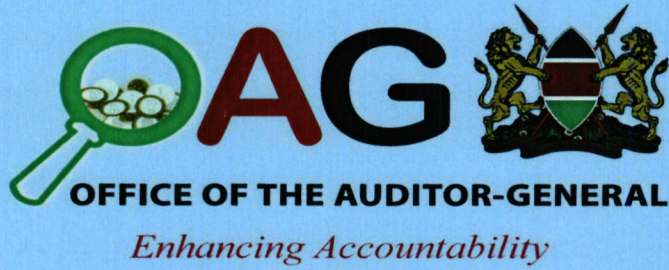


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REPORT

OF

THE AUDITOR-GENERAL

ON

MIGORI WATER AND SANITATION COMPANY LIMITED

FOR THE YEAR ENDED 30 JUNE, 2019

| PAPERS LAID | |
|------------------------|------------------------|
| DATE | 10/02/2022 |
| TABLED BY COMMITTEE | SENATE MAJORITY LEADER |
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MIGORI COUNTY WATER AND SANITATION COMPANY LTD

REPORTS AND FINANCIAL STATEMENTS

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

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

MIGORI COUNTY WATER AND SANITATION COMPANY LTD

Reports and Financial Statements For the year ended June 30, 2019

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MIGORI COUNTY WATER AND SANITATION COMPANY LTD

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KEY COMPANY INFORMATION

(a) Background information

Migori County Water and Sanitation Company was incorporated and registered under the Company Act (Cap 486) on the 12th June 2006. It is a water service provider contracted by Lake Victoria South Water Works Development Agency through a Service Provision Agreement (SPA) to run gazetted water supplies within Migori, Rongu, Kuria East, Kuria West, Nyatike, Uriri, Awendo, Transmara East and Transmara West Districts as per the Water Act 2002. With devolution, Transmara East and Transmara West moved to Narok County while the other water supplies remained within the coverage of the company. The Company covers an area of about 5976 km² with a population of approximately 1,191,702 people based on 2009 population census estimated to be growing at 3%.

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

(b) Principal Activities

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

(c) Directors

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

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

MIGORI COUNTY WATER AND SANITATION COMPANY LTD

Reports and Financial Statements

For the year ended June 30, 2019

Corporate Secretary

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

(d) Registered Office

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

(e) Corporate Contacts

Fax 059 20031
Tel. 059 20031
Email: miwascoltd@gmail.com
info@miwasco.co.ke

(f) Corporate Bankers

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

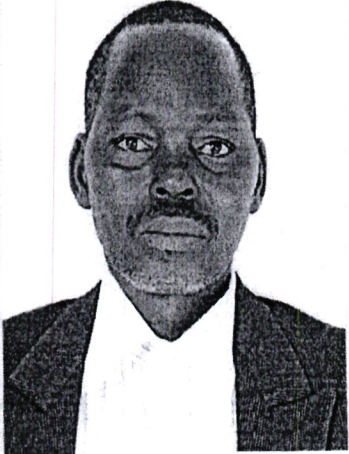


(g) Independent Auditors

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

MIGORI COUNTY WATER AND SANITATION COMPANY LTD




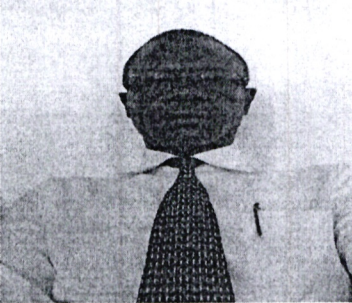
**Reports and Financial Statements
For the year ended June 30, 2019**

II. THE BOARD OF DIRECTORS

| No. | Director's passport-size | Director's name, and key profession/academic qualifications | Concise description of each Director's date of birth, key qualifications and work experience |
|-----|-------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 1 |  | <p>Mr. Samwel Odhiambo Chairman</p> | <p>Date of Birth: 9th December, 1961</p> <p>Work Experience: P1 Teacher</p> <p>Key Qualifications: Diploma in ECDE BA Education (Primary)</p> |
| 2. |  | <p>Mr. Frank Marita Managing Director</p> | <p>Date of Birth: 14th September 1959</p> <p>Work Experience: WASH Engineer & Specialist. Vast experience in urban and rural water supply and sanitation programming and management (30 years). Corporate Governance and Public Administration Management Expert. Previously CECM for Water and Irrigation, Health Services and Public Administration and Coordination of Decentralized Units in Nyamira County.</p> <p>Key Qualifications: BSc Hydrogeology; Diploma in Contemporary Public Administration Management.</p> |
| 3. |  | <p>Hon. Rebecca Ghati Maroa , Cabinet Executive Committee Member: Water & Energy</p> | <p>Date of Birth: 1974</p> <p>Key Qualifications: Masters of Arts (Linguistics), Bachelor's degree (English Literature)</p> <p>Work Experience: CECM Water & Energy, Director Gender & Equality,</p> |



MIGORI COUNTY WATER AND SANITATION COMPANY LTD

**Reports and Financial Statements
For the year ended June 30, 2019**

| | | | |
|----|-------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 4. |  | <p>Hon. Scholastica Obiero, Cabinet Executive Committee Member, Finance Migori County</p> | <p>Date of Birth: 6th June, 1961 Key Qualifications: Masters Degree in Business Administration, BBA, Diploma in Business Management Work Experience: CECM Finance and Planning, Accountant - KRA</p> |
| 5. |  | <p>Mr. Lameck Oyugi Director</p> | <p>Date of Birth: 8th August 1958 Key Qualifications: BSc. Environmental Health, Certificate in Environmental Impact Assessment and Environmental Audit, Higher Diploma in Applied Biology, Certificate in Personnel Management. Work Experience: Regional Manager National Cereals and Produce Board – Lake Western Kenya, Assistant Quality Pest Control Manager, Pest Control Officer.</p> |
| 6. |  | <p>Mrs. Hellen Rioba Nchagwa Director</p> | <p>Date of Birth: 1st July 1978 Work Experience: Senior teacher: Wizara for the Mentally Challenged Teacher: Tarang'anya Primary School, Bikarabwa Primary School. Chairperson Bukira East Women SACCO. Vice treasurer KNUT Kuria West Branch. Key Qualifications: Degree in Special Needs Education. Diploma in Special Needs Education</p> |
| 7. |  | <p>Mr. Kennedy Adiema Director</p> | <p>Date of Birth: 23rd May 1968 Work Experience: Planning Engineer – Zakhem International Co. Ltd. Project Manager – Dynacorp International. Head of Mechanical/Structural Engineering – Kenya Wildlife Service. Key Qualifications: MBA – Strategic Management. Bsc – Mechanical Engineering. Diploma in Project Management. Diploma in Business Management</p> |

MIGORI COUNTY WATER AND SANITATION COMPANY LTD

**Reports and Financial Statements
For the year ended June 30, 2019**




| | | | |
|----|-----------------------------------------------------------------------------------|-----------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 8. |  | Mr. Peter Okwany Director | Date of Birth: 20 th August 1945 Key Qualifications: BA (Oxon) Work Experience: Commercial Manager Kenya Power & Lighting Co. Ltd, General Manager Securicor Kenya Ltd, Managing Director Re-Engineering (Africa) Consortium Ltd, Non-Executive Director Re-Engineering (Africa) Consortium Ltd. |
| 9. |  | Mr. Dickson Kirui Company Secretary. | Date of Birth: 23 rd Nov 1962 Key Qualifications CPS (K) Governance Auditor |

MIGORI COUNTY WATER AND SANITATION COMPANY LTD

Reports and Financial Statements





For the year ended June 30, 2019

MANAGEMENT TEAM

| Manager's passport-size photo and name, and key profession/academic qualifications | Area of responsibility |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------|
|  <p>Mr. Frank Marita Bsc. Hydrogeology.</p> | Managing Director |
|  <p>CPS (K) Governance Auditor</p> | Company Secretary |
|  <p>Isaack Keli Muthengi Diploma Water Engineering BSc Environmental Science Masters Environmental Science</p> | Technical Manager |

MIGORI COUNTY WATER AND SANITATION COMPANY LTD

**Reports and Financial Statements
For the year ended June 30, 2019**

| | |
|----------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------|
|  <p>Mr. Cornelius Gendia Diploma ILM - Management</p> | ICT Manager |
|  <p>Mr. Ivan Deyahs BSC – Accounting</p> | Internal Auditor |
|  <p>Mr. Brian Oduor BBM – Finance</p> | Procurement Officer |
|  <p>Mr. Fred Odhiambo Aluoch BBM – Accounting</p> | Ag. Commercial Manager |

MIGORI COUNTY WATER AND SANITATION COMPANY LTD

**Reports and Financial Statements
For the year ended June 30, 2019**



**Mrs. Beatrice Owiti
Diploma Human Resource Management
Advanced Certificate in IT**

Ag. Human Resource Manager

MIGORI COUNTY WATER AND SANITATION COMPANY LTD

Reports and Financial Statements For the year ended June 30, 2019

CHAIRMAN'S STATEMENT

On behalf of the Board, I have the pleasure of presenting the Annual Report and Financial Statements for the year ended 30th June 2019.

Operating Environment

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

The Board

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

The Future and Conclusion

With devolution of water services, the company has a bright prospect to fully deliver its mandate to the people of Migori County. With the launching of the company's five year strategic plan 2017-2022, clear directions have been stipulated to guide the operations of the company to success. Restructuring in the management has been instituted by the Board of Directors with a view to inspire better performance and resuscitate growth in the highly potential company.

Appreciation

Lastly, I wish to express my sincere appreciation to my fellow Board members, management and staff for their dedication during the financial year. Finally, I would like to thank the Migori County Government, Lake Victoria South Water Works Development Agency and Water Sector Trust Fund for their continued support, guidance and good working relationship. I further would like to express my gratitude to Kenya Integrated Water, Sanitation and Hygiene (KIWASH) for their support in helping the company formulate its five year Strategic Plan (2017-2022) and playing part in extension of our distribution network in Awendo Water Scheme



Samwel Odhiambo Nyateng
Chairman

MIGORI COUNTY WATER AND SANITATION COMPANY LTD

Reports and Financial Statements For the year ended June 30, 2019

REPORT OF THE MANAGING DIRECTOR

I am delighted to present the Annual Report and Financial statement for the year ended 30th June 2019.

