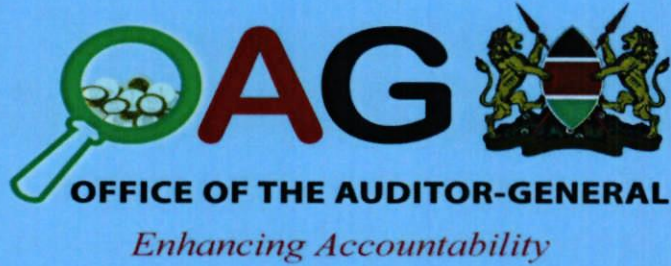


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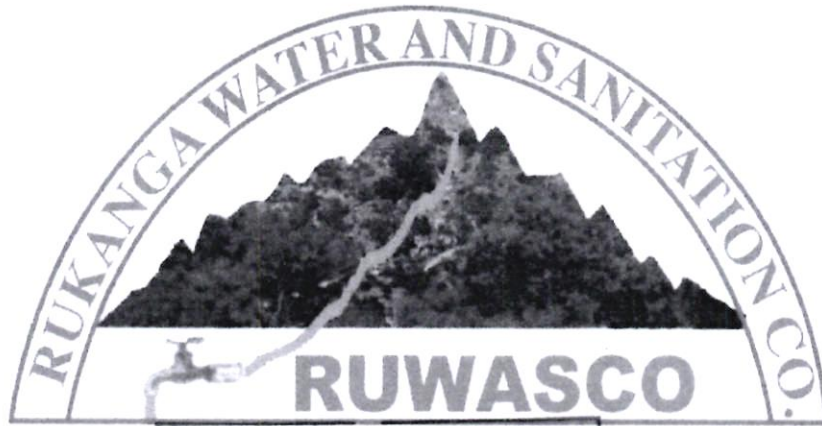
OF

THE AUDITOR-GENERAL

ON

**RUKANGA WATER AND SANITATION
COMPANY LIMITED**

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



OFFICE OF THE AUDITOR GENERAL
P. O. Box 30024 - 00100, NAIROBI
REGISTRY

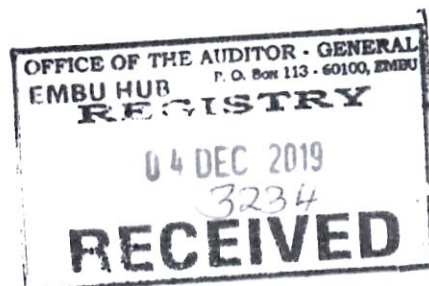
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RUKANGA WATER AND SANITATION COMPANY LTD

FINANCIAL STATEMENTS AND REPORT FOR THE YEAR ENDED 30 JUNE 2019

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



RUKANGA WATER AND SANITATION COMPANY LIMITED

Annual Reports and Financial Statements for the year ended June 30, 2019

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RUKANGA WATER AND SANITATION COMPANY LIMITED

Annual Reports and Financial Statements for the year ended June 30, 2019

1. KEY ENTITY INFORMATION

BACKGROUND INFORMATION

Rukanga Water and Sanitation Company Limited started as a community water project in 1989. The small scale water service provider was financed by IFAD through Kenya Government and the Rukanga community. The area coverage is 75km² and currently serves a population of 11,800 people.

The enactment of Water Act 2002, led to the creation of Water Services Regulatory Board (WASREB), Water Services Board and Water Services Providers to spearhead the water sector reform programme. Ruwasco is a Water Service Provider Limited by guarantee and incorporated under the Companies Act Cap 486 of the laws of Kenya on 16th May 2008 and operates under the supervision of Tana Water Services Board.

RUWASCO has been mandated by Tana Water Services Board through a Service Provision Agreement (SPA) to carry out water and sanitation services in both urban and rural areas of Kirinyaga County, Mwea west Sub-County, Makutano Location, Rukanga sub-Location. The Company takes charge of public resources in order to provide quality, affordable, reliable, sustainable and portable water in the target community. RUWASCO is jointly owned by the Government of Kenya, County Government of Kirinyaga and the Local Community

PRINCIPAL ACTIVITY

The principal activity of RUWASCO is to ensure efficient and sustainable provision of quality and affordable water and sanitation services in Rukanga sub-Location and its environs

RESULTS

The entity's results for the year ended 30th June 2019 are set out on page 12

DIRECTORS

The Board members who served during the year are shown on page 3.

AUDITORS

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

VISION

To Excel in Water Services Provision

MISSION

To provide affordable, reliable safe drinking water and improved sanitation services while applying environmentally friendly technologies.

