

REPORT

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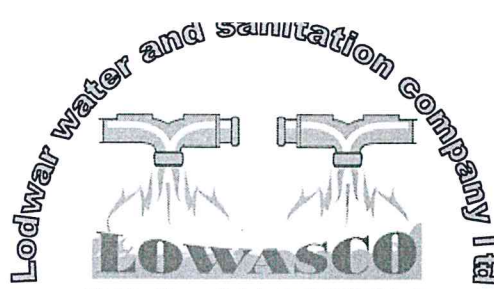
OF

THE AUDITOR-GENERAL

ON

**LODWAR WATER AND SANITATION
COMPANY LIMITED**

**FOR THE YEAR ENDED
30 JUNE, 2019**



P.O. Box 144, LODWAR

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OFFICE OF THE AUDITOR GENERAL
ELDORET HUB

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P. O. Box 2774 - 30100, ELDORET

LODWAR WATER AND SANITATION COMPANY LTD

REVISED ANNUAL REPORTS AND FINANCIAL STATEMENTS

**FOR THE FINANCIAL YEAR ENDING
JUNE 30, 2019**

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



1. The first part of the paper is devoted to a discussion of the various methods of determining the rate of reaction.

2. The second part of the paper is devoted to a discussion of the various methods of determining the rate of reaction.

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KEY ENTITY INFORMATION

Background information

Lodwar Water and Sanitation company ltd was established in 2007 under the provision of the companies Act Cap 486 of the Laws of Kenya, and later moved from there and now operates from Kanamkemer area within the ministry of water in the county government offices .

The company took over the management of Water supply as a service provider from 2007 to date after signing a Service Provider Agreement(SPA) with Rift Valley Water Services Board(license) on 3rd July 2007.

Principal Activities

The principal activity of lodwar water and sanitation company ltd is to provide water and sanitation services to residents of Lodwar.

Vision

- i. To achieve excellence in the provision of quality water and sanitation services with the aim to be the leading water service provider in the rift valley water services board area.

Mission

- ii. To provide adequate ,portable, affordable and sustainable water and sanitation services to residents in lodwar and its environs through continuous improvement and extension.

Core values

- iii. External respect with a focus on customers
- iv. External and internal integrity honesty transparency accountability and partnership through networking
- v. internal teamwork , innovativeness and commitment.

Directors

There were no Board of Directors during the financial year under consideration.

Secretary

There was no corporate secretary during the Financial year under consideration

Registered Office

Lodwar Handcraft Building

P.O. BOX 144-30500

Lodwar Kenya

Contacts

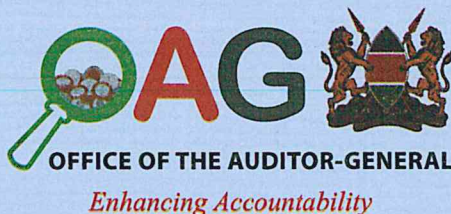
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NAIROBI

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

REPORT ON THE FINANCIAL STATEMENTS

Disclaimer of Opinion

I have audited the accompanying financial statements of Lodwar Water and Sanitation Company Limited set out on pages 1 to 25, which comprise the statement of financial position as at 30 June, 2019, and the statement of profit and loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, 2015.

I do not express an opinion on the accompanying financial statements. Because of the significance of the matters described in the Basis for Disclaimer of Opinion section of my report, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

Basis for Disclaimer of Opinion

1.0 Anomalies in Financial Statements

The financial statements for the year under review contain the following: anomalies:

1.1 Irregular Approval

As reported in the previous year, the financial statements of Lodwar Water and Sanitation Company Limited (the Company) for the year ended 30 June, 2019 submitted for audit were prepared and approved by a Caretaker Management Team instead of the Board of Directors as required by Section 635(1) of the Companies Act, 2015 which provides that the Directors shall prepare a financial statement for each of the financial years of the company. Further Section 691(1) of the Act provides that an abbreviated financial statement of a company is not valid until it has been approved by the company's Board of Directors and signed on behalf of the Board by a Director of the Company.

Consequently, the financial statements of the Company for the year under review have not been prepared in accordance with applicable regulations.

1.2 Improper Presentation

As similarly reported in the previous year, the financial statements do not include the following information and records: the Chairman's statement, report of Chief Executive Officer, corporate governance statement; corporate governance report; report of directors; statement of comparison of budget and actual amounts; progress on follow-up of auditor's recommendations, inter entity transfers and record of transfers from other entities.

