

REPUBLIC OF KENYA



OFFICE OF THE AUDITOR-GENERAL

REPORT

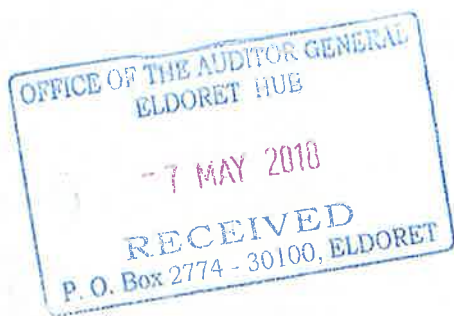
OF

THE AUDITOR-GENERAL

ON

THE FINANCIAL STATEMENTS OF
KAPSABET-NANDI WATER AND
SANITATION COMPANY LIMITED

FOR THE YEAR
ENDED 30 JUNE 2017



Maji safi Kwa Wote

Kapsabet Nandi Water and Sanitation Company Ltd

Annual Reports and Financial Statements

For the Financial Year Ended June 30, 2017

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

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Kapsabet Nandi Water and Sanitation Company Ltd

Reports and Financial Statements

For the year ended June 30, 2017

KEY COMPANY INFORMATION

Background information

The Company was established by the Company Act of Parliament on 18th December 2006, certificate NO 1333231

The Company is licensed by Lake Victoria Water Services

The County Government of Nandi is the principal share holder of the Company

Principal Activities

The principal activity of the Company is water and sanitation provision in Kapsabet and Nandi hills towns.

Vision

To be the leading water and sanitation provider in the region

Mission

To effectively and efficiently provide quality and affordable water and sanitation

Management

The day today management is under the management under the supervision of the Board of Directors

Directors

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

NO	NAME	TITLE	APPOINTMENT DATE	REPRESENTATION
1	Mark Maritim	Chairman	1.3.2014	Resident Organizations
2.	Anthony Kiboiy	Board Secretary	1.3.2014	Managing Director
3.	CPA Sally Rono	Board Member	1.3.2014	Professional Rep.
4.	Eng. John Taragon	Board Member	1.3.2014	Professional Rep.
5.	CPA David Kirui	Board Member	1.3.2014	Business Community
6.	Sarah Kosgei	Board Member	1.3.2014	County Govt. OF Nandi
7.	Sammy Kosgei	Board Member	1.3.2014	Resident Organizations
8.	Grace Maru	Board Member	1.3.2014	Gender Representative
9.	David Kosgey	Board Member	1.3.2014	County Govt. OF Nandi

Registered Office

Beek Hse-Off Pamela Jelimo Street,Next to PAG church

P.O BOX 970,30300

KAPSABET

Corporate Contacts

E-mail: kapsabetwater@yahoo.com

Website: www.go.ke

Corporate Bankers

Kenya Commercial Bank-Kapsabet Branch

P.O BOX

KAPSABET,Kenya

Cooperative Bank

P.O BOX

KAPSABET

Kapsabet Nandi Water and Sanitation Company Ltd
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KEY COMPANY INFORMATION (Continued)

Independent Auditors

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

Principal Legal Advisers

The Attorney General
State Law Office
Harambee Avenue
P.O. Box 40112
City Square 00200
Nairobi, Kenya

Kapsabet Nandi Water and Sanitation Company Ltd

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THE BOARD OF DIRECTORS

NAME & TITLE

ACADEMIC QUALIFICATION & EXPERIENCE



**MARK MARITIM
CHAIRMAN**

Holds a MSC in Disaster Management
Holds a BA in Education
Currently lecturer at Masinde University-Webuye Campus and a teaching experience of over 15 years
Currently the Chairman of the Board and Chesumei CDF



**ANTHONY KIBOI
BOARD SECRETARY(MD)**

Holds a BA from University of Nairobi
Holds a Diploma in Human Resource from Moi University
Has done a senior management course at school of Government
Worked in the Local Government Authority as an administrator and Town clerk for over 15 years
He is the Secretary to the Board



**CPA SALLY RONO
CHAIR-FINANCE & HR**

Pursuing a PHD in Business Administration at JKUAT
Holds a MBA in Business Administration from CUEA
Holds a BBM in Accounting
Holds a Diploma in Business Management -KIM
Holds a Certificate in Human Resource from UON
Has worked as an Internal Auditor at Post Bank
Currently the Branch Manager at Post Bank and chair Finance & HR committee of the Board
She is a certified accountant and member of ICPAK



**Eng. JOHN TARAGON
CHAIR -TECHNICAL**

Holds a MSC in Civil and Agricultural Engineering from UON
Holds an BSC in Civil and Agricultural Engineering from UON
Has teaching experience of over 15 years having lectured at Masinde Muliro University and currently at University of Eldoret
He is an environmental impact assessment expert
He is the chair of the technical committee of the Board



**CPA DAVID KIRUI
CHAIR-AUDIT & RISK**

Holds a MBA in Finance
Has a BCOM in Accounting
Has an auditing experience of over 20 years in EPK, a multinational agricultural company
He is a member of Board of Management in several schools and institute of Internal Auditors(K)
Currently the Finance and Administration manager at EPK
He is the chair of Audit & Risk committee of the BOARD

Kapsabet Nandi Water and Sanitation Company Ltd
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THE BOARD OF DIRECTORS (Continued)



SARAH KOSKEI

Holds a Diploma in Community Development
 Holds a certificate in procurement and financial management
 She has been the chair of MYWO of Nandi County, received a head of state commendation in 2013 and has featured in Citizen TV in the strength of a woman programme
 She is a BOM of several schools
 She is currently a senior welfare officer in Nandi County Government
 She is a member of the technical and audit committees of the Board



SAMMY KOSKEI

Holds a BA in Economics and BBA in Finance from University of Texas - USA
 He has been a Director of Kenya Industrial Estates (KIE) and chair of BOM of Tulon Secondary school
 He is also a member of Athletics Kenya –Nandi Branch
 He is a member of the technical committee



GRACE MARU

Holds a M PHIL in Human Resource Development from Moi University
 Holds a BA from Agra University
 Has a post graduate DIP –HRM from Moi University
 She has more than 15 years experience in human resource having worked as a Human Resource Manager at ELDOWAS
 She is currently the County Coordinator of IEBC –Kakamega County
 Is a member of IHRM
 She is a member of Finance and HR committee of the Board



CO-LANDS & WATER
DAVID MARIE KOSGEY

Holds an MSC in Environmental studies
 Holds a BSC in Wildlife Management
 He is currently the Chief Officer, Lands, Environment and Natural Resources at Nandi County
 He is a member of Finance & HR committee

Kapsabet Nandi Water and Sanitation Company Ltd

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For the year ended June 30, 2017

MANAGEMENT TEAM

NAME & TITLE

QUALIFICATIONS, EXPERIENCE & RESPONSIBILITIES



ANTHONY KIBOIY
MANAGING DIRECTOR

Holds a BA from University of Nairobi
Holds a Diploma in Human Resource from Moi University
Has done a senior management course at school of Government
Worked in the Local Government Authority as an administrator and Town clerk for over 15 years

RESPONSIBILITY

He is the accounting officer of the Company
He is the Secretary to the Board



DAVID TUWEI
COMMERCIAL MANAGER

Holds a Diploma in Water Engineering in Water Supply from Kenya Institute (KEWI)
He has worked in the water sector for over 35 years as an area manager, District water officer
He has worked for NYANAS as a commercial & Technical manager and Managing Director

RESPONSIBILITY

He is the head of commercial department which deals with new connections and collection of revenue



GILBERT ROTICH
TECHNICAL MANAGER

Pursuing a Bachelors in Business Management at Moi University
Holds in Diploma in Water Engineering –Water Supply from Rift Valley Institute of Science and Technology-Nakuru
He has worked in the Water Sector for over 10 years as an area manager and inspector at National Water Conservation & Pipeline Corporation
He has been the project Manager of Water Trust Fund in Urban projects Concept (UPC) and representative of the client in the augmentation of Kapsabet Water Supply project which was funded by JICA

RESPONSIBILITY

Heads the technical department which deals with the supply and distribution of water



LENAH SUGUT
HUMAN RESOURCE MANAGER

Holds a BBM in Human Resource
Has a Diploma in Business Management
Has worked in the Local Government as a clerical officer, stores clerk and an imprest holder
Is a member of IHRM

RESPONSIBILITY

She is in charge of the human resource department

Kapsabet Nandi Water and Sanitation Company Ltd
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For the year ended June 30, 2017

CHAIRMAN'S STATEMENT

On behalf of the Board of Directors, i am pleased to present to you the performance of the Company for the year ended June 30, 2017

The Company has improved its core business of providing water to the residents of the coverage area

The Company has improved in its billing, collection efficiency and its other operations as compared to the previous year. Further improvement will be realised with the intended improvement of infrastructure, enhanced staff welfare and subsidy support from the Nandi County Government

The main challenges the Company is facing are high electricity costs and Non Revenue Water (NRW) ~~due high usage of power to pump water and old pipeline prone to bursts and leakages.~~

The Company intends to further improve in billing, collection efficiency and reduce the NRW

We are grateful to the Nandi County Government, Lake Victoria Water Services Board and GOK through **Afd** for the intention to facilitate a gravity water source at Keben. The County Government of Nandi has assisted the Company with water meters, pipes, personnel and the billing software

Lake Victoria Water Services Board has assisted the Company by donating vehicles, computers and furniture

I will to take this opportunity to thank and appreciate the Board of Directors, Management, Customers, Suppliers and all stakeholders for the cooperation they gave me

I look forward to more cooperation that will enable the Company improve its service delivery

Thank you and God bless



MARK MARITIM
Board Chair

Kapsabet Nandi Water and Sanitation Company Ltd

Reports and Financial Statements

For the year ended June 30, 2017

REPORT OF THE MANAGING DIRECTOR

The financial year for the Company ending June 30, 2007 has come to a closure and in order to fulfil my mandate i have the pleasure to present a report covering the financial year

The Company provide water to Kapsabet and Nandi Hills townships in Nandi County by pumping. Kapsabet water supply which was rehabilitated by JICA in 2012 provides approximately 2,500 m3 of water daily to 3,734 consumers against a capacity of 3,600 m3. The demand of water for the residents is currently 5,000 m3 daily hence the Company does some water rationing. Nandi Hills water supply which was constructed in 1948 provides 500 m3 of water daily to 766 consumers

During the year the Company managed to strengthened capacity by partnering with Nandi County Government and was able to establish some sections

The Company made a deliberate step to strengthen the billing section .The section was able to acquire a billing software (WBS) Nandi County Government which is able to use the Smartphone technology to read and upload meter readings to the system directly.

