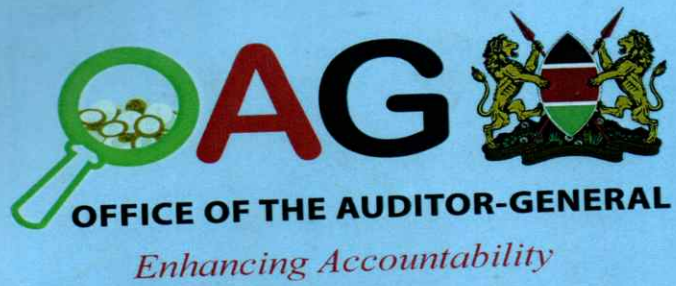


REPUBLIC OF KENYA



REPORT

OF

THE AUDITOR-GENERAL

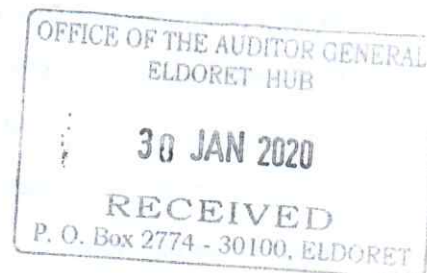
ON

**KAPSABET - NANDI WATER AND
SANITATION COMPANY LIMITED**

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



Maji safi Kwa Wote



Kapsabet Nandi Water and Sanitation Company Ltd
Annual Reports and Financial Statements

For the Financial Year Ended June 30, 2019

**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, 2019

KEY COMPANY INFORMATION

Background information

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

Board of Directors

The Directors who served during the year were as follows:

NO	NAME	TITLE	APPOINTMENT DATE	REPRESENTATION
1	Mark Maritim	Chairman	1.5.2018	Resident Organization
2.	Anthony Kiboiy	Board Secretary		Managing Director
3.	CPA Sally Rono	Board Member	1.5.2018	Professional Rep.
4.	Solomon Mang'ira	Board Member	1.5.2018	Nandi County Govt.
5.	CPA David Kirui	Board Member	1.5.2018	Business Community
6.	Helen Soimo	Board Member	1.5.2018	Resident Organization
7.	Grace Maru	Board Member	1.5.2018	Gender Rep.
8.	Geoffrey Koros	Board Member	1.5.2018	Professional Rep.

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: kanawasco.go.ke
Mobile NO: 0716 006464

Kapsabet Nandi Water and Sanitation Company Ltd

Reports and Financial Statements

For the year ended June 30, 2019

Corporate Bankers

Kenya Commercial Bank-Kapsabet Branch

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

Reports and Financial Statements

For the year ended June 30, 2019

THE BOARD OF DIRECTORS

DIRECTOR'S NAME	QUALIFICATIONS & WORK EXPERIENCE
 <p>MARK JOSEPH MARITIM D. O. B-1959</p>	<p>He holds a MSC in Disaster Management & Humanitarian Assistance from Masinde Muliro University and BED (Science) from Moi University</p> <p>He has been the Chairman of the Constituency Development Fund-Chesumei Constituency</p> <p>He has been a teacher and a principal of high school. He has also worked as a Lecturer in a Technical Training Institute</p> <p>He is a Lecturer at Masinde Muliro University</p> <p>He is the Chair of the Board</p>
 <p>ANTHONY KIBOIY D. O. B-1968</p>	<p>He holds a BA from the University of Nairobi and a Diploma in Human Resource from Moi University</p> <p>He has done the Senior Management course at the School of Government</p> <p>He worked as Town clerk in Kapsabet ,Nandi hills and Kipkelion Towns in the former Local Authority</p> <p>He is the Managing Director and the Secretary to the Board</p>
 <p>SOLOMON MANG'IRA D. O. B-1964</p>	<p>He holds a Masters of Philosophy in Environmental Law from Moi University</p> <p>He has a Bachelor of Law (LLB) from Dr Ambedkar University (India)</p> <p>He has a Post Graduate Diploma in Education from Moi University where he has also worked as a Senior Administrative Assistant and a Lecturer</p> <p>He is the Chief officer ,Lands ,Environment and Natural Resources</p> <p>He is a member of Finance, HR & ICT and Technical Committees</p>
 <p>CPA SALLY JEPKORIR RONO D. O. B-1975</p>	<p>She holds an MBA in Business Administration –Finance Option from Catholic University of East Africa (CUEA), a BBM-Accounting Option from Moi University and a Diploma in Business Management from Kenya Institute of Management (K.I.M). She has a Certificate in Human Resource from the University of Nairobi</p> <p>She has worked in Post Bank as Internal Auditor and Branch Manager</p> <p>Currently works as a Senior Internal Auditor at the Office of the Controller of Budget</p> <p>She is a member of ICPAK and Association of Women Accountants (K)</p> <p>She is the Chair of Finance ,HR and ICT Committee</p>

Kapsabet Nandi Water and Sanitation Company Ltd

Reports and Financial Statements

For the year ended June 30, 2019



GEOFFREY KIPROTICH KOROS
D. O. B-1977

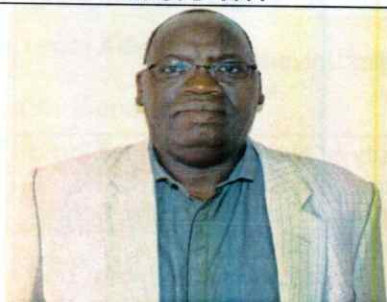
He holds a BA in Land Economics (Hons) from the University of Nairobi and a Post graduate Diploma from Institution of Surveyors (K)-I.S.K

He has worked with Regent Management Ltd as a Property Officer and Assistant Valuer

He is currently a Director of Legend Valuers Ltd

He is a full member of Institution of Surveyors of Kenya - I.S.K(VEMS Chapter)

He is the Chair of the Technical Committee and a member of the Finance ,HR & ICT



CPA DAVID KIMISIK KIRUI
D. O. B-1962

He holds an MBA in Business Administration(Finance) and a B.COM in Accounting from Sutherland University (USA)

He has been a Board of Management of several schools

He is the Chair of Audit Committee of Sireet Empowerment Company

He is a member of the Institute of Internal Auditors

He currently works for Eastern Produce Kenya, a multinational tea Company as the Finance and Administration Manager

He is the Chair for Audit & Risk Management



HELLEN SOIMO
D. O. B-1973

She holds a BA in Government & Kiswahili from the University of Nairobi and a Certificate in Human Resource Management from the University of Nairobi

She worked at NHIF as a Senior Benefits Officer

She is currently the National Coordinator of Joyful Women Organization (JOYWO) ,a women's empowerment Organization

She is a member of Audit and Technical Committees



GRACE MARU
D. O. B-1971

Holds a masters in Human Resource Development from Moi University and a BA in Human Resource from Agra University of India

