

REPUBLIC OF KENYA

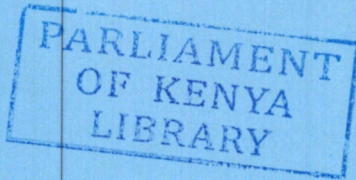
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**REPORT**



**OF**

**THE AUDITOR-GENERAL**

**ON**

**NAIROBI CITY WATER AND SEWERAGE  
COMPANY LIMITED**

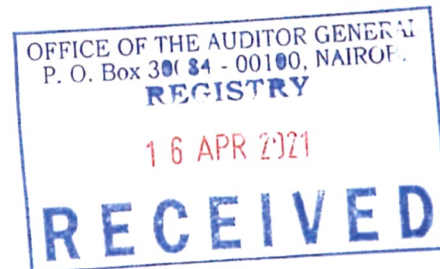
**FOR THE YEAR ENDED  
30 JUNE, 2020**

NAIROBI CITY WATER AND SEWERAGE COMPANY LTD



# Annual Report and Financial statements, For the year ending 30<sup>th</sup>, June 2020

2019 /2020



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

# Annual Report and Financial statements

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2019/2020

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## KEY CORPORATE INFORMATION

### Background information

The Nairobi City Water and Sewerage Company Ltd is incorporated in Kenya under the Companies Act of the Laws of Kenya. It is a private limited liability Company domiciled in Kenya. It is wholly owned by the Nairobi City county Government, although its services have been transferred to Nairobi Metropolitan Services (NMS) under the deed of Transfer. The deed of transfer between the NCCG and the National government is for 2 years w.e.f March 2020.

### PRINCIPAL ACTIVITY

The Company provides water and sewerage services in Nairobi and its environs.

#### Principal Place of Business & registered Office

Kampala Road, Industrial Area  
P.O. Box 30656 – 00100, Nairobi, Kenya  
Email: [info@nairobiwater.co.ke](mailto:info@nairobiwater.co.ke)  
Website: [www.nairobiwater.co.ke](http://www.nairobiwater.co.ke)

#### Bankers

The Co-operative Bank of Kenya Ltd  
Enterprise Road Branch  
P.O. Box 67881– 00200, Nairobi, Kenya.

Equity Bank (K) Limited  
Equity centre, Hospital road, upper hill  
P.O Box 75104-00200 Nairobi, Kenya

Absa Bank of Kenya PLC  
Absa Headquarters, Waiyaki Way  
P.O Box 30120-00100, Nairobi Kenya

Citibank N.A  
Citibank House, Upper Hill Road  
P.O Box 30711-00100, Nairobi, Kenya  
NCBA Limited  
NCBA Centre, Mara & Ragati Road  
P.O Box 44599-00100 Nairobi, Kenya

Sidian Bank Limited  
K-rep Centre, Kilimani Road  
P.O Box 25363-00603 Nairobi, Kenya

#### Bankers (Continued)

Diamond Trust Bank Limited  
Diamond Trust House,  
P.O Box -00100 Nairobi,

Kenya Commercial Bank Limited  
Kencom House, Moi Avenue  
P.O Box 30081-00100 Nairobi, Kenya

Housing Finance Corporation  
Rehani House, Kenyatta Avenue  
P.O Box 30088-00100 Nairobi,  
Kenya

#### Company Secretary

Ivy Nyarango  
Certified Public Secretary (K)  
P.O Box 30656-00100, Nairobi

#### Principal Legal Advisor Attorney General

#### Auditor

Auditor General  
Office of the Auditor General  
12th Floor, Anniversary Towers  
University Way  
P.O Box 30084-00100, Nairobi,  
Kenya.

### **Board of Directors**



The Company's Board of Directors is appointed in accordance with the provisions of the Companies Act, Laws of Kenya. The current Board of Directors was appointed on 19<sup>th</sup> July 2019 by the shareholder.






## DIRECTORS



The Company is managed under the direction of a Board of Directors appointed by the shareholder (Nairobi City County Government).

The current Board of Directors was appointed on 19th July 2019 and is listed below:-

NAME	Qualifications and experience	Status
<p>1 Beryl Lillian Okumu Odinga Chair (DoB 1953)</p> 	<p>LLB, Post graduate diploma in Law Chair - Kenya Railways Staff Retirement Benefit Scheme Deputy Town Clerk - City of Mutale, Zimbabwe Legal Advisor - Urban Development Corporation (Harare Zimbabwe) Deputy CEO - Chitungwiza Town Council (Zimbabwe)</p>	<p>Appointed 19<sup>th</sup> July 2019</p>
<p>2 Timothy Maceru Muriuki (DoB 1969)- Vice Chair</p> 	<p>B.A. Land Economics Chair - Index Commercial Projects General Manager - International House Facilities Manager - Lloyd Masika Board member - Nairobi Central Business District Association Board member - Athi Water Services Board Board member - NCWSC</p>	<p>Appointed 19<sup>th</sup> July 2019</p>
<p>3 Leonard Munyao Kamba Kiiti - (DoB 1957)</p> 	<p>Bachelor of Science Chair - Makueni CDF Chair - Machakos Water and Sewerage Company Chair - Makueni District Education Board Golf Captain - Machakos Golf Club Chair - Mwaani Boys High School Board of Management - Mwaani Girls</p>	<p>Appointed 19<sup>th</sup> July 2019</p>
<p>4 Karen Njeri Nyamu (DoB 1979)</p> 	<p>Master of International Relations Bachelor of Law (LL.B) Diploma in Law Managing partner - Njeri Nyamu &amp; Co. Advocates Head of conveyancing - B.M &amp; Co advocates</p>	<p>Appointed 19<sup>th</sup> July 2019</p>

	<b>NAME</b>	<b>Qualifications and experience</b>	<b>Status</b>
5	<p>Martin Kuruga Mbichire (DoB 1982)</p> 	<p>Bachelor of Laws (LL.B) Post grad diploma in Law Advocate - Mbichire &amp; Co Assistant Lecturer - Pioneer University</p>	<p>Appointed 19<sup>th</sup> July 2019</p>
6	<p>Michael Mumo Makau (DoB 1971)</p> 	<p>Master of Arts, International Journalism Bachelor of Arts, Communication Board member - Capital Group Ltd Editorial Director – Capital Group Head of News - Nation radio &amp; television</p>	<p>Appointed 19<sup>th</sup> July 2019</p>
7	<p>Mohamed Abdi Abdullahi (DoB 1990)</p> 	<p>MBA, Strategic Management Bachelor of International Business Administration Finance Director - Tristar Energy limited Production Manager -Premier Petroleum Monitoring and Evaluation Officer - Save Somali Women and Children</p>	<p>Appointed 19<sup>th</sup> July 2019</p>
8	<p>Emmah Mukuhi Muthoni (DoB 1983)</p> 	<p>BCOM, Business Administration DIP County Executive Committee Member -Nairobi City County Government Head of corporate services - Toddy Civil Engineering Chief Financial Controller- Toddy Civil Engineering</p>	<p>Appointed 19<sup>th</sup> July 2019</p>
9	<p>Justus M. Kathenge (DoB 1969)</p> 	<p>Ag County Secretary &amp; Head of County Public Service</p>	<p>Appointed 17<sup>th</sup> April 2020</p>

NAME	Qualifications and experience	Status
<b>10</b> Allan Igambi Esabwa (DoB 1976) 	County Executive Committee member -Finance and Economic Planning	Appointed 17 <sup>th</sup> April 2020
<b>11</b> Ann K. Mwenda (DoB 1980) 	Chief officer Environment, Water and Sanitation	Appointed 17 <sup>th</sup> April 2020
<b>12</b> Mohamed Abdi Abdirahman (DoB 1987) 	Bachelor of Business Administration, HR Marketing Director – Iqra Agencies Limited Nominated member of Nairobi City County Assembly County Chief Officer – Water & Sanitation (NCCG)	Appointed 19 <sup>th</sup> July 2019 and Retired 9 <sup>th</sup> November 2019
<b>13</b> Simon Leboo Morintat (DoB 1966) 	MBA, Strategic Management BA, Government and Public Administration Deputy Town Clerk - Trans Mara & Nairobi Town Clerk - Litein Town Council & Kilifi Director - Kilifi Mariakani Water Services Company & Nairobi City Water & Sewerage Co Board member - Local Authorities Provident Fund County Chief Officer - Devolution & Public Service Management and acting County Secretary	Appointed 19 <sup>th</sup> July 2019 and Retired 17 <sup>th</sup> April 2020
<b>14</b> Charles K. Kerich (DoB 1974) 	County Executive Committee Member – Finance and Economic planning. Journalist and former Chairman of the Media Council	Appointed 19 <sup>th</sup> July 2019 and Retired September 2019


	NAME	Qualifications and experience	Status
15	Eng Nahason M. Muguna 	Managing Director , Msc-Eng, MBA, Bsc.(Mechanical Eng)	Acting Aug-2017 to May 27 2020 Appointed MD 27 <sup>th</sup> May 2020
16	Ivy Nyarango 	Company Secretary, LLM (dist.), LLB (hons), Dip.(Law),CPS (K), Dip(International protection of HR)	

## KEY OFFICERS

In line with the Company's governance documents, the Board delegates the day to day operations and management of the Company to the Managing Director.

Structurally, the company is headed by the Managing Director, who reports to the Board of Directors. The Managing Director provides overall leadership and chairs the Board of Management which comprises all heads of directorates of the company as follows;

Name	Title	Qualification
 <b>Eng. Nahason M. Muguna</b>	Managing Director	Msc-Eng, MBA, Bsc.(Mechanical Eng)
 <b>Monica N. Tuli</b>	Ag. Director Human Resources and Administration	Msc ( HRM), Bachelor of Arts , Higher Dip (HRM),Certified CHRP
 <b>Paul Evans Omondi</b>	Ag. Director Financial Services & Strategy	MBA (Strategic Management),B.Com (Finance), CPA(K)
 <b>Eng. Stephen Mbugua</b>	Director Commercial services	MBA (Strategic Management) BSc (Mechanical Engineering)
 <b>Eng. Lucy Njambi</b>	Ag. Director Technical Services	MSc Water and Sanitation, Bsc Civil Engineering
 <b>Martin W. Nangole</b>	Director Information & Communications Technology	Masters in IT, Bsc.(Computer science), CISCO,MCP
 <b>Griffine Songole</b>	Director Internal Audit & risk management	BCom.(Accounting),CPA(K), CFA, CIA

<b>Ivy K. Nyarango</b>	<b>Company Secretary</b>	LLM (dist.), LLB (hons), Dip.(Law),CPS (K), Dip(International protection of HR)
		

Under the above named directorates, the company structure is reinforced by several business process units which are headed by respective managers with a mandate of overseeing actualization of the company mission.

## **CHAIRMAN'S STATEMENT**

### **Global Overview**

According to 2020 Kenyan Economic Survey, the global economy experienced a decelerated growth of 2.9 per cent in 2019 compared to a 3.5 per cent in 2018. This was attributed to continuous policy uncertainty, decline in global trade and domestic investment, and a slowdown in labor productivity. The deceleration in growth was recorded in both advanced economies and emerging markets and developing economies. This is collaborated by the latest United Nation's report that indicates that 2019 ended up having the slowest global economic expansion since the world financial crisis in 2008-2009, with growth trending down in virtually all major economies and slowing in all geographic areas except Africa. Gross Domestic Product (GDP) growth in Africa rose from 2.7% in 2018 to 2.9% in 2019 and is projected to reach 3.2% in 2020 and 3.5% in 2021.

The broad based slowdown was accompanied by a sharp slowdown in International trade flows and global manufacturing activity. The economic outlook for Africa and economies in translation is clouded by relatively low commodity prices and protracted weaknesses in some large countries. Indeed, the world over negative impact of the Corona Virus Infectious Disease 2019 (COVID 19) makes the global economic outlook more worrying. Globally, the inflation rate eased from 2.3 per cent in 2018 to 2.0 per cent in 2019, mainly attributed to decline in energy prices, reduction in world trade prices of food and agricultural raw materials and modest wage levels in most countries.

### **Sub-Sahara African and East African Community regional overviews**

Real GDP in Sub-Saharan Africa decelerated to 3.1 per cent in 2019 compared to 3.3 per cent in 2018. Current account deficit widened to 4.0 per cent in 2019 compared to 2.5 per cent in 2018. This was due to trade shocks emanating from decline in oil prices, which affected the oil producing countries in the region.

The spread of Covid-19 pandemic to Sub-Saharan Africa coupled with continued deterioration in oil prices is expected to significantly affect growth in the region. As a result, real GDP in the region is expected to contract by 1.6 per cent in 2020, the lowest level of growth on record.

Real GDP in East African Community bloc contracted to 5.9 per cent in 2019 compared with 6.6 per cent in 2018. The deceleration in growth was recorded in all the countries in the bloc. Rwanda recorded the highest real GDP growth rate of 10.1 per cent in 2019 in the bloc supported by strong growth in the private sector and infrastructure.

### **National overview**

Economic activities in the country remained vibrant in 2019 though the performance was slower relative to 2018. The real GDP was estimated to have expanded by 5.4 per cent in 2019 compared to a growth of 6.3 per cent in 2018. The growth was spread across all sectors of the economy but was more pronounced in service-oriented sectors. The slowed growth in 2019 was also reflected in other macro-economic indicators. For instance, the Nairobi Stock Exchange (NSE) 20-share index dropped to 2,654 points in 2019 from 2,801 in 2018. The period under review was characterized by moderate build up in inflationary pressures that mainly emanated from increased food prices. Inflation rose from 4.7 per cent in 2018 to 5.2 per cent in 2019. During the review period, interest rates were largely favorable to economic activity in 2019 compared to 2018.

In 2019, Kenya's overall score in Ease of Doing Business (EDB) was 73.2% and ranked position 56 out of 190 economies. The Government is taking EDB as a key strategy for attracting investment and improving competitiveness; thus targets to be among the top 30 worldwide going forward. Among the areas of major improvement are: registering property, operations at Mombasa Port and Malaba Border and dealing with construction permits. Nairobi City Water & Sewerage Company (NCWSC) jointly shares the dealing with construction permits indicator together with Nairobi City County (NCC), National Environmental Management Authority (NEMA) and National Construction Authority (NCA) where in 2019 EDB Kenya scored 67.6% and was ranked no. 105 worldwide.

Specifically, the 2019 EDB showed that it takes an average of 30 days to connect a standard warehouse to water and sewerage services. To improve on this indicator, the four agencies have proposed concurrent application processes in all the agencies (NCC, NEMA, NCA and NCWSC) and creation of a seamless construction permit portal through NCCG e-construction system. NCWSC has automated its water and sewerage application and connection processes and aims at progressively improving the time taken to connect from 21 average days realized in 2019/2020 to 14 days as provided in the customer service delivery charter.

#### **Water and Sanitation Subsector overview**


Access to safe water and sanitation is a human right. Governments are the duty bearers of the progressive realization of this right in their jurisdictions. Kenya, under Sustainable Development Goal 6, has committed itself to achieve by 2030 universal and equitable access to safe and affordable water for all; access to adequate and equitable sanitation and hygiene for all and an end to open defecation, paying special attention to the needs of women, girls and those in vulnerable situations. Against the above background, the 2018/2019 Water Service Regulatory Board (WASREB) report issue no.12 indicates improvement in water coverage from 57% to 59%, Sewerage Coverage from 16% to 17% and Sanitation Coverage from 80% to 81%.

#### **Nairobi City Water and Sewerage Company's performance**

During 2019/2020 financial year, just like other businesses, the Company experienced a shortfall on the level of business activities which was triggered by Covid -19 Pandemic. For instance, the revenue collection declined by 5% from KShs. 8.7 billion in 2018/19 to KShs. 8.3 billion in 2019/20. Further, unexpected raw water high turbidity at Ngethu and mudslides that swept down water main pipeline from Sasumua treatment plant seriously disrupted continuity of services.

The right to water in our constitution, as well as the SDG target 6 envisages a world where there is increased water use efficiency while ensuring there is fresh water supplies. This target addresses the issue of water scarcity and the importance of increasing water-use efficiency and therefore Non- Revenue Water management being the key focus. A lot of efforts have been put towards reduction of water loses. Unfortunately, despite all these efforts, levels of non-revenue water continue to remain above the 25% WASREB's benchmark target. During the period, against a target of 33 %, the company scored 34% a performance of 97%.

My gratitude goes to the National Government agencies directly and indirectly responsible for provision of Water and Sanitation services led by the Ministry of Water & Sanitation and Irrigation and sub-sector agencies including the regulator, WASREB, and Nairobi Metropolitan Services (NMS); Nairobi City County government; our esteemed customers and other strategic stakeholders including the development partners for unwavering commitment and support during the year. The Board of Directors also wish to thank the management and staff for sustainability of water and sanitation services. We urge all the stakeholders to maintain and enhance the support and collaboration.

  
**Beryl Lilian Okumu Odinga**  
**Chairperson**

## MANAGING DIRECTOR'S STATEMENT

### Introduction

This report highlights a performance overview of the Nairobi City Water and Sanitation Company Limited (NCWSC) for the year ended 30th June 2020. Despite challenges of COVID 19 Pandemic, the company sustained its mandate which is provision of water and safe disposal of resultant waste water in Nairobi City County and its environs. Below are highlights of performance during the review year.

