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REPORT

OF

THE AUDITOR-GENERAL

ON

**MIGORI COUNTY WATER AND SANITATION
COMPANY LIMITED**

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





MIGORI COUNTY WATER AND SANITATION COMPANY LTD

ANNUAL REPORTS AND FINANCIAL STATEMENTS

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

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

MIGORI COUNTY WATER AND SANITATION COMPANY LTD

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

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KEY COMPANY INFORMATION

(a) Background information

MIKUTRA Water and Sanitation Company was incorporated and registered under the Company Act (Cap 486) on the 12th June 2006 and change of name to Migori County water and Sanitation Company was registered with the registrar of companies on 26th January 2015 following transfer of ownership from the defunct Local Authorities to the County government of Migori. It is a water service provider contracted by Lake Victoria South Water Works Development Agency through a Service Provision Agreement (SPA) to run gazetted water supplies within Migori, Rongo, Kuria East, Kuria West, Nyatike, Uriri, Awendo, Transmara East and Transmara West Districts as per the Water Act 2002. With devolution, Transmara East and Transmara West moved to Narok County while the other water supplies remained within the coverage of the company. The Company covers an area of about 5976 km² with a population of approximately 1,116,436 people based on 2019 population census estimated to be growing at 3%.

The Board of Directors consists of eight members drawn from the shareholders and a wide spectrum of other stakeholders. The Directors are responsible for strategic direction, policymaking, co-ordination and control of company functions. The management team implements strategies and plans approved by the Board and carry out the daily running of the business. The Company's Management is headed by Managing Director who reports to the Board of Directors.

(b) Principal Activities

The principal activity of the Company is to provide adequate, sustainable and affordable safe water and sewerage services through efficient and effective management of resources and involvement of stakeholders.

(c) Directors

The Directors and Company Secretary who served the Company during the year/period were as follows:

- | | | |
|----|--------------------------|---------------------|
| 1. | Mr. Samwel Odhiambo | - Chairman |
| 2. | Mr. Titus Okoyo Oluoch | - Managing Director |
| 3. | Hon. Rebecca Ghati Maroa | - Member |
| 4. | Hon. Scholastica Obiero | - Member |
| 5. | Mr. Kennedy Adiema | - Member |
| 6. | Mrs. Hellen Rioba | - Member |
| 7. | Mr. Lamech Oyugi | - Member |
| 8. | Mr. Peter Okwany | - Member |
| 9. | Mr. Dickson Kirui | - Company Secretary |

MIGORI COUNTY WATER AND SANITATION COMPANY LTD

**Reports and Financial Statements
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Corporate Secretary

Kirui Registrar's & CPS
P.O Box 1087-20200
Kericho, Kenya.

(d) Registered Office

P.O.BOX 389- 40400
SUNA MIGORI
County of Migori Department of Water and Energy Office,
Migori, Kenya.

(e) Corporate Contacts

Tel. 0746160002
Email: miwascoltd@gmail.com
info@miwasco.co.ke

(f) Corporate Bankers

Kenya Commercial Bank
P.O. Box 54 - 40400
Suna, Migori





(g) Independent Auditors

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

MIGORI COUNTY WATER AND SANITATION COMPANY LTD



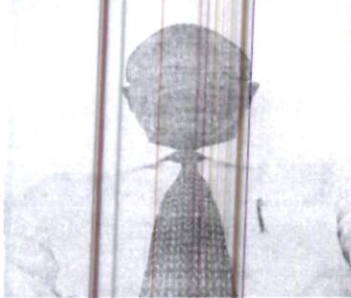

Reports and Financial Statements
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II. THE BOARD OF DIRECTORS

No	Director's passport-size	Director's name, and key profession/academic qualifications	Concise description of each Director's date of birth, key qualifications and work experience
1		<p>Mr. Samwel Odhiambo Chairman</p>	<p>Date of Birth: 9th December, 1961</p> <p>Work Experience: PI Teacher</p> <p>Key Qualifications: Diploma in ECDE BA Education (Primary)</p>
2.		<p>Mr. Titus Okoyo Oluoch Managing Director</p>	<p>Date of Birth: 1971</p> <p>Work Experience: Chief Principal- Elgon View Group of Colleges (2011-2019) Principal at St. Julians High School, Pesoda High School, and St. Philips High School (2005-2010)</p> <p>Key Qualifications: MPhil in Management and Policy studies, B.Ed. Arts (Economics & Geography)</p>
3.		<p>Hon. Rebecca Ghati Maroa Cabinet Executive Committee Member: Water & Energy</p>	<p>Date of Birth: 1974</p> <p>Key Qualifications: Masters of Arts (Linguistics), Bachelor's degree (English Literature)</p> <p>Work Experience: CECM Water & Energy, Director Gender & Equality,</p>
4.		<p>Hon. Scholastica Obiero, Cabinet Executive Committee Member, Finance Migori County</p>	<p>Date of Birth: 6th June, 1961</p> <p>Key Qualifications: Masters Degree in Business Administration, BBA, Diploma in Business Management</p> <p>Work Experience: CECM Finance and Planning, Accountant - KRA</p>

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5.		<p>Mr. Lameck Oyugi Director</p>	<p>Date of Birth: 8th August 1958 Key Qualifications: BSc. Environmental Health, Certificate in Environmental Impact Assessment and Environmental Audit, Higher Diploma in Applied Biology, Certificate in Personnel Management. Work Experience: Regional Manager National Cereals and Produce Board – Lake Western Kenya, Assistant Quality Pest Control Manager, Pest Control Officer.</p>
6.		<p>Mrs. Hellen Rioba Nchagwa Director</p>	<p>Date of Birth: 1st July 1978 Work Experience: Senior teacher: Wizara for the Mentally Challenged Teacher: Tarang'anya Primary School, Bikarabwa Primary School. Chairperson Bukira East Women SACCO. Vice treasurer KNUT Kuria West Branch. Key Qualifications: Degree in Special Needs Education. Diploma in Special Needs Education</p>
7.		<p>Mr. Kennedy Adiema Director</p>	<p>Date of Birth: 23rd May 1968 Work Experience: Planning Engineer – Zakhem International Co. Ltd. Project Manager – Dynacorp International. Head of Mechanical/Structural Engineering – Kenya Wildlife Service. Key Qualifications: MBA – Strategic Management. Bsc – Mechanical Engineering. Diploma in Project Management. Diploma in Business Management</p>
8.		<p>Mr. Peter Okwany Director</p>	<p>Date of Birth: 20th August 1945 Key Qualifications: BA (Oxon) Work Experience: Commercial Manager Kenya Power & Lighting Co. Ltd, General Manager Securicor Kenya Ltd, Managing Director Re-Engineering (Africa) Consortium Ltd. Non-Executive Director Re-Engineering (Africa) Consortium Ltd.</p>



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9.		Mr. Dickson Kirui Company Secretary.	Date of Birth: 23 rd Nov 1962 Key Qualifications CPS (K) Governance Auditor
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MIGORI COUNTY WATER AND SANITATION COMPANY LTD

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For the year ended June 30, 2020

MANAGEMENT TEAM


Manager's passport-size photo and name, and key profession/academic qualifications	Area of responsibility
 <p>Titus Okoyo Oluoch, MPhil, B.Ed.</p>	Managing Director
 <p>Dickson Kirui, CPS (K) Governance Auditor</p>	Company Secretary
 <p>Geoffrey Ouma, BSc Water Resource Management</p>	Head of Technical Services



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	Head of Finance and Commercial Services
Lameck Okeyo MFin,MBA,CPA (K)	

MIGORI COUNTY WATER AND SANITATION COMPANY LTD

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For the year ended June 30, 2020

CHAIRMAN'S STATEMENT

On behalf of the Board, I have the pleasure of presenting the Annual Report and Financial Statements for the year ended 30th June 2020.

Operating Environment

The company oversees the operations and maintenance of seven water supply schemes namely: Migori, Rongo, Isebania, Kehancha, Awendo, Kegonga and Uriri.

The better part of F/Y 2019/2020 from July 2019 to February 2020, there were no operations in Migori scheme that is our largest scheme due to electricity disconnection, with minimal operations in Rongo, Awendo, Kehancha, Kegonga and Uriri during the F/Y 2019/2020. Operations in Isebania Scheme that stalled in September 2019 due to flooding of its intakes at Gatundu and Sorore, was restored in June 2020. The global COVID-19 pandemic also affected our collections and operations from March 2020 to June 2020 due to the government directive to WSP's not to disconnect consumers in arrears.

During the financial year 2019/2020 members of the Corporate Management Team were appointed in the positions of Head of Finance and Commercial Services and Head of Technical Services in February 2020. The appointments enhanced efficiency in the Technical and Commercial departments despite the COVID-19 challenges and protocols.

The Board

The Board is committed to ensuring the company's growth by collectively directing its affairs whilst meeting the diverse interest of stakeholders. The Board strives to observe the highest standards of corporate governance and corporate ethics in providing overall policy and strategic direction of the company. Through the Board's diversity and broad based experience and skills, the company has been able to carry out its operations as illustrated by the results.

The Future and Conclusion

With devolution of water services, the company has a bright prospect to fully deliver its mandate to the people of Migori County. Restructuring in the operations and management structures during the financial year 2019/2020 has inspired better performance and resurgence in the growth trajectory of the company.

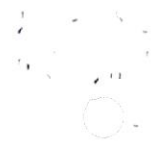
Appreciation

Lastly, I wish to express my sincere appreciation to my fellow Board members, management and staff for their dedication during the financial year 2019/2020. I take cognisance of grants from the County Government of Migori department of Water and Energy of Kshs. 10,210,902.00 towards Electricity and water treatment Chemicals, and Kshs. 205,000.00 from Lake Victoria South Water Works Development Agency towards restoring debunked Oyani intake. I thank them for their continued support, guidance and good working relationship.