RUKANGA WATER AND SANITATION COMPANY LIMITED

Annual Reports and Financial Statements for the year ended June 30, 2019

CORE VALUES

To achieve our mission and vision, the following core values are our guiding principles

- Customer focus
- Accountability
- Transparency
- Integrity
- Commitment of teamwork

STRATEGIC OBJECTIVES

1. Improve access to sustainable and safe water
2. Reduce Non-Revenue Water (NRW)
3. Ensure adequate ICT capacity
4. Achieve financial sustainability
5. Achieve institutional capacity
6. Increase stakeholder's awareness on water sector reforms

REGISTERED OFFICE/HEADQUARTERS

Rukanga Water and Sanitation Company
RIANDIRA SHOPPING CENTRE
SAGANA/MAKUTANO HIGHWAY
P O Box 311-10230
SAGANA
Tel: 0702609597

BANKERS

Co-operative Bank of KENYA
Kerugoya Branch
P O Box 635-10300

KERUGOYA

Equity Bank

Kagio Branch
P.O Box 134-10306

KAGIO

AUDITORS

Auditor General
Office of the Auditor General
Anniversary Towers
P O Box 30084-00100

NAIROBI

COMPANY SECRETARY





Update registrar
P.O Box 10727-00100

NAIROBI

RUKANGA WATER AND SANITATION COMPANY LIMITED

Annual Reports and Financial Statements for the year ended June 30, 2019



2. LIST OF BOARD OF DIRECTORS

NO	NAMES AND ADDRESS	Y.O.B	APPOINTMENT DATE	QUALIFICATIONS	CURRENT OCCUPATION	PASSPORT
1	Charles N.Kimemia	1948	2011	'A' level Air Transport Officer	Farming/Business	
2	Bernard K.Maina	1953	2011	'O' Level	Farming/Business	
3	Jane W. Mwangi	1982	2011	'KCSE' E.C.D	Teacher	
4	John N. Makumi	1966	2011	'KCSE' Diploma-Civil Engineering (Building)	Employee of County Government of Kirinyaga	No longer attends meetings-No new appointee from County Government
5	Jane W. Njaguara	1978	2011	'KCSE'	Farming/Business	
6	Faith W. Mukinyi	1957	2011	'O' Level	Farming/Business	
7	Godfrey K. Njoroge	1953	2011	'O' Level Diploma Animal Husbandry	Business (Resigned 2013)	Resigned in 2013- Not yet replaced
8	Daniel K.M. Weru	1951	2011	Diploma Environmental Studies	General Manager	

RUKANGA WATER AND SANITATION COMPANY LIMITED

Annual Reports and Financial Statements for the year ended June 30, 2019

3. MANAGEMENT TEAM

Designation	Name	Y.O.B	Qualifications	Passport
General Manager	Daniel K.M. Weru	1951	Diploma Environmental Studies	
Accountant (RUWASCO)	Kennedy M. Ng'endo	1989	CPA II SECTION IV	
Lab tech, Clerk, WS-Operators, subordinate staff and Watchmen	13 Support Staff		Various Qualifications	

RUKANGA WATER AND SANITATION COMPANY LIMITED

Annual Reports and Financial Statements for the year ended June 30, 2019

CHAIRMAN'S REPORT

Rukanga Water and Sanitation Company is a small scale water service provider under the County Government of Kirinyaga. It is located in Mwea west sub-county, Makutano location, Rukanga sub-location.

The principal activities are to provide adequate, potable and affordable water and sanitation services to the community of Rukanga sub-location and its environs.

The area under the company is dominantly a medium potential zone whose economic activities include small scale entrepreneurs (shops, hotels, wood preservative factories, plastic factories, and petrol stations), horticultural farming and subsistence crops farming. The company also serves TWO secondary schools, FIVE primary schools and ONE health Centre.

This is a great responsibility and challenging for the Board of directors and the corporate management of Rukanga water and Sanitation Company.

The projected revenue from water sales for the year 2018/2019 was ksh 7,240,000/= against a budget recurrent expenditure of ksh 7,066,000/= and capital expenditure of ksh 650,000/= total expenditure being 7,716,000/=. The Board of directors was optimistic that the deficit of Ksh 476,000/= would be offset by implementation of new water tariff approved by WASREB. The new water tariffs are yet to be applied. However, the company realized its income target by earning ksh 7,424,339/= by 30th June 2019.

The capital works budgeted for have been completed- i.e. (Completion of a store at Sagana treatment works and part of an extension service line at Kaminji area).

The Board of directors accepts responsibility for the company's financial statements for the year 2018/2019, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgments 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.

Signed on behalf of Rukanga Water and Sanitation Company by:

Charles N. Kimemia.....

Date.....

Chairman (RUWASCO)

RUKANGA WATER AND SANITATION COMPANY LIMITED

Annual Reports and Financial Statements for the year ended June 30, 2019

GENERAL MANAGER'S REPORT

Rukanga Water and Sanitation Company (RUWASCO) is responsible for efficient and economical provision of water and sanitation services within Rukanga sub-location and its environs.

The Water Supply system is by a weir 1.5m high and a gravity PVC pipeline consisting of:-

- I. 13km, 225mm mainline
- II. 1km 160mm mainline
- III. 9km 100mm mainline
- IV. 60km distribution lines ranging between 63mm-----30mm sizes

The area covered is 75km² with a population of 11,800 people.