She has a Diploma in Human Resource Management from Moi University

She has worked as a Human Resource and Administration Manger at Eldoret Water and Sanitation Company and Moi University as a Senior Administrator

She a member of the Human Resource Management Institute

Currently works as a County Elections Manager at I.E.B.C





She is a member of the Finance, HR & ICT Committee

Kapsabet Nandi Water and Sanitation Company Ltd

Reports and Financial Statements

For the year ended June 30, 2019

MANAGEMENT TEAM

NAME & TITLE	QUALIFICATIONS, EXPERIENCE & RESPONSIBILITIES
 <p>ANTHONY KIBOIY</p>	<p>He holds a BA from the University of Nairobi and a Diploma in Human Resource from Moi University He has done the Senior Management course at the School of Government He worked as Town clerk in Kapsabet ,Nandi hills and Kipkelion Towns in the former Local Authority He is the Managing Director</p> <p>RESPONSIBILITY He is the Chief Executive office of the Company and Secretary to the Board</p>
 <p>DAVID TUWEI</p>	<p>He holds a Diploma in Water Engineering on Water Supply from Kenya Water Institute (KEWI) He worked as an Area Manger and a District Water Officer at the Ministry of Water & Irrigation in Nandi East and Kericho Districts He has worked as a Commercial Manager and a Managing Director at Nyando & Nandi South (NYANAS) Water & Sanitation Company</p> <p>RESPONSIBILITY He currently the Commercial Manger (CM) and Head of Commercial Department has the Meter Reading, Billing ,Customer Care & Revenue collection Sections</p>
 <p>GILBERT ROTICH</p>	<p>He holds a Diploma in Water Engineering on Water Supply from Rift Valley Institute of Science & Technology He works as a Senior Inspector and Area Manager in the National Water Conservation & Pipeline Corporation He represented the Client in the Augmentation of Kapsabet Water Supply project which was funded by JICA</p> <p>RESPONSIBILITY He is the Technical Manager (TM) and heads the Technical Department which has the Operations & maintenance and Water Treatment and Distribution Sections</p>
 <p>DANIEL SEUREI</p>	<p>He holds a Diploma in Human Resource Management from Moi University He has worked in the Local Authority as a clerical officer</p> <p>RESPONSIBILITY He is the Human Resource Manager (HR) and he is charge of Human Resource and Administration</p>

Kapsabet Nandi Water and Sanitation Company Ltd

Reports and Financial Statements

For the year ended June 30, 2019

CHAIRMAN'S STATEMENT

Introduction

On behalf of the Board of Directors, i am pleased to present to you the Annual Reports, the Financial Statements and the general performance of the Company for the year ended June 30, 2019

Financial Highlights

During the period, the Company realized a loss of kshs 9,069,818 as compared to a profit of kshs 3,301,845 in last financial year

The Company was able to purchase additional motorcycles to improve transport of field staff, build a motor cycle shade, and installed CCTV

Operating Environment

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 continued 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

Appreciation

We are grateful to the County Government of Nandi for the support to the Company. The County Government assisted the Company with payment of electricity, water meters, pipes, personnel and the billing software

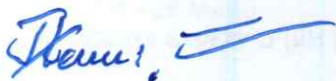
We are also grateful to Lake Victoria North Water Services Board and GOK through for the intention to facilitate a gravity water source at Keben.

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

We thank AFD through Lake Victoria South Water Services Board for the intension to construct a water supply system for Nandi Hills water supply

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



Mark Maritim
BOARD CHAIR

Kapsabet Nandi Water and Sanitation Company Ltd

Reports and Financial Statements

For the year ended June 30, 2019

REPORT OF THE MANAGING DIRECTOR

Introduction

Water is not only the most important factor for production but together with sanitation (which includes disposal of effluent and excreta) is the most important factor for human health. It is estimated that 80% of all diseases are water related, resulting in a huge bill for health care which could be drastically reduced with improved water services. The negative impact of insufficient water services on education and on productivity of the population is equally huge. Thus, water is a key determining aspect for economic growth in a country and for the wellbeing of its population.

Kenya with a population of 35 million faces enormous challenges in providing sustainable access to safe water, sewerage systems and basic sanitation for its fast growing population. Presently, the rural population is still bigger than the urban. But, as in all other countries in Africa, the pace of urbanization is breathtaking and leads to an increasing number of emerging "hotspots" which need particular attention such as the densely populated settlements of the urban poor. More than half of the urban populations live in such settlements where population growth reaches 10% per annum and more. The high density makes living conditions especially deplorable due to the sanitary conditions, creating a special condition of poverty.

Sustainable access to safe water is estimated at around 60% in urban and 40% in rural settings. Missing baseline data and sustainable information systems hinder obtaining a clear nationwide picture and thus, coverage can only be estimated. Therefore, sustainable access to safe water and basic sanitation is still declining in terms of quality and quantity. The main reasons are old infrastructure, inadequate management and maintenance of existing infrastructure, insufficient sustainability, investments not enough concentrating on the options of fast tracking access and informal service provision operating outside a framework of basic standards. The new Water Act 2016, now transfers water service providers from the Water Boards to the County Government.

Commercial and Technical Sections Management

The Company has continuously for the past few years continued to strengthen these sections with a view to enhancing the collection of revenue and expansion of our coverage and further aim at further reducing the Non Revenue Water (NRW) to desirable levels. (NRW now stands at 35%). However we have continued to experience tremendous challenges managing the old distribution lines which have had a direct bearing on the non revenue water particularly on all the lower parts of the town which experience high pressure. Coupled with the above, due to challenges related to planning, our lines have always been interfered arising from frequent grading of roads in town, increased developments in the urban and the peri-urban areas among others. This has accounted to the rising cost of operations and maintenance attributed to frequent repairs on our lines and the NRW. It is because of this that the Company has prepared a proposal of Ksh 50,000,000 and forwarded to the county for consideration. The proposal is targeting rehabilitation of the old lines and construction of elevated tanks in areas that experience low pressure.

During the year water arrears over 60 days stood at Kshs 13 million meaning much of our revenue remains uncollected. The Company has therefore formed a dedicated team that will be visiting each and every consumer with a view to making them pay their outstanding amounts apart from carrying out disconnections on those that aren't willing to pay. The Company in conjunction with the Ministry of Lands, Environment and Natural resources has initiated the process of preparing a water regulation policy that will enable us prosecute defaulters and those that illegally carry out connections on our lines.