As a result, the statements do not comply with the reporting requirements set by the Public Sector Accounting Standards Board, and Section 101(4) of the Public Finance Management County Government Regulations 2015.

1.3 Inaccuracies in Financial Statements

1.3.1 Reserves

The statement of financial position as at 30 June, 2019 reflects revenue and capital reserve balances that differ with the account's balances reflected in the statement of changes in equity, as detailed below:

Item	Statement of Financial Position (Kshs.)	Statement of Changes in Equity (Kshs.)	Difference (Kshs.)
Capital reserve	2,568,129	-	2,568,129
Revenue reserve	-18,838,754	-	(18,838,754)

Consequently, the accuracy and completeness of the capital and revenue reserves as at 30 June, 2019 could not be confirmed.

1.3.2 Statement of Cash Flows

The fixed asset movement schedule reflects purchase of property plant and equipment during the year amounting to Kshs.281,500, whereas cash flows from investing activities in the statement of cash flows do not include any purchases of property plant and equipment. In addition, a bank loan repayment amounting to Kshs.1,400,000 shown in expenditure records as having been made during the year under review was not included in the cash flows from financing activities.

Further, the cash flow statement reflects cash and cash equivalents at the beginning of the year totalling Kshs.4,376,654 which is at variance with the corresponding balance reflected in the certified financial statements for the year ended 30 June, 2018 totalling Kshs.3,577,554. The difference of Kshs.799,100.32 between the two records has not been explained. The statement of cash flows also reflects cash and cash equivalents as at 30 June, 2019 totalling Kshs.2,013,999 whereas the statement of financial position

reflects cash and cash equivalents totalling Kshs.5,111,197, resulting to an unexplained difference of Kshs.3,097,197.

In view of these discrepancies, the accuracy and completeness of the cash flow statement for the year ended 30 June, 2019 could not be confirmed.

2.0 Trade and Other Receivables

The statement of financial position as at 30 June, 2019 reflects trade and other receivables balance totalling Kshs.43,997,009 which differs with the sum of Kshs.42,017,594 computed from the account's supporting schedule. The difference amounting to Kshs.1,979,415 between the two records has not been confirmed. Further, the trade and other receivables balance includes a sum of Kshs.11,261,860 owed by dormant and other customers disconnected from the Company's water distribution system. However, Management has not made any provision for bad and doubtful debts in respect of the debts.

Consequently, the accuracy and completeness of trade and other debtors balance totalling Kshs.43,997,009 as at 30 June, 2019 could not be confirmed.

3.0 Trade and Other Payables

The statement of financial position reflects trade and other payables totalling Kshs.65,162,190 as at 30 June, 2019, as further disclosed in Note 17 to the financial statements. Further, records of the Rift Valley Water Services Board (RVWSB) reflect Kshs.19,711,028 as the outstanding levies and charges owed by the Company as at 30 June, 2019. However, the debt is not reflected in the Company's ledgers and has not been disclosed in financial statements for the year under review. The trade and other payables schedule and aging analysis were not availed for audit review.

In view of these issues, the accuracy and completeness of trade and other payables balance totalling Kshs.65,162,190 as at 30 June, 2019 could not be confirmed.

4.0 Travel and Accommodation Expenses

Examination of travel and accommodation expenses records indicated that payments totalling Kshs.1,582,000 made to various officers were not supported with relevant records such as motor vehicle work tickets or bus tickets, signed attendance registers and reports of the meetings attended. As a result, the propriety of travel and accommodation payments totalling to Kshs.2,530,000 could not be confirmed.

5.0 Inadequate Disclosure of Motor Vehicle Financing Loan

The statement of financial position reflects borrowings by the Company totalling Kshs.766,398 as at 30 June, 2019 as further disclosed in Note 16 to the financial statements. The loan relates to asset financing for motor vehicles provided by a commercial bank. As previously reported, the loan agreement and minutes of the Board of Directors' meeting that approved the loan were not provided for audit review. Further,

in the financial statements for the year ended 30 June, 2018, the opening loan balance totalling Kshs.1,813,904 reflected in the certified financial statements for the year ended 30 June, 2017 was incorrectly reflected as Kshs.2,350,388. The difference amounting to Kshs.536,484 between the two sets of records has not been explained or reconciled.

