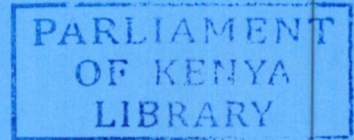


Enhancing Accountability



REPORT

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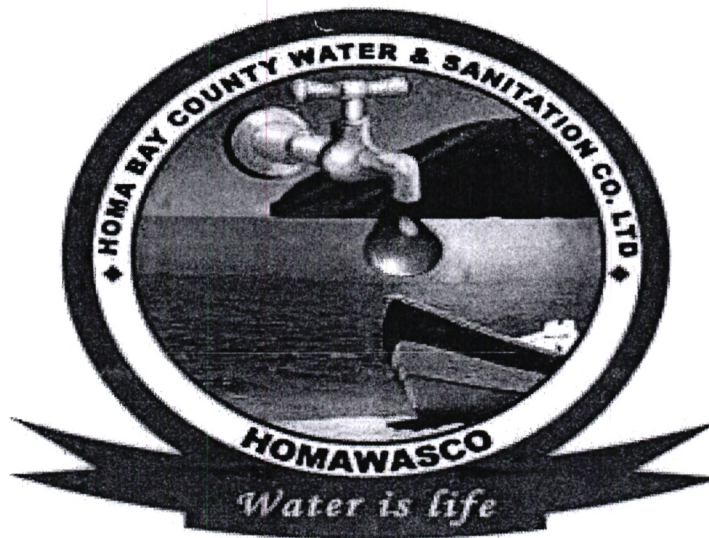
OF

THE AUDITOR-GENERAL

ON

HOMA BAY COUNTY WATER AND SANITATION COMPANY LIMITED

FOR THE YEAR ENDED 30 JUNE, 2019



HOMA BAY COUNTY WATER & SANITATION CO. LTD
ANNUAL REPORTS AND FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDING
JUNE 30, 2019

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

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

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HOMA BAY COUNTY WATER & SANITATION CO. LTD

Annual Reports and Financial Statements

For the year ended June 30, 2019

I. KEY ENTITY INFORMATION

Background information

Homa Bay County Water and Sanitation Company Limited (the then South Nyanza Water and Sanitation Company), was established under the Company's Act Cap 486 on 12th June, 2006. The Company was formed by the defunct local authorities and given the mandate of providing water and sanitation services within 8 Sub-Counties:- Mbita, Suba, Kasipul, Karachuoyo, Rangwe, Kabondo, Ndhiwa and Homa Bay Township. Homa Bay County Government is the major shareholder of the Company.

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

Principal Activities

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

Directors

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

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

The following directors resigned during the year:

- | | | |
|---------------------|--------|-------------------------|
| 1. Dir, Moses Lorre | Member | - Retired on 29.03.2019 |
|---------------------|--------|-------------------------|

The following directors were appointed during the year:

- | | | |
|-------------------------|--------|---------------------------|
| 1. Dir. Kenneth Onyango | Member | - Appointed on 29.03.2019 |
|-------------------------|--------|---------------------------|

NOTE: Member CEC-Member of County Executive Committee

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

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

Registered Offices

Homa Bay County Water and Sanitation Company Ltd

Kendu - Homa Bay Road/Highway

P.O. Box 4, 40300

Homa Bay, KENYA

Corporate Headquarters

Homa Bay County Water and Sanitation Company Ltd

County Assembly Road,

Next to New TSC -Nyanza Regional Offices

P.O. Box 4, 40300...

Homa Bay, KENYA

Corporate Contacts

Telephone: 234-059-22314

E-mail: homawater@yahoo.com/ homawater@gmail.com

Corporate Bankers

1. Kenya Commercial Kenya

Homa Bay Branch

P.O. Box, 4132

40300, Homabay

Kenya

2. Co-operative Bank of Kenya

Homa Bay Branch

P.O. Box, 406

40300, Homabay

Kenya

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

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

Auditors

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

Company Secretary


1. Olotch & Company Advocates

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

HOMA BAY COUNTY WATER & SANITATION CO. LTD

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

II. THE BOARD OF DIRECTORS- THE OUTGOING BOARD

<p>1. Moses Lorre Collins Onono</p> 	<p>Age: 53yrs</p> <p>Qualifications:</p> <ul style="list-style-type: none"> • Master of Science Public Health • Bsc. Lab Sciences • Diploma in Sales Mgt & Marketing • Diploma in Medical Laboratory Sci. 	<p><u>CAREER PROFILE</u></p> <p>Has vast experience in the health sector, having worked previously in the Ministry of health as a health trainer and Research Secretariat at KEMRI. Currently a businessman in the health sector and a change enthusiast. He is the Managing Director, the scientific Group (K) Ltd.</p>
--	---	---




BOARD COMMITTEES:

COMMITTEE	OUTGOING	INCOMING
1. FINANCE & HUMAN RESOURCE COMMITTEE	I. Isdora Akinyi-Member	I. Zablon Were-Chairperson II. Kenneth Onyango III. CEC Finance
	I. Moses Lorre-member	I. Isdora Akinyi-chairperson
2. TECHNICAL COMMITTEE	II.	II. Millicent Matengo-Member
	III.	III. Lenjulians Onano-Member
	I. Moses C.O Lorre-Chairperson	I Millicent Matengo-Chairperson
3. INTERNAL AUDIT COMMITTEE	II.	II. Lenjulians Onano-Member
		III

HOMA BAY COUNTY WATER & SANITATION CO. LTD





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

I. THE BOARD OF DIRECTORS- THE INCOMING SERVING BOARD

<p>1. Dir.Prof. George O. Krhoda</p> 	<p>Age : 66 Qualifications: B.EDd (hons), M.A PhD- Hydrology and River Hydraulics African Ground Water Commissioner.</p>	<p><u>CAREER PROFILE</u> Associate Professor of Geography and Environment Studies, Hydro-geologist. Has been permanent Secretary, Mining Water and irrigation, Environment and Natural resources, working for the World Bank, Netherlands Embassy and UNOPS.</p>
<p>2. Dir. Zablon Were</p> 	<p>Age : 61 Diploma Electrical Engineering (Related trainings locally and abroad)</p>	<p><u>CAREER PROFILE</u> Has vast experience in electrical engineering, having worked with Africa Synthetic Fibres and Sunflag Textiles</p>
<p>3. Dir. Millicent Matengo</p> 	<p>Age: 53 years Qualifications</p> <ul style="list-style-type: none"> • Certificate in Business Management • Financial literacy Program 	<p><u>CAREER PROFILE</u> Has had a vast experience in business management including real estate management. Has held a position of Secretary in the Kenya booksellers Association – Kenya, currently the managing director of Maam Bookshop and other enterprises.</p>


HOMA BAY COUNTY WATER & SANITATION CO. LTD

Annual Reports and Financial Statements
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<p>4. Dir. Isdora Akinyi</p> 	<p>Age: 34yrs Qualifications:</p> <ul style="list-style-type: none"> • Degree in Gender and Development Studies • Diploma in Project Management • Diploma in Management of Information Systems 	<p><u>CAREER PROFILE</u> Has vast experience in project management of development projects, having previously worked with Catholic Relief Services and APHIA plus as a project Coordinator. Currently a business lady running her own Pharmacy (Domakis Pharmaceuticals Limited) and an Events Planner.</p>
 <p>5. Dir. Lenjulians Onano</p>	<p>Age: 34yrs Qualifications Higher diploma in Project Planning & Management Diploma in Monitoring & Evaluation Diploma in Criminology</p>	<p><u>CAREER PROFILE</u> Has served in different ranks in Government security institutions. He is currently working in County department of Water & Environment and is a shareholder director in the Board, representing the Parent Ministry. He is also a partner in a Private Crimes investigation company.</p>
 <p>6. Evans L.O Nyagol-MD</p>	<p>Age: 49 Qualifications: MBA, CPA(K)</p>	<p><u>CAREER PROFILE</u> Has vast managerial experience having worked in the sugar industry and higher education sector for a long time. He sits in the board as an executive director.</p>
 <p>7. Dir. Kenneth Onyango</p>	<p>Age: 48 Qualification: BCOM. ;MBA Strategic Management</p>	<p><u>CAREER PROFILE</u> Worked in top management of KRA for over 20 years.</p>

