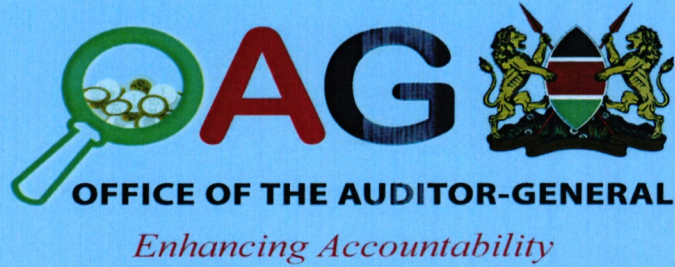


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REPORT

OF

THE AUDITOR-GENERAL

ON

**GUSII WATER AND SANITATION
COMPANY LIMITED**

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

PAPERS LAID	
DATE	02/03/2022
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COMMITTEE	-
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**International Financial Reporting Standards (IFRS)
Annual Financial Reporting for
Commercial Government Owned Entities**

GUSII WATER AND SANITATION COMPANY LTD

ANNUAL REPORTS AND FINANCIAL STATEMENTS

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

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

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1. KEY ENTITY INFORMATION

Background information

Gusii Water and Sanitation Company Ltd (GWASCO) was established on 12 June 2006 following the water sector reforms under the Water Act 2002 to provide water and sewerage services through SPA with LVSWSB, now Lake Victoria South Water Works Development Agency (LVSWWDA). The Company is now wholly owned by the County Governments of Kisii and Nyamira by 68% and 32% shares respectively under the new Water Act 2016. Water and sewerage service is now a fully devolved function implying the Company provides water and sewerage services on behalf of the two County Governments Under new Water Act 2016. The company runs nine water supplies, namely; Kisii, Nyamira, Ogembo, Keroka, Gesusu, Nyansiongo, Tabaka, Ikonge and Birongo/Keumbu.

Principal Activities

The principal activities of the Company is:

- a) To carry on the business of a Water Services Provider, as defined by the Water Act 2016
- b) To manage and conserve the sources and supply of water in the area of the county governments and in particular, to conserve, redistribute and augment those water resources as consented to by the licensee.
- c) To provide and distribute a constant supply of potable water for commercial, industrial and domestic purposes within the area of the county governments.
- d) To be responsible for the provision, control and maintenance of sewerage and drainage for commercial, industrial and domestic purposes within the area of the county governments.
- e) To maintain and rehabilitate existing water and sewerage infrastructure and facilities, as well as develop infrastructure or facilities for furthering the objects of the company.

GWASCO Vision

To be the premier company in the provision of potable water and sewerage services in Kenya

GWASCO Mission

To provide safe water and sewerage services efficiently and effectively to sustainably meet expectations of the customers and other stakeholders.

GWASCO Core Values

The core values are the fundamental principles that guide the behaviour of every person or entity working with GWASCO. They should be practiced and embraced to create the organizational culture to drive GWASCO's vision.

The core values guiding GWASCO are:

- Customer focus
- Integrity
- Gender Responsive
- Professionalism
- Team work
- Innovation

Directors

The Directors who served the Company during the year were as follows:

- | | | | |
|-----|------------------------|-------------------------------|---|
| 1. | Fredrick Nyamweya | - Chairman | - Appointed on 5 th September 2018 |
| 2. | Osborn Nanga | - MD | - Appointed on 5 th April 2019 |
| 3. | Joseph Tirimba Onserio | - Director | - Appointed on 5 th September 2018 |
| 4. | Justus Nyamweya Omari | - Director | - Appointed on 5 th September 2018 |
| 5. | John Billy Momanyi | - Director | - Appointed on 1 st February 2020 |
| 6. | Mongeri Mirieri | - Director | - Appointed on 5 th September 2018 |
| 7. | Samwel Maiko | - Director | - Appointed on 5 th September 2018 |
| 8. | Jackline Mirieri | - Director | - Appointed on 5 th September 2018 |
| 9. | Moses Onderi | - Director | CECM (Finance) - Kisii County |
| 10. | Fanice Mose | - Alternate to CECM (Finance) | - Nyamira County |

Corporate Secretary

Amota Nyasae & Associates

Registered Office

Gusii Water & Sanitation Co. Ltd.
P.O. Box 3880 - 40200
Kisii. KENYA
Next to Ministry of Housing
Opposite Kisii – Kilgoris Junction

Corporate Headquarters

Gusii Water & Sanitation Co. Ltd.
P.O. Box 3880 - 40200
Kisii, Kenya

Corporate Contacts

Telephone: (+254) 0208029088/058-31345
Email: info@gwasco.co.ke
Website: www.gwasco.co.ke

Corporate Bankers

1. Kenya Commercial Bank Ltd






Independent Auditors

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





Principal Legal Advisers

1. The Attorney General
State Law Office
Harambee Avenue
P.O. Box 40112
City Square 00200
Nairobi, Kenya
2. Reuben Masese & Company Advocates

2. THE BOARD OF DIRECTORS

Name & Passport Photo	Details	Date of Appointment
 Fredrick Nyamweya	<p>Name: Fredrick Nyamweya Nyangweso Age: 57 Years Qualification: He holds Kenya Certificate of Education from St Mary's Ekerubo Secondary School. Representation: He joined the Board on 5th September 2018 and represents Manufacturing Community in Kisii County. He is the current Chairman of the Company.</p>	5 th September 2018
 Mongeri Mirieri	<p>Name: Mongeri Mirieri Age: 66 Years Qualification: Holds Bachelor of Education (Second Class Honors) from University of Nairobi. Representation: He joined the Board on 5th September 2018 and represents Business Community in Kisii County</p>	5 th September 2018
 John Billy Momanyi	<p>Mr John Billy Momanyi is the CEC for Water, Energy, Environment and Natural Resources for Kisii County. He previously served as the CEC for Lands, Housing, Physical Planning and Urban Development and CEC for Finance and Economic Planning. He is a career banker having worked at Kenya Commercial Bank (KCB) for over 30 years. Until his appointment, he served as Senior Manager in charge of KCB Kisii Branch. He also served as Senior Internal Auditor at KCB among other positions at the bank. He holds a Masters Degree in Strategic Management from Jomo Kenyatta University of Agriculture and Technology (JKUAT), a Bachelors Degree in Commerce (Finance) from JKUAT and a Diploma in Agriculture and Farm Management from Egerton College.</p>	
 Samwel Maiko	<p>Samwel Maiko is the <u>ECM, Environment, Energy, Mining & Natural Resources</u>, at Nyamira County Government.</p>	
 Osborn Nanga	<p>Name: Osborn Nanga Obaigwa Qualification: BSC, MSC, Graduate Eng, EBK, P Eng. Tech. KETRBI Representation: Managing Director</p>	5 April 2019

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 <p>Mr. Joseph Tirimba Onserio</p>	<p>Name: Mr Joseph Tirimba Onserio Age: (67 Years): Date of Appointment: Joined the Board of the Company on 5th February 2014. Qualification: He holds diploma in administration and management from Co-operative College of Kenya. He has a wide experience in financial management at Government and Local Governments having worked in the Institute of Public and Private Partnerships, Washington USA. Representation: He represents manufacturing community in the Board of Directors.</p>	<p>5th February 2014</p>
 <p>Justus Nyabwengi Omari</p>	<p>Name: Justus Nyabwengi Omari Age: 60 Years Qualification: He holds MSC Engineering and Management from JKUAT and BSC Agricultural Engineering from JKUAT, Certificate in Agricultural Engineering from Eldoret Institute of Agriculture and certificate in engineering from Israel. He worked with Ministry of Agriculture as Agriculture engineer. Representation: Professionals</p>	<p>5th September 2018</p>
 <p>Jackline Mireri</p>	<p>Name: Jackline Mireri Age: 44 Years Qualification: She hold Bachelor of Public Administration from Bugema University and Diploma in Public Administration from Kenya Institute of Management and currently working with Standard Media Group as regional Business Manager (Nyanza) Representation: Youth and Women</p>	<p>5th September 2018</p>
 <p>Mr Moses O. Onderi</p>	<p>Mr Moses O. Onderi He is the CEC for Finance and Economic Planning, Kisii County. He previously worked as the CEC in charge of the Department of Lands, Housing Planning and Urban Development. Prior to that, he worked as Training/Programme Officer at the African Network for Prevention and Protection Against Child Abuse and Neglect (ANPPCAN). He also worked as lecturer at the Kenya School of Government, formerly Kenya Institute of Administration (KIA).He holds a Masters Degree in Education (Education Technology) from Maharaja Sayajirao University of Baroda (India), a Higher Diploma in Human Resources Management from the Institute of Personnel Management and a Bachelors Degree in Education from the Karnatak University, Dharwad (1991). Higher Diploma in Human Resources Management, Institute of Personnel Management (2002) and a Bachelors degree in Education from the</p>	
<p>Peter Muga</p>	<p>CEC Finance, ICT and Economic Planning, Nyamira County.</p>	

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3. MANAGEMENT TEAM

	Osborn Nanga Obaigwa Managing Director MSC, BSC, Graduate Eng, EBK, P Eng. Tech. KETRB	Directing, Planning, implementation, monitoring and evaluation.
	Gerald Ogero Gisairo Technical Manager BSC Civil Engineering, Graduate Eng.	Manage, control and maintain water and sewerage systems for constant supply of potable water.
	Alex Nyakundi Procurement Manager	Supply chain management and storage of materials and equipment
	Mark Dom Ong'onge Operations Manager Dip., Water Technology	Timely, economic and reliable maintenance of installed services.
	Robert R. Nyarangi Human Resource Manager BA	Manage personnel, Formulate, Enforce and regularly update human resource policies
	Lucy Wachira Commercial Manager	Manage commercial division, customer services, billing and collection systems and Monitor the debts and prepayments
	Dalton M. Ogero Internal auditor BSC with IT, CPA	Ensuring integrity of internal control systems and risk management.
	Thaddeus Mogesi Mogoi Financial Accountant BBM, MBA, CPA (K), MKIM	Implement, maintain, manage and enhance financial and accounting systems.
	Collins Ong'era ICT Manager	Enhancement of ICT infrastructure and information processing and management information systems.

4. CHAIRMAN'S STATEMENT

It gives me great honour and privilege to present to you my first report as the 5th Chairman of Gusii Water and Sanitation Company Ltd.

1. The Strategy

The company has an existing 5 years strategic plan developed covering the period 2017-2022. to arrest implementation challenge, the management has signed the performance contract in an effort to monitor and improve operational efficiency. The following are the highlights of the strategic plan.

Vision

To be the premier company in the provision of potable water and sewerage services in Kenya

Mission

To provide safe water and sewerage services efficiently and effectively to sustainably meet expectations of the customers and other stakeholders.

Core Values

The core values are the fundamental principles that guide the behavior of every person or entity working with GWASCO.

- a) Customer focus
- b) Integrity
- c) Gender Responsive
- d) Professionalism
- e) Team work
- f) Innovation

The strategic plan also envisage in the realization of the following Strategic Objectives for the period 2017 - 2022.

- 1) Expansion of Water and Sewerage Coverage
- 2) Reduction of Non Revenue Water
- 3) Revenue Generation and Financial Sustainability
- 4) Institutional Capacity Strengthening
- 5) Improve Corporate Image and Visibility

2. Governance

The Board of Directors seek to adhere to and comply with the principles of good corporate governance in Kenya as well as guidelines issued and published and issued by Water Services Regulatory Board. My Board upholds personal and corporate integrity as well as a culture that values high ethical standards. The Board continues to maintain strategic objectives, key policies and approval of annual budget. It promotes accountability through monitoring of implementation of policies and strategies in a structured system of the following Board Committees.

- a) Finance, HR & Procurement Committee
- b) Technical Committee
- c) Audit Committee

3. Expansion programmes

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Meeting customer water demand and managing Non Revenue Water remain a huge challenge. The company has a production capacity of 6,000m³/day of water per day which comprise of the treatment works of New Kisii, Keroka, Nyamira, Ogembo, Tabaka, Ikonge, Keumbu, Nyansiongo and Gesusu. The estimated demand in our area of jurisdiction is 30,000m³/day.