### Technical Services

During the period, the company at production level maintained its raw and treated water supply pipelines, cleaning of screens at the intakes & desilting, sustained maintenance of plant and equipment with a view of enhancing their optimal performance to effectively deliver water supply to the city. The Company produced a total of 176.04 million cubic meters of water reflecting a decrease by 3.06 million cubic meters from 180.1 million cubic meters of water produced in the financial year 2018/2019, and lower than the year's annual target of water production of 180 million cubic meters by 4.06 million cubic meters. This was attributed by closure of Ngethu in the month of May 2020 for some days due to high turbidity and washing away of Sasumua transmission line in the Aberdare forest during the 2020 April long rains.

To improve water supply services in the formal areas, the company extended and rehabilitated a total of 13.71km of water pipeline against a target of 12.7 km translating to 108% achievement. In the informal settlements, the company extended and rehabilitated a total of 11.9 kms of water pipeline against a target of 5 km translating to 238% achievement. In addition, 11.32 Kms and 0.42 kms of sewer lines were extended in formal areas and informal settlements respectively against the annual targets of 11.4 Kms and 3.4 km, representing 99% and 12% performance respectively. The Non-revenue water for the year under review was 34% against a target of 33%.

Quality monitoring through sampling and testing of both raw and treated water was carried out as per schedule. Consequently, during the period, the quality of water produced complied 100% to both World Health Organization (WHO) and Kenya Bureau of Standards (KeBS) requirements. Equitable distribution of water to customers was enhanced through the monitoring of the four corridors of water supply through which, water supply constancy of 16.3 hours was achieved per day. The company upheld environmental protection by planting trees and conducting security surveillances along the catchment area.

### Commercial Services

The company continued to identify and implement suitable service delivery innovations as well as enhancing the existing ones. To optimize on the emerging technology and innovation, the company updated its customer's directory with a view of reaching out electronically via mobile phones and post customer bills, disconnection notices and settlement of bills. This has since lead to closure of most of cash offices in all business centres. Further, the company managed 73% adherence to customer service charter against the grim effects of COVID-19 pandemic. The use of an electronic customer feedback system (Maji-Voice) application was sustained.

### **Human Resource and Administration Services**

To create supportive work environment and ensure compliancy to Operational, Health and Safety Act 2007 (OSHA), the company procured and issued personal protective clothing to all eligible staff accordingly. Owing to the impact of COVID 19 pandemic and in adherence to public health guidelines and regulations, the company provided all the staffs with masks and sanitizers as a preventive measure. The company fleet was regularly maintained per schedule.

### **Financial Services**

Revenue collection was KShs. 8.3 billion against a target of KShs. 10.4 billion, translating to a performance of 81%. Control on revenue collected was strengthened, monitored and reconciled daily. Planning was effectively conducted through quarterly monitoring and evaluation of various business units against set targets as envisaged in the annual plans. During the period under review, Quarterly Performance Contract and Water and Sanitation Services Improvement Project (WaSSIP) data were compiled and submitted. In addition, annual WARIS data used for generation of sub-sector's *impact* reports was submitted to WASREB on timely basis. Following the conclusion of strategic business plan 2014/015 to 2018/019, the company developed its fifth strategic business plan for the next five years 2019/2020 to 2023/2024.

### **Corporate Affairs**


The company has for many years been contributing to the welfare of the community. During the period under review, the company was pro-active in supporting community initiatives on Education, Health, and Environment conservation, and contributions to water catchments protection in Aberdares through a community based organization – Ndakaini Environmental Conservation Agency (Ndeka) as well as participation in Ndakaini and Sasumua marathons.

### **Internal Audit and Risk Management**

To continuously enhance effective performance, the company has an internal audit and risk management function that check on implementation and effectiveness of policies, systems and procedures and identifies risks and proposes on how they can be mitigated. To enhance corporate governance, during the period under review, the company carried out Corruption Risk Assessment (CRA) and submitted a CRA reports together with mitigation plans to Ethics and Anti-Corruption Commission (EACC) on core mandate of the organization and on loopholes & risks in various systems in the organization like Payroll Management, Procurement & Financial Management. Further, awareness creation on integrity among staff was enhanced and capacity building to ensure that the entire NCWSC fraternity moved along the same continuum on corporate governance related issues.

### **CONCLUSION**

In conclusion, I take this opportunity to most sincerely thank all the stakeholders who enabled us be resilient amid challenges to achieve what has been highlighted above and whom we also bank on for our continuous growth. In particular, I strongly believe that with the stewardship and leadership from the national and county governments and our Board of Directors (BoD), the company will achieve better results in coming years.



**Eng. Nahason Muguna**  
**Managing Director**

## REVIEW OF NCWSC LTD PERFORMANCE FOR FY 2019/2020

Nairobi City water and Sewerage Company Ltd has identified seven (7) strategic themes within its Strategic Plan for the FY 2019/2020- 2023/2024 in order to enhance the Company's performance and impact of its services, as well as ensure growth and sustainability. These strategic themes are as follows:

- i. Water Sources, Treatment, Transmission and Distribution
- ii. Waste Water Networks, Conveyance and Treatment
- iii. Non-Revenue Water Management
- iv. Customer Focus and Stakeholder Engagement
- v. Governance and Institutional Capacity Development
- vi. Information & Communication Technology (ICT) and other Support Infrastructure
- vii. Financial Stewardship

During 2019/2020 financial year, the Company implemented its first year of 2019/20 to 2023/24 Strategic Plan via the annual Performance Contract and the work plan. Overall, the implementation achievement of the Strategic Plan during the 2019/20 FY is estimated as 55% as detailed in the table below summarized per the seven strategic themes. The major performance driving factors included adequate planning and implementation of the various projects. This achievement was also realized due to the support from both the National and County government in the mitigation against the adverse effects of covid-19 pandemic. On the other hand, half of the year was characterized by the onset of Corona Virus Infectious Disease 2019 (COVID-19) during the third quarter and this really hampered and slowed down the momentum of implementing the Strategic Plan. Other major impeding factors included inadequate finances and delayed approvals by the regulatory bodies.

Table 1: Implementation of 2019/20 – 2023/24 Strategic Plan during 2019/20 Financial Year

SNo.	2019/20 – 2023/24 Strategic Themes	Estimated Implementation during 2019/20 FY	Overall Remarks
1	Water Sources, Treatment, Transmission and Distribution	50%	The performance was affected by: -Financial constraints due to the effects of covid-19 pandemic. -Delayed approvals of designs.
2	Waste Water Networks, Conveyance and Treatment	31%	- There was delayed approvals from the oversight agencies such as AWWDA - External funding challenges
3	Non-Revenue Water Management	44%	-Affected by the Effects of covid-19 pandemic.

			-There was delayed approvals of designs by Government agencies.
4	Customer Focus and Stakeholder Engagement	72%	-Affected by the effects of Covid -19 pandemic.ie disbandment of meetings, Limited movements and financial constraint.
5	Governance and Institutional Capacity Development	66%	This performance was largely Affected by financial constraints and effects of Covid -19 pandemic due to control of movement of people imposed by Government
6	Information & Communication Technology (ICT) and other Support Infrastructure	45%	-Due to reduction of revenue as result of Covid-19
7	Financial Stewardship	74%	-Effects of covid-19 pandemic, which affected revenue collection.
	Overall Implementation Estimates	55%	Overall, the Strategic plan implementation during the reporting period was affected by Covid-19 Pandemic especially due to the low revenue collection. In addition, the banning of movement, meetings and various assembly of people inhibited some critical functions.

## MANAGEMENT DISCUSSION AND ANALYSIS

### Company Profile

Nairobi City Water & Sewerage Company (NCWSC) Ltd mandate is to provide clean water and sewerage services to the residents of Nairobi County, in a financially sustainable manner and within Government regulations and reaches her customers through seven administrative regions, namely Northern, Eastern, North Eastern, Central, Southern, Western and Informal Settlement regions. These regions are further sub-divided into 28 sub-business units (zones).

### Organizational Structure

Structurally, the company is headed by the Managing Director, who reports to the Board of Directors (BOD). The Managing Director provides overall leadership and chairs the Board of Management (BOM) which comprises all heads of directorates of the company namely;

- i. Technical Directorate
- ii. Commercial Directorate
- iii. Finance and Strategy Directorate
- iv. Directorate of Human Resource and Administration
- v. Managing Director's Directorate
- vi. Information Communication and Technology Directorate
- vii. Company Secretary
- viii. Internal Audit and Risk Management Directorate

Under the above named directorates, the company structure is reinforced by several business process units which are headed by respective Business Process Owners (BPOs) with a mandate of overseeing actualization of the company mission.

Broadly, the company operations are anchored on strategic business plan which is normally designed to resonate with the international (SDGs), regional (AfWA) and national water sector i.e. 2015 National Water Sector Strategy (NWSS), Kenya Government economic blue print -Vision 2030, the Nairobi Metropolitan Services (NMS) and Nairobi City County (NCC) water development plans and any other existing water and sanitation sector policies. In addition, the company's annual performance is guided and monitored on quarterly basis through negotiated and signed annual Performance Contract (PC) between the Company and its principal.

During the review period, the Company developed its fifth strategic plan covering the period 2019/2020 – 2023/2024 and targets to achieve a compliance of 100%. This fifth Strategic Plan is anchored on seven themes namely;

- i. Water Sources, Treatment, Transmission and Distribution;
- ii. Waste Water Networks, Conveyance and Treatment;

- iii. Non-Revenue Water Management;
- iv. Customer Focus and Stakeholder Engagement;
- v. Governance and Institutional Capacity Development;
- vi. Information & Communication Technology (ICT) and other Support Infrastructure; and
- vii. Financial Stewardship.

### **Key Performance Areas 2019/2020**

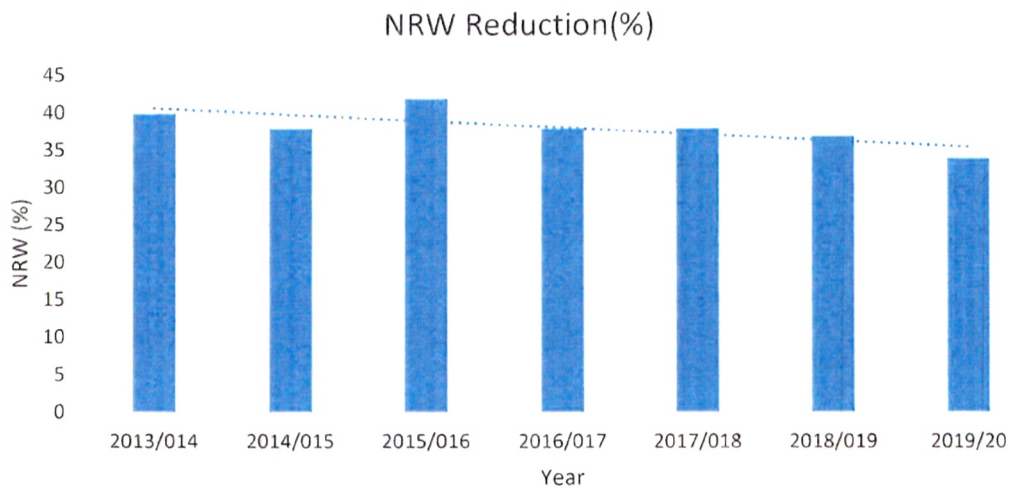
#### **Water and Sewer Services Expansions**

The development objective of water and sanitation projects by the Company is to improve water supply and sanitation services in Nairobi City County to progressively meet the Sustainable Development Goal number six as well as the national Vision 2030 of ensuring availability and sustainable management of water and sanitation for all by the year 2030. In order to improve water services in the city, the Company targeted to extend and rehabilitate 12.7 kms of water pipelines in the Formal areas. Against this target, the Company extended and rehabilitated 13.71 kms translating to a performance of 108%. In addition, against a target of 5 kms of water pipelines in the informal areas, 11.9 kms was extended and rehabilitated translating to a performance of 238%. The Company also targeted to extend and rehabilitate sewerage services in both formal and informal areas. Against a target of 14.8 kms, 11.74 kms of sewerage pipeline was extended and rehabilitated, a performance of 79%.

#### **Non- Revenue Water**

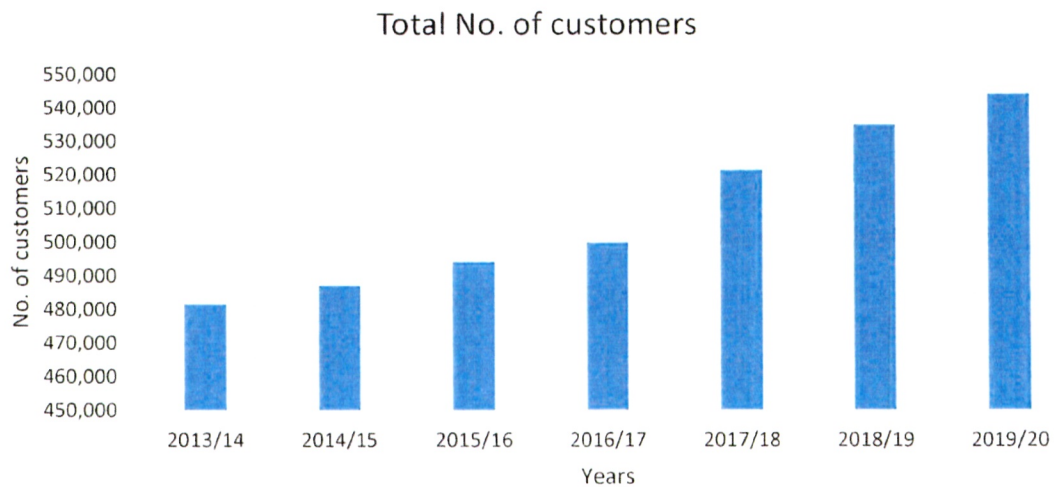
Non-Revenue Water (NRW) is one of the key efficiency parameters in water utilities. NRW levels continue to be very high across the country. The regulator reported in its 12th impact report (2018/19) the national NRW being 43% despite resources having been spent in the upstream process of abstraction, treatment and distribution. In the review period, the Company reduced the NRW to 34% against a target of 33% translating to 97% performance. Strategies and mechanism have been put in place in the 2019/20 – 2023/24 Strategic Plan to address reduction of NRW within the city. More resources have been allocated towards this endeavour.

The graph below illustrates the NRW reduction trend since financial years 2013/014 to the year under review 2019/20.



### Water and sewerage Connections

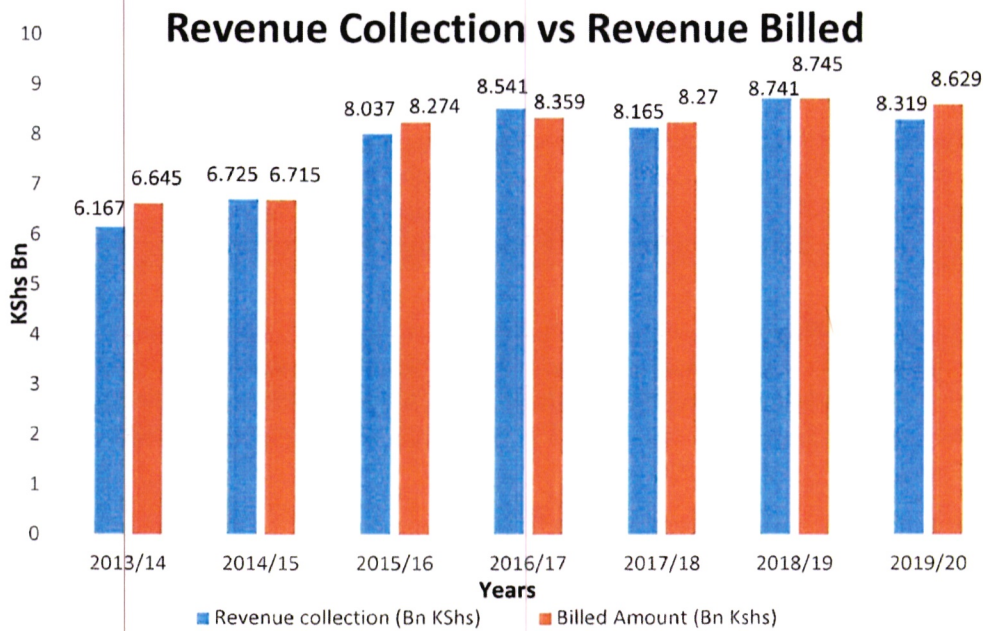
The size of a utility is determined by the total number of water and sewer connections. NCWSC is reported in the impact and other sector reports as the largest utility in the country. Over the years, the number of water and sewerage connections have been growing. During the review period, the total active number of water and sewerage connections was 544,445 which was an increase by 9,233 accounts from 535,212 connections in last financial year. The graph below shows the connections per year during the last seven years.



### Revenue Collection against Billed Amounts

Collection Efficiency is used to measure the effectiveness of the revenue management system in a utility. Revenue collected, as opposed to amount billed is what impacts on a utility's direct ability to fund its operations. In the period under review, the Company collected 97% against the amount billed. The actual amount collected was KShs. 8.3 billion against a billed amount of KShs. 8.6

billion. The graph below depicts the trend of the revenue collected against the billed amounts in the last six years



#### NCWSC’s Contribution into Ease of Doing Business

In 2019, Kenya’s overall score in Ease of Doing Business (EDB), which is locally spearheaded by the Ministry of East Africa Community and Regional Development (MOEAC&RD), was 73.2% and ranked position 56 out of 190 economies. Ease of Doing Business as a key strategy for attracting investment and improving competitiveness. NCWSC jointly shares the dealing with construction permits indicator together with Nairobi Metropolitan Services (NMS)/Nairobi City County (NCC), National Environmental Management Authority (NEMA) and National Construction Authority (NCA) where in 2019 EDB Kenya scored 67.6% and was ranked no. 105 worldwide. Specifically, the 2019 EDB showed that it takes an average of 30 days to connect a standard warehouse to water and sewerage services.