HOMA BAY COUNTY WATER & SANITATION CO. LTD

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

	<p>Olotch & Company Advocates</p>	<p><u>Qualification:</u> CPS(K)</p> <p><u>Responsibility:</u> Company Secretary</p>
<p>8. CS Pamela Ochieng Olotch</p>		

III. MANAGEMENT TEAM

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

HOMA BAY COUNTY WATER & SANITATION CO. LTD

Annual Reports and Financial Statements

For the year ended June 30, 2019



4. CPA Samuel Ngicho

Qualification:

CPA(K)

B.Com, Finance

Responsibility:

Finance Manager



5. Liz Amolo

Qualification:

BSc, MBA Human Resources

Human Resource Manager



6. Eng. Collins Obango

Qualification:

BSc. Mechanical Engineering

Responsibility:

Technical Manager

Note: The CEO and the Company Secretary will feature both under the 'Board' and 'Management'.

IV. CHAIRMAN'S STATEMENT

Greetings to all the stakeholders of HOMAWASCO; I hereby present the financial report for the financial year 2018/19 . During the FY 2018/19, the Company realised increase in revenue from its core activity of Water & Sewerage services provision, from Kshs **90,784,780** in the FY 2017/18 to **Kshs 117,369,338**. This increase was mainly due to increase in water production and enhanced efforts to increase operational efficiency however the overall performance of the company was a deficit of Kshs **5,331,950**. It should be noted that the company recorded increased funding from Grants, National & County government during the year; total grant funding amounted to Kshs 57,462,378 in 2018/19 as compared to Kshs 39,254,375 in the previous year.

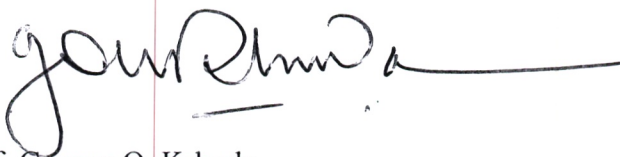
The Board continued focusing on operational efficiency improvement with key emphasis on NRW reduction, staff efficiency improvement and operation system development/automation, mainly through the partnership with Dunea Water Company in Netherlands in helping bridge skill gaps in technical areas through peer exchange programs.

To ensure we meet our customer water demand that stands at over 30,000m³ per day, we have partnered with National Government for the construction of 3 main water projects ,the three water projects were signed off during the year in Homa Bay, Kendu Bay, and Oyugis schemes. Production is expected to go up to 5,700 m³/day in Kendu Bay, 12,600m³/day in Oyugis and 5,500m³/day in Homa Bay town respectively. Another 2,000m³/day is expected from Kodera/Pala Water Project to West Karachuonyo scheme. With a total capacity of 25,800m³/day increase in production, the company will achieve its objective of 80% water coverage by 2022 when these projects are completed.

Our operations have been guided by the strategic plan 2015-2020, that strategic plan is coming to an end in year 2020, therefore we have initiated a process of preparation of a new robust strategy document to cover our operation in the year 2020-2024. Key in the strategy will be engagement of stakeholders to the review water tariffs therefore ensure adequate revenue to support company operations.

I wish to appreciate the support the company received from LVEMP, LVSWWDA, and County Government of Homa Bay, Development partners, Board of Directors, and all HOMAWASCO staff.

Thank you.



Prof. George O. Krhoda
Chairman – Board of Directors

V. REPORT OF THE CHIEF EXECUTIVE OFFICER

In the FY 2018/19, the company continued with its effort towards improvement of revenues and operations stabilization. The company attained a turnover of Kshs **117,369,338** with a total operating expense of Kshs. **122,701,288**, leaving a total operating deficit before tax of Kshs . **5,331,950**. The Company is yet to achieve sustainable operations since it still relies on County Government of Homa Bay for payment of water pumping power bills, the water coverage is still below 50%, plant production capacity is still at 30% of demand in all water schemes and therefore client satisfaction is also low due to the limited supply. The company fell short of the budgeted production by 29% due to shut down at Kendu Bay water scheme due to rehabilitation works and disruption of works in oyugis water scheme due to roadworks leading to persistent stoppages during the year.

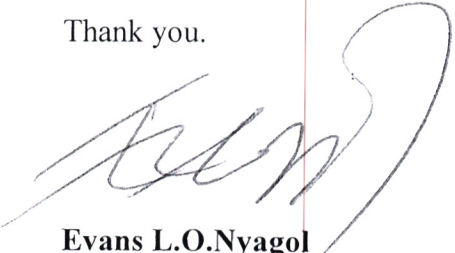
However, the company has been working with various stakeholders to transform itself to a commercially viable enterprise with key focus on service delivery. Kenya Government through Lake Victoria South Water Works Development Agency (LVSWWDA) has approved funding for the development of three (3) new water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

To ensure operational efficiency, we have partnered with Dunea NV, a water company from Netherlands for capacity development in order to improve on staff efficiency. The partnership will also help to address automation in some key areas like linking the billing with operations like meter reading. Additional, through the partnership, key documents that will help shape the company with respect to processes will be developed. These documents include the Maintenance Manual, Wastewater Strategic Plan, Finance Manual, NRW Plan and reviewed HR Manual.

To ensure prudent financial management, the Board initiated improvement in revenue services by separating Finance and Commercial functions of the company through creation of Finance and Commercial departments ensuring prudent billing and Revenue administration

The future of the company looks bright since, in the next one year, we expected to increase our water production from the current average of 5,000m³ per day to an estimated 25,000M³ after completion of the three new water plants in Homa Bay, Kendu Bay and Oyugis funded by the National Government through LVSWWDA and County Government of Homa Bay.

Thank you.



Evans L.O.Nyagol
Managing Director

VI. MANAGEMENT DISCUSSION AND ANALYSIS

PERFORMANCE OVERVIEW

1.0 INTRODUCTION

The management of HOMA WASCO hereby presents to the shareholders and stakeholders reports and statements on the financial performance of the company for the financial year ended June 2019. The year came with many challenges being an election year, which saw the economy suffer thereby affecting businesses and HOMA WASCO was not exempted. The political turmoil experienced in the country saw the Company lose several hours of production thereby affecting sales and subsequently, revenue collection. The following are a highlight of the key areas of performance during the year:

1.1 REVENUES

The company achieved a turnover of **Ksh. 117,369,338** against a budget of **Kshs 98,830,552** representing **19%** above budget performance with a total operating expenditure of **Ksh. 122,701,288** leaving a deficit before tax of **Kshs. 5,331,950**. The Incomes were made up of company water & sewerage sales at **Kshs 53,884,040 (2018-shs 51,530,405)**, Grants from County Government at **Kshs 23,898,487 (2018-26,419,437)** in electricity bills and grants from other development partners of **Kshs 33,563,891 (2018-12,837,938)**. The company achieved an average monthly billing of **Kshs 3.97 Million** and an average monthly collection of **Ksh 4.5 Million**. The company had an average collection efficiency of **113%** which is within the Water Sector benchmark of **>95%** and an average of **52%** Non-Revenue Water level against a sector benchmark of **<25%**.

