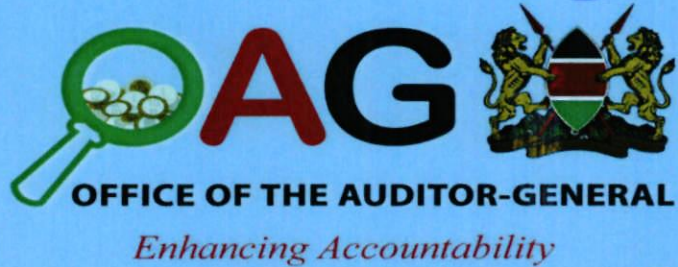


REPUBLIC OF KENYA

SCANNED



# REPORT

OF

**THE AUDITOR-GENERAL**

ON

**KAPENGURIA WATER AND SEWERAGE  
SERVICES COMPANY LIMITED**

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

PAPERS LAID	
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KAWASES COMPANY LTD.

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OFFICE OF THE AUDITOR GENERAL  
ELDORET HUB  
29 SEP 2020  
RECEIVED  
P. O. Box 2774 - 30100, ELDORET

**KAPENGURIA WATER AND SEWERAGE  
SERVICES COMPANY LIMITED.**

**FINANCIAL STATEMENTS FOR THE YEAR ENDED  
30<sup>TH</sup> JUNE 2020**



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## **COMPANY INFORMATION**

The company was established 25 may 2006 by the act of parliament of 2002 and was in operation 1<sup>st</sup> July 2007. At cabinet level the company is represented by cabinet secretary for water and irrigation who is responsible for the general policy and strategic direction of the company.

### **Principal activity**

The principal activities of the company are provision of water and sewerage services

### **VISION.**

To be a leading and most sustainable Water Service Provider in Rift Valley Service Board area of coverage.

### **MISSION.**

To provide reliable, affordable and safe water and sewerage services in an efficient and effective way, to the customers in the defined area, through continuous improvement of the Company.

### **CORE VALUES.**

Values are an integral part of any organization's culture, which in turn creates a sense of identity, belonging, direction and purpose. In our quest for timely provision of quality services, we shall be guided by the following core values;

- Integrity.
- Gender Sensitivity.
- Efficiency and Effectiveness.
- Accountability.
- Innovativeness.
- Customer focused.

### **CORE FUNCTIONS.**

- Provide water & Sewerage Services within Kapenguria Municipality and West Pokot County at large as per our Mission Statement.

**Registered Office**

Kapenguria-Bendera Area,  
Next to Catholic Church And Opposite to MOPW Offices  
P.O. Box 651-30600  
Kapenguria, KENYA

**Corporate Contacts**

Telephone: -

E-mail: \_\_\_\_\_

**Corporate Bankers**

Kenya Commercial Bank,  
Kapenguria branch,  
P.O. Box 396-30600,  
Kapenguria- Kenya.

**Independent Auditors**

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

**Principal Legal Advisers**

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



**THE BOARD OF DIRECTORS**

PASSPORT	NAME	PROFFESION	QUALIFICATION
	Mr John Karamunya	Engineer	degree
	Mr Luka Chepelion	Teaching	degree
	Mr. Augustine c Loile	administration	MBA
	Mrs.Amb Steven Loyatum	administration	Masters
	YOHANA KOIBEI	Water Technician/secretary to the BOARD	DIPLOMA

NB-Constitution of full board of Directors is ongoing.

**MANAGEMENT TEAM**

<b>PASSPORT</b>	<b>NAME</b>	<b>Qualification</b>	<b>Area of Responsibility</b>
	YOHANA KOIBEI	DIPLOMA IN WATER TECHNOLOGY	MANAGING DIRECTOR
	SAMSON MAIYWA	CERTIFICATE IN WATER TECHNOLOGY	TECHNICAL MANAGER
	BRIAN TOROITICH	DIPLOMA IN BUSINESS MANAGEMENT	COMMERCIAL MANAGER



## CHAIRMAN'S STATEMENT

On behalf of the Board of Directors, hereby present to you the Kapenguria water and sewerage limited Annual Report and financial statement for the year ended 30 June, 2020

The results were possible due the support we have received from our customers, the employees, county Government & all our stakeholders.

I am indebted to my fellow Board members for their invaluable insights & support. I wish to acknowledge the Senior Management & Staff for their valuable support & dedication in reaching these favourable results, without their individual contribution. We once again mark another successful year of KAWASES. Finally on behalf of the Board I would like to thank the National & County Government and Regulatory bodies for the guidance and support. After County engagement meeting with WSREB March this year, the County government is final stages of constituting a full board of directors for the company.

The new Muruny-siyoi gravity and Kapkoris Makutano water Project is ongoing and we expect that once is completed, pumping costs will reduce and ease operation of the company. Currently, our electricity expenses are still giving the company a lot of pressure on company operations. The two project are funded by National and County Governments respectively.

I am confident that with your continued support, we will once again steer the Company through another successful financial year.

Finally, I wish to thank my fellow Directors, management and staff of the Company for their hard work which has enabled the impressive trading results during the year. I also thank our valued customers for their support and loyalty and assure them of our determination to continually improve the quality of our services.

Thank you & God bless you all.

  
Luka Chepelion  
C.E.C Ministry of water



  
Mr. Yohana Koibei  
Managing Director



Financial statements  
For the year ended 30<sup>th</sup> June 2020

## EXECUTIVE SUMMARY

It is now fourteen years' since Kapenguria Water and Sanitation Company (KAWASES) Limited was formally launched fully with its own Board of Directors and run independently from the Kapenguria Municipality. Undoubtedly, the company has made tremendous strides in the Management and delivery of Water and Sewerage Services within the Kapenguria Town and its Environs. From a small department in the council to a leading Water and Sanitation service provider in the county, the company has always sought to strategically position itself to provide quality services to its customers as it strives to meet the minimum industry standards.