As part of EDB reforms, the company launched and rolled out an online customer contracting system in February 2020, enabling the company to achieve its 14 days target in its customer service charter.

The company is working in partnership with other stakeholders to progressively implement reforms under dealing with construction permits indicator to improve Kenya’s attractiveness to local and foreign investment and its competitiveness.

## **CORPORATE SOCIAL RESPONSIBILITY STATEMENT/SUSTAINABILITY REPORTING**

Nairobi City Water & Sewerage Company Ltd (NCWSC) has a Corporate Social Responsibility (CSR) policy that is guided by a widely agreed framework that the company utilizes to strategically engage in activities with its stakeholders that promote NCWSC's vision, mission, goals and strategic objectives.

The Company recognizes that resource conservation, environmental protection and stewardship are key to a sustainable environment. In conjunction with partners and riparian communities within the catchment areas, NCWSC has been marking Annual tree planting days in the four water sources; Kikuyu Springs, Ruiru, Sasumua and Thika (Ndakaini) dams during the rainy season over the years.

In partnership with the National Government and the local communities within the catchments, NCWSC has planted over 4,000 bamboo trees at the Ndakaini & Ruiru Dam catchment areas within the period under review. In the 3rd quarter, the Company held a tree planting activity at Dandora Sewerage Treatment Works (DSTW) in Ruai in conjunction with the Nairobi Metropolitan Services.

Under the community investment program, the utility has come up with solutions aimed at solving problems in the informal settlements through water kiosks, donation of water tanks to schools and dispensaries in the settlements and within the city at large. All this is aimed at serving the less privileged members of the society.

Towards encouraging the public on water harvesting initiatives, the Company has been donating water tanks (10,000 litres) to strategic groups such as schools, health facilities and youth and women groups as well. This assists in water conservation as well as educating them on the importance of environmental and water conservation. Total number donated is 100 tanks in the period under review.

In line with the reality of confirmed COVID-19 cases in March 2020 by the Ministry of Health and in our belief of empowering our customers and communities, the Company in partnership with National Government have set up 600 No. free handwashing points across Nairobi County as one of the measures to stop spread of the virus. The handwashing facilities are available in all the public toilets and police stations within the Nairobi City County Central Business District and other high traffic areas such as Ngara, Kibera, Jogoo rd. These hand washing areas have been fitted with the requisite infrastructure for constant supply and storage of water through provision of 10,000Litre tanks and routine refills by our water bowsers.

## DIRECTORS' REPORT

The Board of Directors was appointed on 19<sup>th</sup> July 2019. The Board of Directors submits the report for the year ended 30<sup>th</sup> June 2020, which shows the state of the Company's affairs.

## INCORPORATION

The Company is incorporated in Kenya under the Companies Act of the Laws of Kenya. It is a private limited liability Company domiciled in Kenya. It is wholly owned by the Nairobi City County Government.

## PRINCIPAL ACTIVITY

The Company provides water and sewerage services in Nairobi and its environs.

## RESULTS

The results for the year are summarized below:

	2020	2019
	KSHs	KSHs
Deficit/Surplus for the Year	(850,815,607)	61,200,388

## DIVIDENDS

The Company does not recommend the payment of a dividend in respect of the year ended 30<sup>th</sup> June 2020 as per the provisions of the Water Act 2016, section 131(3).

## FINANCIAL STATEMENTS

As at the date of this report, there are no circumstances which would have rendered the values attributed to the assets in the financial statements misleading.

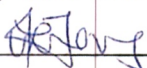
## DIRECTORS' BENEFITS

Since the last Annual General Meeting of the Company to the date of this report, no Director has received or become entitled to receive any benefit other than Directors' fees and amounts received under employment contract for the Managing Director. The aggregate amount of emoluments for Directors' services rendered in the financial year is disclosed in notes 13 and 29.

## INDEPENDENT AUDITORS

The Auditor -General is the independent auditor in accordance with Article 229 of the Constitution of Kenya, the Public Audit Act, 2015 section 35 and the Companies Act and continues in office.

By order of the Board



Ivy Nyarango

Company Secretary

## **CORPORATE GOVERNANCE STATEMENT ON THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30<sup>TH</sup> JUNE 2020**

The Company is committed to the standards of good corporate governance. The following disclosures aim at emphasizing this commitment.

### **ROLE OF THE BOARD**

The Board is responsible for:

- Establishing the strategic plan and guiding its implementation.
- Ensuring that appropriate management structures and policies are in place.
- Approving performance targets including budgets and monitoring their achievements.
- Ensuring preparation and presentation of the annual financial statements in accordance with International Financial Reporting Standards and disclosures of other relevant information to shareholders.
- Identifying and mitigating risks and overseeing the implementation of governance processes that promote compliance with legislation, professional standards and the best corporate governance practices promulgated by relevant authorities.

### **COMPOSITION OF THE BOARD**

The Board is composed of eleven non-executive Directors who are appointed by the shareholder in line with applicable provisions. The Chairman is elected by the Board members. The Managing Director is ex-officio member of the Board with no voting rights. All the non-executive Directors are independent of management.

### **Roles of the Chair and the Managing Director**

The roles of the Chair and the Managing Director are separate, with each holder having distinct and clearly defined duties and responsibilities.

The Chair is responsible for leadership of the Board and ensuring its effectiveness while safeguarding the interests of the shareholder and other stakeholders. On the other hand, the Managing Director has overall responsibility for the performance of the business and provides leadership to management to facilitate successful planning and execution of the objectives and strategies agreed by the Board.

### **Board meetings/activities**

The Board and its committees meet once every quarter as scheduled, but special meetings may be called when need arises. The members are given notices and agenda for all meetings which are circulated on a timely basis together with the respective documents for discussion. Members of the Board are required to declare any conflict of interest on issues for deliberation and are disqualified from participating in deliberations where such conflict exists.

### **Board remuneration**

- i. The directors are entitled to a sitting allowance, lunch allowance and transport allowance for attending a duly convened and constituted meeting of the Board meeting or of any of the committees

- ii. The chairperson receives a monthly honoraria
- iii. A sitting allowance is paid to non-executive directors for attending a duly convened and constituted meeting of the Board or of any of the committees.
- iv. A sitting allowance is paid to non-executive directors for any day of travel from regular station in order to attend to duties of the company.
- v. Medical insurance cover is provided to all non-executive directors for their individual medical requirements for both inpatient and outpatients

A summary of Board meetings and attendance is shown below;

<b>Board Member*</b>	<b>No. of meetings attended</b>
<b>Beryl Lilian Okumu Odinga</b>	22
<b>Allan E. Igambi</b>	8
<b>Ann K. Mwenda</b>	14
<b>Charles K. Kerich</b>	4
<b>Emmah M. Mukuhi</b>	22
<b>Justus M. Kathenge</b>	7
<b>Karen N. Nyamu</b>	22
<b>Leonard M. Kamba</b>	20
<b>Martin K. Mbichire</b>	21
<b>Michael M. Makau</b>	19
<b>Mohamed A. Abdirahman</b>	2
<b>Mohamed A. Abdullahi</b>	22
<b>Simon L. Morintat</b>	1
<b>Timothy M. Muriuki</b>	22

#### **Key achievements for FY2019/2020**

The meetings/activities of the Board resulted in a number of achievements that include the following:

1. Approval of the Strategic Plan for FY 2019/2020 – 2024/2025
2. Recruitment of the Managing Director
3. Approval of a collective bargaining agreement for unionisable employees
4. Approval of FY2020/2021 budget and procurement plan

#### **Board Induction and development**

Each director is provided with a comprehensive and tailored induction covering the Company's business and operations; the applicable legal and regulatory obligations; and special focus on corporate governance. In addition, other workshops/trainings were held on corporate governance, Mwongozo, etc.

## BOARD COMMITTEES

The Board appoints committees to assist in executing its mandate. The board has four committees as follows

### i) AUDIT, RISK AND GOVERNANCE COMMITTEE

The committee is comprised of six (6) board members and the Director Internal Audit and Risk Management who serves as the secretary to the committee.

The Committee reports to the Board of Directors: It is responsible for assisting the Board to discharge its corporate governance responsibilities as follows:

- Internal Control and risk management including reviewing the risk philosophy, strategy and policies recommended by the Company. The Committee ensures compliance with such policies and with the overall risk profile of the Company.
- Reviewing financial information in particular annual financial statements to ensure compliance with accounting standards, legislation and other disclosure requirements.
- Reviewing the external auditors' proposed audit scope and approach and ensuring no unjustified restrictions or limitations have been placed on the scope.  
Reviewing the function, operations and reports of the Internal Audit Directorate

### ii) FINANCE COMMITTEE

The committee is composed of 3 board members.

The Committee assists the Board in discharging its responsibilities as follows:

- Consider and recommend for Board approval, the financial services policies for the Company.
- Receive and consider progress reports on financial services matters.
- Consider and recommend for Board approval, the financial budgets for the Company.
- Receives and considers periodic financial performance reports of the Company.
- Adjudicates on any financial policy matters referred to it by management.
- Ensures compliance at all times with the provisions of the Companies Act under which the Company is registered, Company's Memorandum and Articles of Association and the prevailing regulatory framework
- Provide advice and counsel to the Board as required on legal issues.
- Advise the Board on measures to be taken in order to comply with legal provisions as provided for by various pieces of legislation

### iii) HUMAN RESOURCE, ADMINISTRATION AND COMMUNICATION COMMITTEE

The committee is composed of eight (8) board members. It is responsible for assisting the Board to discharge its responsibilities as follows:

- Reviewing and recommending for approval terms and conditions of service for Company employees including compensation philosophy, strategy, and guidelines; performance related pay schemes; retirement benefits;

- Handling policy issues and strategies on human resource and administration e.g. creation of a long term human resource skills and competency reservoir; succession planning; safety and physical working conditions
- Assisting and supporting the Board in the recruitment of senior management staff;
- Assisting the Board in fulfilling its obligations relating to human resource and compensation matters and establish a plan for continuity and development of staff;
- Recommending a performance evaluation process for the Chief Executive Officer and, when approved, leading the process in conjunction with the Board Chair;
- Reviewing major changes in the organization structure as proposed by the CEO and/or the Committee
- Ensuring that policies are developed and implemented to comply with all human resource-related standards, laws and regulations;
- Considering progress reports on human resource and administration issues and keeping the Board updated on fundamental human resource and administration issues affecting the Company;
- Ensuring effective company communication to the public that promotes correct corporate image and good stakeholder relations including the use of exhibitions, technical conferences, Company's publications and documentaries.

#### iv) TECHNICAL, COMMERCIAL AND ICT COMMITTEE

This is composed of nine non-executive directors. It is responsible for assisting the Board to discharge its responsibilities as follows:

- Reviewing all ICT, technical and commercial proposals from the management team that focus on improving water and sewerage services that would require Board's approval for implementation.
- Subject to all applicable laws, reviewing proposals for procurement of infrastructure, development and support.
- Deliberating on progress reports for projects being implemented by the NCWSC with a view to providing guidance to the management and the Board.
- Considering and recommending for full Board approval ICT, technical and commercial services policies of the Company.
- Receiving and considering periodic progress reports on technical, commercial and ICT-related activities and report on the same to the full Board on quarterly basis.
- Giving guidelines/opinions to the management on areas of improvement as far as ICT, technical and commercial activities are concerned.
- Ensuring, on behalf of the Board, that the Company achieves the set annual targets in water production, water distribution, revenue generation, market growth and customer satisfaction.
- Reviewing the performance of the ICT, Technical and Commercial Directorates and recommending action to be taken for improvement and enhancement of the performance.
- Evaluating reports on the dams, treatment works as well as on the networks of water pipelines and sewer lines on a quarterly basis.

### INTERNAL AUDIT FUNCTION

The Company has an Internal Audit function headed by the Director Internal Audit and Risk Management. The function is responsible for evaluating business and operating risks and the internal controls put in place to mitigate the risks. It is also responsible for evaluation of the Company policies and procedures. The function reports to the Board Audit and Governance Committee and administratively to the Managing Director.

### COMMUNICATION WITH SHAREHOLDERS/STAKEHOLDERS

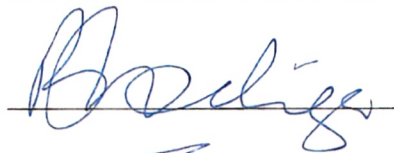
The Company is committed to:

- Ensuring that shareholders and stakeholders are provided with full and timely information about its performance.
- Complying with the statutory and regulatory communication requirements.
- Distributing information to the shareholders/stakeholders through the periodic reports and stakeholder forums.

### DIRECTORS' BENEFITS AND LOANS

All the non-executive Directors received Directors' remuneration as prescribed and no additional benefits or allowances were given to the Directors. The aggregate amount of Directors' remuneration is disclosed in notes 13 and 29 to these financial statements.

CHAIRMAN



DATE: \_\_\_ SEPTEMBER 2020

MANAGING DIRECTOR



DATE: \_\_\_ SEPTEMBER 2020

## STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Kenyan Companies Act 2015 section 147, The Public Finance Management Act, 2012 section 164 and section 14 of the State Corporations Act requires the Directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company, as at the end of the financial year and of its operating results for the year. It also requires the Directors to ensure that the Company keeps proper accounting records, which disclose, with reasonable accuracy, the financial position of the Company. They are also responsible for safeguarding the assets of the Company.

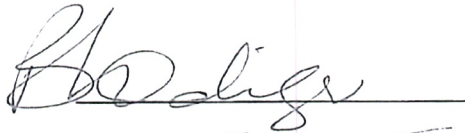
The Directors accept responsibility for the financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgments and estimates, in conformity with International Financial Reporting Standards. The Directors are of the opinion that the financial statements give a true and fair view of the state of the financial affairs of the Company and of its operating results. The Directors further accept responsibility for the maintenance of accounting records, which may be relied upon in the preparation of financial statements, as well as adequate systems of internal financial control.

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

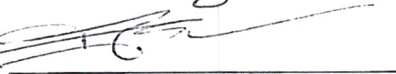
The directors acknowledge that the independent audit of the financial statements does not relieve them of their responsibility.

The statement was approved by Board of Directors on \_\_\_ September 2020

CHAIRMAN

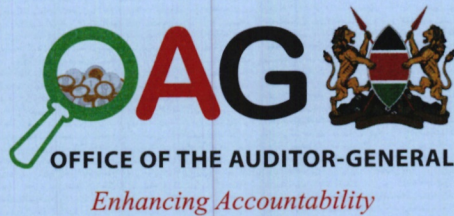


MANAGING DIRECTOR



# 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 NAIROBI CITY WATER AND SEWERAGE COMPANY LIMITED FOR THE YEAR ENDED 30 JUNE, 2020

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### REPORT ON THE FINANCIAL STATEMENTS

#### Qualified Opinion

I have audited the accompanying financial statements of Nairobi City Water and Sewerage Company Limited set out on pages 30 to 76, which comprise the statement of financial position as at 30 June, 2020, and the statement of comprehensive income, statement of changes in equity, statement of cash flows 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 matters described in the Basis for Qualified Opinion section of my report, the financial statements present fairly, in all material respects, the financial position of the Nairobi City Water and Sewerage Company Limited as at 30 June, 2020 and of its financial performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards (IFRS) and comply with the Companies Act, 2015, the Water Act, 2016 and the Public Finance Management Act, 2012.

#### Basis for Qualified Opinion

##### 1.0 Lack of Ownership Documents and Valuation of Property Plant and Equipment

The statement of financial position and as disclosed in Note 15 to the financial statements reflects property, plant and equipment balance of Kshs.3,391,015,377. However, the parcels of land and dams on which expansion and improvements of undetermined value have not been included in the property, plant and equipment balance as at 30 June, 2020. This is contrary to Paragraph 7 of the International Accounting Standard (IAS) No. 1. Further, balance omits various unvalued parcels of land belonging to the Company meant for expansion, storage, water and sewerage treatment works which have been encroached on by private developers. In addition, ownership documents for various parcels of land belonging to the Company were not provided for audit.

Consequently, the accuracy, completeness, ownership and the carrying value of the property, plant and equipment balance of Kshs.3,391,015,377 could not be confirmed.

## **2.0 Inaccuracies in Amounts Due to Related Party Transactions**

The statement of financial position and as disclosed in Note 28 to the financial statements reflects amounts due to related parties under current liabilities and non-current liabilities balances of Kshs.1,311,960,787 and Kshs.5,453,859,837 respectively. The liabilities relate to amounts due to Athi Water Services Board (AWSB) for lease fee as at 30 June, 2019. Although the management explained that lease fee was based on an arbitrary figure during tariff settings by AWSB, the lease agreement was not provided for audit review.

In the circumstance, the accuracy and completeness of amounts due to related parties of Kshs.6,765,820,624 could not be ascertained.

## **3.0 Over-Expenditure on Board Remuneration**

The statement of profit or loss and other comprehensive income and as disclosed in Note 9 to the financial statements reflects operations expenses amount of Kshs.2,913,612,005. Included in the amount is Board remuneration amount of Kshs.50,223,488. However, the Company had budgeted an amount of Kshs.29,000,000 in respect of Board remuneration resulting to an unexplained over-expenditure of Kshs.21,223,488.

In the circumstances, the validity of board remuneration over-expenditure of Kshs.21,223,488 could not be confirmed.

