | - Appointed on 1 <sup>st</sup> December, 2018 |

#### **Corporate Headquarters**

P.O. Box 392-50400

Dept. of Water, Irr, Env & Nat. Resource compound

Equity Bank-Posta-Forest Road

Busia, KENYA

#### **Corporate Contacts**

Telephone: (254) 796523854

E-mail: info@buwasco.co.ke

#### **Corporate Bankers**

Co-operative Bank of Kenya

P.O. Box 595-50400

Busia Kenya

Equity Bank

P.O Box 553-50400

Busia Kenya

Kenya Commercial Bank

P.O Box 27-50400

Busia Kenya

#### **Independent Auditors**

Auditor General

Anniversary Towers

P.O. Box 30084-00100

Nairobi.

# Busia Water and Sewerage Services Company Limited

## Annual Reports and Financial Statements

For the year ended June 30, 2020

### THE BOARD OF DIRECTORS

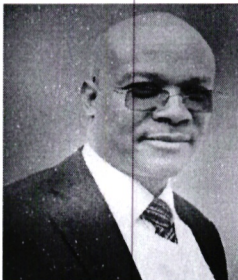
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|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------|
|  <p>1.<br/>Dr. GEORGE KWEDHO, Ph.D. – Chairman B.O.D<br/>Doctor of Philosophy in Environmental Planning</p> | <ul style="list-style-type: none"><li>• Male 61 Yrs.</li><li>• Engineer</li><li>• Managing Consultant, Fepan Global Agencies Co. Ltd</li></ul>      |
|  <p>2.<br/>Mr. FRANCIS OMONDI – B.O.D Member<br/>Bachelor's Degree in Law</p>                               | <ul style="list-style-type: none"><li>• Male 46Yrs</li><li>• Advocate, Omondi and Company Advocates</li></ul>                                       |
|  <p>3.<br/>M/s. DARYA A. SUSAN<br/>Master of Arts in Project Planning and Management</p>                  | <ul style="list-style-type: none"><li>• Female 39 Yrs</li><li>• Human Resource</li><li>• Senior Administrator, University of Nairobi</li></ul>      |
|  <p>4.<br/>M/s. MUKANDA HELLEN AJIAMBO<br/>Bachelor's Degree in Environmental Health</p>                  | <ul style="list-style-type: none"><li>• Female 44 Yrs</li><li>• Environmentalist</li><li>• Executive Director, Grow Against Poverty Kenya</li></ul> |



**Busia Water and Sewerage Services Company Limited**

**Annual Reports and Financial Statements**

**For the year ended June 30, 2020**

|                                                                                                                                                                    |                                                                                                                                       |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------|
| <p>5. Mr. JOSEPH ESEME</p>  <p>Bachelor's Degree in Early Childhood Education</p> | <ul style="list-style-type: none"> <li>• Male 53 Yrs</li> <li>• Teaching</li> <li>• Head Teacher, Rwatama Primary School</li> </ul>   |
| <p>6. Mr. Ojiambo Etick Nakitari</p>                                              | <ul style="list-style-type: none"> <li>• Male 53 yrs</li> </ul> <p>MSc Water Engineering<br/>Bsc Civil and Structural Engineering</p> |
| <p>7. Hon. Phaustine Barasa</p>                                                  | <p>Female<br/>CECM Department of Finance &amp; Economic Planning.</p>                                                                 |
| <p>8. Dr. Hon. ISAAC ALUKWE, Ph.D.</p>                                          | <p>Male<br/>CECM Department of Water, Irrigation and Environment, Busia County Government.v</p>                                       |

## MANAGEMENT TEAM

|                                                                                                                        |                                                                                                                                                               |
|------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------|
|  <p>1. Mr. Ojiambo Erick Nakitari</p> | <p>Managing Director<br/>MSc Water Engineering<br/>Bsc Civil and Structural Engineering</p>                                                                   |
|  <p>2. Ms. Sarah Patrick Akasiba</p> | <p>Bachelor of Science in Human Resource Management<br/>Certified Human Resource Professional (CHRP) 1<br/>IHRM member.<br/><br/>Human Resources Manager.</p> |
|  <p>3.CPA Frankline Mukaka</p>      | <p>Certified Public Accountant CPA(K)<br/>Bachelor of Commerce<br/><br/>Internal Auditor</p>                                                                  |
|  <p>4 CPA Ochande Geoffrey Babu</p> | <p>Certified Public Accountant CPA(K)<br/>Bachelor of Commerce<br/>MBA Finance<br/><br/>Finance Manager</p>                                                   |



## **CHAIRMAN'S STATEMENT**

Busia Water and Sanitation Company is an entity of the County Government of Busia County charged with the mandate of providing water and sewerage services to the residents of Busia. The company draws its mandate from the water Act 2016 as a service provider regulated by the water services Regulatory Board (WASREB) and anchored in the Busia County Water and Sanitation Act 2015. The company delivers its mandate on behalf of the County Government of Busia in the devolved function of water services provision.

The services offered by the company were previously limited to areas around towns, the board of directors delights in recent line extensions done in several areas in Nambale to supply water to rural set ups through funding of CABDA project.

As board of directors, we have devoted our efforts and resources in trying to reduce avoidable cost of production, in pursuit of this, we have sourced for funding of a solar pumping project in our treatment works, this has significantly cut down our electricity costs used to pump water.

The company, under this current board of directors, has been able to source for a dedicated management team which initially was being run by officers. The company is now run by a management team of professionals, The team on board comprises of an Internal Auditor, Human resource manager, Commercial and Finance manager, Technical manager and the Managing Director. This has seen to it that we are aligned with the WASREB regulations and guidelines on the management of water service providers.

We have are currently constructing a decentralized treatment facility in Port Victoria with the help from Water Sector Trust Fund.

Our major setbacks in efficient service delivery is attributed to a number of factors among them; high cost of production electricity in particular. A proposal to pump water by gravity is being worked on to reduce the costs. A smaller region of service and inability to expand our service jurisdiction to across the entire county, in rural areas, to add on, the old service lines that needs replacement and repairs and maintenance of the same.

The board have approved various departmental procedures and policies and now the company has a sound policy document which is used as a safeguard to normal operations to regulate and define the scope of the company's dealings. These includes finance policy, human resource policy, internal audit policy and procurement policy.

**Busia Water and Sewerage Services Company Limited**

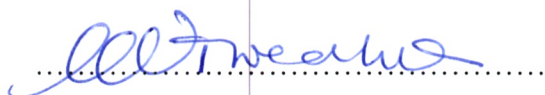
**Annual Reports and Financial Statements**

**For the year ended June 30, 2020**

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A revised strategic plan for the company is in formulation to serve the current and future objectives of the company, this is being done by the management in liaison with Kenya Market Trust and other stakeholders.

We as the board have confidence that the company is set to breakeven and thrive in the foreseeable future.



**Dr. George Kwedho, Ph.D.**

**Chairman**



# **Busia Water and Sewerage Services Company Limited**

## **Annual Reports and Financial Statements**

**For the year ended June 30, 2020**

### **REPORT OF THE MANAGING DIRECTOR**

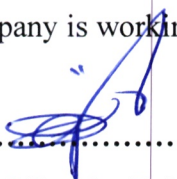
Since incorporation, Busia Water And Sewerage Services Company Ltd has been running for a period of three years now. It commenced business in July 2016 as water service provider. This is after the water sector was devolved as a county function that saw to it the split from the larger Kakamega-Busia Water Company.

The company has diversified its services across the county and now has seven schemes within the county, these are, Mundika, Nambale, Malakisi, Matayos, Bujumba/Burinda, Amukura and Malaba/Kocholia schemes. These schemes are served by water pumped from our treatment works in Mundika and Malakisi majorly. Due to the high costs of pumping the company has been unable to expand its service delivery to most rural set ups in the county hence this has called for alternative measures of pumping the water at a cost effective method like gravity other than relying on electricity entirely. We are evaluating our choices to suit the company best for seamless service delivery to all hemispheres as our core business is to serve clean safe and most importantly affordable water to the residents of Busia County.

Busia water and Sewerage Services company is solely owned by the County Government of Busia , fulfilling the regulator. To this effect, the company in collaboration with the County Government is now working towards improvement plan in terms of infrastructure, expansion and sustainability.

Through public-private partnerships, and donor support we have embarked on expanding our services to regions within the county that initially did not receive our services and through it, there is a KABDA project in Nambale and in Malakisi that has seen rural residents having access to safe clean water and the company still intends to partner with more private sectors and in kind donors to achieve its long term objectives.

The Strategic Plan for the period 2017-2021 which had a cost estimation of over Kshs.15.58Billion has been partly executed due to insufficient funds and since the year has approached the end, the company is working on coming up with a new strategic plan.



**Mr. Ojiambo Erick Nakitari.**

**Managing Director**

**CORPORATE GOVERNANCE STATEMENT**

The company recognizes the importance of corporate governance in creating balance between economic and social goals and between individual and communal goals while encouraging efficient use of resources, accountability in use of power and stewardship and as far as possible to align the interests of individuals, corporation and the society. Good corporate governance is intended to ensure that the powers of the corporation is exercised in the stewardship of the corporation's total portfolio of assets and resources with the objective of maintaining and increasing customer satisfaction and other stakeholders in the context of corporate mission.

The company Board of Directors was appointed by the Governor of Busia County, to perform the following functions;

Ensure proper and efficient exercise of the powers and performance of the functions of the company

Advise the management generally on the exercise of the powers and the performance of the company

Approve the estimates of the revenue and expenditure of the company.

To ensure there was no compromise on principles of corporate governance, Board of Directors underwent training on the same as well as the Code of Conduct. During the financial year just ended three Full Board meetings were held as well as three Board Committee meetings. The remuneration of the Board was discussed and determined during the first Full Board meeting.

