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REPORT

OF

THE AUDITOR-GENERAL

ON

**GITHUNGURI WATER AND SANITATION
COMPANY LIMITED**

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

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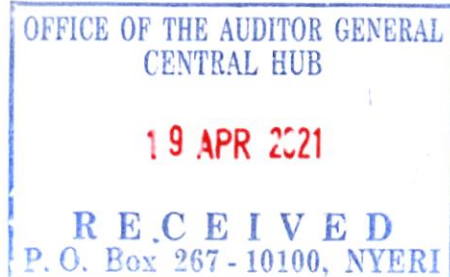


**GITHUNGURI WATER AND SANITATION
COMPANY LIMITED**

ANNUAL REPORTS AND FINANCIAL STATEMENTS

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

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



Githunguri Water & Sanitation Company Ltd

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For the year ended June 30, 2020

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Githunguri Water & Sanitation Company Ltd
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1. KEY ENTITY INFORMATION

Githunguri Water & Sanitation Company Ltd was incorporated under the Companies Act (Cap. 486) on 24th April 2007 and was appointed by Athi Water Services Board (a state corporation) as an agent for the provision of efficient and effective water and sanitation services within Githunguri district & Lower Lari. It is currently 100% owned by County Government of Kiambu.

Principal Activities

The principal activity of the *entity* is provision of water services to residents who are under our area of jurisdiction.

Directors

The Directors who served the entity during the year/period were as follows:

Directors Name	Position	Date of Appointment
1. Prof. Bernard K Njoroge	Chairman	2018
2. Mr. James Muriuki	Member	2018
3. Eng. Andrew Muigai	Member	2018
4. Mr Samuel Gatama	Member	2018
5. Mrs Emma Ng'ang'a	Member	2018
6. Prof. Steven Njuguna	Member	2018
7. Bishop Solomon Waweru	Member	2018
8. Mr Ndungu Wa Munywe	Member	2018
9. Mr Dominic Gachanja	Member	2018
10. Dr Martin Njogu	Member	2018
11. Mr John Mutie	Member	2019

Corporate Secretary

Josephine Muritu
P.O. Box 2344-00900
Kiambu

Registered Office

Githunguri Water & Sanitation Company Ltd
Githunguri Town Next to Police Station
P.O.Box 823 - 00216,
Githunguri

Corporate Headquarters

Githunguri Water & Sanitation Company Ltd
Githunguri Town Next to Police Station
P.O.Box 823 - 00216, Githunguri

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For the year ended June 30, 2020

Corporate Contacts

Telephone: (254) 700484034/731554433
E-mail: githunguriwater@yahoo.com

Corporate Bankers

Kenya Commercial Bank-Githunguri
P.o Box 1 00216
Githunguri

Equity Bank Ltd-Githunguri
P.O Box 11 00216
Githunguri

Kiambu Unity Finance –Kagwe
P.O Box 268-00900
Kiambu

GDC Sacco Ltd-Githunguri
P.o Box 896- 00216
Githunguri

Safaricom Limited
P.O Box 66827 – 00800, Nairobi

Independent Auditors

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

Principal Legal Advisers

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

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2. THE BOARD OF DIRECTORS



1. **Name:** Prof. Eng. Bernard Njoroge
2. **Position:** Chairman
3. **DoA :** 2018
4. **Qualification:** Ph.D Duke University (U.S.A); M.Sc. New Castle Upon Tyne (U.K); B.Sc.(U.O.N.), Civil Engineering Eng.; M.I.E.K.
5. **Work Experience:** DVC Finance University of Nairobi, U.O.N Professor Faculty of Engineering from year 2002







1. **Name:** John Mwivithi Mutie
2. **Position:** Chief Officer Water and Director
3. **DoA:** 1st March 2019
4. **Qualification:** LLB (UoN); CPS(K)
5. **Work Experience:** Worked with the defunct local Authorities as town clerk/County Clerk in various Local Authorities. Served as County Assembly Clerk/ Secretary to County Assembly of Kiambu. Currently on secondment to County Executive as Chief Officer Department of Water, Environment, Energy and Natural Resources. Also assignment Department of Administration and Public Service as the Acting Chief Officer








1. **Name:** Josphine W. Muritu
2. **Position:** Company Secretary
3. **DoA:** 2018
4. **Qualification:** LLB (UoN)
5. **Work Experience:** Worked with Kiambu County Government Senior Legal Counsel, Assistant Director (Quality Assurance, compliance and Accreditation), Assistant Commission Secretary (Legal Affairs), Assistant Counsel Mwaniki & Company Advocates, Counsel Musyimi & Company Advocates




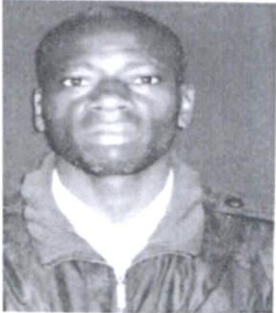
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	<p>1. Name: Prof Steven Njuguna 2. Position: Director 3. DoA : 2018 4. Qualification: Phd, Msc, Bsc(1st Class Hons) Environmental Science, Diploma in Education 5. Work Experience: Kenyatta University, Faculty of Environmental Studies</p>
	<p>1. Name: Mr. James Gitau Muriuki 2. Position: Director 3. DoA : 2018 4. Qualification: Bachelor of Science in Chemistry/Biochemistry, Msc. Environmental Health Engineering Sector: Representative of Water Consumers 5. Work Experience: Ministry of Water and Irrigation, Technical Consultant on Water and Waste water Treatment and Quality Analysis; Environmental Audits, Environmental Impact Assessments (EIA).</p>
	<p>1. Name: Samuel Gatama 2. Position: Director 3. DoA : 2018 4. Qualification: Business man, S I Teacher 5. Work Experience: Retired teacher over 30 Years Experience</p>
	<p>1. Name: Eng. Andrew Muigai 2. Position: Director 3. DoA : 2018 4. Qualification: Bsc Civil Engineering UON 5. Work Experience: Director Kenya Industrial Research and Development Institute Entrepreneur Engineer and Management Consultant</p>

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	<p>1. Name: Emma Waithera Ng'ang'a 2. Position: 3. DoA : 2018 4. Qualification: Msc Corporate Entrepreneurship 5. Work Experience: 40 years' experience in Business and Marketing</p>
	<p>1. Name: Ndung'u Wa Munywe 2. Position: Director 3. DoA : 2018 4. Qualification: Bachelor of Arts, Advanced Public Administration 5. Work Experience: Worked with UON as Senior Administration Assistant. Ministry of Water and Ministry of Commerce</p>
	<p>1. Name: Dominic Gachanja 2. Position: Director 3. DoA : 2018 4. Qualification: Doctor in Pharmacy 5. Work Experience: Businessman Thika, Board Member Land Control Board</p>
	<p>1. Name: Bishop Solomon Waweru 2. Position: Director 3. DoA : 2018 4. Qualification: Retired Public Officer 5. Work Experience: Bishop of A Church- Representative of NGO</p>
	<p>1. Name: Dr. Martin Njogu Mbugua 2. Position: Director 3. DoA : 2018 4. Qualification: Doctor of Philosophy - Chemistry 5. Work Experience: Lecturer and researcher, Department of Chemistry/UoN</p>

MANAGEMENT TEAM

	<p>JOSEPH MWANGI WANJOHI- REGIONAL DIRECTOR</p> <p>Joseph Mwangi holds a BSC in Civil Engineering (JKUAT) He is responsible of monitoring and assessing management’s performance Ensuring that the company complies with the legal and governance framework of the company Ensuring institutional transformation in accordance with corporate strategy</p>
	<p>CHARLES WAHOGO MUIRU - FINANCE & COMMERCIAL MANAGER</p> <p>Holds B.ED Accounts & Economics (U.o.N) and CPA IV Oversees implementation of accounting and financial management system and oversees all the accounting function including; cash flow management, revenue collection, and budgeting</p>
	<p>CPA ALEX MURAGU WARUHIU - ACCOUNTANT/ AG.HUMAN RESOURCE MANAGER</p> <p>Holds CPA(K) and Registered with ICPAK Preparation of reports & Financial statements Preparation of payroll & Logistics issues Human resource function</p>
	<p>JOSEPH MWARI KINGORI- AG. TECHNICAL MANAGER</p> <p>Holds a Diploma in Water Technology Oversee distribution of sustainable & quality water supply and maintenance of distribution networks</p>

3. CHAIRMAN'S STATEMENT

During the financial year a number of achievements was realized which was geared towards improving the performance of the company. These include:

a) Completion of Komothai Water Supply project

The project will go long way in providing adequate water from nyanduma ward to the lower sides of thuita in Komothai ward. Two boreholes namely Kitatina and Thuita are currently being used as standby boreholes and Thuita off take is likely to be decommissioned thus reducing power consumption and reliance on Nairobi water sources.

b) Improvement of Matimbei Weir

With the support of the Board (AWSB), Matimbei weir located in Kiriita Forest was successfully improved and we are now serving Matimbei, Kagaa and Kamburu from this source. However, this dam weir requires to be desilted mechanically to increase storage capacity.

c) Mukuyu Weir Construction

By the closure of the financial year 2019/2020 construction of the weir had been completed. The weir is expected to inject 4000m³/day to a proposed Water Treatment Plant so as to augment water supply for Githunguri urban. Currently, Githunguri relies on Borehole sources. The gravity source and treatment works once complete will help in decommissioning of about three Nairobi off takes hence reduce over reliance on outsourced water from Nairobi off takes. Feasibility study for the Water Treatment Construction has been completed and we are now awaiting the donors' concept to proceed once Danida Government clears the way. It is expected that the implementation works will start by the beginning of 2021.

