

REPUBLIC OF KENYA

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**OFFICE OF THE AUDITOR-GENERAL**

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# REPORT

OF

**THE AUDITOR-GENERAL**

ON

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**NANYUKI WATER AND SEWERAGE  
COMPANY LIMITED**

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





NANYUKI WATER AND SEWERAGE COMPANY LTD  
ANNUAL REPORT AND FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30<sup>TH</sup> JUNE 2020

OFFICE OF THE AUDITOR GENERAL  
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NANYUKI WATER & SEWAGE COMPANY LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS

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

**TABLE OF CONTENT**

1. KEY ENTITY INFORMATION	3-5
2. THE OF BOARD DIRECTORS	6-7
3. MANAGEMENT TEAM	8
4. CHAIRMAN'S STATEMENT	9-10
5. REPORT OF THE MANAGING DIRECTOR	11-12
6. CORPORATE GOVERNANCE STATEMENT	13-16
7. BOARD OF DIRECTOR'S REPORT	17
8. STATEMENT OF DIRECTORS RESPONSIBILITY	18
9. INDEPENDENT AUDITOR REPORT	19
10. STATEMENT OF FINANCIAL POSITION	20
11. STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME	21
12. STATEMENT OF CHANGES IN EQUITY	22
13. STATEMENT OF CASH FLOWS	23
14. NOTES	24-52

# NANYUKI WATER & SEWAGE COMPANY LIMITED

## ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30TH JUNE 2020

### Key entity information

#### Background information

The enactment of the Water Act 2002 led to the creation of Water Services Regulatory Authority (WASREB), Water Service boards and Water Service Providers to spearhead the water sector reform programme. NAWASCO is a Water Service Provider, a company limited by shares and incorporated under the Companies Act of Kenya cap 486 and operates under supervision of County Government of Laikipia under water act 2016 where water provision became a devolved function.

NAWASCO has been mandated by County Government of Laikipia through a Service Provision Agreement (SPA) to carry out water and sewerage services in Nanyuki town and its environs. The company takes charge of public resources in order to provide quality, affordable, reliable, sustainable and portable water and sewerage in the target community. NAWASCO is wholly owned by Laikipia County Government.

#### Principal activity

The mandate of NAWASCO is to ensure efficient and sustainable provision of quality and affordable water and sewerage services in Nanyuki and its environs.

#### Main business activity

The company's main business activity is captured in its strategic objectives which are:

- a) Increase access to clean and safe drinking water and sanitation services,
- b) Grow financial and commercial position and viability,
- c) Provide timely, quality and reliable services,
- d) Strengthen organizational structures and operational processes,
- e) Strengthen people and communication systems.

#### Results

The entity's results for the year ended 30<sup>th</sup> June 2020 are set out on pages 20-52

	<b>2020</b>	<b>2019</b>
	<b>Kshs</b>	<b>Kshs</b>
Total Income	<u>333,088,529</u>	<u>270,545,404</u>
Total Expenditure	<u>419,025,993</u>	<u>269,447,839</u>
surplus (deficit) from NAWASCO	(85,937,464)	1,097,565
Net surplus (deficit) from enterprise	<u>1,183,160</u>	<u>343,478</u>
Total Net surplus (deficit)	<u>(84,754,304)</u>	<u>1,441,043</u>

NANYUKI WATER & SEWARAGE COMPANY LIMITED  
ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30TH JUNE 2020

**Directors**

The members of the Board of Directors who served during the year are shown on page 6 and 7

**Auditors**

The Auditor General is responsible for the statutory audit of the entity in accordance with the Public Finance Management Act. He is also empowered by the Public Audit Act to nominate other auditors to carry out the audit on his behalf.

**Vision**

Premiere utility in excellent service delivery.

**Mission**

To sustainably provide excellent water and sanitation services through professional and competitive practices to the satisfaction of all our stakeholders.

**Core values**

1. Integrity and professionalism,
2. Respect for diversity,
3. Environmental sustainability,
4. Stakeholder participation,
5. Teamwork and result oriented.

Registered office

Nanyuki Water and Sewerage Company Ltd

NAWASCO Building

Nanyuki – Meru Road

P.O.Box 995- 10400

NANYUKI WATER & SEWARAGE COMPANY LIMITED  
ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30TH JUNE 2020

Company Secretary

CS Muriithi Kingori

Kingstone Registrars

P.O. Box 1494 –10400 Nanyuki.

Independent Auditors

Auditor General

P. O. Box 30084 – 00100

Nairobi

Principal Bankers

Kenya Commercial Bank Limited

Nanyuki Branch

P.O. Box 323-10400

Nanyuki

Lawyer Advisor

Joseph Mwangi

Advocate and Commissioner for oaths

P.O. Box 1244 - 10400

Nanyuki







NANYUKI WATER & SEWAGE COMPANY LIMITED




ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30TH JUNE 2020




List of board members

The Board of Directors who held office during the year were:


NO	NAMES & ADDRESS	Representing	Remarks	D.O.B	Date of appointment	Qualifications	
1.	Yusuf Mohamed P.O Box 995-10400 Nanyuki	County Government	Chairman	20/02/ 1962	19 <sup>th</sup> Feb 2014- to-date	O' Level	
2.	Mike Kingori P.O Box 995-10400 Nanyuki	Company Secretary	Company Secretary	1969	27 <sup>th</sup> Nov 2012	CPS	
3.	Eng Gideon Maina Thuku P.O. Box 995-10400 Nanyuki	County Government	Member	25/05/ 1955	12 <sup>th</sup> Oct 2017- 12 <sup>th</sup> Oct 2023	B.TECH ENG MSC ENG.	
4.	Peter Nderitu	Faith based organisations	Member	24/04/ 1972	10 <sup>th</sup> March 2020	M.A Sociology B.A Community development DIP Theology DIP Philosophy	
5.	CPA Daniel G Wamae P.O.Box 136-10400 Nanyuki	Youth	Member	09/01/ 1987	10 <sup>th</sup> March 2020	MBA B.A Economics & Psychology CPAK HR	
6.	Lawrence Ashford Nteere	Residents Organization	Member	1952	19 <sup>th</sup> February 2019-20 <sup>th</sup> February 2022	Degree Civil Engineering	

7.	M/s Nancy Njeri Githu P.O. Box 995-10400 Nanyuki	PWD's	Member	1969	13 <sup>th</sup> Dec 2016-todate	A' Level Certificate Secretarial	
8.	CPA Esther Murungi Ndegwa P.O. Box 995-10400 Nanyuki	Professionals	Member	1957	19 <sup>th</sup> February 2019-20 <sup>th</sup> February 2022	C.P.A (K)	
9	Kennedy Gitonga P.O Box 995-10400 Nanyuki	Managing Director	Managing Director	1976		Bsc (Civil Engineering)	

**The following directors' retired within the year under audit**

1.	Ms Jane Nyawira Kiama P.O. Box 995-10400 Nanyuki	County Government	Member	08/08/1968	25 <sup>th</sup> May 2018-todate	CPA	
2.	Sammy Murithi Kabaya P.O. Box 995-10400 Nanyuki	Youth	Member	13/02/1988	13 <sup>th</sup> Oct 2016- to-date	O' Level Diploma Business Management	
3.	Winrose Nyaguthi Mwangi P.O. Box 995-10400 Nanyuki	Women Organisations	Member	21/05/1969	6 <sup>th</sup> Feb 2014-todate	Cert. Secretarial Paralegal & Community Development	

BY ORDER OF THE BOARD







For and on its behalf .....  ..... Date..... 29-09-2020 ..... MANAGING DIRECTOR

NANYUKI WATER & SEWAGE COMPANY LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30TH JUNE 2020

**Management team**

NO	MANAGEMENT	Designation	Y.O.B	Qualifications	
1.	Kennedy Gitonga P.O Box 995- 10400 Nanyuki	Managing Director	1976	Bsc(Civil Engineering)	
2.	Wachira Gakuru P.O Box 995- 10400 Nanyuki	Commercial Manager	6 <sup>th</sup> Oct 1963	B.Com (Accounting option)	
3.	Willy Kariuki Kamau P.O Box 995- 10400 Nanyuki	Technical Services Manager	29 <sup>th</sup> July 1978	Bsc Water & Environmental Engineering	
4.	Caroline Kihonge P.O. Box 995- 10400 Nanyuki	Human Resource & Administration Manager	19 <sup>th</sup> March 1982	LLB CHRP	
5.	Paul Mwangi P.O. Box 995- 10400 Nanyuki	Financial Accountant	8 <sup>th</sup> January 1971	B.A (Economics), CPA (K) MN.4931	
6	Mike Kingori P.O Box 995- 10400 Nanyuki	Company Secretary	Company Secretary	CPS	

• NANYUKI WATER & SEWARAGE COMPANY LIMITED  
ANNUAL REPORT AND FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30TH JUNE 2020

**Report of the chairman**

It is my pleasure to release our annual report and financial statements for the year ended 30<sup>th</sup> June 2020. The period has had its challenges and it is quite evident that there exists a gap whereby capacity must be built to enable all parties appreciate the role of NAWASCO, its challenges and how the County Government can intervene.

Early in the period of reforms in the water sector (before year 2002), it was recognized that if water services were to be eventually sustainable so that operation and maintenance expenses could be covered, facilities rehabilitated and expanded so as to eventually cover every homestead, water services revenues were to be safeguarded and ring fenced so that they were ploughed back exclusively to the water sector to grow it. Please refer to chapter 1 and Chapter 2 of the National Water Services Strategy 2007 -2015. For the last 10 years Water Services Regulatory Board (WASREB) has been nurturing ring fencing of assets and revenues to ensure that the water companies are able to perform the services optimally.

1. The Public view of NAWASCO as a profit-making organization. Procedures of tariff application which are based on bare cost recovery need to be clearly explained to them.
2. The difference between irrigation and domestic water need to be explained as the two have been seen as one and the same. There is an upsurge of irrigation water being used for domestic purposes. This is in contravention of the conditions under which irrigation water is licensed and the County Government should clarify and enforce adherence to the conditions under which irrigation water is licensed.
3. There is need to instill the fact that the development of domestic water infrastructure is the mandate of the County Government of Laikipia as the tariff does not provide for heavy development expenditure.

Our vision, mission and core values are very clear, and it is my belief that our presence has already been felt in many households. This has been possible through the continued cooperation with all the stakeholders. NAWASCO will strive to ensure that the residents of its area of jurisdiction will have a 24 hours water services every day.