## **4.0 Irregular Bank Borrowings**

The statement of financial position and as disclosed in Note 24 to the financial statements reflects borrowings of Kshs.681,003,504 in respect of non-current borrowings balance of Kshs.497,942,615 and current borrowings of Kshs.183,060,889. The borrowings were secured by debentures on the assets of the Company valued at Kshs.700,000,000. However, the total borrowings exceeded the allowable threshold of five percent (5%) of the Company's last audited revenues being Kshs.464,971,549.35 by an amount of Kshs.216,031,955.

In the circumstances, the validity of the borrowings of Kshs.681,003,504 for the year ended 30 June, 2020 could not be confirmed.

## **5.0 Long Outstanding Trade Receivables**

The statement of financial position and as disclosed in Note 18 to the financial statements, reflects trade receivables and other receivables balance of Kshs.2,917,410,241. However, the following unsatisfactory matters were noted;

- i. Examination of the debtors schedules revealed that the Company is owed an amount of Kshs.192,535,889 in respect of revenue collected by two Companies which were contracted as revenue collecting Agencies. Although the Company has initiated arbitration process to recover the money, the debts remained outstanding as at 30 June, 2020.
- ii. examination of the Company debtors' schedules revealed that KRA is listed as a debtor and is owing the Company an amount of Kshs.1,113,808,030 for claims lodged and Kshs.357,125,070 for claims awaiting to be lodged in respect of expenses incurred in purchasing zero rated items. However, the Management has not provided any commitment from KRA to settle the outstanding claims.
- iii. Management made provisions for bad and doubtful debts of Kshs.6,772,210,774. However, Management has not demonstrated efforts made to collect the debts.

In the circumstance, the recoverability of the long outstanding trade receivables could not be confirmed.

#### **6.0 Irregular Payment of Staff Bonus**

The statement of profit or loss and other comprehensive income and as disclosed in Note 8 to the financial statements, reflects staff costs figure of Kshs.5,787,867,856. Included in this amount is Kshs.24,079,053 paid out as a bonus for which Management did not provide the basis for payment.

In the circumstances, the validity of the expenditure of Kshs.24,079,053 on bonus payment could not be confirmed.

#### **7.0 Long Outstanding Trade and Other Payables**

The statement of profit or loss and other comprehensive income and as disclosed in Note 25 to the financial statements reflects trade and other payables reflects a balance of Kshs.2,486,408,059. Included in this balance are long outstanding payables to Water Services Regulatory Board and Water Resource Authority amounting to Kshs.576,934,605 and Kshs.423,911,247 respectively.

#### **8.0 Unsupported Customers Credit Balances**

During the year under review and as reflected in Note 26 to the financial statements are customers with credit balances reflecting a balance of Kshs.217,501,924. The amount was for customers whose accounts were overpaid and were issued with credit notes due to overbilling. However, no detailed supporting schedules were availed for audit review.

In the circumstances, the accuracy of the credit balances figure of Kshs.217,501,924 as at 30 June, 2020 could not be confirmed.

## **9.0 Undisclosed Material Uncertainty Relating to Going Concern**

During the financial year ended 30 June, 2020 the Company recorded a net operating loss of Kshs.850,815,607 (2019: a net operating surplus of Kshs.61,200,388) which depleted further the revenue reserve from negative Kshs.4,690,715,720 as at 30 June, 2019 to negative Kshs.5,933,313,790 as at 30 June, 2020. Further, the current liabilities balance of Kshs.4,490,334,546 exceeded the current assets balance of Kshs.3,563,193,890 resulting in a negative working capital of Kshs.927,140,656 as at 30 June, 2020.

This material uncertainty in relation to going concern and any mitigating measures put in place by the Company's Directors to reverse the undesirable precarious financial position have not been disclosed in the notes to the financial statements.

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

### **Key Audit Matters**

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

### **Other Matter**

#### **Budgetary Control and Performance**

The statement of comparative budget and actual amounts reflects final receipts budget and actual on comparable basis of Kshs.11,654,689,000 and Kshs.9,182,551,889 respectively resulting to an under-collection of Kshs.2,472,137,111 or 21% of the budget. Similarly, the Company incurred expenditure of Kshs.10,033,367,495 against an approved expenditure budget of Kshs.9,877,222,600 resulting to an over-expenditure of Kshs.156,144,895. The under-collection affected the planned activities and may have impacted negatively on service delivery to the public.

## REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

### **Conclusion**

As required by Article 229(6) of the Constitution, based on the audit procedures performed, except for the matters described in the Basis for Conclusion on Lawfulness and Effectiveness in Use of Public Resources section of my report, I confirm that, nothing else has come to my attention to cause me to believe that public resources have not been applied lawfully and in an effective way.

### **Basis for Conclusion**

#### **1.0 Excess Non-Revenue Water**

During the year, the Company produced a total volume of 176,035,673 cubic meters (m<sup>3</sup>) of water out of which 86,349,639 cubic meters (m<sup>3</sup>) was billed to customers. The balance of 89,686,033.71m<sup>3</sup> cubic meters or approximately 51% of the total volume produced represented Non-Revenue Water. The Non-Revenue Water is 26% over and above the allowable loss of 25% contrary to Water Services Regulatory Board (WASREB) Guidelines for Non-Revenue Water.

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

#### **2.0 Delayed Implementation of the Extension of Makongeni – Kaloleni Water Supply Network**

During the year under review, the Company awarded a contract for the extension of water supply to serve Makongeni and Kaloleni areas with a scope of site clearing, setting out, excavation, pipe laying and back filling at a contract sum of Kshs.21,227,663.60. The contract period was for eight (8) calendar months from the date of commencement with the project expected to be completed by 1 August, 2020.

The contractor wrote to the Company on 27 August, 2020 indicating that they were unable to complete the project on time due to delayed payment, sabotage by illegal water vendors, uncooperative youth leaders and insecurity of the staff and working tools and requested for extension of time, revision of the tender sum, and prompt or advance payment. However, the Company declined to revise the tender sum or advance payment and directed the contractor to expedite completion of the pending works, renew insurances, performance bond and request for extension of time specifying the period and submit a revised programme of works letter dated 3 September, 2020.

By the time of audit, a payment of kshs.6,000,260 or 28% of cost had been paid and the project remained incomplete and the contractor was not on site.

Consequently, value for money has not been realised on the implementation of the project.

### **3.0 Delayed Implementation of the Donholm – Savannah Sewer Rehabilitation and Upgrade**

During the year under review, the Company awarded a contract for the rehabilitation and upgrade of the sewer at Donholm – Savannah at a contract sum of Kshs.173,072,513.88. The scope of works involved Construction of DN450mm – 4239m DN600mm – 834m and DN600mm Steel – 48m with the objective of improving sanitation status in Donholm area. The works started on 8 January, 2018 and were due for completion after twenty-five (25) months. However, an audit inspection conducted in the month of January, 2021 revealed that kshs.61,187,145 had been paid which was 35% of the cost. The slow progress of completion was attributed to delayed payments of certified works.

Consequently, value for money has not been realised on the implementation of the project.

### **4.0 Abandoned Rehabilitation of Falcon Road and Sewer Line Works**

During the year under review, the Company awarded out a contract for the rehabilitation of Falcon road and sewer line at a contract sum of Kshs.95,288,890 for a period of twenty-five (25) months. The project objective was to carry out sewer upgrade works to address sewer overflows along the roads. The scope of works being construction of Road A – DN450mm – 655m and Falcon road – DN375mm – 1230m sewer line.

Project documents provided for audit revealed that the contractor had stopped works due to objection of reduced excavation of widths. However, the Company wrote advising the contractor to adhere to the specified conditions stated in the contract document and adopt specific widths for excavation works. The contractor was further advised to resume works and proceed with the remaining works to avoid further delays to the project. However, a site visit done in the month of January, 2021 revealed that a payment of Kshs.27,474,594 or 29% of cost and the works remained incomplete (stalled at 90%) and the contractor was not on site.

Consequently, value for money has not been realised on the implementation of the project.

### **5.0 Delayed Completion of Proposed Kamunde Road Sewer Line Rehabilitation and Upgrade Work**

The Company awarded a contract for the rehabilitation and upgrade of Kamunde road sewer line at a contract sum of Kshs.179,768,143. The project was implemented to

improve sanitation at Kariobangi North Area bound by Kamunde road loop. The Project was to take a period was for five (5) months with an initial competition date of 30 April, 2018. However, the contractor abandoned the works before completion. The Company through the Technical Director instructed the contractor to resume works within fourteen (14) days and expedite the remaining works failure to which the Company will undertake the remaining works at the expense of the contractor.

Site visit conducted in the month of January 2021 revealed that the contractor was yet to resume work despite payment Kshs.98,307,503 and the project remained incomplete.

Consequently, value for money has not been realised on the implementation of the project.

## **6.0 Non Remittance of Retirement Benefits**

As disclosed under Note 8 to the financial statements, staff costs as at 30 June, 2020 reflects Kshs.5,787,867,856. Records maintained by the Company showed that staff pension deductions and employers contribution amounting to Kshs.790,013,008 were not remitted to the respective pensions fund contrary to Section 32(1) of retirement benefit act chapter 197 revised edition 2012. Further noted was long outstanding debt of Kshs.142,599,816 dating back to earlier than 30 June, 2014 relating to provident fund LAPTRUST and NACICO and voluntary staff deductions during the year under review amounting to Kshs.648,226,384 were not remitted.

In the circumstances, the Company was in breach of the law and is open to fines and penalties for no remittance of pensions dues.

## **7.0 Long Outstanding Imprest**

During the year under review, the Company had long overdue imprest amounting to Kshs.3,024,802. Included in this figure is Kshs.1,807,952 issued to members of staff as standing imprest to cater for procurement of goods and services in the various regions which has been outstanding since July, 2019. Further, special imprest of Kshs.1,216,850 was for issued as advance payment for various payment of goods and services and have been outstanding for more than one year with some officers holding multiple imprests.

In the circumstances, the Company was in breach of the law.

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(s) described in 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 overall governance were not effective.

## Basis for Conclusion

### 1.0 Lack of Approved Information Technology Security Policy

Review of the Company's information technology systems revealed that it has in place Enterprise Resource Planning (ERP) to manage its operations. However, the Company did not have an approved IT policy for governance and management of its ICT resources. In addition, there is no ICT steering committee in place to assist in development of ICT policy framework to enable the company realize long term ICT strategic goals. Lack of an approved IT policy may result in unclear direction regarding maintenance of information security across the organization and safeguarding the Company's ICT assets. Further, without a sound and approved framework, users do not have any rules and procedures to follow in order to minimize risk of errors, fraud and the loss of data confidentiality, integrity and availability. Further, the Company has not established an IT strategic committee which should provide leadership on information technology matters.

Management did not provided explanations for lack of IT policy for governance and management of its ICT resources and for failure to have an IT Strategic Committee in place.

### 2.0 Lack of Adequate Controls over the Customer Management and Billing System

The Company awarded the contract for the supply, delivery, installation, testing & commissioning of a customer management and billing system at a contract sum of USD. 1,192,596 (equivalent to Kshs.122,774,419). As at 30 June, 2019, the company had paid Kshs.71,359,722.68 towards the completion of the customer billing system. Although, the Company had gone live as at 30 June, 2019, non-disclosure agreements and service level agreements which safeguards the confidentiality of the Company and manages uninterrupted service delivery were not provided for audit.

Consequently, controls over the customer management and billing system could not be verified

The audit was conducted in accordance with ISSAI 2315 and ISSAI 2330. The standard requires that I plan and perform the audit to obtain assurance about whether

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

## REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

As required by the Companies Act, 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, adequate accounting records have been kept by the Company, so far as appears from the examination of those records; and,
- iii. The Company's financial statements are in agreement with the accounting records and returns.

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

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and for maintaining effective internal control as Management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error and for its assessment of the effectiveness of internal control, risk management and 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 basis of accounting unless the County Government is aware of the intention to liquidate the Company or to cease operations.

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

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

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

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

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

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

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

Because of its inherent limitations, internal control may not prevent or detect misstatements and instances of non-compliance. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the Company 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 ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in the auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my audit report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information and business activities of the Company to express an opinion on the financial statements.
- Perform such other procedures as I consider necessary in the circumstances.

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

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

  
CPA Nancy Gathungu, CBS  
**AUDITOR-GENERAL**

**Nairobi**

**14 February, 2022**

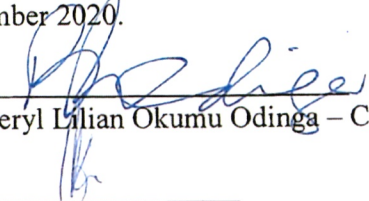
**STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED  
 30th JUNE 2020**

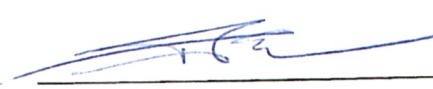
	Note	2020	2019
		Kshs	Kshs
<b>OPERATING INCOME</b>	6	9,177,235,710	9,299,430,987
<b>GRANT INCOME</b>	7	5,316,179	
<b>Total</b>		<b>9,182,551,889</b>	<b>9,299,430,987</b>
<b>EXPENSES</b>			
<b>Staff costs</b>	8	5,787,867,856	5,755,445,530
<b>Operations</b>	9	2,913,612,005	2,788,380,649
<b>Maintenance</b>	10	250,784,230	246,394,942
<b>Other expenses</b>	11	991,763,965	366,033,432
<b>Total</b>		<b>9,944,028,055</b>	<b>9,156,254,553</b>
<b>Surplus Before Interest &amp; Tax</b>		<b>(761,476,167)</b>	<b>143,176,434</b>
<b>Finance costs</b>	12	89,339,440	81,976,046
<b>SURPLUS BEFORE TAX</b>	13	<b>(850,815,607)</b>	<b>61,200,388</b>
<b>Net surplus/ Deficit for the year</b>		<b>(850,815,607)</b>	<b>61,200,388</b>

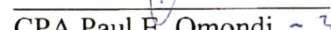
STATEMENT OF FINANCIAL POSITION AS AT 30TH JUNE 2020

ASSETS	NOTE	2020	2019
		<b>Kshs</b>	<b>Kshs</b>
<b>NON- CURRENT ASSETS</b>			
Property, plant and equipment	15	3,391,015,377	3,476,548,192
Intangible assets	16	9,119,905	15,313,313
		<b>3,400,135,282</b>	<b>3,491,861,505</b>
<b>CURRENT ASSETS</b>			
Inventories	17	442,979,322	413,454,433
Trade and other receivables	18	2,917,410,241	2,993,906,128
Cash and Cash equivalents	19	202,804,327	194,741,752
		<b>3,563,193,890</b>	<b>3,602,102,313</b>
<b>TOTAL ASSETS</b>		<b>6,963,329,172</b>	<b>7,093,963,818</b>
<b>CURRENT LIABILITIES</b>			
Trade and other payables	25	2,486,408,059	2,621,994,879
Customers with credit balances	26	217,501,924	197,055,127
Provisions for Leave	27	291,402,887	293,689,229
Borrowings	24	183,060,889	59,331,029
Amounts due to related parties	28	1,311,960,787	1,311,960,787
		<b>4,490,334,546</b>	<b>4,484,031,051</b>
<b>NET ASSETS</b>		<b>2,472,994,626</b>	<b>2,609,932,767</b>
<b>SHAREHOLDERS' FUNDS AND LIABILITIES</b>			
<b>CAPITAL AND RESERVES</b>			
Share Capital	20	100,000	100,000
Revenue Reserve	21	(5,933,313,790)	(4,690,715,720)
Capital Grant	22	1,493,461,141	1,514,181,943
		<b>(4,439,752,649)</b>	<b>(3,176,433,777)</b>
<b>NON-CURRENT LIABILITIES</b>			
Customer deposits	23	960,944,823	900,011,445
Borrowings	24	497,942,615	347,351,014
Amounts due to related parties	28	5,453,859,837	4,539,004,085
		<b>6,912,747,275</b>	<b>5,786,366,544</b>
<b>TOTAL SHAREHOLDERS' FUNDS AND LIABILITIES</b>		<b>2,472,994,626</b>	<b>2,609,932,767</b>

The financial statements on pages 26 to 56 were approved by the Board of Directors on -----  
September 2020.