I would take this opportunity to record my gratitude to my fellow board members for their support and valuable contribution to the company. I would also like to thank the management and the staff of the company for their commitment, strength and dedication towards the company. To our development partners I express my heartfelt gratitude for your continued support. Last but not the least I would also thank our stake holders for their support and loyalty and assure them of our determination to continually improve the quality of our services

Company's Chairman



Prof. Bernard Njoroge

4. REPORT OF THE MANAGING DIRECTOR

At the end of the financial year 2019/2020 focus was mainly pursuing budgeted gravity water systems development. These included: Completion of Komothai Water Supply, Completion of Mukuyu weir to serve Githunguri Town and the environs and County Integrated Development Projects

With increased coverage from gravity water sources the organization would be able to meet its obligations to both the customers and other key players at a much lower cost hence progressively move towards sustainability.

Financial Performance

During the year ended 30th June 2020 the company's revenue increased from ksh 55,611,376 to ksh 61,310,254 while the expenditure increased from ksh 64,071,067 to ksh 67,743,861. The increase in cost was due to increased Administrative cost for Implementation of new billing system and Covid 19 expense. The net effect is that the company made a deficit of ksh 6,433,607 compared to deficient of ksh 8,459,691 made in the previous financial period and we assure our stakeholders that we shall ensure the projects operate efficiently to minimise the costs while we maximize on revenue collections

Challenges faced during the financial year were:

- The company relies partially on pumping systems and outsourced waters from Nairobi Water
- The Water infrastructure is dilapidated due to age and as a result, supply in some areas is unreliable
- Very high cost of producing water mainly due to bulk water purchases from Nairobi Water.
- Limited financial resources to fund rehabilitation and expansion of water services infrastructure.
- Debt collection remained a challenge. The main challenges being faced in debt collection are: Tracing of debtors some of whom have died or are no longer residents of the area, obsolete entities like community water projects that have since died or no longer exists despite having owed Giwasco and also the effects of the Covid 19 pandemic posed a great challenge in revenue collection.
- Non-Revenue Water remains a challenge mainly attributed to destruction of pipes due to road works construction across the area of jurisdiction, Illegal tapping's by people purporting to be supplied from Community Water Projects especially in Komothai.
- Expired tariff and license. We are working closely with WASREB for review of the same.

The challenges at hand call for great improvement of existing systems and construction of new ones and I believe that with the assistance of our stakeholders this problem would be addressed.

Water is now a Constitutional Right and this may pose a challenge in our endeavour to serve the underserved in line with Sustainable Development Goals.

Signed for the company



.....
For Managing Director

Githunguri Water & Sanitation Company Ltd
Annual Reports and Financial Statements
For the year ended June 30, 2020

2. REVIEW OF GITHUNGURI WATER & SANITATION COMPANY LTD
PERFORMANCE FOR FY 2019/2020

Performance report 2019/2020

The year 2019/2020 had both major improvements and challenges for Githunguri water & sanitation Company. Though the COVID 19 pandemic threatened to stop most of the progress being made, Giwasco was able to respond well and overcome some of challenges.

Below find highlighted the achievements and challenges during the 2019/2020 period.

Achievements

1. **Reduced Non-Revenue Water**
In this period, the Non-Revenue water reduced from 61% to 53%. This was as a result of the efforts from the NRW team of house to house surveillance. This resulted in unearthing illegal customers, metering flat rate connections and replacing of faulty & stuck meters.
2. **COVID 19 interventions.**
During the pandemic period, Giwasco identified and constructed 54 hand washing points in the bus stations, market places and other crowded places. The points were replenished with water and soaps every three days.
3. **Increase in billing**
During this period, the billing increased from Kshs 55,611,376 to Kshs 61,310,254 during the reporting period. This was attributed to change in the billing system and meter reading system which enabled Mobile meter reading.
4. **Water pipeline extensions.**
During the period extension of pipelines to Gathiru-ini, Kibaburi & Gitombo area were done; these areas were previously not served.

Challenges.

1. **Bulk water purchases**
Bulk water purchases from Nairobi water have always increased our cost of production to a huge extent and this necessitates for gravitating water from our own sources through funded infrastructure.
2. **Revenue collection.**
During the COVID 19 pandemic period the collection efficiency was affected thus further straining the operational budget.
3. **Non-Revenue Water.**
Non-Revenue Water remains a challenge mainly attributed to destruction of pipes due to road works construction across the area of jurisdiction. This posed a huge challenge especially when distribution mains were damaged as high volumes of water were lost in the bursts leading to high NRW

a) CORPORATE GOVERNANCE STATEMENT

The Company regards good corporate governance as crucial to the success of the business and is committed to practice it so that it remains a sustainable and viable business. This Statement sets out the main corporate governance practices and structures in the Company.

The following Corporate governance guidelines and principles are applied in the Company to govern directors and staff. WASREB guidelines on Corporate Governance for Water companies specify best corporate governance principles and others like the Code of Ethics for directors and the Public Officer Ethics Act, 2003 that applies to public officers.

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Directors exercise independent judgment and professional competencies for effective governance of the Company as set out in their terms of reference which clearly spells out important governance arrangements covering appointment of directors.

The Directors' Code of Conduct sets out rules that govern the conduct of individual directors in order to enable the Board to operate effectively and in the best interests of the Company. The Code of Conduct sets out rules for directors to among others: act honestly, in good faith and for the best interest of the Company, exercise duty with care and diligence, avoidance and management of conflict of interest, maintain confidentiality of information about the Company, showing commitment to and attend to Company's business and respect to fellow directors.

Composition of the Board of Directors

The Board comprises ten Directors, including the Managing Director. The composition of the Board of Directors takes into account requirements of the water sector, diverse mix of skills, age, gender, qualifications and experience necessary to achieve the Company's goals and objectives.

Conflict of Interest

Directors are required to make a written disclosure of any transaction in which they have interest and which would constitute a conflict of interest and to abstain from voting when such matters are being considered. Business transactions with all parties, directors or their related parties are carried out at arms' length.

Role and Responsibilities of the Board

The Board provides leadership and strategic direction to the Company. Their main responsibilities are;

- Establishing the short and long-term goals of the Company and strategic plans to achieve those goals;
- Ensuring preparation of the annual and half-year financial statements;
- Approval and review of the annual budgets;
- Setting and periodically reviewing key performance indicators and management performance;
- Ensuring that the Company has adequate systems of internal controls;
- Ensuring that the Company has adequate risk management plans to ensure business continuity.

Role of Chairman of the Board of Directors

The Chairman is primarily responsible for providing leadership to the Board, Chairing Board meetings and general meetings of members. The chairman also ensures that the Board is supplied with timely and sufficient information to enable it to discharge its duties effectively.

Managing Director

The Managing Director is the chief executive of the company responsible for the day to day management of the Company.

Directors Training and Development

The Company recognizes the importance of having a well informed and fully empowered Board of Directors. In this regard, relevant training and capacity development opportunities are organized to equip directors with skills and knowledge necessary to effectively perform their responsibilities.

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Board Work plan and Meetings

A work plan and schedule of meetings is prepared annually in advance. The Board meets at least twice per quarter or more depending on the requirements of the business. Directors receive adequate notice for meetings and detailed papers on issues to be discussed

b) MANAGEMENT DISCUSSION AND ANALYSIS

The company's operational and financial performance

During the financial year the company made a deficit of Kshs 6,433,607 compared to a deficit of 8,459,691 during the previous financial year. The decrease in loss was occasioned by decreased operational cost of electricity where we gravitated water to Kiratina, Mihuko & Thuita and put boreholes on standby also minimized bulk water purchases.

Company's compliance with statutory requirements

The company complied with statutory requirement like payment of NHIF, NSSF, PAYE, NITA and contribution to pension schemes. Nevertheless, we have arrears in other statutory obligations like lease fee, regulatory levy and abstraction levy to WARMA and audit fee.