The software is able to supply water bills to the consumers through SMS hence it has reduce the meter reading and distribution of bills period and improve the accuracy of billing

The revenue section has also been created and the unit strive to collect revenue on daily basis from the consumers so that the high amount of arrears can be realized and improve on the collection efficiency. The Company has given the consumers water bills payment platforms such as KCB bank M pesa, Post bank and cash. The Company bought 2 NO PDQs machines for the purpose of collecting cash from consumers who are unable to use the other payment points.

A procurement and stores section was created in order for the Company to be in tandem with the Government procedures on procurement and disposal of goods and services. The section has an annual procurement plan which is approved by the Board of Directors

The Operations and Maintenance (**O & M**) forms a very essential component of the Company as they are in charge of water pumping and distribution. It is for this reason that i have deployed more staff to the section to meet the increasing service delivery by our consumers. The Company during the year started a program to meter all flat rate consumers to increase billing and reduce the high Non Revenue Water (NRW) which is caused by bursts & leakages, flat rate and illegal connections.

The Company is now able to store the required repair materials for quick response to water loss through bursts & leakages hence NRW has reduced from 45 % to 38 %.

The Company also established an ICT section which has helped in pursuing a programme on mapping out all consumers to GIS system that will enable us obtain real time information pipeline and consumer meters location and other critical information using technology

We were able to establish an Internal Audit section as required by the PFM Act which will enable the Company to strengthen its internal controls and minimize risks.

The Company bought computers, lap tops, office furniture and staff uniform & protective equipment to improve the operational capacity of our staff

The Company had the following challenges during the year:

- a. High electricity costs of pumping water. The Company spends on average kshs 1,200,00 per month
- b. High Non Revenue Water of 40%
- c. Low revenue collection efficiency of an average of 70-80%
- d. Limited transport

Kapsabet Nandi Water and Sanitation Company Ltd
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REPORT OF THE MANAGING DIRECTOR (Continued)

The way forward to the listed challenges are as follows:

- a. Getting a gravity water source. The GOK, Lake Victoria North Water Services Board have identified a water source at Keben
- b. A dedicated operations and maintenance section quick response to water loss
- c. A dedicated revenue team to collect revenue billed and arrears
- d. Allocation of funds to acquisition of transport


ANTHONY KIBOI
Managing Director

Kapsabet Nandi Water and Sanitation Company Ltd

Reports and Financial Statements

For the year ended June 30, 2017

CORPORATE GOVERNANCE STATEMENT

The Company regard the corporate governance as pivotal to the success of operations and the Board as the essential and responsible organ is committed to ensure that good governance is practised. The Board supports the best practices in corporate governance and adhere to its guide lines

The Company has a legally constituted Board of Directors and a management team and their responsibilities are well stipulated in the company's organisational structure which is complemented by the Company's policies and procedures

As the policy maker, the Board is responsible for establishment of short, medium and long term goals and the strategic plans to achieve them.

The Board ensures that the Company follow the Constitution, laws, regulations of the Government of Kenya, Nandi County Government and other bodies and its Articles and Memorandum of Association

The Board consists of nine directors who were competitively recruited to represent different interests within the area of service provision for a period of three years. They were sufficiently oriented to their roles

The Board of Directors met four times during the year and deliberated on various issues as were provided in the agenda drawn by the Managing Director, the Secretary to the Board

The Board has three Sub Committees, which are:

1. Finance & Human Resource
2. Audit & Risk Management
3. Technical

Finance & Human Resource Committee

The members are:

CPA Sally Rono	Chair
Mr. David Marie Kosgey	Member
Mrs Grace Maru	Member

The committee is responsible for the policy making for financial and human resource systems which include book keeping, procurement & stores, budgets and staff matters.

The Company has fully operational finance and Human Resource sections

Audit & Risk Management Committee

The members are:

CPA David Kirui	Chair
CPA Sally Rono	Member
Mrs Sarah Kosgei	Member

The committee is responsible for making policies to ensure compliance with procedure & process and manage internal and external risks

Technical Committee

The members are:

Eng John Taragon	Chair
Mr Sammy Koskei	Member
Mrs Sarah Kosgei	Member

The committee is responsible for establishment of appropriate technical procedures for civil and structural works in the Company structures

The management consist of the Managing Director, Commercial Manger, Technical Manager and Human Resource Manager who run the Company in day to day basis

Kapsabet Nandi Water and Sanitation Company Ltd
Reports and Financial Statements
For the year ended June 30, 2017

MANAGEMENT DISCUSSION AND ANALYSIS

a) Company's' Operational and Financial Performance

During the year the Company improved in its operational and financial performance

In the operational performance, the Company increased its capacity by creating other essential sections like Audit, procurement & stores and ICT that enabled increased its service delivery to the consumers.

The Company also procured operational equipment like computers, laptops, dye stocks, meter sealing equipment and protective clothing which enhanced the staff working capacity and welfare

The Company also started the process of formulating operational policies like HR and Finance manual that will provide a working framework.

The Company performed very well in finance as it was able to read the budget and procurement plan to the Board on time, increased its revenue and assets portfolio.

b) Company's Compliance with Statutory Requirements

The Company paid NHIF, NSSF, Pension and PAYE due on time except for the last month of the year

c) Key Projects and Investment Planned/Implemented

During the period the Company completed the following projects:

- Public sanitation facility in Nandi Hills town
- Public sanitation facility at Kapsabet office
- Constructing of gate and fence
- Desilting of Nandi Hills dam
- Purchase of pump for Nandi hills supply

d) Major Risks

The major risks facing the Company are:

- Alternate source of water to residents
- Limited billing due to high water loss
- High operational costs e.g. electricity

e) Financial Probity and Governance

The Company has no financial probity and governance issues. Though the term of governance of Directors ended in March 2017, it was extended by a special AGM to December 2017

Kapsabet Nandi Water and Sanitation Company Ltd

Reports and Financial Statements

For the year ended June 30, 2017

CORPORATE SOCIAL RESPONSIBILITY STATEMENT

The Company as the integral part of the community was able to provide and facilitate industrial attachment to over 50 students during the period

The Company also was able to supply water free of charge using its water boozers to the community free of charge during functions like public holidays and funerals

The Company allowed members of public and other public organizations to hold meetings free of charge in their social hall

Kapsabet Nandi Water and Sanitation Company Ltd
Reports and Financial Statements
For the year ended June 30, 2017

REPORT OF THE DIRECTORS

The Directors submit their report together with the financial statements for the year ended June 30, 2017 which show the state of the Company's affairs.

Principal activities

The principal activities of the Company are water and sanitation provision though sanitation is still managed by the Nandi County Government

Results

The results of the Company for the year ended June 30, 2017 are set out on page 12-17

Dividends

Though the Company made a profit of kshs 1,135,758 the Directors do not recommend for any dividend payment as it becomes a loss of kshs 11,047,585 when the taxable profit is determined

Directors

The members of the Board of Directors who served during the year are shown on page 2-3 in accordance with Regulation of the Company's Articles of Association, all directors except Mr David Kirui are to retire and seek re election, but in a special AGM, their term was extended to December 2017

Auditors

The Auditor General will be responsible for the statutory audit of the Company in accordance with Article 229 of the Constitution of Kenya and the Public Audit Act 2015 for the year ended June 30, 2017

By Order of the Board


ANTHONY KIBOI
Board Secretary

Kapsabet Nandi Water and Sanitation Company Ltd

Reports and Financial Statements

For the year ended June 30, 2017

STATEMENT OF DIRECTORS' RESPONSIBILITIES

Section 81 of the Public Finance Management Act, 2012 require the Directors to prepare financial statements in respect of that entity, which give a true and fair view of the state of affairs of the entity at the end of the financial year and the operating results of the entity for that year. The Directors are also required to ensure that the entity keeps proper accounting records which disclose with reasonable accuracy the financial position of the entity. The Directors are also responsible for safeguarding the assets of the entity.

The Directors are responsible for the preparation and presentation of the entity's financial statements, which give a true and fair view of the state of affairs of the entity for and as at the end of the financial year ended on June 30, 2017. This responsibility includes:

- i. Maintaining adequate financial management arrangements and ensuring that these continue to be effective throughout the reporting period.
- ii. Maintaining proper accounting records, which disclose with reasonable accuracy at any time the financial position of the entity.
- iii. Designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of the financial statements, and ensuring that they are free from material misstatements, whether due to error or fraud.
- iv. Safeguarding the assets of the entity.
- v. Selecting and applying appropriate accounting policies; and
- vi. Making accounting estimates that are reasonable in the circumstances.

The Directors accept responsibility for the entity's financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity with International Financial Reporting Standards (IFRS), and in the manner required by the PFM Act, 2012. The Directors are of the opinion that the entity's financial statements give a true and fair view of the state of entity's transactions during the financial year ended June 30, 2017, and of the entity's financial position as at that date. The Directors further confirm the completeness of the accounting records maintained for the entity, which have been relied upon in the preparation of the entity's financial statements as well as the adequacy of the systems of internal financial control.

Approval of the financial statements


The Company's financial statements were approved by the Board on 28th September 2017 and signed on its behalf by:



Board Chair



Managing Director



Director

REPUBLIC OF KENYA

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Fax: +254-20-311482
E-mail: oag@oagkenya.go.ke
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P.O. Box 30084-00100
NAIROBI

OFFICE OF THE AUDITOR-GENERAL

REPORT OF THE AUDITOR-GENERAL ON KAPSABET-NANDI WATER AND SANITATION COMPANY LIMITED FOR THE YEAR ENDED 30 JUNE 2017

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of Kapsabet-Nandi Water and Sanitation Company Limited set out on pages 14 to 38, which comprise the statement of financial position as at 30 June 2017, the statement of comprehensive income, statement of changes in equity, statement of cash flows and statement of comparison of budget and actual amounts for the year then ended, and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, 2015. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

In my opinion, except for the effect of the matters described in the Basis for Qualified Opinion section of my report, the financial statements present fairly, in all material respects, the financial position of Kapsabet Nandi Water and Sanitation Company Limited as at 30 June 2017, 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.

