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REPORT

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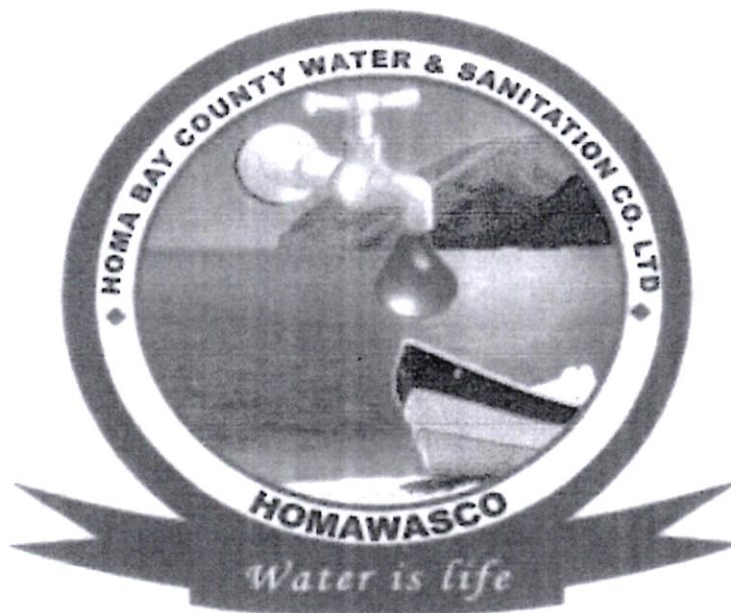
OF

THE AUDITOR-GENERAL

ON

**HOMA BAY COUNTY WATER AND
SANITATION COMPANY LIMITED**

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



HOMA BAY COUNTY WATER & SANITATION CO. LTD

ANNUAL REPORTS AND FINANCIAL STATEMENTS

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

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

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Annual Reports and Financial Statements**For the year ended June 30, 2020****KEY ENTITY INFORMATION****Background information**

Homa Bay County Water and Sanitation Company Limited (the then South Nyanza Water and Sanitation Company), was established under the Company's Act Cap 486 on 12th June 2006. The Company was formed by the defunct local authorities and given the mandate of providing water and sanitation services within eight Sub-Counties:- Mbita, Suba, Kasipul, Karachuoyo, Rangwe, Kabondo, Ndhiwa and Homa Bay Township. Homa Bay County Government is the major shareholder of the Company.

In August 2014, South Nyanza Water and Sanitation Company changed its name with the Registrar of Companies Kenya to Homa Bay County Water and Sanitation Company Limited, in the spirit of devolution, which brought fourth County Governments.

Principal Activities

The principal activity of the Company is that of offering water and sanitation services within Homa Bay County.

Directors

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

- | | | |
|---------------------------|-----------------------|---------------------------|
| 1. Prof. George O. Krhoda | Chairman | -Appointed on 29.03.2018 |
| 2. Dir. Zablon Were | Member | - Appointed on 29.03.2018 |
| 3. Dir. Isdora Akinyi | Member | - Appointed on 29.03.2018 |
| 4. Dir. Millicent Matengo | Member | - Appointed on 29.03.2018 |
| 5. Dir. Lenjulians Onano | Member-Rep. CEC Water | - Appointed on 29.03.2018 |
| 6. Mr Evans L. Nyagol | MD | - Appointed on 20.10.2015 |
| 7. Hon David Korikko | Member-CEC Finance | - Appointed on 30.10.2018 |
| 8. Dir. Kenneth Onyango | Member | - Appointed on 30.03.2019 |

NOTE: Member CEC-Member of County Executive Committee

The MD sits in the board as an **executive member**, the rest of the directors are **Non-executive**.

HOMA BAY COUNTY WATER & SANITATION CO. LTD

Annual Reports and Financial Statements For the year ended June 30, 2020

Registered Offices

Homa Bay County Water and Sanitation Company Ltd
Kendu - Homa Bay Road/Highway
P.O. Box 4, 40300
Homa Bay, KENYA

Corporate Headquarters

Homa Bay County Water and Sanitation Company Ltd
County Assembly Road,
Next to New TSC -Nyanza Regional Offices
P.O. Box 4, 40300...
Homa Bay, KENYA

Corporate Contacts

Telephone: +254717428030
E-mail: homawater@yahoo.com/ homawater@gmail.com

Corporate Bankers

1. Kenya Commercial Kenya
Homa Bay Branch
P.O. Box,
40300, Homabay
Kenya
2. Co-operative Bank of Kenya
Homa Bay Branch
P.O. Box,
40300, Homabay
Kenya

HOMA BAY COUNTY WATER & SANITATION CO. LTD

Annual Reports and Financial Statements For the year ended June 30, 2020

3. Equity Bank Ltd
P.O.Box
Homa Bay Branch
Kenya

Auditors

Auditor General
Kenya Office Of The Auditor General
Anniversary Towers, University Way
P.O. Box 30084
GPO - 00100
Nairobi, Kenya

Company Secretary

1. Olotch & Company Advocates

Advocates, Commissioners for oaths & Certified Public Secretaries
Queensway House
5th floor, Kaunda Street
P.O. Box 7146-00100
Nairobi, Kenya

**Annual Reports and Financial Statements
For the year ended June 30, 2020**

BOARD COMMITTEES:

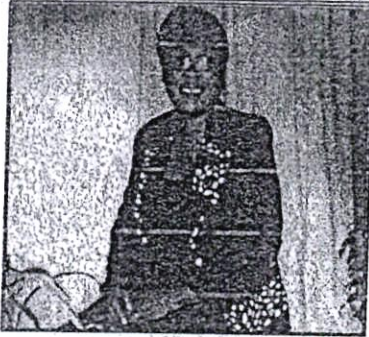
COMMITTEE	NAME	POSITION
1. FINANCE & HUMAN RESOURCE COMMITTEE	I. Zablon Were	Chairperson
	II. Kenneth Onyango	Member
	III. Nicholas K'oriko	Member
2. TECHNICAL COMMITTEE	I. Isdora Akinyi	Chairperson
	I. Millicent Matengo	Member
	II. Lenjulan Onano	Member
3. INTERNAL AUDIT COMMITTEE	I. Isdora Akinyi	Chairperson
	II. Millicent Matengo	Member
	III. Lenjulan Onano	Member

I. THE BOARD OF DIRECTORS- DURING THE YEAR 2019/20

1. Dir.Prof. George O. Krhoda 	Age : 66 Qualifications: CBS,BED(HONS),MA and PhD	<u>CAREER PROFILE</u> He is an Associate professor University Of Nairobi, Vice Chair Daystar university, a specialist in Hydrology and water resource management, Managing Director of Research on environment and development planning(REDPLAN) consultants ltd, former permanent secretary ministry of water and irrigation, among others. Prof. Krohda is the current chairperson of the board.
2. Dir. Zablon Were 	Age : 61 Diploma Electrical Engineering (Related trainings locally and abroad)	<u>CAREER PROFILE</u> Has vast experience in electrical engineering, having worked with Africa Synthetic Fibres and Sunflag Textiles

Annual Reports and Financial Statements

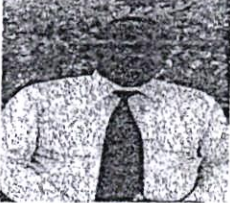
For the year ended June 30, 2020

 3. Dir. Millicent Matengo	Age: 53 years Qualifications • Certificate in Business Management • Financial literacy Program	<u>CAREER PROFILE</u> Has had a vast experience in business management including real estate management. Has held a position of Secretary in the Kenya booksellers Association – Kenya, currently the managing director of Maam Bookshop and other enterprises.
4. Dir. Isdora Akinyi 	Age: 34yrs Qualifications: • Degree in Gender and Development Studies • Diploma in Project Management • Diploma in Management of Information Systems	<u>CAREER PROFILE</u> Has vast experience in project management of development projects, having previously worked with Catholic Relief Services and APHIA plus as a project Coordinator. Currently a business lady running her own Pharmacy (Domakis Pharmaceuticals Limited) and an Events Planner.
 5. Dir. Lenjulians Onano	Age: 34yrs Qualifications Higher diploma in Project Planning & Management Diploma in Monitoring & Evaluation Diploma in Criminology	<u>CAREER PROFILE</u> Has served in different ranks in Government security institutions. He is currently working in County department of Water & Environment and is a shareholder director in the Board, representing the Parent Ministry. He is also a partner in a Private Crimes investigation company.