Major risks facing the company

The major risk facing the company is the going concern of the company as a result of the ongoing process of consolidation of water companies in Kiambu County

Material arrears in statutory/financial obligations

We have the following as the material balances in the year under review are as follow;

1. Lease Fee to AWSB Kshs 15,541,893
2. Regulatory Levy to Wasreb Kshs 4,547,251
3. Abstraction Levy to WARMA Kshs 4,617,160

c) CORPORATE SOCIAL RESPONSIBILITY STATEMENT/SUSTAINABILITY REPORTING

During the financial year the company did a lot of corporate social responsibility activities. This was geared towards helping the communities that we serve and provide water to.

The following were some of the activities that the company did in the different areas.

1. Employee welfare

The company during the financial year made sure that it provides protective gear to all the staff. We also provided masks and sanitisers to all our staff so as to contain spread of covid 19. We also paid for staff statutory deductions for all the employees and they are up to date

2. Market place practices

The company provided water tanks to the following market places so as to ensure that peoples visiting the market wash. E.g. Githunguri, Kwamaiko and Kagwe markets

This ensured that there is adequate water for people to wash their hands. It also ensured that we are able to make sure that we contain spread of covid 19.

We also made sure that there was competitive bidding and timely payment of suppliers.

3. Community Engagements

The company provided water to the community surrounding us. We provided water tanks and hand wash points in the following areas so as to ensure that the community around those areas have water. The areas are: Githunguri, Kwamaiko, Kagwe, Githiga, Ikinu and Gathiruini

Githunguri Water & Sanitation Company Ltd
Annual Reports and Financial Statements
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d) REPORT OF THE DIRECTORS

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

Principal activities

The principle activities for which the Company was established are: -

- To supply Water and Sanitation Services to the residents of Githunguri District/Sub county and lower part of Lari District/sub County and to manage the assets belonging to Athi Water Services Board and the assets shall not be subject to any resolution of the Company or that of the County Government of Kiambu
- To exercise overall control over the sources and supply of water and in particular, to conserve, redistribute and to augment those water resources, including sinking boreholes, and to make, build and construct, lay down and maintain reservoirs, waterworks, cisterns, culverts, filter-beds, main and other pipe and appliances, and to execute and do all works and things necessary or convenient for obtaining, storing, selling, delivering, measuring and distributing water, or otherwise for the purposes of the Company
- To provide and distribute a constant supply of potable water for commercial, industrial and domestic purposes.
- The company's area of service covers about 244 square kilometers across seven wards, five wards in Githunguri sub-county namely Komothai, Ngewa, Githunguri, Ikinu and Githiga. Two wards in Lari Sub-County namely Kamburu and Nyanduma wards. Within these wards, we have areas currently not served with water but are incorporated in the development plans of both the National and County Governments for consideration for expansion of water services into those areas. We also have about 7 community water projects also offering water services within this area but the community water projects are yet to register with Giwasco.

Results

The net loss for the year of Kshs 6,433,607 million and has been deducted from the retained earnings. The results for the year are set out fully on pages 1 to 26 in the financial statements.

Directors

The members of the Board of Directors who served during the year are shown on page iii In accordance with Regulation of the company Articles of Association.

Business overview

During the year ended 30th June 2020 the company's revenue increased from Kshs 55,611,376 to Kshs 61,310,254 while the expenditure increased from Kshs 64,071,067 to Kshs. 67,743,861. The increase in cost was due to increased Administrative cost for Implementation of new billing system and Covid 19 expense. The net effect is that the company made a deficit of Kshs 6,433,607 compared to deficient of Kshs 8,459,691 made in the previous financial period.

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Auditors

The Auditor General is responsible for the statutory audit of the company in accordance with the Section 15 of the Public Finance Management (PFM) Act, 2012. The company's auditors, Office of Auditor General continue in the office in accordance with public Audit Act 2015

Relevant audit information

The Directors in office at the date of this report confirms that:

- (i) There is no relevant audit information of which the Company's auditor is unaware; and
- (ii) Each of the Directors have taken all the steps that they ought to have taken as a director so as to be aware of any relevant audit information and to establish that the company's auditor is aware of that information.

Approval of financial statements

The financial statements were approved at a meeting of the Board of Directors held on2020

Results

The net loss for the year of Kshs 6,433,607 million and has been deducted from the retained earnings. The results for the year are set out fully on pages 1 to 26 in the financial statements.

Directors

The members of the Board of Directors who served during the year are shown on page v to viii In accordance with Regulation of the company Articles of Association.

Auditors

The Auditor General is responsible for the statutory audit of the company in accordance with the Section 15 of the Public Finance Management (PFM) Act, 2012. The company's auditors, Office of Auditor General continue in the office in accordance with public Audit Act 2015

By Order of the Board

Josephine Muritu
Corporate Secretary
Kiambu

Sign.....


e) STATEMENT OF DIRECTORS' RESPONSIBILITIES

Section 81 of the Public Finance Management Act, 2012 and the Companies Act, require the Directors to prepare financial statements in respect of the company, which give a true and fair view of the state of affairs of the company at the end of the financial year and the operating results of the company for the year. The Directors are also required to ensure that the company keeps proper accounting records which disclose with reasonable accuracy the financial position of the company. The Directors are also responsible for safeguarding the assets of the company.

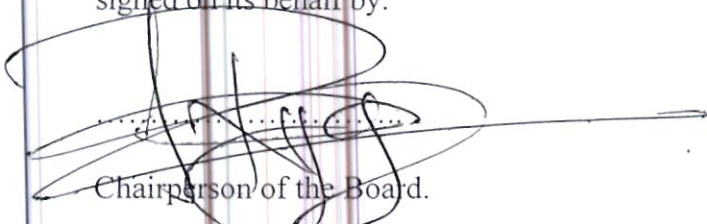
The Directors are responsible for the preparation and presentation of the company's financial statements, which give a true and fair view of the state of affairs of the company for and as at the end of the financial year ended on 30th June 2020. This responsibility includes: (i) maintaining adequate 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 company; (iii) designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of the financial statements, and ensuring that they are free from material misstatements, whether due to error or fraud; (iv) safeguarding the assets of the company; (v) selecting and applying appropriate accounting policies; and (vi) making accounting estimates that are reasonable in the circumstances.


The Directors accept responsibility for the company's financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgments and estimates, in conformity with International Financial Reporting Standards (IFRS), and in the manner required by the PFM Act and the Company's 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 30th June 2020, 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 Githunguri Water and Sanitation Company will not remain a going concern for at least the next twelve months from the date of this statement.

Approval of the financial statements

Githunguri Water financial statements were approved by the Board on _____ 2020 and signed on its behalf by:


Chairperson of the Board.


Managing Director

REPUBLIC OF KENYA

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



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NAIROBI

REPORT OF THE AUDITOR-GENERAL ON GITHUNGURI 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 Githunguri Water and Sanitation Company Limited set out on pages 1 to 26, which comprise the statement of financial position as at 30 June, 2020, and the statement of profit and loss and other comprehensive income, statement of changes in equity, statement of cash flows and statement of comparison of budget and actual amounts for the year then ended, and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, 2015. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

In my opinion, except for the 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 Githunguri 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 Water Act, 2016, the Kenyan Companies Act, 2015 and the Public Finance Management Act, 2012.

Basis for Qualified Opinion

1. Lack of an Updated Fixed Asset Register

The statement of financial position reflects property, plant and equipment balance of Kshs.20,401,890 as at 30 June, 2020 as disclosed in Note 16. However, the fixed assets register was not updated and the assets were not tagged for ease of identification and tracking. In addition the assets were not insured against risk of loss due to theft, fire and burglary.

In the circumstances, the accuracy and completeness of the property, plant and equipment balance of Kshs.20,401,890 as at 30 June, 2020 could not be confirmed.

2. Long Outstanding Trade and other Receivables

The statement of financial position reflects trade and other receivables net balance of Kshs.49,005,830 as at 30 June, 2020. The balance as disclosed in Note 10 to the financial

statements comprises of gross trade receivables of Kshs.75,571,846 and net of specific and general provision for bad debts of Kshs.25,809,789 and Kshs.756,228 respectively. However, debtors ageing analysis was not provided for audit review. Further these debts have been outstanding for long and some dating back to the year 2014. Although recoverability of these trade debtors in full is doubtful, the provision for bad and doubtful debts of Kshs.25,566,017 made in the financial statements appear inadequate.

Consequently, the completeness and recoverability of the trade and other receivables net balance of Kshs.49,005,830 as at 30 June, 2020 could not be confirmed.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the Githunguri 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 Management discussion and analysis on page xiii which indicates that, the Company is going through a process of consolidation of water companies in Kiambu County and there is uncertainty on its continued existence as a going concern.