The company hand been operating without properly constituted board of directors since 2016. The company with the assistance of county Government has put in place plans and strategies to improve management of KAWASES. All has been done with the various legislations, policies and procedures developed and being implemented for the good of the company. Among these include amending registration status of the company and formation of board of directors in accordance to County Government act (2012), Water Act (2016), Company's act 2015 and WASREB companies Corporate Guidelines 2018

The management is also in the process of doing staff audit /analysis in order to have the optimum number of staff with the right skills and attitude and will endeavour to train, motivate and retain the staff with the essential talents and avail good and conducive working environment.

The Company therefore, will strive to nurture the company's Core Values and forge good industrial and customer relations for the achievement of the set objectives.

Thank you and God Bless You.



Yohana Koibei  
**Managing Director**





## **CORPORATE GOVERNANCE STATEMENT**

Corporate governance is the process and structure used to direct and manage the business affairs of the Company towards enhancing prosperity and corporate accounting with the ultimate objective of realising shareholders' long term value while taking into account the interest of other stakeholders. Directors are responsible for corporate governance practices of the Company. This statement sets out the main practices in operation during the year under review, unless otherwise indicated.

The Management of the Company regard corporate governance as pivotal to the success of the business and are unreservedly committed to ensuring that good governance is practiced so that the company remain sustainable and viable business of the community stature. As part of this commitment, the Board fully supports best practices in corporate governance and has adhered to the Guideline Governance.

### **BOARD OF DIRECTORS**

The Board consists of four Directors and a Managing Director. Full constitution of the board of directors is ongoing. The Directors' biographies are on page 4. Directors possess a broad range of skills, qualifications and experience required to direct the Company.

### **RESPONSIBILITIES**

The primary responsibilities of the Board include: establishment of short and long-term goals of the Company and strategic plans to achieve those goals; ensuring preparation of the annual financial statements; approval and review of the annual budgets; setting and periodically reviewing key performance indicators and management performance; managing risks by ensuring that the Company has adequate systems of internal controls together with appropriate monitoring of compliance activities; and working with management to realise shareholders' value.

To enable the board function effectively, the board is given full and timely access to relevant information pertinent to the company's business, meetings with management and training so as to enhance their understanding of company's legislative framework, its governance process and the nature of the business and operations of the company. Continuous training is provided. The board meets once quarterly or more often in accordance with the requirements of the business.

### **BOARD WORK PLAN AND MEETINGS**

The Board work plan and calendar of meetings is prepared annually in advance. Adequate notice is given for each Board meeting and Directors receive detailed papers on issues to be discussed in good time before the meeting. The Board held a total of 3 meetings during the year, which were very well attended.



hand- on experience and fulfil a requirement for graduation. During the year under review, 13 students went through the attachment programme at KAWASES



## STATEMENT OF DIRECTORS' RESPONSIBILITIES

Section 149 (2) k of the Public Finance Management Act, 2012 and section 194 of the State Corporations Act, require the Directors to prepare financial statements in respect of that *company*, which give a true and fair view of the state of affairs of the KAWASES at the end of the financial year/period and the operating results of the KAWASES for that year/period. The Directors are also required to ensure that the KAWASE keeps proper accounting records which disclose with reasonable accuracy the financial position of the KAWASES. The Directors are also responsible for safeguarding the assets of the KAWASES.

The Directors are responsible for the preparation and presentation of the KAWASES financial statements, which give a true and fair view of the state of affairs of the KAWASE for and as at the end of the financial year (period) ended on June 30, 2020. This responsibility includes: (i) maintaining adequate financial management arrangements and ensuring that these continue to be effective throughout the reporting period; (ii) maintaining proper accounting records, which disclose with reasonable accuracy at any time the financial position of the entity; (iii) designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of the financial statements, and ensuring that they are free from material misstatements, whether due to error or fraud; (iv) safeguarding the assets of the *company*; (v) selecting and applying appropriate accounting policies; and (vi) making accounting estimates that are reasonable in the circumstances.

The Directors accept responsibility for the *company's* financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent 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, 2020, and of the *company's* financial position as at that date. The Directors further confirm the completeness of the accounting records maintained for the KAWASES, which have been relied upon in the preparation of the KAWASES financial statements as well as the adequacy of the systems of internal financial control.



# REPUBLIC OF KENYA

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

## REPORT OF THE AUDITOR-GENERAL ON KAPENGURIA WATER AND SEWERAGE SERVICES COMPANY LIMITED FOR THE YEAR ENDED 30 JUNE, 2020

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### REPORT ON THE FINANCIAL STATEMENTS

#### Disclaimer of Opinion

I have audited the accompanying financial statements of Kapenguria Water and Sewerage Services Company Limited set out on pages 12 to 24 which comprise the statement of financial position as at 30 June, 2020, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows 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 do not express an opinion on the accompanying financial statements of the Kapenguria Water and Sewerage Company Limited. Because of the significance of the matters described in the Basis for Disclaimer of Opinion section of my report, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

#### Basis for Disclaimer of Opinion

##### 1. Presentation and Accuracy of Financial Statements

A review of financial statements for the year ended 30 June, 2020 presented for audit revealed the following:

- i) The statement of comparison of budget and actual amounts for the period ended 30 June, 2020 was not prepared;
- ii) The name of the Company has not been displayed in all the pages of the financial statements as required under paragraph 51 and 52 of the International Accounting Standards (IAS) 1;
- iii) The financial statements contain some abbreviations such as KAWASES, WASREB, WARMA and RVWSB which have not been defined;

- iv) Details of the approval of the financial statements by the Board have not been provided below the statement of directors' responsibilities as required;
- v) The trial balance for the year ended 30 June, 2020 was not provided for audit;
- vi) The approved budget was not submitted for audit;
- vii) The progress on follow-up of auditor recommendations has not been provided as required.