In addition, as required by Article 229(6) of the Constitution, based on the procedures performed, except for the matters described in the Basis for Qualified Opinion and Other Matter sections of my report, I confirm that, nothing has come to my attention to cause me to believe that public money has not been applied lawfully and in an effective way.

Basis for Qualified Opinion

1.0 Non-Revenue Water

Records availed for audit review indicated that the Company produced a total of 927,625 cubic meters (M³) of water during the year under review and out of which, 572,623 cubic meters (M³) of water was billed to customers for Kshs.33,765,795 while the balance of 355,002 cubic meters (M³) or approximately 38% of the total volume of water produced represents non-revenue water. However, the balance of 355,002 cubic meters (M³) for non-revenue water included a volume of 123,096 cubic meters (M³) or approximately 13% which was over and above the allowable loss of 231,906 cubic meters (M³) or 25% of the total production prescribed in the guidelines issued by the

*Report of the Auditor-General on the Financial Statements of Kapsabet-Nandi Water and Sanitation Company Ltd
for the year ended 30 June 2017*

Water Service Regulatory board. Consequently, the significant level for non-revenue water of 123,096 cubic meters (M³) or 13 % billed at the rate of Kshs.58.97 per cubic meter (M³) resulted in loss of sales estimated at Kshs.7,258,971 which had a negative impact on the company's profitability and could erode sustainability of its operations.

2.0 Property, Plant and Equipment

2.1 Assets not Transferred to Lake Victoria North Water Services Board

The statement of financial position as at 30 June 2017 reflects property, plant and equipment balance of Kshs.20,779,487 which includes an amount of Kshs. 14,623,484 relating to buildings. As reported in the previous year, completed projects developed by the company which ought to have been transferred to Lake Victoria North Water Services Board (LVNWSB) in accordance with Clause 1.2(4) of the Service Provision Agreement (SPA) had not been transferred as at 30 June 2017. No reason was provided for failure to transfer these assets to the Board.

Further, the value of land on which buildings stand in Kapsabet and Nandi Hills towns whose ownership documents such as title deeds, leases or allotments were not availed for audit verification was not included in the reported balance for property, plant and equipment as at 30 June 2017. Consequently, the validity, accuracy and completeness of property, plant and equipment balance of Kshs.20,779,487 as at 30 June 2017 cannot be confirmed.

2.2 Construction of a Public Sanitation Facility and Septic Tank in Nandi Hills Town

Note 10 to the financial statements reflects a balance of Kshs. 14,623,484 for buildings as at 30 June 2017 which includes an amount of Kshs.4,271,888 incurred on the construction of a public sanitation facility and septic tank in Nandi Hills town.

Available information indicated that, the contract for the construction of the facility was awarded to a construction company at a cost of Kshs.4,271,888 and the public sanitation facility was a joint project of the company, Nandi County Government, Water Services Trust Fund and Lake Victoria North Water Services Board.

However, inspection of the project in March 2018 revealed that although it was in operation no fence was erected to secure the facility from vandalism. Consequently, the propriety of the expenditure of Kshs.4,422,038 incurred on the construction of a public sanitation facility and septic tank could not be confirmed. In addition, no ownership document such as title deed, lease or allotment letter for the land on which the facility stands was availed for audit verification.

Under the circumstances, it was not possible to confirm ownership of the land on which the facility was built

3.0 Long Outstanding Trade and Other Receivables

The statement of financial position as at 30 June 2017 reflects trade and other receivables figure of Kshs.20,367,698 as disclosed in Note 15 to the financial statements out of which an amount of Kshs.17,899,396 has been outstanding for over 60 days contrary to Section 6.3 of the Water Services Board financial manual of December 2005 which stipulates that, a water service provider may allow up to 45 days' moratorium before payment for monthly fees, levies, commissions or any other amount due on contractual obligations. Further, management did not provide documentary evidence indicating measures that have been put in place to ensure the long outstanding debts are recovered.

Under the circumstances, the recoverability of the long outstanding trade and other receivables balance of Kshs.17,899,396 could not be confirmed as at 30 June 2017.

4.0 Long Outstanding Trade Payables

Included in the trade and other payables balance of Kshs.8,269,342 as disclosed in Note 23 to the financial statements is an amount of Kshs.6,565,959 in respect of trade payables out of which trade payables balance of Kshs.3,618,250 and audit fees amounting to Kshs.1,288,000 have been outstanding for over 120 days. Further, included in the balance of Kshs.3,618,250 is outstanding audit fees in respect of the financial years 2012/2013 to 2014/2015 due as provided for in Section 41(c) of the Public audit Act, 2015 which empowers the Office of the Auditor-General to charge audit fees. Consequently, the client is in breach of the Law.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of Kapsabet-Nandi Water and Sanitation Company Limited in accordance with ISSAI 30 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 judgement, are of most significance in the audit of the financial statements. Except for the matters described in the Basis for Qualified Opinion and Other Matter sections of my report, I have determined that there are no Key Audit Matters to communicate in my report.

Other Matters

1.0 Budget Control and Performance

1.1 Revenue Analysis

Examination of the Company's records availed for audit review indicated that, the entity had an approved revenue budget of Kshs.53,196,000 in the year under review while the actual revenue was Kshs.49,562,661 or 93 % of the approved budget.

However, the approved revenue budget balance of Kshs.53,196,000 included an amount of Kshs.35,880,000 for water sales in which actual sales of Kshs.33,765,795 were realized resulting to under collections of Kshs.2,114,795 or 6% as indicated below.

No	Item	Approved Budget	Actual Amount	Performance Difference	%
		Kshs	Kshs	Kshs	
1	Water sales	35,880,000	33,765,795	(2,114,795)	(6)
2	Other income	2,316,000	3,066,875	750,875	32
	Sub-total	38,196,000	36,832,670	1,363,330	
3	Grants	15,000,000	12,729,991	(2,270,010)	(15)
	Grand total	53,196,000	49,562,661	(3,633,930)	7

No reason provided by management for the under collection of the revenue.

Under the circumstances, service delivery to the citizens could adversely be affected.

1.2 Expenditure Analysis

Available information indicated that, the company had an approved expenditure budget of Kshs.50,206,740 against actual expenditure of Kshs.48,426,902 resulting to an under expenditure of Kshs.1,779,838 or 4%. However, expenditure in some votes exceeded approved allocation of Kshs. 20,945,952 against actual expenditure of Kshs.23,464,270 by Kshs.2,518,318 or 12 % as indicated below:

No	Item	Approved Budget	Actual Expenditure	Performance Difference	%
1		(Kshs)	(Kshs)	(Kshs)	
2	Electricity	14,400,000	16,313,266	(1,913,266)	(13)
3	Staff Travelling, Lunch & Subs	1,950,000	2,301,860	(351,860)	(18)
4	Chemicals	2,350,992	2,507,871	(156,879)	(7)
5	Audit Fees	240,000	296,000	(56,000)	(23)
6	Communication Services	810,000	847,810	(37,810)	(5)
7	Abstraction Fee	396,000	408,524	(12,524)	(3)
8	Regulatory Levy	381,960	368,327	13,633	4
9	NSSF	150,000	152,368	(2,368)	(2)
10	Insurance	267,000	268,244	(1,244)	-
	Total	20,945,952	23,464,270	(2,518,318)	(12)

No reason was provided for the over expenditure incurred on the votes.

2.0 Failure to Observe One Third (1/3) Rule for Staff Establishment

Examination and analysis of personnel records of the company availed for audit verification indicated that, the entity had nine (9) members of the board, three (3) senior management staff and sixteen (16) other permanent and pensionable staff in the year under review as indicated below.

No	Ethnic Community	Board of Directors		Senior Management		Other Permanent and Pensionable Employees		Total	
		No	%	No	%	No	%	No	%
1	Dominant Community	9	100	3	100	13	68	25	81
2	Other Communities	0	0	0	0	6	32	6	19
	Total	9	100	3	100	19	100	31	100

However, from the above analysis it is evident that dominant community comprised of eighty one per cent (81%) of the total work force contrary to Sections Section 7 (1) and (2) of the National Cohesion and Integration Act, 2008 which requires that, all public establishments shall seek to represent the diversity of the people of Kenya in the employment of staff and no public establishment shall have more than one third (1/3) of its establishment from the same community. The management is therefore in breach of the law.

3.0 Internal Control Environment

A review of internal control environment records of the entity indicated that, management had formulated policies on human resource, financial and risk management manuals. However, the Company's Board had not approved the policies for implementation contrary to Section 158(1) of Public Finance Management Regulations (County Government), 2015 which states that, the accounting officer shall ensure that the county government entity develops risk management strategies, which include fraud prevention mechanism and a system of risk management and internal control that builds robust business operations.

Under the circumstance, it was not possible to confirm whether the Company's resources were utilized in an efficient and effective manner

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and for such

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.

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 management either intends to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

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.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor-General's Responsibilities for the Audit of the Financial Statements

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 of Kenya. 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 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.

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.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances and for the purpose of giving an assurance on the effectiveness of the Company's 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, determine whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in the auditor's report to the related disclosures in the consolidated/ 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 Corporation to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities 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 communicate with them all relationships and other matters that may reasonably be thought to bear on my independence, and where applicable, related safeguards.