Further, the statement of comprehensive income indicates that the company recorded reported a loss of Kshs.6,433,607 for the year ended 30 June, 2020 (2019 - a loss of Kshs.8,459,691). The operating loss depleted further the retained earnings from a negative Kshs.82,932,108 as at 30 June, 2019 to negative Kshs.88,365,715 as at 30 June, 2020. Further, the company's current liabilities balance of Kshs.147,034,688 exceeded its current assets balance of Kshs.57,855,714 resulting in a negative working capital of Kshs.89,178,974 as at 30 June, 2020.

This is an indication that the Company's financial position is precarious and may be experiencing financial difficulties in meeting its obligations as and when they fall due. The existence of this material uncertainty may cast a significant doubt on the Company's ability to continue as a going concern. The financial statements have been prepared on a going concern basis on the assumption that the Company will continue to receive financial support from the County Government of Kiambu and its creditors.

My opinion is not modified in respect of this matter.

Key Audit Matters

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

Other Matter

1. Budgetary Control and Performance

During the financial year 2019/2020 the Company realized income from water sales of Kshs.59,176,804 against a revenue budget projection of Kshs.75,456,000, resulting in an under-collection of Kshs.16,279,196 or 22% of the budgeted revenue which was not satisfactorily explained or justified.

The poor budget performance is an indication that the Company did not exercise effective budget controls during the financial year resulting to missed revenue targets and material over expenditure on some of the items. Further, the Company incurred an over expenditure of Kshs.8,556,937 on nine expenditure items without requisite authority.

The Company Management is therefore in breach of the law.

2. Prior Year Unresolved Issues

In the audit report of the previous year, several matters were raised under Report on Financial Statements, Report on Lawfulness and Effectiveness in Use of Public Resources and Report on Effectiveness of Internal Controls, Risk Management and Governance. However, the Management has not resolved the issues or given any explanation for failure to adhere to the provisions of the Public Sector Accounting Standards Board templates and The National Treasury's circular Ref: No. AG.4/16/3 Vol.1(9) dated 24 June, 2020.

Other Information

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

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

In connection with the audit of the financial statements, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or the knowledge obtained in the audit, or otherwise appears to be materially misstated. Based on the work I have performed on the other information obtained prior to the date of this auditor's report, if I conclude that there is material misstatement of this other information, I am required to report that fact. In this regard, I wish to report as follows:

On pages v to vii of the report on Board of Directors attached to the financial statements for the year ended 30 June, 2020 are names and passport-size photographs of Board of Directors who held office during the year under review. However, pertinent details of the

Directors including their dates of birth, work experience and date of appointment were not provided contrary to the guidelines prescribed by the Public Sector Accounting Standards Board.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

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

Basis for Conclusion

1. Non-Compliance with Ethnic Diversity and Affirmative Action on Gender

A review of human resource records revealed that during the year under review, the Company had forty-eight employees out of which forty-six are from the dominant community which translate to 96% of the employees of the Company were from one dominant ethnic community contrary to section 7(2) of the National Cohesion and Integration Act, 2008 which requires the Company to ensure that not more than one-third of its staff are from the same ethnic community. Further, out of the forty-eight employees, nine (9) only or 19% are of female gender, which is below one-third (33.3%) under the affirmative action on gender requirement.

The Management is therefore in breach of the Act.

2. Possible Loss of Revenue from Unaccounted for Water

During the financial year under review, the Company produced 1,654,309 cubic meters (m³) of water, out of which only 777,209 cubic meters (m³) of water was billed to customers. The balance of 877,100 cubic meters (m³) or 53% of the total volume of water produced represented Unaccounted for Water (UFW). The UFW was therefore 28% over and above the allowable water loss of 25% as per the Water service Regulatory Board guidelines. The UFW of 53% may have resulted in a loss of sales estimated at Kshs.66,731,289.

The significant level of non-revenue water is an indication of inefficiency and ineffectiveness in use of the resources by the Company and, may negatively impact on the company's profitability and its ability to sustain services in the long run.

3. Irregular Procurement of Water Billing Software

Note 7 to the financial statements reflects under administration and other expenses of Kshs.867,766 in respect of billing costs, out of which an amount of Kshs.668,500 was

incurred on acquisition of billing software during the financial year 2019/2020. A review of records reflects that the Company purchased the billing software based on a procurement procedure conducted by Ruiru Juja Water and Sewerage Company for supply and installation of a similar software, which is a separate legal entity. However, no evidence was provided for audit that Githunguri Water and Sanitation Company Limited appointed Ruiru Juja Water and Sewerage Company to carry out the procurement on its behalf contrary to Section 52(2) of Public Procurement and Asset Disposal Act, 2015.

Further, according to letter Ref. No. KCWSC/REG/PG/19/33 of 28 January, 2019, the contract was entered following instructions from Managing Director of Kiambu County Water and Sewerage Company established to oversee proposed re-organization and merger of the water companies in Kiambu County. However, the Company is a separate legal entity.

The contract therefore appears to have been procured and awarded through direct procurement method without an independent and competitive procurement process by Githunguri Water and Sanitation Company, contrary to Section 103 of Public Procurement and Asset Disposal Act, 2015 which requires that an entity may use direct procurement if the goods, works or services are available only from a particular supplier or has exclusive rights in respect of goods, works or services and no alternative or substitute exists.

In addition, the Management has not given reasons why the cost of the intangible asset was expensed in the statement of financial performance, instead of being capitalized and amortized over the estimated live of the asset.

Consequently, the validity and value for money of the expenditure of Kshs.668,500 spent on the software during the year ended 30 June, 2020 could not be confirmed.

4. Non-Compliance with the Recommended Financial Reporting Guidelines

A review of the financial statements and other information accompanying the financial statements for the year ended 30 June, 2020 presented for audit revealed the following omissions and anomalies:

- 4.1** The Chairman's statement at page ix and the report of the Managing Director on page x does not highlight the challenges being faced by the Company and the way forward or outlook for the organization.
- 4.2** The Company's report of performance presented at page xi of the annual reports and financial statements do not have the Company strategic pillars, the objectives under each pillar, the key performance indicators for the pillars, key performance indicators, activities geared towards the achievement of the objectives and the achievements under each strategic pillar prescribed in the recommended financial reporting template.
- 4.3** The corporate governance statement on page xi of the financial statements does not contain information on board meetings, attendance, succession plan, process of

appointment and removal of directors and members' performance, board remuneration, ethics and conduct and governance audit as stipulated in the reporting template.

- 4.4 Management discussion and analysis at page xiii on Key entity information is inadequate and lacks adequate information on the Company's operational and financial performance. In addition, no information has been provided on the Company's key projects or investments decision implemented or ongoing. Similarly, annexures on projects implemented by the Company during the financial year was not provided.
- 4.5 The Corporate Social Responsibility statement and sustainability reporting on page xiv does not include the Company's sustainability strategy and profile and environmental performance.
- 4.6 Information on financial risk management has not been provided as part of the notes to the financial statements.

The financial statements presented did not, therefore, comply fully with the financial reporting template recommended by the Public Sector Accounting Standards Board (PSASB). The Management under the circumstances was in breach of Section 194(1)(d) of the Public Finance Management Act, 2012.

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

As required by Section 7(1)(a) of the Public Audit Act, 2015, based on the audit procedures performed, except for the matters described in Basis for Conclusion on Effectiveness of Internal Controls, Risk Management and Governance section of my report, I confirm that, nothing else has come to my attention to cause me to believe that internal controls, risk management and governance were not effective.

Basis for Conclusion

1. Irregularities in Corporate Governance

Disclosed on page 2 of the report on Key Entity Information attached to the financial statements for the year ended 30 June, 2020 are names of twelve (12) Directors who held office during the year under review. Records indicate that the Directors were all appointed

in 2018. However, as reported in financial year 2018/2019, the appointment letters reflect that the Directors were appointed to act on behalf of Kiambu County Water and Sewerage Company, which is a separate entity from Githunguri Water and Sanitation Company Limited.

In addition, no board minutes and attendance register were provided to confirm that the board of the Company Limited met during the year to approve the financial statements and/or conduct any other business of the Company which required the board's approval. This is contrary to Section 652(1) of the Companies Act, 2015, which requires that as soon as practicable after a company's annual financial statements have been prepared, the Directors shall approve the statements and arrange for one or more of them to sign it.