To meet the growing demand as well as grow our market share, the company has undertaken an integrated approach that encompasses improvement of production capacity, expansion and rehabilitation of the network to manage non-revenue water and enhancement of operational efficiency. In this regard, through Lake Victoria South Water works Development Agency Kisii water supply and Nyamira water supply are set to inject an additional 21,000m³/day and 1,200m³/day respectively following the completion of expansion works.

Future Outlook

Our new constitution places the water and sanitation services under the county government and also declares access to clean water a human right. We continue to adhere to the Water Act 2016 to deliver on our mandate. Kisii and Nyamira towns under Kisii and Nyamira Counties respectively have witnessed increased economic activities and therefore demand for water and sanitation services has more than tripled.

The Company Board under whose chairmanship I hold is formulating a comprehensive blueprint to spearhead the provision and improvement of the Water and Sanitation Services Provision to meet the water demand of Kisii and Nyamira Counties.

It is my humble believe and believe that with continued support from the Government of Kenya, County Governments of Kisii and Nyamira, Lake Victoria South Water Works Development Agency, business development partners and unwavering commitment of our staff, the company will resiliently overcome operational and economic challenges in the Company and sustainably achieve its stated mandate.

Appreciation

I wish to take this opportunity to thank all our stakeholders for their support without which our remarkable performance would not have been achieved. I also take this opportunity to sincerely thank our Ministry of Environment, Water & Natural Resources both at the National Government and the two Counties for their invaluable support, Water Services Regulatory Board, other water sector institutions, our development partners and the stakeholders for the continued support of all our activities.

The Directors remain committed to provide the necessary leadership to facilitate continued improvement of the Company's operations. I remain confident that we have the skills, abilities and resources necessary to manage the significant opportunities and challenges that lie ahead of us.

Sign:



Justus N Omari
Chairman
31st March 2021

5. REPORT OF THE MANAGING DIRECTOR

I am delighted to present my report on the performance of the Company for the financial year 2019/2020.

1 Financial Performance

a) Turnover

The Company's sales for the year was Kshs 129,112,400 against Kshs. 114,807,900 for the year 2018/2019. This is about 12% increase. The increase in sales turnover was purely as result of internal growth within the service provision area. Water charges remained consistent in the year under the current tariff regime expiring in 2021. The management look forward to increased sales turnover following completion of newly constructed projects in Kisii and Nyamira Counties which shall ultimately meet consumer water demand.

b) Expenses

The total expenses for the year under review were Kshs. 177,178,200 against Kshs. 164,961,500 in the financial year 2018/2019.

c) Profit for the year

The Company made a loss of Kshs. (21,725,800) against Kshs (6,304,300) in 2018/2019. This compares unfavorably and the trend poses a threat on sustainability thus affecting going concern. This extremely disappointing trend was compounded by difficult trading conditions suffered by the Company amid COVID-19 pandemic, increased level of Non-Revenue Water in the distribution system that affected demand management. To meet viability of the Company and its ability to continue as a going concern, the management has embarked on the following:

- i. Continued focus on debtors invoice collections, keeping inventory levels at a minimum; and
- ii. Continued focus on cost management and containment in all areas of business.

d) Capital investment

During the period under review the company has maintained a sound rapport with our external financiers and partners and the following was achieved:-

- Completion of New Kisii Treatment Works and Rehabilitation of Water System in Kisii and Nyamira Towns funded by KfW through Lake Victoria South Water Services Board at a cost of KShs. 2 Billion. This is awaiting commissioning.

3. Human resource

The company's human resource has continued to be a valuable asset in achieving business objectives, targets, customer satisfaction and stakeholder expectations. Consequently, the company's work ethics are founded on team-work.

In the Board of Directors endeavour to achieve stability in management, a new Core Management Team was recruited during the year 2019/2020.

In order to enhance staff productivity, the company has embraced a performance management system as a basis for rewarding and identifying areas of improvement. To this end, the managers signed a performance contract the result of which shall be the basis of future improvements.

4. Information Communication Technology (ICT)

The company recognizes that ICT is the nerve centre of the company's business. It is a vital component for the establishment and support of all existing and new business and customer service initiatives, as well as company's operations.

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The company has therefore continued to embrace new technology and has during the years under review acquired a new billing and customer service software. It has also operationalized the use of M-Pesa services for bills payment as part of improved customer service. In managing its debts, the company has continued to collaborate with credit bureau agency, Metropol to rate its customers to enhance prompt payment of billing services. This is in addition to the dedicated debt collection team that is in place.

Following the end of the financial year 2019/2020, strategies aimed at securing adequate water supply, expanding water access to the residents, improving the quality of supply and service to our customers, as well as the financial performance took the centre stage of our operations. The Company's performance has remained steady despite the many challenges facing it. This include but not limited to: teething problems during the implementation of the new tariff, challenges with the billing software, dwindling sources due to drought like Gesabei dam for Nyansiongo water supply, Nyamira water supply, Nyakomisaro water supply and Eucalyptus trees along the water sources. In the face of these challenges, the company has continued to streamline its revenue growth and service delivery.

To deliver our priorities and a strong customer proposition, everyone in the business needs to be engaged with our vision and values and the needs of our customers. This is why I've been bringing managers in the company together to talk about what our values mean to them, what our customers expect and what our strategy needs to deliver. As Gusii Water family, we all need to be committed to driving changes that will really deliver for our customers.

I fully recognise that the privileges of running a water company come with important responsibilities, and I understand the significant impact on our customers and the environment when we fall short of the standards our customers rightly expect of us. During the last year we've seen a series of major bursts on some of our Victorian water pipes and we've missed our leakage target. Leaks are inevitable on a network of our enormous size and age, but it's vital we invest wisely and continually to improve our resilience. This is a huge priority for us.

We are in a hugely privileged position with life-long investment from our customers through their bills, and everything we do impacts them, their children, their grandchildren and beyond. We're Custodians of their money so we need to be smart and disciplined about how we spend it. Our customers also play an active part in operating our water and waste-water networks, every time they turn on a tap, use a washing machine or flush the toilet. So the way we engage with them and explain our business is a continuing priority.

Health and the Environment

The company has continued to expand its services to the un-served areas where raw water has been used for domestic use. By providing potable, clean, safe and affordable water to such areas, the company is playing a major role in improving the health of the residents under its jurisdiction.

The company has also invested in maintenance of Suneka sewerage ponds and conducting environmental audits through National Environment Management Authority to achieve a clean and safe environment. To this end, continuous laboratory tests and analysis of both treated water and water discharged from our sewerage treatment works ensures that we comply with the stringent regulatory standards and legislation.

Customer service and social responsibility

Satisfying our customers and creating stakeholder value remain our cherished goals. As we look into the future, our resolve is to remain focused to achieve these goals through securing adequate water supply, distribution capacity, reducing Non-Revenue Water and expansion of our customer base.

We are also expanding our social responsibility by providing our services to the low income areas through construction of water kiosks where water is affordable to all residents of those areas.

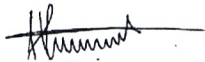
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During the period, we received a water bowser and exhauster truck which has extended services to our customers.

Conclusion

We acknowledge that our company plays a major role in the socio-economic development of our two counties and the country at large. We shall therefore continue to actively pursue strategies aimed at increasing access to safe water, improving the quality of supply, services to our customers and securing our sustainability. With the commitment of our staff, the guidance of the board, support of the stakeholders and the Government, we are confident that we shall continue to satisfy our customers' expectations.

Sign:



Elvis Masiga
Ag. Managing Director
31st March 2021

6. REVIEW OF THE COMPANY PERFORMANCE FOR FY 2019/2020

Section 81 Subsection 2 (f) of the Public Finance Management Act, 2012 requires the accounting officer to include in the financial statement, a statement of the national government entity's performance against predetermined objectives.

The Company has 5 strategic pillars and objectives within its Strategic Plan for the FY 2017 to 2022. These strategic pillars are as follows:

- a) Expansion of Water and Sewerage Coverage
- b) Reduction of Non Revenue Water
- c) Revenue Generation and Financial Sustainability
- d) Institutional Capacity Strengthening
- e) Improve Corporate Image and Visibility

The Company develops its annual work plans based on the above 5 pillars. Assessment of the Board's performance against its annual work plan is done on a quarterly basis. The Company's status of performance targets set for the FY 2019/2020 period for its 5 strategic pillars, is indicated in the diagram below:

Pillar	Objective	Activities
Expansion of water and sewerage coverage	Increase water coverage from 40% to 70% by 2022	Expansion of water supplies
		Rehabilitation of existing water infrastructure and pipeline network
		Increase average daily water production from 6,600m ³ /day to 24,000m ³ /day
		Servicing of water pumps
		Increase sewer coverage from 10% to 50%
		Expand exhauster services in Kisii and Nyamira
Reduction of Non-revenue water	Reduction of physical/infrastructural losses	Enhance urban poor sanitation programmes for low income areas in Kisii and Nyamira
		Carry out preventive maintenance of the waste water treatment plant
		Replacement of old dilapidated lines
Revenue generation and financial sustainability	Reduction of commercial losses (NRW from 38% to acceptable WASREB levels) by 2022	Used GIS in mapping zones and re-alignment of distribution lines
		continued metering of consumers for 100% efficiency
		Approach external donors to boost capital development
Revenue generation and financial sustainability	Diversify External Sources of Funding to cater for capital projects	Formation of a resource mobilization committee
		Engage in structured external income generation
		Engage in structured internal income generation
		Expand Internal Revenue Generation Sources
		Engage in structured internal income generation
Revenue generation and financial sustainability	To Improve Billing efficiency and Revenue Collection from 85% to 100%	Grow revenue from exhauster services and water bowsers
		Improve billing efficiency and meter reading and capture

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		Sensitize customers on the need for timely and prompt payment
Institutional capacity strengthening	Achieve optimum Staff satisfaction and productivity	Initiated Improvement of employee capacity and satisfaction
	Institutional Systems Strengthening to Enhance Performance	started internal operational policies, procedures and controls (Finance, HR, and Operations)
Improve corporate image and visibility	Embrace Good Governance Practices	Strengthen capacity of the board on corporate governance
	Improved Stakeholder Relations	initiated Stakeholder engagements and collaborations
	Improved Marketing and Corporate Branding	Developed a website

7. CORPORATE GOVERNANCE STATEMENT

Transparency and accountability are the two basic tenets of Corporate Governance. Gusii Water and Sanitation Company Ltd envisions laying the foundation stone for good governance. Responsible corporate conduct is integral to the way we do our business. Our actions are governed by our values and principles, which are reinforced at all levels within the Company. We are committed to doing things the right way which means taking business decisions and acting in a way that is ethical and is in compliance with applicable legislation.

Our Code of Business Principles is an extension of our values and reflects our continued commitment to ethical business practices across our operations. We acknowledge our individual and collective responsibilities to manage our business activities with integrity. Our Code of Business Principles inspires us to set standards which not only meet applicable legislation but go beyond in many areas of our functioning.

The Board of Directors is responsible for and committed to sound principles of Corporate Governance in the Company. The Board plays a crucial role in overseeing how the management serves the short and long term interests of shareholders and other stakeholders. This belief is reflected in our governance practices, under which we strive to maintain an effective, informed and independent Board.

THE BOARD OF DIRECTORS

The Board of Directors is entrusted with the ultimate responsibility of the management, general affairs, direction and performance of the Company. The Company and has been vested with requisite powers, authorities and duties to sustainably achieve its core mandate of Water Service Provision. The Management Committee of the Company is headed by the Managing Director and has business / functional heads as its members, which look after the management of the day-to-day affairs of the Company.

Composition

The Board of our Company has a good mix of Executive and Non-Executive Directors with half of the Board of the Company comprising of Independent Directors. As on date of this Report, the Board consists of ten Directors comprising one Non-Executive Chairman, Eight Independent Directors and One Executive Director who is the Managing Director. The Board is constituted taking into account Articles and Memorandum of Association, diversity of skills, age, value addition, gender, academic qualifications and experience necessary to help Gusii Water and Sanitation Company achieve its goals and objectives.

The composition of the Board represents an optimal mix of professionalism, knowledge and experience and enables the Board to discharge its responsibilities and provide effective leadership to the business. The positions of the Chairman of the Board and the Managing Director of the Company are held by separate individuals, where the Chairman of the Board is a Non-Executive Director. None of the Directors of our Company are inter- related to each other.