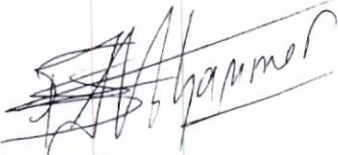
We believe our good relations with our customers, good management principles and policies will always remain the driving force of our company in order to execute our mandate. This will ensure that we make a difference in the livelihood of our customers, a task I believe we are happy and willing to achieve. Currently we are within the strategic plan covering the year 2019 to 2023.

• NANYUKI WATER & SEWAGE COMPANY LIMITED  
ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30TH JUNE 2020

Finally, I would wish to extend my sincere gratitude to the NAWASCO Board of Directors, Water Services Regulatory Board, County Government of Laikipia, Ministry of Environment Water and Natural Resources and our customers for their support. I would also thank the management and staff of NAWASCO for their continued hard work over the financial year.

Thank you and God bless you all.

A handwritten signature in black ink, appearing to read 'Yusuf Mohammed', written over a horizontal line.

Yusuf Mohammed

**Chairman, NAWASCO Board of Directors**

• NANYUKI WATER & SEWAGE COMPANY LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30TH JUNE 2020

**Report of the Managing Director**

**Introduction**

Following the enactment of the Water Act of 2002 that envisioned reforms in the water sector, Nanyuki Water and Sewerage Company Ltd, (NAWASCO) was created and registered under the Company's Act (Cap 486) on 6<sup>th</sup> of April 2006. The Service Provision Agreement (SPA) between County Government of Laikipia and NAWASCO was signed on 6<sup>th</sup> June 2006. Therefore, this made NAWASCO an agent of County Government of Laikipia.

**The New County dispensation**

We are now in a period where the new constitution is in effect and the function of water and sanitation services has been transferred to the County Government since the year 2015

**Coverage**

The Company's area of jurisdiction is about 286km<sup>2</sup> with a population of about 109,000. Our coverage in terms of population is low (about a third). We call upon the County Government to intervene in this regard by funding our proposals to reach the un-served and underserved communities

**Asset development**

It is important to note that the responsibilities of NAWASCO does not include asset development but the maintenance of the existing infrastructure. The responsibility of asset development and major rehabilitation remains with NWSB under current arrangement or the County Government when new legislation was enacted.

**Challenges**

Among our challenges is the fact that NAWASCO inherited a dilapidated infrastructure which requires extensive rehabilitation and whose funding requirements are beyond affordability. This has impacted heavily and resulted in a high level of Non Revenue Water (NRW). This is contributed by undetectable underground leaks among other causes.

**Performance**

This year we achieved gross revenue of KShs.323million up from KShs.270million achieved last year from operating activities of the Company which shows an increase of 20%. This excludes grant income of Kshs 9.2m from our development partners KMT Kshs 4.2 million which supported us in capacity building our staff and acquisition of ERP and County Government of Laikipia through drilling 2 boreholes and a gave us a tractor mainly for exhauster services all valued at Kshs 5million. During the year, assets worth KShs.55million were procured to increase efficiency and support growth as well as to replace worn out assets. This included Land

NANYUKI WATER & SEWAGE COMPANY LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30TH JUNE 2020

worth Kshs 30 million from Nanyuki High school where storage tanks have been built and ERP system worth 9.9 million.

The assets included boreholes, computers, water pipeline extensions, sewer line extensions, water meters and motor cycles.

The value of non-current assets increased by Kshs 34million or 17% while that of currents assets decreased compared to previous year by Kshs 192 million or 48%. This was largely as a result of write off of bad debtors and decrease in value of trade and other receivables by Kshs 133m, insurance prepayment by Kshs 1.9 million, decrease in cash and cash equivalent by Kshs 51million, and stock by Kshs 6 million which were largely for projects.

**Way forward**

The management intends to focus on the area of NRW to enable us increase the saleable water and revenue as well. Another area to focus on will be staff training and performance appraisal to enable the company embrace best practices for improved efficient water and sewerage extensions to unserved areas.

The company is also focusing on improvements in the water sources and is in the advanced stages of sourcing for a donor for the dam to be put up at Kahurura forest. The company has also drilled high capacity boreholes at the identified sites within its areas of jurisdiction to boost supply during the draught months.

**Gratitude**

Finally, I take this opportunity to thank NAWASCO stakeholders who through the Board of Directors have offered valuable oversight. I also thank Shareholders and the County Government of Laikipia for their support during the year, all our customers and suppliers who were all instrumental to our success this year. I am also grateful to our staff for their commitment in the running of the company. God bless you all.



**ENG. KENNEDY GITONGA**

**MANAGING DIRECTOR**

NANYUKI WATER & SEWARAGE COMPANY LIMITED  
ANNUAL REPORT AND FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30TH JUNE 2020

**Corporate governance statement**

NAWASCO is committed to operating under a clear governance framework and strongly adheres to sound management and internal control practices

NAWASCO is committed to ensuring compliance with the provisions of the water act 2002 among other regulatory and supervisory corporate governance requirements. Essential to the establishment of a good governance framework are formal governance structures designed to ensure accurate reporting to the Board to facilitate an informed decision-making process, assessment and improvement of compliance.

**Board of Directors**

The structure of NAWASCO starts with the Board of Directors representing various stakeholders' interests. The Board of Directors exercises leadership, enterprise, integrity and judgment in directing NAWASCO.

The Board of Directors is expected to determine the purpose and values of NAWASCO, determine the strategy to achieve that purpose and implement its values in order to ensure the company sustainability and growth.

The Board of Directors is expected to enhance the corporate governance practices in running of NAWASCO to bring the level of governance in the company in line with international standards. The essence of corporate governance is to protect stakeholder's interests.

**Board committees**

In ensuring the corporate governance of NAWASCO is enhanced and that the power of NAWASCO is exercised in the stewardship of the company's total portfolio of assets and resources with the objective of maintaining stakeholder's value, the Board of Directors have constituted the following committees.

**Finance and Administration committee**

NAWASCO take cognizance of the fact that human resource is the single most important asset in any organization. It's the function of the staff and establishment committee to ensure that NAWASO has the right staff at the right place and doing the right thing. More so, the committee will ensure that the staff welfare is taken care of.

The committee also oversees the financial reporting process, the company's internal controls and efficient allocation and utilization of resources. The members of the board who served on this committee during the year under review were:

1. Ms Jane Nyawira Kiama, Chairperson
2. Winrose Nyaguthi
3. Sammy Murithi

NANYUKI WATER & SEWARAGE COMPANY LIMITED  
ANNUAL REPORT AND FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30TH JUNE 2020

**Technical and Strategic Committee**

The committee ensures that there is adequate operations and maintenance, including infrastructure improvement geared towards customer satisfaction. The members of the board who served on this committee during the year under review were:

1. Gideon Maina Thuku
2. Winrose Nyaguthi
3. Sammy Murithi

**Audit, risk management and governance committee**

The audit risk management and governance committee shall assist the board of directors in the oversight and maintaining the integrity of the financial statements of the company. Enhancing the effectiveness of the internal control over financial reporting. Strengthening the performance of the company's internal audit function. Ensuring the company's compliance with legal and regulatory requirements. The members of the board who served on this committee during the year under review were:

1. Lawrence Nteere
2. CPA Esther Ndegwa
3. Ms Nancy Githu

**Statement of compliance**

The Board of directors confirms that the company has throughout the year FY 2019/2020 complied with all statutory and regulatory requirements and that the company has been managed with the principles of good corporate governance.

**Internal control and risk management**

**Internal Control**

The directors are responsible for reviewing the effectiveness of the company's system of internal control which is designed to provide reasonable, but not absolute, assurance regarding the safeguarding of assets against unauthorized use or disposition and the maintenance of proper accounting records and the reliability of financial information used within the business or for publication. These controls are designed to manage rather than eliminate the risk of failure to achieve business objectives due to circumstances which may reasonably be foreseen and can only provide reasonable and not absolute assurance against material misstatement or loss.

**Standing Instructions**

The Company has a Code of Ethics and Service Charter that is applicable to all employees. These are two of a number of Standing Instructions to employees of the company designed to enhance internal control.

NANYUKI WATER & SEWAGE COMPANY LIMITED  
ANNUAL REPORT AND FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30TH JUNE 2020

**Organization Structure**

A clear organizational structure exists, detailing lines of authority and control responsibilities. The professionalism and competence of staff is maintained both through rigorous recruitment policies and a performance appraisal system which establishes targets, reinforces accountability and awareness of controls, and identifies appropriate training requirements. Training plans are prepared and implemented to ensure that staff develop and maintain the required skills to fulfill their responsibilities, and that the company can meet its future management requirements.

**Strategic Plan**

The business of the company is determined by the Strategic Plan. The Strategic Plan sets out the objectives of the company, and the annual targets to be met to attain those objectives. The Strategic Plan is evaluated annually to assess the achievement of those objectives. The Board on an annual basis approves the work plan supported by the financial plan for the year. Progress against the plan is monitored on a quarterly basis.

**Internal Control Framework**

The company continues to review its internal control framework to ensure it maintains a strong and effective internal control environment. Business processes and controls are reviewed on an ongoing basis. A risk-based audit plan, which provides assurance over key business processes and operational and financial risks facing the company, is approved by the Audit Committee.

The Audit Committee considers significant control matters raised by management and both the internal and external auditors and reports its findings to the Board. Where weaknesses are identified, the Audit Committee ensures that management takes appropriate action. No significant failings or weaknesses were identified during yr 2019/20.

**Risk Management**

The company has a structure and process to help identify, assess and manage risks. The process was in place for the period up to the time this report was approved. This team reviews all the risks in the Trust Fund and updates the risk register and ensures that all new and emerging risks are appropriately evaluated and any further actions identified. The identified risks are reported to the Audit Committee to assist the Board in the management of risk.

**Management Team**

The management team headed by the Chief Executive Officer implements the Board decisions and policies through action plans. The team meets regularly to review these action plans to ensure that the Board's objectives are achieved effectively and efficiently. Such policies developed include the Anti-corruption policy, Disability, Gender and HIV mainstreaming, the ICT policy among others.

**Auditor**

The company is audited by the Auditor-General.