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Annual Reports and Financial Statements

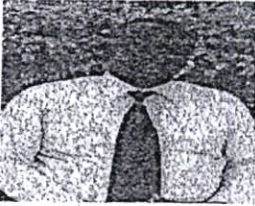
For the year ended June 30, 2020

 6. Evans L.O Nyagol-MD	Age:49 Qualifications: MBA, CPA(K)	<u>CAREER PROFILE</u> Has vast managerial experience having worked in the sugar industry and higher education sector for a long time. He sits in the board as an executive director.
 7. Dirr. Kenneth Onyango	Age:48 Qualification: Bcom, ;MBA strategic Management	<u>CAREER PROFILE</u> Worked in top management of KRA for over 20 years.
9. CS Pamela Ochieng Olotch	Olotch &Company Advocates	

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For the year ended June 30, 2020

I. MANAGEMENT TEAM

1. CPA. Evans L. O. Nyagol 	<u>Qualification:</u> MBA, CPA(K) <u>Responsibility:</u> Managing Director (CEO)
2. Pamela Ochieng Olotch	<u>Qualification:</u> CPS(K) <u>Responsibility:</u> Company Secretary
3. CPA Lydia Ouma. 	<u>Qualification:</u> B.Com, Accounting CPA (K) <u>Responsibility:</u> Internal Audit Manager
4. CPA Samuel Ngicho 	<u>Qualification:</u> CPA(K) B.Com, Finance <u>Responsibility:</u> Finance Manager

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For the year ended June 30, 2020

	<u>Qualification:</u> Bsc. Human Resources MBA Human Resources Human Resource Manager
	<u>Qualification:</u> Bsc. Mechanical Engineering <u>Responsibility:</u> Technical Manager
	<u>Qualification:</u> B.Purchasing& Supply,Master of supply Chain Management,ongoing PhD Project Management <u>Responsibility:</u> Supply Chain Manager
	<u>Qualification:</u> Bsc-Biology <u>Responsibility:</u> Commercial Manager

CHAIRMAN'S STATEMENT

It is my pleasure on behalf of the Board, to present to you this annual report for the financial year ended 30 June 2020. Homa Bay County Water And Sanitation Company remains focused on the path of long-term recovery and sustainability. The financial year 2019/20 has been a year of improved financial performance under prudent financial and operational management. It is a year where the Company has reduced its net loss as compared to the year 2018/19. There has been substantial progress on all strategic areas consistent with the broader agenda of our government in improving water services delivery in urban and rural areas. The Company in the prevailing socio- economic environment has continued to make best use of its resources to ensure quality delivery of its services. With the focused Board of Directors, executive management and staff, notable achievement will eventually be attained. On behalf of the Board of Directors, I would like to thank the Executive Management and entire staff for the commitment and resourcefulness.

To my fellow Board members and committee chairpersons, accept my appreciation for the dedication that has assisted the organization to remain focused to its objectives, during the year under review despite the pandemic, operational and financial challenges. The guidance on strategic priorities by the Ministry of Water and Environment Resources, County Government and National Government underpins our success in the financial year ending 30 June 2020.

It is my aspirations that as long as the initiatives of ensuring a better life for all are enshrined in the vision of the Company, we will continue to engage positively with all the key players and stakeholders to move forward together in improving water supply and sanitation in the County of Homa Bay and its surrounding.


Prof. George O. Krhoda
Chairman – Board of Directors

II. REPORT OF THE MANAGING DIRECTOR

Introduction

This report highlights and outlines the activities and actual performance of Homa Bay Water And Sanitation Company for the year ended 30 June 2020. It is pleasing to note that despite the challenges the operating environment continues to pose, the Company has managed to supply quality water to its valued customers with minimum disruptions in the year. Financing major capital works in order to satisfy the growing water demand and reducing the levels of unaccounted for water in the supply area remained biggest challenges in the year under review.

In the FY 2019/20, the company continued with its effort towards improvement of revenues and operations stabilization. The company recorded turnover of Kshs 171,750,799 against operating expense of Kshs 173,074,629, leaving a total operating deficit before tax of Kshs. 1,723,409.

The company is yet to achieve sustainable operations since it still relies on County Government of Homa Bay subsidies for power bills. The water coverage is still below 50%, plant production capacity is still at 31% of demand in all water schemes and therefore client satisfaction is low due to the limited supply. The company fell short of the budgeted production by 40% due to failure to kick start operationalization of West Karachuonyo new Production plant which was expected to boost the production capacity by 20%.

However, the company has been working with various stakeholders to transform itself to a commercially viable enterprise with key focus on service delivery. Kenya Government through Lake Victoria South Water Works Development Agency (LVSWDA) approved funding for the development of three (3) new water plants in Homa Bay, Oyugis and Kendu Bay. WASREB has been instrumental in ensuring proper governance of the company through Board training/Board oversight and, the County Government of Homa Bay has been supporting the company in ensuring smooth water supply operations.

We also collaborated with Dunea-Netherlands for capacity development –staff & operations for NRW reduction thus we hope to achieve operational efficiency in the near future.

Use of modern billing technology was key to the improved revenue generation; telephone bills increased efficiency in bill delivery and electronic bill payment. Emphasis on NRW reduction was a key activity in the year through Dunea-Netherlands. The company initiated a NRW reduction program that will ensure increase in water supply to consumers in the future. Training was key to improvement in 2019/20, staff training ensured clear focus to production efficiency for better service

Thank you.

Evans L. O. Nyagol

Managing Director

III. - MANAGEMENT DISCUSSION AND ANALYSIS

PERFORMANCE OVERVIEW

1.0 INTRODUCTION

The management of HOMA WASCO hereby presents to the shareholders and stakeholders report and statements on the financial performance of the company for the financial year ended June 2020. The year was the year of pandemic, that ravaged the entire world economy. Water sector was hit hard by the several declarations from state agencies. Partial lockdown, zero collection of water bills among other measures were applied to help reduce the impact of the pandemic. The cash flow went down to 40% in some cases leaving operations half way sufficient. Management though soldiered on to ensure that water-the essential commodity during COVID 19 period -was readily available and continuously. A good part of the next financial year will still be affected by the ripple effect of this pandemic even after the lockdown.

1.1 REVENUES

The company achieved a turnover of **Kshs.171.8million** against a budget of **Kshs 157.6million** representing **110%** performance with a total expenditure of **Kshs. 173.5million** leaving a deficit before tax of **Kshs.1, 723,408**. The Incomes is made up of company water & sewerage sales at **Kshs 63.4million**, Grants from County Government at **Kshs 65.6million** in electricity bills and disaster management and grants from other development partners of **Kshs 42.4million**. The company achieved an average monthly billing of **Kshs 3.6 Million** and an average monthly collection of **Kshs 4.1Million**. The company had an average collection efficiency of **113%** which is within the Water Sector benchmark of **>95%** and an average of **56%** Non-Revenue Water level against a sector benchmark of **<25%**.

The existing connections in the year under review stood at **6,127** connections with **3,773** active connections and **2,354** dormant connections with an average metering ratio of **74%** against a sector benchmark of **100%** metering.

The major impediments on the achievement of the budget was decrease in production due to constant power cuts and political unrest in the County, which resulted to lost production hours resulting to low sales. The Company also failed to secure grants from the National Government and other development partners as had been envisioned in the budget.

1.2 EXPENDITURES

The company incurred total operational expenditures of **Kshs. 173,480,207** against a budgeted **Kshs. 153,217,183**. The cost recovery rate of the company stood at **93%** against a sector benchmark of **>_100%**. This is due to the high operational costs occasioned by operating an old dilapidated water supply system as well as high technical losses due inefficient equipment and leaks.

