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REPORT

OF

THE AUDITOR-GENERAL

ON

**BUSIA WATER AND SEWERAGE
SERVICES COMPANY LIMITED**

**FOR THE YEAR ENDED
30 JUNE 2019**



BUSIA WATER

& SEWERAGE SERVICES CO LTD

BUSIA WATER AND SEWERAGE SERVICES COMPANY LIMITED

ANNUAL REPORTS AND FINANCIAL STATEMENTS

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

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



Busia Water and Sewerage Services Co. Ltd
Annual Reports and Financial Statements
For the year ended June 30, 2019

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KEY ENTITY INFORMATION

Background information

Busia Water and Sewerage Services Company (BUWASSCO) was incorporated on April 14, 2014 under the Companies Act Cap.486. At county level, the company is represented by the Executive Committee Member in Charge of Finance and ICT and the County Executive Committee Member in charge of Water Environment, Irrigation and Natural Resources, who are the members of the Board which is responsible for the general policy and strategic direction of the company. The company is domiciled in Kenya and has branches in Busia town, Nambale, Matayos and Malaba/Kocholia.

Principal Activities

The principal activity of the *entity* is to ...

- i). Provide water and sanitation services to the residents of Busia County
- ii). Ensure that county assets for water service provision entrusted to the company are maintained and are in good working condition.

Vision, Mission and Core Values

Vision

A leading, sustainable and reliable provider of quality, affordable water and sanitation services

Mission

To provide safe, reliable affordable water and sewerage services in a sustainable manner to the residents of Busia County

Core Values

- Professionalism
- Accountability
- Customer Focus
- Equity
- Integrity
- Teamwork

KEY ENTITY INFORMATION (Continued)

Directors

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

- | | | | |
|----|-------------------|----------------------------|---|
| 1. | Dr. George Kwedho | - Chairman | - Appointed on 1 st December, 2018 |
| 2. | Hellen A. Mukanda | -Member | - Appointed on 1 st December, 2018 |
| 3. | Dr. Isaac Alukwe | - CEC.DWINER | - Appointed on 1 st December, 2018 |
| 4. | Phaustine Barasa | -CEC. Finance and ICT | - Appointed on 1 st December, 2018 |
| 5. | Francis Omondi | - Chair, Finance Committee | - Appointed on 1 st December, 2018 |
| 6. | Darya Susan | - Member | - Appointed on 1 st December, 2018 |
| 7. | Joseph Esemé | - Member | - Appointed on 1 st December, 2018 |

Corporate Headquarters

P.O. Box 392-50400

Dept. of Water, Irr, Env & Nat. Resource compound

Equity Bank-Posta-Forest Road

Busia, KENYA

Corporate Contacts

Telephone: (254) 796523854

E-mail: info@buwasco.co.ke

Corporate Bankers

Co-operative Bank of Kenya

P.O. Box 595-50400

Busia Kenya

Independent Auditors





Auditor General




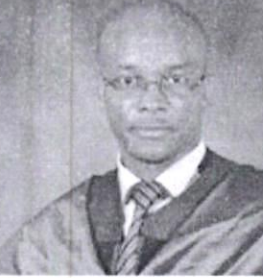
Anniversary Towers

P.O. Box 30084-00100



Nairobi.

THE BOARD OF DIRECTORS

 <p>1. Dr. GEORGE KWEDHO – Chairman B.O.D Doctor of Philosophy in Environmental Planning</p>	<ul style="list-style-type: none">• Male 60 Yrs.• Engineer• Managing Consultant, Fepan Global Agencies Co. Ltd
 <p>2. Mr. FRANCIS OMONDI – B.O.D Member Bachelor's Degree in Law</p>	<ul style="list-style-type: none">• Male 45Yrs• Advocate, Omondi and Company Advocates
 <p>3. M/s. DARYA A. SUSAN Master of Arts in Project Planning and Management</p>	<ul style="list-style-type: none">• Female 38 Yrs• Human Resource• Senior Administrator, University of Nairobi
 <p>4. M/s. MUKANDA HELLEN AJIAMBO Bachelor's Degree in Environmental Health</p>	<ul style="list-style-type: none">• Female 43 Yrs• Environmentalist• Executive Director, Grow Against Poverty Kenya

<p>5. Mr. JOSEPH ESEME</p>  <p>Bachelor's Degree in Early Childhood Education</p>	<ul style="list-style-type: none">• Male 52 Yrs• Teaching• Head Teacher, Rwatama Primary School
<p>6. Mr. JUMA S. MULIKA</p>  <p>Dip. Water Engineering</p>	<ul style="list-style-type: none">• Male• Engineer
<p>7. Hon. Phaustine Barasa</p> 	<p>CE Department of Planning and Finance, Busia County Government</p>
<p>8. Dr. Hon. ISAAC ALUKWE</p> 	<p>CEC Department of Water, Irrigation and Environment, Busia County Government.</p>

MANAGEMENT TEAM

Name of the Staff	Responsibility
Mr. JUMA S. MULIKA 	'A' Level Dip. Water Engineering, Ag. Managing Director Male.
Mr. JOSEPH.O. MIYAWA 	Certificate, Water Technology. Ag. Technical Manager Male.

CHAIRMAN'S STATEMENT

Busia Water and Sanitation Company is an entity of the County Government of Busia County charged with the mandate of providing water and sewerage services to the residents of Busia. The company draws its mandate from the water Act 2016 as a service provider regulated by the water services Regulatory Board (WASREB) and anchored in the Busia County Water and Sanitation Act 2015. The company delivers its mandate on behalf of the County Government of Busia in the devolved function of water services provision.

Corporate Governance practices have been the centre of our interest as a board of directors to ensure that the affairs of the company are run in a professional manner in line with the WASREB regulations and guidelines. This has seen the company restructure the board from 9 to 7 directors for a medium water service provider. The board has embarked on a recruitment process for the core management team of the company in line with the regulator's requirements for efficient management of the entity. The company's service area is limited to some sections of Teso North, Teso South, Nambale, Matayos and Butula Sub Counties in Busia County and parts of Bumula and Sirisia Sub Counties in Bungoma County.

Our water services are limited to areas around towns with the exception of Teso North whose coverage is largely rural. Rehabilitation of Malaba Kocholia water supply will greatly improve the scheme performance and service delivery in Angurai, Amagoro and Malaba Town. Sewerage services are only provided in Busia Town though coverage is low. This is being addressed through a feasibility study and design that covers Nambale Town as well through ADB funding. The Malaba Sewerage project is under construction funded by ADB through the National Government. This will improve the sanitation status of the border town.

All the schemes operated by the company are pumping resulting in high production costs. Alternative approaches will be sought through partnerships with the County Government of Busia, National Government of Kenya, Kenya Integrated Water, Sanitation and Hygiene (USAID-KIWASH), Kenya Market Trust (KMT), World Vision Kenya and other willing organizations to reduce on costs. These

Busia Water and Sewerage Services Co. Ltd

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For the year ended June 30, 2019

partnerships will also seek to address other key performance indicators in service provision like non revenue water, metering, debt reduction and increased coverage for improved and sustainable service delivery.

The board is working to ensure that sound policies are in place to address risks, Audit, ICT, Financial Management, Procurement and Human Resource issues in the company. Resource mobilization will be enhanced to improve on infrastructure, institutional capacity strengthening and operation efficiency. Achievement of these endeavours will require necessary support from partners.

The company will review its business plan, strategic plan and seek for the renewal of the operating licence from the regulator.

The future for the company is bright.