• NANYUKI WATER & SEWARAGE COMPANY LIMITED  
ANNUAL REPORT AND FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30TH JUNE 2020

**Report of the Directors**

The directors submit their report together with the audited financial statements for the year ended 30<sup>th</sup> June 2020 which show the company's affairs

**Principal Activities**

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

**Results**

The results of the company for the year ended 30<sup>th</sup> June 2020 are set out on pages 19-52

**Dividends**

The Board of Directors do not propose any dividends for the year.

**Directors**

The members of the Board of Directors who served during the year are shown on page 6 and 7.

**Auditors**

The Auditor General is responsible for the statutory audit of the company in accordance with the Public Finance Management Act no, 18 of 2012.

By Order of the Board

CS Muriithi Kingori

Company Secretary

Nanyuki

September 28, 2020

NANYUKI WATER & SEWARAGE COMPANY LIMITED  
ANNUAL REPORT AND FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30TH JUNE 2020

**Statement of Directors' responsibilities**

The Public Finance Management Act, and the Companies Act, requires the Directors to prepare financial statements in respect of the company which give a true and fair view of the state of affairs of the Company at the end of the financial year period and the operating results of the company for that year / period. The Directors are also required to ensure that the company keeps proper accounting records which disclose with reasonable accuracy the financial position of the company. The Directors are also responsible for safeguarding the assets of the company. The Directors are responsible for the preparation and presentation of the company's financial statements, which give a true and fair view of the state of affairs of the company for and as at the end of the financial year (period) ended on June 30, 2020. This responsibility includes:

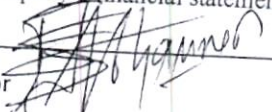
- (i) Maintaining adequate financial management arrangements and ensuring that these continue to be effective throughout the reporting period;
- (ii) Maintaining proper accounting records, which disclose with reasonable accuracy at any time the financial position of the company;
- (iii) Designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of the financial statements, and ensuring that they are free from material misstatements, whether due to error or fraud;
- (iv) Safeguarding the assets of the company;
- (v) Selecting and applying appropriate accounting policies; and (vi) making accounting estimates that are reasonable in the circumstances.

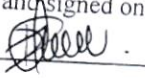
The Directors accept responsibility for the company's financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity with International Financial Reporting Standards (IFRS), and in the manner required by the PFM Act and the Companies Act. The Directors are of the opinion that the company's financial statements give a true and fair view of the state of company's transactions during the financial year ended June 30, 2020, and of the company's financial position as at that date. The Directors further confirm the completeness of the accounting records maintained for the company, which have been relied upon in the preparation of the company's financial statements as well as the adequacy of the systems of internal financial control.

Nothing has come to the attention of the Directors to indicate that the company will not remain a going concern for at least the next twelve months from the date of this statement.

**Approval of the financial statements**

The company's financial statements were approved by the Board on 29/9/ 2020 and signed on its behalf by:

  
Director

  
Director

# REPUBLIC OF KENYA

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E-mail: info@oagkenya.go.ke  
Website: www.oagkenya.go.ke



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

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

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### REPORT ON THE FINANCIAL STATEMENTS

#### Qualified Opinion

I have audited the accompanying financial statements of Nanyuki Water and Sewerage Company Limited set out on pages 19 to 50, which comprise the statement of financial position as at 30 June, 2020, and the statement of profit or loss and other comprehensive income, statement of changes in equity, statement of cash flows statement of comparison of budget and actual amounts, 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 Nanyuki Water and Sewerage Company Limited as at 30 June, 2020, and of its financial performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards, and comply with both the Water Act, 2002 and the Kenyan Companies Act, 2015 and the Public Finance Management Act, 2012.

#### Basis for Qualified Opinion

##### 1. Presentation of Financial Statements

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

- 1.1 The statement of comparison of budget and actual amounts was not prepared and included in the financial statements presented for audit as required in the financial reporting template recommended by International Public Sector Accounting Standards Board.
- 1.2 The statement of Directors' responsibilities on page 17 does not indicate the applicable legislation under which the Company is regulated and was not signed by the chairperson of the Board. Similarly, the Report of the Directors on page 16 was not signed by the Company secretary or Managing Director and therefore ownership of the reports could not be confirmed.

**1.3** The statement of profit or loss and other comprehensive income has been placed after the statement of financial position in the financial statements.

Consequently, the accuracy, completeness of the statement of comparison of budget and actual amounts for the year ended 30 June, 2020 and ownership of the financial statements could not be confirmed.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the Nanyuki Water and Sewerage Company Limited Management in accordance with ISSAI 130 on Code of Ethics. I have fulfilled other ethical responsibilities in accordance with the ISSAI and in accordance with other ethical requirements applicable to performing audits of financial statements in Kenya. 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.

### **Other Matter**

#### **Prior Year Issues**

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

#### **Other Information**

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

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

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

# REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

## **Conclusion**

As required by Article 229(6) of the Constitution, based on the audit procedures performed, except for the matters described in the Basis for 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. Failure to Comply Fully with the Public Sector Accounting Standards Guidelines**

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

- 1.1 Information on the Company's performance for 2019/2020 on page 13 to 15 does not have entity's performance against predetermined objectives, objectives, assessment of performance against strategic pillars or annual work plans contrary to Section 81(2)(f) of the Public Finance Management Act, 2012.
- 1.2 The financial statements presented for audit do not have information on management discussion and analysis, corporate social responsibility statement and sustainability reporting, related party disclosures, capital commitments and projects, contingent liabilities, company incorporation, events after reporting period and currency used in presenting the financial statements.
- 1.3 The statement of profit and loss and other comprehensive income reflects 'net surplus (deficit) after tax' instead of profit(loss) after taxation stipulated in the recommended financial reporting template.
- 1.4 Notes to the financial statements do not contain general information including authority/Act/legislation under which the Company was established, principle activities and ownership structure.
- 1.5 Further, summary of significant/principle accounting policies on revenue recognition on grants, intangible assets, amortization and impairment of intangible assets, investment property, leases, trade and other receivables recognition, taxation, deferred tax, borrowings, trade and other payables and budget information adopted in preparation of the financial statements were not disclosed in these financial statements.
- 1.6 Significant judgements and key sources of estimation uncertainty on useful lives of assets and residual values of assets, provisions were not disclosed.

The financial statements presented did not, therefore, comply fully with the financial reporting template recommended by the Public Sector Accounting Standards Board (PSASB).

The Management is in breach of Section 194(1)(d) of the Public Finance Management Act, 2012.

## **2. Exceeded Non-Revenue Water**

During the financial year under review, the Company produced 4,432,963 cubic meters of water, out of which only 2,880,781 cubic meters of water was billed to Customers. The balance of 1,552,182 cubic meters or approximately 35% of the total volume of water produced represented Non-Revenue Water (NRW) which is 10% over and above the allowable water loss of 25% as per the Water Service Regulatory Board guidelines. The NRW of 35% may have resulted in loss of water sales estimated at Kshs.65,073,589.

The significant level of NRW may impact negatively on the Company's profitability and its long-term sustainability.

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

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

### **Conclusion**

As required by Section 7(1)(a) of the Public Audit Act, 2015, based on the audit procedures performed, I confirm that, nothing has come to my attention to cause me to believe that internal controls, risk management and governance were not effective.

### **Basis for Conclusion**

The audit was conducted in accordance with ISSAI 2315 and ISSAI 2330. The standards require that I plan and perform the audit to obtain assurance about whether processes and systems of internal control, risk management and overall governance were operating effectively, in all material respects. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

## **REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS**

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

- (i) I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of my audit;
- (ii) In my opinion, proper books of account have been kept by the Company, so far as appears from the examination of those books;
- (iii) The Company's statement of financial position and statement of 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 16 is consistent with the financial statements.

### **Responsibilities of Management and the Board of Directors**

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

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

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

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

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

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

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

In addition to the audit of the financial statements, a compliance audit is planned and performed to express a conclusion about whether, in all material respects, the activities, financial transactions and information reflected in the financial statements are in compliance with the authorities that govern them and that public resources are applied in

an effective way, in accordance with the provisions of Article 229(6) of the Constitution and submit the audit report in compliance with Article 229(7) of the Constitution.

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

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

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

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

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

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

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

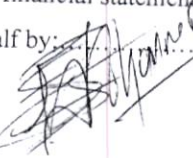
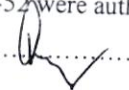
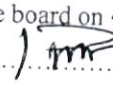
  
CPA Nancy Gathungu, CBS  
AUDITOR-GENERAL

Nairobi

09 February, 2022

NANYUKI WATER & SEWERAGE COMPANY LIMITED  
 STATEMENT OF FINANCIAL POSITION  
 FOR THE YEAR ENDED 30<sup>TH</sup> JUNE 2020

	NOTES	2020 KSHS	2019 KSHS
<b>ASSETS</b>			
<b>Non current assets</b>			
Property, plant and equipment	4	230,193,602	202,974,399
Software -(IMIS)	5	<u>6,982,456</u>	<u>-</u>
		<b><u>237,176,058</u></b>	<b><u>202,974,399</u></b>
<b>Current Assets</b>			
Inventories	6	6,988,757	13,050,094
Trade and other receivables	7	187,161,326	320,349,051
Prepayment / deposits	8	20,000	1,921,960
Cash and bank balances	9	<u>13,708,089</u>	<u>65,730,149</u>
		<b><u>207,878,171</u></b>	<b><u>401,051,254</u></b>
<b>Total Assets</b>		<b><u>445,054,230</u></b>	<b><u>604,025,653</u></b>
<b>EQUITY AND LIABILITIES</b>			
<b>Capital reserves</b>			
Share Capital	13	100,000	100,000
Capital reserves	14	157,938,935	157,938,935
Revenue reserves	15	(2,440,127)	82,314,177
Grant-Solio	17	7,922,652	69,052,436
Grants	16	<u>105,686,252</u>	<u>106,984,446</u>
		<b><u>269,207,712</u></b>	<b><u>416,389,994</u></b>
<b>Non current Liabilities</b>			
Gratuity	11	<u>7,076,054</u>	<u>5,286,753</u>
		<b><u>7,076,054</u></b>	<b><u>5,286,753</u></b>
<b>Current Liabilities</b>			
Trade and other payables	10	138,107,758	154,254,389
Consumer deposits	12	<u>30,662,707</u>	<u>28,094,518</u>
		<b><u>168,770,465</u></b>	<b><u>182,348,907</u></b>
<b>Total equity and liabilities</b>		<b><u>445,054,230</u></b>	<b><u>604,025,653</u></b>