Terms of service for Board of the company is three years with retention of a third of directors for continuity. The composition of the board of directors is as follows;

- Professional bodies, Women organizations, business and manufacturing communities.
- The Executive Committee Member in charge of Water, Environment and Natural Resources
- The Executive Committee Member in charge of Finance and Economic Planning.
- Regular meetings of the Board are held quarterly. Special meetings may be called by the chairman.
- The company's director shall act in good faith, with due care and in the best interest of the company and its shareholders.
- Each director is expected to attend board meetings and applicable committee meetings. Directors are expected to ensure that other commitments do not interfere in the discharge of their duties.



# **Busia Water and Sewerage Services Company Limited**

## **Annual Reports and Financial Statements**

**For the year ended June 30, 2020**

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### **Board Committee**

- The Board is supported by three (3) Committees namely: Technical Committee, Finance and Establishment and Audit and Governance Committee all of which are required to report to the Board a summary of the actions taken at committee level.
- Technical Committee:  
M/s.Susan Darya (Chairperson)  
Mr. Joseph Eseme  
Hon,Dr. Isaac Alukwe, Ph.D.  
M/s Ajiambo H. Mukanda
- Finance and Establishment Committee:  
Mr. Francis Omondi (Chairperson)  
Hon,Dr. Isaac Alukwe, Ph.D  
Hon. Phaustine Barasa  
M/s. Mukanda H. Ajiambo
- Audit Committee:  
Mr. Joseph Eseme (Chairperson)  
M/s. Darya Susan  
Hon,Dr. Isaac Alukwe, Ph.D  
Hon. Phaustine Barasa

### **Board Remuneration**

- By resolution of the Board each director shall receive a net of Ksh.14,000 as sitting allowance and Ksh.2,000 lunch and travelling allowances, if lunch is not served during the meeting. The Chairman receives a monthly allowance of Kshs 35,000 subject to 30% tax. As compensation the Board shall allocate an amount not more than 2% of the total revenue of the company.

### **Audit and Governance Committee**

- The company has an Audit and Governance Committee composed of four directors. The Audit and Governance Committee is expected through the provision of checks and balance to bring positive results in supervising and supporting the management of the company. It is responsible for ensuring the development of, compliance with, and periodic review of corporate governance policies and practices in the company.

# **Busia Water and Sewerage Services Company Limited**

## **Annual Reports and Financial Statements For the year ended June 30, 2020**

### **Board Meetings**

The table below summarises the attendance of directors to the meetings held in the year ended 30<sup>th</sup> June 2020:

|   | Directors                    | No of meetings attended |  |
|---|------------------------------|-------------------------|--|
| 1 | Dr. George Kwedho, Ph.D.     | 9/16                    |  |
| 2 | Hon, Dr. Isaac Alukwe, Ph.D. | 13/16                   |  |
| 3 | Hon. Phaustine Barasa        | 10/16                   |  |
| 4 | Mr. Joseph Esemé             | 9/16                    |  |
| 5 | Ms. Darya Susan              | 12/16                   |  |
| 6 | Mr. Francis Omondi           | 11/16                   |  |
| 7 | Ms Mukanda Hellen Ajiambo    | 12/16                   |  |
|   |                              |                         |  |



## **MANAGEMENT DISCUSSION AND ANALYSIS**

This financial year has been a great growth to the company financially, the company realized an increase in the revenue from Kshs.45M in the previous financial year to a sum of Kshs.53.19M in this current year. The budgeted revenue for this particular year was Kshs.107.63M, a shortfall of Kshs.54.44M from the actual. The management still is exposed to a risk of never recovering the long overdue debts to a tune of Kshs. 62M as there has been deliberate measures taken to try recover the debts in vain. Busia county government through the department of environment water and natural resources gave the company grants by settling electricity bills worthy Kshs.6.4M during the year.

Busia Water and Sewerage Services Company incurred a total recurrent expenditure of Kshs.44.48M. Staff remuneration expense account for Kshs. 32.13M of the total expenditure. At the end of this financial year June 30<sup>th</sup> 2020, the company registered an operating loss of Kshs.0.328M.

The company has, through the challenges, been able to comply with income tax act-statutory deductions have been remitted up to date, these are; National Social Security Fund, PAYE and National Hospital Insurance Fund. The outstanding arrears brought forward in previous financial year in form of penalties remain unpaid to date.

Local Authority Pension Trust Fund and staff welfare deductions were not remitted during the entire financial year due to low income collected.

A non revenue water 67% was experienced, a drop from last financial year's. This is still higher than the recommended maximum of 25%. Total number of connected customers are 10,210 this are both active and disconnected customers.

**CORPORATE SOCIAL RESPONSIBILITY STATEMENT/SUSTAINABILITY REPORTING**

BUWASSCO exists to transform lives by providing affordable clean safe water to households and commercial entities. This is our purpose; the driving force behind everything we do. It's what guides us to deliver our strategy, putting the customer first, delivering relevant services, and improving operational excellence.

The company participated in donation of clean and safe domestic consumption water to the residents of Busia County particularly in Budalangi and Port Victoria during the Covid 19 pandemic.



# **Busia Water and Sewerage Services Company Limited**

## **Annual Reports and Financial Statements**

**For the year ended June 30, 2020**

### **REPORT OF THE DIRECTORS**

The Directors submit their report together with the audited financial statements for the year ended June 30, 2020 which show the state of the BUWASSCO's affairs.

#### **Principal activities**

The principal activities of the entity are;

- i) Provide water and sanitation services in an effective, efficient and economical manner and shall report to County Government of Busia in accordance with the provisions in the Act.
- ii) Comply with all the provisions of the Laws of Kenya relating to the performance of its obligations, including those relating to occupational health and safety of employees. In addition, the company shall operate a quality monitoring and assurance system in accordance with the International standards.
- iii) Ensure that assets entrusted to the company are maintained and are in good working condition.
- iv) To develop programs for advancement of skills and competencies of employees of the company
- v) Establish mechanisms for promoting customer relations;

#### **Results**

The results of the company for the year ended June 30, 2020 are set out from page 1 to 32.

#### **Dividend**

The company does not pay dividends rather uses the surplus to enhance its principal activity

#### **Directors**

The members of the Board of Directors who served during the year are shown on page v-vi

#### **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.

By Order of the Board

.....  
Board Secretary

Busia (K)

Date: 24/09/2020

## **STATEMENT OF DIRECTORS' RESPONSIBILITIES**

Section 81 of the Public Finance Management Act, 2012 and section 14 of the State Corporations Act, require the Directors to prepare financial statements in respect of 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 ended on June 30, 2020. This responsibility includes: (i) maintaining adequate financial management arrangements and ensuring that these continue to be effective throughout the reporting period; (ii) maintaining proper accounting records, which disclose with reasonable accuracy at any time the financial position of the entity; (iii) designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of the financial statements, and ensuring that they are free from material misstatements, whether due to error or fraud; (iv) safeguarding the assets of the entity; (v) selecting and applying appropriate accounting policies; and (vi) making accounting estimates that are reasonable in the circumstances.

The Directors accept responsibility for the entity's financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity with International Financial Reporting Standards (IFRS), and in the manner required by the PFM Act, 2012 and the State Corporations Act. The Directors are of the opinion that the entity's financial statements give a true and fair view of the state of entity's transactions during the financial year ended June 30, 2020 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.

**Busia Water and Sewerage Services Company Limited**

**Annual Reports and Financial Statements**

**For the year ended June 30, 2020**

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**Approval of the financial statements**

Busia Water and sewerage services company financial statements were approved by the Board on

24/09/ 2020 and signed on its behalf by:



**Dr. George Kwedho, Ph.D.**

**Chairperson of the Board.**



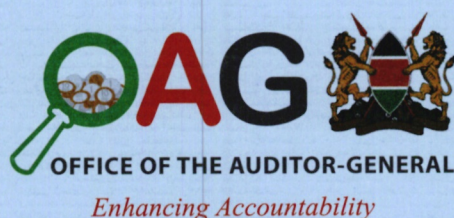
**Mr. Ojiambo Erick Nakitari**

**Managing 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 BUSIA WATER AND SEWERAGE SERVICES COMPANY LIMITED FOR THE YEAR ENDED 30 JUNE, 2020

---

### REPORT ON THE FINANCIAL STATEMENTS

#### Adverse Opinion

I have audited the accompanying financial statements of Busia Water and Sewerage Services Company Limited set out on pages 1 to 41, which comprise the statement of financial position as at 30 June, 2020, and statement of profit or loss and other comprehensive income, statement of changes in equity, statement of cash flows and statement of comparison of budget and actual amounts for the year then ended and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, 2015. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

In my opinion, because of the significance of the matters discussed in the Basis for Adverse Opinion section of my report, the financial statements do not present fairly, the financial position of Busia Water and Sewerage Services Company Limited as at 30 June, 2020, and of its financial performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards (Accrual Basis) and do not comply with the Kenyan Companies Act, 2015 and the Public Finance Management Act, 2012.

#### Basis for Adverse Opinion

##### 1. Property, Plant, and Equipment

The statement of financial position as at 30 June, 2020 reflects a balance of Kshs.698,102 under property, plant and equipment which was however, not supported by an up to date assets register indicating the nature, dates of acquisition, cost, unique identification number, current value and current location contrary to Regulation 136(1) of the Public Finance Management (County Governments) Regulations, 2015 which provides that the Accounting Officer should be responsible for maintaining a register of assets under his or her control.