Samwel Odhiambo Nyateng

Chairman



MIGORI COUNTY WATER AND SANITATION COMPANY LTD

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

REPORT OF THE MANAGING DIRECTOR

I am delighted to present the Annual Report and Financial statement for the year ended 30th June 2020.

Operating Results

The performance of the company continues to be unsatisfactory being majorly due to non-operation caused by 8 months (June 2019 to February 2020) electricity disconnections, and flood hazards between November 2019 and June 2020. The company recorded a loss of Kshs 10,899,237. Water sales registered Kshs 14.9 million as opposed to last financial year's Kshs 15.7 million representing 7% decrease due to electricity disconnection of Migori water supply for 8 months. Grants received from Migori County Government in respect of electricity bills paid directly to KPLC decreased from Kshs 14.7 million in the financial year 2018/2019 to Kshs 8.4 million representing a 37% reduction. Income from commercial vehicles reduced from Kshs 4.2 million in the financial year 2018/2019 to Kshs 4.08 million. Continued lack of a waste dumping site in Migori County means that all the waste collected is transported all the way to Kisii County for safe disposal, which is very costly for the customers and the company. The back hoe is still in a state of disrepair and requires an overhaul of the same to restore its operations. In summary the company raised a total of Kshs 19 million as own revenue compared to last financial year's of Kshs 20.1 million signifying a reduction of 11%.

The production cost decreased significantly from Kshs 27 million in the financial year 2017/2018 to Kshs 17.9 million representing a 37% decrease. As explained above, the company only managed to operate sparingly during the year under review due to electricity disconnection which forms the biggest part of the production cost. General administration costs decreased from Kshs. 23.1 million to Kshs. 22.3 million representing a 5.1% decrease.

Operating Environment

The Company did inherit a poor pipeline infrastructure in all its water supplies during the handover phase from the Ministry of Water and Irrigation with huge customer debts. As a result of this the company is financially struggling to meet operation and maintenance cost while complying with set statutory obligations like yearly audit expenses and other payables. In this financial year, the company operated for just half of the period under reference. In all its water supplies, the company operates pumping systems that lead to huge electricity bill due to the fact that all our seven schemes have a two-step pumping system.

MIGORI COUNTY WATER AND SANITATION COMPANY LTD

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

Conclusion

On behalf of the management team of Migori County Water and Sanitation Company, I wish to thank the Board for its prudent guidance and direction and the entire staff for their dedication and hard work, the customers for their continued support, and to all the stakeholders of the company. I also wish to express my gratitude to Lake Victoria South Water Works Development Agency and Migori County Government for their continued support to the company.


Titus Okoyo Oluoch.

Managing Director

MIGORI COUNTY WATER AND SANITATION COMPANY LTD

Reports and Financial Statements

For the year ended June 30, 2020

CORPORATE GOVERNANCE STATEMENT

Corporate Governance is central to the Company's approach towards the enhancement of shareholder's and stakeholder's value. The MIWASCO Board of Directors recognizes that the maintenance and consistent practice and application of good corporate governance practices is key to the long term success of the Company's business and will enable the business to deliver sustainable shareholder and stakeholder value.

1. Number of Board meetings

FY 2019/2020

Committees – 4 meetings for each of the three (3) Board of Directors Committees

Full Board – 4

Annual General Meeting – One (1)

Special General Meeting – None

2. Succession plan

Article 93 B of the Company's Articles of Association deals with Board succession policies and period in office.

The Article specifically provides for retirement of two thirds of the stakeholder directors. This then leaves a third for institutional memory and succession. Two Directors are due for retirement as their term expires in the year 2020; however, they are eligible for reappointment for a second and final term.

3. Existence of a Board charter

MIWASCO has developed a board charter, and operationalized the same.

4. Process of appointment and removal of directors

The procedure for appointment and removal of Directors is clearly stated in the Company's Act No. 17 of 2015 and the Company's Articles of Association. The procedure under Article 68 (i), (ii), (iii) and (iv) clearly spells out the size of the board, background of the directors, eligibility criteria and stakeholder participation procedure. Further, Article 84 deals with disqualification of directors. The Companies Act further provides procedures for removal of director.

5. Roles and functions of the Board

Article 73 of the Company's Articles of Association spells out the powers, duties, functions and authorities of MIWASCO board. It states that the Board of Directors shall adhere to the Memorandum and Articles of Association whose first object is to be an agent of the Water Services Board. Specifically, the Board of Directors shall:

- 1) Before commencing business sign the code of ethics as circulated by WASREB.
- 2) Have a schedule of full board meetings at the end of every year for the next year.
- 3) Have only one full board meeting in every quarter.
- 4) Inform WASREB of other meetings not within the schedule of board meetings.
- 5) Define the limits of authority of the Managing Director and other top executives in a schedule of duties.

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- 6) Approve an annual budget in consultation with WASREB in accordance with the Water Act, 2016.
- 7) Devote sufficient time to their responsibilities.
- 8) Have an approved organizational structure and adhere to the staff efficiency ratio guideline of 9 staff per 1,000 connections in accordance with WASREB guidelines.
- 9) Have a performance management and appraisal system in place.
- 10) Map out communication strategy for internal and external liaisons to include at least one public forum in its area of supply.
- 11) Define how the Board will operate including:
 - (a.) Submission of the following information to them by management on a quarterly basis:
 - i.) Amount of regulatory levy and other levies paid.
 - ii.) Service obligation and performance report for supply area providing commercial and technical issues.
 - iii.) Financial report reflecting the levels of tariff revenues and subsidies.
 - (b.) Submission of the following reports on an annual basis:
 - i.) Financial report.
 - ii.) Latest audited financial report for the year ended.
 - iii.) Performance achievement report covering commercial and technical improvements on performance.
- 12) Embark on benchmarking with other WSP to constantly monitor management performance and the financial progress of the company.
- 13) Evaluate its own performance at least once every year based on the Service Provision Agreement.
- 14) Ensure that the company is properly managed for the attainment of lawful objectives.
- 15) Ensure that the company's affairs are not managed or conducted in a manner oppressive to any of its shareholders or for fraudulent purposes.
- 16) Ensure that the company complies with all statutory requirements, including directives issued by WASREB.
- 17) Ensure that sitting allowances and other expenditures of the board and its committees do not exceed two percent of the annual recurrent budget for a WSP, five per cent for a WSB or any other ratio set out by the Water Services Regulatory Board for efficiency purposes
- 18) Appoint an Ad hoc committee to determine chairman's remuneration (Honoraria) in line with the WASREB or Government regulation.
- 19) The chairman is entitled to honoraria based on number of visits made officially (excluding boards meeting).



MIGORI COUNTY WATER AND SANITATION COMPANY LTD

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6. Induction and training

An induction programme is a structured way of providing board members with all the information and the support they need to be confident and productive in their role. The aim is to help new members to understand the organization, the environment in which it operates, and their role in making the organization a success.

Continual training and development keeps Board members abreast of acceptable activities, policies, rules and regulations impacting the organization. This also involves training them on the ever changing business environment and their challenges

7. Board and member performance

Article 73(i) (b) of the Company's Articles of Association clearly states that the Board shall evaluate its performance once every year and set up achievable action points to assess its performance as a whole and that of individual members including the Managing Director. The resultant report is then presented to the shareholders.

MIWASCO has not evaluated the Board members, but the Managing Director was evaluated during the year under review.

The Board continues to violate Article 73 (c) of the Company's Articles of Association on Compliance and section 705 of the Companies Act No. 17 of 2015 on Filing of Annual Returns. We have continued to point out issues that need attention and communicated all the areas that required compliance.

8. Conflict of interest

A conflict of interest is a transaction or relationship which presents or may present a conflict between a Board member's obligations to the Company and the Board member's personal, business or other interests.

The Companies Act No. 17 of 2015 and the Company's Articles of Association clearly spell out the provisions and sanctions of non-compliance with the same.

MIWASCO does not have a conflict of interest register in place. However, in every meeting, there is an agenda item on declaration of conflict of interest. There was no conflict of interest declared during the year.

8. Board remuneration

Article 69 clearly states that the remuneration of the Directors shall from time to time be determined by the Company in general meeting. This is further strengthened by the Companies Act No. 17 of 2015. The remuneration must remain within the benchmark set by WASREB.

The Board remuneration for the year was retained at that of the previous financial year.

MIGORI COUNTY WATER AND SANITATION COMPANY LTD

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

9. Ethics and conduct

The Code of conduct and ethics defines business conduct of the directors of MIWASCO and embodies their commitment to pursue the highest standards of ethical conduct. The code is intended to describe areas of ethical risk, provide guidance to directors and helps foster a culture of honesty, transparency and accountability.

Article 73 (1) of the Company's Articles of Association clearly states that Directors must sign the code of ethics before commencing business, and this has been complied with.

10. Governance Audit

A Governance Audit is an independent assessment of an organization with a view to expressing an opinion on the adequacy and effectiveness of the organization's policies, systems, practices and processes. It is an objective assurance engagement.

The Company did not undertake an internal or external governance audit during the year. This requires being undertaken.

MIGORI COUNTY WATER AND SANITATION COMPANY LTD

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For the year ended June 30, 2020

MANAGEMENT DISCUSSION AND ANALYSIS

The management of the company presents this year's operational and financial performance of the company to all its stakeholders. Since the inception of devolution and the receiving of the operations of the new Migori water supply, the operations of the company has for the third successive year in its lowest performances. Frequent electricity disconnections during the year under review led to inconsistency in operations. This affected the financial performance of the company which led to its failure to meet most of its obligations. At close of the financial year, the company accrued salary arrears, statutory deductions and sundry creditors as a result of low performance by the schemes due to power disconnections for 8 months during the year under review.