The financial statements on pages 20 -52 were authorized for issues by the board on 29/9/2020 and were Signed on its behalf by:  Chairman.....  Managing Director.....  Finance Manager MN 4931

- NANYUKI WATER & SEWERAGE COMPANY LIMITED  
 STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME  
 FOR THE YEAR ENDED 30<sup>TH</sup> JUNE 2020

	NOTES	2020 KSHS	Budget KSHS	2019 KSHS
<b>REVENUE</b>	18	<u>323,795,529</u>	<u>320,766,814</u>	<u>270,545,404</u>
		<b><u>323,795,529</u></b>	<b><u>320,766,814</u></b>	<b><u>270,545,404</u></b>
<b>GRANT INCOME</b>	19	<u>9,293,000</u>	<u>9,000,000</u>	=
<b>TOTAL INCOME</b>		<b><u>333,088,529</u></b>	<b><u>329,766,814</u></b>	<b><u>270,545,404</u></b>
<b>OPERATING EXPENDITURE</b>				
Staff cost	20	139,008,270	138,385,000	124,735,899
Administrative cost	21	62,551,154	70,285,796	54,071,863
Board expenses	25	5,731,412	6,000,000	7,147,136
Operations	23	36,662,379	38,500,000	18,995,608
Maintenance	24	47,891,122	46,192,622	43,748,193
Other expenses	22	<u>127,181,657</u>	<u>122,000,000</u>	<u>20,749,140</u>
Total expenditure from operating activities		<u>419,025,993</u>	<u>422,363,418</u>	<u>269,447,839</u>
Net surplus (deficit) after tax		(85,937,464)	(101,596,604)	1,097,565
Net surplus (deficit) after tax from Enterprise	26	<u>1,183,160</u>	<u>3,023,600</u>	<u>343,478</u>
<b>Net surplus (deficit) after tax</b>		<b><u>(84,754,304)</u></b>	<b><u>(98,573,004)</u></b>	<b><u>1,441,043</u></b>

NANYUKI WATER & SEWERAGE COMPANY LIMITED  
 STATEMENT OF CHANGES IN EQUITY  
 FOR THE YEAR ENDED 30<sup>TH</sup> JUNE 2020

Total	Share	WSTF	Capital	WSTF	Revenue	
	Capital Kshs	Grants Kshs	Reserves Kshs	Grant Solio Kshs	Reserves Kshs	Kshs
<b>Year ended 30 June 2019</b>						
As at 1 <sup>st</sup> July 2018	100,000	130,784,446	157,938,935	-	80,873,134	369,696,515
Grant WSTF solio project				45,252,436		45,252,436
Grant County solio project		(23,800,000)		23,800,000		-
Net surplus (deficit) for the year	-	-	-	-	1,441,043	1,441,043
<b>At 30 June 2019</b>	<b><u>100,000</u></b>	<b><u>106,984,446</u></b>	<b><u>157,938,935</u></b>	<b><u>69,052,436</u></b>	<b><u>82,314,177</u></b>	<b><u>416,389,994</u></b>

STATEMENT OF CHANGES IN EQUITY  
 FOR THE YEAR ENDED 30<sup>TH</sup> JUNE 2020

Total	Share	WSTF	Capital	WSTF	Revenue	
	Capital Kshs	Grants Kshs	Reserves Kshs	Grant Solio Kshs	Reserves Kshs	Kshs
<b>Year ended 30 June 2020</b>						
As at 1 <sup>st</sup> July 2019	100,000	106,984,446	157,938,935	69,052,436	82,314,177	416,389,994
Grant -Bungoma primary		(1,298,194)				(1,298,194)
Grant -County solio project				(10,893,324)		(10,893,324)
Grant -WSTF solio project				(50,236,460)		(50,236,460)
Net surplus (deficit) for the year	-	-	-	-	(84,754,304)	(84,754,304)
<b>At 30 June 2020</b>	<b><u>100,000</u></b>	<b><u>105,686,252</u></b>	<b><u>157,938,935</u></b>	<b><u>7,922,652</u></b>	<b><u>(2,440,127)</u></b>	<b><u>269,207,712</u></b>

NANYUKI WATER & SEWERAGE COMPANY LIMITED  
 STATEMENT OF CASHFLOWS  
 FOR THE YEAR ENDED 30<sup>TH</sup> JUNE 2020

	Notes	2020 Kshs	2019 Kshs
<b>Operating activities</b>			
Profit (loss) for the year		(84,754,304)	1,441,043
<b>Adjustments for;</b>			
Depreciation	4	19,410,085	20,749,140
Amortization	5	1,745,614	
<b>Operating profit (loss) before working capital changes</b>		<b>(63,598,605)</b>	<b>22,190,183</b>
<b>Changes in working capital items</b>			
(Increase) /decrease in inventories	6	6,061,336	(4,248,330)
(increase) / decrease in trade and other receivables	7	135,089,685	(47,163,081)
(decrease) / increase in trade & other payables	10	(11,789,141)	24,418,392
<b>Cash generated from / (used in) operating activities</b>		<b>65,763,276</b>	<b>(4,802,836)</b>
Interest paid		-	-
Taxation paid		-	-
<b>Net cash used in operating activities</b>		<b><u>65,763,276</u></b>	<b><u>(4,802,836)</u></b>
<b>Cash flows from investing activities</b>			
Purchase of fixed assets	4	(55,357,359)	(15,263,854)
<b>Net cash outflows from investing activities</b>		<b><u>(55,357,359)</u></b>	<b><u>(15,263,854)</u></b>
<b>Cash flows from financing activities</b>			
Grant		(62,427,973)	45,252,436
<b>Cash flows from financing activities</b>		<b><u>(62,427,973)</u></b>	<b><u>45,252,436</u></b>
Net increase / (decrease) in cash and cash equivalents		(52,022,056)	25,185,746
Opening cash and cash equivalents		65,730,145	40,544,399
<b>Closing cash and cash equivalents</b>	9	<b><u>13,708,089</u></b>	<b><u>65,730,145</u></b>

NANYUKI WATER AND SEWERAGE COMPANY LTD

NOTES TO THE FINANCIAL STATEMENT FOR THE YEAR ENDED 30<sup>TH</sup> JUNE 2020

NOTES

**1. Summary of significant accounting policies**

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

**a) 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 judgment in the process of applying the Company's accounting policies.

The financial statements have been prepared and presented in Kenya Shillings, which is the functional and reporting currency of the company and all values are rounded to the nearest thousand (Kshs'000).

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

**b) 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* delivers products to the customer, the customer has accepted the products and collectability of the related receivables is reasonably assured.

ii. **Finance income** comprises interest receivable from bank deposits and investment in securities, and is recognized in profit or loss on a time proportion basis using the effective interest rate method.

iii. **Other income** is recognized as it accrues.

**c) Property, plant and equipment**

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

NANYUKI WATER AND SEWERAGE COMPANY LTD  
NOTES TO THE FINANCIAL STATEMENT  
FOR THE YEAR ENDED 30<sup>TH</sup> JUNE 2020

NOTES (Continued)

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

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

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

**d) Depreciation and impairment of property, plant and equipment**

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

Depreciation on property, plant and equipment is recognized 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:

Plant and machinery	12.5%
Motor vehicles, including motor cycles	25%
Computers and related equipment	30%
Office equipment, furniture and fittings	12.5%
Tractors & trailers	25%
Equipments, safe & cabinet	12.5%
Water systems	12.5%
Building	12.5%
Software	20%
Computer software	

Computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives which are estimated to be 5 years.

NANYUKI WATER AND SEWERAGE COMPANY LTD

NOTES TO THE FINANCIAL STATEMENT FOR THE YEAR ENDED 30<sup>TH</sup> JUNE 2020

NOTES (Continued)

Costs associated with developing or maintaining computer software programmes are recognised as an expense as incurred. Costs that are directly associated with the production of identifiable and unique software products controlled by the company, and that will probably generate economic benefits exceeding costs beyond one year, are recognised as intangible assets. Direct costs include software development staff costs and an appropriate portion of relevant overheads.

Computer software development costs recognised as assets are amortised over their estimated useful lives which are estimated to be 5 years on a straight line basis.

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

e) **Provision for bad debts**

Provision for bad and doubtful debts comprises 16.5% of total trade debtors outstanding.

f) **Grants**

Grants are recorded in the balance sheet and shown depending on the period that they are likely to take to be fully spent. Those likely to be spent within a period of less than one year are shown as short term liabilities. Those likely to extend for more than one year are shown as long term liabilities.

g) **Inventories.**

Inventories are stated at the lower of cost and net realizable value. Cost is determined on direct purchase value and all costs attributable to bringing the inventory to its current location and condition and is stated on a First In First out basis. Inventories constitute stock of pipes and fittings held by the company by period end.

h) **Cash and cash equivalents.**

For purposes of cash flows, cash and cash equivalents comprise cash in hand and deposits held at call with banks, net of bank overdrafts. In the statement of financial position, bank overdrafts are included in borrowings in current liabilities.

i) **Financial Instruments**

Financial assets the company's financial assets which comprise trade and other receivables and cash and cash equivalents fall into the following categories.

Loans and receivables: financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are classified as current assets where maturities are within 12 months of the reporting date. All assets with maturities greater than 12 month after the reporting date are classified as non-current assets. Such assets are initially recognized at fair value and subsequently carried at amortized costs using the effective interest method. Changes in the carrying amount are recognized in profit or loss. Purchases and sales of financial

NANYUKI WATER AND SEWERAGE COMPANY LTD

NOTES TO THE FINANCIAL STATEMENT FOR THE YEAR ENDED 30<sup>TH</sup> JUNE 2020

NOTES (Continued)

assets are recognized on the trade date i.e the date on which the company commits to purchase or sell the asset.

- j) Financial assets are derecognized when the rights to receive cash flows from the assets have expired or have been transferred substantially all risks and rewards of ownership.

The financial asset is impaired if its carrying amount is greater than its estimated recoverable amount. Impairment of financial asset is recognized in profit or loss under administrative expenses when there is objective evidence that the company will not be able to collect all amounts due per the original terms of the contract. Significant financial difficulties of the issuer, probability that the issuers will enter bankruptcy or financial reorganization, default in payments and a prolonged decline in fair value of the asset are considered indicators that the asset is impaired.

The amount of the impairment loss is calculated as the difference between the assets carrying amount and the present values of expected future cash flows, discounted at the financial instrument's effective interest rate. Subsequent recoveries of amounts previously impaired are credited to profit or loss in the year in which they occur.

k) Financial liabilities

The company's financial liabilities which include trade and other payables, current tax and borrowings fall in this category.