The existing connections in the year under review stood at **6,727** with **3,773** active connections and **2,354** dormant connections. The average metering ratio of **74%** against a sector benchmark of **100%** metering was also achieved.

The major impediments on the achievement of the water sales budget was decrease in production due to intermittent stoppages occasioned by major repair works in Oyugis Road construction sites and facelift rehabilitation works at kendu-bay scheme. These activities took good part of our production hours in the first and second quarters of the year hence poor sales. However the waste water segment and direct sales recorded impressive growth during the year with **37%** and **101%** respectively. The Company also recorded massive cash inflows from our donors that marked growth at **90%** compared to last year. As a result of this, one of key deliverables to donor grants at kendu-Bay was completed and is operational ready to yield about **800m³/day**.

1.2 EXPENDITURES

The company incurred total operational expenditures of **Kshs. 122,701,288 (2018-shs 95,474,911)** against a budget of **Kshs. 95,468,325 (2018-shs 168,772,323)**. The cost recovery rate of the company stood at **95%** against a sector benchmark of **>_100%**. This is due to the high operational costs occasioned by running old dilapidated water supply system, low production during the year as mentioned earlier, as well as high commercial losses due to inefficient metering ratio.

HOMA BAY COUNTY WATER & SANITATION CO. LTD

Annual Reports and Financial Statements

For the year ended June 30, 2019

1.3 COMPLIANCE WITH STATUTORY REQUIREMENTS

The company is committed to paying all statutory obligations as and when they fall due. These levies and fees are WASREB, WARA and LVSWWDA levies. The cash flow challenge continues to hamper this commitment in the past and presently. The company will strive to continuously pay current liabilities to such bodies as and when they fall due in the subsequent years. Amounts owed to these bodies as at 30 June 2019 stood as follows:

	<u>Kshs</u>
WASREB-	293,126
WARA-	21,934,689
LVSWSB-	24,511,441
TOTAL	<u>46,739,256</u>

1.4 RISKS

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

- ▶ Harsh economic conditions in the country
- ▶ Liquidity challenges
- ▶ Credit risk resulting from debtors not paying all their bills as and when they fall due
- ▶ Delay in electricity bills settlement by the County Government
- ▶ Insecurity caused by Political activities
- ▶ Water pollution
- ▶ Sabotage from competitors and road contractors
- ▶ Inadequate network expansion funds.
- ▶ Delay in receiving support from Development partners
- ▶ Low capacity on technical staff
- ▶ Escalating trade and other payables balances that may lead to litigations and subsequent consequences

1.5 DEVELOPMENTS

As stated last financial year, the year under review realized major boost to our staff in terms of technical expert exchange initiatives when they learnt a lot of skills from DUNEA team. There is a marked improvement in NRW management, improved response time to bursts and leaks, good leadership skills. The community based sanitation program has picked up well in the rural areas, and the company's image has greatly improved in so far as pro-poor strategy is concerned. The Kendu Bay water treatment plant has been upgraded in capacity to 800m³/day; from 200m³/day. The partnership with development agencies has done so well and hopefully it is expected to continue to the second phase beginning in 2021.

VII. REPORT OF THE DIRECTORS

The Directors submit their report together with the audited financial statements for the year ended **June 30, 2019** which show the state of Homawasco's affairs.

Principal activities

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

Results

The results of the entity for the year ended **June 30, 2019** are set out on pages 1-7

Directors

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

Auditors

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

Dividends

The directors do not propose any dividend for the year.

By Order of the Board

Corporate Secretary

Homa Bay County Water & Sanitation Co. Ltd

Date:.....

HOMA BAY COUNTY WATER & SANITATION CO. LTD

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

VIII. STATEMENT OF DIRECTORS' RESPONSIBILITIES

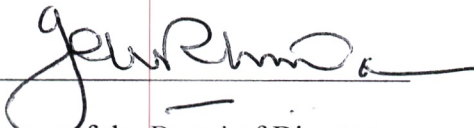
Section 164(3, 4&5) of the Public Finance Management Act, 2012 and companies act 2015, require the Directors to prepare financial statements in respect of that company, which give a true and fair view of the state of affairs of the company at the end of the financial year/period and the operating results of the company for that year/period. The Directors are also required to ensure that the company keeps proper accounting records which disclose with reasonable accuracy the financial position of the company. The Directors are also responsible for safeguarding the assets of the company.

The Directors are responsible for the preparation and presentation of the *company's* financial statements, which give a true and fair view of the state of affairs of the *company* for and as at the end of the financial year (period) ended on June 30, 2019. This responsibility includes: (i) maintaining adequate financial management arrangements and ensuring that these continue to be effective throughout the reporting period; (ii) maintaining proper accounting records, which disclose with reasonable accuracy at any time the financial position of the entity; (iii) designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of the financial statements, and ensuring that they are free from material misstatements, whether due to error or fraud; (iv) safeguarding the assets of the *company*; (v) selecting and applying appropriate accounting policies; and (vi) making accounting estimates that are reasonable in the circumstances.

The Directors accept responsibility for the *Company's* financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity with International Financial Reporting Standards (IFRS) or International Accounting Standards(IAS), and in the manner required by the PFM Act, 2012 . The Directors are of the opinion that the *company's* financial statements give a true and fair view of the state of *company's* transactions during the financial year ended June 30, 2019, and of the *Company's* financial position as at that date. The Directors further confirm the completeness of the accounting records maintained for the company, which have been relied upon in the preparation of the *company's* financial statements as well as the adequacy of the systems of internal financial control.

Approval of the financial statements

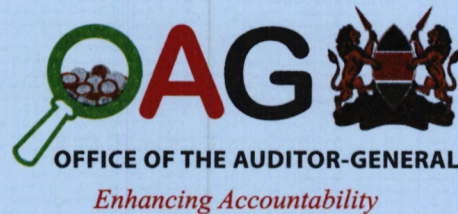
The *company's* financial statements were approved by the Board on _____ 2019 and signed on its behalf by:

Sign 
Chairman of the Board of Directors

Sign 
Managing Director

REPUBLIC OF KENYA

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



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

REPORT OF THE AUDITOR-GENERAL ON HOMA BAY COUNTY WATER AND SANITATION COMPANY LIMITED FOR THE YEAR ENDED 30 JUNE, 2019

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of Homa Bay County Water and Sanitation Company Limited set out on pages 1 to 21, which comprise the statement of financial position as at 30 June, 2019, and the statement of profit or loss and other comprehensive income, statement of changes in equity, statement of cash flows and the statement of comparison of budget and actual amounts for the year then ended, and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, 2015. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

In my opinion, except for the effects of the matters described in the Basis for Qualified Opinion section of my report, the financial statements present fairly, in all material respects, the financial position of Homa Bay County Water and Sanitation Company Limited as at 30 June, 2019, and of its financial performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards (IFRS) and comply with the Companies Act, 2015 and Public Finance Management Act, 2012.

Basis for Qualified Opinion

1. Inaccuracies in the Comparative Balances

The following differences were noted between the comparative balances reflected in the financial statements and the balances reflected in the audited financial statements for 2017/2018 financial year as indicated below.