Further, and as disclosed in Note 13 to the financial statements, land and buildings were excluded in the property plant and equipment movement schedule because they



belong to the County Government of Busia. However, the ownership of the land and buildings could not be determined in the absence of supporting documentation. In addition, the service provision agreement signed between Lake Victoria North Water Service Board and the Company and the handing over notes of assets and liabilities did not specify the land sizes and valuation on which various water schemes under Busia Water Company operate from.

In the circumstances, the accuracy, completeness and ownership of the property, plant and equipment with the net book value of Kshs.698,102 as at 30 June, 2020 could not be confirmed.

## **2. Trade and other receivables**

### **2.1 Variance in Trade and Other Receivables**

The statement of financial position reflects a balance of Kshs.77,524,111 under trade and other receivables. However, the schedules provided for audit review reflects a balance of Kshs.68,268,111, resulting to an unexplained variance of Kshs.9,256,000. Further, the trade and other receivables balance of Kshs.77,524,111 differ with the balance of Kshs.76,724,111 reflected in the corresponding Note 15 to the financial statements, resulting to an unreconciled variance of Kshs.800,000.

Consequently, the accuracy and completeness of the trade and other receivables balance of Kshs.77,524,111 could not be confirmed.

## **3. Bank and Cash Balances**

The statement of financial position reflects a balance of Kshs.3,566,876 under bank and cash balances which, as disclosed in Note 16 to the financial statements, includes an amount of Kshs.1,440,770 being a closing balance of customer deposits held at the Kenya Commercial Bank Deposit, account number 1266120025. However, the bank balance of Kshs.1,440,770 was not supported with the certificate of bank balance and bank reconciliation statement as at 30 June, 2020.

Further, and as previously reported, the statement of cash flows revealed inaccuracies in the changes in working capital which were used in computing the net cash from operating activities leading to misstatements in the comparative bank and cash balances of Kshs.603,968.

Under the circumstances, the accuracy of the reported bank and cash balance of Kshs.3,566,876 as at 30 June, 2020 could not be confirmed.

## **4. Trade and Other Payables- Unsupported Customer Deposits**

The statement of financial position reflects a balance of Kshs.81,047,183 under trade and other payables which, as disclosed in Note 17 to the financial statements, includes an amount of Kshs.8,588,755 in respect of customer deposits. However, supporting schedules and third party confirmations were not provided for audit review. Further, review of the creditors ageing analysis revealed that creditors amounting to Kshs.8,188,609 had been outstanding for a period of over ninety days.



Under the circumstances, the accuracy of the customer deposits of Kshs.8,588,755 as at 30 June, 2020 could not be confirmed.

#### **5. Unsupported Share Capital Balance**

The share capital balance of Kshs.100,000 reflected in the statement of financial position was not supported with the register of share certificates.

Under the circumstances, the shareholding of the Company and the accuracy of the reported balance of Kshs100,000 could not be confirmed.

#### **6. Statement of Cash flows**

The statement of cash flows reflects a balance of Kshs.6,114,753 being cash generated from operations. However, an amount of Kshs.602,192 described as customer adjustments during the year was not supported or explained.

Under the circumstances, the accuracy of the statement of cash flows for the year ended 30 June, 2020 could not be confirmed.

#### **7. Lack of Trial Balance**

A trial balance should be generated at the end of an accounting period prior to the preparation of the financial statements to allow the management check and identify possible book keeping errors and make necessary adjustments to the financial statements. However, the Company did not produce a trial balance making it difficult to determine the accuracy of the balances in the financial statements.

Under the circumstances, the accuracy of the financial statements for the year ended 30 June, 2020 could not be confirmed.

The audit was conducted under the International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the Busia Water and Sewerage Services Company Limited Management in accordance with ISSAI 130 on the 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 judgement, are of most significance in the audit of the financial statements. There were no key audit matters to report in the year under review.

#### **Other Matter**

#### **Budget Control and Performance**

The Company had a revenue budget of Kshs.84,319,295 against actual receipt of Kshs.62,982,767 representing an overall under-collection of Kshs.21,336,528 or 25%.



Further, the Company spent a total Kshs.62,063,034 against a budget of Kshs.97,732,871 representing an under expenditure of Kshs.35,669,837 or 37% of the budget. The under collection and under expenditure affected the planned activities and may have impacted negatively on service delivery to the residents of Busia.

### **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, because of the significance of the matters discussed in the Basis for Conclusion on Lawfulness and Effectiveness in Use of Public Resources section of my report, based on the audit procedures performed, I confirm that public resources have not been applied lawfully and in an effective way.

#### **Basis for Conclusion**

##### **1. Non – Revenue Water**

During the financial year under review, the Company produced a total of 1,330,371 cubic meters of water, out of which only 606,447 cubic meters was billed to customers, leaving a balance of 723,924 (or about 54%) of the total volume of water produced as Non-Revenue Water (NRW), which is 29% over and above the allowable 25% set by the Water Services Regulatory Board Guidelines. The Non-Revenue Water of 54% resulted in a loss of sales estimated at Kshs.17,609,895. The significant level of non-revenue water has a negative impact on the Company's profitability and its ability to sustain services. No evidence was provided of any efforts by the Company to address the situation.

## **2. Water Charge Tariffs**

The Company last reviewed the water tariffs in 2012. This is contrary to Section 72(l)(b) of the Water Act of 2016 which requires that the Regulatory Board should evaluate and recommend water and sewerage tariffs to the county water services providers and approve the imposition of such tariffs in line with consumer protection standards. Lack of review of the water charge tariffs may lead to low returns which may affect the operations of the Company.

Further, the Company's tariff expired in 2018 and no explanation was provided for the delay in obtaining approval for a new tariff from the Water Services Regulatory Board (WASREB). This is contrary to Section 72(c) of the Water Act, 2016 which requires that WASREB should set license conditions and accredit water services providers.

Consequently, the Company Management was in breach of the law.

## **3. Unapproved Transfer from Customers Deposits**

During the year under review, an amount of Kshs.650,000 was drawn from Co-operative deposit bank account No.01141237264002 and transferred to KCB account. However, approval by the Board for the transfer from the customer deposits account was not provided for audit review. Further, and as previously reported, an additional amount of Kshs.1,513,613 had been transferred from the customers deposits account to the Company's expenditure account for daily operations without the Board's approval and has not been refunded to date. No explanation was provided on why the amount totalling Kshs.2,163,613 has not been refunded.

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

Review of the personnel emolument revealed that the staff costs of Kshs.32,131,682 was fifty-eight percent (58%) of the total revenue amount Kshs.55,623,869. This was contrary to Section 25(1)(b) of the Public Finance Management (County Governments) Regulations, 2015 which limits the wage bill to thirty-five percent (35%) of the total revenue.

Consequently, the Company was in breach of law.

## **5. Unremitted Statutory Deduction and Penalties**

The statement of financial position reflects a balance of Kshs.81,047,183 under trade and other payables which, as disclosed in Note 17 to the financial statements, includes an amount of Kshs.21,075,588 in respect of unremitted statutory deductions and penalties as detailed below.

| <b>Item</b>             | <b>Amount<br/>Kshs.</b> |
|-------------------------|-------------------------|
| LVN Staff welfare loans | 544,425                 |
| Ukulima Sacco Society   | 1,252,461               |



| <b>Item</b>                | <b>Amount<br/>Kshs.</b> |
|----------------------------|-------------------------|
| Wevarcity Sacco Society    | 148,917                 |
| LAPTRUST                   | 14,838,722              |
| Co-operative Bank of Kenya | 3,427,392               |
| NHIF Penalties             | 803,300                 |
| PAYE Penalties             | 60,371                  |
| <b>Grand Total</b>         | <b>21,075,588</b>       |

No explanation on why the deductions and penalties were not remitted to the respective bodies.

## **6. Irregularities in Procurement of Security Services**

The statement of profit or loss and other comprehensive income reflects an expenditure of Kshs.41,446,032 under administration costs which, as disclosed in Note 10 to the financial statements, includes an amount of Kshs.2,640,000 relating to security services. However, examination of procurement records revealed that the Securicor firm had not tendered for the supply and provision of security services. The Securicor firm was engaged by Nzoia Water Services Company Limited (NZOWASCO) after they took charge of Malakisi treatment scheme and Amagoro office which were initially under NZOWASCO but the contract expired on 31 December, 2017.

Under the circumstances, the Company irregularly engaged the Securicor firm since January, 2018 without a contract agreement which was breach of law.

The audit was conducted per 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 comply, 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, because of the significance of the matter discussed in the Basis for Conclusion on Effectiveness of Internal Controls, Risk Management and Governance section of my report, based on the audit procedures performed, I confirm that internal controls, risk management, and governance were not effective.

## **Basis for Conclusion**

### **IT Internal Control Weakness**

The Company has been operating without an approved IT Strategic Plan, IT Strategic Committee at the Board level and an IT Steering Committee at the Management level.

Consequently, the Company's strategic goals may not be efficiently and effectively met in the delivery of better services

The audit was conducted in accordance with ISSAI 2315 and ISSAI 2330. The standard requires that I plan and perform the audit to obtain assurance about whether effective processes and systems of internal control, risk management, and overall governance were operating effectively, in all material respects. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

## **REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS**

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

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

## **Responsibilities of Management and the Board of Directors**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards (IFRS) and for maintaining effective internal control as Management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error and for its assessment of the effectiveness of internal control, risk management and overall governance.

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

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



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

The Board of Directors is responsible for overseeing the financial reporting process, reviewing the effectiveness of how the Company monitors compliance with relevant legislative and regulatory requirements, ensuring that effective processes and systems are in place to address key roles and responsibilities in relation to 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 overall governance processes and systems in accordance with the provisions of Section 7(1)(a) of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution. My consideration of the internal control would not necessarily disclose all matters in the internal control that might be material weaknesses under the ISSAIs. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.