2. Weaknesses in IT Controls

A review of Information Technology (IT) Controls and information management systems of the entity revealed that, the company had not established ICT Committee and lacked ICT Strategic plan. In addition, the Company had three (3) different software as shown in table below:

Application Name	Department/Features
Utility Master	Billing and Meter Reading
Sage Pastel ERP	Finance and Accounts
Isoft Maarifa Software	Payroll and Human resource

The three applications software had not been integrated. Lack of integration not only creates information silos that make it difficult to obtain a complete picture of how the water Company is performing but also creates inefficiencies that slow down decision-making and increase redundancies across the Company's operations. In addition, inability to share information between modules may affect data integrity which in turn affects reliability of information from the modules.

It was also noted that there was a billing system change over from Majics to Utility Master. However, customer data was not appropriately migrated to the new system. Individual customer balances for each billing zone were aggregated and the totals for each zone migrated into the new software. Consequently, individual customer balances for the period before data migration could not be therefore ascertained.

Lack of proper data migration may have led to distortion of information initially available before system changeover.

3. Audit Fees Arrears

Included under trade and other payables in Note 12 to the financial statements are trade and other payables totalling Kshs.138,017,488, out which an amount of Kshs.1,524,000 relates to audit fees arrears, that have not been paid by the Company for five (5) financial

years since 2013/2014 to 2018/2019. No justification was provided for classifying the audit fees arrears for 2018/2019 and earlier years under current liabilities.

The Company also has been in persistence breach of Section 41(1)(c) of the Public Audit Act, 2015 which empowers the Auditor-General to charge audit fees at the rates prescribed and be paid accordingly by the auditee.

4. Unremitted Lease Fees

The statement of financial position reflects trade and other payables balance of Kshs.138,017,488 as at 30 June, 2020. Included in this balance are lease fees and regulatory fees of Kshs.15,541,893, Kshs.4,547,251, Kshs.4,617,160 and Kshs.104,351,750 owed to Athi Water Services Board, Water Services Regulatory Board, Water Resources Management Authority and Nairobi Water Company for the financial years 2015/2016 to 2018/2019 respectively, which had not been remitted as at 30 June, 2020

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

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

As required by the 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;
- (iii) The Company's statement of financial position and statement of comprehensive income are in agreement with books of account; and
- (iv) In my opinion, the information given in the report of the directors on page xv and xvi is consistent with the financial statements.

Responsibilities of Management and the Board of Directors

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

for assessment of the effectiveness of internal control, risk management and overall governance.

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

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

In addition to the responsibility for the preparation and presentation of the financial statements described above, the Management is 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 Management monitors compliance with relevant legislative and regulatory requirements, ensuring that effective processes and systems are in place to address key roles and responsibilities in relation to governance and risk management, and ensuring the adequacy and effectiveness of the control environment.

Auditor-General's Responsibilities for the Audit

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

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

Further, in planning and performing the audit of the financial statements and audit of compliance, I consider internal control in order to give an assurance on the effectiveness

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

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


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

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

- Perform such other procedures as I consider necessary in the circumstances.

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

I also provide 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

03 February, 2022

Githunguri Water & Sanitation Company Ltd

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For the year ended June 30, 2020

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

GITHUNGURI WATER AND SANITATION COMPANY LIMITED

STATEMENT OF PROFIT OR LOSS AND OTHER

COMPREHENSIVE INCOME

FOR THE YEAR ENDED 30TH JUNE 2020

	Notes	2019-2020 Kshs	2018-2019 Kshs
<u>INCOME</u>			
Sales & Other Income	6	61,310,254	55,611,376
		<u>61,310,254</u>	<u>55,611,376</u>
<u>LESS EXPENSES</u>			
Administrative & Other Expenses	7	34,855,741	27,089,883
Operational Expenses	8	32,888,121	36,981,184
TOTAL EXPENSES		<u>67,743,861</u>	<u>64,071,067</u>
<u>OPERATING PROFIT/(LOSS)</u>		<u>(6,433,607)</u>	<u>(8,459,691)</u>
<u>PROFIT/(LOSS) AFTER TAX</u>		<u>(6,433,607)</u>	<u>(8,459,691)</u>

Githunguri Water & Sanitation Company Ltd

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h) STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2020

ASSETS

	Notes	2019-2020 Kshs	2018-2019 Kshs
<u>Non-Current Assets</u>			
Property, Plant and Equipment's	16	20,401,890	19,701,106
Total Non-Current Assets		20,401,890	19,701,106
<u>Current Assets</u>			
Trade and Other Receivables	10a	49,005,830	36,978,790
Prepayments & Other Deposits	10c	200,480	130,480
Cash and Cash Equivalent	14	7,409,704	5,745,723
Inventory	12	1,239,700	1,239,034
Total Current Assets		57,855,714	44,094,027
TOTAL ASSETS		78,257,604	63,795,133

EQUITY AND LIABILITIES

<u>Capital and Reserves</u>			
Ordinary Share Capital	14	40	40
Revenue Reserve	15	(89,365,715)	(82,932,108)
Capital Reserve	13	11,509,082	11,509,082
Total Capital and Reserves		(77,856,593)	(71,422,986)
<u>Liabilities</u>			
<u>Non-Current Liability</u>			
Deferred Income	19	9,079,508	9,811,969
Total Non-Current Liability		9,079,508	9,811,969
<u>Current Liabilities</u>			
Customer Deposits	17	8,284,739	7,621,739
Deferred Income(Current)	19	732,461	732,461
Trade and Other Payables	12	138,017,488	117,051,949
Total Current Liabilities		147,034,688	125,406,149
TOTAL EQUITY AND LIABILITY		78,257,603	63,795,133

The financial statements were approved by the Board on _____ 2020 and signed on its behalf by:

for Managing Director
Charles Wahogo Muiru

Sign 

Accountant
Alex Muragu Waruhiu

Sign 

Chairman of the Board
Prof. Bernard Njoroge

Sign 

Githunguri Water & Sanitation Company Ltd
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 For the year ended June 30, 2020

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

GITHUNGURI WATER AND SANITATION COMPANY LIMITED

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30TH JUNE 2020

	Share Capital Kshs	Revenue Reserves Kshs	Capital Reserves Kshs	Total Amount Kshs
Balance as at 1st July 2018	40	(73,062,269)	11,509,082	(61,553,147)
Prior Year Adjustment on Loss		(1,410,148)		(1,410,148)
Deficit for the year 2018-2019		(8,459,691)		(8,459,691)
Balance as at 30th June 2019	40	(82,932,108)	11,509,082	(71,422,986)
Balance as at 1st July 2019	40	(82,932,108)	11,509,082	(71,422,986)
Deficit for the year 2019-2020		(6,433,607)		(6,433,607)
Balance as at 30th June 2020	40	(89,365,715)	11,509,082	(77,856,593)

j) STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2020

GITHUNGURI WATER AND SANITATION COMPANY LIMITED

STATEMENT OF CASH FLOW FOR THE YEAR ENDED 30TH JUNE 2020

	Notes	2019-2020 Kshs	2018-2019 Kshs
<u>CASH FLOW FROM OPERATING ACTIVITIES</u>			
Cash generated from/ (used in) operations	20	4,871,442	2,584,362
Net Cash Flow from Operating Activities		4,871,442	2,584,362
<u>CASH FLOW FROM INVESTING ACTIVITIES</u>			
Purchase of Property, Plant and Equipment	16	(2,475,000)	(5,098,439)
Net Cash Flow from Investing Activities		(2,475,000)	(5,098,439)
<u>CASH FLOW FROM FINANCING ACTIVITIES</u>			
Deferred Income	19	(732,461)	(732,461)
Borrowing	18	1,500,000	3,000,000
Repayment of borrowing	18	(1,500,000)	(500,000)
Net Cash Flow from Financing Activities		(732,461)	1,767,539
INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENT		1,663,981	(746,538)
CASH AND CASH EQUIVALENT AT THE BEGINNING OF YEAR		5,745,723	6,492,261
CASH AND CASH EQUIVALENT AT THE END OF THE YEAR	11	7,409,704	5,745,723