Evaluation

During the year under review, the Board did not conduct a self-evaluation exercise to gauge its performance. The evaluation could have assessed the effectiveness of the Company leadership giving members an opportunity to reflect on their responsibilities.

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Company's Corporate Governance Cont'd

Work plan and meetings

Dates of Board meetings in the ensuing year are decided in advance and scheduled in a work plan. The Board meets once a quarter or more when necessary to transact Company business.

Board Meetings

The following analysis gives a general analysis on the Board of Directors attendance.

Quarter 1

NO	NAME OF DIRECTOR	7-1-2019	7-3-2019	7-15-2019	7-18-2019	7-24-2019	7-25-2019	7-30-2019	9-23-2019	9-24-2019	9-26-2019	9-27-2019
1	MONGERI MIRIERI	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
2	Fredrick Nyamweya	Yes	No	No	Yes	Yes	No	Yes	No	No	No	Yes
3	Jackline Mireri	Yes	Yes	Yes	Yes	Yes	Yes	Yes	No	No	Yes	No
4	Joseph Onserlo	Yes	No	No	Yes	Yes	No	Yes	No	No	Yes	Yes
5	Justus Omarl	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	No	No
6	Kissinger Ongaga	Yes	No	Yes	Yes	Yes	Yes	Yes	No	No	Yes	No
7	Thomas Nyariki	Yes	Yes	No	Yes	Yes	Yes	Yes	No	No	No	Yes
8	Dr. Skitter Mbugua	No	No	No	No	No	No	No	Yes	Yes	No	No
9	Dominic Barare	No	No	No	Yes	Yes	Yes	Yes	Yes	Yes	No	No
10	Beatrice Ochoki	Yes	No	No	No	No	No	No	No	No	No	No

Quarter 2

NO	NAME OF DIRECTOR	10-3-2019	10-4-2019	10-9-2019	10-14-2019	10-15-2019	10-24-2019	11-4-2019	11-8-2019	11-14-2019	11-27-2019	11-29-2019	12-4-2019	12-10-2019	12-30-2019
1	MONGERI MIRIERI	Yes	No	Yes	Yes	No	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
2	Fredrick Nyamweya	No	No	Yes	Yes	Yes	Yes	No	Yes	Yes	No	Yes	Yes	Yes	Yes
3	Jackline Mireri	Yes	Yes	Yes	Yes	Yes	Yes	No	Yes	Yes	No	Yes	Yes	Yes	Yes
4	Joseph Onserlo	Yes	Yes	Yes	Yes	No	Yes	No	Yes	Yes	Yes	Yes	Yes	Yes	Yes
5	Justus Omarl	No	No	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	No	Yes
6	Kissinger Ongaga	Yes	Yes	Yes	Yes	Yes	Yes	No	Yes	Yes	No	No	Yes	Yes	No
7	Thomas Nyariki	No	No	No	No	No	Yes	No	Yes	Yes	Yes	No	Yes	Yes	No
8	Dr. Skitter Mbugua	No	No	Yes	Yes	Yes	Yes	No	No	Yes	No	Yes	Yes	Yes	Yes
9	Dominic Barare	No	No	Yes	No	No	Yes	Yes	No	Yes	No	Yes	Yes	Yes	No
10	Beatrice Ochoki	No	No	No	No	No	No	No	No	No	No	No	No	No	No
11	Samwel Maiko	No	No	No	No	No	No	No	No	No	No	Yes	No	No	No
12	walter Okibo	No	No	No	No	No	No	No	No	No	No	No	No	Yes	No
13	Gladys Nyagoto	No	No	No	No	No	No	No	No	No	No	No	No	Yes	No
14	Moses Onderl	No	No	No	No	No	No	No	No	No	No	No	No	Yes	Yes

Quarter 3

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NO	NAME OF DIRECTOR	1-2-2020	1-20-2020	1-21-2020	1-30-2020	2-3-2020	2-5-2020	2-13-2020	2-20-2020	2-26-2020	3-3-2020	3-4-2020	3-6-2020	3-23-2020	3-19-2020	3-30-2020
1	MONGERI MIRIERI	Yes	Yes	Yes	Yes	Yes	No	Yes	Yes	No	No	No	No	Yes	Yes	No
2	Fredrick Nyamweya	No	No	Yes	No	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	No	No	No
3	Jackline Mireri	Yes	No	Yes	No	Yes	No	Yes	No	Yes	No	No	No	No	No	No
4	Joseph Onserio	Yes	No	Yes	No	Yes	No	Yes	Yes	No	Yes	Yes	Yes	Yes	No	No
5	Justus Omarl	Yes	No	Yes	Yes	Yes	No	Yes	No	No	Yes	Yes	Yes	Yes	No	No
6	Kissingner Ongaga	No	No	No	No	No	No	No	No	No	No	No	No	No	No	No
7	Thomas Nyariki	No	No	No	No	No	No	No	No	No	No	No	No	No	No	No
8	Dr. Skitter Mbugua	Yes	No	No	No	No	No	No	No	No	No	No	No	No	No	No
9	Dominic Barare	No	No	No	No	No	No	Yes	No	Yes	No	No	No	No	No	No
10	Beatrice Ochoki	No	No	No	No	No	No	No	No	No	No	No	No	No	No	No
11	Samwel Maiko	No	No	No	No	No	No	Yes	No	No	No	No	No	No	No	No
12	walter Okibo	Yes	No	No	No	No	No	No	No	No	No	No	No	No	No	No
13	Gladys Nyagoto	No	No	No	No	No	No	No	No	No	No	No	No	No	No	No
14	Moses Onderl	No	No	No	No	No	No	No	No	No	No	No	No	No	No	No
15	John Billy Momanyi	No	No	No	No	Yes	No	Yes	No	No	Yes	Yes	No	No	No	Yes
16	Zablon Ongori	No	No	No	No	No	No	Yes	Yes	No	No	No	No	No	No	No

Quarter 4

NO	NAME OF DIRECTOR	4-23-2020	4-24-2020	4-28-2020	4-30-2020	5-6-2020	5-14-2020	5-20-2020	5-21-2020	5-22-2020	6-2-2020	6-15-2020	6-24-2020	6-25-2020	6-26-2020	6-29-2020	6-30-2020
1	MONGERI MIRIERI	Yes	No	Yes	Yes	Yes	Yes	No	No	Yes	Yes	Yes	Yes	No	Yes	Yes	Yes
2	Fredrick Nyamweya	Yes	No	Yes	Yes	Yes	Yes	Yes	Yes	Yes	No	Yes	Yes	Yes	Yes	Yes	Yes
3	Jackline Mireri	Yes	No	No	Yes	Yes	Yes	Yes	No	No	Yes	Yes	Yes	No	Yes	Yes	Yes
4	Joseph Onserio	Yes	No	No	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	No
5	Justus Omarl	Yes	No	No	Yes	Yes	Yes	Yes	Yes	No	Yes	Yes	Yes	Yes	Yes	Yes	Yes
6	Kissingner Ongaga	No	No	No	No	No	No	No	No	No	No	No	No	No	No	No	No
7	Thomas Nyariki	No	No	No	No	No	No	No	No	No	No	No	No	No	No	No	No
8	Dr. Skitter Mbugua	No	No	No	No	No	No	No	No	No	No	No	No	No	No	No	No
9	Dominic Barare	No	No	No	Yes	No	Yes	Yes	No	No	No	No	No	No	Yes	No	No
10	Beatrice Ochoki	No	No	No	No	No	No	No	No	No	No	No	No	No	No	No	No
11	Samwel Maiko	No	No	No	Yes	No	No	No	No	No	No	Yes	No	No	No	No	No
12	walter Okibo	No	No	No	No	No	No	No	No	No	No	No	No	No	No	No	No
13	Gladys Nyagoto	No	No	No	No	No	No	No	No	No	No	No	No	No	No	No	No
14	Moses Onderl	Yes	No	No	Yes	No	No	No	No	No	No	No	No	No	No	No	No
15	John Billy Momanyi	Yes	Yes	No	Yes	Yes	Yes	No	No	No	No	Yes	Yes	Yes	Yes	Yes	No
16	Fanice Mose	No	No	No	Yes	Yes	Yes	Yes	No	No	No	No	Yes	No	Yes	Yes	Yes
17	Zablon Ongori	No	No	No	No	No	No	No	No	Yes	Yes	Yes	Yes	No	No	No	No

Board Succession Policy

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The Company avoids a situation where all Board members retire at the same time. In order to avoid this situation, two thirds of the Board members other than those from the County Governments, retire from office by rotation every three years. The retiring members are determined on the basis of those who have served longest.

Board Charter

There was no existing board charter during the year under review.

Functions of The Board of Directors

- 1) Before commencing business sign the code of ethics as circulated by WASREB.
- 2) Have a schedule of full board meetings at the end of every year for the next year.
- 3) Have only one full board meeting in every quarter.
- 4) Define the limits of authority of the Managing Director and other top executives in a schedule of duties.
- 5) Approve an annual budget in consultation with the respective WSB in accordance with the Service Provision Agreement.
- 6) Devote sufficient time to their responsibilities.
- 7) Have an approved organizational structure and adhere to the staff efficiency ratio guideline of 8 staff per 1,000 connections.
- 8) Have a performance management and appraisal system in place.
- 9) Map out communication strategy for internal and external liaisons to include at least one public forum in its area of supply.
- 10) Define how the Board will operate including:
- 11) Embark on bench marking with other WSPs to constantly monitor management performance and the financial progress of the company.
- 12) Evaluate its own performance at least once every year based on the Service Provision Agreement.
- 13) Ensure that the company is properly managed and for the attainment of lawful objectives.
- 14) Ensure that the company's affairs are not managed or conducted in a manner oppressive to any of its
- 15) Shareholders or for fraudulent purposes.
- 16) Ensure that the company complies with all statutory requirements, including directives issued by

Remuneration

Directors are entitled to sitting allowance for every meeting attended, lunch allowance (accommodation allowance and mileage reimbursement where applicable), within set limits of Board Minutes upon approval by shareholders in an Annual General Meeting in accordance and within the approved limits set in the guidelines by the Government to all state corporations. Furthermore, Chairman is paid a monthly honorarium.

Accountability and audit

The Companies Act, 2015 vests sole responsibility on Directors to prepare financial statements for each financial year that give a true and fair view of the state of affairs of the Company. Director's responsibility stems from the premise that suitable accounting policies are consistently applied supported by reasonable and prudent judgments and estimates on proper accounting records kept disclosing with reasonable accuracy the financial position of the Company. Additionally, applicable accounting standards which include International Financial Reporting Standards and Relevant Laws of Kenya, Water Act, State Corporations Act, Public Financial Management Act, 2012 among others are followed as well as the duty to exercise care, skill and diligence. To achieve this, they have a fiduciary duty to ensure adequate internal control systems are in place to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

Directors' shareholding

None of the Directors owns Company shares in their individual capacity.

Ethical standards

The Company works towards ensuring that Directors and staff conduct themselves with integrity and professionalism in accordance with the Company's Code of Ethics for employees and the Directors Code of Conduct issued by WASREB. These are public statements that stipulate expectations and hold us accountable for our business conduct. Directors and all employees are required to read, understand, sign and remain bound by their provisions. The Company intends to carry out integrity awareness, training, risk assessments and enforcement of corruption prevention measures. The Company remains open to receiving complaints and making follow-ups on allegations and cases of unethical conduct. Objective analysis of reported cases will be done and appropriate action instituted to control and mitigate any risk arising. The Company continues to collaborate with external partners to entrench a culture of ethics and integrity.

Communication with Stakeholders

The Company values and maintains good relations with stakeholders as fostered through effective communication. Company reports are available on the Company website at www.gwasco.co.ke and shared at the Annual General Meeting with the shareholders.

All shareholders are entitled to attend and vote at the AGM for which notice is published at least 21 calendar days before the meeting. Stakeholders are also given an opportunity to ask questions or seek clarification on any matter relating to Company business during the AGM. In addition, the Company maintains an open-door policy and stakeholders have direct access to the Managing Director.

Board Committees

The following standing committees assisted to effectively discharge various business functions and responsibilities.