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

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

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

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



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

  
CPA Nancy Gathungu, CBS  
AUDITOR-GENERAL

Nairobi

10 February, 2022

**STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 30 JUNE 2020**

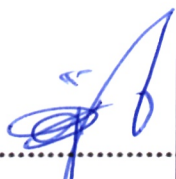
|                                                  | Note  | 2019-2020           | 2018-2019          |
|--------------------------------------------------|-------|---------------------|--------------------|
|                                                  |       | Kshs                | Kshs               |
| <b>REVENUES</b>                                  |       |                     |                    |
| Revenue                                          | 6     | 53,191,519          | 42,718,135         |
| Cost of sales                                    | 7     | (19,836,638)        | (23,232,132)       |
| <b>Gross profit</b>                              |       | <b>33,354,881</b>   | <b>19,486,003</b>  |
| In-kind contribution -County Government of Busia | 8     | 7,693,898           | 11,976,517         |
| Other Income                                     | 9     | 2,098,350           | 2,538,130          |
| <b>TOTAL REVENUES</b>                            |       | <b>43,147,129</b>   | <b>34,000,650</b>  |
| <b>OPERATING EXPENSES</b>                        |       |                     |                    |
| Administration Costs                             | 10    | (41,446,032)        | (38,373,634)       |
| Selling and Distribution Costs                   | 11(a) | (3,693,215)         |                    |
| Finance Costs                                    | 11(b) | (138,962)           |                    |
| Depreciation charge                              | 13    | (400,473)           | (367,731)          |
| <b>TOTAL OPERATING EXPENSES</b>                  |       | <b>(45,678,682)</b> | <b>38,741,365</b>  |
| <b>PROFIT/(LOSS) BEFORE TAXATION</b>             |       | <b>(2,531,553)</b>  | <b>(4,740,715)</b> |
| Income Tax Expense/(Credit)                      | 12    | -                   | 4,904,850          |
| <b>PROFIT/(LOSS) AFTER TAXATION</b>              |       | <b>(2,531,553)</b>  | <b>164,135</b>     |



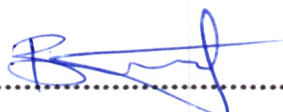
**Busia Water and Sewerage Services Co. Ltd****Annual Reports and Financial Statements****For the year ended June 30, 2020****STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2020**

|                                     | Note | 2020              | 2019              |
|-------------------------------------|------|-------------------|-------------------|
|                                     |      | Kshs              | Kshs              |
| <b>ASSETS</b>                       |      |                   |                   |
| <b>Non-Current Assets</b>           |      |                   |                   |
| Property, plant and equipment       | 13   | 698,102           | 968,727           |
| <b>Total Non-Current Assets</b>     |      | <b>698,102</b>    | <b>968,727</b>    |
| <b>Current Assets</b>               |      |                   |                   |
| Inventories                         | 14   | 1,054,560         | 458,726           |
| Trade and other receivables         | 15   | 77,524,111        | 57,047,701        |
| Tax recoverable                     |      | -                 | 4,904,850         |
| Bank and cash balances              | 16   | 3,566,876         | 603,968           |
| <b>Total Current Assets</b>         |      | <b>82,145,547</b> | <b>63,015,245</b> |
| <b>Total assets</b>                 |      | <b>82,843,649</b> | <b>63,983,973</b> |
| <b>EQUITY AND LIABILITIES</b>       |      |                   |                   |
| <b>Capital and Reserves</b>         |      |                   |                   |
| Ordinary share capital              |      | 100,000           | 100,000           |
| Retained earnings                   |      | 1,696,466         | (676,831)         |
| <b>Capital and Reserves</b>         |      | <b>1,796,466</b>  | <b>(576,831)</b>  |
| <b>Current Liabilities</b>          |      |                   |                   |
| Trade and other payables            | 17   | 81,047,183        | 64,560,804        |
| <b>Total Current Liabilities</b>    |      | <b>81,047,183</b> | <b>64,560,804</b> |
| <b>TOTAL EQUITY AND LIABILITIES</b> |      | <b>82,843,649</b> | <b>63,983,973</b> |

The financial statements were approved by the Board on 24/09/2020 and signed on its behalf by:

  
.....

Mr. Erick Nakitari

**Managing Director**  
.....

Mr. Rodger Miller Nelson Bunyasi

**Head of Finance**  
.....

Dr. George Kwedho, Ph.D.

**Chairman of the Board**

**STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 JUNE 2020**

|                     |  | Ordinary share<br>capital | Retained<br>earnings | Grants | Total       |
|---------------------|--|---------------------------|----------------------|--------|-------------|
| At July 1, 2018     |  | 100,000                   | 4,063,884            |        | 4,163,884   |
| Profit for the year |  | -                         | 164,135              |        | 164,135     |
| At June 30, 2019    |  | 100,000                   | 4,228,019            |        | 4,328,019   |
|                     |  |                           |                      |        |             |
| At July 1, 2019     |  | 100,000                   | 4,228,019            |        | 4,328,019   |
| Profit for the year |  | -                         | (2,531,553)          |        | (2,531,553) |
| At June 30, 2020    |  | 100,000                   | 1,696,466            |        | 1,796,466   |



**STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2020**

|                                                               | Note | 2019-2020          | 2018-2019        |
|---------------------------------------------------------------|------|--------------------|------------------|
|                                                               |      | Kshs               | Kshs             |
| <b>Cash Flows From Operating Activities</b>                   |      |                    |                  |
| Cash generated from/(used in) operations                      | 18   | (6,114,753)        | 1,962,861        |
| <b>Net cash generated from/(used in) operating activities</b> |      | <b>(6,114,753)</b> | <b>1,962,861</b> |
| <b>Cash Flows From Investing Activities</b>                   |      |                    |                  |
| Purchase of property, plant and equipment                     | 13   | (129,850)          | (240,000)        |
| <b>Net cash generated from/(used in) investing activities</b> |      | <b>(129,850)</b>   | <b>(240,000)</b> |
| <b>Cash Flows From Financing Activities</b>                   |      |                    |                  |
| Grant from County Government                                  |      | 7,693,898          |                  |
| Loan from Deposit Account                                     |      | 1,513,613          |                  |
| <b>Net cash generated from/(used in) financing activities</b> |      | <b>9,207,511</b>   |                  |
| Increase/(decrease) in cash and cash equivalents              |      | 2,962,908          | (2,170,123)      |
| Cash and cash equivalents at beginning of year                |      | 603,968            | 2,774,091        |
| <b>CASH AND CASH EQUIVALENTS AT END OF THE YEAR</b>           |      | <b>3,566,876</b>   | <b>603,968</b>   |

**Annual Reports and Financial Statements**  
**For the year ended June 30, 2020**

**STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS FOR THE PERIOD ENDED 30 JUNE 2020**

|                              | Original budget   | Adjustments | Final budget      | Actual on comparable basis | Performance difference | Rating %  | Remarks                                                                                |
|------------------------------|-------------------|-------------|-------------------|----------------------------|------------------------|-----------|----------------------------------------------------------------------------------------|
|                              | 2019-2020         | 2019-2020   | 2019-2020         | 2019-2020                  | 2019-2020              | 2019-2020 | 2019-2020                                                                              |
| Revenue                      | Kshs              | Kshs        | Kshs              | Kshs                       | Kshs                   | Kshs      |                                                                                        |
| Sales- Water                 | 53,088,000        |             | 53,088,000        | 31,127,025                 | (21,960,975)           | 41        | The company fall short of budgeted water sales due to disconnections from electricity. |
| -Sewer                       | 6,120,000         |             | 6,120,000         | 18,660,644                 | 12,540,644             | 204       | Budgeted sewer sales surpassed because of legalizing illegal sewer connections         |
| Meter rent                   | 3,550,800         |             | 3,550,800         | 3,402,850                  | (147,950)              | 4.16      | Meter rent for the year was within the budget                                          |
| Water bowser/Exhauster       | 2,060,495         |             | 2,060,495         | 2,098,350                  | 37,855                 | 1.8       | Other income surpassed budgeted for due to sensitization of services                   |
| Grant from county government | 19,500,000        |             | 19,500,000        | 7,693,898                  | (11,806,102)           | 61        | Grants were below the budgeted due to late disbursement of money.                      |
| <b>Total income</b>          | <b>84,319,295</b> |             | <b>84,319,295</b> | <b>62,982,767</b>          | <b>(21,336,528)</b>    | <b>25</b> |                                                                                        |
| <b>Expenses</b>              |                   |             |                   |                            |                        |           |                                                                                        |
| Board of directors           | 1,992,000         |             | 1,992,000         | 2,472,510                  | (480,510)              | 24        | Low income generated couldn't be fully spent to cover budgeted expenditure             |
| Staff remuneration           | 39,964,913        |             | 39,964,913        | 32,131,681                 | 7,833,232              | 20        | Low income generated couldn't be fully spent to cover budgeted expenditure             |
| Operation and Maintenance    | 7,174,630         |             | 7,174,630         | 1,325,485                  | 5,849,145              | 82        | Low income generated couldn't be fully spent to cover budgeted expenditure             |
| Electricity                  | 20,076,000        |             | 20,076,000        |                            | 6,021,176              | 30        | Low income generated couldn't be                                                       |



**Annual Reports and Financial Statements**

**For the year ended June 30, 2020**

|                           |                   |  |                   |                   |                   |           |                                                                            |
|---------------------------|-------------------|--|-------------------|-------------------|-------------------|-----------|----------------------------------------------------------------------------|
|                           |                   |  |                   | 14,054,824        |                   |           | fully spent to cover budgeted expenditure                                  |
| Chemicals                 | 10,658,700        |  | 10,658,700        | 2,498,835         | 8,159,865         | 77        | Low income generated couldn't be fully spent to cover budgeted expenditure |
| Motor vehicle expenses    | 3,034,400         |  | 3,034,400         | 2,367,730         | 666,670           | 22        | Low income generated couldn't be fully spent to cover budgeted expenditure |
| Office and Administration | 10,582,228        |  | 10,582,228        | 6,841,840         | 3,740,388         | 37        | Low income generated couldn't be fully spent to cover budgeted expenditure |
| Computers and accessories | 250,000           |  | 250,000           | 129,850           | 120,150           | 48        | Low income generated couldn't be fully spent to cover budgeted expenditure |
| Levies                    | 4,000,000         |  | 4,000,000         | 640,279           | 3,359,721         | 84        | Low income generated couldn't be fully spent to cover budgeted expenditure |
| <b>Total expenditure</b>  | <b>97,732,871</b> |  | <b>97,732,871</b> | <b>62,063,034</b> | <b>35,669,837</b> | <b>37</b> | Low income generated couldn't be fully spent to cover budgeted expenditure |





**Budget explanation notes**

- i) The expenses incurred under vote head board of directors were more than budgeted due to the rigorous recruitment of management staff that was not foreseen during budgeting.
- ii) Revenue collected was less than forecasted in the budget majorly due to Covid 19 directives given, it had a negative effect to revenue collections.
- iii) Sewer sales increased significantly due to new sewer connection.
- iv) Other vote heads under the budget were less than what was budgeted due to less revenue collected.