  
Mrs. Beryl Lilian Okumu Odinga – Chairman

  
Eng. Nahason M. Muguna - Managing Director

  
CPA Paul E. Omondi - 3647  
Ag. Finance & strategy Director

**STATEMENT OF CHANGES IN EQUITY AS AT 30<sup>TH</sup> JUNE 2020**

	<b>Note</b>	<b>Share</b>	<b>Revenue</b>	<b>Capital</b>	<b>Restated</b>
	<b>s</b>	<b>Capital</b>	<b>Reserve</b>	<b>Grant</b>	<b>Total</b>
		<b>Kshs</b>	<b>Kshs</b>	<b>Kshs</b>	<b>Kshs</b>
<b>As at 30th June 2018</b>		100,000	(4,524,091,163)	1,230,779,923	(3,293,211,240)
<b>Prior year adjustments</b>	<b>30</b>		(227,824,945)		(227,824,945)
<b>Restated balance</b>		100,000	(4,751,916,108)	1,230,779,923	(3,521,036,185)
<b>Amortization</b>				(22,394,788)	(22,394,788)
<b>Additions for the year</b>				305,796,808	305,796,808
<b>surplus for the year</b>	<b>13</b>		61,200,388		61,200,388
<b>As at 30th June 2019</b>		100,000	(4,690,715,720)	1,514,181,943	(3,176,433,777)
<b>As at 30th June 2019</b>		100,000	(4,690,715,720)	1,514,181,943	(3,176,433,777)
<b>Prior year adjustments</b>	<b>30</b>		(391,782,463)		(391,782,463)
<b>Restated balance</b>		100,000	(5,082,498,183)	1,514,181,943	(3,568,216,240)
<b>Amortization</b>				(193,775,766)	(193,775,766)
<b>Additions for the year</b>				173,054,964	173,054,964
<b>Deficit/Surplus for the year</b>	<b>13</b>		(850,815,607)		(850,815,607)
<b>As at 30th June 2020</b>		100,000	(5,933,313,790)	1,493,461,141	(4,439,752,649)

STATEMENT OF CASH FLOW FOR THE YEAR ENDED 30th JUNE 2020

	NOTE	2020	2019
<b>Operating activities:</b>		<b>Kshs</b>	<b>Kshs</b>
Cash generated from operations	31	(4,510,249)	652,749,287
Interest paid		(89,339,440)	(81,976,046)
Net cash generated from operating activities		(93,849,689)	570,773,241
<b>Cash flow from investing activities:</b>			
Purchase of property, plant and equipment	15	(345,464,161)	(768,729,633)
Purchase of intangible assets	16		(15,925,527)
Net cash used in investing activities		(345,464,161)	(784,655,160)
<b>Cash flow from financing activities:</b>			
Proceeds from long-term borrowings		352,251,378	11,110,026
Proceeds from financing assets	22	173,054,964	305,796,87
Repayment of long-term borrowings		(77,929,917)	(93,810,147)
Net cash generated from financing activities		447,376,425	223,096,687
Net increase/(decrease) in cash and cash equivalents		8,062,575	9,214,768
<b>Movement in cash and cash equivalents:</b>			
As at 1 <sup>st</sup> July		194,741,752	185,526,984
Increase/(decrease)		8,062,575	9,214,768
As at 30 <sup>th</sup> June	19	202,804,327	194,741,752

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

	<b>Original budget</b>	<b>Actual on comparable basis</b>	<b>Performance difference</b>	<b>%</b>
	2019/2020	2019/2020	2019/2020	2019/20
<b>REVENUE</b>				
<b>Water</b>	6,500,405,000	4,782,893,958	1,717,511,042	-26.42
<b>Sewerage</b>	4,578,360,000	3,731,565,041	846,794,959	-18.5
<b>Meter Rent</b>	175,924,000	165,413,250	10,510,750	-5.97
<b>Miscellaneous</b>	400,000,000	497,363,461	( 97,363,461)	24.34
<b>Operating Income</b>				
<b>Grant Income</b>	-	5,316,179	(5,316,179)	100
<b>TOTAL REVENUE</b>	11,654,689,000	9,182,551,889	2,472,137,111	-21.21
<b>EXPENDITURE</b>				
<b>Staff Costs</b>	5,874,043,100	5,787,867,856	86,175,244	1.47
<b>Operations</b>	2,851,543,500	2,913,612,005	(62,068,506)	-2.18
<b>Maintenance</b>	517,600,000	250,784,229	266,815,771	51.55
<b>Financing Costs</b>	87,000,000	89,339,440	( 2,339,440)	-2.69
<b>Other Expenses</b>	547,036,000	991,763,965	(444,727,965)	-81.3
<b>TOTAL OPERATING EXPENSES</b>	9,877,222,600	10,033,367,4955	(156,144,895)	-1.58
<b>NET INCOME</b>	1,777,466,400	(850,815,607)	2,628,282,007	-147.9

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30<sup>th</sup> JUNE 2020

### 1. General information

Nairobi City water and sewerage Company Ltd is established by and derives its authority and accountability from water Act and the companies act laws of Kenya. The entity is wholly owned by the Nairobi City County Government and is domiciled in Kenya. The entity'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 are prepared in accordance with the Accrual Basis of Accounting Method under the International Financial Reporting Standards (IFRS). The financial statements are prepared under the historical cost basis of accounting except for the measurement at re-valued amounts of certain items of property, plant and equipment and presented in the functional currency, Kenya Shillings (Kshs) rounded to the nearest Shilling.

The preparation of financial statements in conformity with IFRSs allows the use of estimates and assumptions. It also requires Directors to exercise their judgment in the process of applying the Company's accounting policies. The areas involving a higher degree of judgment and complexity, or where assumptions and estimates are significant to the financial statements are disclosed in note 4 below.

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

### Going Concern

The financial performance of the company is set out in the Director's report and in the statement of comprehensive income. The financial position of the company is set out in the statement of financial position. Disclosures in respect of risk management are set out in note 32.

Based on the financial performance and position of the company and its risk management policies, the directors are of the opinion that the company is well placed to continue in business for the foreseeable future and as a result the financial statements are prepared on a going concern basis. In making this assessment, the Directors consider a wide range of information relating to present and anticipated future conditions, including future projections of profitability, cash flows and other resources.

The company has put in place a new billing system to enhance growth of our billing and collections and also enhance controls in revenue management.

The company has also applied for a tariff review as the one in use has been in existence since November 2015 whereas prices of good have gone up.

The NCWSC is already implementing the non-revenue water reduction strategies which are being fast tracked to improve on our revenue growth.

### 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

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 January 2020, and have been applied in preparing these financial statements.

**IFRS 9 – Financial Instruments** -This new standard, which replaces IAS 39 – Financial Instruments: Recognition and Measurements, was issued to introduce new classification and measurement requirements, a new hedge accounting model, as well as a single forward-looking expected credit loss impairment model. The NCWSC has identified a change in the measurement of trade receivable is equal to the fair value for this type of transaction. Additionally, the standard requires the measurement and recognition of expected impairment losses on financial assets. Under these requirements, a simplified model must be applied when determining an impairment loss for trade receivables with no significant financing component. This applies to the NCWSC’s “Trade and other receivables” for which the loss allowance is measured at an amount equal to lifetime expected credit losses. The adoption of this new standard had no impact on the amounts reported in the financial statements.

#### 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.

Based on their assessment of the potential impact of application of the above, the Directors do not expect that there will be a significant impact on the company's financial statements.

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

#### IAS 37 Provisions, Contingent Liabilities and Contingent Assets

**Onerous Contracts—Cost of Fulfilling a Contract:** The amendments specify which costs should be included in an entity’s assessment whether a contract will be loss-making. 1 January 2022.

The Directors do not plan to apply any of the above until they become effective.

#### 4. Summary of significant accounting policies

The principal accounting policies adopted in the preparation of the financial statements are set out below. These policies have been consistently applied over the years unless otherwise stated:

##### a) Property, plant, equipment and depreciation

Property, plant and equipment are stated at cost, less accumulated depreciation and any impairment in value.

Subsequent costs are included in the assets' carrying amount or recognized as separate assets as appropriate, only where it is probable that future economic benefits associated with the item will flow to the Company and the cost of the items can be measured reliably. All other repairs and maintenance costs are charged to the income statement in the financial year in which they are incurred.

Property, plant and equipment acquired under hire purchase agreements and finance lease hire arrangements are capitalized at the date of the agreement. The interest element of each installment is charged to the income statement at the time each installment falls due. Depreciation is calculated on the straight line basis, at annual rates estimated to write off carrying values of the property, plant and equipment over their expected useful lives. The rates used are:

Asset Class	Rate
Buildings	2.5%
Plant & Machinery	12.5%
Motor Vehicles, including motorcycles	25%
Equipment	12.5%
Computer & Related Equipment's	30%
Furniture & Fittings	12.5%

The carrying values of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying values may not be recoverable. An impairment loss is recognized for the amount by which the assets' carrying amount exceeds its recoverable amount. The recoverable amount is the higher of the assets fair value less costs to sell and value in use.

If any such indications exist and where the carrying values exceed the recoverable amount, property, plant and equipment are written down to their recoverable amounts.

Gains and losses on disposal of property, plant and equipment are determined by reference to their carrying amounts and are taken into account in determining operating surplus / (deficit).

#### **b) Financial instruments**

Financial instruments carried on the balance sheet include cash and bank balances, trade and other receivables, trade and other payables and borrowings. The particular recognition methods adopted are disclosed in the individual policy statements associated with each item.

#### **c) Revenue recognition**

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured. Revenue is recognized at the fair value of consideration received or expected to be received in the ordinary course of the entity's activities. The following specific recognition criteria must be met before revenue is recognized.

##### **i) Provision of water and sewerage services**

Revenue from provision of water and sewerage services is recognized when these services are delivered to customers and billed by the Company. The billing is done on monthly billing cycle based on the units consumed as read on the customer water meters and as per approved consumer tariff. If the meter reading is not available, the consumption between the last meter reading and the end of billing cycle is estimated.

##### **ii) Meter rent income**

Meter rental income is recognized on monthly basis after water meters are installed at the customers' premises. This is based on the approved tariff by water services regulatory board.

##### **iii) Other income**

This includes sale of tender documents, exhaustor services, effluent discharge fees, sale of sludge, fraud charges, claims compensation, survey fees etc.

Other income is recognized when the service has been provided and billed.

##### **iv) Grants**

Income grants are recognized in the year in which the entity actually receives such grants. Recurrent grants are recognized in the statement of comprehensive income.

#### **d) Intangible assets**

The costs incurred to acquire and bring to use specific computer software licenses are capitalized. The costs are amortized on a straight line basis over the expected useful lives (3 1/3 years) at the rate of 30% per year.

#### **e) Inventories**

Inventories are valued at the lower of cost and net realizable value.

Cost is determined on a weighted average cost basis. Provisions are made for all anticipated inventory losses and charged to the income statement.

Net realizable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

#### **f) Foreign currency transactions**

The accounting records are maintained in the functional currency of the primary economic environment in which the entity operates, Kenya Shillings.

Transactions during the year are converted into Kenya Shillings at rates ruling at the transactions dates. Assets and liabilities at the balance sheet date which are expressed in foreign currencies are translated into Kenya Shillings at rates ruling at that date. The resulting differences from conversion and translation are dealt with in the income statement in the period in which they arise.

#### **g) Trade and other receivables**

Trade and other receivables are recognized at anticipated realizable value less an allowance for any uncollectible amounts.

General provisions are made based on directors' valuation of the trade receivables and other exposure in respect of losses, which, although not specifically identified, are known from experience to be present in the trade receivables.

Specific provision is made for all known doubtful debts. Bad debts are written off when all reasonable steps to recover them have been taken without success.

#### **h) Employee benefits**

##### **i) Pension obligations**

The Company operates a defined contribution retirement benefit scheme for employees on permanent terms of service administered in three different forms: National Social Security Fund, a Provident Fund and a pension fund. These schemes are funded by contributions from both the Company and employees.

The Company's contributions to the schemes are charged to the income statement in the year to which they relate.

##### **ii) Other employee entitlements**

Employee entitlements to gratuity are recognized when they fall due. These entitlements are provided for on annual basis in accordance with the annual contracts.

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

##### **i) Capital grant**

Grants received for capital assets are credited to the capital grant account net of amortization, which is released to the income statement over the expected useful life of the relevant asset on a straight line basis. Development/capital grants are recognized in the statement of financial position and realized in the statement of comprehensive income over the useful life of the assets that has been acquired using such funds.

##### **j) Provisions**

Provisions are recognized when the Company has legal or constructive obligations as a result of past events and it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made.

#### **k) Contingent liabilities**

Contingent liabilities are possible obligations whose existence will be confirmed only by uncertain future events or present obligations where the transfer of economic benefit is uncertain or cannot be reliably measured. Contingent liabilities are not recognized in the balance sheet but are disclosed unless they are remote.

#### **l) Taxation**

No tax will be provided in view of the nature of the company's business as explained in note 11.

#### **m) Cash and cash equivalents**

Cash and cash equivalents comprise cash at bank and in hand.

#### **n) Trade and other payables**

Trade and other payables are stated at their nominal value as adjusted for interest on overdue accounts.

#### **o) Leases**

Operating lease payments for use of assets belonging to the Nairobi City County Government payable to the Athi Water Service Board are recognized as an expense in the income statement and are based on the guidelines from Water Service Regulatory Board.

Rental payments are recognized as expenses in the income statement when they are incurred.

#### **p) Interest bearing borrowings**

All borrowings are recognized at cost. Borrowing costs are expensed as finance costs.

#### **q) Revenue reserve**

Surpluses / (deficits) from the statement of comprehensive income are accumulated in the revenue reserve account on an annual basis.

#### **r) Customer deposits**

Deposits from customers are recognized when received. Interest on the deposits is accrued at 3% per annum.

#### **s) Related parties**

In the normal course of business the Company enters into transactions with related parties. The related party transactions are at arm's length.

#### **t) Provision for overtime**

The Company provides for overtime payment for hours worked in excess of those specified in the terms of contracts for employees in grade 6 -9. This is computed at a rate of one and half times for normal working days and twice for a normal rest day or a gazetted public holiday. Overtime expense is recognized when claimed and approved.

### **5. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS**

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

#### i) Critical accounting estimates and assumptions

Property, plant and equipment; Intangibles and Capital grant and amortization of intangibles and capital grant.

Critical estimates are made by Directors in determining depreciation and amortization rates for property, plant, equipment, intangibles and capital grant. The rates used are set out in note 4(a), 4 (d) and 4 (i) above.

#### ii) Critical judgments in applying the entity's accounting policies

In the process of applying the Company's accounting policies, Directors have made judgments in determining:

- The classification of financial assets and leases.
- Whether assets are impaired.
- Provisions and contingent liabilities.
- Presentation of financial statements.

### 6. OPERATING INCOME

	2020	2019
	Kshs	Kshs
<b>Water</b>	4,780,543,825	4,951,152,044
<b>Sewer services</b>	3,731,565,041	3,743,354,228
<b>Meter rent</b>	165,413,250	160,642,800
<b>Other income</b>	499,713,594	444,281,915
	<b>9,177,235,710</b>	<b>9,299,430,987</b>

Other income comprises income from exhauster services rendered, kshs, 2,226,700, survey fees, sale of sludge, sale of water by tanker, fraud charges 22,614,519 and recoveries kshs 221,548,509, claims compensation Kshs 27,099,660, reconnection fee, effluent discharge license fee kshs 18,864,000, chemical analysis fee, sewer connection charges kshs 4,665,348 jisomee customer loan repayments kshs 2,350,133 and Grant Amortization kshs 193,775,766 (2019: Kshs 22,394,788)

### 7. GRANT INCOME

	2020	2019
	Kshs.	Kshs
<b>Grant Income</b>	5,316,179	<b>0</b>

The grant income was received from World water net in respect to purchase of PPEs and electronics for wifi hotspots to help in the fight against COVID-19.

## 8. STAFF COSTS

	Note	2020	2019
		Kshs	Kshs
<b>Salaries and wages</b>		2,905,203,956	2,848,287,536
<b>House allowances</b>		831,211,865	856,097,026
<b>Leave allowances</b>		197,867,472	191,604,831
<b>Bonus</b>		24,079,053	24,910,114
<b>Overtime</b>		284,846,497	254,489,788
<b>Retirement benefits</b>	32	650,648,840	662,249,841
<b>Other allowances</b>		590,173,485	596,661,278
<b>Medical expenses</b>		264,916,816	241,561,366
<b>Leave pay provision</b>		0	24,861,018
<b>Welfare</b>		38,919,872	54,722,732
		<b>5,787,867,856</b>	<b>5,755,445,530</b>

The number of employees at the end of the financial year was 3,335 (2019: 3,440). The average per category is indicated below

Grade	Category	Average Number	
		2020	2019
1	Managing Director	1	1
2	Functional Directors	4	4
3	Departmental/Regional managers	32	33
4	Co-ordinators	113	111
5	Officers	210	220
6	Unionizable staff	610	632
7	Unionizable staff	669	712
8	Unionizable staff	1,582	1,611
9	Unionizable staff	114	116
	<b>Grand Total</b>	<b>3,335</b>	<b>3,440</b>

<b>9. OPERATIONS</b>		
	<b>2020</b>	<b>2019</b>
	<b>Kshs</b>	<b>Kshs</b>
<b>Chemicals</b>	260,354,445	191,404,123
<b>Office supplies</b>	33,510,117	20,326,201
<b>Tyres and related accessories</b>	14,910,393	13,618,159
<b>Fuel, oil and lubricants</b>	88,088,336	89,078,909
<b>Uniforms and protective clothing</b>	24,193,200	61,507,615
<b>Electricity</b>	285,023,587	283,709,308
<b>Telecommunications</b>	45,720,531	43,571,096
<b>Postal and couriers</b>	181,780	32,446
<b>Water and conservancy</b>	8,611,245	7,309,387
<b>Insurance</b>	78,527,881	58,417,241
<b>Rent and rates</b>	95,414,227	97,565,184
<b>Hire of equipment and Vehicles</b>	3,216,775	625,069
<b>Claims, damages and compensation</b>	55,881,843	54,445,705
<b>Traveling and subsistence- local</b>	119,118,873	130,731,981
<b>Bank charges</b>	10,068,819	9,303,111
<b>Traveling and subsistence- External</b>	41,644,679	26,083,734
<b>Staff development</b>	94,201,523	52,280,861
<b>Security</b>	77,495,665	77,105,900
<b>Commissions</b>	2,032,076	1,806,749
<b>Publicity and advertising</b>	14,357,565	15,709,941
<b>Donations/Corporate Social Responsibility</b>	7,795,683	509,655
<b>Sports and recreation</b>	24,077,680	14,845,517
<b>Corporate year end party</b>	4,805,450	6,037,600
<b>Library</b>	89,892	73,983
<b>Board remuneration</b>	50,223,488	0
<b>AGM Expenses</b>	1,000,000	1,000,000
<b>Audit fees</b>	3,552,830	3,638,910
<b>Legal fees</b>	17,653,015	17,090,881
<b>Consultancy</b>	11,562,790	9,705,597
<b>Licensing, lease and levy</b>	1,412,689,622	1,443,848,588
<b>Research &amp; Development</b>	0	37,931
<b>Stakeholders expenses</b>	27,606,930	56,959,267
<b>Total</b>	<b>2,913,612,005</b>	<b>2,788,380,649</b>