In view of these issues, the accuracy and propriety of the loan balance totalling Kshs.766,398 as at 30 June, 2019 could not be confirmed.

6.0 Fixed Assets Transferred from Rift Valley Water Services Board

The statement of financial position reflects property, plant and equipment with net book value balance of Kshs.14,475,923 as at 30 June, 2019. The balance includes the book values of buildings, water and sewer works, meters and equipment, motor vehicles and motor cycles, computers and related equipment and office furniture and fittings as, further disclosed in Note 12 to the financial statements. However, the balance does not include the values of assets namely; motor vehicles, motorcycles, furniture and fittings and computers of undisclosed value transferred to the Company from Rift Valley Water Services Board (RVWSB) as provided for in Section 153(1) of the Water Act, 2016.

Consequently, the accuracy and completeness of property, plant and equipment balance of Kshs.14,467,764 as at 30 June, 2019 could not be confirmed.

7.0 Lack of Approved Budget

The Company's annual budget for the year under review submitted for audit review was not approved by the Board contrary to section 4 2(a) State Corporations Act Cap 446, 2010.

Consequently, the validity, accuracy and completeness of the budget could not be confirmed.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

I do not express a conclusion on the lawfulness and effectiveness in the use of public resources as required by Article 229(6) of the Constitution. Because of the significance of the matters described in the Basis for Conclusion on Lawfulness and Effectiveness in Use of Public Resources and Basis for Disclaimer of Opinion sections of my report, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for my audit conclusion.

Basis for Conclusion

1.0 Unaccounted for Water

Records on water production indicated that 2,311,981 cubic meters (m³) of water were produced by the Company during the year under review out of which only 1,329,990 m³,

equivalent to 58% of the year's production were billed for Kshs.49,663,646 m³. The balance totalling 981,990.68 m³ or 42% of the volume water produced, denoted Unaccounted for Water (UFW) which was seventeen (17) percentage points above the allowable ratio set by in guidelines issued by the Water Services Regulatory Board (WASREB). The UFW totalling 981,990.68 m³ saleable at the Company's price of Kshs.33.3 per cubic meter may have resulted to loss of revenue totalling Kshs.36,668,866. The high UFW level denoted that the Company's water distribution system was losing large volumes of water through leakage or consumption by unmetered consumers.

The high level of UFW has eroded the potential of the Company to record good returns on its operations and poses a significant risk to its ability to sustain its services in the coming years.

2.0 Uncompetitive Procurement

Examination of expenditure records indicated that chemicals costing Kshs.292,480 were procured directly from two companies. Similarly repair and maintenance services, and fuel and lubricants costs totalling Kshs.6,510,748 and Kshs.876,550 respectively were bought without competitive bidding by the suppliers.

The procurement of these items contravened Section 91(1) of the Public Procurement and Asset Disposal Act, 2015 which prescribes competitive procurement of goods and services for public entities unless circumstances require the use of an alternative defined in the Act.

Consequently, the Management breached the law and the Company may not have achieved value for money from the uncompetitive procurements.

Consequently, Management breached the Law and further, value for money may not have been obtained from the procurement.

3.0 Lack of Ethnic Diversity in Recruitment of Staff

Examination of personnel records indicated that the Company's staff establishment as at 30 June, 2019 was made up of seventy-seven (77), out of whom sixty-four (64) or 83% were of the same ethnicity contrary to Section 65(e) of the County Government Act, 2012 and Section 7(1)(2) of the National Cohesion and integration Act, 2008 which prescribe for ethnic diversity in the staffing of public entities.

Consequently, the Management is in breach of the law.

4.0 Lack of Board of Directors

As reported in the previous year, the County Assembly of Turkana in a resolution passed on 21 November, 2018 approved the appointment of a Caretaker Board and Constitution of an Advisory Committee by the Governor to oversee operations of the Company for six (6) months while awaiting appointment of a Board of Directors and a Managing Director.

The caretaker Board and Advisory Committee were to be answerable to the Governor and their operations were to commence on or before 1 December, 2018.

However, at time of the audit in December 2019, the County Executive Member for Water Environment and Mineral Resources had not appointed the Board Members contrary to the resolution of the County Assembly and Section 24(1)(2)(3) of the Turkana County Water Act, 2019 enacted in May, 2019. Further, there was no evidence to indicate that that the term of the Caretaker Board had been extended.