## **NOTES TO THE FINANCIAL STATEMENTS**

### **1. GENERAL INFORMATION**

Busia Water and Sewerage Services Co. Ltd is established by and derives its authority and accountability from Busia County Water and Sewerage Services, 2015 Act and is domiciled in Kenya. The entity's principal activity is provision of Water and Sewerage services to the residents of Busia County.

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

### **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.

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

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

#### **i) Relevant new standards and amendments to published standards effective for the year ended 30 June 2020**

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

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



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

**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 2020(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.

**The amendments do not have any impact to the company.**



**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 IASC framework adopted by the IASB in 2001, the IASB framework of 2010, or the new revised framework of 2018) or to indicate that definitions in the standard have not been updated with the new definitions developed in the revised *Conceptual Framework*.

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

**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 2020.

**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 recognized 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 recognized 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 recognized in the year in which the company's 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 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 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 company in the form of actual goods and/or services rather than in money or cash terms. These donations may include vehicles, equipment or personnel services. Where the financial value received for in-kind contributions can be reliably determined, the 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)**

**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 recognised in the income statement on a straight-line basis to write down the cost of each asset or the re-valued amount to its residual value over its estimated useful life. The annual rates in use are:

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

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

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

**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 valuer. 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 recognized 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 recognized in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognized 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 uncollectible amounts. These are assessed for impairment on a continuing basis. An estimate is made of doubtful receivables based on a review of all outstanding amounts at the year end. Bad debts are written off after all efforts at recovery have been exhausted.

**n) Taxation**

***Current income tax***

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

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

**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. 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.

**q) 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.

**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, 2016. The scheme is administered by LAPTRUST 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 15% of the basic pay per employee per month.

**s) Provision for staff leave pay**

Employees' entitlements to annual leave are recognized 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 recognized in profit or loss.

**u) Budget information**

The original budget for Financial Year 2019-2020 was approved by the Board of Directors. Subsequent revisions or additional appropriations were made to the approved budget in accordance with specific approvals from the appropriate authorities.

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



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

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

**v) Service concession arrangements**

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

**w) Comparative figures**

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

**x) Subsequent events**

There have been no events subsequent to the financial year end with a significant impact on the financial statements for the year ended June 30, 2020.

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

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

State all judgments, estimates and assumptions made

**Estimates and assumptions**

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

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

## **5 SIGNIFICANT JUDGEMENTS AND SOURCES OF ESTIMATION UNCERTAINTY**

### **Useful lives and residual values**

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

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

### **Provisions**

Provisions were not raised since management could not determine an estimate based on the information available. 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.



**Busia Water and Sewerage Services Company Limited**

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**For the year ended June 30, 2020**

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

**6 REVENUE**

|              | <b>2019/2020</b>  | <b>2018/2019</b>  |
|--------------|-------------------|-------------------|
|              | <b>Kshs</b>       | <b>Kshs</b>       |
| Water sales  | 31,128,025        | 29,972,518        |
| Meter rent   | 3,402,850         | 3,345,900         |
| Sewer        | 18,660,644        | 9,399,717         |
| <b>Total</b> | <b>53,191,519</b> | <b>42,718,135</b> |

**7 COST OF SALES**

|                               | <b>2019/2020</b>  | <b>2018/2019</b>  |
|-------------------------------|-------------------|-------------------|
|                               | <b>Kshs</b>       | <b>Kshs</b>       |
| Opening stock -chemicals      | 145,151           | 15,312            |
| <b>Add purchases</b>          |                   |                   |
| Water levies - WARMA          | 495,279           | 528,144           |
| - WASPA                       | 145,000           |                   |
| - WASREB (4% Revenue)         | 2,127,660         | 1,318,819         |
| Electricity                   | 14,054,824        | 16,150,567        |
| Chemicals-purchases           | 3,643,024         | 5,364,441         |
| Less Closing stock- Chemicals | (774,300)         | (145,151)         |
| <b>Total</b>                  | <b>19,836,638</b> | <b>23,232,132</b> |

**8 GRANTS FROM NATIONAL GOVERNMENT**

|                                            | <b>2019/2020</b> | <b>2018/2019</b>  |
|--------------------------------------------|------------------|-------------------|
|                                            | <b>Kshs</b>      | <b>Kshs</b>       |
| Recurrent grants received                  |                  |                   |
| In Kind donations -Busia County Government | 7,693,898        | 11,976,517        |
| <b>Total</b>                               | <b>7,693,898</b> | <b>11,976,517</b> |

NOTES TO THE FINANCIAL STATEMENTS (Continued)

9 OTHER INCOME

|                            | 2019- 2020       | 2018-2019        |
|----------------------------|------------------|------------------|
| Description                | Kshs             | Kshs             |
| Exhauster and Water Bowser | 2,098,350        | 2,368,130        |
| Penalties                  |                  | 170,000          |
| <b>Total</b>               | <b>2,098,350</b> | <b>2,538,130</b> |

The figure relates to both external and internal exhauster and water bowser charges.

10 ADMINISTRATION COSTS

|                                                | 2019/2020  | 2018/2019  |
|------------------------------------------------|------------|------------|
| Description                                    | Kshs       | Kshs       |
| <b>Staff Cost</b>                              |            |            |
| Salaries and allowances of permanent employees | 16,030,027 | 21,212,541 |
| Wages of temporary employees                   | 2,940,668  | 1,795,650  |
| Acting allowance                               | 452,551    |            |
| Airtime allowance                              | 433,000    |            |
| Commuter allowance                             | 1,740,000  |            |
| House allowance                                | 5,814,000  |            |
| Special duty allowance                         | 173,672    |            |
| Medical allowance                              | 624,600    |            |
| Seconded staff stipend                         | 128,852    |            |
| Compulsory national social security schemes    | 880,200    | 635,040    |
| Other pension contributions-LAPTRUST           | 2,389,856  | 2,561,376  |
| Leave pay and gratuity provisions              | 524,256    | 325,330    |
|                                                |            |            |
| Annual performance reward                      |            | -          |
| <b>Board of Directors</b>                      |            |            |
| Directors' emoluments                          | 2,472,510  | 1,279,287  |
| <b>Office running expenses</b>                 |            |            |
| Postage, Telephone and Internet                | 363,732    | 238,042    |
|                                                |            |            |
| Transportation, travelling and subsistence     | 509,795    | 930,990    |
| Newspaper & Periodicals                        | 15,600     | 30,720     |
| Printing, stationery                           |            |            |
| Opening stock                                  | 67,205     |            |
| Purchases                                      | 708,995    |            |
| Less: Closing stock                            | (122,650)  | 548,700    |
| Staff training expenses                        | 66,400     | 70,000     |
| Security services                              | 2,640,000  | 2,883,456  |
| Fuel                                           |            | 1,072,910  |
| Software maintenance                           | 83,860     | 214,600    |
| Lab Reagents                                   |            | 67,280     |
| Domestic Requisites /Hospitality               | 629,680    | 441,187    |
| Social Corporate Responsibility                |            | 50,000     |



**Busia Water and Sewerage Services Company Limited****Annual Reports and Financial Statements****For the year ended June 30, 2020**

|                                   |                   |                   |
|-----------------------------------|-------------------|-------------------|
| Motor vehicle Repairs             |                   | 421,150           |
| Uniform & Protective Clothing     | 48,990            | 31,140            |
| Office buildings repairs          |                   | -                 |
| Subscription Fees                 | 22,400            | 66,200            |
| Publicity & Advertisements        | 358,540           | -                 |
| Crosscutting issues Miscellaneous | 155,716           | -                 |
| Repairs & Maintenance             | 100,010           | 68,089            |
| Operations & Maintenance          |                   |                   |
| Opening stock                     |                   |                   |
| purchases                         |                   |                   |
| Less: Closing stock               |                   | 1,625,031         |
| Computer Accessories              | 394,830           | 17,460            |
| Motor vehicle inspections         |                   | 300               |
| Motor Vehicle Insurance           | 332,278           | 417,952           |
| Bank charges and commissions      |                   | 105,531           |
| Auditors' remuneration            |                   | 400,000           |
| Legal fees                        |                   |                   |
| N.H.I.F penalties                 |                   | 803,300           |
| P.A.Y.E Penalties                 |                   | 60,371            |
| Consultancy /Professional Fees    |                   |                   |
| Office requisite                  | 25,015            |                   |
| Licenses                          | 5,000             |                   |
| Funeral Expense                   | 5,000             |                   |
| Electricity Administration        | 31,444            |                   |
| Audit fee                         | 400,000           |                   |
| <b>Total</b>                      | <b>41,446,032</b> | <b>38,373,634</b> |