FCPA Edward R. O. Ouko, CBS
AUDITOR-GENERAL

Nairobi

29 June 2018

Kapsabet Nandi Water and Sanitation Company Ltd
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For the year ended June 30, 2017

Statement of Comprehensive Income for the year ended 30 June 2017

	Notes	2017 kshs	2016 Restated	2016 kshs
REVENUES				
Water Sales	5	33,765,795	28,576,123	29,950,973
Grants	6.1	12,729,991	11,040,642	11,136,394
Other Income	6.2	3,066,875	2,056,531	3,068,911
TOTAL REVENUES		49,562,661	41,673,296	44,156,278
OPERATING EXPENSES				
Operation costs	7	19,800,316	15,124,682	15,133,022
Staff Costs	8	13,371,545	9,953,465	9,821,205
Administration Costs	9	12,352,296	7,555,291	9,293,145
Depreciation	10	1,902,745	1,168,902	1,168,902
Amortisation	11	1,000,000	-	-
TOTAL OPERATING EXPENSES		48,426,902	33,802,340	35,416,274
OPERATING PROFIT/LOSS		1,135,758	7,870,956	8,740,004
PROFIT (LOSS) BEFORE TAXATION	12	(11,047,585)	(3,063,651)	(1,554,737)
INCOME TAX EXPENSE/(CREDIT)				
PROFIT/(LOSS) AFTER TAXATION	12	(11,047,585)	(3,063,651)	(1,554,737)
DIVIDEND PER SHARE		NIL	NIL	NIL

Kapsabet Nandi Water and Sanitation Company Ltd
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For the year ended June 30, 2017

Statement of Financial Position as at 30 June 2017

	Notes	2017 kshs	2016 Restated	2016 kshs
ASSETS				
Non Current Assets				
Property, Plant & Equipment	10	20,779,487	14,439,077	14,343,325
Intangible Assets	11	2,000,000	-	-
Total Non Current Assets		22,779,487	14,439,077	14,343,325
Current Assets				
Prepayment	13	33,284	1,276,744	1,276,744
Inventories	14	342,230	197,350	197,350
Trade and other Receivables	15	20,367,698	15,726,420	17,217,495
Bank and Cash Balances	16	1,423,639	2,594,358	2,594,358
Total Current Assets		22,166,851	19,794,872	21,285,947
TOTAL ASSETS		44,946,339	34,233,949	35,629,272
EQUITY AND LIABILITIES				
Share Capital	17	100,000	100,000	100,000
Retained Earnings	18	7,984,089	6,848,331	8,879,786
Capital Grants	19	23,719,164	16,147,126	-
Capital and Reserves		31,803,254	23,095,457	8,979,786
Non Current Liabilities				
Water Deposits	20	4,176,800	3,759,800	3,759,800
Deferred Income	21	-	-	12,945,412
Total Non Current Liabilities		4,176,800	3,759,800	16,705,212
Current Liabilities				
Prepayment	22	150,614	122,334	122,334
Trade and other Payables	23	8,269,342	5,315,178	5,201,587
Unexpended Grants	24	546,330	1,941,180	1,941,180
Provisions	25	-	-	1,705,977
Deferred Income	21	-	-	973,196
Total Current Liabilities		8,966,286	7,378,692	9,944,274
TOTAL EQUITY AND LIABILITIES		44,946,339	34,233,949	35,629,272



MARK MARITIM

Board Chair



ANTHONY KIBOI

Managing Director



SIMEON BIRGEN

Accountant

Kapsabet Nandi Water and Sanitation Company Ltd
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For the year ended June 30, 2017

Statement of Changes in Equity for the year ended 30 June 2017

	ORDINARY SHARE	CAPITAL GRANTS	RETAINED EARNINGS	TOTAL
AS AT JULY 1 2015	100,000		139,782	239,782
Profit/Loss for the year (Restated)			7,870,956	7,870,956
Capital Grants		16,147,126		16,147,126
AS AT JUNE 30, 2016	100,000	16,147,126	8,010,738	24,257,864
AS At JULY 1, 2016	100,000	16,147,126	8,010,738	24,257,864
Profit for the year			1,135,758	1,135,758
Capital Grants		7,572,038		7,572,038
AS AT JUNE 30, 2017	100,000	23,719,164	9,146,496	32,965,661

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Statement of cash flows for the year ended 30 June 2017

	Notes	2017 kshs	2016 Restated	2016 kshs
Operating Profit/Loss		1,135,758	7,870,956	8,740,005
Depreciation	10	1,902,745	1,168,902	1,168,902
Amortisation	11	1,000,000	-	-
Provision for bad & doubtful debts		-	-	1,705,977
Operating profit / loss before working capital		4,038,503	9,039,858	11,614,884
Increase/Decrease in Prepayment -Payables	13	1,243,460	(1,276,744)	(1,276,744)
Increase/Decrease in Inventories	14	(144,880)	(73,600)	(73,600)
Increase in Trade and other receivables	15	(4,641,278)	(5,081,131)	(6,572,206)
Increase in Deposits	20	417,000	3,759,800	3,759,800
Increase in Prepayment -Receivables	22	28,280	122,334	122,334
Increase /Decrease in Trade and other payables	23	2,954,164	(5,705,534)	(5,819,125)
Increase/Decrease in Bank overdraft			(1,835)	(1,835)
Increase /Decrease in Unexpended grants	24	(1,394,850)	1,941,180	1,941,180
Increase Decrease in Deferred Income Current			-	973,196
Increase/Decrease in Deferred Income Non Current		-	-	12,945,412
Increase/Decrease in Deferred Income		-	(1,162,407)	-
Increase/Decrease in WSTF grants		-	(10,759,719)	(10,759,719)
Cash generated from/used in operations		(1,538,104)	(18,237,656)	(4,761,307)
Net cash generated from /used in operating activities		2,500,399	(9,197,798)	6,853,577
Investing activities				
Acquisition of Property ,Plant and Equipment (cash)	10	(8,093,155)	(493,650)	(4,718,650)
Work in Progress		-	(95,752)	-
Net cash generated from / used in investing activities		(8,093,155)	(589,402)	(4,718,650)
Financing activities				
Capital grants (cash only)	19	4,422,038	11,922,126	-
Net cash generated from / used in financing activities		4,422,038	11,922,126	-
INCREASE /DECREASE IN CASH AND CASH EQUIVALENT		(1,170,718)	2,134,926	2,134,927
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR		2,594,358	459,432	459,432
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	16	1,423,640	2,594,358	2,594,359

Kapsabet Nandi Water and Sanitation Company Ltd
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Statement of Comparison of Budget and Actual Costs for the year 2016/2017

ACCOUNT	ORIGINAL BUDGET	ADJUST	FINAL BUDGET	ACTUAL ON COMPARABLE	PERFORMANCE DIFFERENCE	PERCENTAGE %
Revenue						
Water Sales	35,880,000	-	35,880,000	33,765,795	(2,114,205)	(6)
Deferred income	-	-	-	-	-	-
Other income	2,316,000	-	2,316,000	3,066,875	750,875	32
SUB TOTAL	38,196,000	-	38,196,000	36,832,670	(1,363,330)	(4)
GRANTS:	15,000,000		15,000,000	12,729,991	(2,270,010)	(15)
TOTAL INCOME	53,196,000	-	53,196,000	49,562,661	(3,633,340)	(7)
EXPENDITURE						
Electricity	14,400,000	-	14,400,000	16,313,266	1,913,266	13
Chemicals	2,350,992	-	2,350,992	2,507,871	156,879	7
Fuel & Lubricants	948,996	-	948,996	819,260	(129,736)	(14)
Operations & Maintenance	1,350,000	-	1,350,000	979,179	(370,821)	(27)
Repairs & Maintenance	2,488,200	-	2,488,200	1,666,141	(822,059)	(33)
Salary and Wages	13,049,844	-	13,049,844	12,382,017	(667,827)	(5)
Staff Travelling & Subs.	1,950,000	-	1,950,000	2,301,860	351,860	18
Welfare & Hospitality	1,213,200	-	1,213,200	691,703	(521,497)	(43)
DIT Levy	11,400	-	11,400	10,200	(1,200)	(11)
NSSF Employer	150,000	-	150,000	152,368	2,368	2
Pension Employer	834,000	-	834,000	826,960	(7,040)	(1)
Training & Workshop	1,050,000	-	1,050,000	35,000	(1,015,000)	(97)
BOD Allowances	600,000	-	600,000	431,504	(168,496)	(28)
BoD Expenses	780,000	-	780,000	449,580	(330,420)	(42)
AGM	180,000	-	180,000	-	(180,000)	(100)
Subscription Fees	102,000	-	102,000	55,000	(47,000)	(46)
Printing & Stationery	868,548	-	868,548	477,647	(390,901)	(45)
Communication Services	810,000	-	810,000	847,810	37,810	5
Advertisement & Publicity	240,000	-	240,000	24,400	(215,600)	(90)
Audit Fees	240,000	-	240,000	296,000	56,000	23
Legal fees	150,000	-	150,000	-	(150,000)	(100)
Annual software license	150,000	-	150,000	146,160	(3,840)	(3)
Consultancy	150,000	-	150,000	45,000	(105,000)	(70)
Security	961,200	-	961,200	718,820	(242,380)	(25)
Insurance	267,000	-	267,000	268,244	1,244	0
CSR	90,000	-	90,000	-	(90,000)	(100)
Staff Safety & Uniform	593,400	-	593,400	485,038	(108,362)	(18)
Lease Levy	1,200,000	-	1,200,000	1,200,000	-	-
Provision for Bad debts	1,440,000	-	1,440,000	546,647	(893,353)	(62)
Debts collection fee	480,000	-	480,000	-	(480,000)	(100)
Water Trust Fund	-	-	-	-	-	-
Regulatory Levy	381,960	-	381,960	368,327	(13,633)	(4)
Abstraction Fees	396,000	-	396,000	408,524	12,524	3
KEBS Levy	150,000	-	150,000	-	(150,000)	(100)
Bank Charges	180,000	-	180,000	69,631	(110,369)	(61)
Depreciation	-	-	-	1,902,745	1,902,745	-
Amortisation	-	-	-	1,000,000	1,000,000	-
TOTAL	50,206,740	-	50,206,740	48,426,902	(1,779,838)	(4)
SURPLUS /DEFICIT	2,989,260	-	2,989,260	1,135,758	1,853,502	62

NOTE

The Company did not do any adjustment in the original approved budget. The variances of income and expenses of more than 10 % have been explained below;

❖ **Grants (- 15%)**

The Nandi County government had not fully remitted the budgeted subsidy by the close of the year

❖ **Other Income (+ 32%)**

The Company was able to collect more than budgeted as it disconnected customers with arrears hence collected more fees and charges

❖ **Electricity (+ 13%)**

The Company stopped the rationing programme and increased water pumping hours to meet the high water demand

Kapsabet Nandi Water and Sanitation Company Ltd

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❖ **Fuel & Lubricants (- 14%)**

The management was able to stream line the fuel procedures at the transport section hence cutting the cost

❖ **Operations & Maintenance (- 29%)**

The management was able to streamline the section to encourage economic use of the O & M materials. The company also received some O & M materials from the Nandi County

❖ **Repairs & Maintenance (- 33%)**

The Company was unable to undertake some of the repairs & maintenance programs it had anticipate to do because of lack of funds e.g. repair of public facilities and internet networking

❖ **Staff Travelling, Lunch & Subsistence (+ 18%)**

This expense surpassed the budgeted amounts as during the year some government organisations like the National Treasury introduced a statutory requirement of submission of quarterly reports

❖ **DIT Levy (- 11%)**

Some staff retired during the year hence the savings

❖ **Training & Workshop (- 97%)**

The Company had few staff trainings and the Lake Victoria North Water Services Board assisted in the training also

❖ **BOD Allowances (- 28%)**

The Company held few committee meetings than anticipated

❖ **BOD Expenses (- 42%)**

Some of the BOD expenses like training and holding year party were not undertaken.