Item	Comparative Balance in 2018/2019 Financial Statements (Kshs.)	Audited Balance in 2017/2018 Financial Statements (Kshs.)	Variance (Kshs.)
Grants from County/National Government	39,254,375	32,393,277	6,861,098
Decrease in Receivables in the Statement of Cash flows	11,759,787	10,607,338	1,152,449
Increase in Payables in in the Statement of Cash flows	10,810,185	7,401,424	3,408,761

Consequently, the accuracy and completeness of the comparative balances reflected in the financial statements could not be confirmed.

2. Ordinary Share Capital

The statement of financial position reflects ordinary share capital/initial capital of Kshs.1,776,711. However, the initial share capital decreased from Kshs.2,831,702 reported as at 30 June, 2018 to Kshs.1,776,711 as at 30 June, 2019. The unsupported decrease of Kshs.1,054,991 is referred to as a transfer of excess equity in the statement of changes in equity.

Information available indicates that, in 2014, the Company changed its name from South Nyanza Water Services Company Ltd to Homa Bay County Water and Sanitation Company Ltd. Consequently, the ownership of Kendu Bay Town Council with 497 shares, Homa Bay County Council with 482 shares and Suba County Council with 480 shares, were subsequently transferred to Homa Bay County Government. The Memorandum of Association, however, still reflected the defunct Local Authorities as the owners of the Company.

In the circumstances, the accuracy, completeness, validity and ownership of the ordinary share capital of Kshs.1,776,711 could not be confirmed.

3. Provision for Bad Debts

The statement of profit or loss and other comprehensive income reflects an amount of Kshs.2,225,404 under provision for bad debts. However, the accounting policy which was used in the computation and recognition of the provision for bad debts was not disclosed in the financial statements. Consequently, the adequacy, accuracy and completeness of the provision for bad debts of Kshs.2,225,404 could not be confirmed.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the Homa Bay County Water and Sanitation Company Limited Management in accordance with ISSAI 130 on Code of Ethics. I have fulfilled other ethical responsibilities in accordance with the ISSAI and in accordance with

other ethical requirements applicable to performing audits of financial statements in Kenya. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

Emphasis of Matter

Material Uncertainty Related to Going Concern

The statement of profit or loss and other comprehensive income indicates that the Company incurred a loss of Kshs.5,331,950 during the year ended 30 June, 2019 (2018: a loss of Kshs.4,989,973). The operating loss continued to deplete the retained earnings from negative Kshs.30,494,004 as at 30 June, 2018 to negative Kshs.35,825,954 as at 30 June, 2019. If the trend of the loss continues, the Company is likely to have liquidity problems which might have a negative impact on its operations.

Further, the statement of financial position indicates that the total current liabilities of Kshs.90,487,328 exceeded the total current assets of Kshs.46,363,676, resulting in a negative working capital of Kshs.44,123,652 as at 30 June, 2019. If remedial measures are not taken to reverse the trend, the Company may not have the ability to continue operating as a going concern.

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

Unresolved Prior Year Matters

Various prior year audit issues remained unresolved as at 30 June, 2019. Management has not provided reasons for the delay in resolving the prior year audit issues. Further, the unresolved prior year issues are not disclosed under the progress on follow up of auditor's recommendations section of the financial statements as required by the Public Sector Accounting Standards Board.

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 the Basis for Conclusion on Lawfulness and Effectiveness in Use of Public Resources section of my report, I confirm

that, nothing else has come to my attention to cause me to believe that public resources have not been applied lawfully and in an effective way.

Basis for Conclusion

1. Water Sales

Included in the statement of profit or loss and other comprehensive income is the water sales amount of Kshs.35,274,996. However, examination of records revealed that the Company produced 1,254,619 cubic meters (M3) of water out of which only 506,075 cubic meters were billed to customers. The balance of 748,544 cubic meters or approximately 60% of the volume represents Non-Revenue Water (NRW) which was not billed to customers. The unbilled water of 60% is over and above the allowable loss of 25% in accordance with the Water Services Regulatory Board Guidelines, 2010. This is, therefore, an indication that the water infrastructure and resources available were not used efficiently and effectively during the year under review.

2. Ethnic Composition of Staff

An examination of the employees records and the payroll revealed that twenty-four (24) members of staff who were recruited during the year were from one dominant ethnic community in the County. This is to contrary Section 7(1) and (2) of the National Cohesion and Integration Act, 2008 which stipulates that the public institutions shall seek to represent the diversity of the people of Kenya in employment of staff and that no public establishment shall have more than one third of its staff from the same ethnic community.

3. Donated Solar Panels

The statement of financial position reflects a balance of Kshs.4,168,199 being the net book value for plant and machinery. However, the balance excluded two hundred and twenty four (224) solar panels of undisclosed value donated by the United Nations Industrial Development Organization (UNIDO) during the year for pumping water.

Further, an audit inspection in December 2019 revealed that the solar panels had not been installed but were lying idle in the stores and thus, denying the Company a more cost effective source of power.

4. Accrued Liabilities

The statement of financial position reflects an accrued liabilities balance of Kshs.12,695,104. The balance consisted of payroll deductions due to HELB, NHIF, NSSF, PAYE and SACCO contributions. The statement also reflects an amount of Kshs.51,057,416 in respect of corporate levies. No explanation has been provided on why the amounts remained un-remitted to the relevant authorities against the requirements of Section 19(4) of the Employment Act, 2007

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 matters described under the Basis for Conclusion on Effectiveness of Internal Controls, Risk Management and Governance section of my report, I confirm that, nothing else has come to my attention to cause me to believe that internal controls, risk management and governance were not effective.

Basis for Conclusion

Information Technology Internal Controls

A review of the operations of the Information Technology (IT) Department revealed that during the year under review, the Company did not have IT experts to manage its information systems infrastructure. In addition, no independent back-up system was in place to prevent loss of data from malicious attack or in case of disaster. The Company did not also have fire extinguishers and fire suppression systems to mitigate against possible fire outbreaks.

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

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

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

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

Responsibilities of Management and those Charged with Governance

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

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

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

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

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

Auditor-General's Responsibilities for the Audit

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

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

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

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

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

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

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

- 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.


Nancy Gathungu
AUDITOR-GENERAL

Nairobi

31 August, 2021

Homa Bay County Water & Sanitation Company Ltd

Reports and Financial Statements for the year ended June, 30, 2019


STATEMENT OF PROFIT AND LOSS AND OTHER COMPREHENSIVE INCOME

		2019 Kshs	2018 Kshs
REVENUES			
Water Sales	25	35,274,996	34,294,514
Sewerage Income	25	12,389,202	9,883,394
Tanker/Exhauster Income	24	6,219,842	5,167,250
TOTAL REVENUES		53,884,040	49,345,158
Other income			
Grants from County /National Govt	23	57,462,378	39,254,375
Other Income	24	6,022,920	2,185,247
		63,485,298	41,439,622
G-Income		117,369,338	90,784,780
OPERATING EXPENSES			
Administration Costs	26	70,023,860	43,289,289
Operation and Distribution Costs	28	44,404,586	47,310,688
Provision for Bad Debts	29 a)	2,225,404	
Depreciation of property, plant and equip	29 a)	4,837,089	4,164,262
Amortisation of Intangible Assets	29 a)	760,671	710,671
TOTAL OPERATING EXPENSES		122,251,611	95,474,911
OPERATING PROFIT/(LOSS)	29 b)	(4,882,273)	(4,690,131)
Finance Income	29 b)	-	6,188
Finance Costs	29 b)	449,677	306,030
PROFIT/(LOSS) BEFORE TAXATION		(5,331,950)	(4,989,973)
INCOME TAX EXPENSE/(CREDIT)			
PROFIT/(LOSS) AFTER TAXATION		(5,331,950)	(4,989,973)