To enhance corporate governance, the Board has three committees namely; Finance, HR & Procurement, Technical and Audit Committees. These standing committees assist the Company to effectively discharge various business functions and responsibilities. The committees submit reports of their activities to the Board on a regular.

Finance, HR & Procurement Committee

The Finance, HR & Procurement committee is responsible for ensuring that the Company's financial and administrative policies are adequate and has the right staff, at the right place and doing the right thing at the right time for the right course. The committee is also responsible for reviewing the Company's annual budget and quarterly financial reports. They also collaborate with Technical Committee in reviewing the viability of the Company's new projects.

Technical Committee of the Board

The committee is responsible for strategic planning, exploration of opportunities and developing proposals for funding and investment programs for the Company. This committee has oversight responsibility of ensuring that Company is complying with the agreements signed between it and the financiers. It also ensures that there is adequate asset development, maintenance and infrastructure improvement to ensure sustainability of all water infrastructures.

Audit Committee

The committee comprises three non-executive directors and regularly invites Internal Audit Manager to its meetings. The Internal Audit Manager of the Company is the Secretary of the Committee. The committee is charged with the responsibility of ensuring adequate operating and control process are applied to safeguard the Company assets by reviewing internal Controls Measures of the Company and recommends appropriate remedial action where necessary. The committee also reviews all areas of risk and weaknesses in the Company and considers Internal Audit reports. They also ensure that appropriate action is taken on the recommendations of both Internal and external Auditors.

8. MANAGEMENT DISCUSSION AND ANALYSIS

The financial statements comprise two components:

- a) Financial statements
- b) Notes to the financial statements

As part of the financial statements, included are the statement of financial position, statement of comprehensive income, statement of changes in equity and the statement of cash flows

Results of operations are recorded using accrual basis of accounting whereby transactions are reported when underlying events occur regardless of the timing of cash flows. In this regard, revenues and expenses are reported in these financial statements for some items that will result in cash flows in future fiscal periods which include accounts receivable and accounts payable.

The statements of cash flows present the flow of cash and cash equivalents during the last two fiscal years. The notes to the financial statements provide additional information that is essential to the full understanding of the data provided in these financial statements.

Financial and operational review

During the year, the company's revenue improved by 12% from Shs. 114.8 million in the financial year 2018/2019 to Shs 129.1 million in the financial year 2019/2020. The increase can be attributed to the increase in Regular Tariff Adjustment regime that is aimed at improved sustainability. However, our net loss was Shs (21,725,800) up from (6,304,200) the previous year occasioned by the increase in costs of production manifested by the increase in chemical, electricity and other operational costs despite improved revenue.

Service to the Poor Settlements

In line with our social mandate of providing services to the less privileged, the GWASCO continued implementing the pro-poor interventions aimed at improving the lives of the people living in the urban poor settlements. Activities related to this included the construction of Safisan toilets through funding from Water Services Trust Fund, in the areas covering Nyanchwa and Nubia areas

Investment Performance

Key among the projects undertaken during the year was the completion of extension of the water intakes at Nyamira and Kegati treatment works. These are awaiting commissioning. The project was aimed at addressing the water production challenges associated with the deteriorating raw water quality in the treatment process and at the raw water intake. These projects were financed through a concessionary loan and grant from the Kfw.

Other projects undertaken during the year included; rehabilitation works in New Kisii water Supply and Sewerage systems and the Company undertook some key restructuring and enhancement of the network in Kisii, plus the replacement of some of the electro-mechanical equipment at the water works. These were aimed at reversing the water shortages being experienced in some parts of the Kisii Town

We have comprehensive systems of internal control and risk management and we monitor their effectiveness regularly in compliance with the principles of our corporate governance code. This risk management framework is also closely linked to the way we monitor and measure our performance and compliance with our statutory obligations and commitments which is subject to external assurance by third parties. This ensures that the board and the audit and risk committee review all material controls including financial, operational and compliance controls.

The audit and risk committee monitors the effectiveness of our systems of risk management and internal controls on an ongoing basis.

Risk: Water resources and climate change

Risks description: Failure to develop our infrastructure, to improve its resilience and to manage demand would mean that we would not be able to meet our statutory duties and meet future demand. Climate change will increase instances of severe flooding and drought which can affect the availability of resources and the operation of our infrastructure.

Mitigation: We operate in an area of serious water stress and manage demand through our metering programme. We have also consistently endeavoured to meet our NRW targets. Our Water Resources Management Plan is developed to take account of opportunities for cooperation between WASREB and WARMA.

Risk: Regulatory and legal compliance

Risks description: Our business operates within a specific legislative and regulatory framework and many of our activities have an impact on the environment. Failure to ensure compliance with regulatory and legislative requirements may lead to criminal and civil liability, regulatory enforcement actions and disruption to the business and loss of management time. It will also affect the perception of GWASCO by customers, regulators and others with a stake in our business. Mitigation: We have a wide range of policies, processes and controls to ensure that we meet our duties and obligations. We also monitor compliance with our statutory obligations for the purpose of reporting on our performance and for the purpose of our compliance. We review annually compliance performance and processes with the relevant department. We monitor changes to compliance requirements in order to adapt our processes and policies when required.

Risk: Security and information security

Risks description: The security and resilience of our information infrastructure is essential to maintain our service to the public. We must protect ourselves from loss of data and systems, and cyber-attacks and keep customers' data up-to-date and safe. Failure to protect personal data may lead to enforcement actions and legal actions and would cause reputational damage. Loss or corruption of data would result in disruption to the business and additional costs.

These financial statements are designed to provide a general overview of the company's finances. Questions regarding any information provided in this report or requests for additional information should be addressed to the Managing Director.

9. CORPORATE SOCIAL RESPONSIBILITY STATEMENT/SUSTAINABILITY REPORTING

The core values are the fundamental principles that guide the behavior of every person or entity working with GWASCO. They should be practiced and embraced to create the organizational culture to drive GWASCO's vision. The core values guiding GWASCO are:

- Customer focus
- Integrity
- Gender Responsive
- Professionalism
- Team work
- Innovation

Gusii Water and Sanitation Company Ltd exists to transform lives. This is our purpose; the driving force behind everything we do. It's what guides us to deliver our strategy, which is founded on XXX pillars: focusing on our Customer first, delivering reliable water and sanitation services, and improving operational sustainability. Below is a brief highlight of our achievements in each pillar

1. Sustainability strategy and profile -

The Company as an agency has been able to Manage water devolved to the County Government after transition from National Government. It's now under the ownership of two County Governments of Kisii and Nyamira. This has offered a wide coverage area providing potential for more customers. Cross-county ownership, however, poses a risk of misunderstanding on distribution of water and sewerage services and structure of governance and supervision.

High cost of production involving electricity poses a great macroeconomic challenge. This led to: Cost recovery challenges, reduced revenue, Disruption of water services due to frequent disconnections and power fluctuations. The Company applied to the regulator for tandem adjustments of water tariff by WASREB

1. Environmental performance

The Company could not sustainably manage solid/liquid waste and this was further compounded by sewer leakages. Further it was faced with catchment degradation through human activity such as deforestation and encroachment of water sources and Climate change and environmental degradation. This led to compromised water quality, high turbidity/ siltation, reduced water levels and sources, destruction of wetlands, water sources are threatened by reduction in water base, and flow due to prolonged dry spells and unpredictable rains. To mitigate on this, the Company has endeavoured to public awareness on proper waste management. lobby for environmental protection, and adopt climate change adaptation and coping mechanisms

1. Employee welfare

The company has an existing human resources policy guiding hiring processes. It is in the process of developing policy on safety and compliance as per Occupational Safety and Health Act of 2007, (OSHA) which it has subscribed with.

2. Market place practices-

- a) *Responsible competition practice.*

The company adheres to responsible competition practice by steering off corrupt practices. Being aware of the political environment we operate in, we direct our energy and efforts towards sustainably meeting customer expectations.

b) *Responsible Supply chain and supplier relations-*

The accounts payable have remained relatively high. Despite this, the Company has negotiated with suppliers and established a payment plan to reduce the amount owed to suppliers.

c) *Responsible marketing and advertisement*

The company adheres to responsible marketing and advertisement practices in its operations in creating awareness of its products to customers.

d) *Product stewardship- outline efforts to safeguard consumer rights and interests*

Every consumer has a constitutional right of access to safe and potable water. The Company is under obligation to meet this requirement and has endeavored to do so.

3. Community Engagements-

We encourage all employees to stay engaged with the community. We offer to pay leave to our employees if they wish to get involved in charity work during business hours.

The Company has entered into a partnership with learning institutions who play a role in teaching primary, secondary schools, colleges and university students how water, waste water and sanitation services are treated, supplied and why it is such an important part of our lives.

Gusii Water also sponsor many regional ASK business excellence awards, Country Charities and environmental activities through our partnerships with various stakeholders.

Over the years GWASCO Ltd. has had the pride on its regular contribution towards community regeneration activities. We have continued this long-standing tradition of providing the communities with high quality and affordable Water and Sanitation Services. Within the past years, we concentrated on the improvement of the infrastructure and made substantial contributions towards the construction and maintenance of water and Sewer networks in our areas of our Jurisdiction and promoted sanitation. These have surely controlled to a lower level diseases caused by contaminated water.

10. 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 the Company's affairs.

Principal activities

The principal activities of the entity are provision of water and sewerage services.

Results

The results of the entity for the year ended June 30, 2020 are set out on page 1 to 54. Below is summary of the profit or loss made during the year.

Dividends

Subject to the approval of the shareholders, the Directors do not recommend the payment of any dividend for the year.

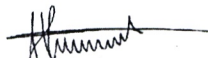
Directors

The members of the Board of Directors who served during the year are shown on page (iii).

Auditors

The Auditor General is responsible for the statutory audit of the Company in accordance with Article 229 of the Constitution of Kenya and the Public Audit Act 2015 for the year/period ended June 30, 2020 in accordance to section 23 of the Public Audit Act, 2015 which empowers the Auditor General to appoint an auditor to audit on his behalf.

By Order of the Board



Elvis Masiga
Ag. Managing Director
31st March 2021

11. STATEMENT OF DIRECTORS' RESPONSIBILITIES

Section 81 of the Public Finance Management Act, 2012 and section 14 of the State Corporations Act, the Companies Act, and the Water Act require 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. 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 financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgement and estimates, in conformity with International Financial Reporting Standards (IFRS), and in the manner required by the PFM Act, 2012, the Company Act and the State Corporations Act. The Directors are of the opinion that the Company's financial statements give a true and fair view of the state of Company's transactions during the financial year ended June 30, 2020, and of the Company's financial position as at that date. The Directors further confirm the completeness of the accounting records maintained for the 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.

Going Concern

The financial statements have been prepared on a going concern basis. 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 these financial statements.

As at 30 June 2020, the statement of financial position reflected an excess of current liabilities over current assets. The working capital deficit was primarily caused by the weak credit and collection policies. Moreover, during the financial year ended 30 June 2020 the Company experienced operating losses of (21,725,800), (2019: loss (6,304,200)). This extremely disappointing performance reflected the continued difficult trading conditions suffered by the Company demand management and service area coverage caused by the increased level of Non-Revenue Water in the distribution system. The continuing viability of the Company and its ability to continue as a going concern is dependent upon the Company being successful in its continuing efforts in growing its revenue base and/or accessing additional sources of capital from financiers.

The directors are satisfied that the Company is able to meet its working capital liabilities through the normal cyclical nature of receipts and payments.

The Company has successfully expanded its revenue base by securing a major loan through the Government of Kenya for expansion works at Kisii and Nyamira which will have additional net cash inflows.

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Consequently, the directors have proactively sought to address the deficiency in net current assets and improved cash performance via the following initiatives:

- a) Continued focus on debtors invoice collections, keeping inventory levels at a minimum; and
- b) Continued focus on cost management and containment in all areas of business.

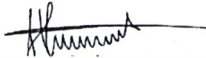
As a result of the above matters, the directors are of the view that the Company will continue as a going concern and, therefore, will realize its assets and liabilities and commitments in the normal course of business and at the amounts stated in the financial statements. The directors remain confident about the successful achievement of projected income targets and therefore no adjustments have been made to these financial statements relating to the recoverability and classification of the asset carrying amounts.