During the year under review 2018/19 the operations were as follows:

S/No	2017/18	2018/19	Remarks
Water Production average	20,000m ³ /Month	20,000m ³ /Month	
Total water Connections	1,981	1,995	
Applied Water Tariff 0---10m ³	Members ksh 200/= Non members Ksh 250/=	Ksh 200/= Ksh 250/=	
Approved Tariff 0---6m ³		Household ksh 300/= Commercial ksh 330/=	New tariff Not yet applied
Income Earned	Ksh 7,709,111	Ksh 7,424,339	
Non-Revenue Water	Av. 23%	Av. 24%	
Population Served	11,800	12,000	

Capital Works

During the year, the following works were completed:

1. Completion of store at Sagana treatment works at a cost of ksh 296,110/=
2. Kaminji Extension line 1.5km at a cost of 436,561/=

Signed:  Date: 31/12/2019

General Manager

RUKANGA WATER AND SANITATION COMPANY LIMITED

Annual Reports and Financial Statements for the year ended June 30, 2019

6. CORPORATE GOVERNANCE STATEMENT

RUWASCO is committed to operating under a clear governance framework and strongly adheres to sound management and control practices.

RUWASCO is committed to ensuring compliance with the provisions of Water Act 2002 among other regulatory and supervisory corporate governance requirements. Essential to the establishment of a good governance framework are formal governance structures designed to ensure accurate reporting to the Board to facilitate an informed decision making process, assessment and improvement of conformances.

Board of Directors

The structure of RUWASCO starts with the Board members representing various stakeholders' interests. The Board members exercise leadership, enterprise, integrity and judgment in directing RUWASCO.

They are expected to determine the purpose and values of RUWASCO, determine the strategy to achieve that purpose and implement its values in order to ensure the Company survives and thrives.

The Board members are expected to enhance the corporate governance practices in running of RUWASCO to bring the level of governance in the Company in line with international standards. The essence of corporate governance is to protect stakeholder's interest including the government, Tana Water Services Board, consumers and the communities.

7. CORPORATE SOCIAL RESPONSIBILITY STATEMENT

Rukanga water and sanitation is keen on ensuring water & sanitation services are pro-poor oriented in all of our service areas. In order to achieve this social responsibility we have set a nonprofit making water kiosk that enables us supply water to Makutano and Kaminji residents who have no tap water at their homesteads.

RUKANGA WATER AND SANITATION COMPANY LIMITED

Annual Reports and Financial Statements for the year ended June 30, 2019

8. BOARD OF DIRECTORS' REPORT FOR THE YEAR ENDED 30 JUNE 2019

The Board members present their report and audited accounts for the year ended 30 June 2019 which discloses the state of affairs of RUWASCO at that date. The financial statements cover a period of 12 months.

PRINCIPAL ACTIVITY

The principal activity of RUWASCO is to ensure efficient and sustainable provision of quality and affordable water and sanitation services in Rukanga sub-Location and its environs

MAIN BUSINESS OPERATING OBJECTIVES

The Company's main business operating objectives include, but not limited to, the following:

- (a) Increase stake holder's awareness on water sector reforms
- (b) Improve access to sustainable and safe water
- (c) Increase the demand for available safe water
- (d) Increase the access to improved sanitation
- (e) Achieve operational financial sustainability

RESULTS

The entity's results for the year ended 30th June 2019 are set out on page 12

DIRECTORS

The Board members who served during the year are shown on page 3.

AUDITORS

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

VISION

To Excel in Water Services Provision

MISSION

To provide affordable, reliable safe drinking water and improved sanitation services while applying environmentally friendly technologies.

RUKANGA WATER AND SANITATION COMPANY LIMITED

Annual Reports and Financial Statements for the year ended June 30, 2019

9. STATEMENT OF DIRECTORS' RESPONSIBILITIES

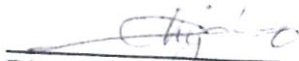
The Kenyan Companies Act requires the directors to prepare financial statements for each financial year, which give a true and fair view of the state of affairs of the Company as at the end of the financial year and of the operating results of the Company for that year. It also requires the directors to ensure the Company keeps proper accounting records, which disclose with reasonable accuracy, the financial position of the Company. They are also responsible for safeguarding the assets of the Company.

The directors accept responsibility for the annual financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgments and estimates, in conformity with International Financial Reporting Standards and the requirements of the Kenyan Companies Act. The directors are of the opinion that the financial statements give a true and fair view of the state of the financial affairs of the Company and of its operating results. The directors further accept responsibility for the maintenance of accounting records, which may be relied upon in the preparation of financial statements, as well as adequate systems of internal control.

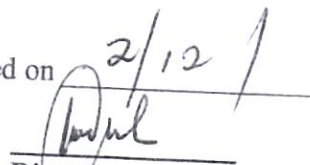
Nothing has come to the attention of the directors to indicate that the Company will not remain a going concern for at least the next twelve months from the date of this statement.

Approval of the financial statements

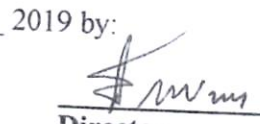
The entity's financial statements were signed on 2/12/19 2019 by:



Director



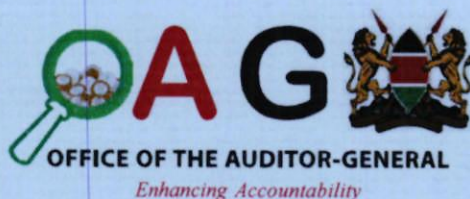
Director



Director

REPUBLIC OF KENYA

Telephone: +254-(20) 3214000
E-mail: info@oagkenya.go.ke
Website: www.oagkenya.go.ke



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Monrovia Street
P.O. Box 30084-00100
NAIROBI

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

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of Rukanga Water and Sanitation Company Limited set out on pages 11 to 23, which comprise the statement of financial position as at 30 June, 2019, the statement of profit or loss and other comprehensive incomes, statement of changes in equity, statement of cash flows and statement of comparison of budget and actual amounts for the year then ended, and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, 2015. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

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

Basis for Qualified Opinion

1.0 Presentation of the Financial Statements

Review of the financial statements presented for audit revealed the following anomalies:-

- i. The Company's financial statements did not reflect Management discussion and analysis report.
- ii. The Report of the Directors was not signed by the Company's secretary.
- iii. The financial statements include a statement of comprehensive income contrary to PSASB which stipulates that the company should reflect a statement of profit and loss and other comprehensive income in the financial statements.