DR. GEORGE KWEDHO

CHAIRMAN

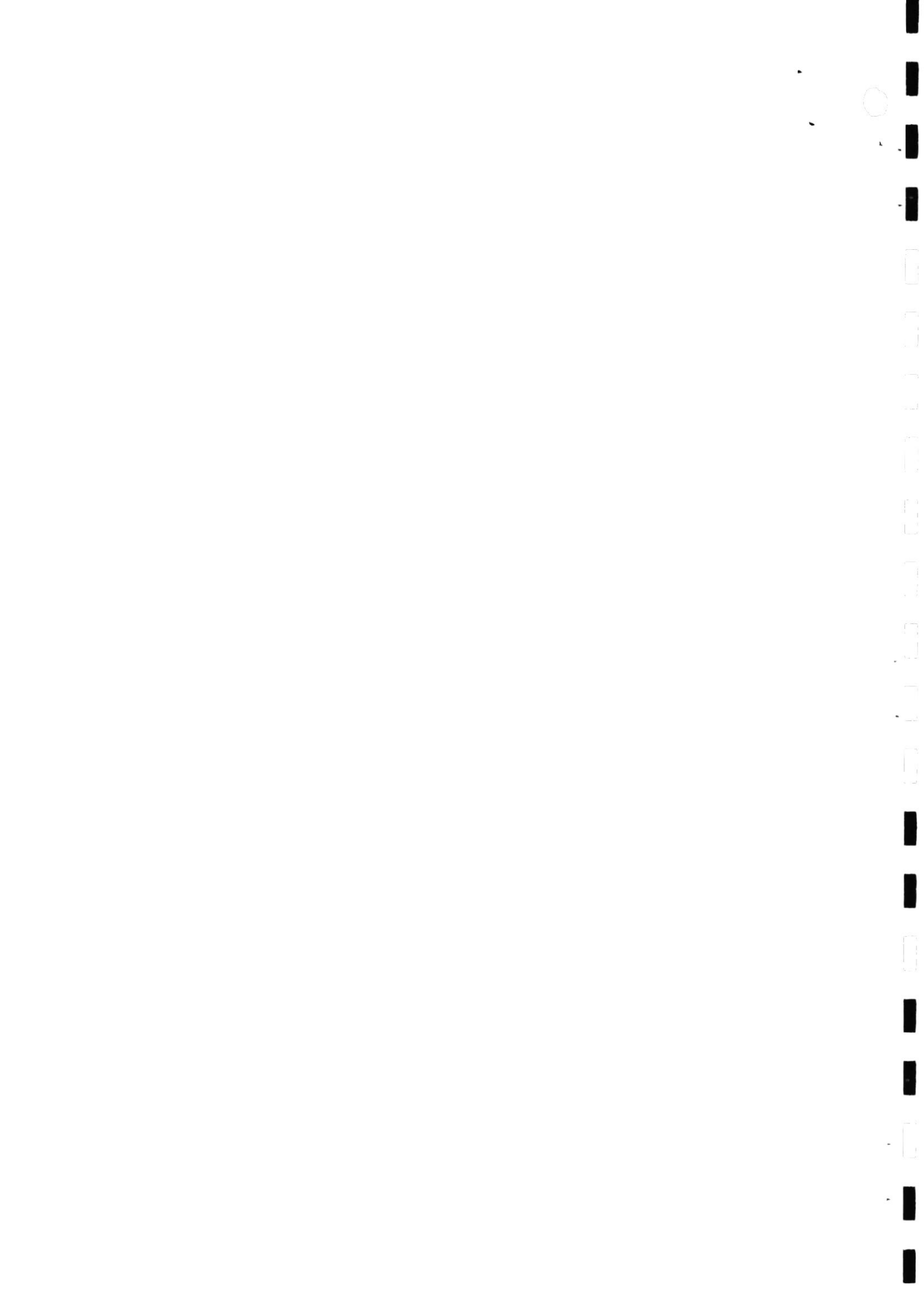
REPORT OF THE MANAGING DIRECTOR

Busia Water and Sanitation Company (BUWASCO) earlier known as Busia Water and Sewerage Services Company (BUWASSCO) is now two years old since it commenced operations in July, 2016 as a service provider after the separation from Kakamega – Busia Water Company.

During the year under review, the company had a transition in the Board of Directors guided by WASREB requirements in the selection criteria to ensure effective representation of key interest groups. The new board of 7 came into office after a rigorous selection process and was gazetted in December 2018 and commenced duty effectively in February, 2019 after undergoing Corporate Governance training. The entire process was supported by the County Government of Busia in collaboration with USAID-KIWASH. The board is focused on ensuring that the positions for the core management team of the company are properly filled to avoid staff holding offices in acting capacities for longer than the prescribed periods.

The company is 100% owned by the County Government of Busia as required by the regulator. The County Government ensured that this was achieved without affecting service provision during the transition process. This achievement now provides the necessary ground upon which more support from the County Government can be sought for the infrastructure improvement, institutional capacity strengthening and financial sustainability for a stable company with the necessary abilities to provide effective water and sewerage services to the people in the area of jurisdiction.

The schemes operated by the company are Busia-Mundika, Matayos, Nambale, Bujumba Burinda and Malaba Kocholia which also covers Amagoro, Malaba and Amukura towns. The schemes serve a population of 83,984 out of an estimated 126,093 people in the service area. The total No. of registered connections is 9700. The estimated coverage is 66%. All the schemes depend on pumping to supply the water to the customers. The Cost of pumping with electricity is high and amounts to an estimated Kshs 2M per month.



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For the year ended June 30, 2019**

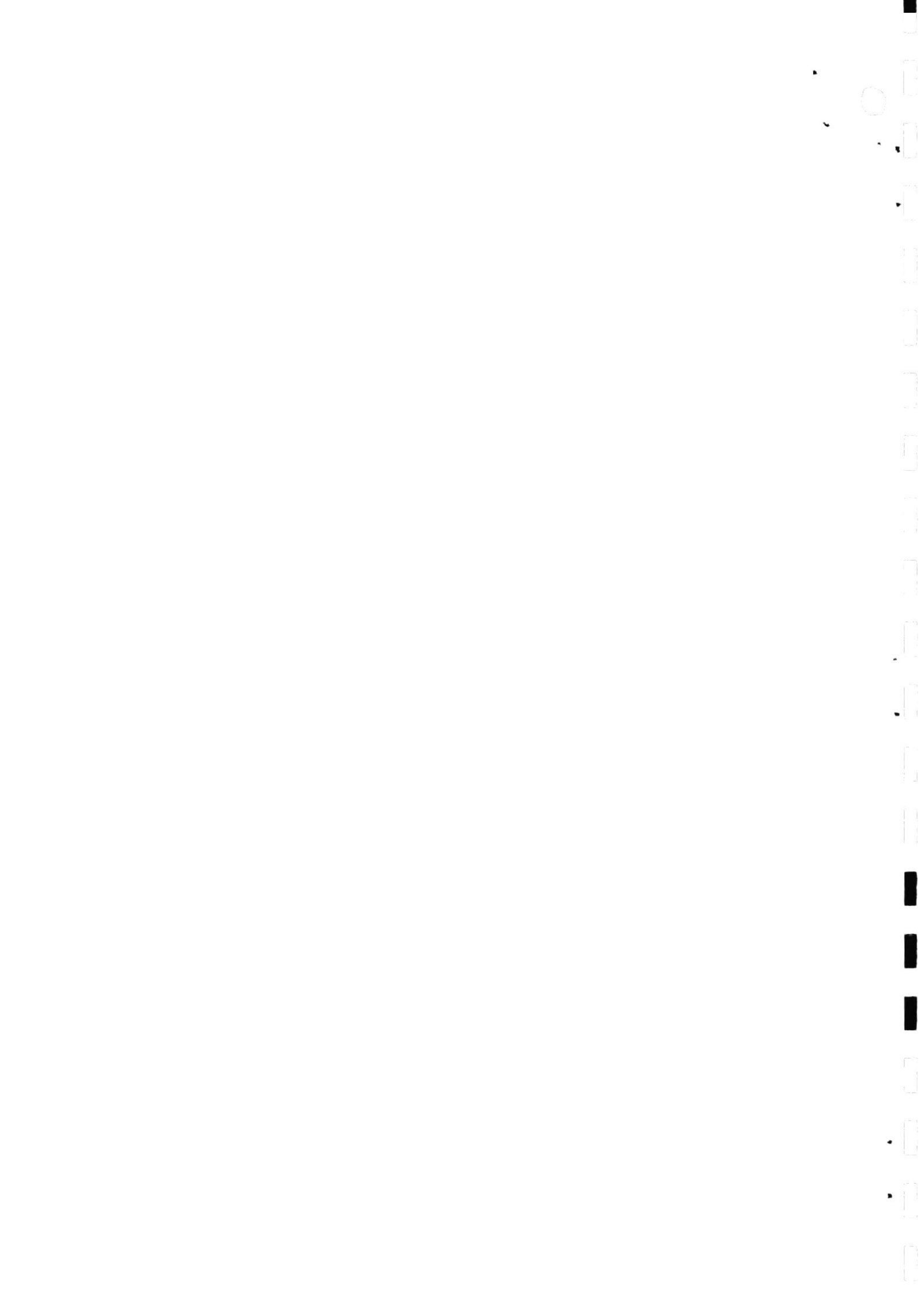
Following WASREB's categorization of service areas to include the entire population in the sub locations where the WSP has any presence, the level of coverage is drastically expected to reduce.

More pipe extensions will be required in such underserved areas to increase coverage. This will be achieved through public private partnerships and funding support from ward-based projects under the County Government.

In addition to the above areas served by the company in the provision of water services, Angurai area in Teso North Sub County where World Vision Kenya (WVK) has supported the development of infrastructure for water services provision was added to the areas covered by the company after the handing over for its management. However, pipelines in this area were seriously damaged during road construction and not replaced which has made the water not to reach some areas e.g Angurai town and the neighbourhood. Rehabilitation of Malaba-Kocholia water supply, through the National Government under the ADB funding amounting to about Ksh 400 Million is expected to address this problem though the process has been delayed following contractual issues.