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

ITEM	Budget 2019/20	Actual 2019/20	Variance	Variance (%)
INCOME				
Water Sales	75,456,000	59,176,804	(16,279,196)	-22%
Other Incomes Survey and Works	3,000,000	1,399,700	(1,600,300)	-53%
Interest Received	-	1,289	1,289	
Grant Income	-	732,461	732,461	
EXPENDITURE				
Telephone	300,000	340,495	(40,495)	-13%
Email & postage	15,000	9,750	5,250	35%
Fees & Subscriptions	147,400	429,544	(282,144)	-191%
Printing & Stationery	353,100	299,200	53,900	15%
Internet Services & Computer Expenses	229,480	51,760	177,720	77%
Office running expenses	236,400	261,260	(24,860)	-11%
Billing costs	396,000	867,766	(471,766)	-119%
Audit fee	520,000	232,000	288,000	55%
Rent	60,000	60,000	-	0%
Corporate social responsibility	325,000	420,202	(95,202)	-29%
Travelling & Accommodation	1,560,000	967,319	592,681	38%
Bank Charges	85,000	87,268	(2,268)	-3%
Directors allowances	300,000	-	300,000	100%
Directors Expenses	100,000	-	100,000	100%
Salaries	17,775,500	16,521,687	1,253,813	7%
Casual wages	1,200,000	1,722,317	(522,317)	-44%
NSSF	110,400	116,400	(6,000)	-5%
NHIF		411,750	(411,750)	
Pension	1,140,000	1,215,348	(75,348)	-7%
Medical Insurance	2,500,000	-	2,500,000	100%
Staff Training, Education, Workshops & Conferences	660,000	395,180	264,820	40%
Team Building and WASCO Games	1,120,000	981,141	138,859	12%
Security	1,080,000	1,092,508	(12,508)	-1%
Sanitation services		16,552	(16,552)	
Hospitality and Entertainment		24,280	(24,280)	
General items, Renovations & repairs	40,000	37,950	2,050	5%
Chemicals	300,000	567,934	(267,934)	-89%
Bulk water purchases	12,400,000	18,439,438	(6,039,438)	-49%
Electricity	7,800,000	4,887,875	2,912,125	37%
Water levy-WASREB	1,887,120	2,367,072	(479,952)	-25%
Maintenance Water system	3,683,480	2,609,308	1,074,172	29%
Borehole Services	500,000	321,400	178,600	36%
Transport operations & Maintenance	996,500	439,180	557,320	56%
Motor Vehicle and Motor Bikes Insurance	250,000	46,337	203,663	81%
WARMA Levy	1,510,000	994,252	515,748	34%
Fuel Expenses	1,842,000	2,215,324	(373,324)	-20%
Water Testing	480,000	-	480,000	100%

Githunguri Water & Sanitation Company Ltd
Annual Reports and Financial Statements
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BUDGET NOTES ON VARIANCES.

1. On water sales/ revenue we were not in a position to meet our target of Kshs 75,456,000. This was due to low billing which was as a result of low customer connectivity. During the year less customers applied for water. In some of the areas we had expected to have more customers thus more revenue, we were not in a position to connect the since we did not have pipes to lay to areas like Kamucege and Kamondo.
2. On other income which is mainly new connections we did not connect as many customers as expected and as explained in note 1 above.
3. On directors expenses there were no directors to pay since the ones that were for the Kiambu County Water were being paid from the head quarter. This explains why there was no amount under director's allowances and expenses.
4. On salaries we had anticipated that we will employ Technical Manager, Human Resource Manager, Commercial Officer and a Driver but this did not happen explaining why the actual amount was less than the budget.
5. On medical Cover we did not procure during the financial year due to lack of funds.
6. On casual wages we engaged more casuals to help in operations & maintenance and disconnections of water from the main pipeline for defaulters
7. On most of the expenditure items the company did not have sufficient funds to use and this explains why most of those expenditures were underutilised. Examples includes: postage, printing & stationeries, internet services and maintenance of water.
8. On borehole services there were no major breakdowns of our pumps during the financial year.
9. With Covid 19 we were also not in a position to travel and attend conferences and workshops explaining why the following items were underutilised. Examples includes: staff trainings, education, workshops & conferences, team building & Wasco games, transport & maintenance and travelling & accommodation.
10. On CSR we undertook more activities especially due to the Covid 19 pandemic.
11. On billing cost we purchased another billing system and this explains why the actual expenditure was more than the budget.
12. On fees & subscription we over utilised the budget since we paid for pastel accounting package.
13. On insurance we had anticipated that we will insure all our assets but due to low revenue we did not. This explain why we underutilised the budgeted amount.
14. Some of the items we over utilised the budget due to increased activities e.g. on fuel expenses, telephone and office running expenses
15. On chemicals we were affected by heavy rainfall during the year thus use on more chemicals due to high turbidity.
16. On bulk water there was high demand for water especially on Nairobi water offtakes. We also provided more water during the covid period so as to make sure there is adequate water.
17. On electricity we relied on gravity water from Komothai and Nairobi water offtake shutting off some of the boreholes. This also explains why WRMA charges were also high compared to the budgeted figure.
18. Wasreb Levy depends on billing and since we did not hit our target for billing the levy also went down.

D) NOTES TO THE FINANCIAL STATEMENTS

1. GENERAL INFORMATION

Githunguri Water and Sanitation Company Limited is established by and derives its authority and accountability from Company Act. The entity is wholly owned by the Government of Kenya and is domiciled in Kenya. The entity's principal activity is provision of water.

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

2. STATEMENT OF COMPLIANCE AND BASIS OF PREPARATION

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

The financial statements have been prepared and presented in Kenya Shillings, which is the functional and reporting currency of the *entity*.

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

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

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

IFRS 16: Leases

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

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

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

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

IFRIC 23: Uncertainty Over income tax treatments

The interpretation addresses the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates, when there is uncertainty over income tax treatments under IAS 12. It specifically considers:

- Whether tax treatments should be considered collectively
- Assumptions for taxation authorities' examinations
- The determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates
- The effect of changes in facts and circumstances

Amendments to IFRS 9 titled Prepayment Features with Negative Compensation (issued in October 2017)

The amendments, applicable to annual periods beginning on or after 1 January 2020, allow entities to measure prepayable financial assets with negative compensation at amortised cost or fair value through other comprehensive income if a specified condition is met.

Amendments to IAS 28 titled Long-term Interests in Associates and Joint Ventures (issued in October 2017)

The amendments, applicable to annual periods beginning on or after 1st January 2020, clarify that an entity applies IFRS 9, rather than IAS 28, in accounting for long-term interests in associates and joint ventures.

Amendments to IFRS 3 - Annual Improvements to IFRSs 2015–2017 Cycle, issued in December 2017.

The amendments, applicable to annual periods beginning on or after 1st January 2020, provide additional guidance on applying the acquisition method to particular types of business combination.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

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

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

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

The amendments, applicable to annual periods beginning on or after 1st January 2020, clarify that when an entity obtains joint control of a business that is a joint operation, it does not re-measure its previously held interests

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

The amendments, applicable to annual periods beginning on or after 1st January 2020, clarify that all income tax consequences of dividends should be recognised when a liability to pay a dividend is recognised, and that these income tax consequences should be recognised in profit or loss, other comprehensive income or equity according to where the entity originally recognised the transactions to which they are linked.

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

The amendments, applicable to annual periods beginning on or after 1st January 2020, clarify that the costs of borrowings made specifically for the purpose of obtaining a qualifying asset that is substantially completed can be included in the determination of the weighted average of borrowing costs for other qualifying assets.

Amendments to IAS 19 titled Plan Amendment, Curtailment or Settlement (issued in February 2019)

The amendments, applicable to plan amendments, curtailments or settlements occurring on or after the beginning of the first annual reporting period that begins on or after 1st January 2020, requires an entity to use updated actuarial assumptions to determine current service cost and net interest for the remainder of the annual reporting period after the plan amendment, curtailment or settlement when the entity re-measures its net defined benefit liability (asset) in the manner specified in the amended standard.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

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

Amendments to IAS 1 and IAS 8 Definition of material

The amendments are intended to make the definition of material in IAS 1 easier to understand and are not intended to alter the underlying concept of materiality in IFRS Standards. The concept of ‘obscuring’ material information with immaterial information has been included as part of the new definition. The threshold for materiality influencing users has been changed from ‘could influence’ to ‘could reasonably be expected to influence’. The definition of material in IAS 8 has been replaced by a reference to the definition of material in IAS 1. In addition, the IASB amended other Standards and the Conceptual Framework that contain a definition of material or refer to the term ‘material’ to ensure consistency. The amendments are applied prospectively for annual periods beginning on or after 1 January 2020, with earlier application permitted

ii) New and amended standards and interpretations in issue but not yet effective in the year ended 30 June 2020

IFRS 17 Insurance Contracts (Issued 18 May 2017)

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

Amendments to References to the Conceptual Framework in IFRS Standards (Issued 29 March 2019- Applicable for annual periods beginning 1 January 2020)

Together with the revised *Conceptual Framework* published in March 2019, the IASB also issued *Amendments to References to the Conceptual Framework in IFRS Standards*. The document contains amendments to IFRS 2, IFRS 3, IFRS 6, IFRS 14, IAS 1, IAS 8, IAS 34, IAS 37, IAS 38, IFRIC 12, IFRIC 19, IFRIC 20, IFRIC 22, and SIC-32. Not all amendments, however, update those pronouncements with regard to references to and quotes from the framework so that they refer to the revised *Conceptual Framework*. Some pronouncements are only updated to indicate which version of the framework they are referencing to (the IASB framework adopted by the IASB in 2001, the IASB framework of 2010, or the new revised framework of 2019) or to indicate that definitions in the standard have not been updated with the new definitions developed in the revised *Conceptual Framework*.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

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

iii) Early adoption of standards

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

iii) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

a) Revenue recognition

Revenue is recognised to the extent that it is probable that future economic benefits will flow to the *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's* activities, net of value-added tax (VAT), where applicable, and when specific criteria have been met for each of the *entity's* activities as described below.