Kapsabet Nandi Water and Sanitation Company Ltd

Reports and Financial Statements

For the year ended June 30, 2019

Financial Management

The Company continues to implement sound financial management through efficient and effective utilization of funds which will determine the achievement of the obligations of the approved budget. This section provides the technical assistance on utilization of funds in line with the budgetary allocations. The institutions financial management system is in line with the existing government management rules and regulations, including the PFM Act 2012. IT also takes into consideration other financial guidelines such as international financial reporting standards (IFRS). The Company prepares and remit the quarterly and annual financial reports and statements to the County Government of Nandi-CEC; Lands, Environment and Natural Resources, National Treasury and Office of the Auditor-General

Human Resource

The Company has always aimed at retaining and attracting skilled workforce that will play a critical role in providing the desired service delivery to our consumers within our jurisdiction and beyond. This we do despite the financial challenges due to our limited revenue base. We appreciate the efforts done by the county government in seconding several staff to the company with a view to strengthening the human resource capacity resulting in a remarkable improvement of service delivery. During the year under review the total number of permanent staff stood at 55 out of which 20 are seconded from the county government.

Future Plans

During the year under review the Company spent quite a substantial part of the revenue in paying the electricity bills. To this end therefore, we have endeavoured to partner with Lake Victoria North Service Board in addressing this huge challenge by giving consideration the possibility of a gravity driven project. This will substantially bring down the operations and maintenance costs and possibly give consideration on a tariff review. Plans are now at an advanced stage on construction of Keben dam that will, when completed, serve all our licensed area and even beyond.

The Company through partnership with Lake Victoria South will carry out augmentation of the Nandi Hills scheme. The project involves rehabilitation of the current treatment works, construction of a new alternative intake, treatment works, additional storage and rehabilitation of all the service lines. These efforts will enhance our capacity in providing water and addressing the NRW.


Anthony Kiboiy

MANAGING DIRECTOR

Kapsabet Nandi Water and Sanitation Company Ltd

Reports and Financial Statements

For the year ended June 30, 2019

CORPORATE GOVERNANCE STATEMENT

The Company regards corporate governance as pivotal to the success of its 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 .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 members are appointed on a renewal three year term and competently recruited by the County Government of Nandi public service Board but are removed from office on grounds stated in the Memorandum and Articles of Association

The Board of Directors met four times a year and deliberate on various issues provided in the agenda drawn by the Managing Director, the Secretary to the Board. The attendance to the meetings is recorded in an attendance book

The Board members are paid sitting allowances and travelling as per the rates captured in the budget

The Board has three Sub Committees, which are:

Finance, Human Resource & ICT Committee

The Committee is responsible for the policy on financial and human resource.

It also reviews strategic & business plans, financial statements, Budget & procurement plans, investment, staff welfare and recruitment

Audit & Risk Management Committee

The Committee is responsible for establishment and review of efficient internal controls, effective risk management policy, external auditors' queries and Nandi County Assembly Public Investment Committees recommendations.

The Board discharge its supervisory and oversight responsibility through this committee.

Technical Committee

The Committee is responsible for establishment and review of quality standards for civil, structural and operational works in the Company.

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

The management provide leadership by guiding and directing the activities of the Company, ensuring effective management, monitoring the activities of the entity to ensure they are in line with the Company Vision and Mission

Kapsabet Nandi Water and Sanitation Company Ltd

Reports and Financial Statements

For the year ended June 30, 2019

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 service delivery to the consumers.

The Company formulated operational policies like HR & Code of Conduct, Finance, Risk and ICT that will provide a working framework.

The Company performed very well in financially during the as it increased its revenue billing & collection and assets portfolio.

b) Company's Compliance with Statutory Requirements

The Company paid all NHIF, NSSF, Pension and PAYE due by the close of the financial year

c) Key Projects and Investment Planned/Implemented

During the period the Company did not plan nor implement any key project or investment

d) Major Risks


The major risks facing the Company are:

- Alternate source of water to residents
- Low 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.

The new Board of Directors were appointed in May 2018 for a period of three years


Anthony Kiboiy
MANAGING DIRECTOR

Kapsabet Nandi Water and Sanitation Company Ltd

Reports and Financial Statements

For the year ended June 30, 2019

CORPORATE SOCIAL RESPONSIBILITY STATEMENT

The Company as the integral part of the community was able to provide and facilitate industrial attachment to over 100 students during the period

The Company with the assistance from the County Government of Nandi also was able to supply water free of charge using its water bowser to the community during functions like public holidays and funerals

The water bowser is also used during the County Government of Nandi sports events

Members of public and other public organizations held meetings free of charge in the Board room hall

The Company bought 30 NO PVC water storage tanks for schools and dispensaries in its area of operation in the financial year

Kapsabet Nandi Water and Sanitation Company Ltd

Reports and Financial Statements

For the year ended June 30, 2019

REPORT OF THE DIRECTORS

The Directors submit their report together with the financial statements for the year ended June 30, 2019 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, 2019 are set out on page 14-19

Dividends

Though the Company made a Loss of kshs 9,069,818 and the Directors do not recommend for any dividend payment

Directors

The members of the Board of Directors who served during the year are shown on page 3-4 in accordance with Regulation of the Company's Articles of Association, were recruited in May 2018 for a term of three years

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, 2019

By Order of the Board


Anthony Kiboiy
BOARD SECRETARY

Kapsabet Nandi Water and Sanitation Company Ltd

Reports and Financial Statements

For the year ended June 30, 2019

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 Company keeps proper accounting records which disclose with reasonable accuracy the financial position of the Company. The Directors are also responsible for safeguarding the assets of the Company.

The Directors are responsible for the preparation and presentation of the Company's financial statements, which give a true and fair view of the state of affairs of the Company for and as at the end of the financial year ended on June 30, 2019. This responsibility includes:


- i. Maintaining adequate financial management arrangements and ensuring that these continue to be effective throughout the reporting period.
- ii. Maintaining proper accounting records, which disclose with reasonable accuracy at any time the financial position of the entity.
- iii. Designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of the financial statements, and ensuring that they are free from material misstatements, whether due to error or fraud.
- iv. Safeguarding the assets of the 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 Company's financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity with International Financial Reporting Standards (IFRS), and in the manner required by the PFM Act, 2012. The Directors are of the opinion that the Company's financial statements give a true and fair view of the state of Company's transactions during the financial year ended June 30, 2019, and of the Company's financial position as at that date. The Directors further confirm the completeness of the accounting records maintained for the Company, which have been relied upon in the preparation of the Company's financial statements as well as the adequacy of the systems of internal financial control.