- iv. The Company's financial statements reflect a statement of comparison of budget and actual amounts for the period ended 30 June, 2019 instead of for the year ended 30 June 2019.

In the circumstances, the financial statements are not in accordance with the requirements of the Public Sector Accounting Standards Board.

2.0 Inaccuracies in the Statement of Changes in Equity

The statement of changes in equity reflects Kshs.102,273 in respect to prior year adjustments whose details and supporting documents including journal vouchers were not provided for audit review. Further, the adjustment of Kshs.102,273 is made in the statement of changes in equity instead of restating it to the comparative balances of the respective components.

In the circumstances, the accuracy of the statement of changes in equity could not be ascertained.

3.0 Inaccuracies in the Statement of Cash Flows

The statement of cash flows reflects Kshs.102,273 each in respect to prior year adjustments whose details and supporting documents including journal vouchers were not provided for audit review.

In the circumstances, the accuracy of the statement of changes in equity and statement of cash flows could not be ascertained.

4.0 Unauthorized Expenditure

Review of the statement of comparative budget and actual amounts revealed that the Company expended Kshs.7,677,708 against an approved budget of Kshs.7,066,000 resulting to an over-expenditure of Kshs.611,708.

In addition, the statement of comparison of budget and actual amounts reflects final receipts budget and final expenditure budget on comparable basis of Kshs.7,240,000 and Kshs.7,066,000 respectively resulting to a budget imbalance of Kshs.174,000. This was contrary to Section 31(c) of the Public Finance Management (County Government) Regulations, 2019 which provides that budget revenue and expenditure appropriations shall be balanced.

Consequently, the validity of the over-expenditure of Kshs.611,708 could not be confirmed and Management was in breach of law.

5.0 Unsupported Board Expenses

The statement of profit or loss and as disclosed in Note 8 to the financial statements reflects Kshs.238,850 in respect to Directors' cost. However, Management did not provide supporting documents such as appointment letters, terms of engagement, Board minutes and attendance for audit.

In the circumstances, the accuracy, completeness and validity of the Kshs.238,850 being Board expenditure for the year ended 30 June, 2019 could not be confirmed.

6.0 Inaccuracies in Accounts Receivables

The statement of financial position and as disclosed in Note 2 to the financial statement reflects Kshs.2,292,473 in respect to receivables. Included in this amount is Kshs.2,279,773 relating to trade receivables. However, supporting debtors' ledgers and debtors age analysis were not provided for audit review. Further, Management did not make provision for bad and doubtful debts.

In the circumstance, the accuracy, completeness and recoverability of the accounts receivables balance of Kshs.2,279,773 as at 30 June, 2019 could not be ascertained.

7.0 Lack of Ownership Documents and Valuation of Land

The statement of financial position and as disclosed in Note 1 to the financial statements reflects a balance of Kshs.29,051,487 in respect to property, plant and equipment. Included in the balance is Kshs.1,938,269 in respect to land which further includes an amount of Kshs.100,000 in respect of a parcel of land procured in 2005. However, as previously reported, ownership documents and land valuation reports for the said parcel were not provided for audit review.

Consequently, the accuracy, completeness, ownership and carrying value of property, plant and equipment balance of Kshs.29,051,487 could not be confirmed.

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

Key Audit Matters

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

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

As required by Article 229(6) of the Constitution, based on the audit procedures performed, except for the matters described in the Basis for Conclusion on Lawfulness And Effectiveness in Use of Public Resources section of my report, I confirm that, nothing else has come to my attention to cause me to believe that public resources have not been applied lawfully and in an effective way.

Basis for Conclusion

1.0 Irregular Procurement of Chemicals

Included in the figure of Kshs.1,351,046 disclosed under Note 10(a) in respect to operation costs is an amount of Kshs.811,787 relating to purchase of chemicals. However, the chemicals were procured using the direct procurement method. This was contrary to the provisions of Section 91(1) of the Public Procurement and Asset Disposal Act 2015, which provides that open tendering shall be the preferred procurement method for procurement of goods, works and services. Further, the list of prequalified suppliers was not provided for audit making it difficult to confirm that the supplier of the chemicals was a registered supplier for chemicals. In addition, Management did not provide for audit evidence that the chemicals were received and issued out to the user department.

In the circumstances, the management was in breach of the law.

2.0 Irregular Extension of Contract for the General Manager

Review of the Company's personnel records and Board minutes of 18 March, 2016 revealed that the Company extended the contract for the General Manager for a period of 3 years when he had already attained the age of 65 years. This was contrary to Section D.21 of the Human Resource Policies and Procedure Manual 2016 for the public service which provides that all officers shall retire from service on attaining the mandatory retirement age of 60 years or 65 years for persons with disabilities.