The non-revenue water still remains a challenge for the company and the management seeks to reverse this as a strategy to improve on its revenue performance. A policy on metering of all new connections was adopted by the management with the aim of attaining 100% metering ratio and reducing commercial losses in terms of non-revenue water. The population growth in Migori County is very high and the management views this as an opportunity of service provision to more customers. The company is thus fronting for intervention by Lake Victoria South Water Works Development Agency through the last mile connectivity project more especially in Migori and Isebania water supplies. This will automatically increase the area of coverage for the company and move productivity towards desired levels. Migori County Government is also playing a role in improving area of coverage through rehabilitation of three high yielding boreholes that are solar powered which have been handed over to the company for their management.

The billing software has been upgraded and soon the company is to operationalize SMS billing. This will reduce integrity issues amongst staff and eventually improve on billing and collection efficiencies. Reduction in use of paper work will also lower the cost of stationery as an immediate impact.

The management has taken up the revival of previously dormant pipelines within Migori water supply with the sole purpose of supplying clean water to its customers and increasing its customer base. The intention is to do the same in the other schemes when financial stability is attained.

In its course of operation the company is faced with several risks that threaten efficient operations. With the lack of a sewerage system within Migori County, safe disposal of waste has remained a challenge.

The company has thus been forced to find the services in neighbouring counties which are a distance away and the dumping comes at a cost.

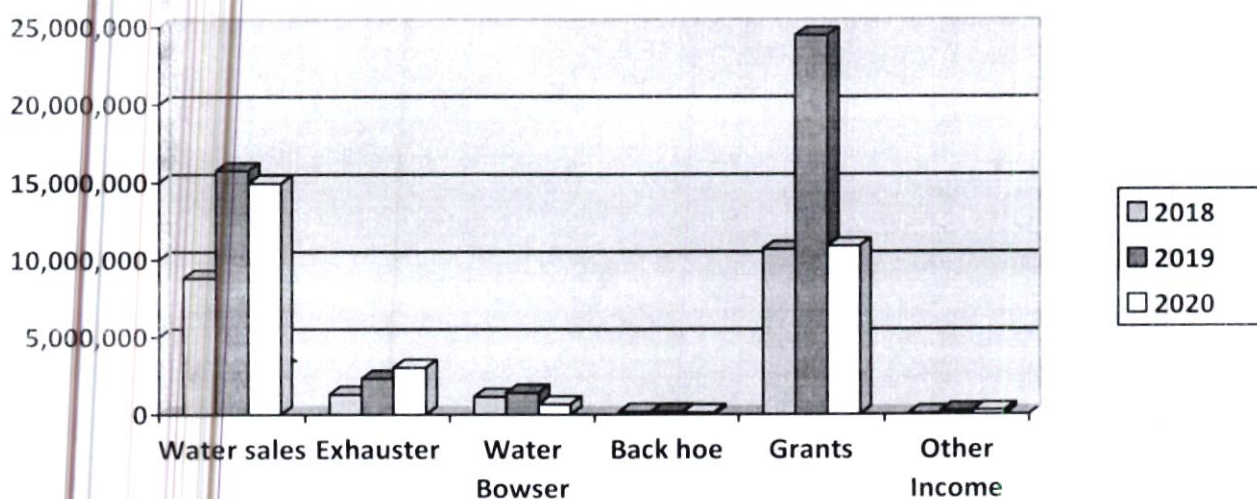
MIGORI COUNTY WATER AND SANITATION COMPANY LTD

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The financial performance of the company over the last three years has been deteriorating and this is owed to various challenges ranging from electricity disconnections, lack of waste dumping site, frequent bursts and leakages to staff integrity issues. The revenue raised by the company is illustrated in summary below to show the trend in the last three financial years

	Water sales	Exhauster	Water Bowser	Back hoe	Grants	Other Income
2017/2018	8,828,939	1,315,000	1,175,000	166,000	10,694,407	86,304
2018/2019	15,769,344	2,346,300	1,424,500	167,100	24,484,560	244,854
2019/2020	14,953,235	3,039,300	669,300	136,000	10,898,402	271,295



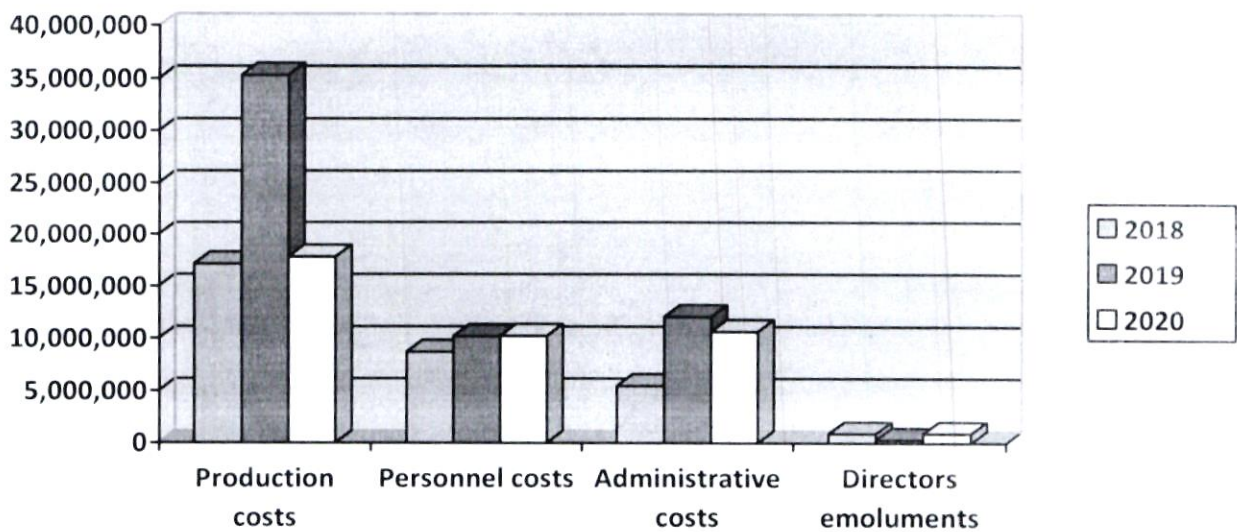
From the graphical presentations, it can be observed that the financial year 2019/2020 registered improvement in exhauster services due to the prolonged rainy season in the year under review that also affected water sales and water bowser services. Water sale as the major direct source of revenue for the company requires immediate interventions to overcome the current meter reading and collection trend being observed.

MIGORI COUNTY WATER AND SANITATION COMPANY LTD

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The corresponding operational costs are illustrated below over the same period

	Production costs	Personnel costs	Administrative costs	Directors emoluments
2017/2018	17,138,395	8,698,150	5,451,538	893,760
2018/2019	35,315,117	10,189,250	12,162,510	600,000
2019/2020	17,902,727	10,214,150	10,638,996	891,900



From the graph it can be observed that the production costs contribute the highest portion of the operational expenses. The significant reduction of production costs in 2019/2020 is due to reduced production hours as a result of electricity disconnection for a prolonged period of time. Administrative costs decreased significantly due to low production by the company.

In conclusion, the company requires a lot of support from development partners, Migori County Government and Lake Victoria South Water Works Development Agency to turn around its operations. Clustering of Water Service Providers within the county is a matter being fronted to the stakeholders with a view to improving on overall performance, effective use of resources, among others.

We wish to thank our fellow staff for their endurance during the financial year under review, and look forward to their continuous effort for the common good of the company.

MIGORI COUNTY WATER AND SANITATION COMPANY LTD

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REPORT OF THE DIRECTORS

The Company is established and regulated under the Companies Act Cap 486, Laws of Kenya and Water Act 2016. Its Directors submit their Annual Financial Report for the year ended June 30, 2020 which show the state of the Company's affairs.

Principal activities

The principal activity of the Company is that of providing adequate, sustainable and affordable safe water and sanitation services to the residents of Migori County.

Results

The results of the Company for the year ended June 30, 2020 are set out on page 20 and 21

Dividends

Under section 131 (3) of the Water Act 2016, dividends shall not be paid to the owners of the public water services providers as long as the universal rights of access to safe and clean water have not been achieved in the designated service areas

Directors

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

Auditors

The Auditor General is responsible for the statutory audit of the Company in accordance with the Section 81 of the Public Finance Management (PFM) Act, 2012 and article 229 of the constitution of Kenya.

By Order of the Board



Samwel Odhiambo Nyateng

Chairman

Date: 4/9/2020

MIGORI COUNTY WATER AND SANITATION COMPANY LTD

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For the year ended June 30, 2020

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Company is established and regulated under Cap 486 of the Companies Act. Section 81 of the Public Finance Management Act, 2012 and section 8 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 Company at the end of the financial year/period and the operating results of the Migori County Water and Sanitation Company Limited for that year/period. The Directors are also required to ensure that the Company keeps proper accounting records which disclose with reasonable accuracy the financial position of the Company.

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

Nothing has come to the attention of the Directors to indicate that Migori County Water and Sanitation Company Limited 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 Migori County Water and Sanitation Company Limited financial statements were discussed and adopted by Board of Directors on 4/9/ 2020 and signed on its behalf by:



Samwel Odhiambo
Chairman



Titus Okoyo Oluoch
Managing Director

REPUBLIC OF KENYA



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REPORT OF THE AUDITOR-GENERAL ON MIGORI COUNTY WATER AND SANITATION COMPANY LIMITED FOR THE YEAR ENDED 30 JUNE, 2020

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of Migori County Water and Sanitation Company Limited set out on pages 22 to 52, which comprise the statement of financial position as at 30 June, 2020, and the statement 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, 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 Migori County Water and Sanitation 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 and comply with the Kenyan Companies Act, 2015 and the Water Act, 2016.

Basis for Qualified Opinion

1. Unsupported Water Sales

The statement of profit or loss and other comprehensive income reflects water sales of Kshs.14,953,235 and as disclosed under Note 3 to the financial statements. The amount represents the total customer water consumption billing for the financial year 2019/2020. However, the schedules of the individual customers' accounts billed were not provided for audit review and it was therefore, not possible to ascertain if all the customers were billed accurately and continuously during the year.