Approval of the financial statements

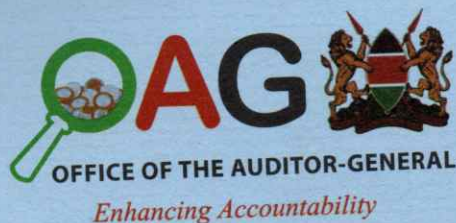
The Company's financial statements were approved by the Board on 13th September 2019 and signed on its behalf by:


Mark Maritim
BOARD CHAIR


Anthony Kiboiy
MANAGING DIRECTOR

REPUBLIC OF KENYA

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



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

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

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of Kapsabet - Nandi Water and Sanitation Company Limited set out on pages 14 to 44, which comprise the statement of financial position as at 30 June, 2019 and the statement of profit or loss and other 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, 2019, and its financial performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards and comply with the Water Act, 2016, the Companies Act, 2015 and the Public Finance Management Act, 2012.

Basis for Qualified Opinion

Property Plant and Equipment

The statement of financial position reflects a balance of Kshs.21,806,490 under property, plant and equipment as at 30 June, 2019. The balance excludes assets worth Kshs.706,977,432 in the books of Lake Victoria North Water Services Board (LVNWSB) which have not been transferred to the Company (County Water Services Provider) as required by Section 153 of Water Act, 2016 and thus do not form part of the balance reported in the financial statements. Further, the values of land on which Company's buildings stand in Kapsabet, Nandi Hills town, tanks in Kapsabet boys, Kabutie treatment works (old & new), Singorwa and Nandi hills bears club were not included in the reported balance for property, plant and equipment as at 30 June, 2019. In addition, their ownership documents such as title deeds, leases or allotments were not provided for audit verification.

Consequently, the accuracy, validity, completeness and ownership of the assets reflected under property, plant and equipment balance of Kshs.21,806,490 as at 30 June, 2019 could not be confirmed.

Key Audit Matters

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

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

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

Basis for Conclusion

1. Long Outstanding Trade and Other Receivables

The statement of financial position reflects a balance of Kshs.17,821,186 under trade and other receivables which, as disclosed in Note 16 to the financial statements, includes an amount of Kshs.13,544,586 which had been outstanding for over 60 days. This is contrary to Section 6.3 of the Water Services Board Financial Manual of December, 2005 which states that the Company may allow up to 60 days moratorium before payment for monthly bills or any other amounts due on contractual obligation.

Under the circumstances, the recoverability of the long outstanding debts balance of Kshs.13,544,586 could not be confirmed.

2. Staff Acting Beyond Six (6) Months

Audit review of personnel records availed for audit revealed that the Managing Director has been acting since 19 November, 2015 contrary to Section 34(3) of the Public Service Commission Act, 2017 that states that an officer may be appointed in an acting capacity but not exceeding a period of six months.

The Company is therefore in breach of the law.

3. Recruitment of New Staff

Examination of human resource records revealed that during the year under review, the Company recruited an Information Communication and Technology Officer salary scale 4 PF No. CE 0139 effective 13 September, 2018. However, the advertisement and interview process documents for the position were not provided for audit verification. In

the circumstances, it was not possible to confirm that the recruitment was competitively done.

4. Long Outstanding Trade Payables

The statement of financial position reflects a balance of Kshs.9,094,580 under trade and other payables which, as disclosed in Note 23 to the financial statements, includes an amount of Kshs.7,638,580 relating to trade payables. The latter balance includes an amount of Kshs.4,086,602 which had been outstanding for over 120 days. Under the circumstance, the Company is at risk of incurring interest on the outstanding creditors.

5. Non-Revenue Water

During the year under review, the Company produced a total of 1,093,017 cubic meters (M³) of water out of which 615,515 cubic meters (M³) of water were billed to customers for Kshs.36,954,355. The balance of 477,502 cubic meters (M³) or approximately 44% of the total volume of water produced represents non-revenue water. The volume of non-revenue water of 477,502 cubic meters (M³) was over and above the allowable loss of 273,254 cubic meters (M³) or 25% of the total production prescribed in the guidelines issued by the Water Service Regulatory Board. Consequently, the non-revenue water resulted in loss of sales estimated at Kshs.12,044,505 which had a negative impact on the Company's profitability and could erode sustainability of its operations.

The audit was conducted in accordance with ISSAI 4000. The standard requires that I comply with ethical requirements and plan and perform the audit to obtain assurance about whether the activities, financial transactions and information reflected in the financial statements are in compliance, in all material respects, with the authorities that govern them. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

As required by Section 7(1)(a) of the Public Audit Act, 2015, based on the audit procedures performed, except for the matters described in the basis for conclusion on effectiveness of internal controls, risk management and governance section of my report, I confirm that, nothing else has come to my attention to cause me to believe that internal controls, risk management and overall governance were not effective.

Basis for Conclusion

1. Internal Audit Function

The Company did not have an internal audit section to carry out internal audit functions contrary to Section 155(1)(a) of the Public Finance Management Act, 2012 which requires a County Government entity to ensure that appropriate arrangements for conducting internal audit according to the guidelines issued by the Accounting Standards Board are in place. In absence of internal audit arrangements, review of the governance and internal

controls mechanisms as well as verification of the existence of assets and measures in place to safeguard assets may not have been undertaken.

2. Information Communication Technology

A review of Information and Communication Technology (ICT) records revealed that the Company did not have an approved IT Strategic and Disaster Recovery Plans. Consequently, and in the absence of the approved IT strategic and disaster recovery plans, the organizational objectives may not be achieved and sustainability of services and business continuity is threatened.

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

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

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

- i. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit;
- ii. In my opinion, adequate accounting records have been kept by the Company, so far as appears from the examination of those records; and,
- iii. The Company financial statements are in agreement with the accounting records and returns.

Responsibilities of Management and those Charged with Governance

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

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

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

In addition to the responsibility for the preparation and presentation of the financial statements described above, Management is also responsible for ensuring that the activities, financial transactions and information reflected in the financial statements are

in compliance with the authorities which govern them, and that public resources are applied in an effective way.

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

Auditor-General's Responsibilities for the Audit

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

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

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

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

Kapsabet - Nandi Water and Sanitation Company Limited policies and procedures may deteriorate.

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Management.
- Conclude on the appropriateness of the Management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Kapsabet - Nandi Water Services Company ability to continue as a going concern or to sustain its services. If I conclude that a material uncertainty exists, I am required to draw attention in the auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my audit report. However, future events or conditions may cause the Kapsabet - Nandi Water and Sanitation Company Limited to cease to continue as a going concern or to sustain its services.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information and business activities of the Kapsabet - Nandi Water Services Company to express an opinion on the financial statements.
- Perform such other procedures as I consider necessary in the circumstances.