In the circumstance, the Company was in breach of the HR Policies and Procedures Manual 2016.

3.0 Failure to Comply with Fiscal Responsibility Principles on Wage Bill

The wage bill of the Company therefore constituted sixty (60%) of the total revenue for the year ended 30 June, 2019. This was contrary to Section 25(1)(b) of the Public Finance Management (County Government) Regulations, 2015 which provides that the wage bill shall not exceed thirty-five (35) percent of the County Government's entity total revenue.

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

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

As required by Section 7(1)(a) of the Public Audit Act, 2015, based on the audit procedures performed, I confirm that, nothing has come to my attention to cause me to believe that internal controls, risk management and overall governance were not effective.

Basis for Conclusion

The audit was conducted in accordance with ISSAI 2315 and ISSAI 2330. The standards require that I plan and perform the audit to obtain assurance about whether effective processes and systems of internal control, risk management and 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 Rukanga water and Sanitation Company Limited , 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 Directors and those Charged with Governance

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

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

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

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

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

Auditor-General's Responsibilities for the Audit

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

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

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

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in the auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my audit report. However, future events or conditions may cause the Company to cease as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information and business activities of Company to express an opinion on the financial statements.
- Perform such other procedures as I consider necessary in the circumstances.

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

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


CPA Nancy Gathungu, CBS
AUDITOR-GENERAL

Nairobi

31 December, 2021

RUKANGA WATER AND SANITATION COMPANY LIMITED

Annual Reports and Financial Statements for the year ended June 30, 2019

11. STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED JUNE 2019

REVENUES	NOTES	2018/2019 KSH	2017/2018 KSH
Revenue	6		
Other Incomes	6	7,284,536	7,577,270
		237,156	104,345
		7,521,692	7,681,615
EXPENDITURE			
Personnel Costs	7	4,531,083	4,153,725
Directors Costs	8	238,850	177,055
Administration Costs	9	404,120	399,677
Operation & Maintenance Costs	10	1,640,056	1,553,596
Provision for depreciation	11	863,599	869,492
TOTAL		7,677,708	7,153,545
(DEFICIT)/SURPLUS BEFORE TAX		(156,016)	528,070

RUKANGA WATER AND SANITATION COMPANY LIMITED

Annual Reports and Financial Statements for the year ended June 30, 2019

12. STATEMENT OF FINANCIAL POSITION AS AT JUNE 2019

	Notes	2018/2019 Kshs	2017/2018 Kshs
ASSETS			
<u>Non-Current Assets</u>			
Properties, Plant and Equipment	1	29,051,487	29,182,416
		29,051,487	29,182,416
<u>Current Assets</u>			
Cash & Cash Equivalents	3	4,960,934	5,393,013
Receivables	2	<u>2,292,473</u>	<u>1,433,749</u>
		7,253,407	6,826,762
TOTAL ASSETS		36,304,894	36,009,178
<u>LIABILITIES AND EQUITY</u>			
<u>Current Liabilities</u>			
Prepayments	4	62,163	40,100
Creditors & Accruals	5	609,185	281,790
TOTAL LIABILITIES		671,348	321,890
<u>EQUITY</u>			
Capital Reserves		35,159,218	35,159,218
Revenue Reserves		<u>474,328</u>	<u>528,070</u>
Total Equity		35,633,546	35,687,288
TOTAL		36,304,894	36,009,178

The financial statements were signed on 2/12/ 2019 by:

General Manager

Member

Chairman of the Board

Name: Daniel Wery

Name: B. Maina

Name: *[Signature]*

Sign: *[Signature]*

Sign: *[Signature]*

Sign: *[Signature]*

RUKANGA WATER AND SANITATION COMPANY LIMITED

Annual Reports and Financial Statements for the year ended June 30, 2019

13. STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED JUNE 2019

	Capital Reserves Kshs	Revenue Reserves Kshs	Total Kshs
Balance as at 1 July 2017	35,159,218	0	35,159,218
Profit / (Loss) for the year		528,070	528,070
Balance as at 30 June 2018	35,159,218	528,070	35,687,288
Balance as at 1 July 2018	35,159,218	528,070	35,687,288
Profit / (Loss) for the year		(156,016)	(156,016)
Prior year adjustments		102,273	102,273
Balance as at 30 June 2019	35,159,218	474,328	35,633,546