Under the circumstances, International Financial Reporting Standards requirements and the financial reporting guidelines issued by the Public Sector Accounting Standards Board pursuant to the requirements of Section 194(1) of the Public Finance Management Act, 2012 had not been met.

## **2. Failure to Disclose Material Uncertainty Relating to Going Concern**

The statement of financial position reflects total current liabilities of Kshs.24,056,146 which exceeds the total current assets of Kshs.14,290,481 resulting into a negative working capital of Kshs.9,765,665. Further, the Company reported a net loss of Kshs.2,154,952 further depleting the retained earnings to a negative balance of Kshs.12,362,151 as at 30 June, 2020. The Company was therefore technically insolvent and may not be able to meet its financial obligations as and when they fall due.

However, the material uncertainty relating to going concern and the actions being taken by the Directors and Management to reverse the trend have not been disclosed in the financial statements.

## **3. Property, Plant and Equipment**

The statement of financial position reflects a nil balance in respect of property, plant and equipment as at 30 June, 2020. In addition, Note 6(i) to the financial statements indicates that all the Company's assets were leased from Rift Valley Water Services Board. However, and as previously reported, the lease agreement for the leased assets was not provided for audit verification. Further, the assets had not been transferred to the Company (county water services provider) as required by Section 153 (1) of the Water Act, 2016 which states that all property, assets, rights, liabilities, obligations, agreements and other arrangements linked to water service provision existing at the commencement of this Act and vested in, acquired, incurred or entered into by or on behalf of the water services boards and the National Water Conservation and Pipeline Corporation shall, upon commencement of this Act, be deemed to have vested in or to have been acquired, incurred or entered into by or on behalf the county water services providers or cross county water services providers to the same extent as they were enforceable by or against the water services boards and the National Water Conservation and Pipeline Corporation before the commencement of this Act.

Consequently, the accuracy and completeness of the nil balance for property, plant and equipment as at 30 June, 2020 could not be confirmed.

#### **4. Turnover**

##### **4.1 Water Sales**

Note 2 to the financial statements reflects a turnover of Kshs.6,318,311 which includes water sales of Kshs.5,524,461. However, records relating to the volume of water produced, billed and not billed were not provided for audit verification. Further, the water sales of Kshs.5,524,461 vary with the balance of Kshs.5,237,620 reflected in the supporting documents resulting to an unreconciled variance of Kshs.286,841.

Under the circumstance, the validity, accuracy and completeness of the water sales of Kshs.5,524,461 could not be confirmed.

##### **4.2 Failure to Install Water Meters**

Included in the turnover of Kshs.6,318,311 reflected under Note 2 to the financial statements, is meter rent of Kshs.175,850. As previously reported, an audit of water production records and customer meter records revealed that out of five (5) production/intake points, only one (1) point (Makutano) had been installed with bulk meters with the four (4) other points not fitted with bulk meters. Also, meters had not been installed for a total of two-hundred and thirty-two (232) customers in all the six (6) zones. The unmetered customers were billed at a flat rate instead of the volume of water consumed.

Under the circumstances, the validity, accuracy and completeness of the turnover of Kshs.6,318,311 for the year could not be confirmed.

#### **5. Unsupported GOK Grants**

As reflected in Note 3 to the financial statements, GOK grants of Kshs.5,747,211 included electricity and chemicals expenditure of Kshs.5,116,253 and Kshs.457,756 respectively, paid by the County Government of West Pokot on behalf of the Company. However, supporting documents including payment vouchers/payment advice, invoices, delivery notes and goods received notes were not provided for audit verification.

Under the circumstances, the validity, accuracy and completeness of the GOK grants of Kshs.5,747,211 could not be confirmed.

#### **6. Cost of Sales**

Included in the cost of sales balance of Kshs.6,056,229 as reflected in Note 4 to the financial statements, is expenditure of Kshs.457,756 for chemicals. However, supporting documents for the chemicals consumed including user requisitions and store ledgers were not provided for audit verification.

Under the circumstance, the validity and accuracy of the expenditure of Kshs.457,756 on chemicals could not be confirmed.

## **7. Transport and Vehicle Maintenance**

Included in the administrative expenses balance of Kshs.6,761,034 reflected in Note 5(ii) to the financial statements, is transport and vehicle maintenance expenditure of Kshs.117,105 which includes Kshs.77,500 incurred on the purchase of fuel. However, the fuel register, detailed orders and work tickets were not provided for audit verification.

Under the circumstances, the validity and accuracy of transport and vehicle maintenance expenditure of Kshs.77,500 could not be confirmed.

## **8. Trade Receivables**

The statement of financial position reflects receivables of Kshs.13,465,475. The following observations were made regarding the balance:

### **8.1 Share Capital**

As disclosed at Note 7 to the financial statements, the balance includes unpaid share capital of Kshs.100,000. However, the number of shares issued and fully paid, and the number issued but not fully paid have not been disclosed in the financial statements. Further, available information indicated that the unpaid for shares comprising of Kshs.70,000 and Kshs.30,000 owned by the defunct Municipal Council of Kapenguria and a community based organization respectively, had been outstanding since the inception of the Company in 2006. However, as previously reported, no evidence of the Management effort to have the amounts paid was provided.