Operating Results

The performance of the company continues to be dismal being majorly due to non-operation caused by frequent electricity disconnections. The company recorded a loss of Kshs 13,994,952. Water sales registered Kshs 15.7 million as opposed to last financial year's Kshs 8.8 million representing 80% increase. Migori water supply, the company's major water supply, had its electricity disconnected frequently for non-payment and this was the major contributor to the poor performance. Grants received from Migori County Government in respect of electricity bills paid directly to KPLC increased from Kshs 10.7 million in the financial year 2017/2018 to Kshs 14.7 million representing a 37% increment. Income from commercial vehicles rose from Kshs 2.6 million in the financial year 2017/2018 to Kshs 4.2 million representing a 62% increase. The exhauster services were hampered by a range of challenges which led to its poor performance. Continued lack of a waste dumping site in Migori County means that all the waste collected is transported all the way to Kisii County for safe disposal. This arrangement increased charges which, on the other hand scared away the already struggling customers. The construction of the Kisii – Isebania highway also provided challenges in the course of waste transportation. The back hoe's engine broke down and an overhaul of the same is required if anything to restore its operations. The finances to undertake this still remains a challenge. In other words, the company raised Kshs 20.1 million as revenue compared to last financial year's of Kshs 11.5 million signifying a 75% rise.

The production cost increased significantly from Kshs 27 million in the financial year 2017/2018 to Kshs 35.3 million representing a 30% increase. As explained above, the company only managed to operate sparingly during the year under review due to electricity disconnection which forms the biggest part of the production cost. General administration costs increased from 6.5 million to 12 million occasioned by the depreciation of assets to a tune of Kshs 6.9 million.

MIGORI COUNTY WATER AND SANITATION COMPANY LTD

Reports and Financial Statements

For the year ended June 30, 2019

Operating Environment

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

Water Sector Trust Fund has initiated three major water supply development projects within the Company's area of jurisdiction to improve the inadequate water supply to equate the demand. These projects are:

Upper Oruba Water Services Trust Fund UPC Project. This project is 100% complete and is valued at Kshs. 16,690,912. It has the following scope: 1 no. 225m³ masonry tank valued at Kshs. 4,074,200, 5 no water kiosks valued at Kshs. 2,539,150 and pipeline extension 6.308Km valued at Kshs. 7,337,290.

Rongo Riosiri Water and Sanitation Project. This project was 100% complete as at 30th June 2019 and is valued at Kshs 19,035,896. It has the following scope: 9.1Km distribution pipeline valued at Kshs 7,294,411 225m³ water storage tank and 3no water kiosks valued at Kshs 5,468,036 composite filtration unit valued at Kshs 4,005,234 206no water meters valued at Kshs 904,400 plus additional accompanying costs of Kshs 1,265,214 and project signage of Kshs 98,600.

Uriri Bware Kanyadera Water and Sanitation Project. This project was 100% complete as at 30th June 2019 and is valued at Kshs 17,162,136. It has the following scope: 16Km distribution pipeline valued at Kshs 11,581,069 5 no. Water kiosks valued at Kshs 2,166,980 a vertical pump of 15m³/hr at 170m head valued at Kshs 1,420,000, 210 no. Water meters valued at Kshs 1,056,000 and additional accompanying costs of Kshs 839,447 and project signage of Kshs 98,600.

Kegonga Water and Sanitation Project. This project was 100% complete as at 30th June 2019 and is valued at Kshs 18,863,686. It has the following scope: 11.1Km distribution pipeline valued at Kshs 6,927,108 1no. 100m³ and 50m³ water storage tanks, and 3no water kiosks valued at Kshs 4,177,951 1no. High lift pump set 20m³/hr 225m head valued at Kshs 1,220,000, 1no. Low lift pump set 20m³/hr and 10m head valued at Kshs 1,220,000, an electric motor valued at Kshs 900,000, a laboratory valued at Kshs 966,731, power connection and installation at Kshs 1,074,962, 158no water meters valued at Kshs 782,900 plus additional accompanying costs of Kshs 1,495,434 and project signage of Kshs 98,600

MIGORI COUNTY WATER AND SANITATION COMPANY LTD

Reports and Financial Statements

For the year ended June 30, 2019

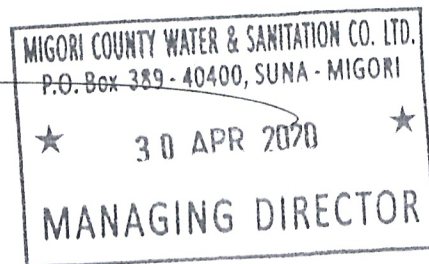
Conclusion

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



Titus Okoyo Oluoch.

Managing Director



MIGORI COUNTY WATER AND SANITATION COMPANY LTD

Reports and Financial Statements

For the year ended June 30, 2019

CORPORATE GOVERNANCE STATEMENT

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

1. Number of Board meetings

FY 2018/2019

Committees – 4

Full Board – 5

Annual General Meeting – One (1)

Special General Meeting – One (1)

2. Succession plan

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

The Article specifically provides for retirement of two thirds of the stakeholder directors. This then leaves a third for institutional memory and succession. This was done and achieved during the financial year where four Directors retired and three recruited. Two had remained as Directors as their term expires in the year 2020.

3. Existence of a Board charter

MIWASCO has not developed a board charter yet.

4. Process of appointment and removal of directors

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

During the year, four Directors were retired in September 2019 and three recruited and appointed in a Special General Meeting in 2019. The law and regulations were adhered to.

6. Roles and functions of the Board

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

1. Before commencing business sign the code of ethics as circulated by WASREB.
2. Have a schedule of full board meetings at the end of every year for the next year.
3. Have only one full board meeting in every quarter.

MIGORI COUNTY WATER AND SANITATION COMPANY LTD

Reports and Financial Statements

For the year ended June 30, 2019

4. Inform the LVSWBS of other meetings not within the schedule of board meetings.
5. Define the limits of authority of the Managing Director and other top executives in a schedule of duties.
6. Approve an annual budget in consultation with the respective LVSWBS in accordance with the Service Provision Agreement.
7. Devote sufficient time to their responsibilities.
8. Have an approved organizational structure and adhere to the staff efficiency ratio guideline of 8 staff per 1,000 connections.
9. Have a performance management and appraisal system in place.
10. Map out communication strategy for internal and external liaisons to include at least one public forum in its area of supply.
11. Define how the Board will operate including:
 - (a.) Submission of the following information to them by management on a quarterly basis:
 - i.) Amount of regulatory levy and other levies paid.
 - ii.) Service obligation and performance report for supply area providing commercial and technical issues.
 - iii.) Financial report reflecting the levels of tariff revenues and subsidies.
 - (b.) Submission of the following reports on an annual basis:
 - i.) Financial report.
 - ii.) Audited financial report for the year ended.
 - iii.) Performance achievement report covering commercial and technical improvements on performance.
12. Embark on benchmarking with other WSP to constantly monitor management performance and the financial progress of the company.
13. Evaluate its own performance at least once every year based on the Service Provision Agreement.
14. Ensure that the company is properly managed for the attainment of lawful objectives.
15. Ensure that the company's affairs are not managed or conducted in a manner oppressive to any of its shareholders or for fraudulent purposes.
16. Ensure that the company complies with all statutory requirements, including directives issued by WASREB.
17. Ensure that sitting allowances and other expenditures of the board and its committees do not exceed two percent of the annual recurrent budget for a WSP, five per cent for a WSB or any other ratio set out by the Water Services Regulatory Board for efficiency purposes

MIGORI COUNTY WATER AND SANITATION COMPANY LTD

Reports and Financial Statements

For the year ended June 30, 2019

18. Appoint an Ad hoc committee to determine chairman's remuneration (Honoraria) in line with the WASREB or Government regulation.

1. The chairman is entitled to honoraria based on number of visits made officially (excluding boards meeting).

MIWASCO does not have a Board charter, manual and conflict of interest policy.

5. Induction and training

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

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

MIWASCO Directors were inducted by a team comprising The Migori County Government, LVSWSB, WASREB, KIWASH and Kirui Registrars and CPS (The Company Secretaries) in March 2019. The induction was funded by KIWASH.

6. Board and member performance

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

MIWASCO has not evaluated the Board members nor did it evaluate the immediate former Managing Director

The Board continues to violate Article 73 (c) of the Company's Articles of

Association on Compliance and section 705 of the Companies Act No. 17 of 2015 on Filing of Annual Returns. We have continued to point out issues that need attention and communicated all the areas that required compliance.

7. Conflict of interest

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

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

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

8. Board remuneration

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

MIGORI COUNTY WATER AND SANITATION COMPANY LTD

Reports and Financial Statements

For the year ended June 30, 2019

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

9. Ethics and conduct

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

Article 73 (1) of the Company's Articles of Association clearly states that Directors must sign the code of ethics before commencing business. The directors of MIWASCO signed the code of ethics during the March 2019 induction.

10. Governance Audit

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

The Company did not undertake a internal or external governance audit during the year. This requires to be undertaken.

MIGORI COUNTY WATER AND SANITATION COMPANY LTD

Reports and Financial Statements

For the year ended June 30, 2019

MANAGEMENT DISCUSSION AND ANALYSIS

The management of the company presents this year's operational and financial performance of the company to all its stakeholders. Since the inception of devolution and the receiving of the operations of the new Migori water supply, the operations of the company has for the second successive year in its lowest performances. Frequent electricity disconnections during the year under review led to inconsistency in operations. This affected the financial performance of the company which led to its failure to meet most of its obligations. At close of the financial year, the company accrued salary arrears up to thirteen months, payment of statutory deductions could not be met and almost all the company's vehicles were grounded.