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

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



Nancy Gathungu
AUDITOR-GENERAL

Nairobi

14 October, 2021

Kapsabet Nandi Water and Sanitation Company Ltd
Reports and Financial Statements
For the year ended June 30, 2019

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

	Notes	2019 kshs	2018 kshs
REVENUE			
Water Sales	5	36,954,355	31,337,330
Recurrent Grants	6	17,744,032	23,683,274
Other Income	7	4,364,200	2,614,020
TOTAL REVENUE		59,062,587	57,634,624
EXPENSES			
Operation costs	8	21,962,623	20,522,995
Staff Costs	9	27,203,578	22,017,944
Administration Costs	10	15,744,624	8,921,673
Provision for Depreciation	11	2,221,580	1,870,167
Provision for Amortisation	12	1,000,000	1,000,000
TOTAL EXPENSES		68,132,405	54,332,779
PROFIT/(LOSS)		(9,069,818)	3,301,845
PROFIT (LOSS) BEFORE TAXATION	13	(26,813,850)	(20,353,532)
INCOME TAX EXPENSE/(CREDIT)			
PROFIT/(LOSS) AFTER TAXATION	13	(26,813,850)	(20,353,532)
DIVIDEND PER SHARE		NIL	NIL

Kapsabet Nandi Water and Sanitation Company Ltd

Reports and Financial Statements

For the year ended June 30, 2019

STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2019

	Notes	2019 kshs	2018 kshs
ASSETS			
Non Current Assets			
Property, Plant & Equipment	11	21,806,490	20,397,331
Intangible Assets	12	-	1,000,000
Sub Total		21,806,490	21,397,331
Current Assets			
Prepayment (Payables)	14	24,166	5,153,949
Inventory	15	696,331	406,288
Trade & Other Receivables	16	17,821,186	20,628,777
Bank & Cash Balances	17	2,859,999	487,272
Sub Total		21,401,682	26,676,286
TOTAL ASSETS		43,208,174	48,073,617
EQUITY AND LIABILITIES			
Share Capital	18	100,000	100,000
Retained Earnings	19	2,410,318	11,480,136
Capital Grants	20	26,463,863	24,233,863
Capital and Reserves		28,974,181	35,813,999
Non Current Liabilities			
Water Connection Deposits	21	4,844,800	4,491,800
Sub Total		4,844,800	4,491,800
Current Liabilities			
Prepayment (Receivables)	22	294,612	493,332
Trade & Other Payables	23	9,094,580	7,274,486
Sub Total		9,389,192	7,767,818
TOTAL EQUITY AND LIABILITIES		43,208,174	48,073,617

The Company's financial statements were approved by the Board on 13th September 2019 and signed on its behalf by:


Mark Maritim
BOARD CHAIR


Anthony Kiboi
MANAGING DIRECTOR


Simeon Birgen
ACCOUNTANT

Kapsabet Nandi Water and Sanitation Company Ltd

Reports and Financial Statements

For the year ended June 30, 2019

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

	ORDINARY SHARE	CAPITAL GRANTS	RETAINED EARNINGS	TOTAL
AS AT JULY 1 2017	100,000	23,719,164	8,178,290	31,997,454
Profit/Loss for the year	-	-	3,301,846	3,301,846
Capital Grants	-	514,699	-	514,699
AS AT JUNE 30,2018	100,000	24,233,863	11,480,136	35,813,999
AS At JULY 1,2018	100,000	24,233,863	11,480,136	35,813,999
Profit for the year	-	-	(9,069,818)	(9,069,818)
Capital Grants	-	-	-	-
AS AT JUNE 30,2019	100,000	24,233,863	2,410,318	26,744,181

Kapsabet Nandi Water and Sanitation Company Ltd

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For the year ended June 30, 2019

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2019

	Notes	2019 kshs	2018 kshs
Operating Profit/(Loss)		(9,069,818)	3,301,846
Provision for Depreciation	11	2,221,580	1,870,167
Provision for Amortisation	12	1,000,000	1,000,000
Provision for Bad & Doubtful Debts		-	-
Operating Profit / (Loss) before Working Capital		(5,848,238)	6,172,013
Decrease in Prepayment (Payables)	14	5,129,783	(5,120,665)
Increase in Inventories	15	(290,043)	(64,058)
Increase in Trade & other Receivables	16	2,807,591	(261,079)
Increase in Deposits	21	353,000	315,000
Decrease in Prepayment (Receivables)	22	(198,720)	342,718
Decrease in Trade & other Payables	23	1,820,094	(800,656)
Decrease in Unexpended Grants		-	(546,330)
Cash generated from/used in Operations		9,621,705	(6,135,070)
Net Cash generated from /used in Operating activities		3,773,467	36,943
Investing Activities			
Acquisition of Property ,Plant & Equipment	11	(3,130,740)	(1,488,010)
Net Cash generated from / used in Investing Activities		(3,130,740)	(1,488,010)
Financing Activities			
Capital grants	20	2,230,000	514,699
Net Cash generated from / used in Financing Activities		2,230,000	514,699
INCREASE /DECREASE IN CASH & CASH EQUIVALENT		2,372,727	(936,368)
CASH & CASH EQUIVALENT AT BEGINNING OF THE YEAR		487,272	1,423,640
CASH & CASH EQUIVALENT AT END OF THE YEAR	17	2,859,999	487,272

Kapsabet Nandi Water and Sanitation Company Ltd
Reports and Financial Statements
For the year ended June 30, 2019

STATEMENT OF COMPARISON OF BUDGET & ACTUALS FOR FY 2018/19

ACCOUNT	ORIGINAL BUDGET	ADJUST MENT	FINAL BUDGET	ACTUALS	VARIANCE	
					kshs	%
Revenue						
Water Sales	38,880,000	-	38,880,000	36,954,355	(1,925,645)	(5)
Other Income	2,814,000	-	2,814,000	4,364,200	1,550,200	55
Grants	22,876,188	-	22,876,188	17,744,032	(5,132,156)	(22)
TOTAL INCOME	64,570,188		64,570,188	59,062,587	(5,507,601)	28
Expenditure						
Electricity	18,000,000	-	18,000,000	17,936,176	(63,824)	(0)
Chemicals	2,558,220	-	2,558,220	2,514,648	(43,572)	(2)
Operations & Maintenance	1,530,000	-	1,530,000	1,511,799	(18,201)	(1)
Salary and Wages	26,095,188	-	26,095,188	25,811,556	(283,632)	(1)
Employers' Statutory Contr.	1,430,748	-	1,430,748	1,392,022	(38,726)	(3)
Fuel & Lubricants	2,109,000	-	2,109,000	2,104,705	(4,295)	(0)
Repairs & Maintenance	1,140,000	-	1,140,000	1,126,772	(13,228)	(1)
Staff Travel, Lunch & Subs.	3,246,000	-	3,246,000	3,218,230	(27,770)	(1)
Staff Training & Workshop	990,000	-	990,000	888,800	(101,200)	(10)
Professional Fees	6,000	-	6,000	2,430	(3,570)	(60)
BOD Allowances	723,996	-	723,996	719,299	(4,697)	(1)
BOD Expenses	450,000	-	450,000	448,725	(1,275)	(0)
Honoraria	120,000	-	120,000	120,000	-	-
Printing & Stationery	570,000	-	570,000	558,789	(11,211)	(2)
Communication Services	1,140,000	-	1,140,000	1,112,320	(27,680)	(2)
Advertisement & Publicity	294,000	-	294,000	277,970	(16,030)	(5)
Welfare & Hospitality	711,288	-	711,288	669,279	(42,009)	(6)
Uniform & Protective Equipment	258,000	-	258,000	244,962	(13,038)	(5)
Subscription Fees	60,000	-	60,000	55,000	(5,000)	(8)
Consultancy Fees	510,000	-	510,000	-	(510,000)	(100)
Annual Software License	114,000	-	114,000	105,698	(8,302)	(7)
Audit Fees	234,000	-	234,000	232,000	(2,000)	(1)
Security	1,320,000	-	1,320,000	1,208,000	(112,000)	(8)
Corporate Social Responsibility	330,000	-	330,000	327,500	(2,500)	(1)
Insurance	461,004	-	461,004	65,018	(395,986)	(86)
Provision for Depreciation	2,159,400	-	2,159,400	2,221,580	62,180	3