Under the circumstances, the shareholding of the Company could not be confirmed.

### **8.2 Inherited Debtors**

The receivables balance of Kshs.13,465,475 includes inherited debtors of Kshs.2,496,486 as disclosed in Note 7 to the financial statements. The debtors were inherited by the Company from the Ministry of Water in the year 2007. However, the list of debtors and other supporting documents were not provided for audit verification. In addition, the Company had not made any efforts to recover the debts nor initiated the process of writing off the long outstanding debts.

Consequently, the accuracy and full recoverability of inherited debtors figure of Kshs.2,496,486 could not be confirmed.

### 8.3 Trade Debtors

Included in the receivables balance of Kshs.13,465,475 is Kshs.10,868,989 for trade debtors. Available information indicated that Kshs.8,230,876 was owed from 2,055 customers who had already been disconnected while Kshs.968,374 was owed from 160 customers who were still connected. In addition, the aging analysis of the debtors was not provided for audit and no provision for bad for doubtful debts had been made.

Under the circumstances, the validity, accuracy and full recoverability of trade debtors of Kshs.10,868,989 could not be confirmed.

### 9. Cash and Cash Equivalents

The statement of financial position reflects cash and bank balances of Kshs.825,006 which as disclosed at Note 8 to the financial statements, included Kshs.766,267, Kshs.32,616 and Kshs.3,218 being the bank balances held in the revenue, expenditure and customer deposit accounts respectively. However, the balances differed with those reflected in the cashbooks as shown below:

Account Name	Cashbook Balance (Kshs.)	Financial Statement Balance (Kshs.)	Variance (Kshs.)
Revenue Account	(13,343)	766,267	779,610
Expenditure Account	33,216	32,616	(600)

Further, the board of survey report as at 30 June, 2020 was not availed for audit verification.

Under the circumstances, the accuracy, validity and completeness of the cash and cash equivalents of Kshs.825,006 as at 30 June, 2020 could not be confirmed.

### 10. Inventories

The statement of financial position reflects a nil balance in respect of inventories as at 30 June, 2020. However, stock taking reports and stores inspection reports as at 30 June, 2020 were not provided for audit.

Consequently, the accuracy and completeness of the nil balance for inventories as at 30 June, 2020 could not be confirmed.

### 11. Payables

The statement of financial position reflects payables of Kshs.24,056,146. The following observations were made regarding the balance:

#### 11.1 Supporting Documents and Aging Analysis

Supporting documents including invoices, vendor statements as well as the aging analysis for the payables were not provided for audit.

Under the circumstances, the validity and accuracy of the payables balance of Kshs.24,056,146 as at 30 June, 2020 could not be confirmed.

### **11.2 Rift Valley Water Services Board**

As disclosed at Note 9 to the financial statements, the payables balance of Kshs.24,056,146 includes Kshs.12,637,270 in respect of Rift Valley Water Services Board (Rift Valley Water Works Development Agency). However, the agency's books reflected Kshs.7,071,302 resulting into an unreconciled variance of Kshs.5,565,968.

Consequently, the validity, accuracy and completeness of the payables balance of Kshs.24,056,146 as at 30 June, 2020 could not be confirmed.

### **11.3 Customer Deposits**

Included in the payables balance of Kshs.24,056,146 is customers' deposits balance of Kshs.1,461,200 as disclosed in Note 9 to the financial statements. However, the customer deposit bank account reflected a balance of Kshs.3,218 resulting into unaccounted for deposits of Kshs.1,457,982 which constitute money spent by the Management without authority from the Company's Board of Directors and which had not been refunded to the account as at 30 June, 2020.

## **12. Personnel Costs**

### **12.1 Unsupported Payments to Employees on Contract**

The statement of profit or loss and other comprehensive income reflects administrative expenses of Kshs.6,761,034 which as disclosed in Note 5(ii) to the financial statements included salaries of Kshs.5,585,168 paid to employees on contract. However, the signed employment contracts were not provided for audit. Further, the employees on contract earned a salary below the basic minimum monthly wages against the Regulation of Wages (General) (Amendment) Order, 2018.

In the circumstances, the accuracy of the expenditure Kshs.5,585,165 on salaries could not be confirmed. In addition, the Management was in breach of the law.

### **12.2 Statutory Deductions**

As disclosed under Note 5 (ii) to the financial statements, the administrative expenses balance of Kshs.6,761,034 reflects statutory deductions of Kshs.531,032 which were not supported and no explanation was provided for expensing the unremitted statutory deductions.

In the circumstances, the accuracy and validity of the statutory deductions expenditure of Kshs.531,032 could not be confirmed.

### **12.3 Engagement of Casuals**

The salaries balance of Kshs.5,585,168 reflected under Note 5(ii) to the financial statements includes Kshs.2,516,400 incurred on the payment of wages to twenty-

one (21) casual employees deployed in various departments during the year. However, the muster roll was not provided for audit verification. In addition, the casuals had worked continuously for a period of between eight (8) to twelve (12) months from July 2019 to June, 2020. Engagement of casuals beyond a period of three (3) months is contrary to the provisions of Section 37 of the Employment Act, 2007.

#### **12.4 Ethnic Composition**

An evaluation of the staff establishment for the year ended 30 June, 2020 revealed that the Company had thirty-eight (38) members of staff out of which thirty (30) representing (79%) were from the same ethnic community. This is contrary to the provisions of Section 7(1) and (2) of the National Cohesion and Integration Act, 2008 which requires all public establishments to represent the diversity of people of Kenya and that no public establishment should have more than one-third of its staff from the same ethnic community.