The financial statements were approved by the Board on _____ 2020

& signed on its behalf by:

Chairman of the Board



C.E.O/M.D



Homa Bay County Water & Sanitation Company Ltd

STATEMENT OF FINANCIAL POSITION AS AT 30TH JUNE 2019

ASSETS	NOTE	2019	REINSTATED 2018
Non-Current Assets		Ksh	Ksh
Computers	22	737,971	1,258,033
Motor Vehicle including Motor bikes	22	2,419,944	3,892,500
Intangible assets	11	36,165	646,836
Building & Machinery	22	37,942,125	39,965,321
W-I-P (Kendu Bay Rehabilitation)	22	38,605,476	-
Plant & Machinery	22	4,168,199	850,199
Office Furniture & Fittings	22	471,062	556,002
Total Non-Current Assets		84,380,942	47,168,891
Current Assets			
Inventories	12	2,103,637	322,322
Net Trade and other receivables	13a	42,102,459	33,454,339
Staff Imprest			527,786
Bank and cash balances	14	2,057,580	1,423,028
Amount Owed By Shareholders		100,000	100,000
VAT Input Assets		-	
Short Term Lending		-	100,000
Herbon prepayment		-	
KPLC Deposit		-	5,000
Total Current Assets		46,363,676	35,932,475
TOTAL ASSETS		130,744,618	83,101,366

EQUITY AND LIABILITIES

			REINSTATED
Capital and Reserves			
Ordinary share capital/Initial Capital	15	1,776,711	2,831,702
Retained earnings	16	(35,825,954)	(30,494,004)
Transfer to Capital Reserves	17	37,724,252	32,954,005
Capital and Reserves		3,675,009	5,291,703
Non-Current Liabilities			
Deferred tax liability			
Deffered Income - Grant	18	36,582,281	-
Total Non-Current Liabilities		36,582,281	-
Current Liabilities			
Accrued Liabilities	20b	12,695,104	-
Corporate Liabilities	20a	51,057,416	53,611,640
Trade and other payables	19	22,318,754	20,401,569
Customer Deposits	21	4,416,054	3,796,454
Total Current Liabilities		90,487,328	77,809,663
TOTAL EQUITY AND LIABILITIES		130,744,618	83,101,366

The financial statements were approved by the Board on _____ 2020 and signed on its behalf
by:



Chairman of the Board

Sign


C.E.O/M.D

HOMA-BAY COUNTY WATER AND SANITATION CO LTD

CASH FLOW STATEMENT AS AT 30TH JUNE 2019

<u>Notes</u>	<u>2019</u> <u>Kshs</u>	<u>2018</u> <u>Kshs</u>
<u>Cash flow from operating activities:</u>		
Net profit/Loss	(5,331,950)	(4,989,973)
	(5,331,950)	(4,989,973)
Adjustment for non-cash operations		
Depreciation charge	4,837,089	2,141,066
Armotization of Water kiosks	-	2,023,196
Provision for Bad debts	2,225,404	
Armotization of Software	760,671	710,671
Net cash from operating activities	2,491,214	(115,039)
Changes in Working Capital		
Increase/Decrease in Inventories	(1,781,316)	(34,775)
Increase/Decrease in Receivables	(8,648,120)	(10,607,338)
Increase/Decrease in Payables	12,677,665	7,401,424
Customer Deposits	619,600	710,997
Increase/Decrease in prepayments	-	-
Net Change in working capital	2,867,830	(2,529,692)
<u>Cash flow from Investing activities:</u>		
Fixed Assets Additions	(42,659,811)	(6,901,098)
Acquisition of intangible assets	(150,000)	-
Work in Progress	(38,605,476)	-
Total cash from Investing activities	(81,415,287)	(6,901,098)
<u>Cash flow from Financing activities:</u>		
Prior Year Adjustment	-	-
Cash from deferred income grant	19,228,417	-
Cash from other grants	57,462,378	5,973,840
Interest & Commission Received	-	6,188
Total cash from Financing activities	76,690,795	5,980,028
Increase/Decrease in Cash and cash equivalentents	634,552	(3,565,800)
Cash balance at the begining of the year	1,423,028	2,732,516
Cash balance at the close of the year	2,057,580	1,423,028

Homa Bay County Water & Sanitation Company Ltd

Reports and Financial Statements

For the year ended June, 30, 2019

STATEMENT OF CHANGES IN EQUITY

	Ordinary share/Initial capital	Revaluation reserve	Fair value adjustment reserve	Retained earnings	Capital Reserves	Proposed dividends	Total
				RESTATED			
At July 1, 2017	2,831,702	-	-	(20,733,784)	32,954,005	-	15,051,923
Transfer of excess depreciation	-	-	-	-	-	-	-
Transferred to Capital Reserve	-	-	-	(4,770,247)	-	-	(4,770,247)
Total comprehensive income				(4,989,973)			(4,989,973)
Others	-	-	-	-	-	-	-
Dividends paid – 2018	-	-	-	-	-	-	-
Interim dividends paid – 2019	-	-	-	-	-	-	-
Proposed final dividends	-	-	-	-	-	-	-
At June 30, 2018	2,831,702	-	-	(30,494,004)	32,954,005	-	5,291,703
At July 1, 2018	2,831,702	-	-	(30,494,004)	32,954,005	-	5,291,703
Transfer of excess equity	(1,054,991)	-	-	-	-	-	(1,054,991)
Deferred tax on excess depreciation	-	-	-	-	-	-	-
Fair value adjustment	-	-	-	-	-	-	-
Total comprehensive income	-	-	-	(5,331,950)	-	-	(5,331,950)
Dividends paid – 2017	-	-	-	-	-	-	-
Interim dividends paid – 2018	-	-	-	-	-	-	-
Proposed final dividends	-	-	-	-	-	-	-
Transfer from retained earnings				-	4,770,247		4,770,247
At June 30, 2019	1,776,711	0	0	(35,825,954)	37,724,252	-	3,675,009

Homa Bay County Water & Sanitation Company Ltd
Reports and Financial Statements for the year ended June, 30, 2019

BUDGET VS ACTUAL FOR THE YEAR 2018/2019

	BUDGET	ACTUAL	VARIANCE	NOTES
Water Sales	49,786,008	35,274,996	(14,511,012)	
Sewerage Income	9,033,744	12,389,202	3,355,458	
Tanker/ Exhauster Income	6,760,000	6,219,842	(540,158)	
Other Incomes	3,000,000	6,022,920	3,022,920	
Finance Income	-	-	-	
Grants from Government	30,250,800	57,462,378	27,211,578	
	98,830,552	117,369,338	18,538,786	
Personnel Costs	34,336,624	26,867,086	7,469,538	
Other administrative costs	11,417,580	14,736,560	(3,318,980)	
BOD Expenses	1,875,000	2,389,248	(514,248)	
Provision for Bad Debts	500,000	2,225,404	(1,725,404)	
Resource Mobilisation				
Project Implementation Expenses		28,204,960	(28,204,960)	
Chemicals	8,689,920	4,421,159	4,268,761	
Operations & Maintenance	3,122,000	3,092,901	29,099	
Electricity cost	26,250,800	23,898,487	2,352,313	
Tanker & Exhauster expenses	3,084,000	3,899,135	(815,135)	
Water statutory Levies	5,976,401	6,918,911	(942,510)	
Finance Costs	216,000	449,677	(233,677)	
Depreciation of property, plant and equipment		4,837,089	(4,837,089)	
Amortisation of intangible assets		760,671	(760,671)	
	95,468,325	122,701,288	(21,635,203)	
SURPLUS/DEFICIT	3,362,227	(5,331,950)	40,173,988	

EXPLANATION OF VARIANCES
 see page XV-XVI

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

1. GENERAL INFORMATION

Homa Bay County Water & Sanitation Co. Ltd was established by Water Act 2002 and derives its 164 of PFM Act 2012. The entity is wholly owned by the County Government of Homa Bay and is the provision of water and sanitation services.