Kapsabet Nandi Water and Sanitation Company Ltd

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For the year ended June 30, 2019

Provision for Amortisation	999,996	-	999,996	1,000,000	4	0
Provision for Bad Debts	510,000	-	510,000	-	(510,000)	(100)
Debts Collection Fees	222,000	-	222,000	210,800	(11,200)	(5)
Regulatory Levy	388,860	-	388,860	1,292,761	903,901	232
Abstraction Fees	471,996	-	471,996	441,867	(30,129)	(6)
AGM	60,000	-	60,000	-	(60,000)	(100)
Titles Acquisition Fees	234,000	-	234,000	224,600	(9,400)	(4)
Legal Fees	270,000	-	270,000	-	(270,000)	(100)
Bank Charges	90,000	-	90,000	89,099	(901)	(1)
TOTAL EXPENSES	69,807,696	-	69,807,696	68,132,405	(1,675,291)	(2)

NOTES

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

❖ Other Income (+56 %)

The company was able to raise more revenue from the water bowzer than anticipated. The inspection team nabbed and surcharge consumers who reconnected water illegally hence for revenue

❖ Grants (-22 %)

The County Government of Nandi did not fully remit the budgeted subsidy

❖ Professional Fees (-60%)

The Company did pay the fees to professional bodies as anticipated

❖ Consultancy fees (-100%)

The Company did pay the fees for strategic and business plans as anticipated

❖ Insurance (-86%)

The company did not pay insurance for some vehicles which were grounded

❖ Regulatory Fees (+235%)

WASREB, the regulatory body increased the fees from 1 % to 4 % from November 2018 due to the water Act 2016

❖ Annual General Meeting (-100%)

The company did not hold the meeting during the year

❖ Legal Fees (-100%)

The company did not pay the fees during the year as it did not have any legal issues

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

Kapsabet Nandi Water and Sanitation Company Ltd

Reports and Financial Statements

For the year ended June 30, 2019

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 Company'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 & Loss and other 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. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

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

IFRS 16: Leases

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

Application of IFRS 16 requires right-of-use assets and lease liabilities to be recognised in respect of most operating leases where the Company is the lessee. Based on the

Kapsabet Nandi Water and Sanitation Company Ltd

Reports and Financial Statements

For the year ended June 30, 2019

Directors' assessment, no lease was there and it has therefore not recognised in the in these financial statements.

IFRIC 23: Uncertainty Over income tax treatments

The interpretation addresses the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates, when there is uncertainty over income tax treatments under IAS 12. It specifically considers:

- Whether tax treatments should be considered collectively
- Assumptions for taxation authorities' examinations
- The determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates
- The effect of changes in facts and circumstances

Amendments to IFRS 9 titled Prepayment Features with Negative Compensation (issued in October 2017)

The amendments, applicable to annual periods beginning on or after 1 January 2019, allow entities to measure prepayable financial assets with negative compensation at amortised cost or fair value through other comprehensive income if a specified condition is met.

Amendments to IAS 28 titled Long-term Interests in Associates and Joint Ventures (issued in October 2017)

The amendments, applicable to annual periods beginning on or after 1st January 2019, clarify that an entity applies IFRS 9, rather than IAS 28, in accounting for long-term interests in associates and joint ventures.

Amendments to IFRS 3 - Annual Improvements to IFRSs 2015-2017 Cycle, issued in December 2017.

The amendments, applicable to annual periods beginning on or after 1st January 2019, provide additional guidance on applying the acquisition method to particular types of business combination.

Amendments to IFRS 11 - Annual Improvements to IFRSs 2015-2017 Cycle, issued in December 2017

The amendments, applicable to annual periods beginning on or after 1st January 2019, clarify that when an entity obtains joint control of a business that is a joint operation, it does not re-measure its previously held interests

Amendments to IAS 12 - Annual Improvements to IFRSs 2015-2017 Cycle, issued in December 2017

The amendments, applicable to annual periods beginning on or after 1st January 2019, clarify that all income tax consequences of dividends should be recognised when a liability to pay a dividend is recognised, and that these income tax consequences should be recognised in profit or loss, other comprehensive income or equity according to where the entity originally recognised the transactions to which they are linked.

Kapsabet Nandi Water and Sanitation Company Ltd

Reports and Financial Statements

For the year ended June 30, 2019

Amendments to IAS 23 - Annual Improvements to IFRSs 2015-2017 Cycle, issued in December 2017

The amendments, applicable to annual periods beginning on or after 1st January 2019, clarify that the costs of borrowings made specifically for the purpose of obtaining a qualifying asset that is substantially completed can be included in the determination of the weighted average of borrowing costs for other qualifying assets.

Amendments to IAS 19 titled Plan Amendment, Curtailment or Settlement (issued in February 2018)

The amendments, applicable to plan amendments, curtailments or settlements occurring on or after the beginning of the first annual reporting period that begins on or after 1st January 2019, requires an entity to use updated actuarial assumptions to determine current service cost and net interest for the remainder of the annual reporting period after the plan amendment, curtailment or settlement when the entity re-measures its net defined benefit liability (asset) in the manner specified in the amended standard.

The above new and amended standards did not impact the Company

IFRS 17 Insurance Contracts (Issued 18 May 2017)

IFRS 17 requires insurance liabilities to be measured at a current fulfilment value and provides a more uniform measurement and presentation approach for all insurance contracts. These requirements are designed to achieve the goal of a consistent, principle-based accounting for insurance contracts. IFRS 17 supersedes IFRS 4 Insurance Contracts as of 1 January 2021.