1.3 COMPLIANCE WITH REGULATORY REQUIREMENTS

The company has always strived to pay all statutory obligations as and when they fall due. These levies and fees are WASREB, LVSWWDA, and WRMA levies. There has been a cash flow challenge crippling this

HOMA BAY COUNTY WATER & SANITATION CO. LTD

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For the year ended June 30, 2020

commitment over the past and presently. The company will strive to pay current continuous liabilities to such bodies as and when they fall due in the subsequent years. Amounts owed to these bodies as at 30 June 2020 stood as follows

Kshs.

WASREB-	1,467,502.00
WRA -	29,705,000.00
LVSWWDA-	24,511,441.00
TOTAL	<u>55,683,943.00</u>

1.4 RISKS

The company faces several risks that might impede the achievement of its objectives. The major risks identified are:-

- ▶ Harsh economic conditions in the country due to COVID-19 pandemic
- ▶ Credit risk resulting from debtors not paying all their bills as and when they fall due
- ▶ Delay in electricity bills settlement by the County Government
- ▶ Insecurity caused by Political activities
- ▶ Water pollution at water sources E.g. Rivers.
- ▶ Sabotage from competitors and road contractors
- ▶ Lack of funds for pipeline expansion
- ▶ Inability to source for funds from the market to finance capital investment

1.5 DEVELOPMENTS

The company is soon to receive the three new water pumping plants situated in Oyugis, Kendu Bay and Homa Bay. In addition there are six potential rural water plants/boreholes which are due for integration into the company's supply grid in the next financial. With Oyugis at 50% complete, Kendu Bay 60% and Homa Bay 65% complete, there is optimism that come 2021/22, some of the plants should be handed over for operations and production.

CHAIRMAN'S STATEMENT

It is my pleasure on behalf of the Board, to present to you this annual report for the financial year ended 30 June 2020. Homa Bay County Water And Sanitation Company remains focused on the path of long-term recovery and sustainability. The financial year 2019/20 has been a year of improved financial performance under prudent financial and operational management. It is a year where the Company has reduced its net loss as compared to the year 2018/19. There has been substantial progress on all strategic areas consistent with the broader agenda of our government in improving water services delivery in urban and rural areas. The Company in the prevailing socio- economic environment has continued to make best use of its resources to ensure quality delivery of its services. With the focused Board of Directors, executive management and staff, notable achievement will eventually be attained. On behalf of the Board of Directors, I would like to thank the Executive Management and entire staff for the commitment and resourcefulness.

To my fellow Board members and committee chairpersons, accept my appreciation for the dedication that has assisted the organization to remain focused to its objectives, during the year under review despite the pandemic, operational and financial challenges. The guidance on strategic priorities by the Ministry of Water and Environment Resources, County Government and National Government underpins our success in the financial year ending 30 June 2020.

It is my aspirations that as long as the initiatives of ensuring a better life for all are enshrined in the vision of the Company, we will continue to engage positively with all the key players and stakeholders to move forward together in improving water supply and sanitation in the County of Homa Bay and its surrounding.



Prof. George O. Krhoda
Chairman – Board of Directors

HOMA BAY COUNTY WATER & SANITATION CO. LTD

Annual Reports and Financial Statements

For the year ended June 30, 2020

IV. REPORT OF THE DIRECTORS

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

Principal activities

The principal activity of the Company is that of provision of water and sanitation services within Homa Bay County

Results

The results of the entity for the year ended **June 30, 2020** are set out on pages 1-7

Directors

The members of the Board of Directors who served during the year are shown on page **VI-IX** In accordance with Regulation of the Company's Articles of Association.

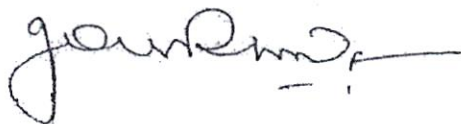
Auditors

The Office of the Auditor General is responsible for the statutory audit of the Company in accordance with the Public Audit Act 2015, and sections 14 and 15 of the Public Finance Management (PFM) Act, 2012, which empowers the Auditor General to nominate other auditors to carry out the audit on his behalf.

Dividends

The directors do not propose any dividend for the year.

By Order of the Board



Board Chairman

Homa Bay County Water & Sanitation Co. Ltd

Date:.....

HOMA BAY COUNTY WATER & SANITATION CO. LTD

Annual Reports and Financial Statements

For the year ended June 30, 2020

STATEMENT OF DIRECTORS' RESPONSIBILITIES

Section 81 of the Public Finance Management Act, 2015; - require the Directors to prepare financial statements in respect of that company, which give a true and fair view of the state of affairs of the 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 entity; (iii) designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of the financial statements, and ensuring that they are free from material misstatements, whether due to error or fraud; (iv) safeguarding the assets of the *company*; (v) selecting and applying appropriate accounting policies; and (vi) making accounting estimates that are reasonable in the circumstances.

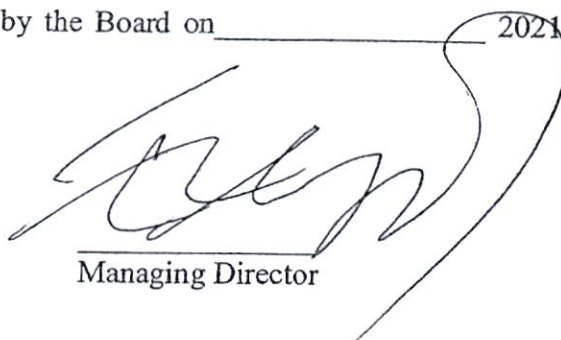
The Directors accept responsibility for the *Company's* financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity with International Financial Reporting Standards (IFRS), and in the manner required by the PFM Act, 2012 . 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.

Approval of the financial statements

The *company's* financial statements were approved by the Board on _____ 2021 and signed on its behalf by:



Director



Managing Director

REPUBLIC OF KENYA

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



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

REPORT OF THE AUDITOR-GENERAL ON HOMA BAY COUNTY WATER AND SANITATION COMPANY LIMITED FOR THE YEAR ENDED 30 JUNE, 2020

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of Homa Bay County Water and Sanitation Company Limited set out on pages 16 to 39, which comprise of the statement of financial position as at 30 June, 2020, statement of comprehensive income, statement of changes in equity, statement of cash flows and the statement of comparison of budget and actual amounts for the year then ended, and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, 2015. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

In my opinion, except for the effect of the matters described in the Basis for Qualified Opinion section of my report, the financial statements present fairly, in all material respects, the financial position of the Homa Bay County Water and Sanitation Company Limited as at 30 June, 2020, and of its financial performance and its cash flows for the year then ended, in accordance with the International Financial Reporting Standards and comply with the Water Act, 2016, the Companies Act, 2015, and the Public Finance Management Act, 2012.

Basis for Qualified Opinion

1. Inaccuracies in the Financial Statements

The statement of cash flows reflects depreciation charge, provision for bad debts and amortization of software balances of Kshs.5,799,303, Kshs.1,424,469 and Kshs.36,165 respectively while the statement of comprehensive income reflects a depreciation charge of Kshs.5,835,470 and nil balances for the provision of bad debts and amortization of software resulting to variances of Kshs.36,167, Kshs.1,424,469 and Kshs.36,165 which were not explained or supported.

Consequently, the accuracy, validity and completeness of the balances reflected in the financial statements for the year ended 30 June, 2020 could not be confirmed.

2. Water and Sewage Sales

Note 24 to the financial statements reflects a balance of Kshs.51,548,710 in respect to water and sewage sales. However, the ledger listing of customers invoiced and customers who made payments were not provided for audit in support of the monthly reports.

Consequently, the accuracy, validity and completeness of revenue balance of Kshs.51,548,710 could not be confirmed.

3. Inventories

The statement of financial position and Note 11 to the financial statements reflects a balance of Kshs.1,306,060 in respect to inventories. However, the balances of donation in kind and chemicals balance of Kshs.774,051 and Kshs.532,009 respectively were not supported with the relevant ledgers and schedules.