The Strategic Plan for BUWASCO for the period 2017-2021 covers four thematic areas of institutional capacity strengthening, water and sewerage infrastructure improvement, financial sustainability, operational efficiency and customer service. This is estimated to cost Ksh 15.58 Billion to finance the main objectives under the strategic themes. Due to limited sources of internal funds in the company, resource mobilization from external sources is needed to be enhanced. Expected sources of funds are the County Government of Busia, National Government of Kenya, development partners and public private partnerships. The plan is now due for review to assess the achievements made and propose measures to achieve the set targets.

The County Government of Busia through the Kenya Devolution Support Program (KDSP) invested 51Million in the company's area of jurisdiction to develop infrastructure geared towards increasing coverage and improving performance of the operating systems. The projects funded under the programme are, Installation of solar hybrid pumping system at Mundika Water Treatment Works, Replacement of damaged water pipelines in Busia Town and repair of 2No elevated steel water storage tanks at Mundika treatment works for backwashing and Bukalama for storage, Automation of



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the billing system and installation of smart meters for Busia Mundika Water supply and installation of solar pumping system, construction of 50m³ elevated steel water tank and construction of pipeline at Khwirale borehole for Nambale water supply.

The company operates sewerage services in Busia town which has a coverage of below 15%. The system experiences challenges with persistent overflows in some sections within the town. This is attributed to the increased demand from the growing population and level of new developments. Feasibility studies and designs are being carried out for augmentation of Busia and for a new system to serve Nambale town and its environs. The studies are being carried out by KIRI Consult funded by ADB through the Rift Valley and Lake Victoria North Water Works Development Agencies. When implemented, this is expected to address the waste water management in Busia and Nambale towns. In Malaba town, there is an ongoing Sewerage project under implementation funded by ADB which is estimated to cost at Ksh. 550Million.

The challenges faced by the company since its inception have been the same from the beginning and still need to be addressed. These include the following:

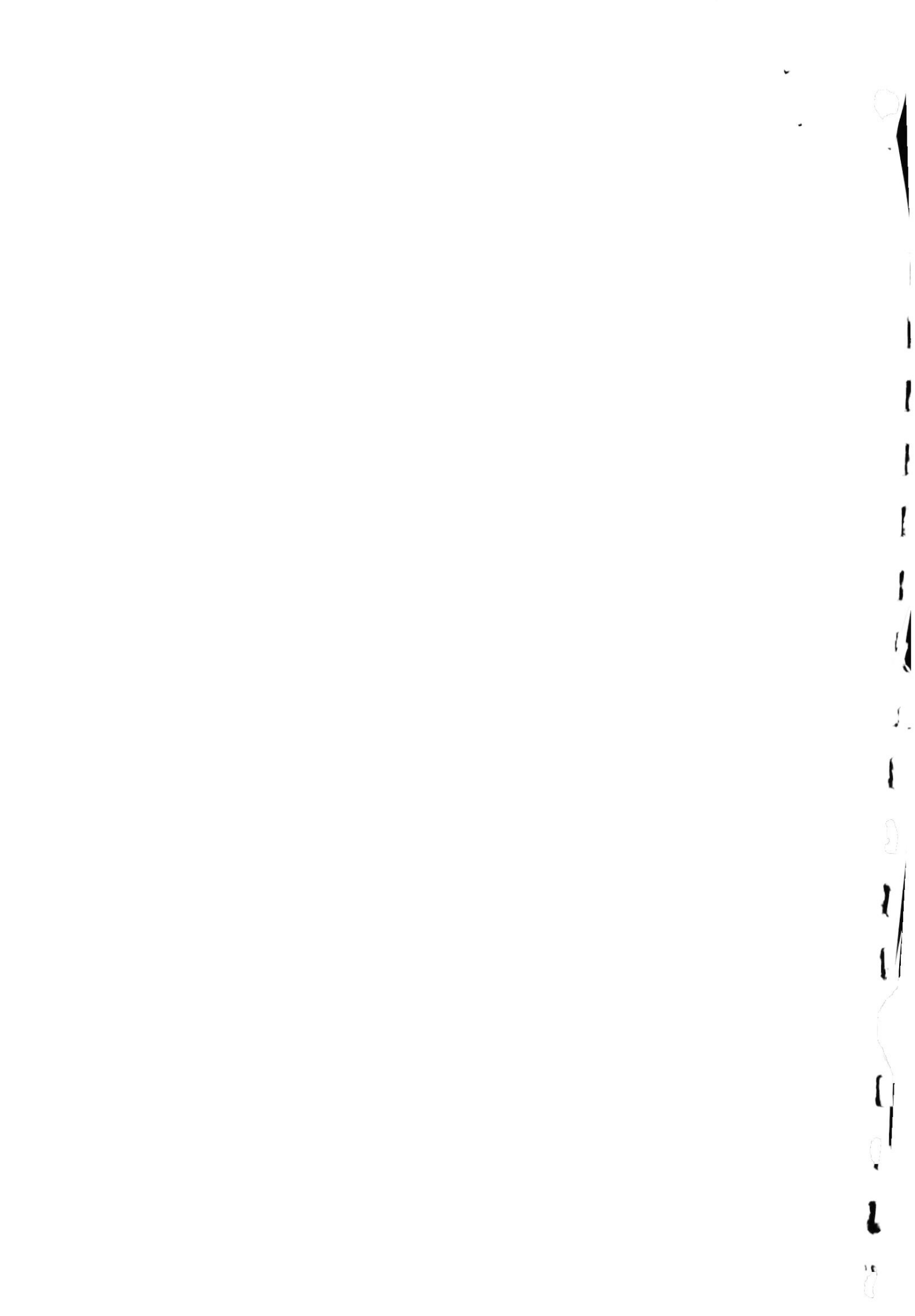
- High Non-Revenue water levels.
- Frequent disconnections of power supply which affect consistency in service provision
- Persistent damages to pipelines by road construction works
- Inadequate funds to implement budget proposals and pay creditors
- Lack of 100% metering due to inadequate finances
- Inadequate office space
- Litigation matters arising from periods before separation of the Kakamega and Busia Water companies
- Lack of clarity in the shared and ownership of Assets.

The company is in the process of reorganising itself to provide better services to its customers with focus on achieving its mission and attaining it's vision while observing the fundamental principles that guide its employees in the discharge of their duties under the acronym of PACEIT for Professionalism, Accountability, Customer focus, Equity, Integrity and Team Work.



JUMA S. MULIKA

Ag. Managing Director



CORPORATE GOVERNANCE STATEMENT

The company recognizes the importance of corporate governance in creating balance between economic and social goals and between individual and communal goals while encouraging efficient use of resources, accountability in use of power and stewardship and as far as possible to align the interests of individuals, corporation and the society. Good corporate governance is intended to ensure that the powers of the corporation is exercised in the stewardship of the corporation's total portfolio of assets and resources with the objective of maintaining and increasing customer satisfaction and other stakeholders in the context of corporate mission.

The company Board of Directors was appointed by the Governor of Busia County, to perform the following functions;

- Ensure proper and efficient exercise of the powers and performance of the functions of the company
- Advise the management generally on the exercise of the powers and the performance of the company
- Approve the estimates of the revenue and expenditure of the company.

To ensure there was no compromise on principles of corporate governance, Board of Directors underwent training on the same as well as the Code of Conduct. During the financial year just ended three Full Board meetings were held as well as three Board Committee meetings. The remuneration of the Board was discussed and determined during the first Full Board meeting.

Terms of service for Board of the company is three years with retention of a third of directors for continuity. The composition of the board of directors is a follows;

- Professional bodies, Women organizations, business and manufacturing communities.
- The Executive Committee Member in charge of Water, Environment and Natural Resources
- The Executive Committee Member in charge of Finance and Economic Planning.
- Regular meetings of the Board are held quarterly. Special meetings may be called by the chairman.

- The company's director shall act in good faith, with due care and in the best interest of the company and its shareholders.
- Each director is expected to attend board meetings and applicable committee meetings. Directors are expected to ensure that other commitments do not interfere in the discharge of their duties.

Board Committee

- The Board is supported by three (3) Committees namely: Technical Committee, Finance and Establishment and Audit and Governance Committee all of which are required to report to the Board a summary of the actions taken at committee level.

- Technical Committee: M/s.Susan Darya (Chairperson)
Mr. Joseph Esemé
Dr. Isaac Alukwe
M/s Ajiambo H. Mukanda
- Finance and Establishment Committee: Mr. Francis Omondi (Chairperson)
Dr. Isaac Alukwe
Hon. Phaustine Barasa
M/s. Mukanda H. Ajiambo
- Audit Committee: Mr. Joseph Esemé (Chairperson)
M/s. Darya Susan
Dr. Isaac Alukwe
Hon. Phaustine Barasa

Board Remuneration

- By resolution of the Board each director shall receive a net of Ksh.10,000 as sitting allowance and Ksh.2,000 lunch and travelling allowances, if lunch is not served during the meeting. The Chairman receives a monthly allowance of Kshs 35,000 subject to 30% tax. As compensation the Board shall allocate an amount not more than 2% of the total revenue of the company.