Amendments to References to the Conceptual Framework in IFRS Standards (Issued 29 March 2018- Applicable for annual periods beginning 1 January 2020)

Together with the revised *Conceptual Framework* published in March 2018, the IASB also issued *Amendments to References to the Conceptual Framework in IFRS Standards*. The document contains amendments to IFRS 2, IFRS 3, IFRS 6, IFRS 14, IAS 1, IAS 8, IAS 34, IAS 37, IAS 38, IFRIC 12, IFRIC 19, IFRIC 20, IFRIC 22, and SIC-32. Not all amendments, however update those pronouncements with regard to references to and quotes from the framework so that they refer to the revised *Conceptual Framework*. Some pronouncements are only updated to indicate which version of the framework they are referencing to (the IASC framework adopted by the IASB in 2001, the IASB framework of 2010, or the new revised framework of 2018) or to indicate that definitions in the standard have not been updated with the new definitions developed in the revised *Conceptual Framework*.

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

iii) Early adoption of standards

The Company did not early – adopt any new or amended standards in year 2018.

4. ACCOUNTING POLICIES

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

Kapsabet Nandi Water and Sanitation Company Ltd

Reports and Financial Statements

For the year ended June 30, 2019

a. Basis of preparation

The financial statements shall be prepared in accordance with International Financial Reporting Standards (**IFRS**).

The financial statements shall be prepared under the historical cost convention

The financial statements shall be prepared and presented in Kenya Shillings, which is the functional and reporting currency of the Company.

The financial statements shall be prepared in accordance with the PFM Act and the State Corporations Act

The accounting policies adopted shall be consistently applied to all the years presented

b. 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 shall be 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 County Government shall be recognized in the year in which the Company actually receives such grants.

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

The granted fixed assets shall be recognized as capital grants in the financial position statement.

Any un used grant shall be recognized as un expended grant in the financial position statement as a liability

- iii. Other income shall be recognized as it accrues.

c. Expenditure Recognition

Expenditure is recognized on an accrual basis.

d. Translation of Foreign Currencies

All assets and liabilities expressed in foreign currencies shall be converted into Kenya Shillings at the exchange rate ruling at the balance sheet date.

Transactions in foreign currencies during the year shall be converted at the rates ruling at the date of the transaction.

Kapsabet Nandi Water and Sanitation Company Ltd

Reports and Financial Statements

For the year ended June 30, 2019

The resulting exchange differences are recognized in the statement of financial performance.

e. Reporting in Foreign Currencies

Financial statements may be translated into a foreign currency for the purposes of Development Partner reporting where required.

f. Segmental Reporting

Segment information shall be presented in respect of the Company's geographical segments and will be based on the location over which the Company has jurisdiction.

Segment results, assets and liabilities include items directly attributable to a segment.

g. Property, Plant and Equipment

Items of property, plant and equipment shall be stated at historical cost less accumulated depreciation and impairment.

Fixed assets donated to the Company are included in the accounts at the amount attributed to them by the Development partners.

Fixed assets received from Development partners whose values have not been determined will be valued by a recognized valuer before inclusion in the asset register.

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

Property, plant and equipment shall include granted fixed assets by Government, development partners and those acquired by the Company but shall exclude all fixed assets leased and owned by Lake Victoria North Water Services Board unless they have been transferred to the Company

The Company will service, maintain and insure all granted and leased fixed assets.

h. Intangible Assets

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

i. Depreciation & 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.

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

Kapsabet Nandi Water and Sanitation Company Ltd

Reports and Financial Statements

For the year ended June 30, 2019

The annual rates of depreciation used are as follows:

Buildings	5%
Land	Nil
Water Supply infrastructure	2.5%
Plant, machinery and equipment	12.5%
Office Equipment	12.5%
Computer Equipment	30%
Motor vehicles	25%
Furniture and fittings	12.5%

j. 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 intangible assets shall be 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.

k. Operating Lease Rentals

Leases where a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases are charged to the income statement account on a straight-line basis over the period of the lease.

l. Inventories

Inventories are stated at the lower of cost and net realizable value. Cost includes all costs of purchase and other charges incurred in bringing the inventories to their present location and condition.

The cost of inventories is based on the weighted average cost. If the purchase cost is higher than the net realizable value, stocks are written down to net realizable value.

m. 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 include but not limited to amounts due on sale of water, water booster service, among other fees and staff advances.

Debtors may arise from amounts due to the Company from another party resulting from contractual obligations or other transactions.

The Company shall maintain a separate account for each debtor. Debtors' accounts shall be maintained by the Accountant and Debtors ageing analysis shall be prepared monthly.

Recoverability

The Company may allow up to **60** days moratorium before payment for monthly bill or any other amounts due on contractual obligation.

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This period may however be revised by the MD and Board of Directors, if deemed necessary.

Outstanding debts shall be followed up through phone call, physical visits and subsequently in writing to notify the debtor to honor the debt.

The Company shall recover water debts by:

- Disconnecting the consumer
- Disconnecting any other connection(s) related to the consumer
- Transferring any credit in connection(s) related to the consumer

Bad Debts Provision /Write off Policy

The **Head of Finance** shall review all outstanding debts which are under dispute, on a monthly basis, before any bad debt provisions are made.

Provisions shall be made for bad and doubtful debts at **10 %** of the outstanding amount;

For individual arrears in excess of **Kshs. 5,000** the bad debts should only be written off on the authority of the Board of Directors.

Debts will be written off only after all reasonable steps have been taken to recover the debt and the Company is satisfied that:

- All legal and other measures have been exhausted, but there is still a balance of the debt remaining; and
- Recovery of the debt would be uneconomical.

The **Head of Finance** shall present the list of debts to be written off to the **MD** with the full details of the debt and the reasons for being irrecoverable

The list will be forwarded to the relevant **Board committee** for discussion and adoption and finally to the **BOD** for approval

n. 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 by letters or phone calls

o. Prepayments

These are advance payment to suppliers or by water consumers

The Company shall maintain a prepayment schedule for all prepayments

p. Provisions

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

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Provisions will be determined by the management based on the information available and shall be 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 will provide **10 %** for bad and doubtful debts

q. Consistency

Consistency accounting methods will be applied and changes made will be reported and the effect on reported results disclosed in accordance with Generally Accepted Accounting Principles.

r. 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 shall disclose the nature of relationship, information of transaction and balance for understanding of the potential effect of the relationship on the financial statements.

s. Financial Instruments

These are contracts that give to a financial asset or liability when the Company becomes a party to contractual provisions of the 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 shall initially be 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.

t. Taxation

The purpose of this section is:

- i. To ensure that the Company is in compliance with the Tax regulations;
- ii. To ensure that proper accounting procedures are followed in the processing of tax transactions; and
- iii. To ensure that proper documentation is maintained for tax purposes.