#### 10. MAINTENANCE

	2020	2019
	Kshs	Kshs
<b>Ground</b>	1,273,665	362,531
<b>Plant and machinery</b>	18,704,821	22,826,289
<b>Buildings</b>	4,679,731	3,338,898
<b>Equipment</b>	19,572,011	12,790,836
<b>Motor vehicles</b>	34,716,546	23,655,668
<b>Furniture and fittings</b>	146,364	114,447
<b>Software</b>	476,100	501,600
<b>Water fittings and accessories</b>	138,820,752	156,594,862
<b>Water meters</b>	32,394,240	26,209,809
<b>Total</b>	<b>250,784,230</b>	<b>246,394,942</b>

#### 11. OTHER EXPENSES

	Note	2020	2019
		Kshs	Kshs
<b>Provision for bad and doubtful debts</b>	18	554,573,581	113,586,920
<b>Depreciation of property, plant and equipment</b>	15	430,996,976	242,154,403
<b>Amortization of intangible assets</b>	16	6,193,408	10,292,109
<b>Total</b>		<b>991,763,965</b>	<b>366,033,432</b>

#### 12. FINANCE COSTS

	2020	2019
	Kshs	Kshs
Interest on loan	63,496,202	60,068,823
Interest on overdraft	2,585,449	0
Interest on deposits	23,257,789	21,907,223
<b>Total</b>	<b>89,339,440</b>	<b>81,976,046</b>

### 13. SURPLUS BEFORE TAX

	2020	2019
	Kshs	Kshs
The surplus before tax is stated after charging:		
Depreciation of property, plant and equipment	430,996,976	242,154,403
Amortization of intangible assets	6,193,408	10,292,109
Directors' emoluments:		
-Fees	50,223,488	0
-Other emoluments	11,657,617	11,476,304
Auditors' remuneration	3,552,830	3,552,830
Retirement benefits	650,648,839	662,249,841
Interest expense	89,339,440	81,976,046
And after crediting:		
Other income	(499,713,594)	(444,281,91)

### 14. TAXATION

As earlier reported in the previous years, the Directors in terms of IAS 1 declare that the financial statements present a fair view of the Company's financial position; financial performance and cash flows and that they have complied with applicable International Accounting Standards and interpretations. However, the Company has in terms of IAS 1 paragraphs 13 to 22 departed from the requirements of IAS 12 in order to have a fair representation of its tax liability status for the following reasons:

(i) The Company is wholly owned by Nairobi City County, a County Government. The Company Operations are under the County Government and as per the provision of the Constitution **FOURTH SCHEDULE** (*Article 185 (2), 186 (1) and 187 (2)*). It is principally a vehicle used by Nairobi City County to deliver services as per the county government Act. According to the 1<sup>st</sup> schedule paragraph 8 of the Income Tax Act (ITA), the income of a County Government is exempted from the provisions of ITA. Any surplus arising thereon is re-invested in the water services infrastructure for development and enhancing sustainability as provided in water at 2016.

### 15. PROPERTY, PLANT AND EQUIPMENT

According to the Tripartite Agreement, Hand over deed, Agency Agreement and Service Provision Agreement, NCC handed over to the Company its fixed or landed and other assets on lease basis for the purpose of discharging its mandate under the Water Act of 2002. In terms of the latter documents the Company has been granted rights to carry out any capital improvements to the existing assets hence forming the basis of maintaining a dual asset register. Accordingly, the Company is a co-owner of certain assets. The property, plant and equipment schedule is shown on the next page

## PROPERTY, PLANT AND EQUIPMENT

COST	PLANT & MACHINERY		MOTOR VEHICLES	EQUIPMENT	COMPUTER & RELATED EQUIPMENT	FURNITURE & FITTINGS	WIP	TOTAL
	KSHS	KSHS	KSHS	KSHS	KSHS	KSHS	KSHS	KSHS
As at Jul 2018	69,710,273	1,184,781,256	422,100,846	880,723,938	526,313,037	146,654,217	1,926,037,004	5,156,320,571
Additions at cost	0	153,760,206		61,233,100	7,740,306	5,164,122	540,831,899	768,728,633
Reclassification	9,463,534	1,718,536,786					(1,728,000,320)	0
As at June 2019	79,173,807	3,057,078,246	422,100,846	941,857,038	534,053,343	151,818,339	738,868,583	5,925,050,202
Depreciation at 1 July 2018	5,919,884	598,189,548	381,853,979	656,128,312	469,201,175	95,054,709	0	2,206,347,607
Charge for the year	1,770,940	124,774,555	24,778,106	48,426,020	31,202,106	11,202,676		242,154,403
Accumulated Depreciation	7,690,824	722,964,103	406,632,085	704,554,332	500,403,281	106,257,385	0	2,448,502,010
NBV AS AT 30 JUNE 2019	71,482,983	2,334,114,142	15,468,761	237,402,706	33,650,062	45,560,954	738,868,585	3,476,548,192
As at Jul 2019	79,173,807	3,057,140,646	422,100,846	941,894,638	534,053,343	151,818,339	738,868,583	5,925,050,202
Additions at cost	798,106	52,861,962		32,431,388	17,684,344	1,063,268	240,625,093	345,464,161
Reclassification	7,182,953	284,636,789		16,585,164			(308,404,906)	0
As at June 2020	87,154,865	3,394,639,397	422,100,846	990,911,190	551,737,688	152,881,607	671,088,770	6,270,514,363
Depreciation at 1 July 2018	7,690,824	722,964,103	406,632,085	704,554,332	500,403,281	106,257,385	0	2,448,502,010
Charge for the year	1,857,573	335,141,011	10,723,327	50,723,666	22,325,539	10,225,860		430,996,976
Accumulated Depreciation	9,548,397	1,058,105,114	417,355,412	755,277,998	522,728,820	116,483,245		2,879,498,986
NBV AS AT 30 JUNE 2020	77,606,468	2,336,534,283	4,745,434	235,633,192	29,008,868	36,398,362	671,088,770	3,391,015,377
NBV AS AT 30 JUNE 2019	71,482,983	2,334,114,142	15,468,761	237,402,706	33,650,062	45,560,954	738,868,585	3,476,548,192

The work in progress (WIP) relates to water pipeline network and sewer relief network construction ongoing in various locations and boundary walls on various company installations.

#### 16. INTANGIBLE ASSETS

	2020	2019
	Kshs	Kshs
<b>Computer software:-</b>		
<b>COST</b>		
At 1 July	165,134,305	149,208,778
Additions	0	15,925,527
At 30 June	165,134,305	165,134,305
<b>AMORTIZATION</b>		
At 1 July	149,820,992	139,528,883
Charge for the year	6,193,408	10,292,109
At 30 June	156,014,400	149,820,992
Net book value at 30th June	9,119,905	15,313,313
Value of fully Depreciated at 30th June	149,208,778	149,208,778

#### 17. INVENTORIES

Inventories represent the value of water treatment chemicals, office supplies, tyres and accessories, motor spares, water meters and water fittings and accessories kept at various Company stations

	2020	2019
	Kshs	Kshs
Water treatment Chemicals	38,843,166	35,145,021
Office Supplies	16,942,866	15,407,406
Tyres and accessories	4,153,564	5,307,803
Motor Spares	17,801,616	19,225,251
Uniform and protective clothing	12,834,316	5,691,495
Water meters	56,766,911	57,215,247
Water fittings and accessories	295,636,883	275,462,211
<b>Total</b>	<b>442,979,322</b>	<b>413,454,433</b>

## 18. TRADE AND OTHER RECEIVABLES

	2020	2019
	Kshs	Kshs
<b>Trade receivables</b>	8,173,096,318	7,791,359,151
<b>Less: Allowance for credit loss</b>	(6,772,210,774)	(6,497,690,981)
<b>Net trade receivables</b>	1,400,885,544	1,293,668,170
<b>Other receivables</b>	1,397,217,275	1,688,967,158
<b>Less: provision for bad and doubtful debts</b>	(55,512,564)	(55,512,564)
<b>Net other receivables</b>	<b>1,341,704,711</b>	<b>1,633,454,594</b>
<b>Prepayments and deposits</b>	174,819,986	66,783,364
	<b>2,917,410,241</b>	<b>2,993,906,128</b>

Specific provision has been made for all known doubtful debts. Bad debts are written off when all reasonable steps to recover them have been taken without success. The provisions relating to the reporting period are Kshs 6,772,210,774 (2019: Kshs (6,497,690,981)). This is based on the provision of bad debts of beyond 480 days as per the adopted policy. This includes ksh 5,935,309 under Nairobi Water and Sewerage institutional Restructuring project that was closed in 30 June 2008 and ksh 49,577,255 for VAT claims.

Other receivables include balances claimable from Postal Corporation of Kenya, Kenya Revenue Authority (KRA), Cellulant Kenya Ltd, IDA receivables. The prepayments and Refundable deposits relate to insurance prepaid and rental deposits respectively. The carrying amounts of receivables approximate to their fair value.

## 19. CASH AND CASH EQUIVALENTS

	2020	2019
	Kshs	Kshs
Cash in hand	2,404,254	774,343
Cash at bank	200,400,073	193,967,709
<b>Total</b>	<b>202,804,327</b>	<b>194,741,752</b>

For the purposes of the cash flow statement, the earned cash and cash equivalents comprise the above balance sheet amount. The company is not exposed to credit risk on cash and bank balances as these are held with sound financial institutions. The cash at bank is held at Co-operative bank of Kenya, Barclays bank of Kenya ltd, Equity bank Ltd, Sidian bank, Citi bank N.A, Housing Finance, Kenya Commercial bank ltd, National bank of Kenya, National commercial Bank of Africa (NCBA), Diamond trust bank ltd and other held in trust account by M-pesa holding account, Jambo pay and Airtel holding Account.

The carrying amounts of the company's cash and cash equivalents are denominated in the Kenya shillings.

## 20. SHARE CAPITAL

	2020	2019
	Kshs	Kshs
Authorized, issued and fully paid:		
5,000 ordinary shares of Kshs. 20	100,000	100,000

There was no movement in the share capital during the year.

## 21. REVENUE RESERVE

		2020	2019
			Restated
	Note	Kshs	Kshs
At 1 July		(4,690,715,720)	(4,524,091,163)
Prior year adjustments	30	(391,782,463)	(227,824,945)
Restated Opening balance		(5,082,498,183)	(4,751,916,108)
Surplus/Deficit for the year		(850,815,607)	61,200,388
At 30 June		(5,933,313,790)	(4,690,715,720)

Revenue reserve comprises of net worth at conversion and accumulated surpluses over the years. The prior year adjustment relate to errors in previous year Billing. The international Financial Reporting Standard No. 8, requires that this to be restated but due to difficulties in establishing the period that the error relate we have adjusted the prior year adjustment against reserve.

## 22. CAPITAL GRANT

The capital grant represents the cost of property, plant and equipment purchased using donor funds.

	2020	2019
COST	Kshs	Kshs
As at 1 <sup>st</sup> July	1,981,014,713	1,675,217,905
Additions	173,054,963	305,796,808
	2,154,069,676	1,981,014,713
<b>Amortization:</b>		
As at 1 <sup>st</sup> July	466,832,769	444,437,982
Charge for the year	193,775,766	22,394,788
Accumulated Amortization	660,608,535	466,832,770
<b>NET BOOK VALUE AS AT 30<sup>TH</sup> JUNE</b>	<b>1,493,461,141</b>	<b>1,514,181,943</b>

### 23. CUSTOMER DEPOSITS

	2020	2019
	Kshs	Kshs
Balance brought forward	<b>900,011,445</b>	<b>830,998,911</b>
Deposits received from customers	42,913,438	53,008,680
Accrued interest at 3% per annum	23,257,789	21,907,223
Deposits and interest refunded	(5,237,849)	(5,903,369)
Balance carried forward	<b>960,944,823</b>	<b>900,011,445</b>

The customer deposits balance comprises of deposits received from customers from 17 May 2004 when the Company commenced operations. The customer deposits received by the former Water and Sewerage Department of CCN have not been included in these financial statements pursuant to Article 4 (sections 3-4) of the Tripartite Agreement dated 5 April 2004, which states that CCN shall continue to hold and be responsible for deposits received from customers before the Company's formation. This Article further states that the Company shall refund deposits as and when demanded. Customer deposits are withdrawn on demand when accounts are closed. However, as is the case with other deposits of a similar nature, customer deposits are not usually withdrawn within one year.

### 24. BORROWINGS

	2020	2019
	Kshs	Kshs
Bank borrowings		
Non- Current	497,942,615	347,351,014
Current	183,060,889	59,331,029
Total Bank borrowings	<b>681,003,504</b>	<b>406,682,044</b>

The Company currently has two running loans namely;

- A five year term loan for the Kirigiti water Extension project at Co-operative bank of Kenya for which the monthly principal repayment is Kshs. 1.7 million. Interest rate is as per CBK regulations on reducing balance. Loan was completely repaid in September 2019
- A term loan for financing sanitation connections in the informal settlement of kes 600 million at Co-operative Bank under the OBA project co-financed by the World Bank. At the close of the period the company had made a drawdown of kes 529, 201,331. Interest rate at 13.5% pa reducing balance.
- The company maintains an overdraft facility with the co-operative bank of Kenya of Kshs. 35 million that may be utilized by the company to reduce liquidity risk.
- Corporate annuity loan of kshs 200,000,000 financed by Co-operative bank of Kenya
- Insurance premium Financing of kshs 51,600,000 financed by Co-operative bank of Kenya

The facilities are secured by the following;

- i. Existing all assets fixed and floating debenture over the company assets of kshs 700 million (Seven hundred million only)
- ii. An assignment agreement of our receivables;
- iii. Daily cash/ call deposits build up in the amount of kes 2,000,000 per day via standing order;
- iv. Duly executed lien and cash charge documentation to back the arrangement under items ii and iii above;
- v. Executed general terms and conditions

## 25. TRADE AND OTHER PAYABLES

	2020	2019
	Kshs	Kshs
<b>Trade payables</b>	1,570,172,968	1,386,279,602
<b>Other payables</b>	916,235,091	1,235,715,277
<b>Total</b>	<b>2,486,408,059</b>	<b>2,621,994,879</b>

In the opinion of the management, the carrying amounts of Trade payables approximate to their fair value. Other payables includes staff related payments e.g LAPTRUST – Kshs 529,832,098 and Lap fund Kshs. 128,228,040. The maturity analysis of trade and other payables are shown in note 33 (a) (ii).

## 26. CUSTOMERS WITH CREDIT BALANCES

	2020	2019
	Kshs	Kshs
<b>Customers credit balances</b>	<b>217,501,924</b>	<b>197,055,127</b>

The customer with credit balances are those whose accounts have been overpaid and or have been issued with a credit note due to previous overbilling.

## 27. PROVISIONS FOR LEAVE ACCRUALS

	2020	2019
	Kshs	Kshs
<b>As at opening</b>	<b>293,689,229</b>	<b>268,828,212</b>
<b>Decrease/ Addition for the year</b>	<b>(2,286,342)</b>	<b>24,861,018</b>
<b>As at closing</b>	<b>291,402,887</b>	<b>293,689,229</b>

Provision for annual leave pay is based on services rendered by full-time employees up to the end of the year.

## 28. AMOUNT DUE TO RELATED PARTY TRANSACTIONS

The Company is owned 100% by the Nairobi City County Government.

Athi Water Works Development Authority (AWWDA) is the Asset Holding Entity. During the year the transactions conducted between these related entities were at arm's length and in the normal course of business in compliance with the Water Act 2016. The following transactions were carried out with related parties:-

### AMOUNT DUE TO RELATED PARTY TRANSACTIONS

	2020	2019
	Kshs	Kshs
<b>i) Lease fees for the year payable to Athi Water Services Board:</b>		
As at July	5,668,562,890	4,583,674,896
Fees for the year	961,660,824	1,076,060,586
NCC		11,414,500
Sub-total	6,630,223,714	5,671,149,982
Paid	(7,002,908)	(2,587,092)
Subtotal	(7,002,908)	(2,587,092)
At 30 June	<b>6,623,220,806</b>	<b>5,668,562,890</b>
<b>ii) Inherited debts from Nairobi City County</b>		
At 1 July	182,401,983	182,605,999
Paid during the year	(39,802,165)	(204,016)
At 30 June	<b>142,599,817</b>	<b>182,401,983</b>
Grand Total	<b>6,765,820,623</b>	<b>5,850,964,873</b>
<b>Classification of related party payables</b>		
Non- current	5,453,859,836	4,539,004,085
Current	1,311,960,787	1,311,960,787
Total	<b>6,765,820,623</b>	<b>5,850,964,872</b>
<b>iii) Billing of Water services to NCC</b>		
At 1 July	299,443,346	230,026,891
Billing for the year	87,633,489	74,624,823
Paid/offset during the year	(2,862,372)	(5,208,368)
Adjustment		0
At 30 June	<b>384,214,463</b>	<b>299,443,346</b>

The tariffs applicable to Nairobi City County are the same as those charged to other customers.