Financial liabilities measured at amortized costs. These are initially measured at fair value and subsequently measured at amortized cost using the effective interest method.

Borrowings are initially recognized at fair value; net of transaction costs incurred and are subsequently stated at amortized cost. Any differences between the proceeds (net of transaction costs) and redemption value is recognized as interest expense in profit or loss under finance costs.

All financial liabilities are derecognized when, and only when, the company's obligations are discharged, cancelled or expired.

Offsetting financial instruments –

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when there is a legally enforceable right to offset the amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

l) **Taxation**

Current tax. Current tax is provided on the results of the year, adjusted in accordance with current tax legislation.

NANYUKI WATER AND SEWERAGE COMPANY LTD  
NOTES TO THE FINANCIAL STATEMENT FOR THE YEAR ENDED 30<sup>TH</sup> JUNE 2020  
NOTES (Continued)

Deferred tax. Deferred tax is provided using the liability method for all temporary timing differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes. Currently enacted tax rates are used to determine deferred tax. Deferred tax assets are recognized only to the extent that it is probable that future taxable profits will be available against temporary timing differences can be utilized.

**m) Retirement benefit obligations.**

The company and its employees contribute to the National Social Security Fund (NSSF), a statutory defined contribution scheme registered under the NSSF act. The company's contributions to the defined contribution scheme are charged to profit or loss in the year to which they relate. The company also provides gratuity to employees on contract terms of employment. This is provided at the rate of 31% of the basic salary and is accrued over the life of the contract. The total amounts are paid out on the expiry of the contract.

**n) Employee entitlements.**

The estimated monetary liability for employees accrued annual leave entitlement at the reporting date is recognized as an expense accrual.

**o) Share capital**

Ordinary shares are classified as equity.

**p) Trade and receivables**

In the opinion of the directors, the carrying amount of trade and other receivables approximate to their fair value.

The carrying amounts of the company's trade and other receivable are denominated in the Kenya shillings.

The company's credit risk arises primarily from trade receivables. The directors are of the opinion that the company's exposure is limited because the debt is widely held. The other classes within trade and other receivables do not contain impaired assets.

The maximum exposure to credit risk at the reporting date is the fair value of each class of recoverable mentioned above. The company does not hold any collateral

**q) APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) Finance and operating leases**

**IFRS 16: Leases**

Leases which confer substantially all the risks and rewards of ownership to the company 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.

NANYUKI WATER AND SEWERAGE COMPANY LTD

NOTES TO THE FINANCIAL STATEMENT FOR THE YEAR ENDED 30<sup>TH</sup> JUNE 2020

NOTES (Continued)

All other leases are treated as operating leases and the leased assets are recognized 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 recognized in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognized as an integral part of the total lease expense over the term of the lease.

**IFRIC 23: Uncertainty Over income tax treatments**

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

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

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

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

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

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

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

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

NANYUKI WATER AND SEWERAGE COMPANY LTD

NOTES TO THE FINANCIAL STATEMENT FOR THE YEAR ENDED 30<sup>TH</sup> JUNE 2020

NOTES (Continued)

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

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

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

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

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

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

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

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

**Amendments to IAS 1 and IAS 8 Definition of material**

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

**IFRS 17 Insurance Contracts (Issued 18 May 2017)**

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

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

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

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.

**Early adoption of standards**

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

**q) Comparative figures**

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

**r) 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, 2019.

## 2. SIGNIFICANT JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the process of applying the accounting policies adopted by the company, the directors make certain judgments and estimates that may affect the amounts recognized in the financial statements. Such judgments and estimates are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the current circumstances. However, actual results may differ from the estimates. The judgments' and estimates are reviewed at each financial reporting date to ensure that they are still reasonable under the prevailing circumstances based on the information available, and any revisions to such judgments' and estimates are recognized in the year in which they relate.

### a. Significant judgments made in applying the company's accounting policies

The judgments made by the directors in the process of applying the company's accounting policies that have the most significant effect on the amounts recognized in the financial statement include:

- i) Whether it is probable that future taxable future profits will be available against which temporary differences can be utilized ; and
- ii) Whether the company has the ability to hold "held to maturity" investments until they mature. If the company were to sell other than an insignificant amount of such investments before maturity, it would be required to classify the entire class as "available –for – sale" and measure them at fair value.

### b. Key sources of estimation uncertainty.

Key assumptions made about the future and other sources of estimation uncertainty that have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities within the next financial year include

- i) Impairment losses.

Estimates in determining the impairment losses on receivables. Such estimates include the determination of net realizable value or the recoverable amount of the assets.

## 3. Risk management and objectives

### a) Financial risk management

The company's activities expose it to a variety of financial risks: credit risk and liquidity risk. The company's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the company's financial performance. Risk management is carried out by management. Management identifies, evaluates and hedges financial risks in close co-operation with various departmental heads.

NANYUKI WATER AND SEWERAGE COMPANY LTD

NOTES TO THE FINANCIAL STATEMENT FOR THE YEAR ENDED 30<sup>TH</sup> JUNE 2020

NOTES (Continued)

- i. Credit risk – Credit risk arises from cash and cash equivalents and trade and other receivables. None of the financial assets that are fully performing has been renegotiated in the last year. Exposure to this risk has been quantified in each financial asset note in the financial statements along with any concentration of risk
- ii. Liquidity risk- Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through adequate amount of committed credit facilities and the ability to close out market positions. Due to the dynamic nature of the underlying businesses, the company management maintains flexibility in funding by maintaining availability under committed credit lines.

MANYUKI WATER AND SEWERAGE COMPANY LTD		NOTES TO THE FINANCIAL STATEMENT FOR THE YEAR ENDED 30TH JUNE 2020																			
Note 4 (e) Property, Plant and Equipment		Motor Vehicles	Tractors & Trailers	Motor Cycles	Furniture & Fittings	Equipments Safe & cabinets	Office Building	Borehole	Land	Work in Progress WSTF	Work in Progress Solo project	Computer Equipments	Water Systems Likil sewerage	Water Systems Sewerline ext 72	Water Systems Nturuksa Nkando	Water Systems Ichuga Njoguni	Water Systems Meters	Water Systems Plant & mach Bottling	Water Systems	TOTAL	
COST																					
At 1 July 2019	12,655,259	570,000	3,175,279	2,978,210	3,669,175	8,533,742	20,524,430	30,000,000	49,684,106	7,930,229	7,930,229	10,132,659	7,078,128	7,468,463	3,824,601	4,598,209	11,882,988	2,106,100	283,248,197	440,069,775	
Additions		2,000,000	343,103	529,541	36,495	1,127,186	5,011,303					738,062	296,496	2,423,030	150,562	126,688	3,684,568	192,415	0	46,629,289	
At 30 June 2020	12,655,259	2,570,000	3,518,382	3,507,751	3,705,670	9,660,928	25,535,733	30,000,000	49,684,106	7,930,229	7,930,229	10,870,721	7,344,624	9,891,493	3,975,163	4,724,707	15,567,556	2,298,515	283,248,197	486,689,064	
DEPRECIATION																					
At 1 July 2019	11,578,755	570,000	2,950,057	1,894,676	2,688,526	4,263,990	20,524,430					9,807,047	1,691,167	2,269,182	1,422,978	1,192,690	2,535,408	789,793	193,431,109	237,065,377	
Charge for the year	1,076,503	500,000	244,236	284,532	203,160	1,206,332						389,400	706,682	929,740	117,590	643,004	1,544,454	287,315	11,227,136	19,410,985	
At 30 June 2020	12,655,259	1,070,000	3,194,293	2,179,208	2,891,686	5,470,322						10,196,447	2,397,849	3,198,923	1,540,568	1,835,693	4,079,862	1,077,108	204,658,244	256,476,362	
NET BOOK VALUE																					
As At 30th June 2020	0	1,500,000	324,090	1,328,543	763,985	4,190,606	25,535,733	30,000,000	49,684,106	7,930,229	7,930,229	674,274	4,946,775	6,692,570	2,434,595	2,889,014	11,487,724	1,221,407	78,589,953	230,193,602	
As At 30th June 2019	1,076,503		225,222	1,083,534	980,650	4,267,752	20,524,430		49,684,106	7,930,229	325,612	5,386,961	5,199,281	2,401,623	3,405,519	3,405,519	9,347,560	1,316,307	89,817,088	202,674,388	
MANYUKI WATER AND SEWERAGE COMPANY LTD																					
NOTES TO THE FINANCIAL STATEMENT FOR THE YEAR ENDED 30TH JUNE 2019																					
4 (Property, Plant and Equipment)																					
COST																					
At 1 July 2018	12,655,259	570,000	3,095,538	2,978,210	3,669,175	8,533,742	19,555,325					9,827,939	4,312,701	7,468,463	3,824,601	4,598,209	8,668,367	2,106,100	283,248,197	424,795,522	
Additions			79,741				963,105					304,720	2,795,428				3,214,631			15,263,854	
At 30 June 2020	12,655,259	570,000	3,175,279	2,978,210	3,669,175	8,533,742	20,524,430		49,684,106	7,930,229	7,930,229	10,132,659	7,078,129	7,468,463	3,824,601	4,598,209	11,882,988	2,106,100	283,248,197	440,069,776	
DEPRECIATION																					
At 1 July 2018	9,510,891	570,000	2,791,597	1,675,868	2,473,650	3,197,994						9,606,191	921,965	1,526,394	816,522	969,378	1,200,036	526,525	180,600,697	216,336,238	
Charge for the year	2,067,864		158,460	218,808	265,476	1,065,996						200,865	769,572	742,788	606,366	223,312	1,355,372	263,268	12,831,012	20,749,140	
At 30 June 2020	11,578,755	570,000	2,950,057	1,894,676	2,688,526	4,263,990						9,807,047	1,691,167	2,269,182	1,422,978	1,192,690	2,535,408	789,793	193,431,109	237,065,378	
NET BOOK VALUE																					
As At 30th June 2019	1,076,504		224,222	1,083,534	980,649	4,267,752	20,524,430		49,684,106	7,930,229	325,612	5,386,962	5,199,281	2,401,623	3,405,519	3,405,519	9,347,560	1,316,307	89,817,088	202,674,388	
As At 30th June 2018	3,144,368		303,941	1,302,342	1,246,125	5,335,748	19,555,325		49,684,106		221,748	3,391,106	5,942,069	3,007,979	3,628,831	7,468,321	1,576,575	102,646,100	208,459,684		