The directors believe that the Company will be successful in the above matters and, accordingly, have prepared the financial statements on a going concern basis.

Approval of the financial statements

The Company's financial statements were approved by the Board on 31st March 2021 and signed on its behalf by:

Sign:



Ag. Managing Director
31st March 2021

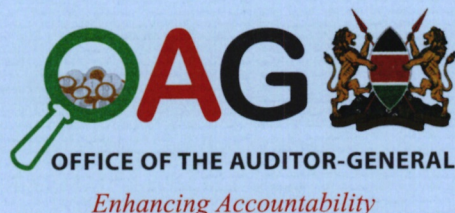
Sign:



Chairman
31st March 2021

REPUBLIC OF KENYA

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

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

REPORT ON THE FINANCIAL STATEMENTS

Adverse Opinion

I have audited the accompanying financial statements of Gusii Water and Sanitation Company Limited set out on pages 1 to 41, 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 and statement of comparison of budget and actual amounts for the year then ended, and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, 2015. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

In my opinion, because of the significant of the matters discussed in the Basis for Adverse Opinion section of my report, the financial statements do not present fairly, the financial position of the Gusii 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 International Financial Reporting Standards and do not comply with the Companies Act, 2015 and the Public Finance Management Act, 2012.

Basis for Adverse Opinion

1. Variances in Opening Balances

The following comparative figures in the statement of changes in equity differed with the financial year 2018/2019 audited financial statements figures as follows:

Component	Closing Audited Balances in Financial Statement for 2018/2019 (Kshs.)	Opening Balance in 2019/2020 Financial Statement (Kshs.)	Variance (Kshs.)
Retained Earnings/ (Accumulated Deficit)	11,772,500	16,016,700	4,244,200
Reserves	62,809,200	67,053,200	4,244,200

No reconciliations or explanations were provided for the variances.

Consequently, the accuracy and completeness of the retained earnings and reserves could not be confirmed.

2. Variance in Transport and Lunch Expense

Note 11 to the financial statements reflects administrative cost of Kshs.60,102,300 which includes Kshs.1,002,600 in respect of transport and lunch which differs with the ledger balance of Kshs.1,073,000 resulting to unreconciled variance of Kshs.70,400.

Consequently, the accuracy, validity and completeness of Kshs.1,002,600 for the year ended 30 June, 2020 could not be confirmed.

2.1 Variance in Secretarial Services

Note 11 to the financial statement reflects administration cost of Kshs.60,102,300 which includes Kshs.390,600 in respect of secretarial services which differs with the ledgers balance of Kshs.445,000 resulting to unreconciled variance of Kshs.54,400.

Consequently, the accuracy, validity and completeness of administration costs of Kshs.60,102,300 for the year ended 30 June, 2020 could not be confirmed.

2.2 Variance in Consumables

Note 11 to the financial statement reflects administrative cost of Kshs.60,102,300 which includes Kshs.403,800 in respect of consumables which differs with the ledgers balance of Kshs.365,800 leading to unreconciled variance of Kshs.38,000.

Consequently, the accuracy, validity and completeness of Kshs.403,800 for the year ended 30 June, 2020 could not be confirmed.

3. Unsupported Cash and Cash Equivalents

Note 18 to the financial statement reflects cash and bank balances figure of Kshs.2,147,300 out of which Kshs.526,900 relates to Kenya Commercial Bank account which differs with the cash book bank balance of Kshs.466,100 resulting to unsupported balance of Kshs.60,800. Further, the cashbook reflects cash in hand balance of Kshs.6,700,237 which was not incorporated in the bank and cash balances of Kshs.2,147,300 reflected in the financial statements. Further, the cash books for Kenya Commercial Bank and M-Pesa account were not provided for audit review.

Consequently, the accuracy, validity and completeness of cash and cash equivalents of Kshs.2,147,300 as at 30 June, 2020 could not be confirmed.

4. Variance in Trade and Other Payables

Note 23 to the statement of financial statement reflects trade and other payables figure of Kshs.71,311,100 comprising of trade payables of Kshs.37,358,300 and other payables of Kshs.33,952,800. However, the general ledger reflects balances Kshs.36,666,600 and Kshs.32,439,000 for trade payables and other payables respectively resulting to unreconciled and unexplained variance of Kshs.691,700 and Kshs.1,513,800 respectively.

Consequently, the accuracy, validity and completeness of trade and other payables figure of Kshs.71,311,100 as at 30 June, 2020 could not be confirmed.

5. Unreconciled Agency Account

Note 24(a) to the statement of financial statement reflects agency account of Kshs.40,904,200 which includes Kshs.20,855,100 for Lake Victoria South Water Service Board in respect of outstanding Special Purpose Account(SPA) Fee payable. However, supporting schedule reflected outstanding SPA Fee payable amount of Kshs.29,366,100 resulting to unreconciled or explained balance of Kshs.8,511,000.

Consequently, the accuracy, validity and completeness of Kshs.40,904,200 as at 30 June, 2020 could not be confirmed.

6. Understated Trade and Other Receivables

Note 17 to the statement of financial statement reflects trade and other receivables of Kshs.108,879,800 after provision for doubtful debts of Kshs.12,097,700 (10%). However, an aged listing of trade receivables provided for audit review reflects a balance of Kshs.127,738,805 which when subjected to 10% provision of doubtful debts totals to Kshs.12,773,881 resulting into net trade and another receivable of Kshs.114,964,924.

Consequently, the accuracy, validity and completeness of the trade and other receivables figure of Kshs.108,879,800 as at 30 June, 2020 could not be ascertained.

7. Variances in Statement of Cash Flows

Note 28 to the financial statements reflects cash generated from (used in) operations figure of Kshs.5,340,500 which differs with Kshs.6,408,700 reflected in the statement of cash flows resulting to unreconciled and explained variance of Kshs.1,068,200.

Further, the cash flows reconciliation in Note 28 reflects no provision for bad and doubtful debts as a reconciling item.

Consequently, the accuracy, validity and completeness of the statement of cash flows balance of Kshs.2,147,300 for the year ended 30 June, 2020 could not be confirmed.

8. Unreconciled Statement of Comparison of Budget and Actual Amounts

The statement of comparison of budget and actual amounts reflects final budget total income figure of Kshs.252,825,074 while the re-casted figure reflects Kshs.265,394,815 leading to unreconciled figure of Kshs.12,569,741. Further, the statement does not reflect the original budget and adjustments amounts as required by the Public Sector Accounting Standards Board.

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

9. Variance in Share Capital

The share capital of the Company is Kshs.100,000 which is divided into 20,000 ordinary shares of Kshs.5 each. The shares as per the business registration service in the office

of the Attorney General and Department of Justice still reflect that the Company is owned by the defunct Local Authorities as shown below:

Defunct Local Authorities	Shares
Municipal Council of Kisii	1411
Gusii County Council	509
Gucha County Council	267
Suneka Town Council	285
Nyamira County Council	249
Nyamira Town Council	633
Keroka Town Council	423
Tabaka Town Council	299
OgemboTown Council	305
MasimbaTown Council	305
NyasiongoTown Council	547
Total	5,233

The shares as per the business registration service in the office of the Attorney General and Department of Justice shares reflects 5,233 shares which differs with the financial statement of 20,000 leading to unreconciled and unexplained variance of 14,767 shares. Further, the Directors listed in the business registration differ with those disclosed in the financial statement for the ended 30 June, 2020.

Also, the shares had not been transferred and paid for by the two County Governments of Nyamira and Kisii as expected.

Consequently, the ownership, accuracy, validity and completeness of the issued capital of Kshs.100,000 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 Gusii 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 Adverse opinion.

Material Uncertainty in Relation to Going Concern

The statement of profit and loss and other comprehensive income reflects an operating loss of Kshs.21,725,800 during the year ended 30 June, 2020 (2019: a loss of Kshs.6,304,300). The operating loss continued to deplete the retained earnings from negative Kshs.16,016,600 as at 30 June, 2019 to negative Kshs.37,742,400 as at 30 June, 2020. Further the current liabilities for the year under review amounted to Kshs.112,215,300 while the current assets for the same period amounted to Kshs.111,705,900 resulting to a negative working capital of Kshs.509,400 demonstrating that the Company is unable to meet its financial obligations as and when they fall due.

This state of affairs is indicative of an acute financial challenge facing the Company which raises significant doubts on its ability to operate as a going concern.

The Company is therefore technically insolvent and its continued existence as a going concern is dependent upon the financial support from its creditors and the Government.

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

Budgetary Control and Performance

The statement of comparison of budget and actual amounts for the year under review reflects total budgeted receipts of Kshs.252,825,074 and actual revenue of Kshs.155,452,400 resulting to an under-funding of Kshs.97,372,674 or 39%. Similarly, the statement reflects approved final budgeted expenditure of Kshs.252,825,073 and actual expenditures of Kshs.177,178,200 resulting to under absorption of Kshs.75,646,873 or 30 %. The underfunding and underperformance affected the planned activities and may have impacted negatively on service delivery to the stakeholders.

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

Basis for Conclusion

1. Over Expenditure in Staff Costs

The financial statements reflects production staff salaries and wages of Kshs.45,973,800 and administration staff costs of Kshs.39,547,000, as disclosed in Notes 7 and 11 respectively. However, the total revenue during the year was Kshs.129,112,400 and therefore, the expenditure of Kshs.85,520,800 on compensation of employees (salaries, benefits and allowances) during the year constituted about 66% of the total revenue. This is contrary to the provisions of regulation 25(1)(b) of the Public Finance Management (County Governments) Regulations, 2015 which by implication limits the expenditure on compensation of employees of the Company to a maximum of 35% of the total annual revenue.

Consequently, the Management is in breach of the Law.

2. Irregular Administrative Costs

The financial statement reflects administration cost of Kshs.60,102,300 as disclosed in Note 11 which includes Kshs.4,609,300 in respect of directors emolument. Review of the board of directors minutes revealed that, three (3) out of five (5) full board meetings were held in the same (fourth) quarter against the guideline 4.1.3 of the company's Corporate-Governance which states that the Board of Directors shall have only one full board meeting in every quarter. Sitting allowances amounting to Kshs.196,000 were thereby irregularly drawn.

Consequently, the validity and value for money of Kshs.60,102,300 for the year ended 30 June, 2020 could not be confirmed.

3. Non-Remittance of Statutory Deductions

The financial statements reflects trade and other payables figure of Kshs.71,311,100 as disclosed in Note 23 includes other payables of Kshs.33,952,800 out of which Kshs.14,679,388 is in respect of pension and provident funds. However, the amount had not been remitted to the various pension/provident bodies contrary to Section 53 A(1) of the Retirement Benefits Authority Act 2012 which requires the employer to remit the deduction within fifteen(15) days of the deduction.

Consequently, the Management is in breach of the Law.

4. Staff Recruited without Advertisement

The financial statements reflects production staff salaries and wages of Kshs.45,973,800 and administration staff costs of Kshs.39,547,000, respectively as disclosed in Note 7 and 11(a). Review of the staff recruitment revealed that the following positions were filled without advertisement namely Commercial officer (2 posts), ICT Officer (1 post) Internal Auditor (1 post), Assistant Technical and (1 post) Manager GIS Officer (1 post) contrary to Section 3.2.2 of the Gusii Water Human Resource Policies and Procedure Manual which requires that a vacant post is advertised both internally and externally in order to attract the most suitable candidate.

Consequently, the Management is in breach of the regulations.

5. Irregular Staff Ethnic Composition

Disclosed in Notes 7 and 11(b) to the financial statements are production staff salaries and wages of Kshs.45,973,800 and administration staff costs of Kshs.39,547,000, respectively. A review of the of personnel records reflected that Company had a staff composition of 139 out of which 134 or 96% comprises of members 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 Management is in breach of the Law.