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

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

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

In its course of operation the company is faced with several risks that threaten efficient operations. With the lack of a sewerage system within Migori County, safe disposal of waste has remained a challenge. The company has thus been forced to find the services in neighbouring counties which are a distance away and

MIGORI COUNTY WATER AND SANITATION COMPANY LTD

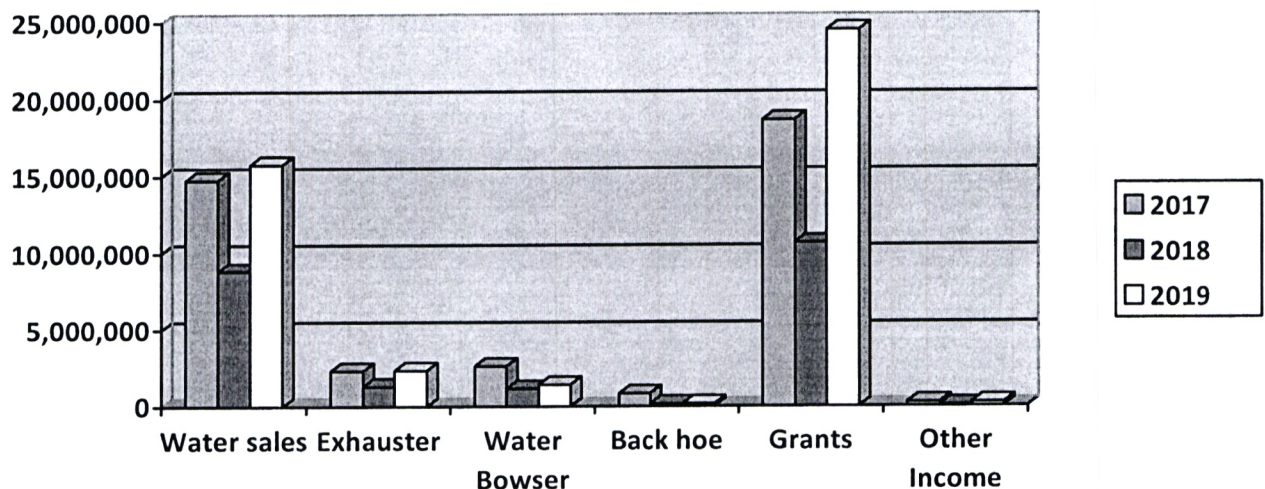
Reports and Financial Statements

For the year ended June 30, 2019

the dumping comes at a cost. All these extra charges are transferred to the customers most of whom are not ready to bear. This poses the risk of having our exhauster services halted in the future.

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

| | Water sales | Exhauster | Water Bowser | Back hoe | Grants | Other Income |
|-----------|--------------------|------------------|---------------------|-----------------|---------------|---------------------|
| 2016/2017 | 14,760,825 | 2,325,450 | 2,637,550 | 850,000 | 18,656,746 | 269,349 |
| 2017/2018 | 8,828,939 | 1,315,000 | 1,175,000 | 166,000 | 10,694,407 | 86,304 |
| 2018/2019 | 15,769,344 | 2,346,300 | 1,424,500 | 167,100 | 24,484,560 | 244,854 |



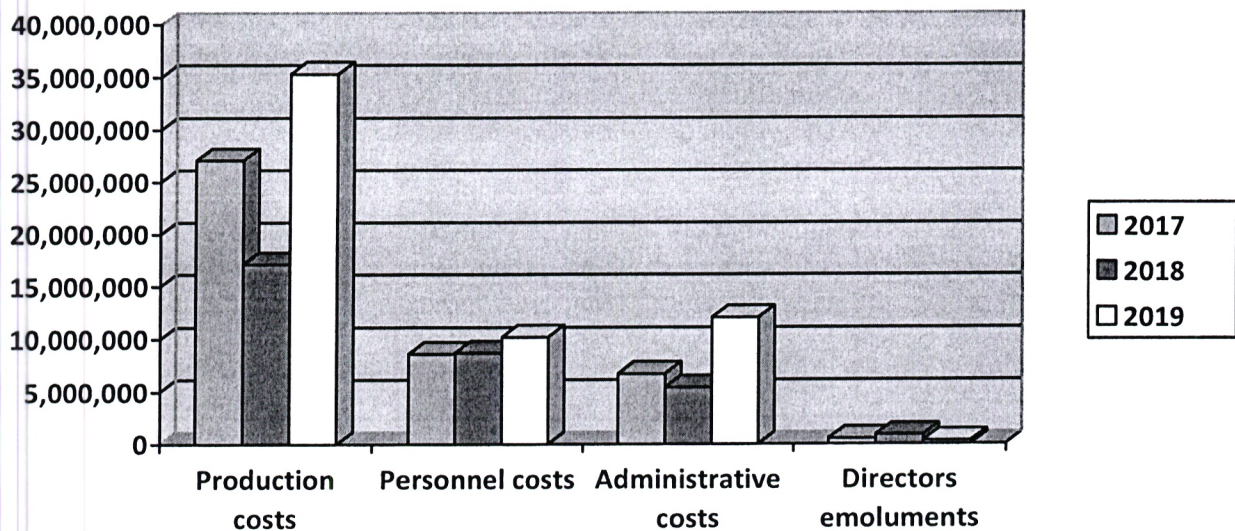
From the graphical presentations, it can be observed that the financial year 2018/2019 registered improvement in all sources of revenue. Water sale can also be observed as the major direct source of revenue of the company and immediate interventions are required to overcome the trend being observed.

MIGORI COUNTY WATER AND SANITATION COMPANY LTD

**Reports and Financial Statements
For the year ended June 30, 2019**

The corresponding operational costs are illustrated below over the same period

| | Production costs | Personnel costs | Administrative costs | Directors emoluments |
|-----------|-------------------------|------------------------|-----------------------------|-----------------------------|
| 2016/2017 | 27,082,480 | 8,627,850 | 6,745,745 | 558,710 |
| 2017/2018 | 17,138,395 | 8,698,150 | 5,451,538 | 893,760 |
| 2018/2019 | 35,315,117 | 10,189,250 | 12,162,510 | 600,000 |



From the graph it can be observed that the production costs contribute the highest portion of the operational expenses. The significant rise of production costs in 2018/2019 high electricity cost. Personnel costs have not changed much over the period under comparison since the staffing levels have stagnated. Director’s emoluments cater for the least portion of the operational costs. Administrative costs increased significantly due to high depreciation cost of the assets developed in the various projects implemented by the company.

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

We wish to thank our fellow staff for the endurance in this financial year but at the same time continue the same effort for the common good.

MIGORI COUNTY WATER AND SANITATION COMPANY LTD

Reports and Financial Statements

For the year ended June 30, 2019

REPORT OF THE DIRECTORS

The Company is established and regulated under the Companies Act Cap 486, Laws of Kenya and Water Act 2002. Its Directors submit their Annual Financial Report for the year ended June 30, 2019 which show the state of the Company's affairs.

Principal activities

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

Results

The results of the Company for the year ended June 30, 2019 are set out on page 20

Dividends

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

Directors

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

Auditors

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

By Order of the Board



Samwel Odhiambo Nyateng
Chairman

Date: 23/9/2019.....

MIGORI COUNTY WATER AND SANITATION COMPANY LTD

Reports and Financial Statements For the year ended June 30, 2019

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Company is established and regulated under Cap 486 of the Companies Act. Section 81 of the Public Finance Management Act, 2012 and section 8 of the State Corporations Act, require the Directors to prepare financial statements in respect of that entity, which give a true and fair view of the state of affairs of the Company at the end of the financial year/period and the operating results of the Migori County Water and Sanitation Company Limited for that year/period. The Directors are also required to ensure that the Company keeps proper accounting records which disclose with reasonable accuracy the financial position of the Company.


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

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

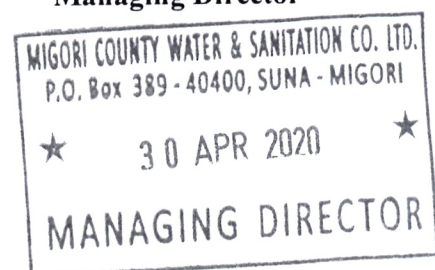
Nothing has come to the attention of the Directors to indicate that Migori County Water and Sanitation Company Limited will not remain a going concern for at least the next twelve months from the date of this statement.

Approval of the financial statements

The Migori County Water and Sanitation Company Limited financial statements were discussed and adopted by Board of Directors on 22/9/2019 2019 and signed on its behalf by:

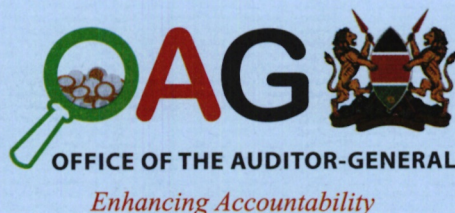

Samwel Odhiambo
Chairman


Titus Okoyo Oluoch
Managing Director



REPUBLIC OF KENYA

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



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

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

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of Migori Water and Sanitation Company Limited set out on pages 23 to 55, which comprise the statement of financial position as at 30 June, 2019, and the statement 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 effects of the matters described in the Basis for Qualified Opinion section of my report, the financial statements present fairly, in all material respects, the financial position of the Migori Water and Sanitation Company Limited as at 30 June, 2019, and of its financial performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards and comply with the Water Act, 2016 and the Companies Act, 2015.

Basis for Qualified Opinion

1. Unsupported Trade and Other Payables

As disclosed in Note 21 to the financial statements, the statement of financial position reflects a balance of Kshs.40,352,721 under trade and other payables as at 30 June, 2019. Review of the balance revealed that age analysis of the creditors was not provided for audit and therefore it was possible to ascertain the duration of the outstanding balances. However, the ledger account for Kshs.4,402,504 consisting of leave allowance, board allowance and gratuity arrears was not provided for audit while supporting documents for payables amounting Kshs.7,970,200 were not provided for audit review.

Further, the balance includes salary arrears balance of Kshs.8,064,234 equivalent to fourteen months of net pay of employees which has increased from Kshs.4,662,506 reported in the financial year 2017/2018 by Kshs.3,401,238 to Kshs.8,064,234 as at 30 June, 2019. No explanation was given for non-payment of the salary arrears.

In the circumstances, the accuracy and completeness of the trade and other payables balance of Kshs.40,352,721 could not be confirmed.

2. Unsupported Water Sales

The statement of comprehensive income reflects revenue of Kshs.15,769,344 under water sales which represents the total amount of customer billings for the financial year 2018/2019 for water consumption. However, an analysis of the individual customers' accounts billed were not provided for audit review and therefore, it was not possible to ascertain if all the customers were billed accurately and continuously during the year.