As a result, of the failure to appoint a board for the Company, its governance system was not properly established.

5.0 Failure to File Annual Returns

Lodwar Water and Sanitation Company Limited (LOWASCO) was incorporated under the Companies Act Cap 486 of the Laws of Kenya and issued with an incorporation certificate No. C.135044 on 9 February, 2007. However, no records were provided for audit to confirm that the Company files annual returns with the Registrar of Companies as required under Section 705(1) of the Companies Act, 2015.

Consequently, Management is in breach of the law.

6.0 Late Submission of Financial Statements

Management submitted the financial statements for the year ended 30 June, 2019 to the Auditor-General on 11 October, 2019 after the statutory deadline of 30 September, 2019 contrary to section 164(4)(a) of the Public Finance Management Act, 2012, and Section 47(1) of the Public Audit Act 2015.

Consequently, Management is in breach of the law.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

I do not express a conclusion on the Effectiveness of Internal Controls, Risk Management and Governance as required by Section 7(1)(a) of the Public Audit Act, 2015. Because of the significance of the matters described in the Basis for conclusion on the Effectiveness of Internal Controls, Risk Management and Governance and Basis for Disclaimer of Opinion sections of my report, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for my audit conclusion.

Basis for Conclusion

Audit review of the Company's operational and internal control systems indicated that Management had not established several oversight and control functions and processes as outlined below:

1.0 Audit Committee

Contrary to the requirement set in Section 104(i) of Public Finance Management Act, 2012, the Company did not have an Audit Committee during the year review. As a result, monitoring of the Company's governance and oversight processes and accountability processes, including internal control systems, was inadequate.

Lack of sufficient oversight has increased the risk of irregularities and ineffective management of the Company's resources.

2.0 Internal Audit Function

Similarly, audit review of the internal control system of the Company confirmed that an internal audit function had not been established in the Company. Consequently, the Management is in breach of the law and internal oversight on the Company's operations is weak and may be ineffective contrary to Section 155(1) (a) of the Public Finance Management Act, 2012.

Consequently, the Management is in breach of the law.

3.0 Annual Procurement Plan

The statement of financial performance reflects operating expenses totalling Kshs.65,793,465 whereas the asset movement schedule reflects asset acquisitions amounting to Kshs.281,500 all totaling to Kshs.66,074,965. However, the procurement of the goods, works and services was done without an Annual Procurement Plan contrary to Section 53(2) of the Public Procurement and Asset Disposal Act, 2015 and Section 114(2) of the Public Finance Management (County Governments) Regulations, 2015.

As a result, Management failed to observe procurement planning requirements. Further, it was not possible to confirm that the expenditure incurred on procurement of assets and other goods was in line with the strategic and operational plans of the Company.

4.0 Information Technology Policies and Oversight

Audit review of the Company's Information and Communication Technology (ICT) revealed that the Company does not have a Strategic Committee, Strategic Plan, policy to guide its investment and use of ICT. In addition, there were no documented user-standards and procedures to manage upgrades and system changes.

5.0 Debt Management Policy

Examination of trade debt records indicated that Management had not established a debts management policy. In the absence of the policy, there is risk of trade debts going bad or not being recovered in good time which may in turn constrain the cash flow and capacity of the Company to fund its operations in a cost effective way.

6.0 Failure to Reconcile Payrolls

Examination of payroll records indicated that in year the year under review, Management did not prepare monthly payroll reconciliation statements explaining month-to-month payroll expenditure and other changes as required by Regulation 158(1)(a) (b) of the Public Finance Management County Government Regulations.

Failure to prepare monthly payroll reconciliations may lead to failure to detect errors and misstatements of payroll payments and related data.

Failure to establish these controls and functions has weakened the Company's Internal control and governance systems and raised the risk of mismanagement of resources and failure to attain the Company's purpose.