The Management was, therefore, in breach of the law.

#### **13. Unsupported Board Expenses and Lack of a Properly Constituted Board of Directors**

Note 5(ii) to the financial statements reflects board expenses of Kshs.10,000 which related to lunch allowances paid to two (2) persons who were not board members. The expenditure was also not supported with invitation to attend meeting, attendance register and board minutes. Further, the Company has been operating without a properly constituted board of directors.

In the circumstances, the accuracy and propriety of the reported board expenditure could not be confirmed. Lack of a Board of Directors may lead to ineffective internal controls and non-compliance with the relevant laws, rules and regulations.

#### **14. Failure to Establish an Audit Committee**

As previously reported, the Company had not established an audit committee as required under Regulation 167(1) of the Public Finance Management (County Governments) Regulations, 2015. In addition, the Company did not have an internal audit function contrary to Section 155(1) of the Public Finance Management Act, 2012 which states that a county government entity shall ensure that it has appropriate arrangements for conducting internal audit according to the guidelines issued by the Public Sector Accounting Standards Board.

In the circumstances, it could not be confirmed that there was effective oversight on risk management, internal controls, governance and associated assurance in the Company.

## **15. Lack of Substantive Board**

As previously reported, the Company did not have a fully constituted Board, contrary to Section 79(1) of the Water Act, 2016 which requires that a water services provider should have a board of directors and in the case of a company, the members of its board of directors shall be constituted in accordance with the Companies Act, 2015 or any other written law and that the directors be nominated to serve on the board in accordance with the company's memorandum and articles of association. Further, the company had not revised the memorandum and articles of association in line with the revised Water Act, of 2016 and Water Regulations, 2016. In addition, the ten-year Service Provision Agreement signed on 29 June 2007 between the Company and the Rift Valley Water Services Board lapsed on 30 June, 2017 and had not been renewed.

In the absence of a substantive Board, the Company's governance, accountability and control systems may have been ineffective.

## **16. Information Technology (IT) Internal Control Systems**

A review of the IT internal controls revealed the following weaknesses:

- i) The company did not have an IT strategic plan, IT steering committee and approved IT security policy in place to supports business requirements and ensures that IT spending remained within the approved IT strategic plan;
- ii) The Company did not have any defined roles and responsibilities for IT function players;
- iii) The Company did not have a training program to build IT capacity;
- iv) The Company did not have a formal approved IT security policy to ensure data confidentiality, integrity and availability, and;
- v) The Company did not have any formal, documented and tested IT emergency procedure in place.

In the circumstances, the effectiveness of IT governance and ability to resume operations in case of a disaster could not be confirmed.

## **REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES**

### **Conclusion**

I do not express a conclusion on the lawfulness and effectiveness in the use of public resources as required by Article 229(6) of the Constitution. Because of the significance of the matters described in the Basis for Disclaimer of Opinion Section of my report, I

have not been able to obtain sufficient appropriate audit evidence to provide a basis for my audit conclusion.

## REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

### Conclusion

I do not express a conclusion on the effectiveness of internal controls, risk management and governance as required by Section 7 (1) (a) of the Public Audit Act, 2015. Because of the significance of the matters described in the Basis for Disclaimer of Opinion section of my report, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for my audit conclusion.

## REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

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

- i. I have not obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit;
- ii. In my opinion, adequate accounting records have not been kept by the Company, so far as appears from the examination of those records; and,
- iii. The Company's financial statements are not in agreement with the accounting records and returns.

### Responsibilities of Management and the Board of Directors

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

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

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

In addition to the responsibility for the preparation and presentation of the financial statements described above, Management is also responsible for ensuring that the activities, financial transactions and information reflected in the financial statements

are in compliance with the authorities which govern them, and that public resources are applied in an effective way.


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

### **Auditor-General's Responsibilities for the Audit**

My responsibility is to conduct an audit of the financial statements in accordance with International Financial Reporting Standards (IFRS) 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. However, because of the matters described in the Basis for Disclaimer of Opinion section of my report, I was not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

In addition, my responsibility is to express a conclusion about whether, in all material respects, the activities, financial transactions and information reflected in the financial statements are in compliance with the authorities that govern them, and that public resources are applied in an effective way, in accordance with the provisions of Article 229(6) of the Constitution and submit the audit report in compliance with Article 229(7) of the Constitution. I also consider internal control, risk management and governance processes and systems in order to give an assurance on the effectiveness of internal controls, risk management and governance 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. However, because of the matters described in the Basis for Conclusion on Lawfulness and Effectiveness in Use of Public Resources, and Internal Controls, Risk Management and Governance sections of my report, I was not able to obtain sufficient appropriate audit evidence to provide a basis for an audit conclusion.

I am independent of the Kapenguria Water and Sewerage 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.