Audit and Governance Committee

- The company has an Audit and Governance Committee composed of four directors. The Audit and Governance Committee is expected through the provision of checks and balance to bring positive results in supervising and supporting the management of the company. It is

Busia Water and Sewerage Services Co. Ltd

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For the year ended June 30, 2019

responsible for ensuring the development of, compliance with, and periodic review of corporate governance policies and practices in the company.

Board Meetings

The table below summarises the attendance of directors to the meetings held in the year ended 30th June 2019:

S/No.	Directors	Number of meetings Attended/ Held
1	Dr. George Kwedho	5/10
2.	Dr. Isaac Alukwe	7/10
3.	Hon. Phaustine Barasa	6/10
4.	Mr. Joseph Esemé	7/10
5.	Ms. Darya Susan	6/10
6.	Mr. Francis Omondi	6/10

MANAGEMENT DISCUSSION AND ANALYSIS

During the year under audit, the company registered growth in Sales by 15% compared to last year's financial performance. The sales amounted to Kshs.45M against a budget of Ksh.65M. The major source of revenue was water sales which accounted for 66% of total revenue. Operating expenses during the year were Ksh.58.8million. County support for the year was Kshs.11.9million utilized to pay for electricity bills. Production and personnel costs were the biggest cost centers, the company operations resulted into operating loss of Ksh.4.7million. The low revenues hindered the company from meeting all its' statutory obligations, including payment of levies to the regulator, Water Services Regulatory Board (WASREB) and Water Resource Authority (WRA) The company is regulated and licensed by the Water Services Regulatory Board (WASREB). In compliance with the Water Act 2016, the company recognizes its responsibility to pay levies to the regulator and, however, during the reporting period no payment was made.

In compliance to the Income Tax Act, statutory remittances to National Social Security Fund (NSSF), NHIF and PAYE are up-to-date. National Social Security Fund (NSSF) remittances are pending for three months amounting to Kshs.337,770, remittances to Local Authority Pension Trust Fund (LAPTRUST) are pending to a tune of Ksh.10.5 million.

The company produced 1,111,770M³ of water and sold 407,949M³ resulting into Non-Revenue Water of 703,414M³ at 63% against a recommended benchmark of 25% whereas collection efficiency was an average of 81% against a target of 95%. Total registered connections at the end of the was 9710 with new connections being 315.

During the financial year just ended the company received support from the development partner, Kenya Integrated Water, Sanitation and Hygiene (KIWASH) in construction of 400m³ storage tank, supply and installation of no.12 bulk meters and laying of 2.1 KM distribution line in the town zone in an effort to curb the rising non-revenue water. The county government has earmarked for funding various projects through KDSP to enable the company become sustainable.

**CORPORATE SOCIAL RESPONSIBILITY STATEMENT/SUSTAINABILITY
REPORTING**

Busia Water and Sewerage Services Company recognizes its obligations to act responsibly, ethically and with integrity in its dealings with staff, customers, neighbors and the environment as a whole.

To this end: -

1. The Company has a separate environmental policy statement clarifying its commitment to delivering a net positive impact on the environment.
2. The Company has established a Corporate Social Responsibility budget line within its annual budget through which it supports its social responsibility objectives.
3. The company has established a health and safety committee and taken members for training

During the year the company participation during the World Water Day, as well as the Nile Basin day presented an opportunity to contribute towards conservation of environment through donation of tree seedlings.

The company was unable to participate in the WASCA games during the year but plans are in place to sponsor a team in the coming year.

REPORT OF THE DIRECTORS

The Directors submit their report together with the audited financial statements for the year ended June 30, 2017 which show the state of the BUWASSCO's affairs.

Principal activities

The principal activities of the entity are;

- i) Provide water and sanitation services in an effective, efficient and economical manner and shall report to County Government of Busia in accordance with the provisions in the Act.
- ii) Comply with all the provisions of the Laws of Kenya relating to the performance of its obligations, including those relating to occupational health and safety of employees. In addition, the company shall operate a quality monitoring and assurance system in accordance with the International standards.
- iii) Ensure that assets entrusted to the company are maintained and are in good working condition.
- iv) To develop programs for advancement of skills and competencies of employees of the company
- v) Establish mechanisms for promoting customer relations;

Results

The results of the entity for the year ended June 30, 2019 are set out on from page 1 to 27. Below is summary of the profit or loss made during the year.

Dividends

The company does not pay dividends rather uses the surplus to enhance its principal activity

Directors

The members of the Board of Directors who served during the year, in accordance with Regulation 11 of the Company's Articles of Association, are shown on page v-vi.

Auditors

The Auditor General is responsible for the statutory audit of the company in accordance with Article 229 of the Constitution of Kenya and the Public Audit Act 2015

By Order of the Board



Board Secretary

Busia (K)

Date.. 24/07/2020

STATEMENT OF DIRECTORS' RESPONSIBILITIES

Section 81 of the Public Finance Management Act, 2012 and section 14 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 *entity* at the end of the financial year/period and the operating results of the entity for that year/period. The Directors are also required to ensure that the entity keeps proper accounting records which disclose with reasonable accuracy the financial position of the entity. The Directors are also responsible for safeguarding the assets of the entity.

The Directors are responsible for the preparation and presentation of the entity's 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 entity'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, 2012 and the State Corporations Act. The Directors are of the opinion that the entity's financial statements give a true and fair view of the state of entity's transactions during the financial year ended June 30, 2019 and of the entity's financial position as at that date. The Directors further confirm the completeness of the accounting records maintained for the entity, which have been relied upon in the preparation of the entity's financial statements as well as the adequacy of the systems of internal financial control.

Busia Water and Sewerage Services Co. Ltd

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Approval of the financial statements

The entity's financial statements were approved by the Board on 04/08/2020 2019 and signed on its behalf by:



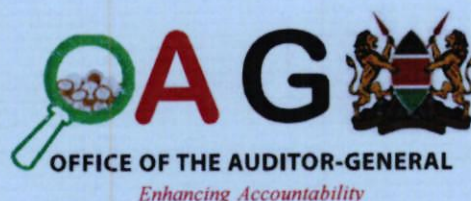
Chairman, Board of Directors



Managing Director

REPUBLIC OF KENYA

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Website: www.oagkenya.go.ke



HEADQUARTERS
Anniversary Towers
Monrovia Street
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NAIROBI

REPORT OF THE AUDITOR-GENERAL ON BUSIA WATER AND SEWERAGE SERVICES COMPANY LIMITED FOR THE YEAR ENDED 30 JUNE, 2019

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of Busia Water and Sewerage Services Company Limited set out on pages 1 to 35, which comprise the statement of financial position as at 30 June, 2019, and statement of comprehensive income, statement of changes in equity, statement of cash flows and statement of comparison of budget and actual amounts for the year then ended and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, 2015. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

In my opinion, except for the effect of the matters described in the Basis for Qualified Opinion section of my report, the financial statements present fairly, the financial position of the Busia Water and Sewerage Services 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 (Accrual Basis) and comply with the Water Act, 2016, the Companies Act, 2015 and the Public Finance Management Act, 2012

Basis for Qualified Opinion

1.0 Inaccuracies in the Statement of Cash Flows

Review of the statement of cash flows revealed inaccuracies in changes in working capital as shown below: -

Items	Opening Balance Kshs.	Closing Balance Kshs.	Correct Movement Kshs.	Changes Used in F/S Kshs.
Creditors	54,683,074	64,560,804	9,877,730	10,258,537
Debtors	48,886,923	57,047,701	8,160,778	8,277,947
Net Cash from Operating Activities	-	-	1,699,223	1,962,861

Report of the Auditor-General on Busia Water and Sewerage Services Company Limited for the year ended 30 June, 2019

Consequently, the statement of cash flows is not well presented.

2.0 Inaccuracies in Property, Plant and Equipment

The statement of financial position and as disclosed in Note 15 to the financial statements reflects property, plant and equipment balance of Kshs.968,727 as at 30 June, 2020. The balance excluded undetermined value of land and buildings. Further, the service provision agreement signed between Lake Victoria North Water Service Board and the Company on hand over of assets and liabilities did not specify the land sizes and valuation on which various water schemes under Busia Water Company operate from and land ownership documents were not provided.

Consequently, the accuracy, completeness, valuation and ownership of the property, plant and equipment balance of Kshs.968,727 as at 30 June, 2019 could not be confirmed.