In the circumstances, the accuracy and completeness of water sales income of Kshs.15,769,344 could not be confirmed.

3. Un-Updated Ownership of the Company

As disclosed in Note 18 to the financial statements, the statement of financial position reflects a balance of Kshs.100,000 in respect of issued capital as at 30 June, 2019. The issued capital is divided into 5,000 shares of Kshs.20 each. The shares were previously issued to the defunct local authorities but later taken over by the County Government of Migori during the advent of devolution. However, these shares still remain in the name of the defunct local authorities and have not been officially transferred to the County Government of Migori.

Consequently, the ownership of the issued capital of Kshs.100,000 could not be confirmed.

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

Emphasis of Matter

Material Uncertainty in Relation to Going Concern

I draw attention to Note 1(y) in the summary of significant accounting policies on Going Concern in which Management has disclosed that the Company made a loss of Kshs.13,994,952 during the current financial year compared to a loss of Kshs.11,247,880 in the previous year. This depleted the revenue reserves from negative Kshs.20,453,877 as at 30 June, 2018 to a negative of Kshs.34,448,829 as reflected on the statement of financial position as at 30 June, 2019. Further, total current liabilities of Kshs.55,039,814 exceeded total current assets of Kshs.34,584,069 resulting in a negative working capital of Kshs.20,455,745 as at 30 June, 2019.

Management has however disclosed that through continuous support from the County Government of Migori, they believe that the Company would remain a going concern.

My opinion is not qualified in respect of the above 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 are no other key audit matters to report in the year under review.

Other Information

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

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

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

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

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

Basis for Conclusion

1. Recruitment of Staff

Review of the Company's payroll for the month of March, 2019 revealed that eighteen (18) new staff were recruited during the year under review. However, documents supporting the recruitment process such as vacancy advertisements, shortlists and interview reports were not provided for audit review.

Under the circumstances, it has not been possible to ascertain whether the employees were recruited competitively in accordance with the law on ethnic balance and the Company's procedures.

2. Non-Remittances of Statutory Deductions

As disclosed in Note 21 to the financial statements, the statement of financial position reflects trade and other payables balance of Kshs.40,352,721 which includes employees' statutory deduction amounting to Kshs.3,608,352 which constitutes Kshs.2,782,152, Kshs.456,000 and Kshs.370,200 in respect of Pay as You Earn, NSSF and NHIF deductions respectively that had not been remitted to the relevant bodies and were outstanding for more than forty-eight months by 30 June, 2019. Non-remittance of the statutory deductions is a breach of law which may attract heavy penalties and interests for non-compliance.

In the circumstances, Management is in breach of the law.

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

As required by Section 7(1)(a) of the Public Audit Act, 2015, based on the audit procedures performed, except for the matters described under 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

Un-Accounted for Water

During the year under review, the Company produced 619,325 cubic meters of water out of which 216,402 cubic meters or approximately 35% of the volume represents Non-Revenue Water (NRW), which is 10% over and above the allowable loss of 25% in accordance with the Water Services Regulatory Board guidelines.

The significant level of non-revenue water has a negative impact on the Company's financial performance and its ability to sustain services. This is also an indication of lack of efficiency and effectiveness in the use of public resources. No evidence was provided of any efforts by the Company to address the situation.

The audit was conducted in accordance with ISSAI 2315 and ISSAI 2330. The standard requires that I plan and perform the audit to obtain assurance about whether processes and systems of internal control, risk management and governance were

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

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

As required by the Companies Act, 2015 I report based on 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 Management on page 21, is consistent with the financial statements.

Responsibilities of Management and the Board of Directors

Management are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and the requirements of the Kenyan Companies Act, 2015 and, for maintaining effective internal control as the Management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error and for its assessment of the effectiveness of internal control, risk management and governance.

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

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

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

The Board of Directors is responsible for overseeing the Company's financial reporting process, reviewing the effectiveness of how the entity monitors compliance with relevant legislative and regulatory requirements, ensuring that effective processes and systems are in place to address key roles and responsibilities in relation to

governance and risk management, and ensuring the adequacy and effectiveness of the control environment.

Auditor-General's Responsibilities for the Audit

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

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

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

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting

from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Management.
- Conclude on the appropriateness of the Management' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the ability of the Company to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in the auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my audit report. However, future events or conditions may cause the Company to cease 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

24 December, 2021

MIGORI COUNTY WATER AND SANITATION COMPANY LTD**Reports and Financial Statements
For the year ended June 30, 2019****STATEMENT OF COMPREHENSIVE INCOME**

| | Note | 2018/19 Kshs | 2017/18 Kshs |
|---------------------------------------|------|---------------------|---------------------|
| REVENUES | | | |
| Water Sales | 3 | 15,769,344 | 8,828,904 |
| Grants from Government | 4 | 24,484,560 | 10,694,407 |
| Income from commercial vehicles | 5 | 4,227,200 | 2,656,000 |
| Other Income | 6 | 244,854 | 86,304 |
| TOTAL REVENUES | | 44,725,958 | 22,265,615 |
| OPERATING EXPENSES | | | |
| Production Costs | 7 | 35,315,117 | 17,138,395 |
| Personnel & Establishment Costs | 8 | 10,189,250 | 8,675,150 |
| General Administration Costs | 9 | 12,162,510 | 6,478,268 |
| Directors Emoluments | 10 | 600,000 | 893,760 |
| TOTAL OPERATING EXPENSES | | 58,266,877 | 33,185,573 |
| OPERATING PROFIT/(LOSS) | | (13,540,919) | (10,919,958) |
| Finance Costs | 11 | 222,033 | 95,922 |
| Audit Fee | 12 | 232,000 | 232,000 |
| PROFIT/ (LOSS) BEFORE TAXATION | | (13,994,952) | (11,247,880) |
| INCOME TAX EXPENSE | 13 | - | - |
| PROFIT/ (LOSS) AFTER TAXATION | | (13,994,952) | (11,247,880) |

The notes set out on pages 40 to 56 form an integral part of the Financial Statements.

MIGORI COUNTY WATER AND SANITATION COMPANY LTD

**Reports and Financial Statements
For the year ended June 30, 2019**

STATEMENT OF FINANCIAL POSITION

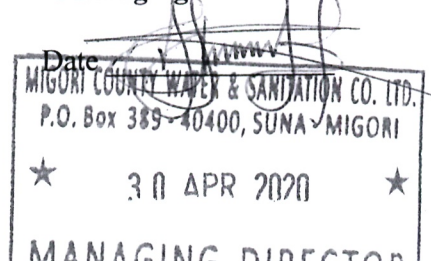
| | Note | 2018/19 Kshs | 2017/18 Kshs |
|-------------------------------------|------|--------------------------|--------------------------|
| Fixed Assets | | | |
| Upper Oruba Pipeline extension | 24 | 12,167,675 | 13,519,639 |
| Rongo Riosiri Water Project | 24 | 17,132,306 | 17,402,943 |
| Kegonga Water Project | 24 | 16,977,317 | 17,483,649 |
| Uriri Bware Kanyadera Water Project | 24 | 15,445,922 | 15,558,480 |
| Water Meters | 24 | 1,483,125 | - |
| Total Fixed Assets | | <u>63,206,345</u> | <u>63,964,711</u> |
| Intangible Assets | | | |
| Billing Software | 25 | 255,240 | 53,600 |
| Total Non-Current Assets | | <u>63,461,585</u> | <u>64,018,311</u> |
| Current Assets | | | |
| Inventories | 14 | 1,824,400 | 50,550 |
| Trade and other receivables | 16 | 32,276,271 | 26,808,222 |
| Bank and cash balances | 17 | 483,398 | 5,543,183 |
| Total Current Assets | | <u>34,584,069</u> | <u>32,401,955</u> |
| TOTAL ASSETS | | <u>98,045,654</u> | <u>96,420,266</u> |
| EQUITY AND LIABILITIES | | | |
| Capital and Reserves | | | |
| Issued Capital | 18 | 100,000 | 100,000 |
| Capital Reserves | 19 | 77,354,669 | 63,544,286 |
| Revenue Reserves | 20 | (34,448,829) | (20,453,877) |
| Capital and Reserves | | <u>43,005,840</u> | <u>57,000,792</u> |
| Current Liabilities | | | |
| Trade and other Payables | 21 | 40,352,721 | 26,147,320 |
| Agency Account | 22 | 9,589,162 | 8,421,223 |
| Customer Deposits | 23 | 5,097,931 | 4,850,931 |
| Total Current Liabilities | | <u>55,039,814</u> | <u>39,419,474</u> |
| TOTAL EQUITY AND LIABILITIES | | <u>98,045,654</u> | <u>96,420,266</u> |

The financial statements set out on pages 20 to 23 were approved by the Board on 23/9/2019..... 2019 and signed on its behalf by:


Chairman

Date 23/9/2019

Managing Director



MIGORI COUNTY WATER AND SANITATION COMPANY LTD**Reports and Financial Statements****For the year ended June 30, 2019****STATEMENT OF CHANGES IN EQUITY**

| | Share capital | Capital Reserve | Revenue Reserve | Total |
|------------------------------------------|----------------------|------------------------|------------------------|-------------------|
| | (KSHS) | (KSHS) | (KSHS) | (KSHS) |
| Notes | 18 | 19 | 20 | |
| As at July 1st 2017 | 100,000 | 63,544,286 | (9,205,997) | 54,438,289 |
| Profit/(Loss) attributed to Shareholders | | | (11,247,880) | (11,247,880) |
| Share capital | 100,000 | | | 100,000 |
| Grants from Water Sector Trust Fund | | 13,810,383 | | 13,810,383 |
| As at June 30th 2018 | 100,000 | 77,354,669 | (20,453,877) | 57,000,792 |
| As at July 1st 2018 | 100,000 | 77,354,669 | (20,453,877) | 57,000,792 |
| Profit/(Loss) attributed to Shareholders | | | (13,994,952) | (13,994,952) |
| Share capital | 100,000 | | | |
| As at June 30th 2019 | 100,000 | 77,354,669 | (34,448,829) | 43,005,840 |