**NANYUKI WATER AND SEWERAGE COMPANY LTD**  
**NOTES TO THE FINANCIAL STATEMENT FOR THE YEAR ENDED 30TH JUNE 2020**

**4 (b) Software**

	Soft ware
<b>COST</b>	
At 1 July 2019	
Additions	8,728,070
<b>At 30 June 2020</b>	<b>8,728,070</b>
<b>Armotization</b>	
At 1 July 2019	
Charge for the year	1,745,614
<b>At 30 June 2020</b>	<b>1,745,614</b>
<b>NET BOOK VALUE</b>	
<b>As At 30th June 2020</b>	<b>6,982,456</b>
<b>As At 30th June 2019</b>	<b>-</b>

**NANYUKI WATER AND SEWERAGE COMPANY LTD**  
**NOTES TO THE FINANCIAL STATEMENT FOR THE YEAR ENDED 30TH JUNE 2019**

**4 )Property, Plant and Equipment**

	Soft ware
<b>COST</b>	
At 1 July 2018	
Additions	-
<b>At 30 June 2020</b>	<b>-</b>
<b>DEPRECIATION</b>	
At 1 July 2018	
Charge for the year	
<b>At 30 June 2020</b>	<b>-</b>
<b>NET BOOK VALUE</b>	
<b>As At 30th June 2019</b>	<b>-</b>
<b>As At 30th June 2018</b>	<b>-</b>

33

NANYUKI WATER AND SEWERAGE COMPANY LTD  
 NOTES TO THE FINANCIAL STATEMENT FOR THE YEAR ENDED 30<sup>TH</sup> JUNE 2020 (continued)

	2020	2019
	Kshs	Kshs
<b>6) Inventories</b>		
Miscellaneous		
Chemicals	633,828	3,348,080
Stationery	1,514,594	164,431
Pipes & fittings	1,921,415	1,579,579
Meters	1,756,343	6,913,511
Equator glacier	450,277	692,200
<b>Total</b>	<u>712,301</u>	<u>352,292</u>
<b>7) Trade and other receivables</b>	<b><u>6,988,757</u></b>	<b><u>13,050,094</u></b>
<b>a) Trade receivables</b>		
Trade receivables b/f		
Add: billings for the year	417,689,094	373,401,238
<b>Total</b>	323,327,746	274,689,853
Add other billings	<b>741,016,840</b>	<b>648,091,091</b>
<b>Total</b>	<u>17,920,092</u>	<u>34,096,469</u>
Less: receipts during the year	<b>758,936,932</b>	<b>682,187,560</b>
<b>Total</b>	<u>(428,953,991)</u>	<u>(264,498,466)</u>
Less: specific bad debts written off	<b>329,982,941</b>	<b>417,689,094</b>
General provision for bad debts 16.5% of debtors	(106,025,958)	(49,945,300)
<b>Balance carried down</b>	<u>(54,447,185)</u>	<u>(61,611,204)</u>
	<b>169,509,797</b>	<b><u>306,132,590</u></b>
<b>b) Other receivables</b>		
VAT refundable	17,201,528	13,766,461
VAT on sewer	<u>450,000</u>	<u>450,000</u>
<b>Total trade &amp; other receivables</b>	<b><u>17,651,528</u></b>	<b><u>14,216,461</u></b>
	<b><u>187,161,326</u></b>	<b><u>320,349,051</u></b>
<b>8) Prepayments/ deposit</b>	20,000	1,921,960

NANYUKI WATER AND SEWERAGE COMPANY LTD  
 NOTES TO THE FINANCIAL STATEMENT FOR THE YEAR ENDED 30<sup>TH</sup> JUNE 2020 (continued)

	2020	2019
	Kshs	Kshs
<b>9) Cash &amp; cash equivalents</b>		
Equity bank		
Equity bank deposits	(246,468)	362,443
Post bank	4,569,809	78,753
Safaricom mpesa –utility account	7,667,889	1,960,488
Family Bank	345,406	574,383
KCB Katheri J6P	1,427,958	-
Sidian bank	128,533	-
Safaricom –Mpesa working account	247,443	7,103
Kopokopo	84,844	133,081
KCB Solio project account	160,508	14,295
KCB WSTF Solio project	2,948	45,251,226
KCB	20,481	14,561,317
	<u>(701,262)</u>	<u>2,787,061</u>
	<b><u>13,708,089</u></b>	<b><u>65,730,149</u></b>
<b>10) Trade &amp; other payables</b>		
Trade creditors	<u>38,973,464</u>	<u>27,457,702</u>
Kenya National Audit Office	<b><u>38,973,464</u></b>	<b><u>27,457,702</u></b>
Lease of assets-NWSB	4,769,920	3,693,440
WASREB	-	10,319,082
WARMA	7,151,953	7,061,444
6% Withholding tax	2,753,672	1,822,543
CGL Conservancy	3,103,627	2,598,792
Taxation	3,114,000	37,161,805
P.A.Y.E	27,643,353	27,136,284
N.S.S.F	4,000,341	9,774,718
N.H.I.F	65,300	25,000
Superannuation fund	188,200	169,600
Provident fund	15,828,165	3,970,219
Bank of Africa	26,028,823	19,764,969
	31,789	53,143

NANYUKI WATER AND SEWERAGE COMPANY LTD

NOTES TO THE FINANCIAL STATEMENT FOR THE YEAR ENDED 30<sup>TH</sup> JUNE 2020 (continued)

	2020	2019
	Kshs	Kshs
Union	288,350	239,350
Family bank	1,908,365	1,602,899
Mwako Self help group	311,271	74,951
Imprest	59,300	56,300
Water	48,270	73,400
Wazee	13,825	15,625
House rent deductions	39,970	36,970
Staff welfare	96,300	135,000
Maji self help group	32,341	29,620
British American Insurance	57,420	81,217
Madison Insurance	196	19,331
Co-operative bank	203,739	236,843
Co-operative insurance company	14,982	11,394
Unison Sacco	91,248	365,808
Pan African Insurance / Sanlam	122,943	107,966
Pioneer Group	14,507	57,088
Miscellaneous	16,677	-
Salaries control	749,716	(259,586)
NITA	29,750	-
KCB Check off	118,391	235,968
County retail traders	30,252	37,890
Glaciers salary control account	(4)	-
HELB	16,667	14,575
Leave allowance control account	250,802	52,999
Salaries deduction control account	(48,128)	-
Wages control account	(12,000)	-
Accrued expenses	-	20,039
	<u>99,134,293</u>	<u>126,796,686</u>
Grand Total	<u>138,107,758</u>	<u>154,254,389</u>
11) Provision for gratuity	7,076,054	5,286,753

NANYUKI WATER AND SEWERAGE COMPANY LTD  
 NOTES TO THE FINANCIAL STATEMENT FOR THE YEAR ENDED 30<sup>TH</sup> JUNE 2020 (continued)

	2020	2019
	Kshs	Kshs
<b>12) Consumer deposits</b>		
Opening balance		
Additions	28,094,518	24,805,218
Refunds	6,546,689	6,280,900
	<u>(3,978,500)</u>	<u>(2,991,600)</u>
	<b><u>30,662,707</u></b>	<b><u>28,094,518</u></b>
NB. Consumer deposits amounting to Kshs 9.4m for customers inherited from the defunct Nanyuki Municipal council were not remitted to NAWASCO.		
<b>13) Authorized, issued and paid share capital</b>		
Laikipia County Government (4997 shares)	99,940	99,940
County Executive Member –Water & Sanitation –LCG	20	20
County Executive Member- Finance –LCG	20	20
County Secretary	<u>20</u>	<u>20</u>
	<b><u>100,000</u></b>	<b><u>100,000</u></b>
<b>14) Capital Reserves</b>		
Balance b/f		
As at 30.06.2020	<u>157,938,935</u>	<u>157,938,935</u>
<b>15) Revenue reserves</b>	<b><u>157,938,935</u></b>	<b><u>157,938,935</u></b>
Balance b/f		
Surplus for the year	82,314,177	80,873,134
As at 30.06.2020	<u>(84,754,304)</u>	<u>1,441,043</u>
	<b><u>(2,440,127)</u></b>	<b><u>82,314,177</u></b>
<b>16) WSTF Grants</b>		
Balance b/f		
WSTF Bungoma primary	106,984,446	130,784,446
WSTF Grants-solio (to solio project)	(1,298,194)	-
As at 30.06.2019	<u>-</u>	<u>(23,800,000)</u>
	<b><u>105,686,252</u></b>	<b><u>106,984,446</u></b>
<b>17) WSTF Grants- solio project</b>		
Balance b/f		
WSTF Grants county	69,052,436	23,800,000
WSTF Grants-solio	(10,893,324)	-
As at 30.06.2020	<u>(50,236,460)</u>	<u>45,252,436</u>
	<b><u>7,922,652</u></b>	<b><u>69,052,436</u></b>

NANYUKI WATER AND SEWERAGE COMPANY LTD

NOTES TO THE FINANCIAL STATEMENT FOR THE YEAR ENDED 30<sup>TH</sup> JUNE 2020 (continued)

	2020 Kshs	Budget Kshs	2019 Kshs
<b>18) REVENUE</b>			
Water charges	219,416,166	216,776,721	181,993,933
Sewer charges	86,860,403	86,928,729	72,550,090
Standing charge	8,744,150	8,082,282	8,298,600
Application fees	341,000	376,896	416,500
Exhauster services	425,850	452,000	566,410
House rent	4,500	5,000	38,000
Other incomes	131,810	140,000	96,986
New connections	3,234,300	3,169,186	2,923,400
Public sanitation block rent	309,000	310,000	336,001
Reconnection fees	1,212,023	1,250,000	782,651
Renewal	522,900	550,000	591,400
Sewer connection charges	426,514	450,000	433,415
Water transport	8,000	10,000	30,000
Penalties	1,518,500	1,600,000	11,976
Material cost	517,160	556,000	1,241,892
Meter replacement	100,730	102,000	234,150
Admin income on check off	22,473	8,000	-
<b>Total</b>	<b><u>323,795,529</u></b>	<b><u>320,766,814</u></b>	<b><u>270,545,404</u></b>
<b>19) Grant Income</b>			
KMT	4,293,000	-	-
County Government of Laikipia	5,000,000	-	-
<b>Total</b>	<b><u>9,293,000</u></b>	<b><u>-</u></b>	<b><u>-</u></b>
<b>20) Staff cost</b>			
Salaries & wages	80,106,448	80,110,000	70,857,614
Commuter allowance	4,898,000	4,900,000	4,078,900
House allowance	18,606,322	18,700,000	17,065,263
Superannuation fund	2,310,078	2,400,000	2,495,574
Provident fund	9,727,958	9,800,000	9,302,138
Non practicing allowance	120,000	180,000	150,000
Hardship allowance	6,138,800	6,200,000	6,127,410