3.0 Unsupported Inventories

The statement of financial position reflects inventories balance of Kshs.458,726. However, this balance was not supported with the end of year stock count records. Further, there were no stores ledger cards maintained to confirm stock movement during the year under review and valuation of balance as at 30 June, 2019.

Consequently, the accuracy and completeness of the inventories balance of Kshs.458,726 as at 30 June, 2019 could not be confirmed.

4.0 Unsupported Balance Brought Forward for Customer Deposits

The statement of financial position and as disclosed under Note 16 to the financial statements reflects trade and other payables balance of Kshs.64,560,804. Included in this balance is a brought forward amount of Kshs.8,016,255 for customer deposits which were not supported with schedules.

Consequently, the accuracy and completeness of the trade and other payables balance of Kshs.64,560,804 as at 30 June, 2019 could not be confirmed.

5.0 Unsupported Receivables and Prepayments

The statement of financial position and as disclosed in Note 12 to the financial statements reflects receivables and prepayments of Kshs.57,047,701. However, the debtors ledger and aging analysis were not provided for audit.

Consequently, the accuracy and completeness of receivables and prepayments balance of Kshs.57,047,701 could not be confirmed.

6.0 Material Uncertainty in Relation to Going Concern

During the year under review, the Company recorded a net loss of Kshs.4,741,914 as compared to Kshs.12,377,308 posted in the year 2017/2018, resulting in accumulated

losses of Kshs.676,831 as at 30 June, 2019. Further, the current liabilities balance of Kshs.64,560,804 exceeded the current assets balance of Kshs.63,015,246 resulting to a negative working capital of Kshs.1,545,558 as at 30 June, 2019. In addition, the receivables increased from Kshs.48,886,923 in 2017/2018 financial year to Kshs.57,047,701 as at 30 June, 2019. The debtor's balance of Kshs.57,047,701 also surpassed the year's sales of Kshs.42,718,135.

The financial statements have been prepared on a going concern basis on the assumption that the Company will continue to receive financial support from the County Government of Busia and its creditors.

7.0 Unbalanced Budget

The statement of comparative budget and actual amounts reflects final receipts budget of Kshs.65,151,495 against a final expenditure budget of Kshs.101,112,872 resulting to a budget deficit of Kshs.35,961,377. It is not clear how the board approved an unbalanced budget and how the budget deficit would be financed.

In addition, the statement of comparative budget and actual amounts reflects final receipts budget and actual on comparable basis of Kshs.65,151,495 and Kshs.57,232,782 respectively resulting to an under-realization of Kshs.7,918,713 or 12% of the budget. Similarly, the Company incurred expenditure of Kshs.62,966,344 against a final expenditure budget of Kshs.101,112,872 resulting to an under-expenditure of Kshs.38,146,528 or 38% of the budget.

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

Key Audit Matters

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

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

As required by Article 229(6) of the Constitution, based on the procedures performed, except for the matters described in the Basis for Conclusions on Lawfulness and

Effectiveness in Use of Public Resources section of my report, I confirm that, nothing else has come to my attention to cause me to believe that public resources have not been applied lawfully and in an effective way.

Basis for Conclusion

1.0 Non-revenue Water

During the year under review, the Company produced 1,111,770 cubic meters (m³) of water valued at Kshs.50,029,650 out of which 408,954m³ was distributed to consumers. The balance of 702,816m³ or 63% of the water produced during the year under review, valued at Kshs.31,626,720 represents non-revenue water which is 38% above the allowable water loss limit of 25% as per the Water Service Regulatory Board guidelines. The NRW of 38% may have resulted in loss of water sales estimated at Kshs.12,507,413

The significant level of non-revenue water is an indication of inefficiency and lack of effectiveness in the use of public resources and, may negatively impact negatively on the Company's profitability and its long-term sustainability.

2.0 Non-Compliance with the Law on Fiscal Responsibility - Wage Bill

Review of the personnel emolument revealed that the staff costs of Kshs.26,529,937 was forty-six percent (46%) of the total revenue amount Kshs.57,232,782. This was contrary to Section 25(1)(b) of the Public Finance Management (County Governments) Regulations, 2015 which limits the wage bill to thirty-five percent (35%) of the total revenue.

Consequently, the Company was in breach of law.

The audit was conducted per 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 comply, 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 procedures performed, except for the matters described in the Basis for Conclusions 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 overall governance were not effective.

Basis for Conclusion

Lack of a Board Charter

During the year under review, the Board operated without a Board charter contrary to Mwongozo Code of Governance for State Corporations which requires the Board of Directors to develop, adopt and periodically review a Board charter. The Board charter is critical in defining the roles, responsibilities, and functions of the Board.

In the absence of the Board charter, the Board may not be able to execute its mandate effectively.

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 effective processes and systems of internal control, risk management, and governance were operating effectively, in all material respects. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

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

- (i) I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of my audit;
- (ii) In my opinion, proper books of account have been kept by the Company, so far as appears from the examination of those books;
- (iii) The Company's statement of financial position and statement of profit or loss and other comprehensive income are in agreement with books of account; and
- (iv) In my opinion the information given in the report of the directors on page 17, is consistent with the financial statements.

Responsibilities of Directors and those Charged with Governance

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

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

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

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

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

Auditor-General's Responsibilities for the Audit

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

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

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

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

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

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

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

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

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

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


CPA Nancy Gathungu, CBS
AUDITOR-GENERAL

Nairobi

11 January, 2022

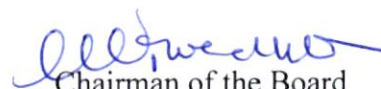
STATEMENT OF PROFIT AND LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 30 JUNE 2019

		<u>2019</u> Kshs	<u>2018</u> Kshs
REVENUE	Note		
Sales	6	42,718,135	37,739,097
Cost of Sales	7	(23,232,132)	(19,428,611)
Gross Profit		<u>19,486,003</u>	<u>18,310,486</u>
Other Income			
Grant from the County Government	8	11,976,517	8,642,142
Other Operating Income	9	2,538,130	1,461,350
Total Gross Profit		<u>34,000,650</u>	<u>28,413,978</u>
OPERATING EXPENSES			
Administration/Operating Expenses	10	(38,373,634)	(39,303,460)
Depreciation Expense	15	(367,731)	(1,487,826)
OPERATING PROFIT/LOSS		(4,741,914)	(12,377,308)
INCOME TAX EXPENSE/(CREDIT)		4,904,850	5,859,488
PROFIT/(LOSS) AFTER TAX		164,135	(6,517,822)

The financial statements were approved by the Board on 09/08/2019 2019 and signed on its behalf by:



Managing Director
Juma S. Mulika




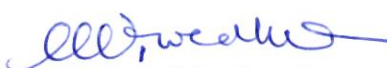
Chairman of the Board
DR. George Kwedho

STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2019

		2019 Kshs	2018 Kshs
NON-CURRENT ASSETS			
Property, plant and equipment	Note 15	968,727	885,459
TOTAL NON-CURRENT ASSETS		968,727	885,459
Current Assets			
Inventories	11	458,726	440,997
Receivables and Prepayments	12	57,047,701	48,886,923
Deferred Tax Asset	13	4,904,850	5,859,488
Bank and Cash Balances	14	603,968	2,774,091
Total Current Assets		63,015,246	57,961,498
Current Liabilities			
Trade and other Payables	16	64,560,804	54,683,074
Net Current Assets		(1,545,558)	3,278,424
Total Assets		(576,831)	4,163,884
Financed By			
Ordinary share capital	17	100,000	100,000
Retained Earnings		(676,831)	4,063,884
Total Equity		(576,831)	4,163,884

The financial statements were approved by the Board on 04/07/2020 2019 and signed on its behalf by:


 Managing Director
Juma S. Mulika


 Chairman of the Board
Dr. George Kwedho

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 JUNE 2019

	ORDINARY SHARE CAPITAL Kshs	RETAINED EARNINGS Kshs	TOTAL Kshs
At 1st July 2017	100,000	10,581,706	10,681,706
Total comprehensive income	-	(6,517,822)	(6,517,822)
At 30th June 2017	100,000	4,063,884	4,163,884
At 1st July 2018	100,000	4,063,884	4,163,884
Total comprehensive income	-	(4,740,715)	(4,740,715)
At 30th June 2019	100,000	(676,831)	(576,831)