❖ **AGM (- 100%)**

The Company did not hold an AGM

❖ **Subscription Fees (- 46%)**

The Company did not subscribe to WASCA, a water company's sports association.

❖ **Printing & Stationery (- 45%)**

During the year, the Company procure stationary in bulk hence the savings. The Company also was able to use the SMS application in the new billing software hence reduced the hard copy water bills

❖ **Advertisement & Publicity (- 90%)**

The Company did not utilise the account as it got assistance from its partners like Post bank who assisted it in its publicity

❖ **Legal Fees (- 100%)**

The Company was not able to utilise the account due to procurement challenges of the law firms

❖ **Consultancy (- 70%)**

The Company did not undertake some consultancy services like surveys and preparation of policies as anticipated.

❖ **Security Services (- 25%)**

The Company engaged the police service, the APs as opposed to the commercial security firms.

❖ **CSR (- 100%)**

The Company had some CSR activities as mentioned in the CSR statement but did not directly incurred any costs on them.

❖ **Staff Uniform & Protective Equipment (- 18%)**

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The Company did the savings on the account that it negotiated downwards the budgeted prices with the suppliers.

❖ **Provision for bad debts (- 62%)**

The Company had anticipated the revenue section to collect arrears but it did achieve much

❖ **Debts Collection (-100%)**

The Company was not able to engage any debt collection firm due to procurement challenges of the firms.

❖ **KEBS Levy (- 100%)**

The Company was not able to engage the standards body during the year

❖ **Bank Charges (- 61%)**

The Company changed its bank accounts type from where banks charged fees as per the number of transactions to a fixed monthly fee

Overall, the Company was within the budget on income and expenditure

Kapsabet Nandi Water and Sanitation Company Ltd

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For the year ended June 30, 2017

NOTES TO THE FINANCIAL STATEMENTS

1. GENERAL INFORMATION

Kapsabet Nandi Water & Sanitation Company Ltd is established by and derives its authority and accountability from Company Act. The Company is wholly owned by the County Government of Nandi and is domiciled in Kenya. The entity's principal activity is water and sanitation provision.

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 judgment in the process of applying the Company's accounting policies. The areas involving a higher degree of judgment or complexity, or where assumptions and estimates are significant to the financial statements

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. ADOPTION OF NEW AND REVISED STANDARDS

i) Relevant new standards and amendments to published standards effective for the year ended 30 June 2017

The following are the amended standards used in the financial year:

- a) IAS 16 and IAS 38 on the clarification of acceptable methods of depreciation and amortisation
- b) Amendments to IFRS 5 on the annual improvements to IFRS 2012-14 cycle
- c) Amendments to IAS 1 on the disclosure initiative
- d) Amendments to IAS 7 on the disclosure initiative to statements of cash flow
- e) Annual improvements to IFRS standards 2014-16 cycle (IFRS 12) on the disclosure of interest in other entities

The above amendments did not have any impact in the preparation of the financial statements.

ii) New and amended standards and interpretations in issue but not yet effective in the year ended June 30 2017

The following standards are new but are not yet effective:

- a) IFRS 15 on revenue from contracts with customers
- b) IFRS 9 on financial instruments
- c) IFRS 16 on leases

The Directors do not plan to apply any of the above until they become effective. Based on their assessment of the potential impact of application of the above, they do not expect that there will be a significant impact on the company's financial statements.

iii) Early adoption of standards

The Company did not early – adopt any new or amended standards in financial year 2016/2017.

Kapsabet Nandi Water and Sanitation Company Ltd

Reports and Financial Statements

For the year ended June 30, 2017

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

a) Revenue Recognition

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

i) **Revenue from the sale of goods and services** is recognized in the year in which the Company delivers products to the customer, the customer has accepted the products and collectability of the related receivables is reasonably assured.

ii) **Grants from National Government and Nandi County Government** are recognized in the year in which the Company actually receives such grants.

Grants for acquisition of assets are measured at fair value less costs to sell are recognized in the income statement as the asset is depreciated or amortized but recurrent grants are recognized in the income statement

The assets from grants are recognized as donation in the financial position statement.

Any un used grant is recognized as **un expended grant** in the financial position statement as a liability

iii) **Other income** is recognized as it accrues.

b) 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-evaluation are credited to other comprehensive income. Decreases that offset previous increases in the carrying amount of the same asset are charged against the revaluation reserve account; all other decreases are charged to profit or loss in the income statement.

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

Included in the **PPE** are granted assets by Nandi County Government, Water Services Trust Fund and those acquired by the Company but exclude all assets leased and owned by Lake Victoria North Water Services Board.

The Company services, maintains and insures all the granted and leased assets.

c) Depreciation and Impairment of Property, Plant and Equipment

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

Depreciation on property, plant and equipment is recognized in the income statement on a reducing balance 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	5 %
Plant, pumps, machinery & meters	12,5 %
Computers and related equipment	30 %
Office equipment & loose tools	12.5 %
Furniture, fittings & fixtures	12.5%

Kapsabet Nandi Water and Sanitation Company Ltd

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For the year ended June 30, 2017

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

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

d) Intangible Assets

Intangible assets comprise purchased computer software licenses, 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.

During the year, the Company received billing software from the Nandi County Government

e) Amortization and Impairment of Intangible Assets

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

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

f) Related Party Disclosures

Related party disclosures are persons and entities that have control or joint control, significant influence, and members of the key management. It does not include providers of finance, trade unions, public utilities or agencies of government that do not control, jointly or significant influence in the Company.

The Company recognizes related party transactions when there is transfer of resources, services or obligations between related parties regardless of whether a price is charged.

The Company discloses the nature of relationship, information of transaction and balance for understanding of the potential effect of the relationship on the financial statements.

g) 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 recognized 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 recognized in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognized as an integral part of the total lease expense over the term of the lease.

The Company leases some office equipment e.g. computers, plant and tanks from Lake Victoria North Water Services Board at kshs 100,000 per month from July 1, 2016 and is recognized as lease levy in the income statement though there is no lease agreement with the Board as the Company is operating on an obsolete tariff which did not include the lease fee

h) Financial Instruments

These are contracts that give to a financial asset of one entity and a financial liability or equity instrument of the entity. The Company has no financial instrument

A financial asset is an asset that is in cash, an equity instrument of another entity, a contractual right or contract that will or may be settled in the entity own equity instrument.

The financial instruments are initially recognized at fair value on the statement of financial position when the entity becomes party to the contractual provisions of the instrument and measured initially at fair value but subsequently measured on the category into which the instrument is classified.

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i) 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.

j) Trade and other Receivables

Trade and other receivables are recognized at fair values less allowances for any uncollectible amounts. These are assessed for impairment on a continuing basis. The Company's receivables are water debtors and staff advances. The credit period for water debtors is 60 days and 12 months for advances. An estimate of 10 % 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.

k) 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.

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.

Deferred tax relating to items recognized outside surplus or deficit is recognized outside surplus or deficit. Deferred tax items are recognized in correlation to the underlying transaction in net assets.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

l) Cash and Cash Equivalents

Cash and cash equivalents comprise cash on hand and cash at bank, short-term deposits on call and highly liquid investments with an original maturity of three months or less, which are readily convertible to known amounts of cash and are subject to insignificant risk of changes in value. Bank account balances

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include amounts held at the Central Bank of Kenya and at various commercial banks at the end of the financial year. For the purposes of these financial statements, cash and cash equivalents also include short term cash imprests and advances to authorized public officers and/or institutions which were not surrendered or accounted for at the end of the financial year.

m) Trade and other Payables

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

Payments are made as per the aging analysis of the payables and if the Company has a reason of nonpayment, the creditor is informed in advance and none of the creditors has charged interest to the Company for late payment.

n) Retirement Benefit Obligations

The Company operates a defined contribution scheme for all full-time employees from July 1, 2012 with National Water Pipeline Corporation. The scheme is administered by AON on behalf of the pension scheme funded by contributions from both the Company and its employees at 15 % to 7.5 % of the basic salary.

The Company also contributes to the statutory National Social Security Fund (NSSF) for casual and contract staff. This is a defined contribution scheme registered under the National Social Security Act. The Company's obligation under the scheme is limited to specific contributions legislated from time to time and is currently at 6 % per employee per month.

o) Provision for Staff Leave Pay

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

A provision is made for the estimated liability for annual leave at the reporting date.

p) Budget Information

The original budget for FY 2016-2017 was approved by Board of Directors and there were no additional appropriations made to the approved budget.

The Company's budget is prepared on a different basis to the actual income and expenditure disclosed in the financial statements. The financial statements are prepared on accrual basis using a classification based on the nature of expenses in the statement of financial performance, whereas the budget is prepared on a cash basis. The amounts in the financial statements were recast from the accrual basis to the cash basis and reclassified by presentation to be on the same basis as the approved budget.

A comparison of budget and actual amounts, prepared on a comparable basis to the approved budget, is then presented in the statement of comparison of budget and actual amounts.