RUKANGA WATER AND SANITATION COMPANY LIMITED

Annual Reports and Financial Statements for the year ended June 30, 2019

14. STATEMENT OF CASHFLOWS FOR THE YEAR ENDED JUNE 2019

	Notes	2018/2019 Kshs	2017/2018 Kshs
<u>Cash flow from Operating Activities</u>			
Net (Deficit) / surplus before tax		(156,016)	528,070
<u>Adjustments for:</u>			
Provision for Depreciation		863,599	869,492
Interest Income(Net)		(84,603)	
Prior year adjustment		102,273	0
		<u>725,254</u>	<u>1,397,562</u>
<u>Adjustments for working capital changes:</u>			
(Increase)/Decrease in Receivables		(858,724)	(306,961)
Increase/(Decrease) in Prepayments(i.e prepaid debtors)		22,064	0
Increase/(Decrease) in Creditors & Accruals		327,395	49,339
Changes in working capital		(509,265)	(257,622)
Cash generated from operations		<u>215,990</u>	<u>1,139,940</u>
<u>Cash flow from Investing Activities</u>			
Purchase of property, plant & equipment	1	(732,671)	(107,600)
Interest Income(Net)		84,603	0
Net Cash generated from/(used in) investing Activities		(648,069)	(107,600)
Net Increase/(decrease) in Cash and Cash Equivalents		(432,079)	1,032,340
<u>Cash and Cash Equivalents at Year End</u>			
Balance at the start of the year		5,393,013	4,646,573
Suspense			(285,500)
<u>Balance at the end of the year</u>			
Balance as at 30 June 2019	3	4,960,934	5,393,413

RUKANGA WATER AND SANITATION COMPANY LIMITED

Annual Reports and Financial Statements for the year ended June 30, 2019

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

	Original budget	Adjustments	Final budget	Actual on comparable basis	Performance difference
	2018-2019	2018-2019	2018-2019	2018-2019	2018-2019
Revenue	Kshs	Kshs	Kshs	Kshs	Kshs
Water Sales	6,650,000			6,802,115	152,115
Application fee	20,000			23,800	3,800
Development	120,000			115,520	(4,480)
Fines /Penalties	450,000			343,101	(106,899)
Other Income-Finance Income				237,156	237,156
TOTAL INCOME	7,240,000			7,521,692	281,692
EXPENDITURE					
PERSONNEL COSTS					
Salary	3,950,000			4,153,083	(203,083)
Casual Wages/Gratuity	-			378,000	(378,000)
NSSF/NHIF	350,000			0	350,000
TOTAL PERSONNEL COSTS	4,300,000			4,531,083	(231,083)
DIRECTORS COSTS					-
Board meetings & conferences	150,000			238,850	(88,850)
TOTAL DIRECTORS COSTS	150,000			238,850	(88,850)
ADMINISTRATION COSTS & STAFFS TRAINING					-
Training Allowances(Capacity Building)	150,000			0	150,000
Rent & Rates	16,000			12,000	4,000
Postage	90,000			127,187	(37,187)
Bank Charges	-			20,876	(20,876)
Stationery	85,000			0	85,000
Meeting and Conference	140,000			24,000	116,000
Official Entertainment	50,000			0	50,000
Travelling & Accommodation	200,000			185,900	14,100
Insurance				11,464	(11,464)
Professional Fees	120,000			22,693	97,307
TOTAL ADMINISTRATIVE & TRAINING EXPENSES COSTS	851,000			404,120	446,880
OPERATION COSTS					-
Uniforms	50,000			0	50,000
Office Expenses	120,000			267,395	(147,395)
Electricity for Lighting	25,000			17,015	7,985
Chemicals	640,000			811,787	(171,787)
Transport fuels and diesel	80,000			70,092	9,908
Statutory Levies	550,000			184,757	365,243
TOTAL OPERATION COSTS	1,465,000			1,351,046	113,954

RUKANGA WATER AND SANITATION COMPANY LIMITED

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MAINTENANCE COSTS					-
Water supplies rehabilitation augmentation & maintenance works	300,000			289,010	10,990
TOTAL MAINTENANCE COSTS	300,000			289,010	10,990
TOTAL OPERATION & MAINTENANCE COSTS	1,765,000			1,640,056	124,944
Provision for Depreciation				863,599	(863,599)
TOTAL EXPENDITURE	7,066,000	-	-	7,677,708	(611,708)
SURPLUS FOR THE PERIOD	174,000	-	-	(156,016)	330,016

RUKANGA WATER AND SANITATION COMPANY LIMITED

Annual Reports and Financial Statements for the year ended June 30, 2019

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

16. SUMMARY OF SIGNIFICANT ACCOUNTING POLICES

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

(a) Statement of compliance and Basis of preparation

The Financial Statements have been prepared in accordance with International Financial Reporting Standards (IFRS) under the historical cost convention.

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.

The Public Finance Management (PFM) Act 2012 Section 192 provided the setting up of the Public Sector Accounting Standards Board (PSASB). The Cabinet Secretary National Treasury, gazetted members of the Board through Gazette Notice No. 1199 of 28 February, 2014. Following the Board's approval on the adoption of the International Financial Reporting Standards (IFRS) for state organs operating as Commercial Business Entities and The International Public Sector Accounting Standards (IPSAS) for non-commercial entities, the pronouncements made by the board have no significant impact on the entity's financial statement as Rukanga Water and Sanitation Company has been preparing its financial statements in accordance to IFRS.

Application of new and revised IFRS

The Public Finance Management (PFM) Act 2012 Section 192 provided the setting up of the Public Sector Accounting Standards Board (PSASB). The Cabinet Secretary National Treasury, gazetted members of the Board through Gazette Notice No. 1199 of 28 February, 2014. Following the Board's approval on the adoption of the International Financial Reporting Standards (IFRS) for state organs operating as Commercial Business Entities and The International Public Sector Accounting Standards (IPSAS) for non-commercial entities, the entity has adopted the pronouncements made by the IPSAS board in preparation of its current year financial statements.