In the circumstances, the accuracy and completeness of water sales of Kshs.14,953,235 for the year ended 30 June, 2020 could not be confirmed.

2. Unsupported Trade and Other Payables

Note 22 to the financial statements reflects trade and other payables balance of Kshs.46,928,659, which includes Kshs.7,742,096 which was not supported by schedules and ledgers.

Further, the payables balance includes Kshs.845,500 in respect of Board allowance arrears which were not supported by the creditor's ledger

In addition, age analysis for the creditors was not provided for audit verification and therefore it was not possible to ascertain the duration of the outstanding balances.

Consequently, the accuracy and completeness of the trade and other payables balance of Kshs.46,928,659 as at 30 June, 2020 could not be confirmed.

3. Unconfirmed Shareholding

The statement of financial position reflects issued capital of Kshs.100,000 as at 30 June, 2020. Note 19 to the financial statements indicates that the issued share capital of the Company is divided into 5,000 shares of Kshs.20 each. The shares as per the business registration service in the office of the Attorney General and Department of Justice reflected three directors with two holding 350 shares each and one holding 300 shares, all totaling to 1000 shares. This differs with the financial statements shareholding of 5000 leading to unreconciled and unexplained variance of 4000 shares. Further the shares have not been transferred to the County Government of Migori since the advent of devolution.

Consequently, the ownership, accuracy, validity and completeness of the issued capital of Kshs.100,000 as at 30 June, 2020 could not be confirmed.

4. Inadequacies in Presentation of Financial Statements

A review of the Company's financial statements for the year under review revealed the following anomalies;

- i. The head of finance did not indicate his name and Institute of Certified Public Accountants of Kenya (ICPAK) membership number in the statement of financial position contrary to the requirements of the Public Sector Accounting Standards Board (PSASB) reporting template issued in June, 2020.
- ii. The Company Secretary did not indicate his Institute of Certified Public Secretary of Kenya (ICPSK) membership number in the financial statements.
- iii. Report of the directors is signed by the chairman instead of the Corporate Secretary contrary to the Public Sector Accounting Standards Board (PSASB) template issued in June, 2020.

In the circumstances, the financial statements are not prepared in accordance with the Public Sector Accounting Standards Board (PSASB) prescribed format.

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

Emphasis of Matter

Material Uncertainty in Relation to Going Concern

I draw attention to Note "y" on Going Concern in the summary of significant accounting policies under which the Management have disclosed that the Company made a loss of Kshs.10,899,237 during the current financial year compared to a loss of Kshs.13,994,952 in the previous financial year. The operating loss in the year under review depleted further the revenue reserves from negative Kshs.34,448,829 as at 30 June, 2019 to a negative of Kshs.45,348,066 as reflected on the statement of financial position as at 30 June, 2020.

The Company's total current liabilities balance of Kshs.62,797,148 exceeded its total current assets balance of Kshs.38,037,277 resulting in a negative working capital of Kshs.24,759,871 as at 30 June, 2020.

The precarious financial situation described above is an indication of the existence of a material uncertainty which may cast a significant doubt on the Company's ability to continue as a going concern and to meet its financial obligations as and when they fall due.

The Management have further disclosed in Note "y" that through continuous support from the County Government of Migori, they believe that the Company would remain a going concern.

My opinion is not qualified in respect of this matter.

Key Audit Matters

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

Other Matter

Budgetary Control and Performance

The water company had budgeted to collect a total of Kshs.69,935,000 but realized total revenue collections of Kshs.29,485,032 thereby realizing an overall shortfall of Kshs.40,449,968 or 58% of the budget.

Further, the statement of comparison of budget and actual amounts for the year ended 30 June 2020 reflects expenditure budget of Kshs.75,709,000 and an actual expenditure of Kshs.32,290,628 resulting overall under expenditure Kshs.43,418,372 or 57% of the budget. The budget under expenditure of Kshs. 43,418,372 is equivalent to services budgeted for but not delivered to the residents of Migori County.

In addition, the water Company over spent in personnel costs by Kshs.969,150. There was no evidence provided for audit review to confirm that the over expenditure of Kshs.969,150 was approved. This is contrary to Section 43(2) of Public Finance Management (County Governments) Regulations, 2015, which states that County Government entities shall execute their approved budgets based on the annual appropriation legislation and the approved annual cash flow plan with the exception of unforeseen and avoidable spending dealt with through the Contingencies Fund of supplementary estimates.

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 under the Basis for Conclusion on Lawfulness and Effectiveness in Use of Public Resources sections 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 Trade and Other Payables

Note 22 to the financial statements reflects trade and other payables balance of Kshs.46,928,659 which includes salary arrears of Kshs.11,896,077. The salary arrears increased by Kshs.3,831,843 from Kshs.8,064,234 in 2019/2019 to Kshs.11,896,077 as at 30 June, 2020. Non-payment of the salary arrears contravenes Section 18(2)(c) of Employment Act Chapter 226 of 2007 which states that "Wages and salaries shall be deemed to be due in the case of an employee employed for a period exceeding one month, at the end of each month or part thereof. "In addition, Section 3.9.2 of MIWASCO Human Resource Policies and Procedures Manual states "every employee shall be paid a salary at the end of each month.

Further, the trade and other payables balance of Kshs.46,928,659 includes outstanding audit fees of Kshs.3,056,000 (2018/2019 - Kshs.2,824,000). No explanation was given for failure to pay the audit fees owed to the Office of the Auditor General.

Consequently, the Management was in breach of the law.

2.0 Unremitted Statutory Deductions

Note 22 to the financial statements reflects Kshs.46,928,659 as trade and other payables, which includes an amount of Kshs.3,797,591 which was deducted from employees' salaries as follows: Pay as You Earn-Kshs.3,044,691; NSSF-Kshs.712,800 and Withholding Tax-Kshs.40,100. These statutory deductions had not been remitted to the relevant bodies and were outstanding for more than sixty (60) months by 30 June, 2020. Non-remittance of the statutory deductions is a breach of law which may attract penalties and interest.

3.0 Un-cleared Agency Account

Note 23 to the financial statement reflect agency account balance of Kshs.10,454,259 which comprise of Kshs.7,995,096 and Kshs2,459,163 which were due to Lake Victoria South Water Service Board (LVSWSB) and Water Service Regulatory Board (WASREB), respectively. No satisfactory explanation was given for failure by the Company to meet the cost of all the levies within the stipulated timeline.

Consequently, the Management is in breach of law.

4.0 Irregular Recruitment of Staff

Note 8 to the financial statement reflects Kshs.10,214,150 in respect of personnel and establishment costs which includes salaries and wages of Kshs.8,631,000 which further include Kshs.1,820,000 paid to thirteen (13) newly recruited employees. A perusal of the personnel records maintained by the human resources department revealed the following anomalies:

- i. There was no advertisement for staff and therefore the requirements and competencies for the posts could not be confirmed.
- ii. Records relating to vacant posts such as applications, shortlisting of candidates, interviews conducted and selection of successful candidates were not presented for audit review.

Therefore, the Management contravened Section 65 of the County Governments Act, 2012 which provides for open and transparent recruitment process of public servants.

Consequently, the Company was in breach of the law.

5.0 Over Commitment of Salary

Note 8 to the financial statement reflects Kshs.10,214,150 in respect of personnel and establishment costs which further includes salaries and wages of Kshs.8,631,000. A review of the Company payroll revealed that forty eight (48) employees received net pay of below a third contrary to the provisions of Section 19(3) of the Employment Act, 2007 which states that, "without prejudice to any right of recovery of any debt due, and notwithstanding the provisions of any other written law, the total amount of all

deductions which may be made by an employer from the wages of his employee at any one time shall not exceed two thirds”.

Consequently, the Company Management was breach of the law.

6.0 Non-Revenue Water (NRW)

During the year, the Company produced 315,583 cubic meters (m³) of water. However, only 173,663 m³ were billed to customers. The balance of 141,920 m³ or 55% of the total volume represented Non-Revenue Water (NRW) which is 30% above the allowable loss of 25% in accordance with the Water Services Regulatory Board guidelines. The NRW of 141,920 m³ may have resulted in loss of sales estimated at Kshs.6,724,169 at the average rate of Kshs.47.38 per m³. This is also an indication of lack efficiency and effectiveness in the use of public resources. No evidence was provided for efforts by the Company to address the situation.

In the circumstances, the Kshs.6,724,169 level of NRW may negatively impact on the Company's profitability and its long-term sustainability.

7.0 Lack of Staff Ethnic Diversity

A review of the of personnel records indicated that Company had a staff composition of 58 out of which 37 or 64% comprises of members of the ethnic community dominant in the county. This is contrary to Section 65(1) of the County Government Act, 2012 which require that at least thirty percent of the vacant post at entry level are filled by candidates who are not from the dominant ethnic community in the County.

Consequently, the Management is 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 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 processes and systems of internal control, risk management and governance were

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

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

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

- (i) I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of my audit;
- (ii) In my opinion, proper books of account have been kept by the Company, so far as appears from the examination of those books; and
- (iii) The Company's statement of financial position and statement of comprehensive income are in agreement with books of account.

Responsibilities of Management and the Board of Directors

Management 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, 2015 and, for maintaining effective internal control as the 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 governance.

In preparing the financial statements, Management 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 Management is aware of the intention to liquidate the Company or to cease operations.

Management 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 Management 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.

The Board of Directors is responsible for overseeing the Company's 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 review 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.