- i) **Revenue from the sale of goods and services** is 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.
- ii) **Grants from National Government** are recognised in the year in which the *entity* actually receives such grants. Recurrent grants are recognized in the statement of comprehensive income. Development/capital grants are recognized in the statement of financial position and realised in the statement of comprehensive income over the useful life of the assets that has been acquired using such funds.
- iii) **Finance income** comprises interest receivable from bank deposits and investment in securities, and is recognised in profit or loss on a time proportion basis using the effective interest rate method.
- iv) **Dividend income** is recognised in the income statement in the year in which the right to receive the payment is established.
- v) **Rental income** is recognised in the income statement as it accrues using the effective lease agreements.
- vi) **Other income** is recognised as it accrues.

b) In-kind contributions

In-kind contributions are donations that are made to the *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.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

c) Property, plant and equipment

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

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

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

Gains and losses on disposal of items of property, plant and equipment are determined by comparing the proceeds from the disposal with the net carrying amount of the items, and are 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 straight-line basis to write down the cost of each asset or the re-valued amount to its residual value over its estimated useful life. The annual rates in use are:

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

e) Intangible assets

Intangible assets comprise purchased computer software 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 straight-line basis over the estimated useful life of computer software of three years.

All computer software is reviewed annually for impairment. Where the carrying amount of an intangible asset is assessed as greater than its estimated recoverable amount, an impairment loss is 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) Leases

IFRS 16 introduces new or amended requirements with respect to lease accounting. It introduces significant changes to lessee accounting by removing the distinction between operating and finance lease and requiring the recognition of a right-of-use asset and a lease liability at commencement for all leases, except for short-term leases and leases of low value assets. In contrast to lessee accounting, the requirements for lessor accounting have remained largely unchanged.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

i) Fixed interest investments (bonds)

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

j) Quoted investments

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

k) Unquoted investments

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

l) Inventories

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

m) Trade and other receivables

Trade and other receivables are 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.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

n) Taxation (Continued)

Current income tax (Continued)

Current income tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting date in the area where the Entity operates and generates taxable income. Current income tax relating to items recognized directly in net assets is recognized in net assets and Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

Deferred tax

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

n) Taxation (Continued)

Deferred tax (Continued)

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

o) Cash and cash equivalents

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

r) Retirement benefit obligations

The entity operates a defined contribution scheme for all full-time employees from July 1, 2014. The scheme is administered by an in-house team and is funded by contributions from both the company and its employees. The company also contributes to the statutory National Social Security Fund (NSSF). This is a defined contribution scheme registered under the National Social Security Act. The company's obligation under the scheme is limited to specific contributions legislated from time to time and is currently at Kshs. 200 per employee per month.

s) Provision for staff leave pay

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

t) Exchange rate differences

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

u) Budget information

The original budget for FY 2019-2020 was approved by the board of directors

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

u) Budget information (Continued)

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

v) Service concession arrangements

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

w) Comparative figures

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

x) Subsequent events

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

5 SIGNIFICANT JUDGMENTS AND SOURCES OF ESTIMATION UNCERTAINTY

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

5 SIGNIFICANT JUDGEMENTS AND SOURCES OF ESTIMATION UNCERTAINTY
(Continued)

Estimates and assumptions

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

Useful lives and residual values

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

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

Provisions

Provisions were raised and management determined an estimate based on the information available.

Provisions are measured at the management's best estimate of the expenditure required to settle the obligation at the reporting date, and are discounted to present value where the effect is material.

SPECIFIC PROVISION CALCULATION FOR 2019-2020 FINANCIALS	
Trade Receivables figures for 2018-2019	57,024,959.00
Specific Provision figures for 2018-2019	19,475,535.00
Percentage of Specific over Trade Receivables	0.34
Trade Receivables figures for 2019-2020	75,571,846.22
Percentage of Specific over Trade Receivables for 2018-2019	0.34
Specific Provision figures for 2019-2020 calculated	25,809,788.59

GENERAL PROVISION CALCULATION FOR 2019-2020 FINANCIALS	
Trade Receivables figures for 2018-2019	57,024,959.00
General Provision figures for 2018-2019	570,634.00
Percentage of General over Trade Receivables for 2018-2019	0.01
Trade Receivables figures for 2019-2020	75,571,846.22
Percentage of General over Trade Receivables for 2018-2019	0.01
General Provision figures for 2019-2020 calculated	756,227.90

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

6 SALES & OTHER INCOME

SALES & OTHER INCOME	2019-2020	2018-2019
	Kshs	Kshs
Water Sales	59,176,804	52,653,210
Other Incomes Survey and Works	1,399,700	2,225,200
Interest Received	1,289	505
Grant Income	732,461	732,461
Total Sales & Other Income	61,310,254	55,611,376

7 ADMINISTRATION & OTHER EXPENSES

7(a)ADMINISTRATIVE EXPENSES	2019-2020	2018-2019
	Kshs	Kshs
Telephone	340,495	318,139
Email & postage	9,750	11,520
Fees & Subscriptions	429,544	289,330
Printing & Stationery	271,580	257,190
Newspaper	27,620	29,640
Internet Services & Computer Expenses	51,760	173,732
Office running expenses	261,260	157,985
Billing costs	867,766	173,700
Audit fee	232,000	364,000
Rent	60,000	72,000
Corporate social responsibility	420,202	11,000
Travelling & Accommodation	967,319	1,928,732
Bank Charges	87,268	166,895
Total Administrative Expenses	4,026,564	3,953,863
7(b) BOARD EXPENSES		
Directors allowances	-	200,000
Total Board Expenses	-	200,000
7(c) STAFF EXPENSES		
Salaries	16,521,687	15,262,653
Casual wages	1,722,317	1,406,400
NSSF	116,400	188,800
NHIF	411,750	388,350
Pension	1,215,348	2,212,927
Total Staff Expenses	19,987,502	19,459,130
7(d) GENERAL EXPENSES		
Staff Training, Education, Workshops & Conferences	395,180	307,000
Team Building and WASCO Games	981,141	300,580
Security	1,092,508	1,022,067
Sanitation services	16,552	26,843
Hospitality and Entertainment	24,280	72,910
General items, Renovations & repairs	37,950	26,930
Depreciation	1,774,216	1,149,926
Increase in Provision for Bad Debts	6,519,847	570,634
Total General Expenses	10,841,675	3,476,890
7. TOTAL ADMINISTRATIVE & OTHER EXPENSES	34,855,741	27,089,883

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

8 OPERATING EXPENSES

<u>OPERATIONAL EXPENSES</u>	2019-2020 Kshs	2018-2019 Kshs
Chemicals	567,934	260,750
Bulk water purchases	18,439,438	21,857,668
Electricity	4,887,875	6,439,051
AWSB Lease fee	-	1,845,603
Water levy-WASREB	2,367,072	1,700,157
Maintenance Water system	2,609,308	1,470,366
Borehole Services	321,400	230,100
Transport operations& Maintenance	439,180	799,380
Motor Vehicle and Motor Bikes Insurance	46,337	21,217
WARMA Levy	994,252	726,583
Fuel Expenses	2,215,324	1,625,309
Calibration and meter testing	-	5,000
Total Operating Expenses	32,888,121	36,981,184

9 INVENTORY

<u>INVENTORY</u>	2019-2020 Kshs	2018-2019 Kshs
Pipes	1,175,484	1,175,484
Chlorine HTH 65%	35,032	11,250
Alum	29,184	42,500
Stationery	-	9,800
Total Inventory	1,239,700	1,239,034

10 TRADE AND OTHER RECEIVABLES

<u>10a TRADE AND OTHER RECEIVABLES</u>	2019-2020 Kshs	2018-2019 Kshs
Trade Receivables	75,571,846	57,024,959
Prepayments & Deposits	200,480	130,480
Gross Trade and Other Receivables	75,772,326	57,155,439
Provision for bad and doubtful receivables	(26,566,016)	(20,046,169)
Net Trade and Other Receivables	49,206,310	37,109,270
<u>10b TRADE RECEIVABLES</u>	2019-2020 Kshs	2018-2019 Kshs
Gross Trade Receivables	75,571,846	57,024,959
Less Specific Provision for Bad and Doubtful Debts	(25,809,789)	(19,475,535)
Less General Provision for Bad and Doubtful Debts	(756,228)	(570,634)
Total Net Trade Receivables	49,005,830	36,978,790
<u>10c PREPAYMENTS AND DEPOSIT</u>	2019-2020 Kshs	2018-2019 Kshs
Office Deposit	11,500	11,500
Electricity Deposit	45,980	45,980
Telephone Deposit	23,000	23,000
Fuel Deposit	120,000	50,000
Total Prepayments and Deposits	200,480	130,480