Consequently, the accuracy and validity of the inventories balance of Kshs.1,306,060 could not be ascertained.

4. Project Costs

The statement of comprehensive income and Note 30 to the financial statements reflects a balance of Kshs.82,017,997 in respect to project costs which includes payments totaling to Kshs.17,949,734 which were not supported with quotation for the contracts and the evaluation reports.

Consequently, the accountability, validity and authenticity of the project costs balance of Kshs.82,017,997 for the year ended 30 June, 2020 could not be ascertained.

5. Ordinary Share Capital

The Company was incorporated on 12 June, 2006 vide certificate No.12559 in the name of South Nyanza Water Services Limited. Whereas general information in the financial report reveal that the Company is fully owned by the County Government of Homa Bay, the shareholding structure of the Company as per the Articles of Association obtained indicate that the shares are owned by defunct Local Authorities as shown below;

Entity	Shares
Municipal Council of Homa Bay	1482
Mbita Point Town Council	717
Oyugis Town Council	795
Kendu Bay Town Council	497
Homa Bay County Council	482
Rachuonyo County Council	547
Suba County Council	480

In addition, it was established that the shares as per the search from the Registrar of Companies are still held by the defunct Local Authorities and not yet taken over by the

County Government of Homa Bay during the advent of devolution. However, these shares have not been paid for. Further, the name "Homa Bay County Water and Sanitation Company Limited" does not exist in business registration service in the Office of the Attorney General and Department of Justice.

Consequently, the validity, ownership and accuracy of the ordinary share capital balance of Kshs.1,776,711 as at 30 June, 2020 could not be confirmed.

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

Emphasis of Matter

Material Uncertainty Related to Going Concern

The statement of comprehensive income indicates that the Company incurred an operating loss of Kshs.1,723,409 during the year ended 30 June, 2020 (2019: a loss of Kshs.5,331,950). The operating loss continued to deplete the retained earnings from negative Kshs.35,825,953 as at 30 June, 2019 to negative Kshs.37,549,363 as at 30 June, 2020. If the trend of the loss persists, the Company would be faced with liquidity problems which may have an adverse impact on its operations. The statement of financial position also indicates that the total current liabilities of Kshs.96,747,089 exceeded the total current assets of Kshs.55,774,791 resulting in a negative working capital of Kshs.40,972,298 as at 30 June, 2020. This presents a key materiality uncertainty related to going concern. If remedial measures are not taken to reverse the trend, the Company may not have the ability to continue as a going concern.

Under the circumstances, the financial statements have therefore been prepared on the going-concern basis on the assumption that the Company will continue to get financial support from the County Government, shareholders, and creditors.

My opinion is not modified in respect of this matter.

Key Audit Matters

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

Other Matter

1. Budgetary Control and Performance

The statement of comparison of budget and actual amounts reflects final receipts budget and actual on comparable basis totalling to Kshs.157,698,860 and Kshs.171,756,799

respectively, resulting to an overfunding amounting to Kshs.14,057,939 or 9% of the budget. Similarly, the statement reflects final expenditure budget and actual on comparable basis totalling to Kshs.153,217,183 and Kshs.173,480,208 respectively, resulting to an overperformance amounting to Kshs.20,263,025 or 13% of the budget. There is need for the Management to re-look at its budget making mechanism with a view to coming up with a more realistic budget.

In addition, there was no evidence provided for audit review to confirm that the over expenditure of Kshs.20,263,025 was approved contrary to Section 43(2) of Public Finance Management (County Government) Regulations, 2015 which states that County Government entities shall execute their approved budgets based on the annual appropriation legislation and the approved annual cash flow plan with the exception of unforeseen and avoidable spending dealt with through the Contingencies Fund of supplementary estimates.

2. Unresolved Prior Year Matters

In the audit report of the previous year, several issues were raised. 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 and Planning Circular reference No. AG.4/16/3 Vol.1(9) dated 24 June, 2020.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

As required by Article 229(6) of the Constitution, based on the audit procedures performed, except for the matters described in the Basis for Conclusion on Lawfulness and Effectiveness in Use of Public Resources 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. Accrued Liabilities

The statement of financial position and Note 18 to financial statements reflects accrued liabilities balance of Kshs.76,461,966 which includes salary deductions amounting to Kshs16,306,020 that had not been remitted to relevant statutory bodies as at the time of audit exercise in December, 2020. Management did not demonstrate its preparedness to clear the liabilities contrary to the Public Finance Management (County Government) Regulations, 2015 Section 22(2)(a) which states that "In addition to the responsibilities of Accounting Officers provided for in the Act, an Accounting Officer designated under the Constitution, the Act or any other Act, shall comply with any tax, levy, duty, pension, commitments and audit commitments as may be provided for by legislation"

Consequently, Management is in breach of the law.

2. Staff Ethnic Composition

The statement of comprehensive income and Note 25 to the financial statements reflects a balance of Kshs.30,132,501 in respect to personnel cost out of which an amount of Kshs.28,124,657 relates to staff costs. Examination of employee records and details in the main payroll revealed that out of 102 employees, 99, translating to 97% were from the dominant community in the County contrary to Section 65(1) of the County Government Act, 2012 which require that at least thirty percent of the vacant post at entry level are filled by candidates who are not from the dominant ethnic community in the County.

Consequently, the Water Company Management is in breach of the law

3. Presentation of Financial Statements

A review of the Company's financial statements for the year under review revealed the following;

- 1.1 The head of finance has not indicated his name and the Institute of Certified Public Accountants of Kenya (ICPAK) membership number in the statement of financial position.
- 1.2 Progress on follow up of auditor recommendations and report on projects implemented by the entity are not included in the financial statements.
- 1.3 The financial statement has made reference to the statement of comprehensive income instead of statement of profit or loss and other comprehensive income.
- 1.4 Details of the Company Secretary in respect of date of birth, key qualifications and work experience are not included in the financial statements.
- 1.5 Report of the directors is signed by the Chairman instead of the Corporate Secretary and is not dated.
- 1.6 Statement of director's responsibilities is not signed by the Accounting Officer and the name of the Managing Director is not indicated.

In the circumstances, the financial statements are not prepared in accordance with the Public Sector Accounting Standards Board (PSASB) prescribed format.

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 overall governance were not effective.

Basis for Conclusion

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

As required by the Kenyan Companies Act, 2015 I report based on my 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 the 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 statements of financial position and statement of comprehensive income are in agreement with the books of account; and
- iv. In my opinion, the information given in the report of the directors on page **IV** is consistent with the financial statements.

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 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.

Responsibilities of Management and the Board of Directors

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

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

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 financial reporting process, reviewing the effectiveness of how the Company monitors compliance with relevant legislative and regulatory requirements, ensuring that effective processes and systems are in place to address key roles and responsibilities in relation to overall 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 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

15 February, 2022

STATEMENT OF PROFIT AND LOSS AND OTHER COMPREHENSIVE INCOME

		2020	2019
		Kshs	Kshs
REVENUES			
Water Sales	24	37,936,649	35,274,996
Sewerage Income	24	13,612,061	12,389,202
Tanker/Exhauster Income	23	11,144,501	6,219,842
TOTAL REVENUES		62,693,210	53,884,040
OTHER INCOME			
Donor Grants	21	108,323,312	57,462,378
Miscellaneous Income	22	740,277	6,022,920
		109,063,589	63,485,298
GROSS INCOME		171,756,799	117,369,338
OPERATING EXPENSES			
Personnel Costs	25	30,132,501	-
Administration Costs	26	13,584,098	70,023,860
Operation and distribution cost			44,404,586
Governance Costs	27	2,131,500	-
Technical Costs	28	38,110,119	-
Compliances Levies Costs	29	1,262,945	-
Project Costs	30	82,017,997	-
Provision for Bad Debts	30	-	2,225,404
Depreciation of property, plant and equipment	35	5,835,470	4,837,089
Amortisation of Intangible Assets		-	760,671
OPERATING EXPENSE		173,074,630	122,251,610
OPERATING PROFIT/(LOSS)		(1,317,831)	(4,882,273)
Finance Income		-	-
Finance Costs	32	405,578	449,677
TOTAL OPERATING EXPENSES		173,480,208	122,701,287
PROFIT/(LOSS) BEFORE TAXATION		(1,723,409)	(5,331,950)
PROFIT/(LOSS) AFTER TAXATION		(1,723,409)	(5,331,950)