MIGORI COUNTY WATER AND SANITATION COMPANY LTD

**Reports and Financial Statements
For the year ended June 30, 2019**

STATEMENT OF CASH FLOWS

| | Note | 2018/19 Kshs. | 2017/18 Kshs. |
|-----------------------------------------------------------------------------------------|------|---------------------------|----------------------------|
| Cash absorbed from Operations | | | |
| Reconciliation of operating Profit/ loss to Cash generated from/(used in) operations | | | |
| Surplus/ Deficit for the year | | (13,994,952) | (11,247,880) |
| Adjustment for: | | | |
| Amortisation - Software | 25 | 28,360 | 26,400 |
| Depreciation – Water Project | 24 | 6,858,136 | 1,502,182 |
| Depreciation – Water Meters | 24 | 211,875 | |
| Outflows for water meter purchase | 24 | (1,695,000) | |
| Operating loss before working capital changes | | <u>(8,591,581)</u> | <u>(9,719,298)</u> |
| Working Capital Changes | | | |
| (Increase)/decrease in inventories | 14 | (1,773,850) | 37,456 |
| (Increase)/(increase) in trade and other receivables | 16 | (5,468,049) | (3,913,740) |
| Increase/Increase in trade and other payables | 21 | 14,205,401 | 9,675,139 |
| Increase/increase in Agency account | 22 | 1,167,939 | 1,897,042 |
| | | 8,131,441 | 7,695,897 |
| CASH GENERATED FROM OPERATING ACTIVITIES | | <u>(460,140)</u> | <u>(2,023,401)</u> |
| INVESTING ACTIVITIES | | | |
| Outflows for asset acquisition | 24 | (4,846,646) | (30,140,451) |
| Cash generated from Investing Activities | | <u>(4,846,646)</u> | <u>(30,140,451)</u> |
| FINANCING ACTIVITIES | | | |
| Revenue from Customer | 23 | 247,000 | 156,000 |
| Revenue from grants | | - | 13,810,383 |
| Net cash generated from Financing activities | | <u>247,000</u> | <u>13,966,383</u> |
| (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENT | | (5,059,785) | (18,197,469) |
| CASH AND CASH EQUIVALENTS AT START OF YEAR | | 5,543,183 | 23,740,652 |
| CASH AND CASH EQUIVALENTS AT END OF THE YEAR | | <u>483,398</u> | <u>5,543,183</u> |

MIGORI COUNTY WATER AND SANITATION COMPANY LTD

Reports and Financial Statements

For the year ended June 30, 2019

**STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS
AS AT 30TH JUNE 2019**

| | BUDGET | ACTUAL | VARIANCE | EXPLANTORY NOTES |
|----------------------------------|-------------------|-------------------|-----------------|----------------------------------------------------------------------|
| Revenue | | | | |
| Water sales | 18,120,000 | 15,769,344 | 87% | Partial operations during the year |
| Exhauster revenue | 2,100,000 | 2,346,300 | 112% | More works than anticipated |
| Water tanker revenue | 2,460,000 | 1,424,500 | 58% | Frequent breakdowns of the water bowser |
| Excavator revenue | 1,105,000 | 167,100 | 15% | Excavator grounded for most of the year |
| Government grants | | 24,484,560 | | |
| Miscellaneous receipts | 215,000 | 244,854 | 114% | More customers registered with the company |
| Total Revenue | 24,000,000 | 44,436,658 | | |
| | | | | |
| Expenses | | | | |
| Duty travel & accommodation | 900,000 | 816,250 | 91% | |
| Exhausting chemicals | 20,000 | 1,600 | 8% | Fewer pit latrines were emptied |
| Dumping fees | 800,000 | 60,000 | 8% | Free dumping at Sony Sugar waste treatment facility reduced the cost |
| Water Boards Fees & levies | 1,800,000 | 1,138,690 | 63% | Partial operations during the year |
| Website Expenses | 25000 | 25,000 | 100% | |
| Motor Vehicle Insurance | 110,000 | 36,563 | 33% | Most vehicles were grounded |
| NEMA Licenses | 30,000 | 8,000 | 27% | Only one exhauster was operational |
| Office Networking | 50,000 | 7,000 | 14% | Partial done due to cash flow challenges |
| Accrued Audit fees | 232,000 | 232,000 | 100% | |
| Secretarial fees | 500,000 | 326,020 | 65% | Fewer Board of Directors meetings |
| Motor vehicle Inspection charges | 50,000 | 2,600 | 5% | Most vehicles were grounded |
| Bank charges | 200,000 | 222,033 | 110% | |
| NSSF Employer Contribution | | 117,600 | | |

MIGORI COUNTY WATER AND SANITATION COMPANY LTD

**Reports and Financial Statements
For the year ended June 30, 2019**

| | | | | |
|---------------------------------------------|------------|------------|------|------------------------------------------------------|
| Advertisements | 500,000 | 258,940 | 52% | Fewer adverts due to Financial challenges |
| Entertainment | 100,000 | 88,900 | 90% | |
| Donations | 100,000 | 12,000 | 12% | Fewer donations due to cash flow challenges |
| Stakeholders meeting exhibits and marketing | 150,000 | 128,000 | 85% | Marketing not done during the year |
| Postages & revenue stamps | 16,000 | 500 | 3% | Letters sent through the mail during the year |
| Printing & stationery | 436,400 | 254,215 | 58% | Minimized paper work |
| Office tea & cleaning | 240,000 | 31,960 | 13% | Office tea reduced due to Financial challenges |
| E-mail & internet | 172,000 | 73,408 | 43% | SMS billing not achieved due to cash flow challenges |
| Computer & printer maintenance | 80,000 | 31,000 | 39% | Minimal maintenance done due to financial challenges |
| Communication | 60,000 | 3,000 | 5% | Much done through the mail |
| Transport hire | 100,000 | 58,000 | 58% | Minimized hiring due to cash flow challenges |
| WARMA levy | | 217,401 | | |
| Uniform & identification tags | 300,000 | 22,000 | 7% | Only staff tags designed due to financial challenges |
| Electricity for Administration | 120,000 | 113,941 | 95% | |
| Office repairs & maintenance | 70,000 | 11,000 | 16% | No major breakdowns in the year |
| Other expenses | | 41,000 | | |
| Basic Salaries | 10,500,000 | 8,633,000 | 82% | Low salaries due to financial challenges |
| Leave allowance | 487,200 | 342,600 | 70% | Low salaries during the year |
| Gratuity | 1,546,554 | 924,150 | 60% | Low salaries during the year |
| Airtime | 264,000 | 52,300 | 20% | Less airtime paid due to financial challenges |
| Staff lunches | 210,000 | 237,200 | 113% | |
| Repair of water pipelines & supplies | 3,000,000 | 2,682,244 | 90% | |
| Water Treatment Chemicals | 8,130,000 | 9,746,000 | 120% | Grants from Migori County Government |
| Casual wages | 700,000 | 203,650 | 29% | Fewer hired due to financial challenges |
| Electricity for production | 27,260,000 | 19,010,673 | 70% | Partial operations during the year |

MIGORI COUNTY WATER AND SANITATION COMPANY LTD

**Reports and Financial Statements
For the year ended June 30, 2019**

| | | | | |
|----------------------------------|-------------------|-------------------|------------|---------------------------------------------------------------------|
| Motor Vehicle Fuel & oil | 2,000,000 | 2,146,500 | 107% | |
| Motor vehicle repairs | 2,150,000 | 826,450 | 38% | Most vehicles were grounded |
| Servicing of water pumps | 1,000,000 | 699,600 | 70% | Only serviced pumps at Migori water supply due cash flow challenges |
| Board sitting allowances | 380,000 | 228,400 | 60% | Fewer Board of Directors meetings |
| Board committee allowances | 252,000 | 102,000 | 40% | Fewer Board of Directors meetings |
| Board special meeting allowances | 190,000 | 132,100 | 70% | Fewer Board of Directors meetings |
| Board travel & entertainment | 160,000 | 42,000 | 26% | No major travels by Board of Directors during the year |
| Board refreshment | 20,000 | 11,500 | 58% | Fewer Board of Directors meetings |
| Board stationery | 10,000 | 6,000 | 60% | Fewer Board of Directors meetings |
| Board Honoraria | 180,000 | 60,000 | 33% | Paid less due to financial challenges |
| Board Airtime | 60,000 | 20,000 | 33% | Paid less due to financial challenges |
| Total Expenses | 64,421,154 | 50,472,238 | 78% | |

RECONCILIATION OF ACTUAL AMOUNTS TO THE COMPREHENSIVE INCOME STATEMENT

| | KSHS | KSHS |
|-----------------------------------------------------------------------|-----------|--------------------------|
| Actual amounts expenditure balance as at 30 th June 2019 | | 50,472,238 |
| <u>Add unpaid amounts</u> | | |
| Provision for depreciation | 6,964,074 | |
| Provision for bad debts | 1,256,238 | |
| Amortisation of billing software | 28,360 | <u>8,248,672</u> |
| Comprehensive income statement as at 30th June 2019 | | <u>58,720,910</u> |

MIGORI COUNTY WATER AND SANITATION COMPANY LTD

Reports and Financial Statements

For the year ended June 30, 2019

SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES

1. Statement of compliance and basis of preparation

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

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

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

2. Adoption of new and revised standards

i) Relevant new standards and amendments to published standards effective for the year ended 30 June 2018

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

MIGORI COUNTY WATER AND SANITATION COMPANY LTD

Reports and Financial Statements
For the year ended June 30, 2019

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

MIGORI COUNTY WATER AND SANITATION COMPANY LTD

Reports and Financial Statements For the year ended June 30, 2019

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

MIGORI COUNTY WATER AND SANITATION COMPANY LTD

**Reports and Financial Statements
For the year ended June 30, 2019**

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

MIGORI COUNTY WATER AND SANITATION COMPANY LTD

**Reports and Financial Statements
For the year ended June 30, 2019**

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

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

MIGORI COUNTY WATER AND SANITATION COMPANY LTD

Reports and Financial Statements

For the year ended June 30, 2019

| Standard | Effective Date | Impact |
|----------------------------------------------------|----------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| IFRS 16: <i>Leases</i> (issued in January 2016) | 1 Jan 2019 | The new standard introduces a new lessee accounting model, and will require a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee will be required to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. |

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

iii) Early adoption of standards

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

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

a. Revenue recognition

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

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

MIGORI COUNTY WATER AND SANITATION COMPANY LTD

Reports and Financial Statements

For the year ended June 30, 2019

SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES (continued)

b. In-kind contributions

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

c. Property, plant and equipment

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

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

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

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

d. Depreciation and impairment of property, plant and equipment

Freehold land and capital work in progress are not depreciated. Capital work in progress relates mainly to the costs of ongoing but incomplete works on buildings and other civil works and installations.