RUKANGA WATER AND SANITATION COMPANY LIMITED

Annual Reports and Financial Statements for the year ended June 30, 2019

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

SUMMARY OF SIGNIFICANT ACCOUNTING POLICES – (continued)

(b) Revenue Recognition and treatment of Government (GOK) Grant

- **Water sales**

The company adopts the accrual basis of accounting for revenue. Revenue /sales is recognized upon billing to the customers.

- **Application Fee**

This is amount collected as a result of a new connection being a registration fee

- **Development Fee**

This is amount collected from a new customer to cater for costs that the company shall incur during installation of that new connection.

- **Fines/Penalties**

Revenue is recognized upon billing to the customers once their water is disconnected on ground or once customer is caught using water illegally.

- **Other incomes/Miscellaneous**

Relaters to Surcharges to staff or any other income other than the above

(c) Property, Plant and Equipment

Items of property, plant and equipment are stated at historical costs less accumulated depreciation. Depreciation is charged on a reducing balance basis over the estimated useful lives of the asset. The annual rates of the depreciation used are as follows:

Class of Assets	Rate of Depreciation
• Land	0%
• Buildings & water supply assets	2.5%
• Fixtures & fittings meters	12.5%
• Fencing & other operational assets	25%
• Computer Software & Hardware	30%
• Electrical installation	10%
• Test equipment	15%

(d) Cash and cash equivalent

For the purposes of cash flow statements, cash and cash equivalents comprise of bank balances and short term deposits.

(e) Incorporation

The Company is incorporated in Kenya under the Companies Act.

(f) Currency

The Financial Statements have been prepared using Kenya Shillings (KShs.)

(g) Trade and other payables

Trade and other payables are non-interest bearing, 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.

RUKANGA WATER AND SANITATION COMPANY LIMITED

Annual Reports and Financial Statements for the year ended June 30, 2019

17. NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

(h) Risk Management

This section provides details of the Company's exposure to risks and describes the method used by the management to control risks. The most important type of financial risk to which the company is exposed are:-

(ii) Credit risk

The entity is exposed to credit risk, which is the risk that our customers may be unable to pay their debt. Management is enforcing disconnections on time to avoid debt accumulating.

(iii) Liquidity risk

Liquidity risk arises in the general funding of the company's activities and in the management of positions.

The company continually assesses liquidity risk by identifying and monitoring changes in funding required meeting business goals and targets set in terms of the overall company strategy.

(iv) Market risk

The company had no any interest bearing financial instrument or obligation as at the end of financial year and there was no significant currency risk as no foreign transaction ensued during the year.

	AS AT 30 TH JUNE 2019	AS AT 30 TH JUNE 2018
CASH AT HAND	100	21,630
BANK BALANCE	4,960,834	5,467,763

(i) Comparative figures

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

(j) Subsequent events

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

(k) Budget information

The original budget for FY 2018-2019 was approved by the Board of Directors on 27th July 2018. No Subsequent revisions or additional appropriations were made to the approved budget in the ended 30th June 2019.

(l) Related Parties

The Company regards a related party as a person or entity with the ability to exert control individually or jointly, or to exercise significant influence over the entity, or vice versa. Members of Key management are regarded as related parties and comprise the director and the senior managers

(m) Provision for staff leave

Employees are entitled to annual leave every financial year.

RUKANGA WATER AND SANITATION COMPANY LIMITED

Annual Reports and Financial Statements for the year ended June 30, 2019

Notes to the Financial Statements -(Continued)

1. PROPERTY , PLANT & EQUIPMENT SCHEDULE

	Land	Building & Water Supply Assets	Fixtures & Fittings meters	Fencing and other operational Assets	Computer Software & Hardware	Electrical Installation	Test Equipment	Total
	Kshs	Kshs	Kshs	Kshs	Kshs	Kshs	Kshs	Kshs
COST								
AT 1 July 2017	1,938,269	31,943,941	666,530	639,827	417,489	40,040	1,200,000	36,846,096
Additions				107,600			0	107,600
Transfer								0
At 30 June 2018	1,938,269	31,943,941	666,530	747,427	417,489	40,040	1,200,000	36,953,696

	Kshs	Kshs	Kshs	Kshs	Kshs	Kshs	Kshs	Kshs
COST								
AT 1 July 2018	1,938,269	31,943,941	666,530	747,427	417,489	40,040	1,200,000	36,953,696
Additions		732,671					0	732,671
Transfer								0
At 30 June 2019	1,938,269	32,676,612	666,530	747,427	417,489	40,040	1,200,000	37,686,367

	Kshs	Kshs	Kshs	Kshs	Kshs	Kshs	Kshs	Kshs
ACCUMULATED DEPRECIATION								
At 1 July 2017	0	5,224,570	138,467	467,881	381,364	21,953	667,554	6,901,789
Charge for the yr	0	667,984	66,008	42,987	10,837.00	1,809	79,867	869,492
At 30 June 2018	0	5,892,554	204,475	510,868	392,201	23,762	747,421	7,771,281