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 Management.
- Conclude on the appropriateness of the Management' 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 the 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

08 February, 2022

MIGORI COUNTY WATER AND SANITATION COMPANY LTD

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

STATEMENT OF FINANCIAL POSITION FOR THE YEAR ENDED 30th JUNE 2020

	Note	2019/20 Kshs	2018/19 Kshs
ASSETS			
Non- Current Assets			
Property, Plant and Equipment	14	56,848,632	63,206,345
Total Non- Current Assets		<u>56,848,632</u>	<u>63,206,345</u>
Intangible Assets			
Billing Software	15	229,716	255,240
Total Non-Current Assets		<u>57,078,348</u>	<u>63,461,585</u>
Current Assets			
Inventories	16	2,829,460	1,824,400
Trade and other receivables	17	34,680,390	32,276,271
Bank and cash balances	18	315,552	483,398
Total Current Assets		<u>38,037,277</u>	<u>34,584,069</u>
TOTAL ASSETS		<u>94,903,751</u>	<u>98,045,654</u>
EQUITY AND LIABILITIES			
Capital and Reserves			
Issued Capital	19	100,000	100,000
Capital Reserves	20	77,354,669	77,354,669
Revenue Reserves	21	(45,348,066)	(34,448,829)
Capital and Reserves		<u>32,106,603</u>	<u>43,005,840</u>
Current Liabilities			
Trade and other Payables	22	46,928,659	40,352,721
Agency Account	23	10,454,258	9,589,162
Customer Deposits	24	5,414,231	5,097,931
Total Current Liabilities		<u>62,797,148</u>	<u>55,039,814</u>
TOTAL EQUITY AND LIABILITIES		<u>94,903,751</u>	<u>98,045,654</u>

The financial statements set out on pages 22 to 26 were approved by the Board on 4th September 2020 and signed on its behalf by:



Chairman

Date 4/9/2020



Managing Director

Date 4/9/2020

MIGORI COUNTY WATER AND SANITATION COMPANY LTD

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

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

	Share capital (KSHS)	Capital Reserve (KSHS)	Revenue Reserve (KSHS)	Total (KSHS)
Notes	18	19	20	
As at July 1 st 2019	100,000	63,544,286	(9,205,997)	54,438,289
Profit/(Loss) attributed to Shareholders			(11,247,880)	(11,247,880)
Share capital	100,000			100,000
Grants from Water Sector Trust Fund		13,810,383		13,810,383
As at June 30 th 2018	100,000	77,354,669	(20,453,877)	57,000,792
As at July 1 st 2018	100,000	77,354,669	(20,453,877)	57,000,792
Profit/ (Loss) attributed to Shareholders			(13,994,952)	(13,994,952)
Share capital	100,000			
As at June 30 th 2019	100,000	77,354,669	(34,448,829)	43,005,840
As at July 1 st 2019	100,000	77,354,669	(34,448,829)	43,005,840
Profit/ (Loss) attributed to Shareholders			(10,899,237)	(10,899,237)
Share capital	100,000			
As at June 30 th 2020	100,000	77,354,669	(45,348,066)	32,106,603

MIGORI COUNTY WATER AND SANITATION COMPANY LTD

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

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

	Note	2019/20 Kshs	2018/19 Kshs
REVENUES			
Water Sales	3	14,953,235	15,769,344
Grants from Government	4	10,415,902	24,484,560
Income from commercial vehicles	5	3,844,600	4,227,200
Other Income	6	271,295	244,854
TOTAL REVENUES		29,485,032	44,725,958
OPERATING EXPENSES			
Production Costs	7	17,902,727	35,315,117
Personnel & Establishment Costs	8	10,214,150	10,189,250
General Administration Costs	9	10,980,436	12,162,510
Directors Emoluments	10	891,900	600,000
TOTAL OPERATING EXPENSES		39,989,213	58,266,877
OPERATING PROFIT/ (LOSS)		(10,504,181)	(13,540,919)
Finance Costs	11	163,056	222,033
Audit Fee	12	232,000	232,000
PROFIT/ (LOSS) BEFORE TAXATION		(10,899,237)	(13,994,952)
INCOME TAX EXPENSE	13	-	-
PROFIT/ (LOSS) AFTER TAXATION		(10,899,237)	(13,994,952)

The notes set out on pages 27 to 52 form an integral part of the Financial Statements.

MIGORI COUNTY WATER AND SANITATION COMPANY LTD

Reports and Financial Statements

For the year ended June 30, 2020

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

	Note	2019/20 Kshs.	2018/19 Kshs.
Cash absorbed from Operations			
Reconciliation of operating Profit/ loss to Cash generated from/ (used in) operations			
Surplus/ Deficit for the year		(10,899,237)	(13,994,952)
Adjustment for:			
Amortisation - Software	15	25,524	28,360
Depreciation – Water Project	14	6,172,322	6,858,136
Depreciation – Water Meters	14	185,391	211,875
Outflows for asset acquisition	14	-	(4,846,646)
Outflows for water meter purchase	14	-	(1,695,000)
Operating loss before working capital changes		(4,516,000)	(13,438,337)
Working Capital Changes			
(Increase)/decrease in inventories	16	(1,050,060)	(1,773,850)
(Increase)/ decrease in trade and other receivables	17	(2,615,993)	(5,468,049)
Increase/(decrease) in trade and other payables	22	6,832,811	14,205,401
Increase/(decrease) in Agency account	23	865,096	1,167,939
		4,031,854	8,131,441
CASH GENERATED FROM OPERATING ACTIVITIES		<u>(484,146)</u>	<u>(5,306,785)</u>
FINANCING ACTIVITIES			
Revenue from Customer Deposit		316,300	247,000
Revenue from grants		-	-
Net cash generated from Financing activities		<u>316,300</u>	<u>247,000</u>
(DECREASE)/INCREASE IN CASH AND CASH EQUIVALENT		(167,846)	(5,059,785)
CASH AND CASH EQUIVALENTS AT START OF YEAR		483,398	5,543,183
CASH AND CASH EQUIVALENTS AT END OF THE YEAR		<u><u>315,552</u></u>	<u><u>483,398</u></u>

MIGORI COUNTY WATER AND SANITATION COMPANY LTD

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

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

	ORIGINAL BUDGET 2019/2020	ADJUSTED BUDGET 2019/2020	FINAL BUDGET 2019/2020	ACTUAL ON COMPARABLE BASIS 2019/20	PERFORMANCE DIFFERENCE 2019/20
Revenue					
Water sales	20,845,000	0	20,845,000	14,953,235	5,891,765
Exhauster revenue	3,300,000	0	3,300,000	3,039,300	260,700
Water tanker revenue	3,660,000	0	3,660,000	669,300	2,990,700
Excavator revenue	3,865,000	0	3,865,000	136,000	3,729,000
Government grants	37,000,000	0	37,000,000	10,415,902	26,584,098
Miscellaneous receipts	1,265,000	0	1,265,000	271,295	993,705
Total Revenue	69,935,000	0	69,935,000	29,485,032	40,449,968
Expenses					
Administrative Expenses	10,047,000	0	10,047,000	3,281,852	6,082,905
Personnel costs	9,245,000	0	9,245,000	10,214,150	-969,150
Production Expenses	55,165,000	0	55,165,000	17,902,727	37,262,273
Directors Expenses	1,252,000	0	1,252,000	891,900	360,100
Total Expenses	75,709,000	0	75,709,000	32,290,628	43,418,372

RECONCILIATION OF ACTUAL AMOUNTS TO THE COMPREHENSIVE INCOME STATEMENT

	KSHS	KSHS
Actual amounts expenditure balance as at 30 th June 2020		32,290,628
<u>Add unpaid amounts</u>		
Provision for depreciation (Projects/Meters)	6,357,713	
Provision for bad debts	1,315,348	
Amortisation of billing software	25,524	7,698,585
Comprehensive income statement as at 30th June 2020		<u>39,989,213</u>

MIGORI COUNTY WATER AND SANITATION COMPANY LTD

Reports and Financial Statements

For the year ended June 30, 2020

NOTES TO THE FINANCIAL STATEMENTS

SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES

1. 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 entity.

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

2. Adoption of new and revised standards

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

Standard/Amendment to a standard	Effective date	Impact
IFRS 14 <i>Regulatory Deferral Accounts (issued in January 2014)</i>	1 st Jan 2016	The new standard, effective for annual accounting periods beginning on or after 1 January 2016, defines a regulatory deferral account balance and allows entities to continue to apply their existing policy for regulatory deferral account balances, but requires certain disclosures. This had no impact to the company.
Amendments to IFRS 11 titled <i>Accounting for Acquisitions of Interests in Joint Operations (issued in May 2014)</i>	1 st Jan 2016	The amendments, require an acquirer of an interest in a joint operation in which the activity constitutes a business (as defined in IFRS 3) to apply all of the business combinations accounting principles and disclosure in IFRS 3 and other IFRSs, except for those principles that conflict with the guidance in IFRS 11. The amendments apply both to the initial acquisition of an interest in a joint operation, and the acquisition of an additional interest in a joint operation (in the latter case, previously held interests are not re-measured) This had no impact to the company

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Standard/Amendment to a standard	Effective date	Impact
Amendments to IAS 16 and IAS 38 titled <i>Clarification of Acceptable Methods of Depreciation and Amortisation (issued in May 2014)</i>	1 st Jan 2016	The amendments add guidance and clarify that (i) the use of revenue-based methods to calculate the depreciation of an asset is not appropriate because revenue generated by an activity that includes the use of an asset generally reflects factors other than the consumption of the economic benefits embodied in the asset, and (ii) revenue is generally presumed to be an inappropriate basis for measuring the consumption of the economic benefits embodied in an intangible asset; however, this presumption can be rebutted in certain limited circumstances. This had no impact to the company
Amendments to IAS 16 and IAS 41 titled <i>Agriculture: Bearer Plants (issued in June 2014)</i>	1 st Jan 2016	The amendments, define bearer plants – ie living plants which are used solely to grow produce over several periods and usually scrapped at the end of their productive lives (eg grape vines, rubber trees, oil palms) - and include them within IAS 16’s scope while the produce growing on bearer plants remains within the scope of IAS 41. This had no impact to the company
Amendments to IAS 27 titled <i>Equity Method in Separate Financial Statements (issued in August 2014)</i>	1 st Jan 2016	The amendments reinstate the equity method option allowing entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. This had no impact to the company
Amendment to IAS 19 (<i>Annual Improvements to IFRSs 2012–2014 Cycle , issued in September 2014</i>)	1 st Jan 2016	The amendment, clarifies that the high quality corporate bonds used in estimating the discount rate for post-employment benefits should be denominated in the same currency as the benefits to be paid. This had no impact to the company
Amendment to IFRS 5 (<i>Annual Improvements to IFRSs 2012–2014 Cycle ,</i>	1 st Jan 2016	The amendment adds specific guidance when an entity reclassifies an asset (or a disposal group) from held for sale to held for distribution to owners, or vice versa, and for