2. BASIS OF PREPARATION

The financial statements are prepared in compliance with International Financial Reporting prepared under the historical costs basis of accounting and presented in the functional shilling.

The preparation of financial statements in conformity with the IFRS requires the use of estimates management to exercise judgement in the process of applying the company's accounting policies. judgement or complexity, or where assumptions and estimates are significant to the financial statements, are disclosed in Note.

3. GOING CONCERN

The Company made a loss after tax of Shs 5,331,950 (2018: Shs 4,989,972) during the year which was added to accumulated losses totaling Shs 51,972,160 (2018: retained earnings of Shs 26,778,747). In addition, the Company was in a net current liability position of Shs -44,123,651 (2018: Shs -45,089,495). These and other conditions indicate doubt as to the going concern status of the company. Management has put in place the following to address the situation:

- a) Started negotiation with various regulatory agencies to write off some of the debts which were inherited from previous regimes particularly WARA and LVSWWDA whose combined outstanding dues stand at kshs 48,533,795 out of overall kshs 90,487,328.
- b) Work out plan to agree with these agencies to pay current and future debts consistently as they occur.
- c) To take responsibility of paying or reducing the balances of other statutory debts in the next two half years
- d) Improve revenue billing and collection in the next two years, to be able to cover the debts.

All these should be achieved through enhanced production capability soon to be realised from Oyugis, Homa Bay and Kendu Bay schemes respectively.

The Government of Kenya through County government of Homa Bay has partnered with AfDB and Belgium Government to construct and install water capacity of 27million m³ per day in the tree schemes in the next two years. All the projects are ongoing .

Based on the above, the directors believe that the company will continue in operational existence for at least 12 months from the date of these financial statements. The directors believe that it is appropriate to prepare the Company's financial statements on a going concern basis, which assumes that the Company will continue to meet its obligations as they fall due for the foreseeable future.

4. NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS

a) Adoption of new and revised standards

Amendment/Interpretation to a standard	Effective Date
IFRS 16: Leases <i>(Issued 13 January 2016)</i>	Effective for annual periods beginning on or 1 Jan 2019

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

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

5. 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. The following specific recognition criteria must be met before revenue is recognized.

i) Provision of Water & Sewerage services

Revenue from provision of water & sewerage services is recognized when these services are delivered to customers & billed by the company.

However, the amounts will be subjected to adjustments when errors are realized, in relation to meter readings and subsequent billings. Non-

Revenue water is not recognized as income since it's not billed.

ii) Grants

Income from donors is recognized on accrual basis. Grants are recognized at their fair value where will be received and all attaching conditions will be complied with. For example a revenue grant is recognized as income over the years

necessary to match the grant on a systematic basis to the costs that it is intended to compensate. Recurrent grants are recognized in the statement of comprehensive income. Development/ Capital financial position and realised in the statement of comprehensive income over the useful life of the such funds.

b) In-Kind Donations

In-kind contributions are donations that are made to the company in the form of actual goods/services rather than in money or cash terms.

These donations may include vehicles, equipments 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.

c) Property, plant and equipment

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

Costs includes expenditure that is directly attributable to the acquisition of the items.

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 for the revalued amount to its residual value over its estimated useful life.

The annual rates in use are:

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

Building and civil works	25 years or the unexpired lease period
Plant and Machinery	12.5 years
Motor vehicles, including motor cycles	4 years
Computers and related equipment	3 years
Office equipment, furniture and fittings	12.5 years
Computer Software	3.3 years

d) Intangible assets

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

e) Inventories

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

f) 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.

g) Cash and Cash Equivalents

Cash and Cash Equivalents comprises of cash in hand and cash at bank.

h) Trade and other payable

Trade and other payables are non-interest bearing and are 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

i) Retirement benefit obligations

The entity does not have defined contribution scheme for all employees since they are all on contract terms. The company only contributes to the statutory National Social Security Fund (NSSF). This is a defined contribution scheme registered under the National Social Security Act.

j) Provision for staff leave pay

Employees' entitlements to annual leave are recognized as they accrue at the employees.

k) Comparative figures

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

l) Translation of foreign currencies

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

Transactions in foreign currencies during the year are converted into the functional currency using the

6. SIGNIFICANT JUDGMENTS AND SOURCES OF ESTIMATION UNCERTAINTY

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

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

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

a) Critical judgements in applying accounting policies

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

a) Key sources of estimation uncertainty

Impairment losses

At the end of each reporting period, the company reviews the carrying amounts of its tangible and intangible

If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. Where it is possible to estimate the recoverable amount of an individual asset, the company estimates the recoverable amount of the cash generating unit to which the asset belongs.

Property, plant, equipment and intangible assets
 Critical estimates are made by the directors in determining depreciation rates for property, plant, equipment and intangible assets.

Contingent liabilities

The company is exposed to various contingent liabilities in the normal course of business including a number of legal cases. The directors evaluate the status of these exposures on a regular basis to assess the probability of the company incurring related liabilities. However, provisions are only made in the financial statements where, based on the directors' evaluation, a present obligation has been established.

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

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

Provisions

Provisions were raised and management determined an estimate based on the information available.

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

Note 7 Prior year Ammendments

An accounting policy is changed only if required by an IFRS, or if the change results in reliable and more relevant information.

If none is specified, or if change is voluntary, the new accounting policy is applied retrospectively by restating prior year periods.

If it is impracticable to determine period-specific effects for retrospective application, the new accounting policy is applied as of

the beginning of the earliest period for which retrospective application is practicable and cumulative adjustments are made to

balances at the beginning of that period. In such a case the new accounting policy is applied prospectively from the start of the

earliest period chosen as practicable when the entity cannot determine the cumulative effect of applying the policy to all prior

periods.

a) Adjustment Due to Errors

The following errors were detected and adjusted to comparative figures for the year 2017/2018 and 2018/19, the cash flow statement.

<u>Account</u>	<u>Corrected</u> <u>2017/18</u>	<u>Reported</u> <u>2017/18</u>
Depreciation of PPE	1,447,501	1,610,388
Finance costs	380,931	264,453
Furniture and fittings	378,721	189,730
Inventories	287,547	179,912
Trade and other receivables	23,825,724	17,255,653
Deferred income grant	32,954,005	26,245,361
Accrued liabilities	46,869,183	40,540,170
Trade and other payables	16,333,841	6,474,125
Customers deposits	3,085,457	5,345,214

b) **Adjustment Due to Change in Policy**

IFRS 16 (lease) was revised and took effect this year 2019. The company has not applied the standard in prior years. The company decided to apply for the first time IFRS 16 to disclose and present the use of water meters rented to customers at a rent per year for five years. This was classified as operation lease. While meters were presented as fixed assets under the PPE, the rent charged is treated as OCI in the income statement.

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

Understatement To Accounts Receivables

c)	Reported 2017/18 <u>Kshs</u>	Reported 2018/19 undrestatement <u>Kshs</u>	<u>Kshs</u>
Opening balance	30,242,032	36,347,291	(6,105,259)

Water sales receivables has been understated in the previous periods cumulatively to the tune of kshs 6,105,259. This has been adjusted to opening balance in the retained earnings to take retrospective effect on the accounts.