Director

Managing Director

Homa Bay County Water & Sanitation Company Ltd

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STATEMENT OF FINANCIAL POSITION AS AT 30TH JUNE 2020

ASSETS	NOTE	2020	2019
Non-Current Assets	35	Ksh	Ksh
Computers		14,496	737,971
Motor Vehicle including Motor bikes		947,388	2,419,944
Building & Machinery		35,918,929	37,942,125
W-I-P (Kendu Bay Rehabilitation)		38,605,476	38,605,476
Plant & Machinery		9,194,049	4,168,199
Office Furniture & Fittings		338,343	471,062
Intangible assets	10	-	36,165
Total Non-Current Assets		85,018,681	84,380,942
Current Assets			
Inventories	11	1,306,060	2,103,637
Net Trade and other receivables	12	54,126,317	42,102,459
Cash and cash equivalents	13	242,414	2,057,580
Amount Owed By Shareholders	20	100,000	100,000
Total Current Assets		55,774,791	46,363,676
TOTAL ASSETS		140,793,471	130,744,618
EQUITY AND LIABILITIES			
Capital and Reserves			
Ordinary share capital/Initial Capital	14	1,776,711	1,776,711
Retained earnings	15	(37,549,363)	(35,825,954)
Profit for the Year		-	-
Capital Reserves	16	37,724,252	37,724,252
Capital and Reserves		1,951,600	3,675,009
Non-Current Liabilities			
Deferred tax liability			
Deffered Income - Grant	17	42,094,782	36,582,281
Total Non-Current Liabilities		42,094,782	36,582,281
Current Liabilities	18		
Accrued Liabilities		76,461,966	12,695,104
Corporate Liabilities			51,057,416.00
Trade and other payables	19	14,983,269	22,318,754
Customer Deposits		5,301,854	4,416,054
Total Current Liabilities		96,747,089	90,487,328
TOTAL EQUITY AND LIABILITIES		140,793,471	130,744,618


Director


Managing Director

HOMA-BAY COUNTY WATER AND SANITATION CO LTD

CASH FLOW STATEMENT FOR THE YEAR ENDED 30TH JUNE 2020

<u>Notes</u>	<u>2020</u> <u>Kshs</u>	<u>2019</u> <u>Kshs</u>
<u>Cash flow from operating activities:</u>		
Net profit/Loss	(1,723,409)	(5,331,950)
	(1,723,409)	(5,331,950)
Adjustment for non-cash operations		
Depreciation charge	5,799,303	4,837,089
Armotization of Water kiosks	-	-
Provision for Bad debts	1,424,469	2,225,404
Armotization of Software	36,165	760,671
Net cash from operating activities	5,536,528	2,491,214
Changes in Working Capital		
Increase/Decrease in Inventories	797,577	(1,781,316)
Increase/Decrease in Receivables	(12,023,857)	(8,648,120)
Increase/Decrease in Payables	(7,335,485)	12,677,665
Increase/Decrease in Accruals	12,709,446	-
Increase/Decrease in bad debts provision	(1,424,469)	-
Customer Deposits	885,801	619,600
Net Change in working capital	(6,390,987)	2,867,829
<u>Cash flow from Investing activities:</u>		
Fixed Assets Additions	(6,473,208)	(42,659,811)
Acquisition of intangible assets	-	(150,000)
Work in Progress	-	(38,605,476)
Total cash from Investing activities	(6,473,208)	(81,415,287)
<u>Cash flow from Financing activities:</u>		
Prior Year Adjustment	-	-
Cash from deferred income grant	5,512,501	19,228,417
Cash from other grants	-	57,462,378
Interest & Commission Received	-	-
Total cash from Financing activities	5,512,501	76,690,795
Increase/Decrease in Cash and cash equivalent	(1,815,166)	634,552
Cash balance at the begining of the year	2,057,580	1,423,028
Cash balance at the close of the year	242,414	2,057,580

Homa Bay County Water & Sanitation Company Ltd

Reports and Financial Statements

For the year ended June, 30, 2020

STATEMENT OF CHANGES IN EQUITY

	Ordinary share/Initial capital	Revaluation reserve	Fair value adjustment reserve	Retained earnings	Capital Reserves	Proposed dividends	Total
At July 1, 2018	2,831,702	-	-	-35,825,953	37,724,252	-	4,730,001
Transfer of excess to Equity	(1,054,991)	-	-	-	-	-	-1,054,991
Deferred tax on excess depreci	-	-	-	-	-	-	-
Fair value adjustment	-	-	-	-	-	-	-
Total comprehensive income	-	-	-	-	-	-	-
Dividends paid – 2018	-	-	-	-	-	-	-
Interim dividends paid – 2019	-	-	-	-	-	-	-
Proposed final dividends	-	-	-	-	-	-	-
At June 30, 2019	1,776,711	-	-	-35,825,953	37,724,252	-	3,675,009.51
At July 1, 2019	1,776,711	-	-	(35,825,953)	37,724,252	-	3,675,010
Transfer of excess equity	-	-	-	-	-	-	-
Deferred tax on excess depreci	-	-	-	-	-	-	-
Fair value adjustment	-	-	-	-	-	-	-
Total comprehensive income	-	-	-	(1,723,409)	-	-	(1,723,409)
Dividends paid – 2018	-	-	-	-	-	-	-
Interim dividends paid – 2019	-	-	-	-	-	-	-
Proposed final dividends	-	-	-	-	-	-	-
Transfer of Deferred Income Liability	-	-	-	-	-	-	-
At June 30, 2020	1,776,711	-	-	(37,549,363)	37,724,252	-	1,951,600

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Homa Bay County Water & Sanitation Company Ltd

Reports and Financial Statements for the year ended June, 30, 2020

BUDGET VS ACTUAL FOR THE YEAR 2019/2020

	BUDGET	ACTUAL	VARIANCE	% VARIANCE
Water Sales	58,408,760	37,936,649	20,472,111	35%
Sewerage Income	12,840,500	13,612,061	(771,561)	-6%
Tanker/ Exhauster Income	10,972,000	11,144,501	(172,501)	-2%
Other Incomes	1,380,000	740,277	639,723	46%
Finance Income	-	-	-	
Grants from Government	74,097,600	108,323,312	(34,225,712)	-46%
	157,698,860	171,756,799	(14,057,939)	-9%
			-	
Personnel Costs	37,238,306	30,132,501	7,105,806	19%
Administration Costs	16,715,405	13,584,098	3,131,307	19%
Governance Costs	2,139,000	2,131,500	7,500	0%
Technical Costs	43,721,840	38,110,119	5,611,721	
Compliances Levies Costs	4,538,825	1,262,945	3,275,880	72%
Project Costs	47,319,996	82,017,997	(34,698,001)	-73%
Provision for Bad Debts	1,193,811	-	1,193,811	100%
Depreciation of property, plant and equipment	-	5,835,470	(5,835,470)	0%
Amortisation of Intangible Assets	-	-	-	0%
Finance Costs	350,000	405,578	(55,578)	-16%
	153,217,183	173,480,208	(20,263,025)	
SURPLUS/DEFICIT	4,481,677	(1,723,409)	6,205,086	

EXPLANATION OF VARIANCES

1. Water Sales

During budgeting, it was anticipated that two more rural schemes (Rodi and Adongo) could bring additional 140,355m3 to the main distribution system.

This could raise additional revenue by kshs 7million. Unfortunately this could not be achieved because the projects did not take off for production in time. During the last quarter of 2019/2020 financial year (April-June 2020) the world suffered the worst pandemic which resulted in squeezed water sales revenue level by 60%. Usually during rainy seasons, billing and revenue collection becomes a challenge in the water sector. Between September 2020 to January 2021 the region received above average rainfall triggering low demand for tapped water. Because of all these, the company did not realise its target in billing and revenue collection in water sales.