## 29. MANAGEMENT STAFF COMPENSATION

<b>Key management compensation:</b>	<b>2020</b>	<b>2019</b>
	<b>Kshs</b>	<b>Kshs</b>
<b>Salaries and other short term benefits</b>	1,218,005,590	1,329,272,801
<b>Termination benefits</b>	160,450,030	163,583,396
<b>Post-employment benefits</b>		0
<b>Total</b>	<b>1,378,455,620</b>	<b>1,492,856,197</b>
<b>Director's remuneration:</b>		
<b>-Fees for services as Directors</b>	51,076,500	0
<b>-Other emoluments as Chief executive (included in key management compensation above)</b>	11,657,617	11,476,304
<b>Total</b>	<b>62,734,117</b>	<b>11,476,304</b>

A listing of the members of the Board of Directors who served is shown on page 5 of these financial statements.

## 30. PRIOR YEAR ADJUSTMENTS

<b>Prior year adjustments comprise the following:</b>	<b>2020</b>	<b>2019</b>
	<b>Kshs</b>	<b>Kshs</b>
To revenue reserve		
Trade Receivables (i)	(42,660,087)	(227,824,945)
<b>Other Receivables</b>	<b>(357,125,070)</b>	
Other payables (ii)	<b>8,002,693</b>	
<b>Total</b>	<b>(391,782,463)</b>	<b>(227,824,945)</b>

Sub-notes:

- (i) Correction of prior period trade receivable balances due to errors in billings.
- (ii) Relates to Vat claims not admissible due to change in VAT act from Zero rate to exempt status
- (iii) Pension paid but included as a pension expense in previous periods

### 31. CASH GENERATED FROM OPERATIONS

Reconciliation of surplus before tax with cash generated from operations:		2020	2019
	Notes	Kshs.	Kshs.
<b>Deficit /Surplus for the year before tax</b>		(850,815,607)	61,200,388
<b>Adjustment for :</b>			
<b>Revenue reserve</b>	<b>30</b>	(391,782,463)	(227,824,945)
<b>Depreciation of property, plant and equipment</b>	<b>15</b>	430,996,976	242,154,403
<b>Amortization of intangible assets</b>	<b>16</b>	6,193,408	10,292,109
<b>Amortization of grant asset</b>	<b>22</b>	(193,775,766)	(22,394,788)
<b>Interest expense</b>	<b>12</b>	89,339,440	81,976,046
<b>Operating surplus before working capital changes</b>		(909,844,012)	145,403,214
<b>(Decrease)/ Increase Trade and other receivables</b>		96,942,684	(508,319,889)
<b>Increase /decrease in Inventories</b>		(29,524,888)	58,915,678
<b>Increase in Trade and other payables</b>		(135,586,820)	(221,807,247)
<b>Decrease /Increase in Provisions</b>		(2,286,342)	24,861,018
<b>Increase in Customer deposits</b>		60,933,377	69,012,534
<b>Increase in Amount due to related parties</b>		914,855,752	1,084,683,978
<b>Cash generated from operations</b>		<b>(4,510,249)</b>	<b>652,749,287</b>

### 32. EMPLOYEE RETIREMENT BENEFITS EXPENSE

The employee retirement benefits expense comprises:

	2020	2019
	Kshs	Kshs
<b>National Social Security Fund</b>	4,632,800	4,639,279
<b>Provident fund/pension fund</b>	485,566,010	494,027,166
<b>Gratuity</b>	160,450,030	163,583,396
	<b>650,648,840</b>	<b>662,249,841</b>

### 33. COMMITMENTS

	2020	2019
	Kshs	Kshs
<b>Contracted but not provided for</b>	341,138,592	292,944,931

### 34. FUTURE RENTAL COMMITMENTS UNDER OPERATING LEASES

This relates to leases for operational buildings at various centers at Enterprise centre- Addis Ababa Rd Industrial Area, Showebe Plaza Pangani, Parklands Plaza Westlands, Cameo building –Town centre, Kamrose Plaza Kawangware, National water and pipeline corporation (Dunga Road), Shujaa mall along Spine Road. The lease terms are 5 years 3 months, and the majority of the lease agreements are renewable at the end of the lease period at market rates.

	2020	2019
	Kshs	Kshs
<b>Within 1 year</b>	54,522,653	73,129,442
<b>After 1 year but less than 5 years</b>	41,575,254	97,782,586
	<b>96,097,907</b>	<b>170,912,028</b>

### 35. CONTINGENT LIABILITIES

This comprises of (a) pending suits and disputed claims arising from debts inherited from NCC in which the Company has been enjoined as a defendant plus other pending suits instituted against the company, all amounting to Kshs 5,413,130,798.54, (2019): Kshs 4,694,499,735). The likely outcome of these matters cannot be determined as at the date of signing these financial statements. Based on the information currently available, the Directors believe that the ultimate resolutions of these legal proceedings, claims and tax exemption application are not likely to have a material effect on the results of the Company's operations, financial position or liquidity.

### 36. RISK MANAGEMENT OBJECTIVES AND POLICIES

#### (a) Financial risk management

The company's activities expose it to various financial risks and market risks e.g. foreign exchange risk, interest rate risk and price risk, credit risk and liquidity risk. The Company's overall risk management policies are set out by the board and implemented by management, and focus on the unpredictability of changes in the business environment and seek to minimize the potential adverse effects of such risks on the Company's performance by setting acceptable levels of risk. The Company does not hedge against any risk.

*i) Credit risk*

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. Credit risk mainly arises from financial assets, and is managed on a company-wide basis. The company does not grade the credit quality of financial assets that are neither past due nor impaired.

Credit risk on financial assets with banking institutions is managed by dealing with institutions with good credit ratings.

Credit Risk on trade receivables is managed through a monthly review of outstanding balances. Payments not received within the contractual credit period are enforced through disconnection. Any identified errors in billing that can delay revenue realization are adjusted on a weekly basis. The debt of over 480 days is provisioned and written back when realized.

The maximum exposure of the company to credit risk as at the balance sheet date is as follows:

	Fully Performing	Past due but not Impaired	Past due and Impaired	Total
	Kshs	Kshs	Kshs	Kshs
<b>As at 30<sup>th</sup> June 2019</b>				
<b>Financial assets</b>				
Trade receivables	406,929,479	886,738,691	6,497,690,981	7,791,359,151
Other receivables	147,679,576	1,485,775,018	55,512,564	1,688,967,158
Cash at bank	194,741,752			194,741,752
<b>Gross financial assets</b>	<b>749,350,807</b>	<b>2,372,513,709</b>	<b>6,553,203,545</b>	<b>9,675,068,061</b>
<b>As at 30<sup>th</sup> June 2020</b>				
<b>Financial assets</b>				
Trade receivables	544,830,310	856,055,234	6,772,210,774	8,173,096,318
Other receivables	219,157,144	1,122,547,567	55,512,564	1,397,217,275
Cash at bank				202,804,327
<b>Gross financial assets</b>	<b>763,987,454</b>	<b>1,978,602,801</b>	<b>6,827,723,338</b>	<b>9,773,117,920</b>

The past due debtors but not impaired continue to be paid. An impairment provision of (Kshs 6,827,723,338) (2019: 6,497,690,981) is held against the impaired receivables. The company does not hold any collateral against the past due or impaired receivables except for the nominal customer deposits. The management continues to actively follow up past due and impaired receivables

*ii) Liquidity risk*

Liquidity risk is the risk that the company will encounter difficulty in meeting obligations associated with financial liabilities. The board has developed a risk management framework for the management of the company's short, medium and long-term liquidity risk by continuously reviewing forecasts and actual cash flows, and maintaining banking facilities to cover any shortfalls. The Company maintains an overdraft facility of Kshs. 35 million that may be utilized by the company to further reduce liquidity risk. This facility is reviewed annually in order to factor the company's changing circumstances.

The table below summarizes the maturity analysis for financial liabilities to their remaining contractual maturities. The amounts disclosed are the contractual undiscounted cash flows presented in million Kshs.

<b>Year ended 30th June 2020</b>	<b>0-1 month</b>	<b>1-3 months</b>	<b>3-12 months</b>	<b>over 1 year</b>	<b>Total</b>
<b>Trade payables</b>	141	159	575	695	<b>1,570</b>
<b>Payables to related parties</b>	89	79	794	5,803	<b>6,765</b>
<b>Other payables</b>	279	175	384	78	<b>916</b>
<b>Loans from bank</b>	11	22	172	476	<b>681</b>
<b>Total</b>	<b>520</b>	<b>435</b>	<b>1925</b>	<b>7052</b>	<b>9,932</b>
<b>Year ended 30th June 2019</b>					
<b>Trade payables</b>	383	134	399	470	<b>1,386</b>
<b>Payables to related parties</b>	82	164	839	4,766	<b>5,851</b>
<b>Other payables</b>	373	156	650	57	<b>1,236</b>
<b>Loans from bank</b>	6	12	41	347	<b>406</b>
<b>Total</b>	<b>844</b>	<b>466</b>	<b>1,929</b>	<b>5,640</b>	<b>8,879</b>

*iii) Market risk*

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate because of changes in market price and comprises three types of risks: currency risk, interest rate risk and other price risk.

***Interest rate risk***

The company is exposed to cash flow interest risk on its variable rate borrowings because of changes in market interest rates. The company manages this exposure by maintaining a high interest cover ratio, which is the extent to which profits are available to service borrowing costs. If the interest rates on the company's borrowings at the year-end were to

increase/decrease by 1% percentage points, with all other factors remaining constant, the post-tax loss/profit would be lower/higher by Shs

***Currency risk***

The Company operates wholly within Kenya and its assets and liabilities are reported in the local currency.

**(b) Capital management**

The company manages its capital to ensure that it will be able to continue as a going concern while maximizing the return to shareholders through the optimization of the debt and equity balance.

The capital structure of the company consists of debt, which includes the borrowings and equity comprising issued capital, capital grant and revenue reserve as disclosed in notes 17, 18, 19 & 21. In order to improve on the capital structure, the company may replace the short term funding with long term funding and also improve on the efficient management of working capital particularly the accounts receivables.

	2020	2,019
	Kshs	Kshs
<b>Total Debt</b>	2,917,410,241	2,993,906,128
<b>Less cash and cash equivalents (Note 16)</b>	202,804,327	194,741,752
<b>Total Debt net of cash</b>	2,714,605,914	2,799,164,376
<b>Total equity</b>	(4,437,802,371)	(3,176,433,776)
<b>Total Capital resources</b>	(1,723,196,457)	(377,269,400)
<b>Gearing ( net debt over total capital resources)</b>	<b>(635)%</b>	<b>(841)%</b>

**37. COMPARATIVES**

Comparative figures are adjusted to conform to changes in presentation in the current year where necessary.

APPENDIX 1: PROGRESS ON FOLLOW UP OF AUDITOR RECOMMENDATIONS

Reference No.	Issue / Observations from Auditor	Management comments	Focal Point person to resolve the issue	Status: (Resolved / Not Resolved)	Timeframe :
1	<p><b>Property, Plant and Equipment</b></p> <p>The financial statements disclose under Note 11 property, plant and equipment balance of Kshs.3, 476,548,192 as at 30 June, 2019 (Kshs.2, 949,972,964 in 2017/2018). However, the parcels of land including dams on which expansion and improvements have been carried out are not included in the above balance of property, plant and equipment as at 30 June, 2019 contrary to IAS 1 Paragraph 7.</p>	<p>The ownership of the assets belongs to the Nairobi City County and as per the tripartite agreement the assets have been assigned to Nairobi City Water and Sewerage Company to discharge its mandate. The operationalization of the Water Act and enactment of the County Water &amp; Sanitation Bill, the County Government will transfer the assets. The Company is engaging the CEC in charge of water to facilitate the transfer.</p>	MD/Gorvenor	Not resolved	
2.	<p><b>Encroachment on Company Lad</b></p> <p>As reported in 2017/2018 financial year, various parcels of land belonging to the Company meant for expansion, storage, water and sewerage treatment works have been encroached on by private developers. However, ownership and other records of the parcels of land have not been made available for audit review.</p>	<p>The Company has taken up the matter with the relevant authorities for action including the shareholder Nairobi City County, the Regulator and the National Land Commission and will keep reporting any</p>	MD NCCG NLC	Not resolved	

Reference No.	Issue / Observations from Auditor	Management comments	Focal Point person to resolve the issue	Status: (Resolved / Not Resolved)	Timeframe
	<p>Consequently, the status of resolution on the reported encroachment cannot be verified.</p> <p>Consequently, the completeness, accuracy and ownership of property, plant and equipment balance of Kshs.3,476,548,192 as at 30 June, 2019 could not be confirmed</p>	encroachment. Some matters are in court.			
3	<p><b>Intangible Assets</b></p> <p><b>3.1 Proposed Customer Management Billing System</b></p> <p>Nairobi City Water and Sewerage Company awarded contract No. NCWSV-63-2016-Request for Proposals for supply, delivery, installation, testing &amp; commissioning of a customer management and billing system to Giza Systems Integration (K) Ltd for a contract sum of USD. 1,192,596 equivalent to Kshs.122,774,419.</p> <p>According to the Addendum to Contract, the following were the contract deliverables:</p> <p>As at 30 June, 2019, the company had paid Kshs.71,359,722.68 towards the completion of the customer</p>	Following the drought experienced during the 2017/2018 financial year, the Company's revenue dropped and the project was affected by delayed payment. The system is planned to 'go-live' in April 2020.	MD/ICT D	Resolved – went live in August 2020	

Reference No.	Issue / Observations from Auditor	Management comments	Focal Point person to resolve the issue	Status: (Resolved / Not Resolved)	Timeframe :
	<p>billing system. However, as at the time of audit in November, 2019, the system was yet to go live.</p> <p>Consequently, the company has not obtained value for money on investment contrary to section 149 (m) of the Public Finance Management Act, 2012.</p>				
4	<p><b>Amounts Due to Related Parties</b></p> <p>As reported in my previous year audit report, statement of financial position as at 30 June, 2019 reflects under current liabilities and non-current liabilities balances of Kshs.1,311,960,787 and Kshs.4,539,004,085 in respect of amounts due to related parties. As disclosed in Note 24 to the financial statements, the amounts were due to Athi Water Services Board (AWSB) for lease fee as at 30 June, 2019.</p> <p>Although the management explained that lease fee was based on an arbitrary figure during tariff settings by AWSB, the lease agreement was not provided for audit review and therefore, the basis upon which</p>	<p>The company strives to pay its obligations as they fall due. In the case of AWSB we are guided by the provisions of the water Act 2016, section 131 on matters relating to the administration fees. The water Act states that “All funds collected for water services by the licensed water service providers holding county or national public assets on behalf of the public through water services bills and other sources, shall be used entirely for the purpose of covering costs for the provision of water services and asset</p>	MD	Not resolved	

Reference No.	Issue / Observations from Auditor	Management comments	Focal Point person to resolve the issue	Status: (Resolved / Not Resolved)	Timeframe
	lease fee was determined could not be ascertained	development according to regulations made by the regulatory Board.”  The basis of the payment in relation to loan terms and payment structure have been communicated to the company.			
5	<p><b>5.1.Non-Remittance of Revenue Collection by Cellulant Company and Postal Corporation of Kenya Kshs.192,535,888.53</b></p> <p>The two Companies failed to remit to the Water Company the above collected revenue contrary to section 158 (2) of the Public Finance Management Act, 2012.</p> <p>Although Nairobi Water Company has initiated arbitration process to recover the money, the debts remained outstanding as at 30 June, 2019.</p>	<p>a) The Company is pursuing unremitted revenue from Cellulant through arbitration. The process is ongoing.</p> <p>b) The matter was initially taken to court but the Court referred the matter to mediation. During mediation a partial judgment was entered in which the defendant PCK is to pay kshs 52, 258,428.96 which they accepted as payable. The amount is to be liquidated in instalments of kes 1.5 million per month w.e.f 9th November 2019. The disputed</p>	MD/FD/ FM- R/compa ny secretary	Partially resolved	

Reference No.	Issue / Observations from Auditor	Management comments	Focal Point person to resolve the issue	Status: (Resolved / Not Resolved)	Timeframe :
		balance of the pleaded but contested amount has proceeded to trial. We hereby attach the consent.			
	<p><b>5.2. KRA Debtors and Unclaimed VAT Kshs.1,470,933,010</b></p> <p>Examination of Nairobi City Water and Sewerage Company debtors' schedules revealed that KRA is listed as a debtor and is owing the Water Company an amount of Kshs.1, 113,808,030 for claims lodged and Kshs.357, 125,070 for claims awaiting to be lodged in respect of expenses incurred in purchasing zero rated items.</p> <p>The Management has not provided any commitment from KRA to pay the outstanding claims.</p>	<p>The Kenya Revenue Authority vide their letter dated 16th October 2018 ref KRA/DTD/CTAMD/P 051159494Q (Copy attached) acknowledged the claims and requested for bank details to facilitate the refunds.</p>	MD/FD/ FM(E& R)	Not resolved	
	<p><b>5.3. Trade Debtors Kshs.7,536,628,326</b></p> <p>Examination of the Nairobi City Water and Sewerage Company debtors' schedules revealed that Trade Debtors figure amounted to Kshs.7,791,359,151 out of which Debtors totalling Kshs.6,497,690,981.00 are considered as bad and doubtful.</p>	<p>This is based on the provision of bad and doubtful debts beyond 480 days as per the adopted debt management policy. Specific provision is made for all known doubtful debts. The past due debtors but</p>	MD/FD/ RM/FM- R	In progress	