  
CPA Nancy Gathungu, CBS  
**AUDITOR-GENERAL**

**Nairobi**

**10 February, 2022**

*Report of the Auditor-General on Kapenguria Water and Sewerage Company Limited for the year ended 30 June, 2020*

**KAPENGURIA WATER AND SEWERAGE COMPANY LIMITED  
FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30TH JUNE 2020**

**STATEMENT OF COMPREHESIVE INCOME**

	Notes	2020 Kshs	2019 kshs
<b>INCOME;</b>			
Turnover	2	6,318,311.00	8,713,734
GOK Grants	3	5,747,211.00	8,015,312
		<b>12,065,522.00</b>	<b>16,729,046</b>
Cost of Sales	4	6,056,229.00	10,015,015
<b>Gross Profit</b>		<b>6,009,293.00</b>	<b>6,714,031</b>
<b>EXPENDITURE</b>			
Operating Expenses	5(i)	1,403,210.70	2,043,781
Administrative Expenses	5(ii)	6,761,034.00	6,974,527
		<b>8,164,244.70</b>	<b>9,018,308</b>
<b>Net Profit/(loss)</b>		<b>(2,154,951.70)</b>	<b>(2,304,277)</b>



**KAPENGURIA WATER AND SEWERAGE SERVICES COMPANY LIMITED  
FINANCIAL STATEMENTS FOR THE YEAR ENDED 30th JUNE 2020**

**STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2020**

	NOTES	2020 Kshs	2019 Kshs
<b>ASSETS</b>			
<b>Non Current Assets</b>			
Property, Plant and Equipment	6(i)	-	-
<b>Current Assets</b>			
Inventory	6(ii)	-	-
Receivables	7	13,465,475	13,866,046
Cash and Bank balance	8	825,006	1,065,965
		<b>14,290,481</b>	<b>14,932,011</b>
<b>Current Liabilities</b>			
Payables	9	24,056,146	22,542,724
<b>Total Current Liabilities</b>		<b>24,056,146</b>	<b>22,542,724</b>
<b>Net Current Asset</b>		<b>(9,765,665)</b>	<b>(7,610,713)</b>
<b>Capital Employed</b>			
Share Capital	10(i)	100,000	100,000
Retained Earnings	10(ii)	(12,362,151)	(10,207,199)
Capital Reserve	10(iii)	2,496,486	2,496,486
		<b>(9,765,665)</b>	<b>(7,610,713)</b>

The Financial Statements were approved for issue by the Board of Directors on this 28th day of Sept 2020 and signed on its behalf by:

  
.....  
**Luka Chepelion**  
C.E.C Ministry of water



  
.....  
**Mr. Yohana Koibei**  
Managing Director



Financial Statements  
For the year ended 30th June 2020

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**KAPENGURIA WATER AND SEWERAGE COMPANY LIMITED  
FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH JUNE 2020**

**STATEMENT OF CHANGES IN EQUITY**

	Share Capital	Capital Reserves	Retained Earnings	Total
	Kshs	Kshs	Kshs	Kshs
At the start of the year 1.7.2019	100,000	2,496,486	(7,902,922)	(5,306,436)
Movement for the year	-	-	(2,304,277)	(2,304,277)
At the end of the year 30.6.2019	<u>100,000</u>	<u>2,496,486</u>	<u>(10,207,199)</u>	(7,610,713)
At the start of the year 1.7.2019	100,000	2,496,486	(10,207,199)	(7,610,713)
Movement for the year		-	(2,154,952)	(2,154,952)
At the end of the year 30.6.2020	<u>100,000</u>	<u>2,496,486</u>	<u>(12,362,151)</u>	(9,765,665)



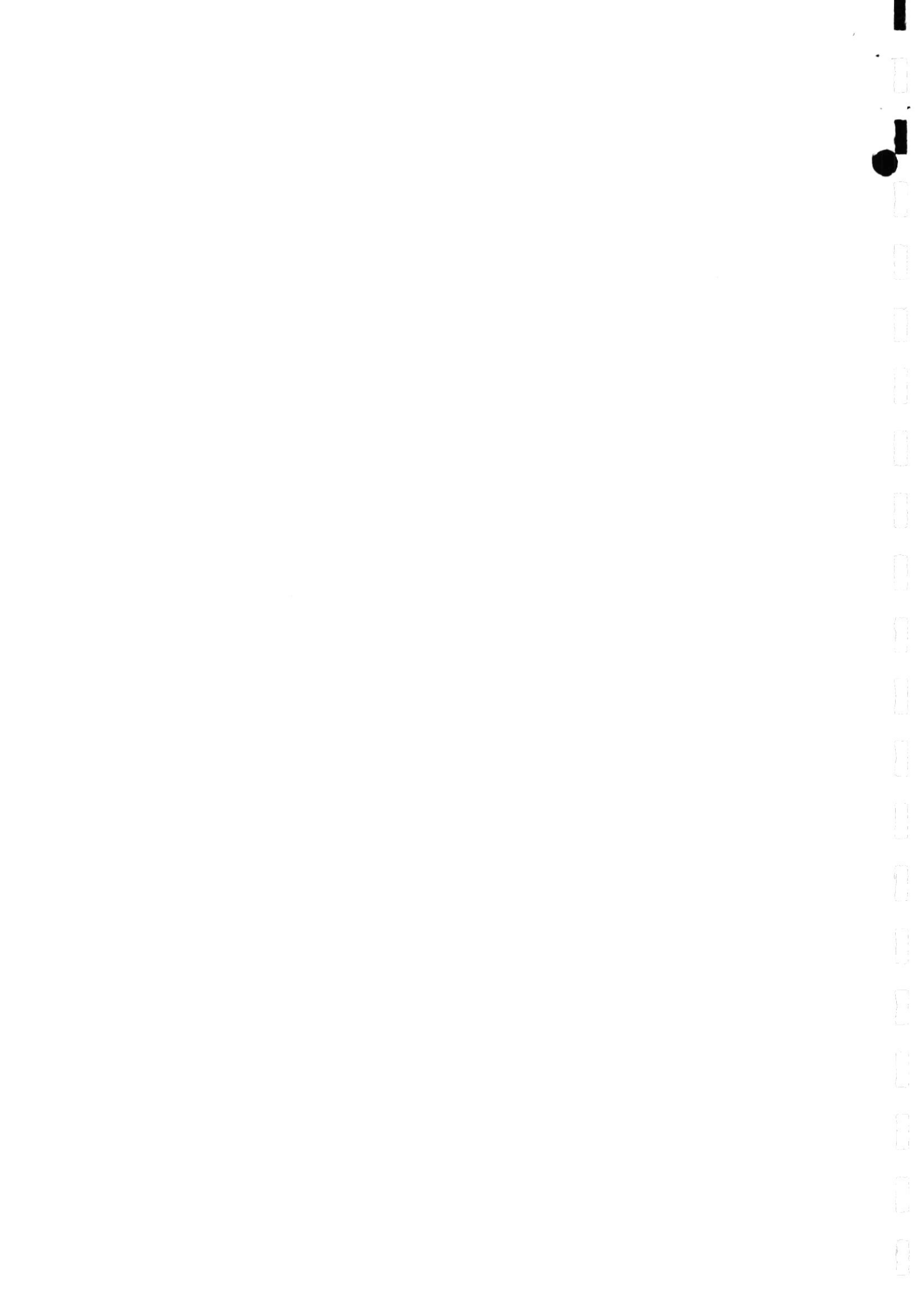
**KAPENGURIA WATER AND SEWERAGE COMPANY LIMITED**  
**FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH JUNE 2020**