2. Tanker/Exhauster Income

Same as in (1) above, water and exhauster sales rely heavily on the stated factors to record targeted sales volumes. The exhauster trucks rely heavily on learning institutions and other government institutions which were in lock down most of the pandemic period in the last quarter. Despite these challenges, there was recorded positive performance exceeding target by 2%.

3. Other Income

These are fees and levies such as reconnection charges, new connection fees, surcharges, and other miscellaneous fees which were also affected by the factors stated above. When there is low demand for water, even new connections remain low hence the decline in revenue .

4. Grants From Government and Other Donors

During the budgeting period, there was no plan for disaster incidence. The company received 39million during the year from the county government for disaster management hence the overabsorption on the grant item.

5. Project Costs

Same as in (4) above ,the expenditure on the project cost had to be higher than the budget due to unplanned expenditure on disaster management kitty.

6. Provision for Bad debts

The provision was made on latest estimates on 31 st March 2020 at 3.5%. On the final reporting, actual list of debtors was applied hence the difference.

7. Provision of Depreciation

This was not provided for during budget and therefore indicating an overabsorption. This will be factored in the next financial budget.

8. Finance Cost

Due to grant funds received in euros during the year, bank charges have gone up respectively, leading to overabsorption.

Conclusion

Overall overabsorption in the budget was as explained above due to disaster management expenditure that was not foreseen during budget.

1. GENERAL INFORMATION

Homa Bay County Water & Sanitation Co. Ltd is public liability company registered under the company's act 2015, established by Water Act 2002 (repealed and replaced by water act 2016). The company derives its authority and accountability from Section 164 of the PFM act 2012. The entity is wholly owned by the County Government of Homa Bay and is domiciled in Kenya. The entity's principal activity is the provision of water and sanitation services within Homa Bay County.

2. BASIS OF PREPARATION

The financial statements are prepared in compliance with International Financial Reporting Standards (IFRS). The financial statements are prepared under the historical cost basis of accounting and presented in the functional currency, Kenya Shillings (Kshs) rounded to the nearest shilling.

The preparation of financial statements in conformity with the IFRS requires the use of estimates and assumptions. It also requires management to exercise judgement in the process of applying the company's accounting policies. The areas involving a higher degree of judgement or complexity, or where assumptions and estimates are significant are to the financial statements, are disclosed in notes below.

3. GOING CONCERN

The Company made a loss after tax of Shs 1,723,409 (2019: Shs 5,331,950) during the year which was added to accumulated losses totaling Shs 37,549,362 (2019: retained earnings of Shs 35,825,954). The directors have not indicated any willingness to discontinue the operations of the company in the next twelve months.

4. NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS

a) Adoption of new and revised standards

Ammendment/Interpretation to a standard	Effective Date
--	----------------

IFRS 16: Leases

(Issued 13 January 2016)

Effective for annual periods

beginning on or 1 Jan 2019

The company is not intending to implement the standard at the moment

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

b) New and revised standards that have been issued but are not yet effective

IFRS 9: Financial Instruments	Effective for annual periods beginning on or 1 Jan 2018 intending to implement
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c) Earlier Adoption of Standards

There is no intention to implement any standard in advance this financial year

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

a) Revenue Recognition

Revenue is recognised to the extent that it is probable that future economic benefits will flow to the company and the revenue can be reliably measured. The following specific recognition criteria has been met before revenue is recognised:

i) Provision of Water & Sewerage services

Revenue from provision of water & sewerage services is recognized when these services are delivered to customers & billed by the company. However, the amounts will be subjected to adjustments when errors are realized, in relation to meter readings and subsequent billings. Non-Revenue water is not recognised as income since its not billed.

ii) Grants

Income from donors is recognized on accrual basis. Grants are recognized at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with.

j) Provision for staff leave pay

Employees' entitlements to annual leave are recognized as they accrue at the employees during the year. Un paid leave are forfeited every year.

k) Comparative figures

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

l) Translation of foreign currencies

On initial recognition, all transactions are recorded in the functional currency (the currency of the primary economic environment in which the company operates) which is Kenya Shillings.

Transactions in foreign currencies during the year are converted into the functional currency using the exchange rate prevailing at the transaction date

6. SIGNIFICANT JUDGMENTS AND SOURCES OF ESTIMATION UNCERTAINTY

In the process of applying the company's accounting policies, which are described in note 1, the directors are required to make judgements, estimates and assumptions about the carrying amounts of assets, and liabilities that are not readily apparent from other sources.

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

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

a) Critical judgements in applying accounting policies

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

(b) Key sources of estimation uncertainty

i) At the end of each reporting period, the company reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such loss exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. Where it is possible to estimate the recoverable amount of an individual asset, the company estimates the recoverable amount of the cash generating unit to which the asset belongs.

NOTES TO THE FINANCIAL STATEMENTS cont.....

ii) Critical estimates are made by the directors in determining depreciation rates for property, plant, equipment and intangible equipments. The company is exposed to various contingent liabilities in the normal course of business including a number of legal cases. The directors evaluate the status of these exposures on a regular basis to assess the probability of the company incurring related liabilities. However, provisions are only made in the financial statements where, based on the directors' evaluation, a present obligation has been established.

The Company did not encounter any contingent liabilities in respect of legal claims arising in the ordinary course of business during the year.

iv) Provisions for Doubtful Debts

Provisions are raised and management determines an estimate based on the information available.

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

During the year, provision for bad debts was made based on specific listing where the recoverability of the said debts are presumed to be in doubt. A total figure of kshs 4.03million has been specifically pronounced though subject to further scrutiny and followup before writ-off.

v) Prior year Ammendments

An accounting policy is changed only if required by an IFRS, or if the change results in reliable and more relvant information. If none is specified, or if change is voluntary, the new accounting policy is applied retrospectively by restating prior year periods. If it is impracticable to determine period-specific effects for retrospective application, the new accounting policy is applied as of the begining of the earliest period for wich the retrospective application is practicatble and cummulative adjustments are made to balances at the begining of that period. In such a case the new accounting policy is applied prospectively from the start of the earliest period chosen as practicable when the entity cannot determine the cummulative effets of applying the policy to all prior periods.

No prior year adjustment due to errors or changes in policy was made this finacial year.

vi) Deffered Income

IAS 20 requires that Government grants received for specicfic fixed assets be presented on the balance sheet as adeduction from the gross value of the asset to arrive at the net book value. During the year, the company received grants from Development partners to construct five boreholes under the rural water schemes with kshs 5.6million and additional funding for the rehabilitation and improvement of sewerage network with kshs 3.1million. the cost have been classified under the building works and Plant and equipment groups. These are depreciable components of the fixed asset transactions and therefore are treated as defired income in the comprehensive income and expenditure statement and balance sheet as deffered income liability on a rational and systematic basis over the useful life of the assets.

Adjustment Due to Change in Policy

IFRS 16 (lease) was revised and took effect in the year 2019. The company has not applied the standard in prior years. This change has not been effected in the financial statement for the year 2020 as well.

Note 7 RELATED PARTY TRANSACTIONS

The Company is controlled by the County Government of Homa Bay. IAS 24, 'Related party disclosures' clarifies and simplifies the definition of a related party and removes the requirement for government-related entities to disclose details of all transactions with the government and other government-related entities.