Note 8 Related Party Transactions

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

Note 9 i) Key management compensation

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

	2018/19 <u>Kshs</u>	2017/18 <u>Kshs</u>
Salaries and other short-term employment benefits	4,224,000	3,379,200
ii) Directors' remuneration		
	2018/19 <u>Kshs</u>	2017/18 <u>Kshs</u>
Fees for services as director	1,477,958	1,300,130
Other emoluments included in employee benefits (Note 4)	911,290	1,192,139
	<u>2,389,248</u>	<u>2,492,269</u>
iii) Transactions with related parties		
Bills settled on behalf	-	-
Payroll costs settled on behalf	-	-
Total Directors Remuneration	<u>6,613,248</u>	<u>5,871,469</u>

Note 10 Financial Risk Management

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

a) Credit Risk Management

Over 75% of receivables are recovered within 30 days and utilization of credit limits is regularly monitored.

The amount that best represents the Company's maximum exposure to credit risk as at year end is made up as follows:

	Fully KSh	Past due KSh	Impaired KSh	Total amount KSh
Due from Trade receivables	27,260,468	9,086,823	(2,225,404)	34,121,887
Other Receivables	5,564,013	1,854,671	-	7,418,684
Staff Imprests & Advances	561,888	-	-	561,888
Bank and cash balances	2,057,580	-	-	2,057,580
Amount Owed By Shareholders	-	100,000	-	100,000
At 30th June 2019	35,443,949	11,041,494	(2,225,404)	44,260,039
Due from Trade receivables	18,145,219	12,096,812	-	30,242,031
Other Receivables	105,000	-	-	105,000
Staff Imprests & Advances	527,786	-	-	527,786
Bank and cash balances	1,423,028	-	-	1,423,028
Amount Owed By Shareholders	-	100,000	-	100,000
At 30th June 2018	20,201,033	12,196,812	-	32,397,845

b) Liquidity Risk Management

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

	Within 12 months Sh	Over 12 months Sh	Totals Sh
Trade payables	8,927,502.00	13,391,253.00	22,318,755.00
Accruals	13,013,980.00	50,738,539.24	63,752,519.24
Customer's deposits	662,408.00	3,753,646.00	4,416,054.00
At 30 June 2019	67,883,438.24	22,603,890.00	90,487,328.24
Trade payables	3,060,235.00	17,341,334.00	20,401,569.00
Accruals	8,041,746.00	45,569,894.00	53,611,640.00
Customer's deposits	569,746.00	3,226,708.00	3,796,454.00
At 30 June 2018	11,671,727.00	66,137,936.00	77,809,663.00

HOMA BAY COUNTY WATER AND SANITATION COMPANY LIMITED
NOTES TO THE FINANCIAL STATEMENTS (Continued)

11	INTANGIBLE ASSETS	2019	2018
		Kshs	Kshs
COST			
At July 1		2,132,014	2,132,014
Additions		150,000	-
Disposals		-	-
At June 30		<u>2,282,014</u>	<u>2,132,014</u>
AMORTISATION		2019	2018
		Kshs	Kshs
At July 1		1,485,178	774,507
Charge for the year		760,671	710,671
Disposals		-	-
Impairment loss		-	-
At June 30		<u>2,245,849</u>	<u>1,485,178</u>
NET BOOK VALUE			
At June 30		<u>36,165</u>	<u>646,836</u>
		2019	2018
		Kshs	Kshs
12	INVENTORIES		
	Donation in Kind	1,152,990	-
	Chemical balances	950,647	322,322
		<u>2,103,637</u>	<u>322,322</u>
		2019	2018
13 a	TRADE AND OTHER RECEIVABLES		
		Kshs	Kshs
	Homa Bay Scheme	21,441,859	14,203,579
	Oyugis Scheme	8,930,842	9,520,363
	Mbita Scheme	1,612,495	2,031,332
	Kendu Bay Scheme	1,695,074	2,146,512
	West Karachuonyo Scheme	2,667,021	2,340,246
	Gross trade receivables	<u>36,347,291</u>	<u>30,242,032</u>
		<u>36,347,291</u>	<u>30,242,032</u>

Other Receivables

County Receivables	3,373,000	
Tanker Receivables	587,869	
Short Term Lending	147,034	100,000
KPLC Deposit	5,000	5,000
VAT Input Asset	3,302,079	2,579,521
Prepayment	3,702	
Staff Advances	286,888	73,786
Staff Imprest receivables	275,000	454,000
	-	-
Trade and other Receivables	44,327,863	33,454,339
Less: Provision for Bad Debts	(2,225,404)	-
Net trade and other receivables	42,102,459	33,454,339

13 b. TRADE RECEIVABLES

Gross trade and other receivables	44,327,863	33,454,339
	44,327,863	33,454,339

2019
Kshs **2018**
Kshs

14 BANK AND CASH BALANCES**A/C NO:**

Cash in hand	N/A	3	-
Bank – Co-operative Expen	1120047915001	498,462	61,872
Bank – Co-operative Depos	1120047915000	21,090	1,649
Bank – KCB Revenue Acco	1102291730	1,345,895	492,177
Bank – KCB Grant Account	1171039492	(766)	764,267
Bank-M-pesa	PAY BILL: 169595	70,832	83,312
Bank-KCB-WAWARE	11772778286	356	356
Postbank-Oyugis	744130009363	11,980	18,295
Postbank-Homa Bay	744130011081	11,400	1,100
Postbank-Mbita	744130011117	91,090	-
Equity Bank KES	980277809704	7,238	-
		2,057,580	1,423,028

2019
Kshs **2018**
Kshs

15 ORDINARY SHARE CAP**Authorised:**

5,000 Ordinary shares of Kshs.20 par value eac	100,000	100,000
Initial Capital	1,676,711	2,731,702
	1,776,711	2,831,702

NOTES TO THE FINANCIAL STATEMENTS (Continued)

16	RETAINED EARNINGS	2019 Kshs	2018 Kshs
			RESTATED
Opening Balance		(30,494,004)	(20,733,784)
Profit/(Loss) for the Year		(5,331,950)	(4,989,973)
Transferred to Cap Reserve			(4,770,247)
Closing Balance		(35,825,954)	(30,494,004)
17	CAPITAL RESERVES ACCOUNTS		
Capital Reserve B/f		32,954,005	32,954,005
Capital Reserves	-	4,770,247	-
Total balance at end of year		37,724,252	32,954,005
18	<u>DEFERRED INCOME LIABILITY</u>	2019 Kshs	2018 Kshs
As At July 1,		-	32,954,005
Capital Grants Received During the yr		38,605,477	-
Amortization Note 2		(2,023,196)	-
Amortization 20%			-
Amortization 25 years		-	-
Transferred from Capital Reserves			(32,954,005)
Total balance at end of year		36,582,281	-
19	<u>TRADE AND OTHER PAYABLES</u>	2019 Kshs	2018 Kshs
Trade payables		22,318,754	20,401,569
20 (a) CORPORATE LEVIES			
Corporate Levy-LVSWWDA		24,511,441	21,274,046
WARA -Levies		21,934,689	19,329,583
WASREB-Levies		293,126	-
Audit fee		1,926,527	1,926,527
WHT Payable		82,967	
Municipal Council		2,087,666	2,087,666
WASPA Subscriptions		221,000	221,000
15b Other Accruals		-	8,772,818
Total Accrued Liabilities		51,057,416	53,611,640
		73,376,170	74,013,209