Responsibilities of Management and those Charged with Governance

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

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

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

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

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

Auditor-General's Responsibilities for the Audit

My responsibility is to conduct an audit of the Lodwar Water and Sanitation Company Limited financial statements in accordance with International Standards of Supreme Audit Institutions (ISSAIs) 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. However, because of the matters described in the Basis for Disclaimer of Opinion section of my report, I was not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

In addition, my responsibility is 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. I also consider internal control, risk management and governance processes and systems in order to give an assurance on the effectiveness of internal controls, risk management and governance 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. However, because of the matters described in the Basis for Conclusion on Lawfulness and Effectiveness in Use of Public Resources, and Internal Controls, Risk Management and Governance sections of my report, I was not able to obtain sufficient appropriate audit evidence to provide a basis for an audit conclusion.

I am independent of Lodwar Water and Sanitation Company 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.



Nancy Gathungu

AUDITOR-GENERAL

Nairobi

25 August, 2021

**STATEMENT OF PROFIT AND LOSS AND OTHER COMPREHENSIVE INCOME FOR
THE YEAR ENDED 30 JUNE 2019**

	Note	2019	2018
		Kshs	Kshs
REVENUES			
Sales/Turnover	8	82,495,178	75,068,997
TOTAL REVENUES		82,495,178	75,068,997
OPERATING EXPENSES			
Cost of sales	9	14,129,426	12,195,893
Administration and operating expenses	10	51,664,039	48,687,374
TOTAL OPERATING EXPENSES		65,793,465	60,883,267
OPERATING PROFIT/(LOSS)		16,701,713	14,185,730
Finance Costs	11	266,010	168,735
PROFIT/(LOSS) BEFORE TAXATION		16,435,703	14,016,995



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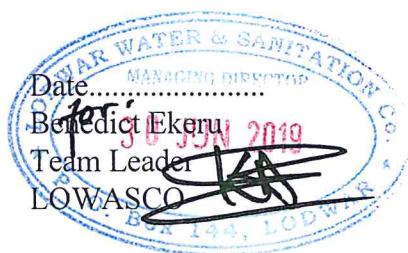
Annual Reports and Financial Statements

For the year ended June 30, 2019

STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2019

	Note	2019	2018
		Kshs	Kshs
ASSETS			
Non-Current Assets			
Property, plant and equipment	12	14,467,764	18,132,296
Total Non-Current Assets		14,467,764	18,132,296
Current Assets			
Trade and other receivables	13	43,997,009	29,182,103
Bank and cash balances	14	5,111,197	3,577,554
Total Current Assets		49,108,206	32,759,657
TOTAL ASSETS		63,575,970	50,891,953
EQUITY AND LIABILITIES			
Capital and Reserves			
Ordinary share capital	15	100,000	100,000
Capital reserve		2,568,129	2,568,129
Revenue reserve		- 18,838,754	- 18,838,754
Total capital and Reserve		- 16,170,625	- 16,170,625
Non-Current Liabilities			
Borrowings(NIC Loan balance)	16	766,398	1,900,388
Total Non-Current Liabilities		766,398	1,900,388
Current Liabilities			
Trade and other payables	17	65,162,190	65,162,190
Total Current Liabilities		65,162,190	65,162,190
TOTAL EQUITY AND LIABILITIES		49,757,963	50,891,953

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



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STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 JUNE 2019

	Ordinary share capital	Revaluation reserve	Fair value adjustment reserve	Capital/ Development Grants/Fund	Total
At July 1, 2017	100,000.00	-	-	-	100,000
Total comprehensive income		-	-	-	(6,113,230.24)
At June 30, 2018	100,000.00	-	-	-	100,000
At July 1, 2018	100,000.00	-	-	-	100,000
Issue of new share capital	-	-	-	-	-
Total comprehensive income		-	-	-	(6,113,230.24)
Dividends paid – 2018	-	-	-	-	-
Interim dividends paid – 2018	-	-	-	-	-
Proposed final dividends	-	-	-	-	-
At June 30, 2019	100,000.00	-	-	-	100,000



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100-47-214-711

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2019

	Note	2019 Kshs	2018 Kshs
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash generated from/(used in) operations		106,534,623.00	61,224,558.00
Interest received		-	-
Interest paid		-	(93,735.00)
Dividends paid		-	-
Taxation paid		-	-
Other expenses		(105,011,644)	(56,999,183.76)
Net cash generated from/(used in) operating activities		1,522,978.95	4,131,639.24
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property, plant and equipment		-	2,313,370.00
Proceeds from disposal of property, plant and equipment		-	-
Net cash generated from/(used in) investing activities		1,522,978.95	1,818,269.24
CASH FLOWS FROM FINANCING ACTIVITIES			
Capital grants		-	15,892,435.0
Repayment of borrowings		-	356,265.00
Net cash generated from/(used in) financing activities		1,522,978.95	1,462,004.24
INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		1,522,978.95	1,234,202.40
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		4,376,654.32	2,013,999.88
Effects of foreign exchanges rate fluctuations		-	-
CASH AND CASH EQUIVALENTS AT END OF THE YEAR		2,013,999.88	3,577,554.00