Note 8

i) Key management compensation

Key management includes Directors (non-executive) and members of senior management. The compensation paid or payable to key management for employee services is shown below:

	2019/20	2018/19
	Kshs	Kshs
Salaries and other short-term employment benefits	4,603,620	4,224,000

ii) Directors' remuneration

	2019/20	2018/19
	Kshs	Kshs
Fees for services as director	853,500	1,477,958
Other emoluments included in employee benefits (Note 4)	1,278,000	911,290
	2,131,500	2,389,248

Note 9 Financial Risk Management

The Company is exposed to a variety of normal financial risks and management continuously seeks to minimise potential adverse effects of these risks on its financial performance.

a) Credit Risk Management

Over 75% of receivables are recovered within 30 days and utilization of credit limits is regularly monitored. The amount that best represents the company's exposure to credit risk as at year end is made up as follows:

	Fully Performing KSh	Past due not impaired KSh	Impaired KSh	Total amount KSh
Due from Trade receivables	38,568,003	4,073,513	-	42,641,516
Other Receivables	5,636,262	9,370,814	-	15,007,077
Staff Imprests & Advances	356,238	-	-	356,238
Bank and cash balances	(225,233)	-	-	(225,233)
Amount Owed By Shareholders	-	100,000	-	100,000
At 30th June 2020	44,335,270	13,544,328	-	57,879,597
Due from Trade receivables	27,260,468	9,086,823	(2,225,404)	34,121,887
Other Receivables	5,564,013	1,854,671	-	7,418,684
Staff Imprests & Advances	561,888	-	-	561,888
Bank and cash balances	2,057,580	-	-	2,057,580
Amount Owed By Shareholders	-	100,000	-	100,000
At 30th June 2019	35,443,949	11,041,494	(2,225,404)	44,260,039

b) Liquidity Risk Management

Liquidity is managed to ensure sufficient cash is available to meet the Company's obligations as they fall due. Cash forecasts are prepared monthly and all cash requirements are met from operational income. The Company's financial liabilities that will be settled on a net basis are as follows.

Homa Bay County Water & Sanitation Company Ltd
NOTES TO THE FINANCIAL STATEMENTS cont.....

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	Within 12 months Sh	Over 12 months Sh	Totals Sh
Trade payables	4,652,969	10,000,000	14,652,969
Accruals	16,316,880	60,000,000	76,316,880
Customer's deposits	885,800	4,416,054	5,301,854
At 30 June 2020	21,855,649	74,416,054	96,271,703
		-	
Trade payables	8,927,502	13,391,253	22,318,755
Accruals	13,013,980	50,738,539	63,752,519
Customer's deposits	662,408	3,753,646	4,416,054
At 30 June 2019	67,883,438	22,603,890	90,487,328

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Note 10

Intangible Assets

		2020 Kshs	2019 Kshs
Costs			
At July 1		2,282,014	2,132,014
Additions		-	150,000
Disposals			
At June 30		<u>2,282,014</u>	<u>2,282,014</u>
	Amortization	2020 Kshs	2019 Kshs
At July 1		2,245,849	1,485,178
Charge for the year		36,165	760,671
Disposals			
Impairment loss			
		<u>2,282,014</u>	<u>2,245,849</u>
Net Book Value as at June 30		<u>0</u>	<u>36,165</u>

Note 11

Inventories

	2020 Kshs	2019 Kshs
Donation in Kind	774,051	1,152,990
Chemical balances	<u>532,009</u>	<u>950,647</u>
	<u>1,306,060</u>	<u>2,103,637</u>

Note 12

Trade and Other Receivables

	2020 Kshs	2019 Kshs
Homa Bay Scheme		21,441,859
Oyugis Scheme		8,930,842
Mbita Scheme		1,612,495
Kendu Bay Scheme		1,695,074
West Karachuonyo Scheme		2,667,021
Gross trade and other receivables	<u>42,641,516</u>	<u>36,347,291</u>
	<u>42,641,516</u>	<u>36,347,291</u>

OTHER RECEIVABLES

County Receivables	9,370,814	3,373,000
Tanker Receivables	2,298,399	587,869
Short Term Lending	147,034	147,034
KPLC Deposit	5,000	5,000
VAT Input Asset	3,302,079	3,302,079
Prepayment	78,750	3,702
Staff Advances	356,238	286,888
Staff Imprest receivables	-	275,000
Total other Receivables	15,558,314	7,980,572
Trade and Other Receivables	58,199,830	44,327,863
Less: Provision for Bad Debts	(4,073,513)	(2,225,404)
Net trade and other receivables	54,126,317	42,102,459

2020**Kshs****2019****Kshs****Note 13****CASH AND CASH EQUIVALENTS****A/C NO:**

Cash in hand	N/A		3
Bank – Co-operative Exj	1120047915001	(856)	498,462
Bank – Co-operative De	1120047915000	26,419	21,090
Bank – KCB Revenue A	1102291730	39,584	1,345,895
Bank – KCB Grant Accc	1171039492	(766)	(765)
Bank-M-pesa	PAY BILL: 169595	112,603	70,832
Bank-KCB-WAWARE	11772778286	356	356
Postbank-Oyugis	744130009363	36,615	11,980
Postbank-Homa Bay	744130011081	6,600	11,400
Postbank-Mbita	744130011117	19,360	91,090
Equity Bank KES	980277809704	1,254	7,238
Ubsup Homa Bay Projec	980279319160	1,244	
		242,414	2,057,581

Note 14**ORDINARY SHARE CAPITAL**

	2020	2019
	Kshs	Kshs
Authorised:		
5,000 Ordinary shares of Kshs.20 par value ea	100,000	100,000
Initial Capital	1,676,711	1,676,711
	1,776,711	1,776,711

Issued and fully paid:

5,000 Ordinary shares of Kshs. 20 par value each

Note 15**RETAINED EARNINGS**

	2020	2019
	Kshs	Kshs
Revenue Reserve B/f	(35,825,953)	(30,494,004)
Profit/(Loss) for the Year	(1,723,409)	(5,331,950)
Adjustment for Over/understated Expense B/F	-	-
Prior Year Adjustments	-	-
Capital Reserves	-	-
Total balance at end of year	(37,549,363)	(35,825,954)

Note 16**CAPITAL RESERVES ACCOUNTS**

	2020	2019
Capital Reserve B/f	37,724,252	32,954,005
Capital Reserves	-	4,770,247
Total Balance at the end of year	37,724,252.00	37,724,252

Note 17**DEFERRED INCOME LIABILITY**

	2020	2019
	Kshs	Kshs
As At July 1,	36,582,281	-
Capital Grants Received During the yr	5,512,501	38,605,477
Amortization Note 2		(2,023,196)
Amortization 20%		
Amortization 25 years	-	-
Transferred from Capital Reserves		
Total balance at end of year	42,094,782	36,582,281

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Note 18

TRADE AND OTHER PAYABLES

	2020	2019
	Kshs	Kshs
Trade payables	14,983,269	22,318,754
Regulatory Levies & Accrued Expenses:		
Corporate Levy-LVSWB	24,511,441	24,511,441
WARMA -Levies	29,705,000	21,934,689
WASREB-Levies	1,467,502	293,126
Audit fee	2,176,527	1,926,527
WHT Payable	82,967	82,967
VAT Input Liability	(96,157)	-
Municipal Council	2,087,666	2,087,666
WASPA Subscriptions	221,000	221,000
Accrued Expenses	16,306,020	12,005,392
Total Accrued Liabilities	<u>76,461,966</u>	<u>63,062,807</u>
Total Trade & Other Payables	<u>91,445,235</u>	<u>85,381,561</u>

Note 19

CUSTOMER DEPOSITS

	2020	2019
	Ksh	Ksh
As At July 1,	4,416,054	3,796,454
Deposits Received in the year	885,800	619,600
Deposits Refunds		
Total balance at end of year	<u>5,301,854</u>	<u>4,416,054</u>

Note 20

AMOUNT OWED BY SHAREHOLDERS

	2020	2019
	Ksh	Ksh
County Government of Homa Bay	100,000	-
	<u>100,000</u>	<u>-</u>