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

	<b>2020</b>	<b>2019</b>
	<b>Kshs</b>	<b>Kshs</b>
<b>Operating Activities</b>		
Cash generated from operations	(2,154,952)	(2,304,277)
Increase/(decrease) in cash	(2,154,952)	(2,304,277)
<b>Changes in Working Capital</b>		
Increase /(decrease) in debtors	400,571	(960,905)
Increase /(decrease) in creditors	1,513,422	4,189,583
increase/(decrease) in inventory	-	-
<b>Net inflow/(outflow) from working capital</b>	<b>1,913,993</b>	<b>3,228,678</b>
Net cash used in operating activities	(240,959)	924,401
<b>Movement in cash and cash equivalets</b>		
At the start of the year	1,065,965	141,564
Increase/(decrease) during the year	(240,959)	924,401
<b>At the end of the year</b>	<b>825,006</b>	<b>1,065,965</b>

Financial Statements

For the year ended 30th June 2020



## **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES FOR THE YEAR**

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

### **1.A) Statement of compliance and basis of preparation**

The financial statements have been prepared on a historical cost basis. 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 *company's* accounting policies.

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

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

### **B) New and revised standards**

#### **i).Adoption of new and revised standards**

IAS 19-Defined benefits plan-employee contributions

IAS 32- Offsetting of Financial Assets and Financial Liabilities

IAS 36- Recoverable amount disclosures for non-financial assets

IAS 39- Novation of derivatives and continuation of hedge accounting

IFRS 10, IFRS 27 and IAS 27- Definition of investment entities.

The above revised standards and interpretations have become effective for the first time on Financial Period beginning on or after 1st January 2014 and have been adopted by the company where relevant to its operations.

#### **ii).New and revised standards and interpretations which have been issued but are not effective yet**

The following revised standards and interpretations have been published and will be effective for the first time in the years after the current Financial Year (31st December 2014). The Company has not early adopted any of these amendments or interpretations.



**Effective for annual periods beginning on or after 1st July 2014 issued 12 December 2013**

IAS 40- Investment Property

IAS 16- Property Plant and Equipment

IAS 24- Related Party Disclosures

IAS 38- Intangible Assets

IFRS 1- First-time adoption of IFRS

IFRS 2- Share-based combinations (with consequential amendments to other standards)

IFRS 3- Business Combinations

IFRS 8- Operating Segments

IFRS 13- Fair Value Measurement

IFRIC 21- Levies

**Effective for annual periods beginning on or after 1st July 2016 issued 25th September 2014**

IFRS 5- Noncurrent Assets held for sale and discontinued operations.

IFRS 7- Financial Instruments disclosures

IAS 39- Employee Benefits

IAS 34- Interim Financial Reporting

New Standards

IFRS 9- Financial Instruments. Effective on or after 1st January 2018

IFRS 14- Regulatory deferred accounts. Effective on or after 1st January 2016

IFRS 15- Revenue from contracts with customers. Effective on or after 1st January 2017



### iii) Change in Presentation

The Company reviewed the Presentation of the Financial Statements from its previous format for better understanding by the Stakeholders. The reclassification has been effected on both the current and comparative amounts. No loss in monetary value for the comparative amounts has occurred during reclassification.

This disclosure is as required by IAS 1

### (C) Revenue recognition

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

- i) **Revenue from the sale of water** is recognised in the year in which the *company* delivers products to the customer, the customer has accepted the products and collectability of the related receivables is reasonably assured.
- ii) **A government grant income** is recognised when there is reasonable assurance that the entity will comply with the conditions attaching to it, and that the grant will be received also grants are recognised in the statement of comprehensive income on systematic basis over the period in which the entity recognises as expenses the related cost for which the grants are intended to compensate
- iii) **Other income** is recognised on accrual basis.



## SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### D) Property Plant and Equipment.

All categories of Property Plant and Equipment (*PPE*) 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.

### E) Depreciation and impairment of property, plant and equipment

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

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

Furniture	12.5% (8 years)
Computers and Printers	33.3% (3 years)
Motor cycle	25 % (4 years)
Network extension	2.5% (40 years)
Tools	33.3% (3 years)
Meters & Equipment	12.5% (8years)
Graded Filter	10% (10 years)

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



## SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Depreciation and impairment of property, plant and equipment (Continued)

ful life of computer software of three years.