20 b OTHER ACCRUALS	2019 Kshs	2018 Kshs
HELB Deductions control a/c	255,709	-
Net salaries control a/c	1,545,019	-
NHIF Deductions control a/c	1,810,646	-
NSSF (Employer's)-control A/c	3,084,902	-
NSSF Employee control a/c	1,361,872	-
PAYE control A/C	2,416,361	-
Ukulima SACCO control a/c	626,302	-
Welfare deductions control a/c	297,309	-
Casual wages payable control	10,777	-
Board Tax Payable	1,286,207	-
	12,695,104	-

21 CUSTOMER DEPOSITS

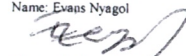
	2019 <u>Ksh</u>	2018 <u>Ksh</u>
As At July 1,	3,796,454	3,085,457
Deposits Received in the year	619,600	710,997
Deposits Refunds		
Total balance at end of year	4,416,054	3,796,454

22. PROPERTY, PLANT & EQUIPMENT

Year: 2019	Office Furniture & Fittings	Plant, Machinery & Equipment	Water Kiosk	Motor vehicles, including, motor cycles	Computers	Capital work in progress	Generator	Master Meters	Total
COST OR VALUATION									
At July 1, 2018	1,061,751	355,488	50,579,901	5,890,224	2,127,785	-	25,000	954,625	60,994,774
Additions		3,770,535			283,800	38,605,476			42,659,811
Transfers									
Disposals	-	-	-	-	-	-	-	-	-
At June 30, 2019	1,061,751	4,126,023	50,579,901	5,890,224	2,411,585	38,605,476	25,000	954,625	103,654,585
DEPRECIATION									
At July 1, 2018	505,749	252,336	10,614,580	1,997,724	869,752	-	6,250	226,328	14,472,719
Charge for the year	84,940	330,082	2,023,196	1,472,556	803,862		3,125	119,328	4,837,089
Impairment loss	-	-	-	-	-	-	-	-	-
Amortization of Water	-	-	-	-	-	-	-	-	-
At June 30, 2018	590,689	582,418	12,637,776	3,470,280	1,673,614	-	9,375	345,656	19,309,808
NET BOOK VALUE									
At June 30, 2018	556,002	103,152	39,965,321	3,314,570	1,258,033	-	18,750	728,297	45,944,125
At June 30, 2019	471,062	3,543,605	37,942,125	2,419,944	737,971	38,605,476	15,625	608,969	84,344,777

The financial statements were approved by the Board on and signed on its behalf by:

Director General/C.E.O/M.D
 Head of Finance
 Chairman of the Board
 Name: Evans Nyagol



ICPAK M/NO: 22243
 Sign:.....

Name: CPA Samuel Ngicho

Name:

Sign:.....

HOMA BAY COUNTY WATER AND SANITATION COMPANY LIMITED

NOTES TO FINANCIAL STATEMENTS

	2019	2018
	Kshs	Kshs
23. GRANTS		
County Government Grant	23,898,487	26,419,437
WSTF Grant	2,074,200	4,839,800
Dunea Grants	17,489,691	7,995,138
KeNHA	14,000,000	-
TOTAL GRANTS	57,462,378	39,254,375
24 Other Income		
Water Tanker Income-Direct	4,127,240	4,003,950
Water Tanker Income-Credit	587,869	
Exhauster Income	1,504,732	1,163,300
New Connection fees	506,404	1,591,247
Reconnection fess	120,320	
Deffered income amortised	2,023,196	
Water Sales to County	3,373,000	594,000
	12,242,762	7,352,497
25 WATER SALES		
Water sales-billing	34,106,128	34,294,514
Water sales-Cash	1,168,868	
Sewarage	12,389,202	9,883,394
TOTAL WATER & SEWERAGE SALES	47,664,198	44,177,908
TOTAL REVENUES	117,369,338	90,784,780
26. ADMINISTRATION COSTS		
Staff costs (note 4 b)	24,693,092	24,972,314
Computer repairs	146,969	185,000
Guest Tea & Entertainment	104,085	-
Directors' emoluments	911,290	1,192,139
Electricity and water	23,340	20,090
Communication services and Telephone	857,085	307,155
Transportation, travelling and subsistence	1,651,825	2,325,979
Advertising and public communications	1,089,688	976,285
Hire of Transport	29,500	-
Rent	360,000	360,000
Staff training expenses	521,692	506,428
BOD Expenses	1,477,958	1,300,130
Insurance costs	36,627	172,800
Dues and subscriptions	-	127,464
Office and general supplies and services	128,797	159,432
Auditors' remuneration	215,517	215,518
Professional services & fees	1,760,822	736,924
Repairs and maintenance	163,058	177,860
Postage and Delivery	19,362	22,720
Motor vehicle running expenses	4,102,854	2,548,128
Printing & Stationery	964,847	1,250,093

Protective Gear & Uniforms	109,380	7,500
Staff Welfare	15,000	15,000
Security	704,326	659,584
Resource Mobilization Costs	1,142,975	-
M & E Costs	588,811	-
Project Costs	28,204,960	5,050,748
TOTAL	70,023,860	43,289,290

27 (b)	STAFF COSTS	2019 Kshs	2018 Kshs
Salaries and allowances of Contract employees		23,584,027	24,102,508
Compulsory national social security schemes		844,330	869,806
Gratuity		264,735	
		24,693,092	24,972,314

Permanent employees – Management			
Permanent employees – Unionisable			
Temporary and contract employees		96	88

28 OPERATION AND MAINTENANCE COSTS

	2019 Kshs	2018 Kshs
Chemical Usage	4,421,159	5,656,468
Casual wages	2,173,994	1,999,918
Abstraction charges	3,188,390	543,858
Lease Fees-L.V.S.W.W.D.A	3,337,395	3,985,422
Electricity cost	23,898,487	26,419,437
Distribution & Maintenance	1,689,814	2,579,402
Pump Fittings & Maint.	1,328,397	1,342,796
Tanker & Exhauster expenses	3,899,135	4,236,521
Laboratory Goods/Services supplies	74,690	126,045
Water Regulatory levy-WASREB	393,126	420,821
	44,404,586	47,310,688

29 a) OPERATING PROFIT/(LOSS)

	2019 Kshs	2018 Kshs
The operating profit/(loss) is arrived at after charging/(crediting):		
Staff costs (note 4a)	24,693,092	24,972,314
Depreciation of property, plant and equipment	4,837,089	4,164,262
Amortisation of intangible assets	760,671	710,671
Provision for bad and doubtful debts	2,225,404	-
Directors' emoluments - fees	911,290	1,192,139
other		
Auditors' remuneration - current year fees	215,517	215,518
29 b) Finance Income	-	6,188
Finance Costs	449,677	306,030
OPERATING PROFIT/(LOSS)	(4,882,272)	(4,690,132)

30

	2019 Kshs	2018 Kshs
INCOME TAX EXPENSE		
Profit/loss before tax	(5,331,950)	(4,690,131)
<u>Tax effect of: Income not subject to tax</u>		
Deferred income	(2,023,196)	-
operation lease rentals income	-	-
New Connection fees	(506,404)	(1,591,247.00)
Reconnection fess	(120,320)	-
Total grant income	(57,462,378)	(39,254,374.00)
	(65,444,248)	(45,535,752)
<u>Disallowable expenses subject to tax</u>		
Depreciation	4,837,089	4,164,262.00
Amortisation intangible assets	760,671	710,671.00
Finance cost	449,677	306,030.00
Total project cost	28,204,960	5,050,748.00
County Government -electricity subsidy	23,898,487	26,419,439.00
	58,150,885	36,651,150
Tax loss c/f	(7,293,363)	(8,884,602)

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