NOTES TO FINANCIAL STATEMENTS

Homa Bay County Water & Sanitation Company Ltd

Reports and Financial Statements for the year ended June, 30, 2020

		2020	2019
		Kshs	Kshs
Note 21	GRANTS		
	County Government Grant	65,872,523	23,898,487
	WSTF Grant	6,775,250	2,074,200
	Dunea Grants	29,840,766	17,489,691
	KeNHA	-	14,000,000
	Jiangxi Transport Engineering	1,123,689	-
	Regnon Ltd	2,395,242	-
	Belgium-CMI	2,315,842	-
	TOTAL GRANTS	108,323,312	57,462,378
Note 22	MISCELLANEOUS INCOME		
	New Connection fees	631,277	506,404
	Reconnection fees	109,000	120,320
	Deffered income amortised		2,023,196
		740,277	12,242,762
Note 23	WATER TANKER AND EXHAUSTER INCOME		
	Water Tanker Income-Direct	3,427,471	4,127,240
	Water Tanker Income-Credit	1,710,530	587,869
	Exhauster Income	1,564,300	1,504,732
	Water Sales to County	4,442,200	-
	TOTAL INCOME	11,144,501	6,219,842
Note 24	WATER SALES		
	Water sales-billing	36,725,132	34,106,128
	Water sales-Cash	1,211,517	1,168,868
	Sewerage	13,612,061	12,389,202
	TOTAL WATER & SEWERAGE SALE:	51,548,710	47,664,198
	TOTAL REVENUES	160,612,298	117,369,338
Note 25	PERSONNEL COSTS		
	Staff costs (note 23 b)	28,124,657	24,693,092
	Casual wages	943,921	2,173,994
	Staff Welfare	108,850	15,000
	Staff training expenses	710,073	521,692
	Interns Stipends Allowances	245,000	
	Protective Gear & Uniforms		109,380
		30,132,501	27,513,158
Note 25 b	STAFF COSTS	2020	2019
		Kshs	Kshs
	Salaries and allowances of Contract employees	27,173,317	23,584,027
	Compulsory national social security schemes	951,340	844,330
	Gratuity	-	264,735
		28,124,657	24,693,092

Permanent employees – Management
Permanent employees – Unionisable
Temporary and contract employees

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Note 26 ADMINISTRATION COSTS

Staff costs (note 4 b)	-	24,693,092
Computer repairs	-	146,969
Guest Tea & Entertainment	-	104,085
Directors' emoluments	-	911,290
Electricity and water	-	23,340
Communication services and Telephone	817,073	857,085
Transportation, travelling and subsistence	1,347,835.00	1,651,825
Advertising and public communications	-	1,089,688
Hire of Transport	-	29,500
Rent	360,000	360,000
Staff training expenses	-	521,692
BOD Expenses	-	1,477,958
Insurance costs	22,574	36,627
Dues and subscriptions	-	-
Office and general supplies and services	320,282	128,797
Auditors' remuneration	501,000	215,517
Professional services & fees	307,380	1,760,822
Repairs and maintenance	-	163,058
Postage and Delivery	15,950	19,362
Motor vehicle running expenses	3,806,663	4,102,854
Printing & Stationery	1,231,359	964,847
Protective Gear & Uniforms	-	109,380
Staff Welfare	-	15,000
Security	250,000	704,326
Resource Mobilization Costs	-	1,142,975
M & E Costs	785,275	588,811
PR/Corporate affairs Costs	546,129	-
Debt Collection	1,848,110	-
Provision for Bad debts	1,424,469	-
Project Costs	-	28,204,960
TOTAL	13,584,098	70,023,860

Note 27 GOVERNANCE COSTS

	2020	2019
	Kshs	Kshs
Directors' Emoluments	853,500	-
BOD Expenses	1,278,000	-
	2,131,500	-

Note 28 TECHNICAL COSTS

	2020	2019
a) Production Costs	Kshs	Kshs
Chemical Usage	4,097,590	4,421,159
Electricity cost	25,917,686	23,898,487
Laboratory Goods/Services supplies	155,900	74,690
	30,171,176	28,394,336

b) Operations and Maintenance Costs

Pipeline Repair & Maintenance	1,953,670	1,689,814
Plant Repair & Maintenance	1,429,110	1,328,397
Sewerage Repair & Maintenance	234,170	-
	3,616,950	3,018,211

c) Tanker and Exhauster cost

	4,321,993	3,899,135
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Total Technical Cost

	38,110,119	35,311,681
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Note 29 COMPLIANCE LEVIES COSTS

	2020 Kshs	2019 Kshs
Abstraction charges	-	3,188,390
Lease Fees-L.V.S.W.W.D.A	-	3,337,395
Water Regulatory levy-WASREB	1,262,945	393,126
	1,262,945	6,918,911

Note 30 PROJECT COSTS

	2020 Kshs	2019 Kshs
Timiza Usafi Project	25,132,151	6,162,209
WSTF Project	6,774,006	-
Kajona Phase 2 Project	-	2,943,897
Rural Water Supply Project	2,013,156	5,098,764
Jiangxi Transportation Engineer	1,123,613	-
AfDB Projects	1,038,530	-
Disaster Management Costs	39,464,060	-
KenHA	-	14,000,000
Resource Mobilization	1,761,608	1,142,975
Belgium Project-CMI	2,315,431	-
Regnol Projects	2,395,442	-
	82,017,997	29,347,845

Note 31 OPERATING PROFIT/(LOSS)

	2020 Kshs	2019 Kshs
The operating profit/(loss) is arrived at after charging/(crediting):		
Staff costs (note 4a)	28,124,657	24,693,092
Depreciation of property, plant and equipment	5,799,303	4,837,089
Amortisation of intangible assets	36,165	760,671
Provision for bad and doubtful debts	1,848,110	2,225,404
Directors' emoluments - fees	2,253,688	911,290
other		
Auditors' remuneration - current year fees	501,000	215,517

Note 32 FINANCE COSTS

Finance Income	-	-
Finance Costs	405,578	449,677
OPERATING PROFIT/(LOSS)	405,578	32,603,403

Note 33**INCOME TAX EXPENSE****Profit/loss before tax**

	2020 Kshs	2020 Kshs
	(1,723,409)	(5,331,950)
<u>Tax effect of Income not subject to tax</u>		
Deferred Income	-	(2,023,196)
Operational lease rentals income	-	-
New connections	-	(506,404)
Reconnection fee	-	(120,320)
Total Grant Income	-	(57,462,378)
	(1,723,409)	(65,444,248)
<u>Disallowable expenses subject to tax</u>		
Depreciation	5,835,470	4,837,089
Amortisation intangible assets	-	760,671
Finance Costs	-	449,677
Total project costs	-	28,204,960
County Government -Electricity subsidy	-	23,898,487
	5,835,470	
Wear and Tear	(5,835,470)	58,150,885
	(1,723,409)	
Tax loss c/f	(517,023)	(7,293,364)

Reports and Financial Statements for the year ended June 30, 2020.

Note 35. PROPERTY, PLANT & EQUIPMENT

Year: 2019	Office Furniture & Fittings	Plant, Machinery & Equipment	Water Kiosk	Motor vehicles, including, motor cycles	Computers	Capital work in progress	Generator	Master Meters	Total
COST OR VALUATION									
At July 1, 2019	1,061,751	4,126,023	50,579,901	5,890,224	2,411,585	38,605,476	25,000	954,625	103,654,585
Additions		5,625,569	-		-		468,700	378,939	6,473,208
Transfers									-
Disposals	-	-	-	-	-	-	-		-
At June 30, 2020	1,061,751	9,751,592	50,579,901	5,890,224	2,411,585	38,605,476	493,700	1,333,564	110,127,793
DEPRECIATION									
At July 1, 2019	590,689	582,419	12,637,776	3,470,280	1,673,614	-	9,375	345,656	19,309,809
Charge for the year	132,719	1,218,949	2,023,196	1,472,556	723,476		61,713	166,696	5,799,303
Impairment loss	-	-	-	-	-	-	-		-
At June 30, 2020	723,408	1,801,368	14,660,972	4,942,836	2,397,090	-	71,088	512,352	25,109,112
NET BOOK VALUE									
At June 30, 2019	423,283	3,357,934	37,942,125	2,595,000	818,358	38,605,476	15,625	608,969	84,366,770
At June 30, 2020	338,343	7,950,224	35,918,929	947,388	14,496	38,605,476	422,613	821,213	85,018,681