	Kshs	Kshs	Kshs	Kshs	Kshs	Kshs	Kshs	Kshs
ACCUMULATED DEPRECIATION								
At 30 June 2018	0	5,892,554	204,475	510,868	392,201	23,762	747,421	7,771,281
Charge for the yr	0	669,601	57,757	59,140	7,586	1,628	67,887	863,599
At 30 June 2019	0	6,562,155	262,232	570,008	399,787	25,390	815,308	8,634,880

NET BOOK VALUE

At 30 June 2019	1,938,269	26,114,457	404,298	177,419	17,702	14,650	384,692	29,051,487
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At 30 June 2018	1,938,269	26,051,387	462,055	236,559	25,288	16,278	452,579	29,182,415
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RUKANGA WATER AND SANITATION COMPANY LIMITED

Annual Reports and Financial Statements for the year ended June 30, 2019

Notes to the Financial Statements Continued

		<u>2018/2019</u>	<u>2017/2018</u>
		KShs	KShs
2	Receivables		
	Trade receivables	2,279,773	1,433,749
	Prepaid NHIF	5,900	0
	Staff Debtors	6,800	0
		<u>2,292,473</u>	<u>1,433,749</u>
3	Cash & Cash Equivalent		
	<u>Cash at bank</u>		
	Cooperative Bank-01100272011801	562,727	578,244.00
	Recurrent(Equity Bank)-0420299470198	1,330,241	1,536,530.00
	Equity Bank-0420499470176	334,571	517,700.00
	Equity Bank-0420193782488	0	1,100.00
	Treasury Bills	2,500,000	2,500,000.00
	Mpesa	233,296	334,189.00
	Cash in hand	<u>100</u>	<u>21,630.00</u>
		4,960,934	5,489,393.00
4	Prepayments		
	Prepayments relates to debtors (water sales customers) with credit balances (overpayments)	62,163	40,100.00
5	Creditors and Accruals		
	Trade Creditors	45,294	224,961
	Gratuity	339,999	0
	Payroll deductions	124,665	21,312
	Levies	99,227	35,517
		609,185	281,790
6	INCOME(GROSS TURNOVER/SALES)		
	Water Sales	6,802,115	6,965,850
	Application fee	23,800	28,700
	Development	115,520	146,420
	Fines /Penalties	343,101	436,300
	Other Income-Finance Income	237,156	104,345
	TOTAL INCOME	7,521,692	7,681,615
	<u>EXPENDITURE</u>		
7	<u>PERSONNEL COSTS</u>		
	Salary	4,153,083	3,812,813
	Casual Wages/Gratuity	378,000	148,800
	NSSF/NHIF	0	192,112
	TOTAL PERSONNEL COSTS	4,531,083	4,153,725
8	<u>DIRECTORS COSTS</u>		
	Board meetings & conferences	238,850	177,055
	TOTAL DIRECTORS COSTS	238,850	177,055
9.a	<u>TRAINING EXPENSES</u>		
	Training Allowances(Capacity Building)	0	12,600
	Total training expenses	-	12,600

RUKANGA WATER AND SANITATION COMPANY LIMITED

Annual Reports and Financial Statements for the year ended June 30, 2019

Notes to the Financial Statements Continued		
9.b	<u>ADMINISTRATION COSTS & STAFFS TRAINING</u>	
	Rent & Rates	12,000
	Postage	127,187
	Bank Charges	20,876
	Stationery	0
	Meeting and Conference	24,000
	Official Entertainment	0
	Travelling & Accommodation	185,900
	Insurance	11,464
	Other Admin Costs-Penalty	22,693
	Professional Fees	0
	TOTAL ADMINISTRATIVE COSTS	404,120
	TOTAL ADMINISTRATIVE & TRAINING EXPENSES COSTS	387,077
10. a	<u>OPERATION COSTS</u>	
	Uniforms	0
	Office Expenses	267,395
	Electricity for Lighting	17,015
	Chemicals	811,787
	Transport fuels and diesel	70,092
	Statutory Levies	184,757
	TOTAL OPERATION COSTS	1,351,046
10. b	<u>MAINTENANCE COSTS</u>	
	Water supplies rehabilitation augmentation & maintenance works	289,010
	TOTAL MAINTENANCE COSTS	289,010
	TOTAL OPERATION & MAINTENANCE COSTS	1,640,056
11	Provision for Depreciation	863,599
		869,492

RUKANGA WATER AND SANITATION COMPANY LIMITED

Annual Reports and Financial Statements for the year ended June 30, 2019

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)
Basis for Adverse Opinion					
1	Unsupported Balances and amounts	It was noted and is being addressed	Kennedy Muriuki Accountant	The issue has been resolved	
2	Revenue	Revenue comprises several items as shown in note 1	Kennedy Muriuki Accountant	The issue has been resolved	
3	Receivables	Management is working towards recoverability of the same where we have identified these debtors and working towards it	Kennedy Muriuki Accountant	Not fully resolved	Before June 2020
4	Fixed Assets	The management is working in seeing that a detailed asset register is in place	Kennedy Muriuki Accountant	Not fully resolved	Before June 2020
5	Cash and Bank Balances	Bank reconciliation statements as well as cash survey certificates are now in place. The management is working towards ensuring that such an error does not occur	Kennedy Muriuki Accountant	Resolved	
6	Directors Expenses	The company is in the process of recruiting new board of directors and we shall ensure due procedure is followed	General Manager	Not fully resolved	By December 2019