NOTES TO THE FINANCIAL STATEMENTS (Continued)

11 CASH AND CASH EQUIVALENT

<u>CASH AND CASH EQUIVALENT</u>	2019-2020 Kshs	2018-2019 Kshs
KCB - Works Account Cash at Bank	77,320.54	(615)
KCB - Expenditure Account Cash at Bank	880,287.25	819,035
KCB - Customer's Deposit Accounts Cash at Bank	4,694,876.60	4,511,382
KCB - Revenue Account Cash at Bank	828,070.17	82,910
Equity Bank	73,549.58	59,924
Kiambu Unity Finance	76,058.06	141,030
Githunguri Dairy Farmers	56,393.96	38,057
Cash held by Safaricom (Revenue Collecting Agent)	723,148.00	94,000
Total Cash and Cash Equivalent	7,409,704.16	5,745,723

12 TRADE PAYABLES

<u>TRADE AND OTHER PAYABLES</u>	2019-2020 Kshs	2018-2019 Kshs
Trade Payables	108,637,381	91,416,508
Accrued Expenses	2,065,629	1,928,403
Other Payables	27,314,478	23,707,038
Total Trade & Other Payables	138,017,488	117,051,949

13 CAPITAL RESERVES

Capital Reserve represents the initial capital which is equal to the debtors inherited during the formation of the Company which is Kshs 11,509,082

14 ORDINARY SHARE CAPITAL

<u>ORDINARY SHARE CAPITAL</u>	2019-2020 Kshs	2018-2019 Kshs
Authorised:		
5,000 Ordinary Shares of Kshs 20 per value each	100,000	100,000
Issued and fully paid:		
2 Ordinary Shares of Kshs 20 per value each	40	40

15 REVENUE RESERVE

Revenue Reserve comprises of Kshs **(89,365,715)** which is a Cumulative surplus (deficit) for the previous financial years.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

16 PROPERTY, PLANT AND EQUIPMENT

16a Property, Plant and Equipment Schedule for the Year Ended 30th June 2019

COST	Office Equipments	Computers & Laptops	Furniture & Fittings	Motor Cycle & Vehicle	Plant & Equipments	Buildings	Mobile Phones	Pipes & Meters	Tools	TOTALS
As at 1st July 2018	130,235	1,403,016	407,286	748,000	2,579,304	10,577,546	43,200	4,464,680	54,500	20,407,767
Additions		394,240		553,100	192,464	114,035		3,844,600		5,098,439
As at 30th June 2019	130,235	1,797,256	407,286	1,301,100	2,771,768	10,691,581	43,200	8,309,280	54,500	25,506,206
DEPRECIATION										
As at 1st July 2018	87,319	1,269,433	240,910	241,750	1,111,492	1,199,755	22,154	433,253	49,107	4,655,173
Charge for the Year	5,365	66,611	20,797	126,563	183,477	234,445	6,945	503,928	1,796	1,149,927
As at 30th June 2019	92,684	1,336,044	261,707	368,313	1,294,969	1,434,200	29,099	937,181	50,903	5,805,100
NET BOOK VALUE										
As at 30th June 2019	37,551	461,212	145,579	932,787	1,476,799	9,257,381	14,101	7,372,099	3,597	19,701,106
As at 30th June 2018	42,916	99,958	166,376	506,250	1,467,812	9,377,791	21,046	4,031,428	5,393	15,718,970

16b Property, Plant and Equipment Schedule for the Year Ended 30th June 2020

COST	Office Equipments	Computers & Laptops	Furniture & Fittings	Motor Cycle & Vehicle	Plant & Equipments	Buildings	Mobile Phones	Pipes & Meters	Tools	TOTALS
As at 1st July 2019	130,235	1,797,256	407,286	1,301,100	2,771,768	10,691,581	43,200	8,309,280	54,500	25,506,206
Additions		131,000					284,000	2,060,000		2,475,000
As at 30th June 2020	130,235	1,928,256	407,286	1,301,100	2,771,768	10,691,581	327,200	10,369,280	54,500	27,981,206
DEPRECIATION										
As at 1st July 2019	92,684	1,336,044	261,707	368,313	1,294,969	1,434,200	29,099	937,181	50,903	5,805,100
Charge for the Year	4,694	174,729	18,198	233,197	184,600	231,435	4,653	921,512	1,198	1,774,216
As at 30th June 2020	97,378	1,510,773	279,905	601,510	1,479,569	1,665,635	33,752	1,858,693	52,101	7,579,316
NET BOOK VALUE										
As at 30th June 2020	32,857	417,483	127,381	699,590	1,292,199	9,025,946	293,448	8,510,587	2,399	20,401,890
As at 30th June 2019	37,551	461,212	145,579	932,787	1,476,799	9,257,381	14,101	7,372,099	3,597	19,701,106

17 CUSTOMERS DEPOSIT

CUSTOMERS DEPOSIT	2019-2020 Kshs	2018-2019 Kshs
Opening Customers Deposit Balances	7,621,739	6,338,298
Deposits Received from Customers	674,000	1,287,941
Customer Refunds/Withdrawals	11,000	4,500
Closing Customers Deposit Balances	8,284,739	7,621,739

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

18 BORROWINGS

<u>BORROWINGS</u>	2019-2020	2018-2019
	Kshs	Kshs
Balance at the beginning of the year	3,000,000	3,500,000
Repayment of internal during the year	1,500,000	500,000
Balance at the end of the year	1,500,000	3,000,000
Less: Amount due with one year(current portion)	1,500,000	500,000

19 DEFERRED INCOME

<u>DEFERRED INCOME</u>	2019-2020	2018-2019
	Kshs	Kshs
Balance at the beginning of the year	9,811,969	10,544,430
Deferred income during the year	732,461	732,461
Balance at the end of the year	9,079,508	9,811,969

20 NOTES TO THE STATEMENT OF CASHFLOW

<u>NOTES TO THE STATEMENT OF CASH FLOW</u>	2019-2020	2018-2019
	Kshs	Kshs
(a) Reconciliation of operating profit/(Loss) to cash generated from/ (used in) operations		
Operating Profit/(loss)	(6,433,607)	(8,459,691)
Depreciation	1,774,216	1,149,927
Operating profit/ (loss) before working capital changes	(4,659,391)	(7,309,764)
Working Capital Changes		
(Increase) Decrease in Trade and Other Receivables	(12,027,040)	(10,842,041)
(Increase) Decrease in Prepayments and Deposits	(70,000)	-
(Increase) Decrease in Inventories	(666)	(2,357,342)
Increase (Decrease) in Trade and Other Payables	20,965,539	21,810,068
Increase (Decrease) in Customer Deposits	663,000	1,283,441
Cash Generated from/ (used in) Operations	4,871,442	2,584,362

NOTES TO THE FINANCIAL STATEMENTS (Continued)

21 RELATED PARTY DISCLOSURES

The Company is related to;

- i) Ministry of Water and Irrigation
- ii) County Government of Kiambu
- iii) WASREB
- iv) WARMA
- v) Athi water services board
- vi) Key management
- vii) Board of directors

a) Key management remuneration

key Management Remuneration	2019 / 2020	2018/2019
	Kshs.	Kshs.
Directors	0	200,000
Key Management	6, 886,812	6,086,186
Total	6,886,812	6,286,186

Amounts due to related parties	2019 / 2020	2018/2019
	Kshs	Kshs
AWSB	15,541,893	15,541,893
WASREB	4,547,251	2,180,179
WARMA	4,617,160	3,972,908
Ministry of Water and Irrigation	22,000	22,000
Nairobi Water	104,351,750	88,412,312
Total	129,080,054	110,192,292

22 CONTINGENT LIABILITIES

A legal case was ruled against us of which the company is required to deposit a sum of Kshs.1, 168,000 in a joint interest account awaiting appeal. The money is to be borrowed from Customer Deposit account since the company is not in a financial position to settle the charges. Further, a former employee of the company Mr. Robert Njenga has sued the organization seeking Compensation of about Kshs. 730,000/= for unlawful dismissal. The matter is in court. No provision has been made for this matter.

23 INCORPORATION

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

24 EVENTS AFTER THE REPORTING PERIOD

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

25 CURRENCY

The financial statements are presented in Kenya Shillings (Kshs)