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Standard/Amendment to a standard	Effective date	Impact
<i>issued in September 2014)</i>		cases where held-for-distribution accounting is discontinued. This had no impact to the company
Amendment to IFRS 7 <i>(Annual Improvements to IFRSs 2012–2014 Cycle , issued in September 2014</i>	1 st Jan 2016	The amendment, applicable to annual periods beginning on or after 1 January 2016, adds guidance to clarify whether a servicing contract is continuing involvement in a transferred asset. This had no impact to the company
Amendments to IFRS 10, IFRS 12 and IAS 28 titled <i>Investment Entities: Applying the Consolidation Exception (issued in December 2014)</i>	1 st Jan 2016	The amendments clarify the application of the consolidation exception for investment entities and their subsidiaries. This had no impact to the company
Amendments to IAS 1 titled <i>Disclosure Initiative (issued in December 2014)</i>	1 st Jan 2016	The amendments, clarify guidance on materiality and aggregation, the presentation of subtotals, the structure of financial statements and the disclosure of accounting policies. This had no impact to the company
<i>Recognition of Deferred Tax Assets for Unrealised Losses (Amendments to IAS 12</i>	1 st Jan 2017	<p>The amendments clarify that:</p> <ul style="list-style-type: none"> • Unrealised losses on debt instruments measured at fair value and measured at cost for tax purposes give rise to a deductible temporary difference regardless of whether the debt instrument's holder expects to recover the carrying amount of the debt instrument by sale or by use. • The carrying amount of an asset does not limit the estimation of probable future taxable profits. • Estimates for future taxable profits exclude tax deductions resulting from the reversal of deductible temporary differences. <p>An entity assesses a deferred tax asset in combination with other deferred tax assets. Where tax law restricts the utilisation of tax losses, an entity would assess a deferred tax asset in combination with other deferred tax</p>

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Standard/Amendment to a standard	Effective date	Impact
		assets of the same type.
<i>Disclosure Initiative (Amendments to IAS 7: Statement of Cash flows)</i>	1 st Jan 2017	The amendments' objective is that entities shall provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities. To achieve this objective, the IASB requires that the following changes in liabilities arising from financing activities are disclosed (to the extent necessary): (i) changes from financing cash flows; (ii) changes arising from obtaining or losing control of subsidiaries or other businesses; (iii) the effect of changes in foreign exchange rates; (iv) changes in fair values; and (v) other changes. This had no impact to the company
<i>Annual Improvements to IFRS Standards 2014–2016 Cycle – Amendments to IFRS 12 Disclosure of interests in other entities</i>	1 st Jan 2017	Clarified the scope of the standard by specifying that the disclosure requirements in the standard, except for those in paragraphs B10–B16, apply to an entity's interests listed in paragraph 5 that are classified as held for sale, as held for distribution or as discontinued operations in accordance with <u>IFRS 5 Non-current Assets Held for Sale and Discontinued Operations</u> . This had no impact to the company

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(ii) New and amended standards and interpretations in issue but not yet effective in the year ended 30 June 2018

Standard	Effective Date	Impact
IFRS 15 <i>Revenue from Contracts with Customers</i> (issued in May 2014)	1 Jan 2018	The new standard, replaces IAS 11, IAS 18 and their interpretations (SIC-31 and IFRIC 13, 15 and 18). It establishes a single and comprehensive framework for revenue recognition to apply consistently across transactions, industries and capital markets, with a core principle (based on a five-step model to be applied to all contracts with customers), enhanced disclosures, and new or improved guidance.
IFRS 9 <i>Financial Instruments</i> (issued in July 2014)	1 Jan 2018	<p>This standard will replace IAS 39 (and all the previous versions of IFRS 9). It contains requirements for the classification and measurement of financial assets and financial liabilities, impairment, hedge accounting and derecognition:</p> <ul style="list-style-type: none"> • IFRS 9 requires all recognised financial assets to be subsequently measured at amortised cost or fair value (through profit or loss or through other comprehensive income), depending on their classification by reference to the business model within which they are held and their contractual cash flow characteristics. <ul style="list-style-type: none"> ◦ For financial liabilities, the most significant effect of IFRS 9 relates to cases where the fair value option is taken: the amount of change in fair value of a financial liability designated as at fair value through profit or loss that is attributable to changes in the credit risk of that liability is recognised in other comprehensive income (rather than in profit or loss), unless this creates an accounting mismatch • For the impairment of financial assets, IFRS 9 introduces an “expected credit loss” model based on the concept of providing for expected losses at inception of a contract; it will no longer be necessary for there to be objective evidence of impairment before a credit loss is recognised. • For hedge accounting, IFRS 9 introduces a substantial overhaul allowing financial statements to better reflect how risk management activities are undertaken when hedging financial and nonfinancial risk exposures. • The derecognition provisions are carried over almost unchanged from IAS 39.

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Standard	Effective Date	Impact
IFRS 16: <i>Leases</i> (issued in January 2016)	1 Jan 2019	The new standard introduces a new lessee accounting model, and will require 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 will be 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. This had no effect on the company

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

iii) Early adoption of standards

The entity did not early – adopt any new or amended standards in year 2019/2020 financial year.

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

a. Revenue recognition

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

- a. **Revenue from the sale of goods and services** is recognised in the year in which the entity delivers products to the customer, the customer has accepted the products and collectability of the related receivables is reasonably assured.
- b. **Grants from Government** are recognised in the year in which the entity actually receives such grants.
- c. **Other income** is recognised as it accrues.

SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES (continued)

b. In-kind contributions

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

c. Property, plant and equipment

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

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

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

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

d. Depreciation and impairment of property, plant and equipment

Freehold land and capital work in progress are not depreciated. Capital work in progress relates mainly to the 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 reducing balance 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 nil in the year of asset disposal

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SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES (continued)

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

e. Intangible assets

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

f. Amortisation and impairment of intangible assets

Amortisation is calculated on the reducing balance basis over the estimated useful life of computer software of three years.

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

g. Investment property

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

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

h. Finance and operating leases

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

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

i. Fixed interest investments (bonds)

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

SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES (continued)

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 realisable value. The cost of inventories comprises purchase price, import duties, transportation and handing charges, and is determined on the moving average price method.

m. Trade and other receivables

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

n. Taxation

Current income tax

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

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.

MIGORI COUNTY WATER AND SANITATION COMPANY LTD

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

SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES (continued)

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.

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.

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Reports and Financial Statements

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SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES (continued)

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 financial year. For the purposes of these financial statements, cash and cash equivalents also include short term cash imprests and advances to authorised public officers and/or institutions which were not surrendered or accounted for at the end of the financial year.

p. Borrowings

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

q. Trade and other payables

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

r. Retirement benefit obligations

The company contributes to the statutory National Social Security Fund (NSSF). This is a defined contribution scheme registered under the National Social Security Act. The company's obligation under the scheme is limited to specific contributions legislated from time to time and is currently at Kshs.200 per employee per month.

s. Provision for staff leave pay

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

t. Exchange rate differences

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

MIGORI COUNTY WATER AND SANITATION COMPANY LTD

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

SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES (continued)

u. Budget information

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.

The original and final budget for this financial year was approved by the Board of Directors in a full board meeting held on 22nd May 2020.

v. Comparative figures

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

w. 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.

x. Critical Accounting Judgements and Key Sources of Estimation Uncertainty

In the process of applying the company's accounting policies, the directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources.

The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

The key areas of judgement in applying the entities accounting policies are dealt with below:

a) Critical judgements in applying accounting policies

There are no critical judgements, apart from those involving estimations (see b below), that the directors have made in the process of applying the company's accounting policies and that have the most significant effect on the amounts recognised in financial statements.

MIGORI COUNTY WATER AND SANITATION COMPANY LTD

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SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES (continued)

b) Key sources of estimation uncertainty

Impairment losses

At the end of each reporting period, the company reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss.

If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. Where it is not possible to estimate the recoverable amount of an individual asset, the company estimates the recoverable amount of the cash generating unit to which the asset belongs.

Property, plant, equipment and intangible assets

Critical estimates are made by the directors in determining the depreciation rates for property, plant equipment and intangible assets.

Contingent liabilities

The company is exposed to various contingent liabilities in the normal course of business including a number of legal cases. The directors evaluate the status of these exposures on a regular basis to assess the probability of the company incurring related liabilities. However provisions are only made in the financial statements where, based on the director's evaluations, a present obligation has been established.

y. Going Concern

The Company made a loss of Kshs. 10,899,237 (2018/2019 Kshs. 13,903,952) during the year which was added to accumulated losses totalling to Kshs. 45,348,066. Though this condition indicates doubts as to the going concern status of the Company, there's a marked comparative improvement in 2019/2020 FY as compared to loss made in 2018/2019 FY. Through continuous support from Migori County Government, the management believes that the Company will remain a going concern as it undertakes a growth trajectory going forward.

Based on the above, the Directors believe that the Company will continue in operational existence at least for 12 months from the date of these financial statements. The Directors believe that it is appropriate to prepare the Company's financial statements on a going concern basis, which assumes that the Company will continue to meet its obligations as they fall due for the foreseeable future.