**Busia Water and Sewerage Services Company Limited**

**Annual Reports and Financial Statements**

**For the year ended June 30, 2020**

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

**11 a) SELLING AND DISTRIBUTION COSTS**

|                                      |           | <b>2019-2020</b> | <b>2018-2019</b> |
|--------------------------------------|-----------|------------------|------------------|
| <b>Description</b>                   |           | <b>Kshs</b>      | <b>Kshs</b>      |
| <b>Operational Costs</b>             |           |                  |                  |
| Desludging                           |           | 41,050           |                  |
| Operation and maintenance            |           | 474,755          |                  |
| Pipes and Fittings                   |           |                  |                  |
| Opening stock                        | 246,370   |                  |                  |
| Purchases                            | 704,820   |                  |                  |
| Closing stock                        | (197,610) | 753,580          |                  |
| Repairs on parts and materials       |           | 56,100           |                  |
| <b>Subtotal</b>                      |           | <b>1,325,485</b> |                  |
| <b>Motor Vehicle expenses</b>        |           |                  |                  |
| Fuel                                 |           | 931,700          |                  |
| Motor Vehicle Repair and Maintenance |           | 1,436,030        |                  |
| <b>Subtotal</b>                      |           | <b>2,367,730</b> |                  |
|                                      |           |                  |                  |
| <b>Grant Total</b>                   |           | <b>3,693,215</b> |                  |

**b) FINANCE COSTS**

| <b>Description</b> | <b>2019-2020 Kshs</b> | <b>2018-2019 Ksh</b> |
|--------------------|-----------------------|----------------------|
| Bank Charges       | 138,962               |                      |
| <b>Total</b>       | <b>138,962</b>        |                      |



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

**12 INCOME TAX EXPENSE/(CREDIT)**

**Reconciliation of tax expense/ (credit) to the expected tax based on accounting profit**

|                                                                               | <b>2019-2020</b>   | <b>2018-2019</b>   |
|-------------------------------------------------------------------------------|--------------------|--------------------|
|                                                                               | <b>Kshs</b>        | <b>Kshs</b>        |
| Profit before taxation                                                        | <b>(2,531,553)</b> | 4,740,715          |
| Tax at the applicable tax rate of 30%                                         | -                  | 1,422,214          |
| Tax effects of expenses not deductible for tax purposes (Depreciation charge) | -                  | 110,319            |
| Tax effects of income not taxable-Grants from Busia county government         | -                  | (3,592,955)        |
| <b>Total</b>                                                                  | <b>(2,531,553)</b> | <b>(4,904,850)</b> |

Annual Reports and Financial Statements

For the year ended June 30, 2020

NOTES TO THE FINANCIAL STATEMENTS (Continued)

13 PROPERTY, PLANT AND EQUIPMENT

|                          | Plant and Machinery | Water Supply Infrastructure | Motor Vehicles incl. Motor Cycles | Computers & Related Equipment | Furniture & Fittings | Office Equipment | Water Meters | Total      |
|--------------------------|---------------------|-----------------------------|-----------------------------------|-------------------------------|----------------------|------------------|--------------|------------|
| <b>COST OR VALUATION</b> |                     |                             |                                   |                               |                      |                  |              |            |
| At 1st July, 2019        | 682,075             | 294,344                     | 2,646,967                         | 921,450                       | 895,096              | 618,959          | 5,477,000    | 11,535,891 |
| Additions                |                     | -                           | -                                 | 129,850                       | -                    | -                | -            | 129,850    |
| Transfers                | -                   |                             | -                                 | -                             | -                    | -                | -            | -          |
| Disposals                |                     | -                           |                                   |                               |                      |                  |              | -          |
| At 30th June, 2020       | 682,075             | 294,344                     | 2,646,967                         | 1,051,300                     | 895,096              | 618,959          | 5,477,000    | 11,665,741 |
| <b>DEPRECIATION</b>      |                     |                             |                                   |                               |                      |                  |              |            |
| At July 1, 2019          | 334,568             | 64,296                      | 2,646,967                         | 848,080                       | 871,973              | 370,781          | 5,430,500    | 10,567,164 |
| Charge for the year      | 54,566              | 23,548                      | -                                 | 203,220                       | 23,123               | 49,517           | 46,500       | 400,473    |
| At June 30, 2020         | 389,134             | 87,844                      | 2,646,967                         | 1,051,300                     | 895,096              | 420,298          | 5,477,000    | 11,554,995 |
| <b>NET BOOK VALUE</b>    |                     |                             |                                   |                               |                      |                  |              |            |
| At June 30, 2020         | 292,941             | 206,500                     | -                                 | -                             | -                    | 198,661          | -            | 698,102    |
| At June 30, 2019         | 347,508             | 230,048                     | -                                 | 73,370                        | 23,123               | 248,178          | 46,500       | 968,727    |

The ownership of office buildings and land at the headquarters in Busia town is a property of the county government of Busia.





**Busia Water and Sewerage Services Company Limited****Annual Reports and Financial Statements****For the year ended June 30, 2020****14 INVENTORIES**

|                               | <b>2019-2020</b> | <b>2018-2019</b> |
|-------------------------------|------------------|------------------|
|                               | <b>Kshs</b>      | <b>Kshs</b>      |
| Chemicals                     | 734,300          | 145,151          |
| Pipes and fittings            | 197,610          | 246,370          |
| Stationery and general stores | 122,650          | 67,205           |
|                               | <b>1,054,560</b> | <b>458,726</b>   |

**15(a) TRADE AND OTHER RECEIVABLES**

|                                        | <b>2019-2020</b>  | <b>2018-2019</b>  |
|----------------------------------------|-------------------|-------------------|
|                                        | <b>Kshs</b>       | <b>Kshs</b>       |
| Busia                                  | 43,199,105        | 32,529,848        |
| Nambale                                | 5,344,929         | 4,582,861         |
| Matayos                                | 8,311,197         | 6,532,970         |
| Malaba kocholia                        | 12,212,873        | 13,402,022        |
| Purely Sewer Customers                 | 7,656,007         |                   |
| <b>Net trade and other receivables</b> | <b>76,724,111</b> | <b>57,047,701</b> |



**Busia Water and Sewerage Services Company Limited****Annual Reports and Financial Statements****For the year ended June 30, 2020****NOTES TO THE FINANCIAL STATEMENTS (Continued)****16 BANK AND CASH BALANCES**

|                                                 |                | <b>2019-2020</b> | <b>2018-2019</b> |
|-------------------------------------------------|----------------|------------------|------------------|
|                                                 |                | <b>Kshs</b>      | <b>Kshs</b>      |
| Cooperative Bank Revenue Account                | 01141237264000 | 57,933           | 82,791           |
| Cooperative Bank Expenditure Account            | 01141237264001 | 19,964           | 9,344            |
| Cooperative Bank Customer Deposits              | 01141237264002 | 39,850           | 400,715          |
| MMF-Mpesa Pay bill No. 689872                   |                | 1,288,375        |                  |
| M-Pesa Pay bill No. 689872                      |                | 26,762           | 111,119          |
| Equity Bank Revenue Account                     | 0780279267508  | 162,033          |                  |
| Equity Bank Expenditure Account                 | 0780279267525  | 531,190          |                  |
| Kenya Commercial Bank Customer Deposits Account | 1266120025     | 1,440,770        |                  |
| <b>Total</b>                                    |                | <b>3,566,876</b> | <b>603,968</b>   |

The company's cash is held at Kenya Commercial Bank, Equity Bank and Cooperative Bank of Kenya. The company has a business pay bill with Safaricom Company Ltd.

**ORDINARY SHARE CAPITAL**

|                          | <b>2019-2020</b> | <b>2018-2019</b> |
|--------------------------|------------------|------------------|
|                          | <b>Kshs</b>      | <b>Kshs</b>      |
| <b>Authorised:</b>       |                  |                  |
| BUWASSCO ordinary shares | 100,000          | 100,000          |
| <b>Total</b>             | <b>100,000</b>   | <b>100,000</b>   |