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

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2019

	Notes	2019 Kshs	2018 Kshs
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit/(loss) before tax		(4,741,914)	(12,377,308)
ADD: Non cash adjustments			
Revenue reserve			
Share Capital			
Provision for Depreciation Fixed Assets	15	367,731	1,487,826
		(4,374,183)	(10,889,482)
Changes in working capital			
Increase/(Decrease) in Creditors	16	10,258,537	9,590,452
(Increase) /Decrease in Debtors	12	(8,277,947)	(4,825,795)
(Increase)/ Decrease in Stocks	11	(17,729)	1,447,614
Net Cash from (used in) operating activities		1,962,861	6,212,271
CASH FLOWS FROM INVESTING ACTIVITIES			
purchase of Fixed Assets		(240,000)	-
Net Cash from investing activities		(240,000)	-
Movement in Cash & Cash equivalents			
At the Start of the year		2,774,091	3,625,031
Increase/Decrease of cash at year end		(2,170,123)	(850,940)
Prior year Balance overstated			-
Balance as at 30th June		603,968	2,774,091

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

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

	Original budget	Adjustment s	Final budget	Actual on comparable basis	Performance difference
	2018-2019	2018-2019	2018-2019	2018-2019	2018-2019
Income/Revenue	Kshs	Kshs	Kshs	Kshs	Kshs
Gross sale of water	53,088,000	-	53,088,000	29,972,518	23,115,482
Gross sewer charges	6,120,000	-	6,120,000	3,345,900	2,774,100
Meter Rent	3,550,800	-	3,550,800	9,399,717	(5,848,917)
Water Bowser/Exhauster	2,060,495	-	2,060,495	2,368,130	(307,635)
Other charges and penalties	332,200	-	332,200	170,000	162,200
Grant from County government	-	-	-	11,976,517	(11,976,517)
Total Income	65,151,495	-	65,151,495	57,232,782	7,918,713
Expenditure					
Board of Directors expenses	1,992,000	-	1,992,000	1,279,287	712,713
Compensation of employees	39,964,914	-	39,964,914	26,529,937	13,434,972
Operation and Maintenance	7,174,630	-	7,174,630	1,625,031	5,549,599
Levies and licenses	4,000,000	-	4,000,000	3,688,000	312,000
Chemicals	10,658,700	-	10,658,700	5,654,354	5,004,346
Electricity	20,076,000	-	20,076,000	16,150,567	3,925,433
Motor vehicle expenses	3,034,400	-	3,034,400	1,859,012	1,175,388
Office running expenses	10,582,228	-	10,582,228	5,729,156	4,853,072
Total	97,482,872	-	97,482,872	62,515,344	34,967,528
Development					
Computer & IT Equipment	250,000	-	250,000	110,000	140,000
Water meters	2,880,000	-	2,880,000	62,000	2,818,000
Pump-sets	500,000	-	500,000	-	500,000
General equipment	-	-	-	279,000	(279,000)
Sub total	3,630,000	-	3,630,000	451,000	3,179,000
Total Expenditure	101,112,872	-	101,112,872	62,966,344	38,146,528

Busia Water and Sewerage Services Co. Ltd

Annual Reports and Financial Statements

For the year ended June 30, 2019

Budget Explanatory Notes

- a) The actual revenue generated during the year was lower due to challenges in operations caused by power disconnections and outages as well as pipeline destructions during road constructions.
- b) Staff costs were lower because the intended recruitment to fill vacant positions was not done during the reporting year
- c) Amount spent on operation and maintenance was less due to inadequate funds.
- d) Funds expected from county government for capital expenditure was not realised.

NOTES TO THE FINANCIAL STATEMENTS

1. GENERAL INFORMATION

Busia Water and Sewerage Services Co. Ltd is established by and derives its authority and accountability from Busia County Water and Sewerage Services, 2015 Act and is domiciled in Kenya. The entity's principal activity is provision of Water and Sewerage services to the residents of Busia County.

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

2. STATEMENT OF COMPLIANCE AND BASIS OF PREPARATION

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

The 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.

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

i) Relevant new standards and amendments to published standards effective for the year ended 30 June 2019

IFRS 16: Leases

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

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

i) Relevant new standards and amendments to published standards effective for the year ended 30 June 2019(Continued)

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

IFRIC 23: Uncertainty Over income tax treatments

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

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

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

The amendments, applicable to annual periods beginning on or after 1 January 2019, allow entities to measure prepayable financial assets with negative compensation at amortised cost or fair value through other comprehensive income if a specified condition is met.

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

The amendments, applicable to annual periods beginning on or after 1st January 2019, clarify that an entity applies IFRS 9, rather than IAS 28, in accounting for long-term interests in associates and joint ventures.

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

The amendments, applicable to annual periods beginning on or after 1st January 2019, provide additional guidance on applying the acquisition method to particular types of business combination.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

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

i) Relevant new standards and amendments to published standards effective for the year ended 30 June 2019(Continued)

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

The amendments, applicable to annual periods beginning on or after 1st January 2019, clarify that when an entity obtains joint control of a business that is a joint operation, it does not re-measure its previously held interests

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

The amendments, applicable to annual periods beginning on or after 1st January 2019, clarify that all income tax consequences of dividends should be recognised when a liability to pay a dividend is recognised, and that these income tax consequences should be recognised in profit or loss, other comprehensive income or equity according to where the entity originally recognised the transactions to which they are linked.

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

The amendments, applicable to annual periods beginning on or after 1st January 2019, clarify that the costs of borrowings made specifically for the purpose of obtaining a qualifying asset that is substantially completed can be included in the determination of the weighted average of borrowing costs for other qualifying assets.

Amendments to IAS 19 titled Plan Amendment, Curtailment or Settlement (issued in February 2018)

The amendments, applicable to plan amendments, curtailments or settlements occurring on or after the beginning of the first annual reporting period that begins on or after 1st January 2019, requires an entity to use updated actuarial assumptions to determine current service cost and net interest for the remainder of the annual reporting period after the plan amendment, curtailment or settlement when the entity re-measures its net defined benefit liability (asset) in the manner specified in the amended standard.

The amendments do not have any impact to the company.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

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

ii) **New and amended standards and interpretations in issue but not yet effective in the year ended 30 June 2019**

IFRS 17 Insurance Contracts (Issued 18 May 2017)

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

Amendments to References to the Conceptual Framework in IFRS Standards (Issued 29 March 2018- Applicable for annual periods beginning 1 January 2020)

Together with the revised *Conceptual Framework* published in March 2018, the IASB also issued *Amendments to References to the Conceptual Framework in IFRS Standards*. The document contains amendments to IFRS 2, IFRS 3, IFRS 6, IFRS 14, IAS 1, IAS 8, IAS 34, IAS 37, IAS 38, IFRIC 12, IFRIC 19, IFRIC 20, IFRIC 22, and SIC-32. Not all amendments, however update those pronouncements with regard to references to and quotes from the framework so that they refer to the revised *Conceptual Framework*. Some pronouncements are only updated to indicate which version of the framework they are referencing to (the IASC framework adopted by the IASB in 2001, the IASB framework of 2010, or the new revised framework of 2018) or to indicate that definitions in the standard have not been updated with the new definitions developed in the revised *Conceptual Framework*.

The Directors do not 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.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

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

iii) Early adoption of standards

The entity did not early – adopt any new or amended standards in year 2018.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

a) Revenue recognition

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

b) In-kind contributions

In-kind contributions are donations that are made to the company 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 company includes such value in the statement of comprehensive income both as revenue and as an expense in equal and opposite amounts; otherwise, the contribution is not recorded.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

c) Property, plant and equipment

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

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

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

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

d) Depreciation and impairment of property, plant and equipment

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

e) Intangible assets

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

f) Amortisation and impairment of intangible assets

Amortisation is calculated on the straight-line basis over the estimated useful life of computer software of three years.

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

i) Fixed interest investments (bonds)

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

j) Quoted investments

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

k) Unquoted investments

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

l) Inventories

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

m) Trade and other receivables

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

n) Taxation

Current income tax

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

n) Taxation (Continued)

Current income tax (Continued)

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

Deferred tax

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

n) Taxation (Continued)

Deferred tax (Continued)

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

o) Cash and cash equivalents

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

p) Borrowings

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

q) Trade and other payables

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

r) Retirement benefit obligations

The entity operates a defined contribution scheme for all full-time employees from July 1, 2016. The scheme is administered by LAPTRUST and is funded by contributions from both the company and its employees. The company also contributes to the statutory National Social Security Fund (NSSF). This is a defined contribution scheme registered under the National Social Security Act. The company's obligation under the scheme is limited to specific contributions legislated from time to time and is currently at 15% of the basic pay 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.

u) Budget information

The original budget for Financial Year 2018-2019 was approved by the Board of Directors. Subsequent revisions or additional appropriations were made to the approved budget in accordance with specific approvals from the appropriate authorities.

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

v) Service concession arrangements

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

w) Comparative figures

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

x) Subsequent events

There have been no events subsequent to the financial year end with a significant impact on the financial statements for the year ended June 30, 2018.