Depreciation on property, plant and equipment is recognised in the income statement on a reducing balance basis to write down the cost of each asset or the re-valued amount to its residual value over its estimated useful life. The annual rates in use are:

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

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

MIGORI COUNTY WATER AND SANITATION COMPANY LTD

Reports and Financial Statements For the year ended June 30, 2019

SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES (continued)

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

e. Intangible assets

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

f. Amortisation and impairment of intangible assets

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

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

g. Investment property

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

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

h. Finance and operating leases

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

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

i. Fixed interest investments (bonds)

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

SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES (continued)

j. Quoted investments

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

k. Unquoted investments

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

l. Inventories

Inventories are stated at the lower of cost and net realisable value. The cost of inventories comprises purchase price, import duties, transportation and 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.

Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

MIGORI COUNTY WATER AND SANITATION COMPANY LTD

Reports and Financial Statements

For the year ended June 30, 2019

SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES (continued)

Deferred tax

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

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

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

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

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

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

MIGORI COUNTY WATER AND SANITATION COMPANY LTD

Reports and Financial Statements

For the year ended June 30, 2019

SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES (continued)

o. Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and cash at bank, short-term deposits on call and highly liquid investments with an original maturity of three months or less, which are readily convertible to known amounts of cash and are subject to insignificant risk of changes in value. Bank account balances include amounts held at the Central Bank of Kenya and at various commercial banks at the end of the financial year. For the purposes of these financial statements, cash and cash equivalents also include short term cash imprests and advances to authorised public officers and/or institutions which were not surrendered or accounted for at the end of the financial year.

p. Borrowings

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

q. Trade and other payables

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

r. Retirement benefit obligations

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

s. Provision for staff leave pay

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

t. Exchange rate differences

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

MIGORI COUNTY WATER AND SANITATION COMPANY LTD

Reports and Financial Statements

For the year ended June 30, 2019

SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES (continued)

u. Budget information

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

In addition to the Basis difference, adjustments to amounts in the financial statements are also made for differences in the formats and classification schemes adopted for the presentation of the financial statements and the approved budget.

The original and final budget for this financial year was approved by the Board of Directors in a full board meeting held on 29th June 2018.

v. Comparative figures

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

w. Subsequent events

There have been no events subsequent to the financial year end with a significant impact on the financial statements for the year ended June 30, 2017.

x. Critical Accounting Judgements and Key Sources of Estimation Uncertainty

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

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

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

a) Critical judgements in applying accounting policies

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

MIGORI COUNTY WATER AND SANITATION COMPANY LTD

Reports and Financial Statements

For the year ended June 30, 2019

SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES (continued)

b) Key sources of estimation uncertainty

Impairment losses

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

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

Property, plant, equipment and intangible assets

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

Contingent liabilities

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

y. Going Concern

The Company made a loss of Kshs. 13,903,952 (2017/2018 Kshs. 11,247,880) during the year which was added to accumulated losses totalling to Kshs. 34,357,829. This condition indicates doubts as to the going concern status of the Company. Through continuous support from Migori County Government, the management believes that the Company will remain a going concern.

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

MIGORI COUNTY WATER AND SANITATION COMPANY LTD

Reports and Financial Statements

For the year ended June 30, 2019

NOTES TO THE FINANCIAL STATEMENTS

| | 2018/19 | 2017/18 |
|------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------|-------------------|
| | Kshs | Kshs |
| 3 SALES | | |
| Migori Water Supply | 13,694,866 | 6,981,220 |
| Rongo Water Supply | 1,163,488 | 247,815 |
| Kehancha Water Supply | - | 79,800 |
| Isebania Water Supply | 541,830 | 831,374 |
| Awendo Water Supply | 125,225 | 447,520 |
| Uriri Water Supply | 243,935 | 241,175 |
| | <u>15,769,344</u> | <u>8,828,904</u> |
| | ===== | ===== |
| 4 GRANTS FROM GOVERNMENT | | |
| Electricity | 14,738,560 | 10,694,407 |
| Water treatment chemicals | 9,746,000 | - |
| | <u>24,484,560</u> | <u>10,694,407</u> |
| | ===== | ===== |
| <p>Government Grants consists of Electricity bills paid and water treatment chemicals purchased by the Migori County Government during the year.</p> | | |
| 5 INCOME FROM COMMERCIAL VEHICLES | | |
| Exhauster Services | 2,346,300 | 1,315,000 |
| Excavator Services | 167,100 | 166,000 |
| Water Tanker Services | 1,424,500 | 1,175,000 |
| Water vendors | 289,300 | - |
| | <u>4,227,200</u> | <u>2,656,000</u> |
| | ===== | ===== |
| 6 OTHER INCOME | | |
| Other miscellaneous receipts | 244,854 | 86,304 |
| | <u>244,854</u> | <u>86,304</u> |
| | ===== | ===== |

Miscellaneous receipts include the collection from survey fees and 10% cost of materials from new connections

MIGORI COUNTY WATER AND SANITATION COMPANY LTD

Reports and Financial Statements

For the year ended June 30, 2019

NOTES TO THE FINANCIAL STATEMENTS

| | Kshs | Kshs |
|--------------------------------------------------------------------|-------------------|-------------------|
| 7 PRODUCTION COSTS | | |
| Electricity | 19,010,673 | 12,738,831 |
| Chemicals | 9,746,000 | 1,278,477 |
| Casual wages | 203,650 | 215,100 |
| Repairs of water Supplies | 2,682,244 | 755,037 |
| Motor vehicle repairs | 826,450 | 899,750 |
| Fuel | 2,146,500 | 1,251,200 |
| Servicing of water pumps | 699,600 | |
| | <u>35,315,117</u> | <u>27,082,480</u> |
| | ===== | ===== |
| 8 PERSONNEL & ESTABLISHMENT COSTS | | |
| Salaries and wages | 8,633,000 | 8,492,000 |
| Gratuity | 924,150 | - |
| Leave allowance | 342,600 | - |
| Other allowances | 289,500 | 183,150 |
| Staff training | - | - |
| | <u>10,189,250</u> | <u>8,675,150</u> |
| | ===== | ===== |
| The average number of employees at the end of the year was: | | |
| 3 year contract employees (Management) | 6 | 6 |
| 1 year contract employees | <u>44</u> | <u>44</u> |
| Total number of employees | <u><u>50</u></u> | <u><u>50</u></u> |
| | ===== | ===== |
| 9 GENERAL ADMINISTRATIVE COSTS | | |
| LVSWWDA & WASREB Levy | 1,167,939 | 1,897,042 |
| WARMA Levy | 217,401 | 115,894 |
| Office Electricity | 113,941 | 95,142 |
| Computer Charges | 31,000 | 20,600 |
| Advertisements | 258,940 | 168,154 |
| Entertainment | 88,900 | - |
| Donations | 12,000 | 44,000 |
| Postage | 500 | 1,770 |
| Printing and stationery | 254,215 | 131,740 |
| Motor Vehicle Insurance | 36,563 | - |
| Duty Travel & Subsistence Allowance | 816,250 | 381,900 |
| Sewerage Dumping Fee | 60,000 | 167,500 |
| Licenses | 8,000 | 8,000 |
| Strategic business plan | - | 20,000 |
| Stakeholder's meetings & exhibits | 128,000 | - |
| Office repairs | 11,000 | 30,200 |
| Motor vehicle inspection charges | 2,600 | 3,000 |

MIGORI COUNTY WATER AND SANITATION COMPANY LTD

Reports and Financial Statements

For the year ended June 30, 2019

NOTES TO THE FINANCIAL STATEMENTS (Continued)

| | 2018/19 Kshs | 2017/18 Kshs |
|-------------------------------------|-------------------|------------------|
| Office tea & cleaning | 31,960 | 18,985 |
| Subscriptions | - | 4,000 |
| Secretarial Services | 326,020 | 449,150 |
| E-mail & Internet | 73,408 | 22,700 |
| Website expenses | 25,000 | - |
| Office networking | 7,000 | - |
| Communication | 3,000 | |
| Transport hire | 58,000 | 54,000 |
| NSSF Employer Contribution | 117,600 | 114,000 |
| Staff uniform & Identification tags | 22,000 | - |
| Exhausting chemicals | 1,600 | 2,490 |
| Other expenses | 41,000 | - |
| Provision for bad debts | 1,256,238 | 1,199,419 |
| Amortisation (Billing software) | 28,360 | 26,400 |
| Depreciation (Water Project) | 6,858,136 | 1,502,182 |
| Depreciation (Water Meters) | 105,938 | |
| | 12,162,510 | 6,478,268 |
| 10 DIRECTORS EMOLUMENTS | | |
| Board Allowance | 228,400 | 200,050 |
| Board Committee Allowance | 100,000 | 78,250 |
| Special Board Meeting Allowance | 132,100 | 361,100 |
| Board Travel and Entertainment | 42,000 | 117,300 |
| Board Refreshment | 11,500 | 8,895 |
| Board Stationery | 6,000 | 3,165 |
| Board Airtime | 20,000 | 35,000 |
| Board Chairman Honoraria | 60,000 | 90,000 |
| | 600,000 | 893,760 |
| 11 FINANCE COSTS | | |
| Bank Charges | 222,033 | 95,922 |
| | 222,033 | 95,922 |

MIGORI COUNTY WATER AND SANITATION COMPANY LTD**Reports and Financial Statements**