6. Exceeded Non-Revenue Water (NRW)

Note 6 to the financial statement reflects revenue of Kshs.129,112,400 which include Kshs.75,836,500 which represents the income from water sales during the year. However, a review of the billing system revealed that the Company produced 2,271,885 cubic meters (M3) of water out of which only 1,033,526 cubic meters were billed to customers. The balance of 1,238,359 cubic meters or approximately 55% of the volume represents the Non-Revenue Water (NRW), which is 30% over and above the allowable loss of 25% in accordance with the Water Services Regulatory Board Guidelines, 2010. The NRW of 1,238,359 m³ may have resulted in loss of sales estimated at Kshs.90,866,425 at the average rate of Kshs.73.38 per m³. This is also an indication of lack efficiency and effectiveness in the use of public resources. No evidence was provided for efforts by the Company to address the situation.

In the circumstances, the NRW above 30% above the allowable limit may negatively impact 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, except for the matter described under Basis for Conclusion on Effectiveness of Internal Controls, Risk Management and Governance sections of my report, I confirm that, nothing else has come to my attention to cause me to believe that internal controls, risk management and governance were not effective.

Basis for Conclusion

Lack of Risk Management Policy Framework

A review of the internal controls revealed that the Company does not have in place risk management policy framework to ensure that all operations are performed within the approved risk tolerance levels. There was no documented disaster recovery plan to deal with loss of data or information in case of systems failures to protect the IT infrastructure in the event of a disaster. Further, there is no assurance on the effectiveness of Risk Management process as required by the provisions of Section 158(1) of Public Finance Management (County Governments) Regulations, 2015.

In the circumstance, the security and reliability of the company data including the Management Information Systems could not be confirmed..

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 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 not 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 profit or loss and other comprehensive income are not in agreement with the books of account; and
- iv. In my opinion, the information given in the report of the Directors on pages xxiv and xxvi is not 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 for maintaining effective internal control as the Management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error and for its assessment of the effectiveness of internal control, risk management and 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.

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

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

Those Board of Directors is responsible for overseeing the Company's financial 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 use of the applicable basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in the auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my audit report. However, future events or conditions may cause the Company to cease as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information and business activities of 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

11 February, 2022

13. STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 30 JUNE 2020

REVENUES	Note	2019/2020	2018/2019
		Kshs	Kshs
Revenue	6	129,112,400	114,807,900
Production Costs	7	(104,237,100)	(108,969,300)
Gross profit		<u>24,875,300</u>	<u>5,838,600</u>
Grants from the County Government	8	20,016,100	33,962,400
In-Kind Contributions	9	275,600	486,000
Other Income	10	6,048,300	15,705,200
TOTAL REVENUES		<u>51,215,300</u>	<u>55,992,200</u>
OPERATING EXPENSES			
Administration Costs	11	60,102,300	50,934,800
Operational Costs	12	6,409,000	5,807,600
Finance Costs	13	295,800	273,200
Depreciation	14	3,767,600	3,699,100
Amortization of Intangible Assets	15	100,400	150,500
Provision for doubtful debts	17	2,266,000	1,431,300
TOTAL OPERATING EXPENSES		<u>72,941,100</u>	<u>62,296,500</u>
PROFIT/(LOSS) BEFORE TAXATION		<u>(21,725,800)</u>	<u>(6,304,300)</u>
INCOME TAX EXPENSE/(CREDIT)		0	0
PROFIT/(LOSS) AFTER TAXATION		<u>(21,725,800)</u>	<u>(6,304,300)</u>
OTHER COMPREHENSIVE INCOME			
Fair value through comprehensive income		0	0
Surplus or deficit on revaluation of PPE		0	0
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		<u>(21,725,800)</u>	<u>(6,304,300)</u>

Gusii Water and Sanitation Company Ltd
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14. STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2020

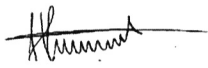
	Note	2019/2020 Kshs	2018/2019 Kshs
ASSETS			
Non-Current Assets			
Property, plant and equipment	14	44,185,200	47,418,800
Capital Work in Progress	0	0	0
Intangible assets	15	201,100	301,500
Total Non-Current Assets		44,386,300	47,720,300
Current Assets			
Inventories	16	678,800	1,708,300
Trade and other receivables	17	108,879,800	88,485,500
Bank and cash balances	18	2,147,300	6,416,900
Total Current Assets		111,705,900	96,610,700
Total Assets		156,092,200	144,331,000
EQUITY AND LIABILITIES			
Capital and Reserves			
Ordinary share capital	19	100,000	100,000
Retained earnings	20	(37,742,400)	(16,016,600)
Capital reserves	21	67,053,200	67,053,200
Capital and Reserves		29,410,800	51,136,600
Non-Current Liabilities			
Customer Deposits	22	14,466,100	12,861,100
Total Non-Current Liabilities		14,466,100	12,861,100
Current Liabilities			
Trade and other payables	23	71,311,100	39,670,600
Agency Account	24	40,904,200	40,662,700
Total Current Liabilities		112,215,300	80,333,300
TOTAL EQUITY AND LIABILITIES		156,092,200	144,331,000

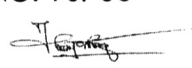
The financial statements were approved by the Board on **31st March 2021** and signed on its behalf by:

Managing Director
Elvis Masiga

Head of Finance
CPA Thaddeus M. Mogo
ICPAK M/NO: 10736

Chairman of the Board
Justus N. Omari

Signature 

Signature 

Signature 

15. STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 JUNE 2020

	Notes	Ordinary share capital Kshs	Reserve Kshs	Retained earnings/ (Accumulated Deficit) Kshs	Total Kshs
At July 1, 2018	23	100,000	53,527,200	(9,712,300)	43,914,900
Issue of new share capital		0	4,244,000	0	4,244,000
Transfer of Completed Work in Progress to PPE		0	9,282,000	0	9,282,000
Deferred tax on excess depreciation		0	0	0	0
Fair value adjustment on quoted investments		0	0	0	0
Total comprehensive income		0	0	(6,304,400)	(6,304,400)
Dividends paid – 2017		0	0	-	0
Interim dividends paid – 2017		0	0	-	0
At June 30, 2019	17	100,000	67,053,200	(16,016,700)	51,136,500
At July 1, 2019		100,000	67,053,200	(16,016,700)	51,136,500
Issue of new share capital		0	0	0	0
Transfer of Completed Work in Progress to PPE		0	0	0	0
Deferred tax on excess depreciation		0	0	0	0
Fair value adjustment on quoted investments		0	0	0	0
Total comprehensive income		0	0	(21,725,800)	(21,725,800)
Dividends paid – 2018		0	0	0	0
Interim dividends paid – 2020		0	0	0	0
Proposed final dividends 2020		0	0	0	0
At June 30, 2020		100,000	67,053,200	(37,742,400)	29,410,800

16. STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2020

	Note	2019/2020	2018/2019
		Kshs	Kshs
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash generated from/(used in) operations	13	(6,408,700)	9,939,600
Interest received		0	0
Interest paid		0	0
Dividends paid		0	0
Taxation paid		0	0
Net cash generated from/(used in) operating activities		(6,408,700)	9,939,600
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property, plant and equipment	14	534,000	0
Work in progress	18	0	(9,282,000)
Purchase of intangible assets	15	0	0
Net cash generated from/(used in) investing activities		534,000	(9,282,000)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issues of new share capital		0	0
Proceeds from borrowings		0	0
Revenue from Customer Deposits	22	1,605,100	1,328,000
Net cash generated from/(used in) financing activities		1,605,100	1,328,000
INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		(4,269,600)	1,985,600
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		6,416,900	4,431,300
Effects of foreign exchanges rate fluctuations		0	0
CASH AND CASH EQUIVALENTS AT END OF THE YEAR		2,147,300	6,416,900

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17. STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS FOR THE PERIOD ENDED 30 JUNE 2020

	Final budget	Actual on	Performance	Variance %
	2019-2020	comparable basis	difference	
	2019-2020	2019-2020	2019-2020	
	Kshs	Kshs	Kshs	
Revenue				
Income from Water	174,035,888	75,836,500	(98,199,388)	-56%
Income from Sewer	74,970,457	50,746,000	(24,224,456)	-32%
Income from Meter Rent	2,388,470	2,529,900	141,430	6%
Total Income from operations	251,394,814	129,112,400	(122,282,414)	
Collection Efficiency	95%	78%		
Projected/Actual Collections	238,825,074	100,262,099	(138,562,975)	-58%
Grant from County Government	14,000,000	20,016,100	6,016,100	43%
In-Kind Contributions	0	275,600	275,600	#DIV/0!
Other Income	0	6,048,300	6,048,300	#DIV/0!
Total Income	252,825,074	155,452,400	(132,546,875)	
Expenses				
Personnel Emoluments	98,294,372	85,520,800	12,773,572	13%
Directors Remuneration	6,821,611	4,609,300	2,212,311	32%
Administrative expenses	19,551,774	15,946,000	3,605,774	18%
Production Costs	82,779,807	58,263,300	24,516,507	30%
Operational Costs	21,599,257	6,409,000	15,190,258	70%
Depreciation	3,330,552	3,767,600	(437,048)	-13%
Amortization of Intangible Assets	0	100,400	(100,400)	#DIV/0!
Provision for doubtful debts	0	2,266,000	(2,266,000)	#DIV/0!
Finance Costs	0	295,800	(295,800)	#DIV/0!
Investments	20,447,700	0	20,447,700	
Total expenditure	252,825,073	177,178,200	75,646,873	
Surplus (Deficit) for the period	0	(21,725,800)	(208,193,748)	

- i. Performance difference of (-)56% Income from Water was due to newly approved increase in Regular Tariff Adjustment that was under implementation in the period under review.
- ii. Performance difference of (-)32% Income from Sewer was due to newly approved increase in Regular Tariff Adjustment that was under implementation in the period under review.
- iii. Performance difference of (+)6% Income from Meter Rent was due to newly approved increase in Regular Tariff Adjustment that was under implementation in the period under review.
- iv. The management will institute stringent measures to control administration, operational and production costs to cover for budgetary shortfalls where cash flow was insufficient to cover for planned recurrent and investment expenditures.

18. NOTES TO THE FINANCIAL STATEMENTS

1. GENERAL INFORMATION

The Company is established by and derives its authority and accountability from the Water Act. The Company is wholly owned by the County Governments of Kisii and Nyamira and is domiciled in Kenya. The Company's principal activity is provision of Water and Sewerage Services.

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

2. STATEMENT OF COMPLIANCE AND BASIS OF PREPARATION

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

The financial statements have been prepared and presented in Kenya Shillings, which is the functional and reporting currency of the Company and all values are rounded to the nearest one hundred shillings.

The financial statements have been prepared in accordance with the PFM Act 2012, the State Corporations Act, the Companies Act 2015, the Water Act 2016 and the International Financial Reporting Standards (IFRS). The accounting policies adopted have been consistently applied to all the years presented.

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

i) Relevant new standards and amendments to published standards effective for the year ended 30 June 2020

IFRS 16: Leases

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

Application of IFRS 16 requires right-of-use assets and lease liabilities to be recognised in respect of most operating leases where the Company is the lessee. Based on the Directors' assessment, right of use assets, lease liabilities of and a deferred tax asset of have been recognised with a corresponding decrease of the net amount in retained earnings in these financial statements.

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.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

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

i) Relevant new standards and amendments to published standards effective for the year ended 30 June 2020(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.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

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

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

ii) **New and amended standards and interpretations in issue but not yet effective in the year ended 30 June 2020**

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.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

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

iii) Early adoption of standards

The Company did not early – adopt any new or amended standards in year 2019.

iii) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

a) Revenue recognition

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

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

b) In-kind contributions

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

c) Property, plant and equipment

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

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

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

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

d) Depreciation and impairment of property, plant and equipment

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

Depreciation on property, plant and equipment is 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:

Item of PPE	PERIOD	RATE
Pipeline		5%
Building & civil work	2.5 years	10%
Plant & machinery	12.5 years	12%
Motor vehicle	4 years	15%
Computers	3 years	33.33%
Office equipment, furniture and fittings	12.5 years	15%

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

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

e) Intangible assets

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

f) Amortization and impairment of intangible assets

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

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

g) Investment property

Buildings, or part of a building (freehold or held under a finance lease) and land (freehold or held under an operating lease) held for long term rental yields and/or capital appreciation, and which are not occupied by the entity, are classified as investment property under non-current assets. Investment property is carried at fair value, representing open market value determined periodically by independent external values. Changes in fair values are included in profit or loss in the income statement.

h) Leases

IFRS 16 introduces new or amended requirements with respect to lease accounting. It introduces significant changes to lessee accounting by removing the distinction between operating and finance lease and requiring the recognition of a right-of-use asset and a lease liability at commencement for all leases, except for short-term leases and leases of low value assets. In contrast to lessee accounting, the requirements for lessor accounting have remained largely unchanged.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

i) Fixed interest investments (bonds)

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

j) Quoted investments

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

k) Unquoted investments

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

l) Inventories

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

m) Trade and other receivables

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

n) Taxation

Current income tax

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

n) Taxation (Continued)

Current income tax (Continued)

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

Deferred tax

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

n) Taxation (Continued)

Deferred tax (Continued)

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

o) Cash and cash equivalents

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

p) Borrowings

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

q) Trade and other payables

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

r) Retirement benefit obligations

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

s) Provision for staff leave pay

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

t) Exchange rate differences

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

u) Budget information

The original budget for FY 2019-2020 was approved by the Board of Directors on 31 July 2019. Subsequent revisions or additional appropriations were not made to the approved budget in accordance with specific approvals from the appropriate authorities.