NANYUKI WATER AND SEWERAGE COMPANY LTD

NOTES TO THE FINANCIAL STATEMENT FOR THE YEAR ENDED 30<sup>TH</sup> JUNE 2020 (continued)

	2020	Budget	2019
	Kshs	Kshs	Kshs
Heavy /dirty duty allowance	444,000	450,000	445,000
Risk allowance	114,000	115,000	120,000
Bicycle allowance	339,000	350,000	141,000
Responsibility allowance	59,308	60,000	42,174
NSSF	388,800	400,000	387,000
Provision for gratuity	4,101,024	4,200,000	4,101,024
Leave allowance	6,329,854	6,000,000	5,992,312
NITA	65,850	70,000	36,500
Overtime	145,959	150,000	-
Casual wages	<u>5,112,869</u>	<u>4,300,000</u>	<u>3,393,990</u>
<b>Total Staff cost</b>	<b><u>139,008,270</u></b>	<b><u>138,385,000</u></b>	<b><u>124,735,899</u></b>
<b>21) Administrative cost</b>			
Staff medical	7,426,226	8,000,000	7,321,005
Advertisement	775,871	850,000	852,783
Travelling & subsistence	13,304,757	13,000,000	9,882,811
Telephone & postage	1,322,952	1,450,000	1,015,340
Newspaper & periodical	317,116	603,984	436,990
Staff training	6,065,335	6,000,000	5,846,019
Corporate social responsibility	1,770,569	1,450,000	486,400
Staff welfare	11,096,085	11,536,116	7,417,321
Games & Sports	2,651,085	2,850,000	2,677,800
Legal fees	1,217,185	1,152,000	173,700
Stakeholders participation	1,697,566	1,500,000	1,368,830
Uniforms	513,908	500,000	366,025
Cleaning materials	1,644,787	1,600,000	1,347,677
Printing & stationery	4,618,578	4,794,496	4,610,112
Bank charges	567,100	500,000	424,748
Internet	1,893,907	1,440,000	1,206,442
Professional	1,147,688	1,200,000	754,713
Audit fees	1,076,480	540,000	-
Security	3,845,551	4,408,000	2,483,905
Insurances	1,491,650	1,500,000	878,895

NANYUKI WATER AND SEWERAGE COMPANY LTD

NOTES TO THE FINANCIAL STATEMENT FOR THE YEAR ENDED 30<sup>TH</sup> JUNE 2020 (continued)

	<b>2020</b>	<b>Budget</b>	<b>2019</b>
	<b>Kshs</b>	<b>Kshs</b>	<b>Kshs</b>
Ground Maintenance	2,344,980	2,500,000	1,863,795
AGM expenses	647,892	600,000	471,550
Provision for tax	-	500,000	478,959
Provision for bad debts	(7,164,019)	-	-
End of the year party	934,000	1,000,000	1,117,186
Performance token	549,000	500,000	370,000
Office expenses	218,990	200,000	34,600
Subscription	<u>575,914</u>	<u>611,200</u>	<u>184,256</u>
	<b><u>62,551,154</u></b>	<b><u>70,285,796</u></b>	<b><u>54,071,863</u></b>
<b>22) Other Expenses</b>			
Depreciation	19,410,085	20,000,000	20,749,140
Amortization	1,745,614	2,000,000	
Bad debts written off	<u>106,025,958</u>	<u>100,000,000</u>	<u>-</u>
	<b><u>127,181,657</u></b>	<b><u>122,000,000</u></b>	<b><u>20,749,140</u></b>
<b>23) Operations</b>			
Licenses & permits	880,231	800,000	17,500
Water Resources Users Association	356,000	400,000	-
WRA abstraction fees	1,241,180	1,500,000	1,554,327
Water chemicals	2,616,140	4,200,000	4,352,800
Water analysis	376,300	1,000,000	997,833
WASREB	2,790,509	4,800,000	2,074,112
Electricity	8,132,801	9,000,000	8,096,156
Solio project	7,887,728	5,000,000	-
Consultancy	<u>12,381,490</u>	<u>11,800,000</u>	<u>1,902,880</u>
	<b><u>36,662,379</u></b>	<b><u>38,500,000</u></b>	<b><u>18,995,608</u></b>
<b>24) MAINTENANCE</b>			
<b>General Maintenance</b>			
Meter repair & maintenance	-	-	13,900
Tools & equipment	144,509	150,000	268,765
Electrical repairs	1,071,742	905,000	668,603
Computer repairs & software	520,404	600,000	1,103,787

NANYUKI WATER AND SEWERAGE COMPANY LTD

NOTES TO THE FINANCIAL STATEMENT FOR THE YEAR ENDED 30<sup>TH</sup> JUNE 2020 (continued)

	2020	Budget	2019
	Kshs	Kshs	Kshs
Water pipeline repairs & Maintenance	15,957,660	16,000,000	20,163,122
Sewer maintenance	6,618,769	6,750,000	5,220,497
Disludging	910,620	900,000	1,407,406
Manhole maintenance	863,776	450,000	538,342
Fencing and access road maintenance	4,747,087	4,600,000	83,600
NRW	2,066,455	2,150,000	410,220
Repair & maintenance of borehole	679,910	700,000	4,430,164
Building / tank maintenance	<u>3,798,277</u>	<u>3,500,000</u>	<u>1,377,716</u>
<b>Sub total</b>	<b><u>37,379,209</u></b>	<b><u>36,705,000</u></b>	<b><u>35,686,122</u></b>
<b>Maintenance -Motor Vehicle</b>			
Fuel & oils	5,118,189	5,400,000	3,357,121
M/v repairs	3,004,343	2,580,866	3,511,547
Exhauster	452,973	476,756	244,856
Tyres & tubes	771,573	800,000	-
Generator repairs & oils	342,344	380,000	15,500
Motor bike repairs	<u>822,490</u>	<u>850,000</u>	<u>933,047</u>
<b>Sub total</b>	<b><u>10,511,913</u></b>	<b><u>10,487,622</u></b>	<b><u>8,062,070</u></b>
<b>Grand total</b>	<b><u>47,891,122</u></b>	<b><u>47,192,622</u></b>	<b><u>43,748,193</u></b>
<b>25) Board expenses</b>			
Directors / committee allowance	2,518,860	2,500,000	2,962,444
Directors meetings -Full board	2,144,006	2,000,000	224,572
Directors honorari	-	-	30,000
Directors expenses	<u>1,068,546</u>	<u>1,500,000</u>	<u>3,930,120</u>
<b>Board expenses</b>	<b><u>5,731,412</u></b>	<b><u>6,000,000</u></b>	<b><u>7,147,136</u></b>
<b>26) Equator glacier enterprise</b>			
Turnover			
Equator glaciers	17,452,309	18,560,000	16,248,295
<b>Less Expenditure</b>			
NSSF	10,800	11,000	-
Bottles & packaging materials	7,040,480	7,560,000	9,934,833
Repair & maintenance	376,297	356,000	228,922

NANYUKI WATER AND SEWERAGE COMPANY LTD

NOTES TO THE FINANCIAL STATEMENT FOR THE YEAR ENDED 30<sup>TH</sup> JUNE 2020 (continued)

	2020 Kshs	Budget Kshs	2019 Kshs
Telephone	69,000	75,000	8,500
Cleaning materials	133,302	142,000	-
Salaries	3,687,659	3,260,000	2,333,240
House allowance	478,419	500,000	352,538
Commuter allowance	645,000	650,000	498,000
Overtime	-	-	10,000
Printing & stationery	74,400	72,000	35,160
Travelling & subsistence allowance	21,000	22,000	16,000
Commission	815,276	500,000	-
License & permits	49,300	- 50,000	31,900
Repair & maintenance MV	147,126	154,000	59,403
Fuel & oils	498,692	480,000	293,949
Staff welfare	83,825	24,400	-
Wages	-	-	477,393
Sales & marketing	890,900	950,000	1,368,500
Excise duty	575,146	600,000	230,576
Internet	81,565	88,000	22,282
Repair & maintenance of machinery	44,496	-	-
Bank charges	<u>39,398</u>	<u>42,000</u>	<u>3,620</u>
Equator glacier enterprise	<b><u>15,762,080</u></b>	<b><u>15,536,400</u></b>	<b><u>15,904,817</u></b>
Net surplus (deficit) before tax	<b><u>1,690,229</u></b>	<b><u>3,023,600</u></b>	<b><u>343,478</u></b>
Taxation	507,069	-	-
Net surplus (deficit) after tax	<u>1,183,160</u>	<u>-</u>	<u>343,478</u>

NANYUKI WATER AND SEWERAGE COMPANY LTD

NOTES TO THE FINANCIAL STATEMENT FOR THE YEAR ENDED 30<sup>TH</sup> JUNE 2020 (continued)

**27) RELATED PARTIES**

The company is a limited company limited by shares established under the companies act and licensed by County Government of Laikipia through a Service Provision Agreement (SPA). The company is headed by Board of Directors and a Corporate Management Team. At the year end the company owed the management gratuity amounting to KShs 7,076,054 (Prev year 5,286,753)

**28) CAPITAL RISK MANAGEMENT**

The company manages its funds to ensure it will be able to continue as a going concern while maximizing the return to stakeholders through the optimization of debt and reserve balances. The capital structure of the company consists of revenue reserves and the company was not geared as at 30<sup>th</sup> June 2019 and 30<sup>th</sup> June 2020

**29) INCORPORATION**

The company is incorporated in Kenya under the companies act Cap 486 and is domiciled in Kenya.