For the year ended June 30, 2019

NOTES TO THE FINANCIAL STATEMENTS (Continued)

| | 2018/19 | 2017/18 |
|------------------------------------------------------------------------------------------|-------------------|-------------------|
| | Kshs | Kshs |
| 12 AUDIT FEE | | |
| Audit fee | 232,000 | 232,000 |
| | <u>232,000</u> | <u>232,000</u> |
| | ===== | ===== |
| 13 TAXATION | | |
| No provision has been made in these financial statements in view of the losses incurred. | | |
| 14 INVENTORIES | | |
| Water treatment Chemicals | 1,824,400 | 50,550 |
| | <u>1,824,400</u> | <u>50,550</u> |
| | ===== | ===== |
| 15 TRADE AND OTHER RECEIVABLES | | |
| Water sales receivables | 24,272,301 | 22,994,929 |
| Exhauster receivables | 108,000 | 407,000 |
| Excavator receivables | 61,000 | 61,000 |
| Water tanker receivables | <u>683,450</u> | <u>525,450</u> |
| | 25,124,751 | 23,988,379 |
| Provision for bad receivables | (1,256,238) | (1,199,419) |
| Amount owed by shareholders | 100,000 | 100,000 |
| Migori County Government | 8,307,758 | 3,919,262 |
| | <u>32,276,271</u> | <u>26,808,222</u> |
| Net trade and other receivables | ===== | ===== |

MIGORI COUNTY WATER AND SANITATION COMPANY LTD

Reports and Financial Statements

For the year ended June 30, 2019

NOTES TO THE FINANCIAL STATEMENTS (Continued)

17 BANK AND CASH BALANCES

| ACCOUNT NAME | BANK | ACCOUNT NO. | 2018/2019 | 2017/2018 |
|-----------------------|-------------|--------------------|------------------|------------------|
| | | | Kshs | Kshs |
| M-PESA Pay Bill | | 827780 | 13,511 | 8,000 |
| Revenue Account | KCB | 1106248791 | 19,905 | 26,858 |
| Deposit Account | KCB | 1106253906 | 431,815 | 809,859 |
| Expenditure Account | KCB | 1106254058 | 18,167 | 49,844 |
| Rongo Riosiri Project | KCB | 1182014992 | - | 1,634,539 |
| Kegonga Project | KCB | 1182015336 | - | 1,392,892 |
| Uriri Bware Project | KCB | 1182015158 | - | 1,621,191 |
| TOTAL | | | 483,398 | 5,543,183 |

18 SHARE CAPITAL

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

100,000

100,000

100,000

100,000

19 CAPITAL RESERVES

Bal b/f

77,354,669

63,544,286

Grants received from Water Services Trust Fund

-

13,810,383

77,354,669

77,354,669

20 REVENUE RESERVES

These are accumulated losses

Balance b/d

(20,453,877)

(9,205,997)

Profit/ Loss for the year

(13,994,952)

(11,556,802)

(34,448,829)

(20,453,877)

MIGORI COUNTY WATER AND SANITATION COMPANY LTD

Reports and Financial Statements

For the year ended June 30, 2019

NOTES TO THE FINANCIAL STATEMENTS (Continued)

| | 2018/19 | 2017/18 |
|------------------------------------|----------------|----------------|
| | Kshs. | Kshs. |
| 21 TRADE AND OTHER PAYABLES | | |
| Panafric Insurance | 8,400 | 8,400 |
| Salary Arrears | 8,064,234 | 4,662,506 |
| Board Allowance Arrears | 656,800 | 426,500 |
| P.A.Y.E | 2,782,152 | 2,316,859 |
| N.S.S.F | 456,000 | 220,800 |
| N.H.I.F | 370,200 | 72,550 |
| Withholding Tax | 41,400 | 41,400 |
| Ukulima Sacco | 486,982 | 486,982 |
| WARMA | 2,459,895 | 2,242,495 |
| KPLC | 8,307,758 | 3,919,262 |
| Audit fees | 2,824,000 | 2,592,000 |
| NWC Pension | 1,923 | 1,923 |
| Gratuity Arrears | 3,403,104 | 2,478,954 |
| Leave allowance | 342,600 | - |
| Marowa Stores Ltd | 174,740 | 174,740 |
| Lavington Security Ltd | 502,500 | 502,500 |
| Migori Motor Vehicle Garage | 16,750 | 16,750 |
| Bumandoh Engineering Co. Ltd | 160,000 | 160,000 |
| Girango Guest House | 93,560 | 40,960 |
| Kirui Registrar's & CPS | 905,900 | 588,080 |
| Kenya Bureau of Standards | 12,412 | 12,412 |
| Pan Africa Chemicals Ltd | 414,330 | 414,330 |
| Commeatus Solution Ltd | 229,000 | 229,000 |
| Florence Hotel Ltd | - | 73,520 |
| Hyrise Infopath Complex | 104,490 | 104,490 |
| Majay Investments Ltd | 463,000 | 463,000 |
| Muga Investments Ltd | - | 43,200 |
| Five Star Service Station | 484,468 | 484,468 |
| Baselink Group Ltd | - | 36,850 |
| Think Tank Strategic Consultants | 70,000 | 70,000 |
| Bulbul Construction Ltd | 155,200 | 155,200 |
| Nation Media Group | 215,760 | 65,929 |
| Digilink Enterprises | 399,900 | 399,900 |
| Kel Chemicals | 2,200,340 | 2,200,340 |
| Agure & Co. Advocates | 57,000 | 57,000 |
| Keneli Engineering | 68,400 | 68,400 |
| Allaxis Hotel Ltd | 155,510 | 155,510 |
| Gusii Water & Sanitation Co. Ltd | 110,000 | 50,000 |
| Staff welfare | 231,900 | 178,700 |
| Higher Education Loans Board | 168,158 | 168,158 |
| Jonya Agencies | 232,000 | 232,000 |
| Migori Petro Service Station | 50,352 | 50,352 |

MIGORI COUNTY WATER AND SANITATION COMPANY LTD

**Reports and Financial Statements
For the year ended June 30, 2019**

NOTES TO THE FINANCIAL STATEMENTS (Continued)

| | 2018/19 Kshs | 2017/2018 Kshs |
|-----------------------|--------------------------|---------------------------|
| Reyvellor Enterprises | 22,000 | - |
| Eremo Stores | 60,600 | - |
| Southern Sports | 14,400 | - |
| Kinetics Engineering | 102,000 | - |
| Geokiba Electricals | 499,600 | - |
| DAI Global LLC | 1,695,000 | - |
| | <u>40,352,721</u> | <u>26,147,320</u> |

MIGORI COUNTY WATER AND SANITATION COMPANY LTD

Reports and Financial Statements

For the year ended June 30, 2019

NOTES TO THE FINANCIAL STATEMENTS (Continued)

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

| | 2018/19 | 2017/18 |
|--------------------------|-------------------------|-------------------------|
| | Kshs | Kshs |
| 22 AGENCY ACCOUNT | | |
| LVSWSB | | |
| Balance b/f | 6,611,683 | 5,871,762 |
| Lease Fees | 967,973 | 739,921 |
| Remittance | - | - |
| | <u>7,579,656</u> | <u>6,611,683</u> |
| WASREB | | |
| Balance b/f | 1,809,539 | 652,418 |
| Lease fees | 199,965 | 1,157,121 |
| Remittance | - | - |
| | <u>2,009,504</u> | <u>1,809,539</u> |
| TOTAL AGENCY FEES | <u><u>9,589,162</u></u> | <u><u>8,421,222</u></u> |

The agency account comprises of lease fee that the company should submit to Lake Victoria South Water Services Board at 9% (water sales) and WASREB at 1%. (Total revenue excluding grants)

| | | |
|----------------------------|------------------|------------------|
| 23 CUSTOMER DEPOSIT | | |
| Balance b/f | 4,850,931 | 4,694,931 |
| Add New Deposits | 247,000 | 156,000 |
| Less deposit refunds | - | - |
| | <u>5,097,931</u> | <u>4,850,931</u> |

MIGORI COUNTY WATER AND SANITATION COMPANY LTD

Reports and Financial Statements

For the year ended June 30, 2019

NOTES TO THE FINANCIAL STATEMENTS (Continued)

24 PROPERTY, PLANT AND EQUIPMENT

FIXED ASSET MOVEMENT SCHEDULE

AS AT 30/06/2019

| | Upper Oruba Water Project (Kshs) | Rongo Riosiri Water Project (Kshs) | Uriri Bware Water Project (Kshs) | Kegonga Water Project (Kshs) | Total (Kshs) |
|----------------------------------------|----------------------------------|------------------------------------|----------------------------------|------------------------------|-------------------|
| As at July 1st 2017 | 15,021,821 | 6,829,755 | 6,981,198 | 6,493,668 | 35,326,442 |
| Additions (WIP) | - | 10,573,188 | 8,577,282 | 10,989,981 | 30,140,451 |
| Disposals | - | - | - | - | - |
| As at June 30th 2018 | 15,021,821 | 17,402,943 | 15,558,480 | 17,483,649 | 65,466,893 |
| Depreciation | | | | | |
| As at July 1 st 2017 | 1,669,091 | - | - | - | 1,669,091 |
| Charge for the year | 1,502,182 | - | - | - | 1,502,182 |
| As at June 30 th 2018 | 3,171,273 | - | - | - | 3,171,273 |
| Net Book Value | 13,519,639 | 17,402,943 | 15,558,480 | 17,483,649 | |
| As at June 30th 2018 | 13,519,639 | 17,402,943 | 15,558,480 | 17,483,649 | 63,964,711 |
| As at July 1st 2018 | 13,519,639 | 17,402,943 | 15,558,480 | 17,483,649 | 63,964,711 |
| Additions | - | 1,632,953 | 1,603,656 | 1,380,037 | 4,616,646 |
| Disposals | - | - | - | - | - |
| As at June 30th 2019 | 13,519,639 | 19,035,896 | 17,162,136 | 18,863,686 | 68,581,357 |
| Depreciation | | | | | |
| As at July 1 st 2018 | 3,171,273 | - | - | - | 3,171,273 |
| Charge for the year | 1,351,964 | 1,903,590 | 1,716,214 | 1,886,369 | 6,858,137 |
| As at June 30 th 2019 | 4,523,237 | 1,903,590 | 1,716,214 | 1,886,369 | 10,029,409 |
| Net Book Value | 12,167,675 | 17,132,306 | 15,445,922 | 16,977,317 | 61,723,221 |
| As at June 30th 2019 | 12,167,675 | 17,132,306 | 15,445,922 | 16,977,317 | 61,723,221 |