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

u) Budget information (Continued)

A statement to reconcile the actual amounts on a comparable basis included in the statement of comparison of budget and actual amounts and the actuals as per the statement of financial performance has been presented under section 17 of these financial statements.

v) Service concession arrangements

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

w) Comparative figures

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

x) Subsequent events

There have been no events subsequent to the financial year end with a significant impact on the financial statements for the year ended June 30, 2020.

5 SIGNIFICANT JUDGMENTS AND SOURCES OF ESTIMATION UNCERTAINTY

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

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

5 SIGNIFICANT JUDGEMENTS AND SOURCES OF ESTIMATION UNCERTAINTY (Continued)

Estimates and assumptions

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

Useful lives and residual values

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

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

Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions is included in Note 17.

Provisions are measured at the management's best estimate of the expenditure required to settle the obligation at the reporting date, and are discounted to present value where the effect is material. The provision for doubtful debts has been maintained at 10%

NOTES TO THE FINANCIAL STATEMENTS (Continued)

6 REVENUE

	2019/2020	2018/2019
Turnover/Sales	Kshs	Kshs
Water Sale	75,836,500	72,268,200
Meter Rent	2,529,900	2,696,100
Sewer	50,746,000	39,843,600
Gross sales of goods	129,112,400	114,807,900
Gross sales of services	-	-
Less: Value added tax on gross sales	-	-
Total	129,112,400	114,807,900

7 Production Costs

Production Staff Salaries and Wages	45,973,800	46,935,700
Service Provision Agreement Administration fee (LVSWBS)	4,010,500	4,497,500
Regulatory Levy (WASREB)	5,164,300	3,424,800
Abstraction Levy (WRA)	1,227,700	1,067,300
Chemicals	6,166,700	10,176,800
Electricity	41,694,100	42,867,200
	104,237,100	108,969,300

8 Grants

County Government (Electricity)	20,016,100	33,962,400
National Government (WSTF)	-	-
Total	20,016,100	33,962,400

9 In-Kind Donations

	2019/2020	2018/2019
	Kshs	Kshs
Seconded personnel	275,600	486,000
Total	275,640	486,000

NOTES TO THE FINANCIAL STATEMENTS (Continued)

10 Other Income

Other Income	Kshs	Kshs
Change of Name	152,900	192,500
Exhauster Charges	2,378,000	2,542,000
Exhauster permit	90,000	-
Meter Testing	2,800	1,145,900
New Connection	1,248,500	416,900
Reconnection Fee	153,700	7,132,500
Sewer	0	108,100
Sewer Charges	5,000	61,000
Sewer Discharge	152,000	1,948,500
Sewer New Connection	1,095,000	31,600
Statement charges	23,800	178,200
Surcharge	199,100	6,800
Survey Fee	0	26,600
Termination	23,400	10,700
Ton	600	1,803,900
Water Bowser	433,500	100,000
Water Bowser Permit	90,000	-
	6,048,300	15,705,200

NOTES TO THE FINANCIAL STATEMENTS (Continued)

11 Administration Costs

Staff costs 11(a)	39,547,000	31,842,100
Directors' emoluments	4,609,300	4,013,700
Travelling & accommodation	1,791,600	2,238,000
Transport & Lunch	1,002,600	1,509,200
Protective clothing/ Uniforms	262,800	213,300
Staff welfare & donations	277,100	196,400
Staff entertainment & others	132,100	255,100
Printing & Reproduction	10,000	62,400
Stationery	474,600	815,400
Consumables	403,800	15,800
Newspapers	30,100	35,100
Advertising & Publicity	781,200	417,700
Office Landlines(Telephone)	400	2,000
Mobile Airtime	40,000	68,200
Postage	1,100	16,000
Bulk sms	180,100	175,000
Repair of office equipment	15,600	700
Computer Repairs	29,750	67,000
Computer Softwares	41,500	86,900
Insurance Expense	2,034,700	2,109,300
Security Services	5,325,250	4,328,000
Audit fee	446,600	446,600
Legal fees	1,120,000	1,181,200
Secretarial Services	390,600	-
Consultancy Services	60,500	50,000
Internet Broadband	358,500	634,700
Subscriptions and Dues	285,800	88,100
Donations	49,100	66,900
Office Rent	264,000	-
Staff Training	98,300	-
Medical Expenses	38,300	-
Total	60,102,300	50,934,800

11 (a) STAFF COSTS

Salaries and allowances of permanent employees	33,244,500	21,078,700
Wages of temporary employees	850,100	546,000
Compulsory national health insurance schemes	0	
Compulsory national social security schemes	0	253,300
Other pension contributions:	0	
CPF Financial Services	2,231,300	1,585,500
LAp Fund	56,500	56,500
NW Pension	1,120,300	1,290,100
Leave pay and gratuity provisions	2,044,300	7,032,000
	39,547,000	31,842,100

NOTES TO THE FINANCIAL STATEMENTS (Continued)

12 Operational Costs

Operational Costs	Kshs	Kshs
Ground maintenance	46,600	3,800
Electrical appliances	8,300	18,100
Cleaning materials	6,700	24,300
Maintenance of buildings	28,900	114,400
building materials	-	14,700
Plant/tanks repairs and mainten	389,300	23,600
Sewer network repairs	279,700	387,800
Pipe network repairs	2,024,400	1,494,700
Tools & equipment for repairs	262,300	568,700
Fuel & Oil	2,327,900	2,429,600
Hired Transport	63,600	18,400
Vehicles repair & maintenance	149,400	587,200
Exhauster Repairs	708,300	25,700
Motor Cycle Repairs - Other	21,000	11,600
Servicing/Repairs	92,600	85,000
	6,409,000	5,807,600

13 Finance Costs

	Kshs	Kshs
Charges on cash and bank balances	121,200	273,200
M-pesa transaction charges	174,600	-
Interest expense on bank overdrafts	-	-
Total	295,800	273,200

NOTES TO THE FINANCIAL STATEMENTS (Continued)

14. Property, Plant and Equipment

	Pipeline	Buildings/ Civil works	Plant and Machinery	Motor Vehicles	Computers	office Equipment	Capital Work in progress	Total
COST OR VALUATION	Shs	Shs	Shs	Shs	Shs	Shs	Shs	Shs
At July 1, 2019	53,869,000	2,529,000	5,714,500	0	186,000	33,000	0	62,331,500
Additions	380,000	0	0	0	144,000	10,000	0	534,000
Transfers	0	0	0	0	0	0	0	0
Disposals	0	0	0	0	0	0	0	0
At June 30, 2020	54,249,000	2,529,000	5,714,500	0	330,000	43,000	0	62,865,500
DEPRECIATION								
Rate	5%	10%	12%	15%	33%	15%	0%	
At July 1, 2019	8,532,000	1,287,700	4,977,000	0	106,100	9,900	0	14,912,700
Charge for the year	2,712,500	252,900	685,700	0	110,000	6,500	0	3,767,600
Impairment loss	0	0	0	0	0	0	0	0
Eliminated on disposal	0	0	0	0	0	0	0	0
At June 30, 2020	11,244,500	1,540,600	5,662,700	0	216,100	16,400	0	18,680,300
NET BOOK VALUE At June 30, 2020	43,004,500	988,400	51,800	0	113,900	26,600	0	44,185,200
NET BOOK VALUE At June 30, 2019	45,337,000	1,241,300	737,500	0	79,900	23,100	0	47,418,800

Depreciation of property, plant and equipment

	Kshs	Kshs
Charge for the year	3,767,600	3,699,000

NOTES TO THE FINANCIAL STATEMENTS (Continued)

15. Intangible Assets

Intangible Assets	2019/2020	2018/2019
Cost	Kshs	
At the beginning of the year	301,500	452,000
Additions	-	-
At the end of the year	301,500	452,000
Additions—internal development	-	-
Amortization and Impairment		451,980
At the beginning of the year	-	256,100
Amortization	100,400	150,500
Amortization of additions	-	-
At the end of the year	100,400	150,500
Impairment loss	-	-
At the end of the year	100,400	150,500
Net book value	201,100	301,500

16. Inventories

	Kshs	Kshs
Calcium Hypochlorite	147,100	425,100
Soda Ash	32,500	65,400
Aluminium Sulphate	376,000	1,217,800
Polmar	123,200	-
	678,800	1,708,300

17. Trade Receivables

	2019/2020	2018/2019
	Kshs	Kshs
Gross trade receivables	120,977,500	98,317,300
Provision for doubtful receivables	(12,097,700)	(9,831,700)
	108,879,800	88,485,600
Aging analysis as at 30 th June		
0-30 days	30,530,241	25,752,200
31-60 days	38,771,932	20,097,300
61-120 days	348,102,099	16,168,000
Over 1 year old	48,194,336	36,299,800
	120,977,530	98,317,300

NOTES TO THE FINANCIAL STATEMENTS (Continued)

18. Bank and cash balances

	Kshs	Kshs
Cash at Bank		
KCB - 1106368436	526,900	5,949,000
KCB - 1132172489	1,596,700	90,500
Mpesa Business - 993600	23,700	169,200
Water Service Trust Fund:		
KCB - 1179035151	0	0
KCB - 1171489226	0	0
Add: Cash in Hand	0	208,200
Statement of Cash flows	2,147,300	6,416,900

19. Ordinary share capital

	Kshs	Kshs
Authorized:		
20,000 ordinary shares of Kshs.5.00 par value each	100,000	100,000
Issued and fully paid:		
20,000 ordinary shares of Kshs.5.00 par value each	0	0

20. Retained earnings

The retained earnings represent amounts available for distribution to the Company's shareholders. Undistributed retained earnings are utilized to finance the Company's business activities.

Retained earnings	2019/2020	2018/2019
	Kshs	Kshs
Reserves as at 1st. July	(16,016,600)	(9,712,300)
Profit/(Loss) for the Year	(21,725,800)	(6,304,300)
	(37,742,400)	(16,016,600)

21. Capital reserves

The capital reserve relates to the amount of property, plant and equipment. As indicated in the Statement of financial Position, this is stated after transfer of completed capital projects funded through grant from Water Sector Trust Fund. The amount funded is not repayable.

Capital reserves	2019/2020	2018/2019
	Kshs	Kshs
Capital Reserves (WSTF)		
Reserves as at 1st. July	67,053,200	57,771,200
Additions	0	9,282,000
As as 30 June	67,053,200	67,053,200

NOTES TO THE FINANCIAL STATEMENTS (Continued)

22. Customer Deposits

	Kshs	Kshs
As at 1st July	12,861,100	11,533,100
Current Year	1,605,100	1,328,000
Less: refund	0	0
	14,466,200	12,861,100

23. Trade and other payables

	Kshs	Kshs
Trade payables	37,358,300	22,621,000
Accrued expenses	0	0
Other payables	33,952,800	17,049,600
	71,311,100	39,670,600

24. Government of Kenya

The County Governments of Kisii and Nyamira are the principal shareholder of the Company, holding 100% of the Company's equity interest. These have provided full guarantees to all long-term lenders of the entity, both domestic and external.