In addition to the Basis difference, adjustments to amounts in the financial statements are also made for differences in the formats and classification schemes adopted for the presentation of the financial statements and the approved budget.

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

q) Comparative Figures

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

r) Significant Judgement and Sources of Estimation Uncertainty

The preparation of the Company's financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and

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liabilities, and the disclosure of contingent liabilities, at the end of the reporting period. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods.

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

Estimates and assumptions

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

Useful lives and residual values

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

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

Provisions

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

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

The management provided 10 % for bad and doubtful debts

s) Contingent Liabilities and Assets

A current liability is a possible obligation depending on whether some uncertain future event occurs or a present obligation but payment is not probable or the amount cannot be measured.

The Company recognizes current liabilities if they are present obligations assumed in a business combination. They are disclosed in the notes to the financial statements unless the likelihood of an outflow of resources is remote.

As at the financial period, the Company had no pending law suits which relate to legal claims by the employees or other parties.

A current asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non occurrence of one or more uncertain future events not wholly within the control of the entity. Contingent assets are not recognized in the financial position statement.

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	2017 kshs	2016 Restated	2016 kshs
5 Water Sales			
Kapsabet	27,415,911	23,197,604	24,342,754
Nandi hills	6,349,884	5,378,519	5,608,219
Total	33,765,795	28,576,123	29,950,973
6.1 Grants			
Nandi County Government	12,729,991	10,934,607	10,934,607
Water Services Trust Fund	-	-	95,752
JICA	-	106,035	106,035
Total	12,729,991	11,040,642	11,136,394
6.2 Other Income			
Meter Rent	1,639,700	1,374,850	1,374,850
Fees and Charges	978,975	448,450	448,450
Water Boozer	448,200	179,500	179,500
Decrease in provision for bad debts	-	53,731	-
Sub Total	3,066,875	2,056,531	2,002,800
Deferred income			
Nandi County Government	-	-	528,125
Water Services Trust Fund	-	-	537,986
Sub Total	-	-	1,066,111
Total	3,066,875	2,056,531	3,068,911
7 Operation Costs			
Electricity	16,313,266	12,035,816	12,035,816
Chemicals	2,507,871	2,018,606	2,018,606
Operation & Maintenance	979,179	1,070,260	1,078,600
Total	19,800,316	15,124,682	15,133,022
8 Staff Costs			
Salaries and Wages	12,382,017	8,982,997	8,945,895
Employers' Statutory Contribution	989,528	757,111	661,953
Leave Pay	-	213,357	213,357
Total	13,371,545	9,953,465	9,821,205
9 Administration Costs			
Fuel & Lubricants	819,260	928,234	928,359
Repairs and Maintenance	1,666,141	723,481	723,481
Travelling, Lunches & Subsistence	2,301,860	1,487,408	1,487,408
Staff Training & Workshops	35,000	81,000	81,000
Directors Allowances	431,504	482,696	482,696
Directors' Expenses	449,580	212,455	212,455
Printing & Stationery	477,647	446,615	446,615
Communication Services	847,810	374,658	374,658

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Advertisement and Publicity	24,400	213,155	213,155
Welfare & Hospitality	691,703	-	-
Uniform and Protective equipment	485,038	-	-
Subscription fee	55,000	-	-
Consultancy fee	45,000	-	-
Annual License renewal fee	146,160	-	-
Audit Fees	296,000	296,000	232,000
Security	718,820	1,357,200	1,357,200
Insurance	268,244	47,190	47,190
Lease Levy-Lake Victoria North Water Board	1,200,000	100,000	100,000
Provision for Bad & Doubtful Debts	546,647	-	1,705,977
Water Services Trust Fund	-	-	95,752
Regulatory Levy-WASREB	368,327	319,538	319,538
Abstraction Fees-WRMA	408,524	399,436	399,436
Bank Charges	69,631	86,225	86,225
Total	12,352,296	7,555,291	9,293,145

10 Property, Plant & Equipment (Restated)

ASSET	W.I.P	PLANT & METERS	BUILDINGS	FURNITURE FIXTURES	COMPUTERS & PRINTERS	OFFICE EQUIPMENT	TOTAL
Cost or Valuation							
As at July 1, 2015	-	-	11,922,126	9,159	15,126	17,436	11,963,847
Additions	95,752	4,225,000	-	178,500	200,000	115,150	4,814,402
As at June 30, 2016	95,752	4,225,000	11,922,126	187,659	215,126	132,586	16,778,249
As at July 1, 2016	95,752	4,225,000	11,922,126	187,659	215,126	132,586	16,778,249
Additions	-	711,480	5,075,656	1,038,035	1,120,880	297,104	8,243,155
Transfer	(95,752)		95,752				
As at June 30, 2017	-	4,936,480	17,093,534	1,225,694	1,336,006	429,690	25,021,404
Depreciation							
As at July 1, 2015	-	-	1,162,407	1,145	4,538	2,180	1,170,270
Charge for the year		528,125	537,986	23,314	63,176	16,301	1,168,902
As at June 30, 2016		528,125	1,700,393	24,459	67,714	18,481	2,339,172
As at July 1, 2016		528,125	1,700,393	24,459	67,714	18,481	2,339,172
Charge for the year		551,044	789,657	150,154	380,488	51,401	1,902,745
As at June 30, 2017		1,079,169	2,470,050	174,613	448,202	69,882	4,241,917
Net Book Value							
June 30, 2017		3,857,311	14,623,484	1,051,081	887,804	359,808	20,779,487
June 30, 2016	95,752	3,696,875	10,221,733	163,200	147,412	114,105	14,439,077

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11	Intangible Assets	2017	2016	2016
	Cost	kshs	Restated	kshs
	As at July 1,2016	-		
	Additions	3,000,000	-	-
	As at June 30, 2017	3,000,000	-	-
	Amortisation			
	As at July 1,2016	-	-	-
	Charge for the year	1,000,000	-	-
	As at June 30, 2017	1,000,000	-	-
	Net Book Value			
	As at June 30, 2017	2,000,000	-	-
	As at June 30, 2016	-	-	-
12	Taxation			
	Profit /Loss for the year	1,135,758	7,870,956	8,740,004
	Add-Non allowable expenses			
	Grants	-	106,035	201,787
	Depreciation/Amortisation	2,902,745	1,168,902	1,168,902
	Provision for Bad & Doubtful debts	546,647	-	1,705,977
		3,449,392	1,274,937	3,076,666
	Sub Total	4,585,150	9,145,893	11,816,670
	Less: Non taxable income			
	Nandi County Grants	12,729,991	10,934,607	10,934,607
	WSTF Grants	-	-	95,752
	JICA Grants	-	106,035	106,035
	Deferred Income	-	-	1,066,111
	Wear and Tear allowance	2,902,745	1,168,902	1,168,902
	Sub Total	15,632,735	12,209,544	13,371,407
	Taxable income	(11,047,585)	(3,063,651)	(1,554,737)
13	Prepayment (Payables)			
	KPLC	33,284	1,276,744	1,276,744
	Total	33,284	1,276,744	1,276,744
14	Inventories			
	Stationery	17,485	13,800	13,800
	O & M	73,945	51,850	51,850
	Chemicals	250,800	131,700	131,700
	Total	342,230	197,350	197,350
15	Trade and other Receivables			
	Water Debtors	22,526,237	17,274,667	17,059,765
	Less provision of bad debts	2,252,624	-	1,705,977
	Staff Debtors	94,085	157,730	157,730
	Total	20,367,698	17,432,397	15,511,518

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Water debtors Aging analysis								
Less than 30 days				2,582,046	2,933,753	2,933,753		
31 - 60 days				2,044,795	1,529,508	1,529,508		
61 - 90 days				8,356,431	1,497,282	1,497,282		
91 - 120 days				6,598,905	11,099,222	11,099,222		
Over 120 days				2,944,060	214,902	-		
Total				22,526,237	17,274,667	17,059,765		
16	Cash and Cash Equivalents							
Cash at hand				7,500	-	-		
Cash at Bank								
ACCOUNT NO								
A/C NAME								
BANK								
1131111826				Revenue	KCB	111,800	56,412	56,412
1166504891				Expenditure	KCB	20,658	243,406	243,406
1166504514				Deposit	KCB	80,410	107,420	107,420
1177900262				Boozer	KCB	6,144	52,405	52,405
01148328943100				UPC	COOP	548,291	1,941,180	1,941,180
Pay point				Revenue	POST BANK	225,371	70,255	70,255
Sub Total						992,674	2,471,078	2,471,078
Cash at MPESA								
PAY BILL NO								
990720				Revenue	SAFARICOM	393,465	123,280	123,280
339885				Boozer	SAFARICOM	30,000	-	-
Sub Total						423,465	123,280	123,280
Balance at the end of the year						1,423,639	2,594,358	2,594,358
17	Share Capital							
Authorized share capital:								
5,000 ordinary shares at kshs 20@						100,000	100,000	100,000
Issued and paid up shares capital:								
5,000 ordinary shares at kshs 20@						100,000	100,000	100,000
18	Retained Earnings							
Balance as at start July 1						6,848,331	(1,022,625)	139,782
Profit for the period						1,135,758	7,870,956	8,740,004
Balance as at June 30,						7,984,089	6,848,331	8,879,786
19	Capital Grants							
Water Services Trust Fund (cash)								
Bal B/F				Public Sanitation Facilities		11,922,126	11,922,126	-
Additions				Public Sanitation Facility		4,422,038	-	-
Bal C/F						16,344,164	11,922,126	-
Nandi County Government								
Bal B/F				Meters		4,225,000	-	-