MIGORI COUNTY WATER AND SANITATION COMPANY LTD**Reports and Financial Statements****For the year ended June 30, 2020****NOTES TO THE FINANCIAL STATEMENTS**

	2019/20	2018/19
	Kshs	Kshs
3 SALES		
Migori Water Supply	11,183,292	13,694,866
Rongo Water Supply	1,375,568	1,163,488
Kehancha Water Supply	122,420	-
Isebania Water Supply	990,240	541,830
Awendo Water Supply	558,895	125,225
Uriri Water Supply	700,870	243,935
Kegonga Water Supply	21,950	-
	<u>14,953,235</u>	<u>15,769,344</u>
4 GRANTS FROM GOVERNMENT		
Electricity- Migori County Government	8,694,402	14,738,560
Water treatment chemicals- Migori County Government	1,516,500	9,746,000
Oyani In-take repairs- LVSWWDA	205,000	-
	<u>10,415,902</u>	<u>24,484,560</u>
5 INCOME FROM COMMERCIAL VEHICLES		
Exhauster Services	3,039,300	2,346,300
Excavator Services	136,000	167,100
Water Tanker Services	669,300	1,424,500
	<u>3,844,600</u>	<u>3,937,900</u>
6 OTHER INCOME		
Other miscellaneous receipts	35,545	244,854
Water vendors	235,750	289,300
	<u>271,295</u>	<u>534,154</u>

Miscellaneous receipts include the collection from survey fees for new connections and, reconnection fees

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NOTES TO THE FINANCIAL STATEMENTS

	2019/20	2018/19
	Kshs	Kshs
7 PRODUCTION COSTS		
Electricity	11,345,418	19,010,673
Chemicals	1,999,000	9,746,000
Casual wages	184,950	203,650
Repairs of water Supplies	1,678,480	2,682,244
Motor vehicle repairs	945,653	826,450
Fuel	1,640,387	2,146,500
Servicing of water pumps	2,000	699,600
Servicing of Meters	105,839	
Protective Clothing	1,000	-
	<u>17,902,727</u>	<u>35,315,117</u>
8 PERSONNEL & ESTABLISHMENT COSTS		
Salaries and wages	8,631,000	8,633,000
Gratuity	803,400	924,150
Leave allowance	324,700	342,600
Other allowances	455,050	289,500
Staff training	-	-
	<u>10,214,150</u>	<u>10,189,250</u>
The average number of employees at the end of the year was:		
3 year contract employees (Management)	3	6
1 year contract employees	<u>53</u>	<u>44</u>
Total number of employees	<u>56</u>	<u>50</u>
9 GENERAL ADMINISTRATIVE COSTS		
LVSWWDA & WASREB Levy	895,082	1,167,939
WARMA Levy	360,000	217,401
Office Electricity	119,170	113,941
Computer Charges	-	31,000
Advertisements	151,900	258,940
Entertainment	108,400	88,900
Donations	-	12,000
Postage	4,265	500
Printing and stationery	399,390	254,215
Motor Vehicle Insurance	94,307	36,563
Duty Travel & Subsistence Allowance	321,500	816,250
Sewerage Dumping Fee	50,000	60,000
Licenses	-	8,000
Strategic business plan	-	-
Stakeholder's meetings & exhibits	60,100	128,000
Office repairs	500	11,000
Motor vehicle inspection charges	16,300	2,600

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

	2019/20 Kshs	2018/19 Kshs
Office tea & cleaning	17,800	31,960
Subscriptions	-	-
Secretarial Services	193,025	326,020
E-mail & Internet	83,185	73,408
Website expenses	33,000	25,000
Office networking	-	7,000
Communication	25,765	3,000
Transport hire	26,400	58,000
NSSF Employer Contribution	127,200	117,600
Staff uniform & Identification tags	42,600	22,000
Exhausting chemicals	51,100	1,600
Other expenses	49,250	41,000
Provision for bad debts	1,315,347	1,256,238
Amortisation (Billing software)	25,524	28,360
Depreciation (Water Project)	6,357,713	6,858,136
Depreciation (Water Meters)	185,391	105,938
Management Committee	83,000	-
WASREB Licence	100,000	-
Legal Fees	15,000	-
Computer/Printer Maintenance	20,800	-
	10,980,436	12,162,510
	=====	=====
10 DIRECTORS EMOLUMENTS		
Board Allowance	61,100	228,400
Board Committee Allowance	192,000	100,000
Special Board Meeting Allowance	197,300	132,100
Board Travel and Entertainment	80,700	42,000
Board Refreshment	47,850	11,500
Board Stationery	2,950	6,000
Board Airtime	160,000	20,000
Board Chairman Honoraria	150,000	60,000
	891,900	600,000
	=====	=====
11 FINANCE COSTS		
Bank Charges	163,056	222,033
	163,056	222,033
	=====	=====

MIGORI COUNTY WATER AND SANITATION COMPANY LTD

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For the year ended June 30, 2020

NOTES TO THE FINANCIAL STATEMENTS (Continued)

	2019/20	2018/19
	Kshs	Kshs
12 AUDIT FEE		
Audit fee	232,000	232,000
	<u>232,000</u>	<u>232,000</u>

13 TAXATION

No provision has been made in these financial statements in view of the losses incurred.

14 PROPERTY, PLANT AND EQUIPMENT

FIXED ASSET MOVEMENT SCHEDULE AS AT 30/06/2020

	FIXED ASSET MOVEMENT SCHEDULE					
	Upper Oruba Water Project (Kshs)	Rongo Riosiri Water Project (Kshs)	Uriri Bware Water Project (Kshs)	Kegonga Water Project (Kshs)	Water Meters (Kshs)	Total (Kshs)
<u>Historical Cost/Revaluations</u>						
As at 1st July 2018	16,690,912	17,402,943	15,558,480	17,483,649	0	67,135,984
Additions	-	1,632,953	1,603,656	1,380,037	1,695,000	6,311,646
Disposals	-	-	-	-	-	-
As at 30th June 2019	16,690,912	19,035,896	17,162,136	18,863,686	1,695,000	73,447,630
<u>Depreciation</u>						
As at 1st July 2018	3,171,273	-	-	-	-	3,171,273
Charge for the year	1,351,964	1,903,590	1,716,214	1,886,369	211,875	7,070,012
As at June 30th 2019	4,523,237	1,903,590	1,716,214	1,886,369	211,875	10,241,285
Net Book Value as at 30 June 2019	12,167,675	17,132,306	15,445,922	16,977,317	1,483,125	63,206,345
<u>Historical Cost/Revaluations</u>						
As at 1st July 2019	16,690,912	19,035,896	17,162,136	18,863,686	1,695,000	61,723,221
Additions	-	-	-	-	-	-
Disposals	-	-	-	-	-	-
As at 30th June 2020	16,690,912	19,035,896	17,162,136	18,863,686	1,695,000	73,447,630
<u>Depreciation</u>						
As at 1st July 2019	4,523,237	1,903,590	1,716,214	1,886,369	211,875	10,241,285
Charge for the year	1,216,767	1,713,231	1,544,592	1,697,732	185,391	6,357,713
As at 30th June 2020	5,740,004	3,616,821	3,260,806	3,584,101	397,266	16,598,998
Net Book Value as at 30th June 2020	10,950,908	15,419,075	13,901,330	15,279,585	1,297,734	56,848,632

Full year depreciation is charged on the year of purchase (asset completion) at 10% applied on a reducing balance basis

Full year depreciation is charged on the year of purchase of Water Meters at 12.5% applied on a reducing balance basis

MIGORI COUNTY WATER AND SANITATION COMPANY LTD

**Reports and Financial Statements
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**15. INTANGIBLE ASSET MOVEMENT SCHEDULE
AS AT 30/06/2020**

Billing Software	Kshs
As at July 1st 2018	53,600
Additions	230,000
Disposals	-
As at June 30th 2018	283,600
Depreciation	
As at July 1 st 2018	126,400
Charge for the year	28,360
As at June 30 th 2019	154,760
Net Book Value	255,240
As at June 30th 2019	255,240
As at July 1st 2019	255,240
Additions	-
Disposals	-
As at June 30th 2020	255,240
Depreciation	
As at July 1 st 2019	154,760
Charge for the year	25,524
As at June 30 th 2020	180,284
Net Book Value	255,240
As at June 30th 2010	229,716

16 INVENTORIES

Water treatment Chemicals	2,829,460	1,824,400
	2,829,460	1,824,400

Inventories have been declared less Kshs. 105,940.00 worth of expired Chemicals

17 TRADE AND OTHER RECEIVABLES

Water sales receivables	23,055,571	23,116,063
Exhauster receivables	161,000	108,000
Excavator receivables	61,000	61,000
Water tanker receivables	670,450	683,450
	23,948,021	23,968,513
 Migori County Government	 10,732,369	 8,307,758
	10,732,369	8,307,758
 Trade and other receivables	 <u>34,680,390</u>	 <u>32,276,271</u>

MIGORI COUNTY WATER AND SANITATION COMPANY LTD

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

18 BANK AND CASH BALANCES

ACCOUNT NAME	BANK	ACCOUNT NO.	2019/2020	2018/2019
			Kshs	Kshs
M-PESA Pay Bill		827780	61,839	13,511
Revenue Account	KCB	1106248791	115,142	19,905
Deposit Account	KCB	1106253906	129,594	431,815
Expenditure Account	KCB	1106254058	8,856	18,167
Rongo Riosiri Project	KCB	1182014992	121	-
Kegonga Project	KCB	1182015336	-	-
Uriri Bware Project	KCB	1182015158	-	-
TOTAL			315,552	483,398

19 SHARE CAPITAL

Authorised, Issued, Ordinary shares 5000 of 20/= each

100,000 100,000

100,000

100,000

20 CAPITAL RESERVES

Bal b/f

77,354,669

77,354,669

Grants received from Water Services Trust Fund

-

-

77,354,669

77,354,669

21 REVENUE RESERVES

These are accumulated losses

Balance b/d

(34,448,829)