**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.	Issue/ observations from auditor	Management comments	Focal point person to resolve the issue	Resolved/ not resolved	Timeframe
1	<p>Property, plant and Equipment The statement of financial position reflects property, plant and equipment balance of Kshs 208,459,690 as at 30<sup>th</sup> June 2018, which excludes the value of assets inherited from the defunct Municipal Council of Nanyuki by Central Rift Valley Water Works Development Agency (RVWWDA) of Kshs 230,715,019 and written off in the financial year 2015/16. However, no approval for the write off from the Water Board was presented for Audit verification As a result, the accuracy and completeness of the property, plant and equipment balance of Kshs 208,459,690 as at 30<sup>th</sup> June 2018 could not be confirmed</p>	<p>The value of inherited assets from the defunct Municipal Council of Nanyuki by Central Rift Valley Water Works Development Agency (RVWWDA) were written off based on previous audit recommendation for the years 2014 and 2015. The assets are still in use by Nanyuki Water and Sewerage Company Ltd as leased assets upon which the Company pays fees to NWSB as per the current SPA. The bulk of the inherited assets relate to water system which are dilapidated and NAWASCO is in the process of replacing the same in order to improve on service delivery and reduce non-revenue water. The Company has engaged the County being the shareholders of NAWASCO and since water provision is a devolved function on formalization of assets acquired from Central Rift Valley Water Works Development Agency (RVWWDA).</p>	Managing Director	In progress	June 2020.

		<p>Further, the process of ring fencing all Company parcels of land is ongoing and acquiring the relevant title deeds and tagging all its assets as we migrate to the new system (IFMIS) from 1<sup>st</sup> April 2020.</p> <p>RVWWDA has embarked on an exercise through the ministry of water on updating asset register with the ultimate objective of having all assets handed over to the County and subsequently to the WSP</p>			
2	<p>Consumer Deposit</p> <p>The statement of financial position reflects consumers deposits of Kshs 24,805,218 as at 30<sup>th</sup> June 2018. However, the account held at Equity Bank Limited in respect of the deposits indicated a balance of Kshs 74,928.54 and thus, resulting in unreconciled difference of Kshs 24,730,289.46. Consequently, the accuracy and completeness of the consumer deposit balance of Kshs 24,805,218 as at 30<sup>th</sup> June 2018 could not be confirmed.</p> <p>Further, although minutes of the Board dated 15<sup>th</sup> July 2015 authorized the Company to spent an amount of Kshs 20,476,476 from the consumers' deposits account for the construction of the Company offices and development of water extension to Nturukuma</p>	<p>The Company maintains consumer deposits in billing system (promix) which indicates all the consumer deposits since inception. It has put in place measures to regulate consumer deposits and the same can only be utilized by the Company upon express authorization by the Board of Directors. Find attached minutes of board of Directors dated 15<sup>th</sup> July 2015 (Appendix 23) authorizing usage of deposit account for several projects to improve service delivery to the consumers. It's worth noting that refund claim is settled immediately. Since inception of the company, the company has refunded Kshs 17,279,578 promptly. ( refer to appendix 24)</p> <p>Therefore, the Company's usage of deposit account does not in any way affect refund when required by the consumer.</p> <p>It's also worth noting that the company inherited customers deposit liability</p>	Managing Director	Resolved	June 2020

	and Nkando areas, the funds had not been refunded as at 30 <sup>th</sup> June 2018	from the county amounting to Kshs 9.4 million. The Company has since inception refunded the deposits for inherited consumers from the defunct municipal council of Nanyuki promptly without demanding refund from the county. The Company is however optimistic that, since water is a devolved function, the county will refund the utility the inherited consumer deposits. It further intends to transfer Kshs 4 million per year as it promptly refunds those who request for their refund for the next four years to build the consumer deposit account to the tune of Kshs 16million to make it Kshs25million which would be equivalent to the total consumer deposit.			
3	Trade and other receivables The trade and other receivables balance of Kshs 272,732,929 as at 30 <sup>th</sup> June 2018 includes an amount of Kshs 206,441,148 in respect of debts inherited from the defunct Municipal Council of Nanyuki at the inception of the Company and which have remained outstanding over time. Although the recoverability of these debts is uncertain, the provision for bad and doubtful debts of Kshs 111,556,504 made in the financial statements against the outstanding	The amount in respect of debts inherited from the defunct Municipal Council of Nanyuki at the inception of the company which have remained outstanding over time is Kshs. 161,063,321. An indebt analysis of the composition of the current debt is as follows; From the above analysis and with assistance from the County Government, Kshs 261,844,237 is collectable out of Kshs 373,401,237 in financial statement note 6 and thus the provision of Kshs 111,556,504 giving a net of Kshs 261,844,237 which is deemed adequate to cover the long outstanding debts.	Managing Director	Management- Written off Kshs 106m as part of the debts inherited from defunct municipal council of Nanyuki	June 2020

	<p>debts appears inadequate.</p>	<p>The figure has been arrived at as follows;          Provision of 16.5% of outstanding debt as per WASREB guidelines (16.5% *Kshs 373,401,237) 61,611,204          Specific bad debts identified as per attached list <u>49,945,300</u>          Total provision <u>111,556,504</u></p> <p>Specifically          Domestic. Over 50% of the long outstanding debt for domestic consumers is deemed collectable and the management has put in place measures to improve on collection efficiency thus ensuring no domestic debt is presumed bad or doubtful. A provision of 46.7 % or Kshs 94,197,372 has been provided given the specific bad debts of Kshs 49,945,300          Nanyuki High- There is an ongoing process relating to exercising some land from the school in lieu of the long outstanding debt of Kshs 33million and the debt has been offset via recognizing the land in the company's books.          County government-The Company has agreed with the County Government of Laikipia, the main shareholders, to offset, swap or contra old debts because the Company collects fees on behalf of the County while the County demands lease fees from the Company. Further, the company agreed with the County Government that all departments should</p>			
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		pay for their own water consumption as from 1 <sup>st</sup> July 2018 failure to which it will be disconnected while NAWASCO pays the lease fees as they fall due.			
4	<p>Non revenue water</p> <p>During the financial year under review, the Company produced 4,161,580 cubic meters of water, out of which only 2,619,014 cubic meters of water were billed to customers. The balance of 1,542,566 cubic meters or approximately 37% of the total volume of water produced represented non-revenue which is 12% over and above the allowable water loss of 25% as per Water Services Regulatory Board guidelines. The NRW of 37% may have resulted in loss of sales estimated at Kshs 62,817,325</p> <p>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 on the Company's profitability and its long term sustainability.</p>	<p>The NRW level is 37% or Kshs 62,817,325 which is 12 % over and above the allowable water loss of 25% as per the Water Services Regulatory Board guidelines due to the following:</p> <p>a) Old dilapidated network inherited from the Municipal Council of Nanyuki,</p> <p>b)Illegal water usages,</p> <p>c)Pipes breakages during constructions and</p> <p>d)Old meters which are more than 10 years old</p> <p>The Company has put in place the following measures to reduce the high level of NRW</p> <p>-The Company has formed an NRW team,</p> <p>-DMA creation to allow effective management of leaks and bursts. The Company created Bluegum DMA with 16% of connection as a pilot project. 10 more DMA's are to be created by the year 2023.</p> <p>- KMT/ SNV have offered to offer support in reduction of the same. Negotiations are underway in the kind of support that KMT are to offer and an MOU will be entered into once the specific assistance is identified,</p> <p>-Mapping of water network to ensure improved service</p>	Managing Director	Not resolved	June 2020


		<p>delivery and tracing unknown accounts,          -Customer connections survey exercise is ongoing to detect any possible illegal connections,          -The company recruited an NRW management officer.          -The NRW officer was recruited in February 2018 and this has enabled the company to discover and legalize 40 illegal connections, replace and repair 2,500 faulty consumer meters and improved on NRW data analysis          -Network maintenance and rehabilitation program          The company has developed a proposal for improvement of water Infrastructure through rehabilitation of old dilapidated GI pipes as well as replacement of AC pipes. Once implemented it is anticipated that the NRW will reduce to approximately 26%.          -Meter replacement and servicing section A meter testing, serving and replacement section was formed whose main duty is to test meters of doubtful efficiency and service or replace where need be. The company expects to replace 3,000 meters every year since most of the meters are over 10 yrs. old,          -Production demand management program .          After realization that the billed volume is relatively constant and an increase in production highly influences the NRW value.          The Company come up with</p>			
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		<p>the optimum production level for purposes of NRW reduction and this has shown results as the NRW has reduced significantly. Average of 30% currently.</p> <p>-Pressure management program.</p> <p>The company has embarked on night flow measurements and pressure management programs which help to reduce water lost through bursts and leaks.</p>			
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Managing Director.....

Nanyuki Water and Sewerage Company Ltd

Date.....29-09-2020

Chairman of the Board.....

Nanyuki Water and Sewerage Company Ltd

Date.....29-09-2020

**NANYUKI WATER AND SEWERAGE COMPANY LTD**

**NOTES TO THE FINANCIAL STATEMENT FOR THE YEAR ENDED 30<sup>TH</sup> JUNE 2020 (continued)**

**APPENDIX II: PROJECTS IMPLEMENTED BY THE ENTITY**

**Projects**

Projects implemented by the State Corporation/ SAGA 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)
1	NAWASCO/J6P/SOLIO/W/2019	WSTF/ County Government of Laikipia	May 2019- April 2020		Yes	Yes

**Status of Projects completion**

	Project	Total project Cost	Total expended to date	Completion % to date	Budget	Actual	Sources of funds
1	NAWASCO/J6P/SOLIO/W/2019	143,063,623	143,063,623	100%	143,063,623	143,063,623	1) WSTF / 2) County Government of Laikipia

### APPENDIX III: INTER-ENTITY TRANSFERS

ENTITY NAME:		Nanyuki Water and Sewerage Company Limited	
Break down of Transfers from the State Department of			
FY 2019/2020			
a.	Recurrent Grants		
			Amount (KShs)
			N/A
		<b>Total</b>	
b.	Development Grants		
		Bank Statement Date	Amount (KShs)
			N/A
		<b>Total</b>	<b>N/A</b>
c.	Direct Payments		
			N/A
		<b>Total</b>	<b>N/A</b>
d.	Donor Receipts		
		<b>Bank Statement Date</b>	<b>Amount (KShs)</b>
		04/09/2019	780,928
		04/03/2020	606,695
		11/10/2019	45,252,436
		11/05/2020	29,438,772
		<b>Total</b>	<b>76,078,831</b>
			County Government of Laikipia
			Water Sector Trust Fund

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

Finance Manager

Managing Director

Nanyuki Water and Sewerage Company Limited

Nanyuki Water and Sewerage Company Limited

Sign.....

Sign.....