Other related parties include:

- a) The Parent Ministry;
- b) Lake Victoria South Water Services Board

Key management

- c) Board of directors
- d) Water Services regulatory Board
- e) Water Resources Authority

Transactions with related parties	2019/2020	2018/2019
	Kshs	Kshs
a) Agency Account		
SPA Fee	20,855,100	25,355,600
WASREB Fee	14,920,300	9,956,000
WARMA Levies	5,128,800	5,351,100
Total	40,904,200	40,662,700
b) Grants from the Government		
Grants from County Government	20,016,100	33,962,400
Total	20,016,100	33,962,400
d) Key management compensation		
Directors' emoluments	4,609,300	4,013,700
Compensation to the MD	3,600,000	2,440,800
Total	8,209,300	6,454,500

NOTES TO THE FINANCIAL STATEMENTS (Continued)

25. OPERATING PROFIT/(LOSS)

The operating profit/(loss) is arrived at after charging/(crediting):

Cash receipts from customers	106,220,500	117,385,700
Cash paid to suppliers	(27,108,400)	(28,668,300)
Staff costs	(85,520,800)	(78,777,800)
Depreciation of property, plant and equipment	0	0
Amortization of intangible assets	0	0
Provision for bad and doubtful debts	0	0
Directors' emoluments - fees	0	0
Auditors' remuneration - current year fees	0	0
- prior year under-provision		
Loss on disposal of property, plant and equipment		
Net foreign exchange loss		
Interest receivable		
Interest payable		
Rent receivable		
Total	(6,408,700)	9,939,600

NOTES TO THE FINANCIAL STATEMENTS (Continued)

26. RETIREMENT BENEFIT OBLIGATIONS

The entity operates a defined contribution scheme for all full-time employees from July 1, 2019. This involves Lap trust, and Lap fund. The company does not operate defined benefit contribution and therefore valuation at the end of the year remained zero.

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

27. PROVISION FOR LEAVE PAY

	2018/2019	2018/2019
	Kshs	Kshs
Balance at beginning of the year	0	0
Additional provision at end of year	0	0
Leave paid out or utilize during the year	1,146,236	1,261,900
Balance at end of the year	<u>1,146,236</u>	<u>(1,261,900)</u>

NOTES TO THE FINANCIAL STATEMENTS (Continued)

28. NOTES TO THE STATEMENT OF CASH FLOWS

	2019/2020	2018/2019
	Kshs	Kshs
a) Reconciliation of operating profit/(loss) to cash generated from/(used in) operations		
Reconciliation of operating profit/(loss) to cash generated from/(used in) operations		
Operating profit/(loss)	<u>(22,557,800)</u>	<u>(6,304,400)</u>
Depreciation	3,767,600	3,699,000
Amortisation	100,400	150,500
(Gain)/loss on disposal of property, plant and equipment	-	-
	-	-
Operating profit/(loss) before working capital changes	(18,689,800)	(2,454,700)
(Increase)/decrease in inventories	1,029,600	235,800
(Increase)/decrease in trade and other receivables	(20,394,200)	12,882,200
Increase/(decrease) in trade and other payables	31,640,400	2,125,700
Increase/(decrease) in retirement benefit obligations	-	-
Increase/(decrease) in Agency Account	241,500	7,789,900
Customer refunds	-	-
Bank Overdraft	-	-
Cash generated from/(used in) operations	<u>(5,340,500)</u>	<u>16,527,600</u>
b) Analysis of changes in loans		
Balance at beginning of the year	-	-
Receipts during the year	-	-
Repayments during the year	-	-
Repayments of previous year's accrued interest	-	-
Foreign exchange (gains)/losses	-	-
Accrued interest	-	-
Balance at end of the year	-	-
c) Analysis of cash and cash equivalents		
Short term deposits	-	-
Cash at bank	2,147,300	6,416,900
Cash in hand	-	-
Balance at end of the year	2,147,300	6,416,900

NOTES TO THE FINANCIAL STATEMENTS (Continued)
29. FINANCIAL RISK MANAGEMENT

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

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

(i) Credit risk

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

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

The carrying amount of financial assets recorded in the financial statements representing the entity's maximum exposure to credit risk without taking account of the value of any collateral obtained is made up as follows:

NOTES TO THE FINANCIAL STATEMENTS (Continued)

29 FINANCIAL RISK MANAGEMENT (Continued)

(i)

	Total amount	Fully performing	Past due	Impaired
	Kshs	Kshs	Kshs	Kshs
At 30 June 2019				
Receivables from exchange transactions	114,353,400	0	0	0
Bank balances	2,147,300	0	0	0
Total	116,500,700	0	0	0
At 30 June 2018				
Receivables from exchange transactions	83,222,900	0	0	0
Bank balances	6,416,900	0	0	0
Total	94,902,500	0	0	0
At 30 June 2017				
Receivables from exchange transactions	75,603,300	0	0	0
Bank balances	4,431,300	0	0	0
Total	80,034,600	0	0	0

The customers under the fully performing category are paying their debts as they continue trading. The credit risk associated with these receivables is minimal and the allowance for noncollectable amounts that the company has recognized in the financial statements is considered adequate to cover any potentially irrecoverable amounts.

The entity has significant concentration of credit risk on amounts due from Major Customers.

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

ii) Liquidity risk management

Ultimate responsibility for liquidity risk management rests with the entity's directors, who have built an appropriate liquidity risk management framework for the management of the entity's short, medium and long-term funding and liquidity management requirements. The entity manages liquidity risk through continuous monitoring of forecasts and actual cash flows.

The table below represents cash flows payable by the company under non-derivative financial liabilities by their remaining contractual maturities at the reporting date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances, as the impact of discounting is not significant.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

29 FINANCIAL RISK MANAGEMENT (Continued)

(iii) Market risk

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

29 FINANCIAL RISK MANAGEMENT (Continued)

(i) Market risk (Continued)

a) Foreign currency risk

The entity has transactional currency exposures. Such exposure arises through purchases of goods and services that are done in currencies other than the local currency. Invoices denominated in foreign currencies are paid after 30 days from the date of the invoice and conversion at the time of payment is done using the prevailing exchange rate.

The entity manages foreign exchange risk from future commercial transactions and recognized assets and liabilities by projecting for expected sales proceeds and matching the same with expected payments.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

29 FINANCIAL RISK MANAGEMENT (Continued)

(ii) Market risk (Continued)

b) Foreign currency sensitivity analysis

The following table demonstrates the effect on the company's statement of comprehensive income on applying the sensitivity for a reasonable possible change in the exchange rate of the three main transaction currencies, with all other variables held constant. The reverse would also occur if the Kenya Shilling appreciated with all other variables held constant.

c) Interest rate risk

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

Management of interest rate risk

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

Sensitivity analysis

The entity analyses its interest rate exposure on a dynamic basis by conducting a sensitivity analysis. This involves determining the impact on profit or loss of defined rate shifts. The sensitivity analysis for interest rate risk assumes that all other variables, in particular foreign exchange rates, remain constant. The analysis has not been performed on the same basis as the prior year.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

29 FINANCIAL RISK MANAGEMENT (Continued)

Fair value of financial assets and liabilities

a) Financial instruments measured at fair value

Determination of fair value and fair values hierarchy

IFRS 7 specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources; unobservable inputs reflect the *entity's* market assumptions. These two types of inputs have created the following fair value hierarchy:

- Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities. This level includes listed equity securities and debt instruments on exchanges.
- Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).
- Level 3 – inputs for the asset or liability that are not based on observable market data (unobservable inputs). This level includes equity investments and debt instruments with significant unobservable components. This hierarchy requires the use of observable market data when available. The *entity* considers relevant and observable market prices in its valuations where possible.

There were no transfers between levels 1, 2 and 3 during the year.

a) Financial instruments not measured at fair value

Disclosures of fair values of financial instruments not measured at fair value have not been made because the carrying amounts are a reasonable approximation of their fair values.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

29 FINANCIAL RISK MANAGEMENT (Continued)

iv) Capital Risk Management

The objective of the entity's capital risk management is to safeguard the Board's ability to continue as a going concern.

30. INCOPORATION

The entity is incorporated in Kenya under the Kenyan Companies Act 2015 and is domiciled in Kenya.

31. EVENTS AFTER THE REPORTING PERIOD

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

32. CURRENCY

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

33. GOING CONCERN

The financial statements have been prepared under the historical cost convention. The financial statements have also been prepared on a going concern basis.

As at 30 June 2020, the statement of financial position reflected an excess of current liabilities over current assets. The working capital deficit was primarily caused by the weak credit and collection policies. Moreover, during the financial year ended 30 June 2020 the Company experienced operating losses of 21,725,800 (2019: loss (6,304,300). This extremely disappointing performance reflected the continued difficult trading conditions suffered by the Company demand management and service area coverage caused by the increased level of Non-Revenue Water in the distribution system. The continuing viability of the Company and its ability to continue as a going concern is dependent upon the Company being successful in its continuing efforts in growing its revenue base and/or accessing additional sources of capital from financiers.

The directors are satisfied that the Company is able to meet its working capital liabilities through the normal cyclical nature of receipts and payments.

The Company has successfully expanded its revenue base by securing a major loan through the Government of Kenya for expansion works at Kisii and Nyamira which will have additional net cash inflows.

Consequently, the directors have proactively sought to address the deficiency in net current assets and improved cash performance via the following initiatives:

- a) Continued focus on debtors invoice collections, keeping inventory levels at a minimum; and
- b) Continued focus on cost management and containment in all areas of business.

As a result of the above matters, the directors are of the view that the Company will continue as a going concern and, therefore, will realize its assets and liabilities and commitments in the normal course of business and at the amounts stated in the financial statements. The directors remain confident about the successful achievement of projected income targets and therefore no adjustments have been made to these financial statements relating to the recoverability and classification of the asset carrying amounts.

The directors believe that the Company will be successful in the above matters and, accordingly, have prepared the financial statements on a going concern basis.

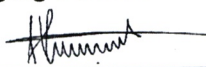
APPENDIX 1: PROGRESS ON FOLLOW UP OF AUDITOR RECOMMENDATIONS

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

Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Focal Point person to resolve the issue (Name and designation)	Status: (Resolved / Not Resolved)	Time frame: (Put a date when you expect the issue to be resolved)
1.	Trade Payables	Payment plan in place	MD, Procurement Manager, FM	Not resolved	
2.	Agency Account	Provided support schedules	MD, FM	Resolved	
3.	Unpaid Share capital	Discussion ongoing with County governments	Board of Directors	Not resolved	
4.	Failure to disclose material uncertainty in relation to going concern	Continuous Process	MD, FM	Not resolved	
5.	Non-Revenue Water	Implementation of NRW Management plan	MD, TM	Not resolved	
6.	Staff Costs	To comply with regulations	Board of Directors, MD, HRM	Not resolved	
7.	Unregulated acting capacity	Not yet resolved	Board of Directors, MD, HRM	Not resolved	
8..	Lack of risk management policy	Not yet established	Board of Directors, Internal Auditor	Not resolved	
9.	Debt management policy and strategy	Not yet established	Board of Directors, Commercial Manager	Not resolved	

Managing Director

Sign _____



Chairman of the Board

Sign _____




APPENDIX II: INTER-ENTITY TRANSFERS

ENTITY NAME:			
Break down of Transfers from the County Governments			
FY 2018/2019			
a. Recurrent Grants			
	<u>Direct transfer to Kenya Power</u>	<u>Amount (KShs)</u>	<u>Indicate the FY to which the amounts relate</u>
		20,016,100	2019/2020
	Total	20,016,100	
b. Development Grants			
	<u>Bank Statement Date</u>	<u>Amount (KShs)</u>	<u>Indicate the FY to which the amounts relate</u>
	Total	0	
c. Direct Payments			
	<u>Bank Statement Date</u>	<u>Amount (KShs)</u>	<u>Indicate the FY to which the amounts relate</u>
	Total	0	
d. Donor Receipts			
	<u>Bank Statement Date</u>	<u>Amount (KShs)</u>	<u>Indicate the FY to which the amounts relate</u>
	Total	0	

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

Finance Manager
Gusii Water and Sanitation Company Ltd

Head of Accounting Unit
County Government

Sign  _____

Sign _____

Date _____

Date _____



Annual Report and Financial Statements for the financial year ended 30 June 2020