**Busia Water and Sewerage Services Company Limited**

**Annual Reports and Financial Statements**

**For the year ended June 30, 2020**

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

**17 TRADE AND OTHER PAYABLES**

|                                        | <b>2019-2020</b> | <b>2018-2019</b> |
|----------------------------------------|------------------|------------------|
| <b>CREDITORS</b>                       | <b>Kshs</b>      | <b>Kshs</b>      |
| AUDITOR GENERAL'S FEE                  | 1,200,000        |                  |
| PAN AFRICA CHEMICALS                   | 1,342,168        | 1,618,661        |
| BULLS SECURITY SERVICES                | 1,740,000        | 660,000          |
| CORNERSTONE SECURITY SERVICES          | 376,768          | 376,768          |
| MGORI AUTO SPARES                      | 31,400           |                  |
| DOMINION DISHES                        | 9,000            | -                |
| MELIAKO CONTRACTORS                    | 146,000          |                  |
| SULIS EAST AFRICA LTD                  | 248,000          | 248,000          |
| MALCOMS AGENCIES                       | 79,000           | 102,260          |
| KEL CHEMICALS LTD                      | 1,170,516        | 624,950          |
| LIONEL GENERAL STATIONARIES OFFICES    | 390,805          |                  |
| AQUATREAT                              | 145,290          |                  |
| BORDERLINE CONTRACTORS                 | 142,500          | 171,250          |
| BORDERLINE CONTRACTORS                 |                  | 62,000           |
| BEWANGA ENTERPRISES                    |                  | 13,000           |
| SPELLION KENYA LTD                     | 75,620           | 188,420          |
| JOLOF ENTERPRISES                      | 110,000          | 157,850          |
| JOFLO                                  | 75,200           | -                |
| FARMVIEW HOTEL                         | 340,950          | 239,920          |
| DAVIS & SHIRTLIFF                      |                  | 39,000           |
| CHARLINK GENERAL SUPPLIES              | 441,600          | 68,000           |
| CHLORIDE EXIDE K LTD                   | 21,200           |                  |
| CIC GROUP                              | 232,278          |                  |
| COAST INDUSTRIAL & SAFETY SUPPLIES LTD | 140,000          | 140,000          |
| AIDATEK ENTERPRISES LTD                | 119,990          | 105,740          |
| BAHIBRANIABUILDING & CONSTRUCTION LTD  |                  | 118,300          |
| SHIUMUTI ENTERPRISES                   |                  | 112,400          |
| BUTAYA VENTURES                        | 110,745          | 110,745          |
| KIFARU AUTOWORKS                       | 53,000           | 53,000           |
| KENYA NATIONAL AUDIT OFFICE            | 400,000          | 400,000          |
| KPLC                                   | 6,138,972        | 1,392,395        |
| WASREB                                 | 1,318,819        | 1,318,819        |
| WARMA                                  | 1,193,031        | 867,365          |
| LVNWSB                                 | 5,013,685        | 5,013,685        |
| WASPA                                  | 55,000           |                  |
| <b>SALARY RELATED PAYABLES</b>         |                  |                  |
| GROSS PAY FOR JUNE                     |                  | -                |
| NET SALARY                             | 2,414,798        | 1,079,279        |
| CASUAL NET SALARY                      |                  | 184,116          |
| L.V.N STAFF WELFARE SAVINGS            |                  | -                |
| L.V.N STAFF WELFARE LOANS              | 544,425          | 44,650           |
| L.V.N. STAFF WELFARE SHARES            |                  | 228,000          |
| UKULIMA SACCO SOCIETY                  | 1,252,461        | 1,048,903        |
| WEVARSITY SACCO SOCIETY                | 148,917          | 112,565          |





**Busia Water and Sewerage Services Company Limited**

**Annual Reports and Financial Statements**

**For the year ended June 30, 2020**

|                                                         |                   |                   |
|---------------------------------------------------------|-------------------|-------------------|
| LAPTRUST                                                | 14,838,722        | 10,537,203        |
| CO-OPERATIVE BANK OF KENYA                              | 3,427,392         | 2,125,845         |
| LEAVE ALLOWANCE                                         |                   | 325,330           |
| UNPAID DIRECTORS SITTING ALLOWANCES                     | 486,500           | 182,858           |
| BOD CHAIRMAN HONORARIA                                  |                   | 35,000            |
| N.H.I.F PENALTIES                                       | 803,300           | 803,300           |
| PAYE PENALTIES                                          | 60,371            | 60,371            |
| PAYE JUNE                                               | 176,812           | 161,874           |
| N.H.I.F JUNE                                            | 61,650            | 52,650            |
| N.S.S.F                                                 | 188,480           | 231,180           |
|                                                         |                   |                   |
| <b>CREDITORS FROM JOINT KAKAMEGA-BUSIA WATER SUPPLY</b> |                   |                   |
| AUDITOR GENERAL                                         | 541,333           | 541,333           |
| BEATWAM LIMITED INTEGRATED                              | 183,164           | 183,164           |
| AQUATREAT                                               | 185,127           | 185,127           |
| BEDROCK HOLDINGS LTD                                    | 219,623           | 219,623           |
| BETCO ENGINEERING                                       | 16,667            | 16,667            |
| CIC                                                     | 7,032             | 7,032             |
| COAST INDUSTRIAL & SAFETY SUPPLIES LTD                  | 233,317           | 233,317           |
| DOUBLE SHASHA                                           | 122,250           | 122,250           |
| GM BUSOLO CONTRACTORS                                   | 26,000            | 26,000            |
| GOLF HOTEL                                              | 17,400            | 17,400            |
| HIGH RISE DESIGNERS                                     | 19,777            | 19,777            |
| ICEA LION GENERAL ASSURANCE                             | 594,287           | 594,287           |
| JULIKA AUTOMOBILES                                      | 66,478            | 66,478            |
| KAKAMEGA GENERAL MOTORS                                 | 60,112            | 60,112            |
| KINETICS ENGINEERING LTD                                | 348,708           | 348,708           |
| LEGAL FEE                                               | 333,333           | 333,333           |
| LVNWSB LEVIES                                           | 19,397,035        | 19,397,035        |
| MORISAM CONSRUCTION                                     | 31,627            | 31,627            |
| NUPAXX SERVICES                                         | 585,833           | 585,833           |
| PAMIDA ENGINEERING                                      | 343               | 343               |
| PAN AFRICA CHEMICALS LTD                                | 778,350           | 778,350           |
| POSTAL CORPORATION OF KENYA                             | 2,277             | 2,277             |
| SAHAJANAND SPARES CORNER LIMITED                        | 36,667            | 36,667            |
| TERRANOVA AUTOSPARES                                    | 39,410            | 39,410            |
| TYRETEC AUTOSPARES                                      | 19,333            | 19,333            |
| WARMA                                                   | -                 | 485,968           |
| WASREB                                                  | 47,140            | 47,140            |
| WATER & SOLAR TECHNOLOGIES LTD                          | 15,053            | 15,053            |
| WEKESA SIMIYU ADVOCATES                                 | 142,753           | 142,753           |
| <b>SUB TOTAL</b>                                        | <b>71,335,794</b> | <b>55,972,049</b> |
|                                                         |                   |                   |
| <b>CUSTOMER DEPOSITS</b>                                |                   |                   |
| BAL B/F                                                 | <b>8,588,755</b>  | <b>8,016,255</b>  |
| DEPOSITS DURING THE YEAR                                | <b>1,133,134</b>  | <b>599,500</b>    |
| LESS REFUNDS                                            | <b>(10,500)</b>   | <b>(27,000)</b>   |
| <b>SUB TOTAL</b>                                        | <b>9,711,389</b>  | <b>8,588,755</b>  |
|                                                         |                   |                   |
| <b>TOTAL PAYABLES</b>                                   | <b>81,047,183</b> | <b>64,560,804</b> |



**Busia Water and Sewerage Services Company Limited****Annual Reports and Financial Statements****For the year ended June 30, 2020****NOTES TO THE FINANCIAL STATEMENTS (Continued)****18 Cash generated from/(used in) operations**

|                                                                                                  | <b>2019-2020</b>   | <b>2018-2019</b> |
|--------------------------------------------------------------------------------------------------|--------------------|------------------|
|                                                                                                  | <b>Kshs</b>        | <b>Kshs</b>      |
| <b>(a) Reconciliation of operating profit/(loss) to cash generated from/(used in) operations</b> |                    |                  |
| Operating profit/(loss)                                                                          | (2,531,553)        | (4,741,914)      |
| Depreciation                                                                                     | 400,473            | 367,731          |
| Operating profit/(loss) before working capital changes                                           |                    | (474,183)        |
| Customer Adjustments During the year                                                             | 602,192            |                  |
| (Increase)/decrease in inventories                                                               | (595,834)          | (17,729)         |
| (Increase)/decrease in trade and other receivables                                               | (20,476,410)       | (8,277,470)      |
| Increase/(decrease) in trade and other payables                                                  | 16,486,379         | 10,258,537       |
| <b>Cash generated from/(used in) operations</b>                                                  | <b>(6,114,753)</b> | <b>1,489,155</b> |
| <b>(b) Analysis of cash and cash equivalents</b>                                                 |                    |                  |
| Cash at bank                                                                                     | 3,566,876          | 603,968          |
| Balance at end of the year                                                                       | <b>3,566,876</b>   | <b>603,968</b>   |

**Busia Water and Sewerage Services Company Limited**

**Annual Reports and Financial Statements**

**For the year ended June 30, 2020**

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

**19 RELATED PARTY DISCLOSURES**

**(a) County Government of Busia**

The County Government of Busia is the principal shareholder of the company, holding 100% of the company's equity interest.

Other related parties include:

- i) Ministry of Water;
- ii) Government of Kenya
- iii) Lake Victoria North Water Services Board;
- iv) Water Resource Management Authority;
- v) Key management;
- vi) Board of directors;

**Transactions with related parties**

Due to Lake Victoria North Water Services Board is KFW Phase 2 loan of Kshs.1.075billion due for repayment since financial year 2016/17 with annual repayments of Kshs.54,777,556 for a period of 32years.

**DIVIDENDS**

The company does not pay dividends.



**Busia Water and Sewerage Services Company Limited**

**Annual Reports and Financial Statements**

**For the year ended June 30, 2020**

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

**20 CONTINGENT LIABILITIES**

No legal claims against the company have been brought up during this financial year

**21 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 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.

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 uncollectible amounts that the company has recognised in the financial statements is considered adequate to cover any potentially irrecoverable amounts.

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.