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.

### F) 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.

### G) 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.

### H) 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.

### I) 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.

### J) 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 *company* or not, less any payments made to the suppliers.

### K) Comparative figures

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



**L) 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, 2018.

**M) RISK MANAGEMENT POLICIES**

The financial risk management objectives and policies are as outlined below:

• **Credit risk**

The Company's credit risk is primarily attributable to its trade receivable and bank deposits. The amounts presented in the balance sheet 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.

In addition, the Company has no significant concentration of credit risk, with exposure spread over a large number of customers.

The credit risk on liquid funds with financial institutions is also low, because the counter parties are banks with high credit-ratings.

• **Liquidity risk**

The risk that the Company will encounter difficulty in raising funds to meet commitments associated with financial instruments has been and continues to be addressed by management, by re-negotiating with water regulators' bodies for tariff adjustment, county and national government for grants.

**N) RETIREMENT BENEFITS OBLIGATIONS (IAS 19)**

The Company does operate a defined retirement benefits scheme for all employees. Only 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 obligations under the scheme are limited to specific contributions legislated from time to time and are currently at Kshs. 200 per employee per month.



KAPENGURIA WATER AND SEWERAGE COMPANY LIMITED  
FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH JUNE 2020

NOTES TO THE FINANCIAL STATEMENTS

2. Analysis of turnover

	2020	2019
Water Sales		
Meter rent	5,524,461	8,215,984
Ledger fee	175,850	208,150
exhauster services	12,000	39,600
	606,000	250,000.00
	<b>6,318,311</b>	<b>8,713,734.00</b>

3. GOK grants

Grants are electricity costs paid by ministry of water on behalf of the Company

Electricity Kshs	5,116,253	7,557,692
Chemicals	457,756	457,620
WARMA Levy	173,202	-
	5,747,211	8,015,312.00

4. Cost of sales

	2020	2019
Electricity		
Chemicals	5,598,473	9,557,395
	457,756	457,620
	6,056,229	10,015,015

This of cost electricity used for pumping water and paid by the ministry of water as analysed below;

Electricity costs

Station		2020 Kshs	2019 Kshs
KAPET/WORKS			
	A/C:17271297	860,490	1,039,398
KAPE/BOOSTER	A/C:34642708	113,502	43,329
PSKIRIO	A/C:30848240	504,586	724,794
PSIKRIO	A/C:30848261	89,611	90,362
Makutano	A/C: 17400281	1,888,752	2,501,774
Karas	A/C:17271305	685,127	1,478,772
Makutano Booster	A/C:17269145	132,550	197,750
Kape Intake	A/C:17271792	1,323,855	3,481,217
TOTALS		<b>5,598,473</b>	<b>9,557,396</b>

5.(i) Operating Expenses

	2020 kshs	2019 Kshs
Maintenance	90,660	365,905
Levy (RVWSB)	922,330	1,396,717
WASREB	217,019	82,159
WARMA	173,202	199,000
	<b>1,403,211</b>	<b>2,043,781</b>



5.(ii) Administrative Expenses

	2020	2019
	kshs	kshs
Salaries	5,585,168	5,283,045
Wages	-	-
Honorarium	-	-
statutory deduction	531,032	689,084
leave allowance	-	-
Board Expenses	10,000	-
Stationery and office exp	100,880	37,074
Postages & Telephone	44,750	30,210
Bank Charges	18,050	54,320
Travelling allowances	83,040	236,999
default paye	-	-
Audit fees	232,000	232,000
miscellaneous	-	105,455
Transport & vehicle maintenance	117,105	241,340
Rents and Rates	-	60,000
Welfare	39,009	5,000
<b>TOTAL</b>	<b>6,761,034</b>	<b>6,974,527</b>

6(i) Property, Plant and Equipment

2020

2019

All the assets managed the Company are leased from Rift Valley Water Board.  
There was no addition during the year under review.

6(ii) Inventory

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2019

7. Receivables

	2020	2019
	<u>Kshs</u>	<u>Kshs.</u>
Inherited debtors.	2,496,486	2,496,486
Trade Debtors	10,868,989	11,252,380
Share Capital	100,000	100,000
KPLC( Prepayments)	-	17,180
	<b>13,465,475</b>	<b>13,866,046</b>

Inherited debtors are debts taken over by the company from the Ministry of water.



### 8. Cash and Bank Balances

	Kshs	2020 Kshs	2019 Kshs
Cash at Bank ( KCB Current-revenue)		766,267.00	881,103
expenditure a/c		32,616.00	79,509
Customer Deposit a/c		3,218.00	105,353
Cash at hand		22,905.00	-
		<b>825,006.00</b>	<b>1,065,965</b>

### 9. Payables

	Kshs	2020 Kshs	2019 Kshs
Rift Valley Water Service Board		12,637,270	11,891,741
WASREB		698,894	541,876
WARMA		433,832	260,630
Provision for Audit fess		2,356,000	2,124,000
Customer Deposit		1,461,200	1,419,200
K.P.L.C		2,900,000	1,016,529
staff salary and deduction due		3,568,950	5,288,748
		<b>24,056,146</b>	<b>22,542,724</b>

### 10. (i) Share Capital

	2020 Kshs	2019 Kshs
Authorised and issued 5,000 shares of Kshs 20 each	100,000	100,000

### 10. (ii) Retained Earning

(10,207,199)	(7,902,922)
(2,154,952)	(2,304,277)
<b>(12,362,151)</b>	<b>(10,207,199)</b>

### 10.(iii) Captal Reserves

Inherited debtors	2,496,486	2,496,486
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