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

MIGORI COUNTY WATER AND SANITATION COMPANY LTD

**Reports and Financial Statements
For the year ended June 30, 2019**

NOTES TO THE FINANCIAL STATEMENTS (Continued)

| | Water Meters (Kshs) | Total (Kshs) |
|----------------------------------------|--------------------------------|-------------------------|
| As at July 1st 2018 | 1,695,000 | 1,695,000 |
| Additions | - | |
| Disposals | - | |
| As at June 30th 2019 | 1,695,000 | 1,695,000 |
| Depreciation | | |
| As at July 1 st 2018 | - | |
| Charge for the year | 211,875 | 211,875 |
| As at June 30th 2019 | 211,875 | 211,875 |
| Net Book Value | 1,483,125 | 1,483,125 |
| As at June 30th 2019 | 1,483,125 | 1,483,125 |

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

**25. INTANGIBLE ASSET MOVEMENT SCHEDULE
AS AT 30/06/2019**

| | Billing Software (Kshs) |
|----------------------------------------|------------------------------------|
| As at July 1st 2017 | 80,000 |
| Additions (WIP) | - |
| Disposals | - |
| As at June 30th 2018 | 80,000 |
| Amortisation | |
| As at July 1 st 2017 | 100,000 |
| Charge for the year | 26,400 |
| As at June 30th 2018 | 126,400 |
| Net Book Value | 53,600 |
| As at June 30th 2018 | 53,600 |
| As at July 1st 2018 | 53,600 |
| Additions | 230,000 |
| Disposals | - |
| As at June 30th 2019 | 283,600 |
| Depreciation | |
| As at July 1 st 2018 | 126,400 |
| Charge for the year | 28,360 |
| As at June 30th 2019 | 154,760 |
| Net Book Value | 255,240 |
| As at June 30th 2019 | 255,240 |

MIGORI COUNTY WATER AND SANITATION COMPANY LTD

Reports and Financial Statements For the year ended June 30, 2019

NOTES TO THE FINANCIAL STATEMENTS (Continued)

26. CONTINGENT LIABILITIES

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

27. EARNINGS/LOSS PER SHARE

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

28. INCORPORATION

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

29. RELATED PARTY DISCLOSURES

(a) Migori County Government

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

Other related parties include:

- i) The Parent Ministry;
- ii) Key management;
- iii) Board of directors;

| | 2018/19 Kshs | 2017/18 Kshs |
|-----------------------------------------------|--------------------------|--------------------------|
| Transactions with related parties | | |
| (a). Grants from the County Government | | |
| Payment of electricity bills | 14,738,560 | 10,694,407 |
| Purchase of water treatment chemicals | 9,746,000 | - |
| Total | <u>24,484,560</u> | <u>10,694,407</u> |
| (b). Key Management compensation | | |
| Director's emoluments | 600,000 | 893,760 |
| Compensation of the Managing Director | 1,500,000 | 1,500,000 |
| Compensation to key management | 1,220,000 | 1,220,000 |
| Total | <u>3,320,000</u> | <u>3,613,760</u> |

FINANCIAL RISK MANAGEMENT

The entity's activities expose it to a variety of financial risks including credit and liquidity risks and effects of changes in foreign currency. The company's overall risk management programme focuses on unpredictability of changes in the business environment and seeks to minimise the potential adverse effect of such risks on its performance by setting acceptable levels of risk. The company does not hedge any risks and has in place policies to ensure that credit is only extended to customers with an established credit history.

The company's financial risk management objectives and policies are detailed below:

(i) Credit risk

The entity has exposure to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when due. Credit risk arises from cash and cash equivalents, and deposits with banks, as well as trade and other receivables and available-for-sale financial investments.

Management assesses the credit quality of each customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external assessment in accordance with limits set by the directors. The amounts presented in the statement of financial position are net of allowances for doubtful receivables, estimated by the company's management based on prior experience and their assessment of the current economic environment.

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

ii. Liquidity risk management

Ultimate responsibility for liquidity risk management rests with the entity's directors, who have built an appropriate liquidity risk management framework for the management of the entity's short, medium and long-term funding and liquidity management requirements.

The entity manages liquidity risk through continuous monitoring of forecasts and actual cash flows.

MIGORI COUNTY WATER AND SANITATION COMPANY LTD

**Reports and Financial Statements
For the year ended June 30, 2019**

NOTES TO THE FINANCIAL STATEMENTS (Continued)

(iii) Market risk

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

Market risk is the risk arising from changes in market prices, such as interest rate, equity prices and foreign exchange rates which will affect the entity's income or the value of its holding of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return. Overall responsibility for managing market risk rests with the Audit Committee.

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

There has been no change to the entity's exposure to market risks or the manner in which it manages and measures the risk.

MIGORI COUNTY WATER AND SANITATION COMPANY LTD

**Reports and Financial Statements
For the year ended June 30, 2019**

I. PROGRESS ON FOLLOW UP OF AUDITOR RECOMMENDATIONS

The following is the summary of issues raised by the external auditor, and management comments that were provided to the auditor. We have nominated focal persons to resolve the various issues as shown below with the associated time frame within which we expect the issues to be resolved.

| Reference No. on the external audit Report | Issue / Observations from Auditor | Management comments | Focal Point person to resolve the issue (Name and designation) | Status: (Resolved / Not Resolved) | Timeframe: (Put a date when you expect the issue to be resolved) |
|---------------------------------------------------|------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------|------------------------------------------|-------------------------------------------------------------------------|
| 1 | Cash and Bank Balances | Bank reconciliation statements to be prepared on a monthly basis | Fred Odhiambo Aluoch Accountant | Resolved | 31 st July 2018 |
| 2 | Trade and Other Receivables | Analysis of debtors to be done to age all debtors | Fred Odhiambo Aluoch Accountant | Not Resolved | |
| 3 | Property, Plant and Equipment | Fixed asset register to be developed and updated | Brian Oduor Procurement Officer | Not Resolved | |
| 4 | Trade and Other Payables | Creditors ledgers developed for that category of expenditure | Fred Odhiambo Aluoch Accountant | Resolved | 1 st July 2018 |
| 5 | Capital Reserves | Capital reserves ledger developed to show movement over the years | Fred Odhiambo Aluoch Accountant | Resolved | 1 st July 2018 |
| 6 | Motor Vehicles Repairs | The company to engage expertise from Public works in Migori County Government for inspection reports before it undertakes any repairs of vehicles | Brian Oduor Procurement Officer | Resolved | |
| 7 | Repairs of water supplies | Link between accounts and procurement offices to be improved for flow of documents before any payment is made | Brian Oduor Procurement Officer | Resolved | |
| 8 | Casual Wages | A muster roll to be put in place to track location | Beatrice Owiti | Not Resolved | |

MIGORI COUNTY WATER AND SANITATION COMPANY LTD

Reports and Financial Statements

For the year ended June 30, 2019

| Reference No. on the external audit Report | Issue / Observations from Auditor | Management comments | Focal Point person to resolve the issue (Name and designation) | Status: (Resolved / Not Resolved) | Timeframe: (Put a date when you expect the issue to be resolved) |
|---------------------------------------------------|------------------------------------------|-----------------------------------------------------------|-----------------------------------------------------------------------|------------------------------------------|-------------------------------------------------------------------------|
| | | and nature of work done by casual workers | Human Resource Manager | | |
| 9 | Board Emoluments | Payments to Board of Directors to be supported adequately | Fred Odhiambo Aluoch Accountant | Resolved | |

MIGORI COUNTY WATER AND SANITATION COMPANY LTD

Reports and Financial Statements

For the year ended June 30, 2019

APPENDIX 1: PROJECTS IMPLEMENTED BY THE ENTITY

Projects

Projects implemented by the Company and funded by development partners

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

MIGORI COUNTY WATER AND SANITATION COMPANY LTD

Reports and Financial Statements

For the year ended June 30, 2019

I. APPENDIX 2: INTER-ENTITY TRANSFERS

| | | | | |
|--------------------------------------------------------------|------------------------|--------------------------------------------|----------------------|-----------------------|
| ENTITY NAME: | | MIGORI COUNTY WATER AND SANITATION CO. LTD | | |
| Break down of Transfers from Migori County Government | | | | |
| FY 18/19 | | | | |
| a. Direct Payments | | | | |
| | | Date | Amount (KShs) | Financial Year |
| | Kenya Power & Lighting | 18/9/2018 | 48,810 | |
| | Kenya Power & Lighting | 31/12/2018 | 2,322,519 | |
| | Kenya Power & Lighting | 31/12/2018 | 3,287,626 | |
| | Kenya Power & Lighting | 31/12/2018 | 430,934 | |
| | Kenya Power & Lighting | 14/1/2019 | 58,855 | |
| | Kenya Power & Lighting | 14/1/2019 | 51,272 | |
| | Kenya Power & Lighting | 14/1/2019 | 12,964 | |
| | Kenya Power & Lighting | 14/1/2019 | 9,007 | |
| | Kenya Power & Lighting | 14/1/2019 | 23,034 | |
| | Kenya Power & Lighting | 21/1/2019 | 2,454,387 | |
| | Kenya Power & Lighting | 12/2/2019 | 610,950 | |
| | Kenya Power & Lighting | 19/3/2019 | 610,950 | |
| | Kenya Power & Lighting | 19/3/2019 | 818,699 | |
| | Kenya Power & Lighting | 20/3/2019 | 1,028 | |
| | Kenya Power & Lighting | 20/3/2019 | 47,084 | |
| | Kenya Power & Lighting | 20/3/2019 | 22,146 | |
| | Kenya Power & Lighting | 20/3/2019 | 9,022 | |
| | Kenya Power & Lighting | 20/3/2019 | 36,855 | |
| | Kenya Power & Lighting | 14/5/2019 | 3,882,419 | |
| | | TOTAL | 14,738,560 | |

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

Finance Manager

Migori County Water and Sanitation Co. Ltd

Head of Accounting Unit

Ministry of Water

Sign

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