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

**FINANCIAL RISK MANAGEMENT (Continued)**

**(iii) Market risk**

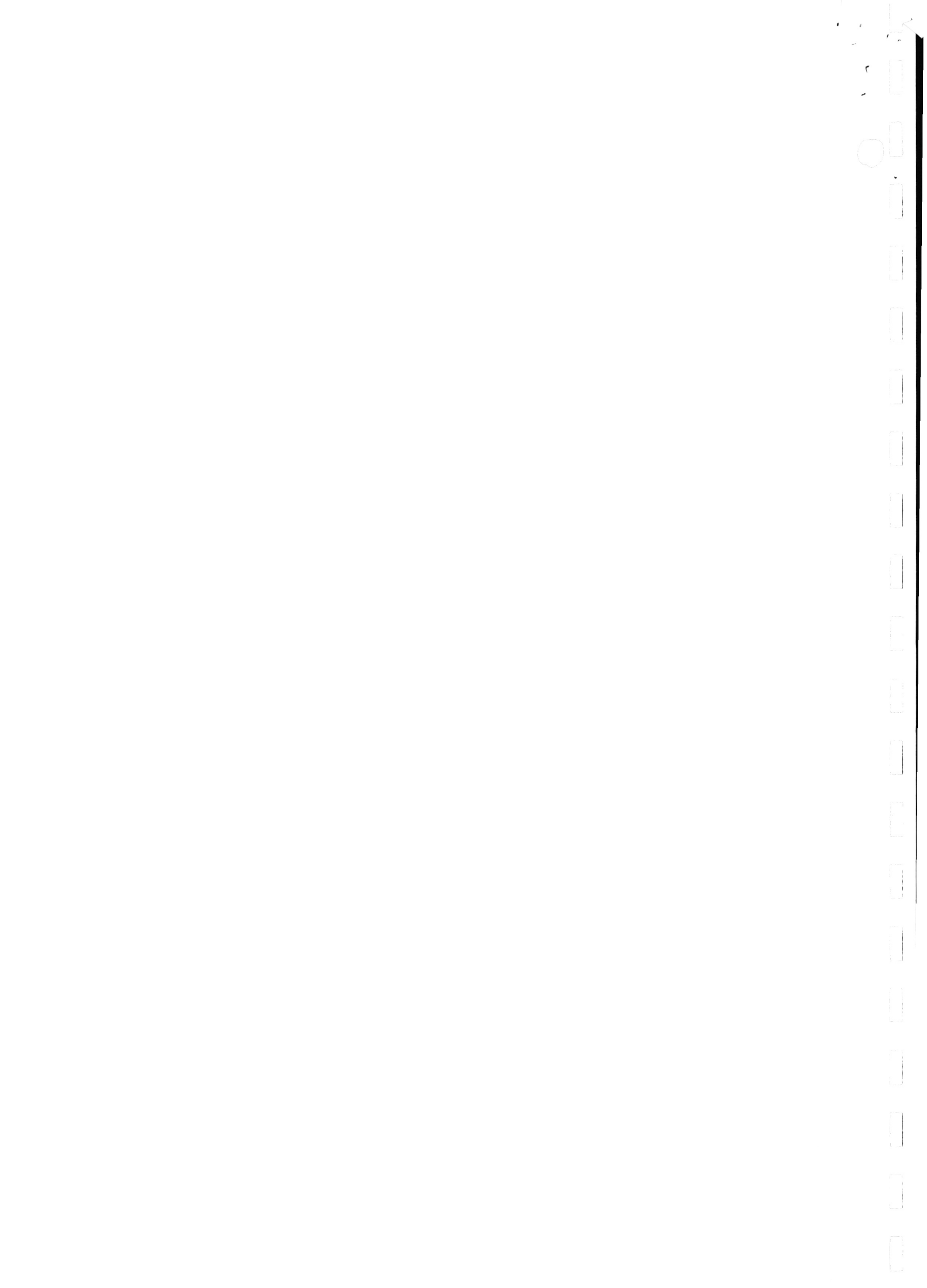
The board has put in place an internal audit function to assist it in assessing the risk faced by the entity on an ongoing basis, evaluate and test the design and effectiveness of its internal accounting and operational controls.

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 optimising 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.





**Busia Water and Sewerage Services Company Limited**

**Annual Reports and Financial Statements**

**For the year ended June 30, 2020**

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

**FINANCIAL RISK MANAGEMENT (Continued)**

**iv) Capital Risk Management**

The objective of the company'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:

**22 INCORPORATION**

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

**23 EVENTS AFTER THE REPORTING PERIOD**

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

**24 CURRENCY**

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



# Busia Water and Sewerage Services Company Limited

## Annual Reports and Financial Statements

For the year ended June 30, 2020

### 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)          | Timeframe: (Put a date when you expect the issue to be resolved) |  |
|--------------------------------------------|----------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------|--------------------------------------------|------------------------------------------------------------------|--|
| 1                                          | Late submission of Financial Statements            | The financial statements had been presented on 25/1/2019. The preceding financial statements i.e 2018/2019 were presented on 30/9/2019                                                                  | Juliet Were-Accountant                                         | Resolved                                   |                                                                  |  |
| 2.1                                        | Unaccounted for Water                              | The company's non-revenue water was at 57% which was 32% above the sector benchmark. The company has reduced non revenue water from the 57% to 53% and working pon reducing non revenue water to 25%    | Collins Oduori-Technical Manager                               | Phased resolution of the non revenue water | 2020-2025                                                        |  |
| 3.1                                        | Property Plant and equipment                       | The auditors observed lack of asset register. The company responded by indicating that all company assets were owned by the county government of busia as per separation agreement signed on 23/9/2016. | Juma Mulika Shadrack-Managing Director.                        | Not resolved                               | N/A                                                              |  |
| 7.1                                        | Figure of payable and accruals not fully supported | Auditors observed that customer deposits in the company accounts were not supported fully. The company provided certificate of balances and bank statements for the above funds.                        | Juliet Were-Accountant                                         | Resolved                                   | N/A                                                              |  |
|                                            | <b>Basis for conclusion</b>                        |                                                                                                                                                                                                         |                                                                |                                            |                                                                  |  |

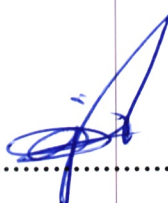


**Busia Water and Sewerage Services Company Limited**

**Annual Reports and Financial Statements**

**For the year ended June 30, 2020**

| Reference No. on the external audit Report | Issue / Observations from Auditor           | Management comments                                                                                                                                                                     | Focal Point person to resolve the issue (Name and designation)                    | Status: (Resolved / Not Resolved) | Timeframe: (Put a date when you expect the issue to be resolved) |
|--------------------------------------------|---------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------|-----------------------------------|------------------------------------------------------------------|
| 1                                          | Staff in acting position                    | Auditors observed that some members of staff had been in acting for a period of over six months. The company provided approved letters of acting capacity extension for above officers. | Linda Akinyi- Human Resource Assistant & Juma Mulika Shadrack- Managing Director. | Resolved                          | N/a                                                              |
| 1.1                                        | Internal audit department                   | The auditors observed that the company had no established internal audit department. The company has established one which is operational                                               | Linda Akinyi- Human Resource Assistant & Juma Mulika Shadrack- Managing Director. | Resolved                          | N/A                                                              |
| 1.2                                        | Lack of a Board Charter                     | The auditors observed that the company does not have an approved board of directors charter. The company has a draft of the same that's awaiting approval                               | Erick Nakitari                                                                    | Not Resolved                      | 2020/2021                                                        |
| 1.3                                        | Information Technology controls environment | The auditors observed that the company does not have an established IT department. The company has established an operational IT department with a qualified ICT officer                | Linda Akinyi- Human Resource Assistant & Juma Mulika Shadrack- Managing Director. | Resolved                          | N/A                                                              |

  
 .....  
**Managing Director**  
**Mr. Ojiambo Erick Nakitari**

  
 .....  
**Chairman of the Board**  
**Dr. George Kwedho, Ph.D**



**Busia Water and Sewerage Services Company Limited**

**Annual Reports and Financial Statements**

**For the year ended June 30, 2020**

Date.....24/09/2020.....

Date.....24/09/2020.....

**Busia Water and Sewerage Services Company Limited****Annual Reports and Financial Statements****For the year ended June 30, 2020****APPENDIX II: PROJECTS IMPLEMENTED BY THE ENTITY****Projects**

Projects implemented by the company Funded by development partners

| <b>Project title</b>                                                                                                      | <b>Project Number</b>    | <b>Donor</b>                     | <b>Period/<br/>duration</b> | <b>Donor<br/>commitment</b> | <b>Separate donor<br/>reporting<br/>required as per<br/>the donor<br/>agreement<br/>(Yes/No)</b> | <b>Consolidate<br/>in these<br/>financial<br/>statements<br/>(Yes/No)</b> |
|---------------------------------------------------------------------------------------------------------------------------|--------------------------|----------------------------------|-----------------------------|-----------------------------|--------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------|
| Upscaling<br>Basic<br>Sanitaion for<br>the Urban<br>Poor,<br>Construction<br>of<br>Decentralized<br>Treatment<br>Facility | BUWASCO/24/2018-<br>2020 | Water<br>Sector<br>Trust<br>Fund | 6 month                     | Kshs. 17.2M                 | Yes                                                                                              |                                                                           |

**Busia Water and Sewerage Services Company Limited**

**Annual Reports and Financial Statements**

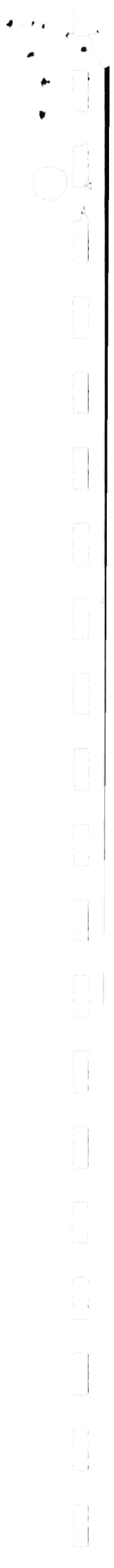
**For the year ended June 30, 2020**

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**APPENDIX III: INTER-ENTITY TRANSFERS**

No transfers were made during the financial year





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

No recorded transfers from other government entities.