NOTES TO THE FINANCIAL STATEMENTS

1. GENERAL INFORMATION

The company is established by and derives its authority and accountability from the Companies Act. The entity is private company limited by shares and is domiciled in Kenya. The entity's principal activity is provision of Water and sanitation services.

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

2. STATEMENT OF COMPLIANCE AND BASIS OF PREPARATION

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

The financial statements have been prepared and presented in Kenya Shillings, which is the functional and reporting currency of the company.

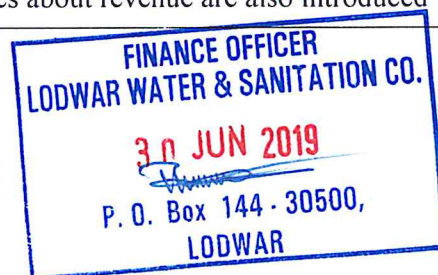
The financial statements have been prepared in accordance with the PFM Act, the State Corporations Act and International Financial Reporting Standards (IFRS). The accounting policies adopted have been consistently applied to all the years presented.

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

i) Relevant new standards and amendments to published standards effective for the year ended 30 June 2019

Amendment/Interpretation to a standard	Effective date	Impact
IFRS 9: Financial Instruments (Issued 24 July 2014)	Effective for annual periods beginning on or after 1 January 2018	<p>Finalized version of IFRS 9 which contains accounting requirements for financial instruments, replacing <u>IAS 39</u> <i>Financial Instruments: Recognition and Measurement</i>.</p> <p>The standard contains requirements in the following areas:</p> <ul style="list-style-type: none">• Classification and measurement. Financial assets are classified by reference to the business model within which they are held and their contractual cash flow characteristics. The 2014 version of IFRS 9

Amendment/Interpretation to a standard	Effective date	Impact
		<p>introduces a 'fair value through other comprehensive income' category for certain debt instruments. Financial liabilities are classified in a similar manner to under IAS 39, however there are differences in the requirements applying to the measurement of an entity's own credit risk.</p> <ul style="list-style-type: none"> • Impairment. The 2014 version of IFRS 9 introduces an 'expected credit loss' model for the measurement of the impairment of financial assets, so it is no longer necessary for a credit event to have occurred before a credit loss is recognized • Hedge accounting. Introduces a new hedge accounting model that is designed to be more closely aligned with how entities undertake risk management activities when hedging financial and non-financial risk exposures • Derecognition. The requirements for the derecognition of financial assets and liabilities are carried forward from IAS 39
IFRS 15: Revenue from Contracts with Customers <i>(Issued 28 May 2014)</i>	Applicable to an entity's first annual IFRS financial statements for a period beginning on or after 1 January 2018	<p>IFRS 15 provides a single, principles based five-step model to be applied to all contracts with customers.</p> <p>The five steps in the model are as follows:</p> <ul style="list-style-type: none"> • Identify the contract with the customer • Identify the performance obligations in the contract • Determine the transaction price • Allocate the transaction price to the performance obligations in the contracts • Recognize revenue when (or as) the entity satisfies a performance obligation. <p>Guidance is provided on topics such as the point in which revenue is recognized, accounting for variable consideration, costs of fulfilling and obtaining a contract and various related matters. New disclosures about revenue are also introduced</p>



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ii) New and amended standards and interpretations in issue but not yet effective in the year ended 30 June 2019