Reference No.	Issue / Observations from Auditor	Management comments	Focal Point person to resolve the issue	Status: (Resolved / Not Resolved)	Timeframe :
	<p>Hence the current recoverable debt is Kshs.1,293,668,170.</p> <p>The Management has not indicated the nature of current recoverable debts, how they arose and why it was not possible to recover them in time.</p>	<p>not impaired continue to be paid. The management continues to actively follow up past due and impaired receivables.</p>			
6	<p><b>Long Outstanding Trade &amp; Other Payables</b> <b>Kshs.2,621,994,879.</b></p> <p>The financial statements disclose under Note 21 trade and other payables a balance of Kshs.2,621,994,879 which includes long outstanding payables to Water Services Regulatory Board and Water Resource Management Authority amounting to Kshs.281,097,282 and Kshs.397,756,078 respectively contrary to Section 89 (1) and 109 (1) of the Water Act, 2016.</p>	<p>The company strives to pay its obligations as they fall due. However due to income shortfalls as observed earlier in this letter we were unable to pay the debts in full. Notwithstanding the company has been paying an amount of kshs 9 million on monthly basis to Water Resources Management Authority (WARMA) as agreed and a one month fee to Water Services Regulatory Board (WASREB) albeit in arrears. The Company is still engaging WASREB on the increased fee from 1% to 4% of the revenue per month.</p>	MD/FD/ FM(E& R)	Partially resolved	

Reference No.	Issue / Observations from Auditor	Management comments	Focal Point person to resolve the issue	Status: (Resolved / Not Resolved)	Timeframe :
7	<p><b>Staff Costs</b></p> <p><b>7.1. Retirement Benefits Kshs.662,249,841</b></p> <p>The Financial statements reflects under Note 4 staff costs totaling Kshs.5,755,445,530 for the year under review which includes retirement benefits of Kshs.601,631,351 and Kshs.662,249,841 for 2017/2018 and 2018/2019 respectively resulting in un analyzed increase of Kshs.60,618,490.</p> <p>In addition, records maintained by the company shows that the company has not remitted staff retirement benefits amounting to Kshs.68,969,252 dating back to 30 June, 2014. Further, voluntary staff deductions during the year under review amounting, Kshs.846,375,401 were not remitted contrary to Section 32 (1) of the Retirement Benefit Act Chapter 197.</p>	<p>(i) This is as a result of annual salary increment in the month of July. Since the retirement benefit is based on a percentage i.e 15% for employer contribution the increment translates to a direct increase in the amount.</p> <p>(iii) We have a standing instruction to transfer kes 3.5 million per day for Laptrust (copy attached ) and Lapfund is paid vide an electronic transfer on monthly basis at the rate of 2 months ( schedule attached)</p> <p>(iv) We have entered into an agreement on how to settle the amounts with Laptrust and Lapfund ( copy attached)</p>	MD/FD/ FM(E& R)	Resolved	
	<p><b>7.2. Acting and special duty allowances Kshs.50,264,733</b></p> <p>Records maintained by the company reveals that the company paid Kshs.19,588,336</p>	As reported in the Financial Statements, the Company did not have a Board of Directors during the period. The Company	MD	Partially resolved	

Reference No.	Issue / Observations from Auditor	Management comments	Focal Point person to resolve the issue	Status: (Resolved / Not Resolved)	Timeframe :
	and Kshs.30,676,396 for both acting and special duty allowances respectively. Available information indicates that some officers have been acting for more than two years contrary to section 6.3 of the Human Resource Policy and Procedure Manual (NCWSC)HRD/01).	is in the process of filling the positions and has advertised for a consultant to conduct this exercise.			
	<b>Basis of conclusion</b>				
1	<b>Delayed and Stalled Projects</b>				
	<p><b>1.1. Proposed Kamunde Road-Kariobangi North Mau Mau area Sewer rehabilitation Works</b></p> <p>Nairobi City Water and Sewerage Company awarded tender No. NCWSC/47/2016 for Sewer Rehabilitation Works along Kamunde Road to Kariobangi North Mau Mau area to a contractor at Kshs.179,768,144. The Scope of the works involved construction of DN 450MM Sewer Line. The works started 21 March, 2017 and were due for completion on 19th November 2018. However, on the said date, the project was at 44% completion with the slow progress attributed to delayed payments of certified</p>	<p>Arising from the drought experienced during the 2017/2018 financial year, the Company's' revenue collection dropped, and as is the normal reaction in such situation, the financing capital projects was negatively affected. The reduction in financing of the capital projects negatively affected progress of these projects.</p> <p>The Company has cleared pending payments for the Contractors and has asked them to resume</p>	MD/TD/EM	Not resolved	

Reference No.	Issue / Observations from Auditor	Management comments	Focal Point person to resolve the issue	Status: (Resolved / Not Resolved)	Timeframe :
	works. Due to delayed payment of certified works, the company may incur extra cost in payment of accrued interest of Kshs.3,816,166. Further, a site visit on 28 November, 2019 revealed that the project was incomplete or 88%.	work failure to which the contractual process to terminate the contracts will be followed			
	<p><b>1.2. Proposed Sewer Extension in Utawala area</b></p> <p>As reported in my report for the year 2017/2018, tender No. NWCS/41/2015 was awarded to M/S Tisco Construction Limited at a Contract sum of Kshs.144,075,079. Performance bond (CFC Stanbic Bank) of Kshs.14,475,017 was valid for 573 days from 19 April, 2016 to 12 November, 2017. The bonds/guarantee has not been extended. However, it expired on 12 November, 2018. In addition, the Contractor suspended works due to non-payment of certificates on 5 March, 2018. On 18 April, 2018, Tisco Construction Limited issued a notice of non-payment of certificate No.6,5,4 &amp; 3 and tabulated interest entitlement due to breach of contract amounting to Kshs.1,628,634. Further, a site</p>	<p>Arising from the drought experienced during the 2017/2018 financial year, the Company's' revenue collection dropped, and as is the normal reaction in such situation, the financing capital projects was negatively affected. The reduction in financing of the capital projects negatively affected progress of these projects.</p> <p>The Company has cleared pending payments for the Contractors and has asked them to resume work failure to which the contractual process to terminate the contracts will be followed</p>	MD/TD/ EM	Not Resolved	

Reference No.	Issue / Observations from Auditor	Management comments	Focal Point person to resolve the issue	Status: (Resolved / Not Resolved)	Timeframe :
	<p>visit conducted on 29 November, 2019 revealed that the project had stalled with the contractor having left the site.</p>				
	<p><b>1.3. Proposed Embakasi Coca-Cola Relief Sewer-Line</b></p> <p>Examination of contract records reveals that tender number NWSC/03/2013 to M/S Alhudha Construction Company Limited was awarded for construction of DN 375 concrete pipe sewer line of length 1654m and 26 manholes with average depth of 3.8m at a Contract sum of Kshs.42,912,784.</p> <p>Although project file documents revealed that Nairobi City Water and Sewerage Company Limited suspended the works on 11 June, 2014 citing the quantity variation for excavation on hard rocks exceeded the allowed variation of 15% by the Public Procurement and Disposal Act, 2015. Correspondences authorizing the contractor to resume works were not availed for audit review.</p> <p>Further, a report by the Technical coordinator dated 21 July, 2015 recommended four</p>	<p>Arising from the drought experienced during the 2017/2018 financial year, the Company's revenue collection dropped, and as is the normal reaction in such situation, the financing capital projects was negatively affected. The reduction in financing of the capital projects negatively affected progress of these projects.</p> <p>The Company has cleared pending payments for the Contractors and has asked them to resume work failure to which the contractual process to terminate the contracts will be followed</p>	<p>MD/TD/ EM</p>	<p>Not resolved</p>	

Reference No.	Issue / Observations from Auditor	Management comments	Focal Point person to resolve the issue	Status: (Resolved / Not Resolved)	Timeframe :
	<p>options for the variation of excavation. Documents showing the option chosen were not availed.</p> <p>Although, contractor continued working without a valid performance bond. The contractor in a letter to the employer Ref: NWSC/ACCL/2019 dated 30 May, 2019 gave a notice for the termination of the contract citing non-payment of certified works done which had accrued interest. At the time of termination, the contractor had been paid Kshs.9,198,960.29 for work done in the first certificate.</p> <p>A site visit conducted on 28 November, 2019 revealed that the works had stalled with the contractor having left site. Also noted were three (3) man holes that were in deplorable state.</p>				
	<p><b>1.4. Proposed Njiru Sewer Extension Works</b></p> <p>Nairobi City Water &amp; Sewerage Company Limited awarded Contract Number NCWSC/32/2016 at a contract sum of Kshs.141,499,576 to M/s Manyota Limited for construction of proposed Njiru</p>	<p>Arising from the drought experienced during the 2017/2018 financial year, the Company's revenue collection dropped, and as is the normal reaction in such situation, the financing capital projects was</p>	<p>MD/TD/ EM</p>	<p>Not resolved</p>	

Reference No.	Issue / Observations from Auditor	Management comments	Focal Point person to resolve the issue	Status: (Resolved / Not Resolved)	Timeframe
	<p>Sewer Extension Works. The works started on 23 March, 2017 and were due to be completed on 23 March, 2018.</p> <p>Although, the contractor notified the employer that the company had suspended work through a letter dated 12 January, 2018. The company incurred additional charges of Kshs.1,496,785 with an outstanding balance of Kshs.506,143.73 in form of accrued interest on delayed payments for both interim certificate No. 01 and 02. The status report dated 27 February, 2019 shows that the progress of works stood at 33 percent complete:</p> <p>Audit Inspection undertaken on 29 November, 2019 revealed various anomalies as follows;</p> <ul style="list-style-type: none"> <li>i. Contractor had left site;</li> <li>ii. Manholes did not have cover lids and</li> <li>iii. Connection pipes were left hanging some covered with vegetation</li> </ul>	<p>negatively affected. The reduction in financing of the capital projects negatively affected progress of these projects.</p> <p>The Company has cleared pending payments for the Contractors and has asked them to resume work failure to which the contractual process to terminate the contracts will be followed</p>			

Reference No.	Issue / Observations from Auditor	Management comments	Focal Point person to resolve the issue	Status: (Resolved / Not Resolved)	Timeframe :
	<p><b>1.5. Proposed Mwagu &amp; Kiama Intakes Desilting Works</b></p> <p>Nairobi City Water &amp; Sewerage Company Limited awarded Contract No. NCWSC/32/2016 at a contract sum of Kshs.139,989,380 to M/S Manyota Limited. The contract period was eight (8) calendar months from the date of commencement with the project expected to be completed by 22 October, 2018. The scope of works was silt removal for Mwagu and Kiama intakes, grading, compact hardcore and murrum filling of access roads to the intakes and construction of drainage system.</p> <p>Although, the contractor notified the employer that the company had suspended work through a letter dated 11 January, 2019. The company incurred additional charges of Kshs.3,136,999 in form of accrued interest on delayed payments. The status report dated 27 February, 2019 shows that the progress of works stood at 21 percent complete.</p>	<p>Arising from the drought experienced during the 2017/2018 financial year, the Company's revenue collection dropped, and as is the normal reaction in such situation, the financing capital projects was negatively affected. The reduction in financing of the capital projects negatively affected progress of these projects.</p> <p>The Company has cleared pending payments for the Contractors and has asked them to resume work failure to which the contractual process to terminate the contracts will be followed</p>	MD/TD/ EM	Not resolved	

Reference No.	Issue / Observations from Auditor	Management comments	Focal Point person to resolve the issue	Status: (Resolved / Not Resolved)	Timeframe :
	<p>Audit Inspection undertaken on 26 November, 2019 revealed various anomalies as follows:</p> <ul style="list-style-type: none"> <li>i. Contractor had left site</li> <li>ii. The contractor had started works on the Kiama intake where he did the desilting but did not do the grading, compact hardcore and murrum filling of the access road.</li> <li>iii. Works on the Mwagu are yet to begin.</li> </ul>				
	<p><b>1.6. Proposed Likoni-Nanyuki Road Water Extension Project</b></p> <p>Examination of records shows Nairobi City Water and Sewerage Company Limited awarded Contract Number. NWSC/17/2014-15 to Rivotoc Contractors Limited at a contract sum of Kshs.31,042,678. Scope of works was to improve water supply to factories and business premises along Lungalunga road.</p> <p>Further, the Contractors All Risk Insurance expiring on 5 July, 2016, the contractor continued working until</p>		MD/TD/ EM	Resolved/ Terminated	

Reference No.	Issue / Observations from Auditor	Management comments	Focal Point person to resolve the issue	Status: (Resolved / Not Resolved)	Timeframe :
	<p>September, 2017 when the contractor left site.</p> <p>Although, the contract period was five (5) months with an initial completion date of 30 April 2016, an internal memo dated 18 March, 2019 from the Technical Director recommended the termination of the contract as the contractor had not returned to site despite directives from Nairobi City Water and Sewerage Company to resume and expedite works.</p> <p>In addition, status report dated 27 February, 2019 shows that the progress of works stood at 70 percent complete. At the time of termination, the contractor had been paid Kshs.12,617,935 (IPC 1-Ksh 6,595,992, IPC 2-Kshs.5,157,568.80 &amp; IPC 3-864,374.58).</p> <p>Audit Inspection undertaken on 28 November, 2019 revealed that the contractor was yet to return to site.</p>				
	<p><b>1.7.Sasumua Dam Laboratory</b></p> <p>The building works for Sasumua Dam Laboratory were completed in June, 2016 by Faders Investment Limited and paid Kshs.1,367,970. The</p>	<p>We have communicated to the Contractor to remedy the defects identified during the inspection, before the Company</p>	<p>MD/TD/ EM</p>	<p>Resolved</p>	

Reference No.	Issue / Observations from Auditor	Management comments	Focal Point person to resolve the issue	Status: (Resolved / Not Resolved)	Timeframe :
	<p>contractor was to build and equip the Dam Laboratory.</p> <p>A site visit conducted on 27 November, 2019 revealed that the laboratory was yet to begin its operations as the fume hood has not been installed. However, the company management has taken over fume hood installation without proof that the laboratory building has been handed over to the company. As the lab has not been operationalized more than three years after its completion in June, 2016, the company therefore has not received value for money contrary to section 149 (m) of the Public Finance Management Act, 2012.</p> <p>Further, agreement between the contractor and Nairobi City Water &amp; Sewerage Company Limited for taking over part of the contractor's work, cost implications and contract termination details were not availed for audit verification.</p>	<p>can take over. We shall thereafter install the fume hood. The cost of the fume hood to be recovered from the retention money.</p>			
2	<p><b>Irregular payment of Allowances to Nairobi City County Assembly Members</b></p> <p>Examination of payments to stakeholders revealed that a total</p>	<p>The Company has a budget for stakeholders. The purpose of the budget is to enable the Company to engage</p>	MD	Resolved	

Reference No.	Issue / Observations from Auditor	Management comments	Focal Point person to resolve the issue	Status: (Resolved / Not Resolved)	Timeframe :
	<p>of Kshs.56,959,267 was irregularly paid to Members of Nairobi City County Assembly (MCAs) in form of allowances and other Expenses to carry out legislative and oversight duties contrary to Article 185 (3) of the Constitution of Kenya, 2010, Section 9 (2) and 12 of the Public Officer Ethics Act, (2003) and Section 149(1)(a) and (b) of the Public Finance Management Act, 2012.</p> <p>In addition, the company management has not provided any approval or authority showing that it is its responsibility to pay allowances to members of the county assembly when deliberating on legislation relating to the Company.</p>	<p>them on issues affecting the Company e.g. budget, proposed legislation, public participation on various matters. All allowances paid to members of the County Assembly are authorized and within the approved SRC rates.</p>			
3	<p><b>3.1.Under collection of Revenue</b>The approved budget for NCWC Limited for the year ended 30 June, 2019 reflects operating revenue budget of Kshs.11,275,430,000 while the statement of comprehensive income shows actual revenue realized during the financial year Kshs.9,299,430,987 resulting in under-collection of Kshs.1,975,999,013 or 17.5% of</p>	<p>The budget was based on a target annual production of 191,963,000 cubic meters whereas the actual production was 172,881,002 cubic meters a drop of about 10%. This certainly contributed to low revenue for the FY.</p>	MD/FM-R/RM/C BM/CD/TD	On going	

Reference No.	Issue / Observations from Auditor	Management comments	Focal Point person to resolve the issue	Status: (Resolved / Not Resolved)	Timeframe :
	<p>the budgeted revenue. No evidence has been provided to show that the shortfall in revenue collection was discussed by heads of departments contrary to Paragraph 2.2.3 of the Nairobi City Water and Sewerage Company Limited financial policy (2012).</p>	<p>The Company has put in place mechanisms to enhance billing and revenue collection through use of technology and surveillance.</p> <p>Revenue performance is continually monitored and discussed monthly with the Heads of Departments.</p>			
	<p><b>3.2. Under Absorption of Capital Expenditure Budget</b></p> <p>The approved budget of NCWSC Limited for the year ended 30 June,2019 is Kshs.11,275,430,000 with a projected Capital Expenditure of Kshs.1,593,143,000. However, the Assets Movement Schedule reflects an addition of Kshs.784,655,160 comprising of Kshs.768,728,633 and Kshs.15,925,527 for Property, Plant &amp; Equipment and Intangible assets respectively or 49.22% budget absorption</p>	<p>Arising from the drought experienced during the 2017/2018 financial year, the Company's revenue collection dropped significantly, and as is the normal reaction in such situation, financing capital projects was negatively affected leading to delayed payments of capital works and hence the seemingly low absorption of the allocated budget.</p>	<p>TD/EM/ RM/ICT D</p>	<p>On going</p>	