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	Smart Phones/Meters	150,000	4,225,000	-
Additions	Billing software	3,000,000	-	-
Bal C/F		7,375,000	4,225,000	-
Total		23,719,164	16,147,126	-
20 Water Deposits				
Bal B/F		3,759,800	3,357,600	3,357,600
Additions		420,000	405,000	405,000
Less Refunds		(3,000)	(2,800)	(2,800)
Bal C/F		4,176,800	3,759,800	3,759,800
21 Deferred Income				
Water Services Trust Fund				
Bal B/F		-	-	10,759,719
Additions		-	-	-
Total		-	-	10,759,719
Less Depreciation for the year		-	-	537,986
Bal C/F		-	-	10,221,733
Nandi Government Grants				
Bal B/F		-	-	-
1,000 NO 3/4 inch meters		-	-	4,000,000
45 NO 1 inch meters		-	-	225,000
Total		-	-	4,225,000
Less Depreciation for the year		-	-	528,125
Bal C/F		-	-	3,696,875
Total		-	-	13,918,608
22 Prepayment (Trade & other Receivables)		150,614	122,334	122,334
23 Trade and other Payables				
Trade Payables		6,565,959	3,130,167	3,138,632
KENAO		1,288,000	992,000	928,000
Staff Payables		415,383	1,193,011	1,134,955
Total		8,269,342	5,315,178	5,201,587
24 Unexpended grant				
A/C 01148328943100 Water Services Trust Fund		546,330	1,941,180	1,941,180
25 Provision for Bad & Doubtful debts				
Water debtors		22,526,237	17,274,667	17,059,765
Provision (10%)		2,252,624	-	1,705,977
Balance C/F		2,252,624	1,705,977	1,134,955
Balance B/F		1,705,977	1,759,708	1,705,977
Increase /Decrease of provision		546,647	(53,731)	1,705,977

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26 Adjusted Errors Disclosure

The company made adjustments to the prior year balances which have been explained as follows:

(i) Fuel & lubricants

Fuel & Lubricant for the year 2015/16 were overstated by kshs 125 and the effect to the statements is as follows;

CR Expense (Fuel & Lubricant)	125
DR Payables (Hass Petroleum Ltd)	125

(ii) Salaries

Salaries for the year 2015/16 were understated by kshs 37,102 and the effect to the statements is as follows;

DR Expense (Salaries)	37,102
CR Payables (Staff dues)	37,102

(iii) Pension

Pension for the year 2015/16 was understated by kshs 100,494 and the effect to the statements is as follows;

DR in Expense (Employers' Contribution)	100,494
CR Payables (Staff dues)	100,494

(iv) NSSF

NSSF for the year 2015/16 was overstated by kshs 5,336 and the effect to the statements is as follows;

CR Expense (Employers' Contribution)	5,336
DR Payables (Staff dues)	5,336

(V) Capital grants

Capital grants for the year 2015/16 was understated by kshs 16,147,426 and the effect to the statements is as follows;

DR Deferred income	13,918,605
DR Deferred income	<u>2,228,821</u>
CR Capital grants	16,147,426

(vi) Water Trust Funds

The grants for the year 2015/16 amounting to kshs 95,752 were reflected as recurrent expenses instead of capital expense the statement is as follows;

CR Water Trust Fund expense	95,752
DR Work in progress	95,752

(vii) Trade & other receivables

Water debtors for the year 2015/16 amounting to kshs 214,902 was omitted in the schedule

(vii) Water sales

Meter rent for the year 2015/16 amounting to kshs 1,374,850 was also included in the water sales. Water sales for the same year have been reduced by the same amount.

(viii) Audit Fees

Audit fees for the year 2015/16 was understated by ksh 64,000 and the effect in the financial statement is as follows

DR Audit fees	64,000
CR Payables (KENAO)	64,000

(ix) Operations & Maintenance

Operations and maintenance expenses for the year 2015/16 was overstated by ksh 8,340 and the effect in the financial statement is as follows

CR (O & M)	8,340
DR Payables (LINRO)	8,340

27 Related Parties Disclosure

The related parties to the Company include:

- i) County Government of Nandi

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ii) Water Trust Fund		
iii) Key management;		
iv) Board of directors;		
a) County Government of Nandi	2017	2016
	kshs	kshs
(i) Recurrent expenses		
Electricity	11,711,631	10,934,607
Assorted pipes	1,018,360	-
Sub Total	12,729,991	10,934,607
(ii) Development		
Billing software (WBS 16)	3,000,000	-
Smart Phones (10 NO)	150,000	-
Sub Total	3,150,000	-
Total	15,879,991	-
b) Water Trust Fund		
Development	4,271,888	95,752
Total	4,753,477	95,752
c) Directors & Key management compensation		
Directors' allowances	431,504	482,696
Compensation to key management	3,020,045	2,590,791
Total	3,451,549	3,073,487

28 Capital Commitments

There were no capital commitments or work in progress at the close of the year

29 Financial Risk Management

The Company's activities expose it to a variety of financial risks including credit and liquidity risks and effects of changes in foreign currency.

The Company's overall risk management programme focuses on unpredictability of changes in the business environment and seeks to minimise the potential adverse effect of such risks on its performance by setting acceptable levels of risk.

The Company does not hedge any risks and has in place policies to ensure that credit is only extended to customers with an established credit history.

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

(i) Credit risk

The Company has exposure to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when due. Credit risk arises from cash and cash equivalents, and deposits with banks, as well as trade and other receivables and available-for-sale financial investments. Management assesses the credit quality of each customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external assessment in accordance with limits set by the directors.

The amounts presented in the statement of financial position are net of allowances for doubtful receivables, estimated by the Company's management based on prior experience and their assessment of the current economic environment.

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

Account	Total amount Kshs	Fully performing Kshs	Past due Kshs	Impaired Kshs
At 30 June 2017				
Receivables from exchange transactions	22,526,237	19,582,177	2,944,060	-
Bank balances	1,423,639	1,423,639	-	-
Total	23,949,876	21,005,816	2,944,060	-
At 30 June 2016				
Receivables from exchange transactions	17,274,667	6,175,445	11,099,222	-
Bank balances	2,594,358	2,594,358	-	-
Total	19,869,025	8,769,803	11,099,222	-

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

The Company has significant concentration of credit risk on amounts due from the past due category

The Board of Directors sets the Company's credit policies and objectives and lays down parameters within which the various aspects of credit risk management are operated.

ii) Liquidity risk management

Ultimate responsibility for liquidity risk management rests with the Company's directors, who have built an appropriate liquidity risk management framework for the management of the Company's short, medium and long-term funding and liquidity management requirements.

The Company manages liquidity risk through continuous monitoring of forecasts and actual cash flows.

The table below represents cash flows payable by the Company under non-derivative financial liabilities by their remaining contractual maturities at the reporting date.

The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances, as the impact of discounting is not significant.

	Less than 3 months	Between 3-12 months	Over 1 yr	Total
	Kshs	Kshs	Kshs	Kshs
At 30 June 2017				
Trade payables	4,347,561	1,415,215	2,506,565	8,269,342
Provisions	546,647	-	-	546,647
Deferred income	-	-	-	-
Total	4,894,208	1,415,215	2,506,565	8,815,989
At 30 June 2016				
Trade payables	1,578,675	516,942	3,219,561	5,315,178
Provisions	-	-	-	-
Deferred income	-	-	-	-
Total	1,578,675	516,942	3,219,561	5,315,178

(iii) Market risk

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

Market risk is the risk arising from changes in market prices, such as interest rate, equity prices and foreign exchange rates which will affect the Company's income or the value of its holding of financial instruments.

The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return. Overall responsibility for managing market risk rests with the Audit and Risk Management Committee.

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

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

a) Foreign currency risk

The Company has no foreign risk as it does not deal with foreign currency.

b) Interest rate risk

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

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

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Sensitivity analysis

The Company analyses its interest rate exposure on a dynamic basis by conducting a sensitivity analysis. This involves determining the impact on profit or loss of defined rate shifts. The sensitivity analysis for interest rate risk assumes that all other variables, in particular foreign exchange rates, remain constant. The analysis has been performed on the same basis as the prior year.

The Company did not keep any deposits that could earn interest but maintained current account only

iv) Capital Risk Management

The objective of the Company's capital risk management is to safeguard the Board's ability to continue as a going concern. The Company monitors capital using the gearing ratio calculated as net debt divided by total capital.

Net debt is the total of interest bearing loans and borrowings, trade and other payables less cash and cash equivalents.

The Company capital structure comprises of the following funds:

Account	FY 2016-2017	FY 2015-2016
	kshs	Kshs
Revaluation reserve	-	-
Retained earnings	7,984,089	6,848,331
Capital reserve	23,719,164	16,147,126
Share Capital	100,000	100,000
Total funds	31,803,253	23,095,457
Total borrowings	-	-
Trade payables	8,269,342	5,315,178
Less: Cash and Bank balances	(1,423,639)	(2,594,358)
Net debt/(excess cash and cash equivalents)	6,845,703	2,789,366
Gearing	22 %	12%

30 Auditors' Report and Responses

The Company books of accounts for the FY 2015/16 were submitted for audit and the Office of the Auditor General made a qualified opinion on the financial statements.

The individual Queries and the respective reasons, for the same, are listed and responded as follows;

1.0 Non-Revenue Water

Records availed for audit review indicate that the company produced a total of 871,619 cubic meters of water during the year under review out of which 523,686 m³ was billed to customers for Ksh 29,950,973. The balance of 347,933 cubic meters or approximately 40% of the total volume represent non- revenue water which was 15% over and above the allowable loss of 217,904 M³ or 25% of total production prescribed in the guidelines issued by the Water Services Regulatory Board. The significant level of non-revenue water at 347,923 m³ billed at Ksh 57.20 per cubic meter resulted in a loss of sales estimated at Ksh 19,901,196 which had a negative impact on the company's profitability and erode sustainability of its operations

Response:

Non revenue water refers to the difference of volume of water pumped into the company pipeline network system and the water billed to consumers.

The difference of the volume of distributed water and the volume of billed water gives the non-revenue Water. These loses can be divided into two;

- Commercial loses
- Technical/Physical loses

1. Commercial Loses

These include water that is consumed but not paid for by the consumer. They are classified into:

a) Unauthorised water consumption

- Illegal connections-** An illegal connection is a water system connected to the Company water supply network that has not been duly authorized and connected by the Company.
- Self-Reconnections-** A self-reconnection is where a registered consumer has reconnected himself/herself after having been disconnected for non-payment of water bill(s).
- By-passes-** A by-pass refers to an illegal extraction of the water along the pipeline before it passes through the meter of an individual consumer and hence the water is not accounted for.