5 SIGNIFICANT JUDGMENTS AND SOURCES OF ESTIMATION UNCERTAINTY

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

State all judgments, estimates and assumptions made: e.g

Estimates and assumptions

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

**5 SIGNIFICANT JUDGEMENTS AND SOURCES OF ESTIMATION UNCERTAINTY
(Continued)**

Useful lives and residual values

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

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

Provisions

Provisions were not raised since management could not determine an estimate based on the information available. Provisions are measured at the management's best estimate of the expenditure required to settle the obligation at the reporting date, and are discounted to present value where the effect is material.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

6 REVENUE

	2019 Kshs	2018 Kshs
Gross sale of water	29,972,518	28,384,364
Meter Rent	3,345,900	6,120,433
Gross sewer charges	9,399,717	3,234,300
TOTAL REVENUE	42,718,135	37,739,097

7 COST OF SALES

	2019 Kshs	2018 Kshs
Opening Stock(chemicals)	15,312	360,876
Add: Purchases		
Water Levies: LVNWSB	-	1,771,215
WASREB	1,318,819	392,144
WARMA	528,144	190,828
Electricity	16,150,567	12,730,410
Chemicals	5,364,441	3,998,450
Less: Closing stock	(145,151)	(15,312)
	23,232,132	19,428,611

8 GRANTS FROM COUNTY GOVERNMENT

	2019 Kshs	2018 Kshs
Busia County Department of Water Irrigation Environment and Natural Resource	Amount recognized to Statement of Comprehensive Income	Amount recognized to Statement of Comprehensive Income
Electricity	11,976,517	8,211,072
Chemicals	-	431,070
Total	11,976,517	8,642,142

NOTES TO THE FINANCIAL STATEMENTS (Continued)

9 OTHER INCOME

	2019	2018
	Kshs	Kshs
Exhauster	1,086,000	547,300
Water Bowser	1,282,130	746,450
Other charges and Penalties	170,000	167,600
Total other income	2,538,130	1,461,350

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

10 (a) ADMINISTRATION COSTS

		2019 KSh	2018 KSh
Staff costs - Note 10 (b)		26,529,937	26,412,082
Annual performance reward		-	-
Directors' emoluments		1,279,287	1,255,070
Postage, Telephone and Internet		238,042	232,099
Transportation, travelling and subsistence		930,990	2,201,625
Newspaper & Periodicals		30,720	24,720
Printing, stationery			
Opening stock	58,585		
Purchases	557,320		
Less: Closing stock	<u>(67,205)</u>	548,700	367,950
Staff welfare		-	-
Staff training expenses		70,000	160,000
Security services		2,883,456	3,052,608
Fuel		1,072,910	958,500
Software maintenance		214,600	174,000
Lab Reagents		67,280	-
Domestic Requisites /Hospitality		441,187	516,547
Social Corporate Responsibility		50,000	-
Motor vehicle Repairs		421,150	668,679
Uniform & Protective Clothing		31,140	
Office buildings repairs		-	58,112
Subscription Fees		66,200	55,000
Publicity & Advertisements		-	887,078
Crosscutting issues		-	85,615
Repairs & Maintenance		68,089	-
Operations & Maintenance			
Opening stock	367,100		
purchases	1,504,301		
Less: Closing stock	<u>(246,370)</u>	1,625,031	2,005,350
Computer Accessories		17,460	11,600
Motor vehicle inspections		300	29,300
Motor Vehicle Insurance		417,952	107,960
Bank charges and commissions		105,531	39,547
Auditors' remuneration		400,000	-
Legal fees		-	-
N.H.I.F penalties		803,300	-
P.A.Y.E Penalties		60,371	-
Consultancy /Professional Fees		-	-

TOTAL OPERATION COSTS

38,373,634

39,303,461

NOTES TO THE FINANCIAL STATEMENTS (Continued)

10(b) STAFF COSTS

	2019 Kshs	2018 Kshs
Salaries and allowances of permanent employees	21,212,541	21,382,934
Wages of temporary employees	1,795,650	1,592,271
Compulsory national health insurance schemes	-	-
Compulsory national social security schemes	635,040	613,440
Other pension contributions	2,561,376	2,498,107
Leave pay and gratuity provisions	325,330	325,330
Staff welfare	-	-
Total	26,529,937	26,412,082

The average number of employees at the end of the year was:

Seconded from the county government	5	3
Permanent employees – Management	-	-
Permanent employees – Unionisable	49	49
Temporary and contract employees	12	12
	66	64

The Technical Services manager and Managing Director are both seconded from the county government

NOTES TO THE FINANCIAL STATEMENTS (Continued)

11 INVENTORIES

	2019 Kshs	2018 Kshs
Chemicals	145,151	15,312
Stationery	67,205	58,585
Pipes and Fittings	246,370	367,100
	<u>458,726</u>	<u>440,997</u>

12 TRADE DEBTORS

	2019 Kshs	2018 Kshs
Malaba Kocholia	13,402,022	12,631,938
Nambale	4,582,861	3,973,164
Matayos	6,532,970	5,250,382
Busia	32,529,848	26,031,439
	<u>57,047,701</u>	<u>48,886,923</u>

13 INCOME TAX EXPENSE/(CREDIT)

	2019 Kshs	2018 Kshs
Profit before taxation	(4,740,715)	(12,377,308)
Tax at the applicable tax rate of 30%	(1,422,214)	(3,713,192)
Tax effects of expenses not deductible for tax purposes	110,319	446,348
Tax effects of income not taxable	(3,592,955)	(2,592,643)
	<u>(4,904,850)</u>	<u>(5,859,487)</u>

NOTES TO THE FINANCIAL STATEMENTS (Continued)

14. BANK AND CASH BALANCES

		2019	2018
		Kshs	Kshs
Revenue Account	- A/c No. 01141237264000	82,791	689,258
Expenditure Account	- A/c No. 01141237264001	9,344	329,624
Customer Deposits Account	- A/c No. 01141237264002	400,715	1,324,545
Infrastructure Account	- A/c No. 01141237264002	-	-
M-Pesa	- Pay bill No. 689872	111,119	430,664
		<u>603,968</u>	<u>2,774,091</u>

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For the year ended June 30, 2019

NOTES TO THE FINANCIAL STATEMENTS (Continued)

15. PROPERTY, PLANT AND EQUIPMENT

2018	Water Supply Infrastructure	Plant and Machinery	Motor Vehicles incl. Motor Cycles	Computers & Related Equipment	Furniture & Fittings	Office Equipment	Water Meters	Total
COST OR VALUATION								
At 1st July, 2018	294,344	403,075	2,646,967	811,450	895,096	618,959	5,415,000	11,084,891
Additions	-	279,000	-	110,000	-	-	62,000	451,000
Transfers		-	-	-	-	-	-	-
Disposals	-							-
At 30th June, 2019	294,344	682,075	2,646,967	921,450	895,096	618,959	5,477,000	11,535,891
DEPRECIATION								
At July 1, 2018	52,522	266,360	2,646,967	811,450	867,348	293,411	5,261,375	10,199,433
Charge for the year	11,774	68,208	-	36,630	4,625	77,370	169,125	367,731
At June 30, 2019	64,296	334,568	2,646,967	848,080	871,973	370,781	5,430,500	10,567,164
NET BOOK VALUE								
At June 30, 2019	230,048	347,508	-	73,370	23,123	248,178	46,500	968,727
At June 30, 2018	241,822	136,716	-	-	27,748	325,548	153,625	885,459

Busia Water and Sewerage Services Co. Ltd

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For the year ended June 30, 2019

NOTES TO THE FINANCIAL STATEMENTS (Continued)

16. TRADE AND OTHER PAYABLES

	2019	2018
	Kshs	Kshs
A. SUPPLIERS		
PAN AFRICA CHEMICALS	1,618,661	1,444,250
BULLS SECURITY SERVICES	660,000	198,000
CORNERSTONE SECURITY SERVICES	376,768	753,536
DOMINION DISHES	-	-
SULIS EAST AFRICA LTD	248,000	174,000
MALCOMS AGENCIES	102,260	74,200
KEL CHEMICALS LTD	624,950	881,900
NORGEN ENTERPRISES LTD	-	166,400
BORDERLINE CONTRACTORS	171,250	163,850
BORDERLINE CONTRACTORS	62,000	
BEWANGA ENTERPRISES	13,000	114,000
TUNAI TOURS AND TRAVELLERS	-	27,250
SPELLION KENYA LTD	188,420	69,940
JOLOF ENTERPRISES	47,850	-
JOLOF ENTERPRISES	110,000	-
JASKO ENTERPRISES	-	39,000
FARMVIEW HOTEL	239,920	232,933
TOP-HICS ART AND DESIGN	-	250,000
DAVIS & SHIRTLIFF	39,000	
CHARLINK GENERAL SUPPLIES	68,000	
COAST INDUSTRIAL & SAFETY SUPPLIES LTD	140,000	-
AIDATEK ENTERPRISES LTD	105,740	-
BAHIBRANIABUILDING & CONSTRUCTION LTD	118,300	-
SHIUMUTI ENTERPRISES	112,400	-
BUTAYA VENTURES	110,745	-
KIFARU AUTOWORKS	53,000	-
KENYA NATIONAL AUDIT OFFICE	400,000	-
KPLC	1,392,395	-
WASREB	1,318,819	281,094
WRMA	867,365	778,555
LVNWSB	5,013,685	5,013,685
	14,202,528	10,662,593
B. Salary Related		
Gross Pay For June	-	2,199,891
Permanent staff - Net Salary	1,079,279	
Contracted Staff - Net salary	184,116	-
L.V.N Staff Welfare Savings	-	6,600
L.V.N Staff Welfare Loans	44,650	42,650
L.V.N. Staff Welfare Shares	228,000	57,600
Ukulima Sacco Society	1,048,903	790,476
Wevarsity Sacco Society	112,565	69,329
Laptrust	10,537,203	6,254,152
Co-Operative Bank Of Kenya	2,125,845	1,646,801
Leave Allowance	325,330	325,330
Unpaid Directors Sitting Allowances	182,858	
BOD Chairman Honoraria	35,000	35,000
N.H.I.F Penalties	803,300	-