Amendment/Interpretation to a standard	Effective date	Impact
<i>IFRS 16: Leases</i> (Issued 13 January 2016)	Applicable to annual reporting periods beginning on or after 1 January 2019	IFRS 16 specifies how an IFRS reporter will recognize, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with IFRS 16's approach to lessor accounting substantially unchanged from its predecessor, IAS 17.
<i>IFRIC 23: Uncertainty over Income Tax Treatments</i> (Issued 7 June 2017)	Applicable to annual reporting periods beginning on or after 1 January 2019	The interpretation addresses the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates, when there is uncertainty over income tax treatments under IAS 12. It specifically considers: <ul style="list-style-type: none"> • Whether tax treatments should be considered collectively • Assumptions for taxation authorities' examinations • The determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates • The effect of changes in facts and circumstances
<i>Annual Improvements to IFRS Standards 2015–2017 Cycle</i> (Issued 12 December 2017)	Annual periods beginning on or after 1 January 2019	Makes amendments to the following standards: <ul style="list-style-type: none"> • IFRS 3 and IFRS 11 - The amendments to IFRS 3 clarify that when an entity obtains control of a business that is a joint operation, it remeasures previously held interests in that business. The amendments to IFRS 11 clarify that when an entity obtains joint control of a business that is a joint operation, the entity does not remeasure previously held interests in that business. • IAS 12 - The amendments clarify that the requirements in the former paragraph 52B (to recognise the income tax consequences of dividends where the transactions or

Amendment/Interpretation to a standard	Effective date	Impact
<i>IFRS 16: Leases</i> (Issued 13 January 2016)	Applicable to annual reporting periods beginning on or after 1 January 2019	IFRS 16 specifies how an IFRS reporter will recognize, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with IFRS 16's approach to lessor accounting substantially unchanged from its predecessor, IAS 17.
<i>IFRIC 23: Uncertainty over Income Tax Treatments</i> (Issued 7 June 2017)	Applicable to annual reporting periods beginning on or after 1 January 2019	<p>The interpretation addresses the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates, when there is uncertainty over income tax treatments under IAS 12. It specifically considers:</p> <ul style="list-style-type: none"> • Whether tax treatments should be considered collectively • Assumptions for taxation authorities' examinations • The determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates • The effect of changes in facts and circumstances
		<p>events that generated distributable profits are recognised) apply to all income tax consequences of dividends by moving the paragraph away from paragraph 52A that only deals with situations where there are different tax rates for distributed and undistributed profits.</p> <ul style="list-style-type: none"> • IAS 23 - The amendments clarify that if any specific borrowing remains outstanding after the related asset is ready for its intended use or sale, that borrowing becomes part of the funds that an entity borrows <i>generally</i> when calculating the capitalisation rate on general borrowings.
<i>Plan Amendment, Curtailment or Settlement</i> (Amendments to IAS 19)	Annual periods beginning on or after 1 January	The amendments in <i>Plan Amendment, Curtailment or Settlement</i> (Amendments to IAS 19) are:

Amendment/Interpretation to a standard	Effective date	Impact
<i>IFRS 16: Leases</i> (Issued 13 January 2016)	Applicable to annual reporting periods beginning on or after 1 January 2019	IFRS 16 specifies how an IFRS reporter will recognize, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with IFRS 16's approach to lessor accounting substantially unchanged from its predecessor, IAS 17.
<i>IFRIC 23: Uncertainty over Income Tax Treatments</i> (Issued 7 June 2017)	Applicable to annual reporting periods beginning on or after 1 January 2019	The interpretation addresses the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates, when there is uncertainty over income tax treatments under IAS 12. It specifically considers: <ul style="list-style-type: none"> • Whether tax treatments should be considered collectively • Assumptions for taxation authorities' examinations • The determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates • The effect of changes in facts and circumstances
(Issued 7 February 2018)	2019	<ul style="list-style-type: none"> • If a plan amendment, curtailment or settlement occurs, it is now mandatory that the current service cost and the net interest for the period after the remeasurement are determined using the assumptions used for the remeasurement. • In addition, amendments have been included to clarify the effect of a plan amendment, curtailment or settlement on the requirements regarding the asset ceiling.

The Directors shall be applying the above and relevant standards as they become effective.



6.SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

a)Property, plant and equipment

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

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

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

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

b)Depreciation and impairment of property, plant and equipment

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

Depreciation on property, plant and equipment is recognised in the income statement on a straight-line basis to write down the cost of each asset or the re-valued amount to its residual value over its estimated useful life. The annual rates in use are:

Buildings and civil works	25 years or the unexpired lease period
Plant and machinery	12.5 years
Motor vehicles, including motor cycles	4 years
Computers and related equipment	3 years
Office equipment, furniture and fittings	12.5 years

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

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



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NOTES TO THE FINANCIAL STATEMENTS (Continued)

6. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

c) Intangible assets

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

d) Amortisation and impairment of intangible assets

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

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

e) Investment property

Buildings, or part of a building (freehold or held under a finance lease) and land (freehold or held under an operating lease) held for long term rental yields and/or capital appreciation, and which are not occupied by the entity, are classified as investment property under non-current assets.