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The Company has since formed an inspection team to curb on illegal connections and self-reconnections by randomly inspecting consumers' connections, including the disconnected accounts, across all the supply zones and taking the necessary action.

The company has put in place punitive measures which include fees and charges on any consumers found to have committed the above offences

In addition to this, the meter readers in charge of the respective routes have been tasked to survey and report to the Customer Care Section of the Company all malpractices along the pipelines for purposes of record and the necessary action.

The Company has, also, initiated a bill that would be tabled in the County Assembly after approval by the County Executive Committee members; meant to have provisions for penalties and options for litigation on the above malpractices among the customers

b) Meter Inaccuracies

- i) **Stuck meters**-These are meters which fail to measure the quantity of water that passes through them.
- ii) **Faulty meters**- These are meters which fail to accurately measure the quantity of water that passes through them.
- iii) **Meter tampering**- This is the deliberate interference of the meter by the consumer(s) so as not to accurately measure the quantity of water passing through it.
- iv) **Old meters**- These are meters which have outlived their useful life of 8 years hence they become ineffective.

The company has an Operation & Maintenance Section which does regular servicing of the stuck meters.

The Company has an Inspection team which does regular checks on the meters to ensure that the meters are not tampered with.

In addition, the company has budgeted for the purchase of new meters to replace the faulty and old meters.

c) Meter reading errors

These are errors that result from inaccurate reading of consumer meters by the field officers.

The company has acquired smart phones which relay readings from the consumer's meter site directly to the billing software thus minimising on these errors.

Further, the meter readers are required, as a routine, to check on the variance sheet for any discrepancies on readings and correct them appropriately before the final production and distribution of bills.

d) Flat Rate/ Unmetered Connections & Average Assessment consumers

These are consumers who are billed on a flat rate and/or average assessment amount. This, in some situations, result in under billing of these consumers vis-à-vis the amount of water consumed. In some instances, further, the company noted that some consumers who were on flat rate in the peri-urban areas had been irrigating their farms and hence a lot of water is used as compared to the flat rate amount billed.

e) Errors from Billing

During the year under review, data handling process was lengthy i.e. readings were captured in the meter reading sheet then transferred to the system manually and as a result errors would be made during the transfer of the readings to the billing software called Flex Pack.

2. Technical Losses

i) **Bursts and leakages**-These are physical water losses (through surface and/or underground leakages) in distribution pipes, service pipes and/or water reservoirs particularly due to high water pressure and external damages to pipes. In addition, there are other water losses that arise from the challenges in the planning of urban and peri-urban infrastructural developments such as grading and traction causing damage to pipes.

ii) **Poor quality pipes**- Some of the consumers have installed low quality pipes which can be easily damaged by water pressure and other external factors.

The Company has addressed the issue by forming an Operation and Maintenance team and facilitating them for quick response to burst and leakages, and an emergency contact line has been given to customers to report any cases of bursts and leakages along the pipelines.

The Company is rehabilitating old lines when the need arises and the repair and maintenance materials are now readily available in stores. The Company is also in contact to the Department of Lands, Environment and Natural Resources and particularly the Survey Section towards addressing the concerns relating to the Physical Planning challenges such as survey and infrastructural developments to ensure provision of way-leaves to minimise on interference of pipelines.

The Company also emphasizes and recommends its customers to purchase and install quality pipes of Class E.

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2.0 Property, Plant and Equipment

The statement of financial position as at 30 June 2016 reflects property, plant and equipment balance of Ksh. 14,343,325 which includes an amount of Ksh. 10,221,733 relating to buildings. As reported in the previous year, according to the funding agreement, the completed projects developed by the company were supposed to be transferred to Lake Victoria North Water Services Board which is mandated to manage the assets. However, no reason has been given for failure to transfer the assets to the Board. Also the value of the land on which the building stand in Kapsabet and Nandi Hills towns whose ownership documents such as title deeds, leases or allotment were not availed for audit verification has not been included in the property plant and equipment figures.

Further, the property plant and equipment balance of Ksh 14,343,325 excludes other assets such of furniture, office equipment, water generation plant, computers and buildings held by the company whose values could not be ascertained at the time of audit. Information available indicates that all the assets held by the company were leased from the Lake Victoria Water Services Board. However, agreement on the leased assets was not availed for audit verification. Under the circumstances, the nature of the leases was not confirmed and leases were not accounted in line with paragraph 20 of the international accounting standard (IAS) 17 which stipulates that at the commencement of the lease term, the lessor and the lessee respectively shall, recognize the finance as an asset, and a liability in the statement of financial position. Consequently, the validity and completeness of the property plant and equipment balance of Ksh 14,343,325 as at 30 June 2016 cannot be confirmed.

Response:

The statement of financial position in the FY 2015/2016 reflect Property, Plant and Equipment including Kshs 10,221,733 developed by Water Services Trust Fund (WSTF) under Urban Projects Concept (UPC) because the funds were directly channelled to the Company and the agreement was that on completion of the buildings, the ownership was to go to the Company and not Lake Victoria North Water Services Board.

The assets leased from the Lake Victoria North Water Services Board like the office equipment, water generation plant, computers, buildings and tanks were excluded in the PPE because they are in Board's books of account.

The Company is following up on the lease agreement with the Board.

The assets like office equipment, furniture and computers bought by the company have been reflected in Property, Plant and Equipment.

The Company has developed four asset registers for Company, WSTF, County Government of Nandi and Lake Victoria North Water Services Board.

The Company is in the process of acquiring the ownership documents of the land it owns and has written to the Nandi County Director of Physical Planning to start the process. The Company has also allocated the funds in the budget for FY 2017-18 that shall be used to facilitate the exercise.

The Company is also in touch with Lake Victoria North Water Services Board with the aim of valuation and transferring the assets to the Company.

3.0 Trade and Other Receivables

3.1 Trade and Other Receivables

The statement of financial position as at 30 June 2016 reflects trade and other receivables balances of Ksh 17,217,495 which is at variance with the figure of Ksh 15,511,519 as disclosed in Note 11 to the financial statement resulting to a variance of Ksh 1,705,976 which has not been explained. Further, gross water debtors balance of Ksh 17,059,765 as disclosed at Note 11 to the financial statement also differs with supporting documents figure of Ksh 16,747,219 resulting in a variance of Ksh 312,546 which has similarly not been explained. Under the circumstance, the validity and accuracy of the trade and other receivables balance of Ksh 17,217,495 as at 30 June 2016 cannot be confirmed

Response:

The difference of Kshs 1,709,976 between the figures in the financial position in note 11 is the figure of the provision of bad and doubtful debts but the sum of the water and staff debtors is Kshs 17,217,495.

The Company provided the auditors with supporting water debtors' schedule of Kshs 17,059,765.

3.2 Long Outstanding Trade and Other Receivables

The trade and other receivables figure of Ksh 17,059,765 reflected in Note 11 to the financial statement include an amount of Ksh 13,968,282 which has been outstanding for over 60 days contrary to section 6.3 of the Water Services Board financial systems manual of December 2005 which stipulate that the Water Services Board may

allow up to 45 days moratorium before payment of monthly fees, levies, commission or any other amount due on contractual obligation. The manual further prescribe that outstanding debts shall be allowed up through

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phone calls and subsequently in writing to notify the debtor to honour the debt. However, the management has not explained the measures they have put in place to ensure that the long outstanding debts are recovered.

Response:

Though the Company has a huge outstanding amounts in water debts, it is pertinent to note that they date back to as early as 2002 when the entity was managed directly by the Ministry of Water to provide clean water to the people of Kapsabet and Nandi Hills towns. As such, all the costs of production and other operations were, then, catered for by the Ministry of Water and hence they were reluctant in collecting the revenue.

Further to this, some of the debtors have relocated, are deceased or no longer receive water due to dry lines. The Company has a challenge in dealing with consumers in rural areas since most of them perceive the water supply as a free government service and hence are not willing to pay their water debts. Furthermore, the rural customers have alternative sources of water such as streams and wells, and thus they easily opt to use water from these sources upon disconnection from the Company pipeline without clearing their debts.

In addition to the above, Government institutions often delay in payment of their water bills leading to accruing of their arrears to considerably huge amounts at the close of the financial year.

However, the management has formed a revenue collection unit to collect the amounts and where necessary give the status of some of debtors with the aim of writing off some of the debts, where applicable. The Revenue Collection Unit holds its meetings on weekly basis to strategize on the collection of the current bills and outstanding arrears against the set targets for each route. The Management is, also, preparing a list of debts that have been justified as uncollectable for the attention and action by the Company Board of Directors.

The Company has, also, initiated a bill that would be tabled in the County Assembly after approval by the County Executive Committee members; meant to have provisions for penalties and options for litigation on consumers with outstanding arrears.

In the Budget for FY 2017/18, the Company has allocated funds for legal services to be sought in the process of pursuing the water debtors with long outstanding debts.

4.0 Current Liabilities

4.1 Prepayments

Included in the total current liabilities figure of Ksh 9,944,274 reflected in the statement of financial position as at 30 June 2016 are prepayment totalling to Ksh 122,334 whose supporting documents were not availed for audit verification. Consequently, the validity, accuracy and completeness of prepayment figures of Ksh 122,334 cannot be confirmed.

Response:

The Company provided the auditors with documents supporting the water debtors' prepayment schedule.

4.2 Long Outstanding Trade and Other Payables

The statement of financial position reflects trade and other payables figure of Ksh 5,201,587 out of which an amount of Ksh 3,219,584 has been outstanding for over 120 days. No explanation has been provided for failure to pay the long outstanding debts. Under the circumstance, the company is at risk of paying interest on the outstanding amounts.

Response:

The Company did not pay its creditors because the major water consumers like the Government institutions did not pay their water bills on time. In addition, the Company has managed to off-set its debts including Water Resources Management Authority (WRMA), Donmerkh Engineering Co. Ltd, Samo Security and the Pan Africa Chemicals Ltd

Further to this, the County Government of Nandi did not fully pay the subsidy for payment of electricity to the Company and this caused the Company to incur additional expenses on payment of electricity which was not budgeted for in the FY 2015/16. As such, this money could have been used to pay the creditors.

Conclusion

The Company will strive to execute the Auditors' recommendations

31 Events after the Reporting Period

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