Busia Water and Sewerage Services Co. Ltd

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For the year ended June 30, 2019

PAYE Penalties	60,371	-
PAYE June	161,874	-
N.H.I.F June	52,650	-
N.S.S.F	231,180	-
	17,213,124	11,427,829
C. CREDITORS FROM JOINT KAKAMEGA - BUSIA WATER SUPPLY		
Auditor General	541,333	541,333
Beatwam Limited Integrated	183,164	183,164
Aquatreat	185,127	185,127
BEDROCK HOLDINGS LTD	219,623	219,623
Betco Engineering	16,667	16,667
CIC	7,032	7,032
COAST INDUSTRIAL & SAFETY SUPPLIES LTD	233,317	253,317
Double Shasha	122,250	122,250
GM BUSOLO CONTRACTORS	26,000	26,000
Golf Hotel	17,400	17,400
High rise Designers	19,777	19,777
ICEA Lion General Assurance	594,287	594,287
Julika Automobiles	66,478	66,478
Kakamega General Motors	60,112	60,112
KINETICS ENGINEERING LTD	348,708	348,708
Legal Fee	333,333	333,333
LVNWSB Levies	19,397,035	19,397,035
Morisam Construction	31,627	31,627
NUPAXX SERVICES	585,833	585,833
Pamida Engineering	343	343
PAN AFRICA CHEMICALS LTD	778,350	778,350
Postal Corporation of Kenya	2,277	2,277
SAHAJANAND SPARES CORNER LIMITED	36,667	36,667
Shamco Industries	-	-
TERRANOVA AUTOSPARES	39,410	39,410
Tyretec Autospares	19,333	19,333
WARMA	485,968	485,968
WASREB	47,140	47,140
WATER & SOLAR TECHNOLOGIES LTD	15,053	15,053
Wekesa simiyu Advocates	142,753	142,753
	24,556,397	24,576,397
D. Customer Deposits		
Bal b/fwd	8,016,255	7,347,705
Busia	387,000	400,850
Nambale	103,500	101,000
Malaba/Kocholia	65,500	53,200
Matayos	43,500	113,500
Less: Refunds	(27,000)	-
	8,588,755	8,016,255
TOTAL PAYABLES	64,560,804	54,683,074

NOTES TO THE FINANCIAL STATEMENTS (Continued)

17. ORDINARY SHARE CAPITAL

Authorised:

5,000 ordinary shares of Kshs.20 par value each 100,000

18. RETAINED EARNINGS

The retained earnings represent amounts available for distribution to the *entity's* shareholders. Undistributed retained earnings are utilised to finance the *entity's* business activities.

19. RELATED PARTY DISCLOSURES

(a) County Government of Busia

The County Government of Busia is the principal shareholder of the company, holding 100% of the company's equity interest.

Other related parties include:

- i) Ministry of Water;
- ii) Government of Kenya
- iii) Lake Victoria North Water Services Board;
- iv) Water Resource Management Authority;
- v) Key management;
- vi) Board of directors;

Transactions with related parties

Due to Lake Victoria North Water Services Board is KFW Phase 2 loan of Kshs.1.075billion due for repayment since financial year 2016/17 with annual repayments of Kshs.54,777,556 for a period of 32years.

No amount of the loan was repaid during the year due to financial constraints

20. CONTINGENT LIABILITIES

	2019	2018
	Ksh	Ksh
Disputed penalties on payables	1,998,675	-
Legal claims against the company	3,209,603	-
	<u>5,208,278</u>	<u>-</u>

Ukulima Sacco Society Ltd has engaged debt collectors to recover the deductions made on the payroll for its members and not remitted.

The amounts of legal claims relate to court cases involving former employees of the company as claimants, the court awards are to be shared between Kakamega and Busia companies as per the joint committee recommendations.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

No provision has been made in these financial statements since the cases had not been finalized at the end of the financial year 2018/2019.

21. 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.

The board of directors sets the company's credit policies and objectives and lays down parameters within which the various aspects of credit risk management are operated.

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.

(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 on-going 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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

FINANCIAL RISK MANAGEMENT (Continued)

(iii) Market risk (Continued)

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 and Risk Management Committee.

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

a) Interest rate risk

Interest rate risk is the risk that the entity's financial condition may be adversely affected as a result of changes in interest rate levels. The company's interest rate risk arises from bank deposits. This exposes the company to cash flow interest rate risk. The interest rate risk exposure arises mainly from interest rate movements on the company's deposits.

Management of interest rate risk

To manage the interest rate risk, management has endeavoured to bank with institutions that offer favourable interest rates.

22. INCORPORATION

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

23. EVENTS AFTER THE REPORTING PERIOD

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

24. CURRENCY

The financial statements are presented in Kenya Shillings (Kshs).

APPENDIX 1: PROGRESS ON FOLLOW UP OF AUDITOR RECOMMENDATIONS

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

Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Focal Point person to resolve the issue (Name and designation)	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
1.	Late submission of Financial Statements	Transition in the board of directors as well as management which began in May and concluded in December made it difficult to convene meetings to deliberate on the financial report	Juma S. Mulika MD	Resolved	N/A
2.	Non-Revenue Water Sales (NRW)	The company has embarked on projects which are expected to significantly reduce the NRW.	TM	Not Resolved	December, 2019
3.	Property Plant and Equipment	The property Plant and Equipment in custody of the company are owned by the LVNWSB pending repayment of KFW Phase 2 loan. However a listing of all the property shall be made in the asset register pending valuation to determine their current values.	CFM	Resolved	N/A
4.	Inventories	The company has enforced use of stock ledger cards for all items in store in calculating the closing balances.	CFM	Not Resolved	September 2019
5.	Bank and Cash Balances	Bank reconciliations for all bank accounts as well as M-Pesa are to be maintained on monthly basis	CFM	Resolved	N/A

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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)
6.	Payables and Accruals	The amount relates to the customer deposits inherited from National Water.	FM	Not Resolved	
7.	Inaccuracies in the Statement of Cash Flows	Adjustments are be made to ensure the Cash Flow Statement is properly done	CFM	Not Resolved	December, 2019



Managing Director

Date 24/07/2020



Chairman of the Board

Date 24/07/2020

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APPENDIX I1: PROJECTS IMPLEMENTED BY THE ENTITY

Projects

Projects implemented by the Company Funded by development partners

Project title	Project Number	Donor	Period/duration	Donor Commitment	Separate donor reporting required as per the donor agreement (Yes/No)	Consolidated in these financial statements (Yes/No)
Grid Tie Solar System	BSA/CG/KDSP /E0/01/2018-19	WORLD BANK	12 Weeks	20M	Yes	NO
Augmentation of Busia-Mundika W/S	BSA/CG/KDSP /189/2018-19	WORLD BANK	12 Weeks	5M	Yes	NO
Revenue Automation-Busia W/Works	BSA/CG/KDSP /E01/03/2018-19	WORLD BANK	10 Weeks	20M	Yes	NO
Augmentation of Nambale W/S	SA/CG/KDSP/ 169/2018-19	WORLD BANK	12 Weeks	6M	Yes	NO
Nambale A.C Pr.Sch B/hole		CABDA		6M	Yes	NO
Malaba Sewerage System		ADB		300M	Yes	NO

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APPENDIX III: INTER-ENTITY TRANSFERS

The company received assets from other entities as follow;

ENTITY NAME	ITEM/DESCRIPTION	QUANTITY	AMOUNTS
Lake Victoria North Water Services Board	Toyota D/cab pick-up	1	Unknown

Ownership documents were not handed over to the company as well as the costs involved.

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