Investment property is carried at fair value, representing open market value determined periodically by independent external values. Changes in fair values are included in profit or loss in the income statement.

f) Finance and operating leases

Leases which confer substantially all the risks and rewards of ownership to the entity are classified as finance leases. Upon initial recognition, the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments, and the asset is subsequently accounted for in accordance with the accounting policy applicable to that asset.

All other leases are treated as operating leases and the leased assets are recognised in the statement of financial position to the extent of prepaid lease rentals at the end of the year. Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense over the term of the lease.



NOTES TO THE FINANCIAL STATEMENTS (Continued)

6. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

g) Inventories

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

h) Trade and other receivables

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

i) Taxation

Current income tax

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



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NOTES TO THE FINANCIAL STATEMENTS (Continued)

6. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

j) Taxation (Continued)

Current income tax (Continued)

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

Deferred tax

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

8.SALES/TURNOVER

sales amount is inclusive of reconnection fees and other charges

	2019	2018
	Kshs	Kshs
Sales/Turnover	82,495,178	75,068,997
TOTALS	82,495,178	75,068,997

9.COST OF SALES

	2019	2018
	Kshs	Kshs
Electricity for pumping water	13,836,946	12,080,893
Chemicals	292,480	115,000
TOTALS	14,129,426	12,195,893

10. ADMINISTRATION AND OPERATING COSTS

	2019	2018
	Kshs	Kshs
Salaries, wages and statutory deductions	28,043,831	30,984,377
Telephone and postage	1,794,589	1,333,185
Travel and Accommodation	2,530,000	2,949,260
Stationary and office supplies	687,812	1,088,765
Training and development	1,060,000	121,560
Bank charges	135,802	126,629
Depreciation	3,946,032	3,712,005
Regulatory/Water Levies	1,780,225	-
Hire charges	60,700	215,500
Repair and maintenance	6,510,748	5,633,473
Staff motivation	3,057,280	1,761,210
Fuel and lubricant	876,550	623,910
Insurance costs	166,170	-
Cleaning Expenses	51,300	48,890,00
Auditors' remuneration	382,000	

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Sales and marketing	581,000	137,500
Platinum		
Total	51,664,039	48,687,374

11.FINANCE COSTS

	2019	2018
	Kshs	Kshs
Interest expense on loans	266,010.00	93,735.00
Asset repossession order cancellation	-	75,000.00
Total	266,010.00	168,735.00



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ACCUMULATED DEPRECIATION AS AT 1ST JULY 2018	-	418,709	-	1,113,235	-	10,402,063	-	918,817	-	201,622	-	13,054,437
CHARGES FOR YEAR	-	418,709	-	166,136	-	2,786,812	-	489,879	-	76,325	-	3,937,862
ACCUMULATED DEPRECIATION AS AT 30TH JUNE 2019	-	837,418	-	1,279,371	-	13,188,876	-	1,408,696	-	277,947	-	(16,,992,298.6 3)
NET BOOK VALUE	-	15,910,934	-	49,718	-	2,041,626	-	224,234	-	332,654	-	14,475,923





13. TRADE AND OTHER RECEIVABLES

	2019	2018
	Kshs	Kshs
Trade receivables	42,017,594	29,182,103
Deposits and prepayments	1,979,415	-
VAT recoverable		-
Other receivables		-
Gross trade and other receivables	43,997,009	29,182,103

14. BANK AND CASH BALANCES

	2019	2018
	Kshs	Kshs
Cash at bank	5,054,137	3,577,554
Cash in hand	57,060	-
	5,111,197	3,577,554

15. ORDINARY SHARE CAPITAL

	2018	2019
	Kshs	Kshs
Issued and fully paid:	100,000	100,000

16. BORROWINGS

	2019	2018
	Kshs	Kshs
Balance at beginning of the year	1,900,388	2,350,388
Domestic borrowings during the year	-	-