(20,453,877)

Profit/ Loss for the year

(10,899,237)

(13,994,952)

(45,348,066)

(34,448,829)

MIGORI COUNTY WATER AND SANITATION COMPANY LTD

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

	2019/20	2018/19
	Kshs.	Kshs.
22 TRADE AND OTHER PAYABLES		
Panafric Insurance	8,400	8,400
Salary Arrears	11,896,077	8,064,234
Board Allowance Arrears	845,500	656,800
P.A.Y.E	3,044,691.60	2,782,152
N.S.S.F	712,800	456,000
N.H.I.F	-	370,200
Withholding Tax	41,400	41,400
Ukulima Sacco	486,982	486,982
WARMA	2,429,895.40	2,459,895
KPLC	10,732,370	8,307,758
Eric Omanje Garage	325,000	325,000
Audit fees	3,056,000	2,824,000
NWC Pension	1,923	1,923
Gratuity Arrears	4,206,504	3,403,104
Leave allowance	655,300	342,600
Marowa Stores Ltd	174,740	174,740
Lavington Security Ltd	502,500	502,500
Migori Motor Vehicle Garage	16,750	16,750
Bumandoh Engineering Co. Ltd	160,000	160,000
Girango Guest House	93,560	93,560
Kirui Registrar's & CPS	845,945.44	905,900
Kenya Bureau of Standards	12,412	12,412
Pan Africa Chemicals Ltd	414,330	414,330
Commeatus Solution Ltd	229,000	229,000
Hyrise Infopath Complex	104,490	104,490
Majay Investments Ltd	463,000	463,000
Think Tank Strategic Consultants	70,000	70,000
Bulbul Construction Ltd	155,200	155,200
Nation Media Group	215,760	215,760
Digilink Enterprises	399,900	399,900
Kel Chemicals	2,200,340	2,200,340
Agure & Co. Advocates	57,000	57,000
Keneli Engineering	68,400	68,400
Allaxis Hotel Ltd	155,510	155,510
Gusii Water & Sanitation Co. Ltd	110,000	110,000
Staff welfare	322,000	231,900
Higher Education Loans Board	169,641.84	168,158
Jonya Agencies	232,000	232,000
Migori Petro Service Station	50,352	50,352

MIGORI COUNTY WATER AND SANITATION COMPANY LTD

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For the year ended June 30, 2020

NOTES TO THE FINANCIAL STATEMENTS (Continued)

	2019/2020	2018/2019
	Kshs	Kshs
Reyvellor Enterprises	26,000	22,000
Eremo Stores	60,600	60,600
Southern Sports	-	14,400
Kinetics Engineering	102,000	102,000
Geekiba Electricals	499,600	499,600
DAI Global LLC	-	1,695,000
Colena	299,910	-
Kamuraya	28,100	-
Desert Star	121,570	-
Safaricom	16,495	-
Congratec	18,753	-
Oyar Hardware	27,500	-
Vartis Insurance	62,456	-
	<u>46,928,659</u>	<u>40,352,721</u>

N/B: Amount listed as payable to KPLC relates to amount to be paid by the Migori County Government as electricity bills.

MIGORI COUNTY WATER AND SANITATION COMPANY LTD

Reports and Financial Statements

For the year ended June 30, 2020

NOTES TO THE FINANCIAL STATEMENTS (Continued)

	2019/20	2018/19
	Kshs	Kshs
23 AGENCY ACCOUNT		
LVSWSB		
Balance b/f	7,579,656	6,611,683
Lease Fees	445,441	967,973
Remittance	30,000	-
	<u>7,995,096</u>	<u>7,579,656</u>
WASREB		
Balance b/f	2,009,511	1,809,539
Lease fees	449,641	199,965
Remittance	-	-
	<u>2,459,162</u>	<u>2,009,504</u>
TOTAL AGENCY FEES	<u><u>10,454,259</u></u>	<u><u>9,589,160</u></u>

The agency account comprises of lease fee that the company should submit to Lake Victoria South Water Services Board at 9% (water sales) up to 31st December 2019, and WASREB at 1% up to December 2019, and at 4% from January 2020 to June 2020.

24 CUSTOMER DEPOSIT		
Balance b/f	5,097,931	4,850,931
Add New Deposits	316,300	247,000
Less deposit refunds	-	-
	<u>5,414,231</u>	<u>5,097,931</u>

MIGORI COUNTY WATER AND SANITATION COMPANY LTD

Reports and Financial Statements

For the year ended June 30, 2020

NOTES TO THE FINANCIAL STATEMENTS (Continued)

25. CONTINGENT LIABILITIES

The company did not have any contingent liabilities in respect of legal claims arising in the ordinary course of business as of date of reporting

26. EARNINGS/LOSS PER SHARE

Earnings/ Loss per share is calculated on the profit/ Loss after tax in each year and on the number of ordinary shares in issue at each balance sheet date. The basic and diluted earnings per share are the same.

27. INCORPORATION

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

28. RELATED PARTY DISCLOSURES

(a) Migori County Government

The Migori County Government is the principal shareholder of Migori County Water and Sanitation Co. Ltd, holding 100% of the entity's equity interest.

Other related parties include:

- i) The Parent County Department;
- ii) Key management;
- iii) Board of Directors;

	2019/20 Kshs	2018/19 Kshs
Transactions with related parties		
(a). Grants from the County Government		
Payment of electricity bills	8,694,402	10,694,407
Purchase of water treatment chemicals	1,516,500	-
Total	<u>10,210,902</u>	<u>10,694,407</u>
(b) Grant from LVSWWDA for Oyani Intake Repairs	205,000	-
Total	<u>10,415,902</u>	<u>10,694,407</u>
(b). Key Management compensation		
Director's emoluments	891,900	893,760
Compensation of the Managing Director	1,080,000	1,500,000
Compensation to key management	990,000	1,220,000
Total	<u>2,961,900</u>	<u>3,613,760</u>

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.

To manage the credit risk, the management undertakes disconnections on a monthly basis to customers who have not paid for their bills by the 15th day of the following month. Customers with credit limit are disconnected when they exceed their credit limit.

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.



MIGORI COUNTY WATER AND SANITATION COMPANY LTD

Reports and Financial Statements

For the year ended June 30, 2020

NOTES TO THE FINANCIAL STATEMENTS (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 Committee.

The company's Internal Audit Department is responsible for the development of detailed risk management policies (subject to review and approval by Audit 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.

MIGORI COUNTY WATER AND SANITATION COMPANY LTD

Reports and Financial Statements

For the year ended June 30, 2020

APPENXIX I

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	Non Payment of Audit Fees	This is as a result of operations for only 4 months in 2019/2020	Lameck Okeyo Head of Finance		June 2021
2	Unpaid for Issued Share Capital	Demand letter already done to the County Government	CECM-Water and Energy		
4	Trade and Other Payables	Aging analysis of Creditors to be done once ERP is in place	Lameck Okeyo Head of Finance		June 2021
9	Board Emoluments	Payments to Board of Directors to be supported adequately	Lameck Okeyo Head of Finance		June 2021
10	Bank and Cash Balances	Bank Balance in Project account not closed to be included in the financial statement	Lameck Okeyo Head of Finance		March 2021
11	Non Payment of Salaries and Statutory Deductions	This is as a result of operations for only 4 months in 2019/2020	Lameck Okeyo Head of Finance		July 2020

MIGORI COUNTY WATER AND SANITATION COMPANY LTD

Reports and Financial Statements

For the year ended June 30, 2020

APPENDIX II: PROJECTS IMPLEMENTED BY THE ENTITY

Projects implemented by the Company and funded by development partners

Project title	Project Number	Donor	Period/duration	Donor commitment	Actual Amount Received	Actual Expenditure	Separate donor reporting required as per the donor agreement (Yes/No)	Consolidated in these financial statements (Yes/No)
Upper Oruba Water Project	MIK/WST F/1/2015	Water Sector Trust Fund	9 months	18,554,445	18,554,445	16,690,912	Yes	Yes
Rongo Riosiri Water Project	RUP/1/W /MIGORI/ MIKUTRA RONGO/15	Water Sector Trust Fund	9 months	18,765,557	19,037,482	19,035,896	Yes	Yes
Uriri Bware Water Project	RUP/1/W /MIGORI/ MIKUTRA /URIRI/ 16	Water Sector Trust Fund	9 months	18,868,374	17,181,066	17,162,136	Yes	Yes
Kegonga Water Project	RUP/1/W /MIGORI/ MIKUTRA KEGONGA /17	Water Sector Trust Fund	9 months	18,498,709	18,876,541	18,863,686	Yes	Yes

MIGORI COUNTY WATER AND SANITATION COMPANY LTD

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APPENDIX III: INTER-ENTITY TRANSFERS

ENTITY NAME:		MIGORI COUNTY WATER AND SANITATION CO. LTD	
Break down of Transfers from Migori County Government			
FY 19/20			
a. Direct Payments			
	Date	Amount (Kshs)	Scheme
Kenya Power & Lighting	9/7/2019	2,242,021	Migori
Kenya Power & Lighting	19/8/2019	62,440	Awendo
Kenya Power & Lighting	4/9/2019	57,200	Ombo Borehole
Kenya Power & Lighting	20/9/2019	48,139	Head office
Kenya Power & Lighting	5/1/2020	42,494	Head office
Kenya Power & Lighting	14/2/2020	3,202,095	Migori
Kenya Power & Lighting	18/2/2020	2,886,590	Migori
Kenya Power & Lighting	10/6/2020	153,423	Migori
	TOTAL	8,694,402	

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

Head of Finance and Commercial Services
Migori County Water and Sanitation Co. Ltd

Head of Accounting Unit
County Department of Water & Energy

Sign

Sign