Withholding Tax Deductions

The Company will deduct withholding tax for every consultancies and contractor and shall remit the same to the Income Tax Department of the Kenya Revenue Authority as prescribed by the Income Tax Act. The consultants and contractors will be required to provide their PIN.

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The applicable withholding tax rates for payments to residents and non residents are provided in the Income Tax Act and it is the responsibility of the Company to ensure compliance with Kenyan tax legislation.

The deducted Withholding tax will be accumulated in a liability account and paid promptly on or before the **20th** day of the month following that in which the deduction is made and filled through the i tax portal.

The Company will issue withholding tax certificates to the consultants and contractors accordingly.

PAYE (Pay as you Earn)

The Company shall deduct PAYE from every employee of the Company. The amount shall be computed based on the advised KRA income tax schedule and shall include tax on all income related allowance.

PAYE returns shall be submitted, together with supporting payroll documentation to the Income Tax Department i tax portal by the **9th** day of the subsequent month.

The Company will issue **P9** certificates to all employees at the end of the year.

Accounting for VAT on Purchases

The Company is not registered for VAT neither is it exempt from paying VAT and It therefore suffers VAT on supplies of goods and services.

However reverse VAT will be computed and paid for all imported goods and services

Tax on the Company Income

The Company enjoys an income tax exemption status which is renewable every five years on application. However nil tax returns will be made before **30th** June of every year.

Current income tax assets and liabilities for the current period shall be 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 Company 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 shall periodically evaluate 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 shall be 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.

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u. Cash and Cash Equivalent

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

Bank account balances include amounts held at the Central Bank of Kenya and at various commercial banks at the end of the 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.

v. Retirement Benefit Obligations

The Company shall operate a defined contribution scheme for all full-time employees from with National Water Pipeline Corporation. The scheme shall be contributory and shall be 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 all staff. This is a defined contribution scheme registered under the National Social Security Act.

The Company's obligation under the scheme shall be limited to specific contributions legislated from time to time

w. Provisions for Staff Leave Pay

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

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

x. Budget Information

The budget will be approved by Board of Directors and any additional appropriations made to the approved budget will also be approved by the BOD

The Company's budget will be prepared on a different basis to the actual income and expenditure disclosed in the financial statements. The financial statements will be 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 will be 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, will be presented in the statement of comparison of budget and actual amounts.

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

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y. 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.

z. Significant Judgment and Sources of Estimation Uncertainty

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

The Company shall 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

aa. 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. eg pending law suits by employees and third parties

The Company shall recognize 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.

Contingent assets are not recognized in the financial position statement.

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	Notes	2019 kshs	2018 kshs
5 WATER SALES			
Kapsabet Scheme		30,573,140	24,651,030
Nandi Hills Scheme		6,381,215	6,686,300
Total		36,954,355	31,337,330
6 RECURRENT GRANTS			
Nandi County Government: Electricity		9,450,350	18,218,442
Salary & Wages		8,293,682	5,464,832
Total		17,744,032	23,683,274
7 OTHER INCOME			
Meter Rent		1,924,350	1,429,405
Fees & Charges		1,102,650	650,015
Water Bowzer		985,890	534,600
Decrease in Provision for Bad & Doubtful Debts	24	351,310	-
Total		4,364,200	2,614,020
8 OPERATION COSTS			
Electricity		17,936,176	17,678,935
Chemicals		2,514,648	2,391,000
Operation & Maintenance		1,511,799	453,060
Total		21,962,623	20,522,995
9 STAFF COSTS			
Salaries and Wages		25,811,556	20,904,407
Employers' Statutory Contribution		1,392,022	1,113,537
Total		27,203,578	22,017,944
10 ADMINISTRATION COSTS			
Fuel & Lubricants		2,104,705	956,399
Repairs & Maintenance		1,126,772	753,928
Staff Travel, Lunches & Subsistence		3,218,230	1,901,480
Staff Training & Workshops		888,800	36,500
Professional Fees		2,430	-
Directors' Allowances		719,299	330,490
Directors' Expenses		448,725	96,430
Chairman's Honoraria		120,000	-
Printing & Stationery		558,789	494,132
Communication Services		1,112,320	926,107
Advertisement & Publicity		277,970	183,280
Welfare & Hospitality		669,279	537,634

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Staff Uniform & Protective Equipment	244,962	207,900
Subscription Fees	55,000	55,000
Consultancy Fees	-	98,200
Annual License Fees	105,698	-
Audit Fees	232,000	232,000
Security	1,208,000	984,000
Corporate Social Responsibility	327,500	-
Insurance	65,018	208,954
Provision for Bad & Doubtful Debts	24	27,896
Debts Recovery Fees	210,800	-
Regulatory Levy (WASREB)	1,292,761	339,514
Abstraction Fees (WRMA)	441,867	462,038
Annual General Meeting	-	18,920
Titles Deed Acquisition Fees	224,600	-
Bank Charges	89,099	70,871
Total	15,744,624	8,921,673

11 PROPERTY, PLANT & EQUIPMENT

ASSET	PLANT & METERS	MOTOR VEHICLES	BUILDINGS	FURNITURE FIXTURES	COMPUTERS & PRINTERS	OFFICE EQUIPMENT	TOTAL
Cost or Valuation							
As at July 1, 2017	4,936,480		17,093,534	1,225,694	1,336,006	429,690	25,021,404
Additions	-	638,400	755,729	23,091	28,600	42,190	1,488,010
Transfer	-		-	-	-	-	-
As at June 30, 2018	4,936,480	638,400	17,849,263	1,248,785	1,364,606	471,880	26,509,414
As at July 1, 2018	4,936,480	638,400	17,849,263	1,248,785	1,364,606	471,880	26,509,414
Additions	2,230,000	104,000	198,099	17,511	820,500	260,630	3,630,740
As at June 30, 2019	7,166,480	742,400	18,047,362	1,266,296	2,185,106	732,510	30,140,154
Depreciation							
As at July 1, 2017	1,079,169		2,470,050	174,613	448,202	69,882	4,241,916
Charge for the YR	482,164	159,600	768,961	134,272	274,921	50,250	1,870,168
As at June 30, 2018	1,561,333	159,600	3,239,011	308,885	723,123	120,132	6,112,084
As at July 1, 2018	1,561,333	159,600	3,239,011	308,885	723,123	120,132	6,112,084
Charge for the YR	700,643	145,700	740,418	119,677	438,595	76,547	2,221,580
As at June 30, 2019	2,261,976	305,300	3,979,429	428,562	1,161,718	196,679	8,333,664
Net Book Value							
As at June 30, 2019	4,904,504	437,100	14,067,933	837,735	1,023,388	535,831	21,806,490
As at June 30, 2018	3,375,147	478,800	14,610,252	939,901	641,483	351,748	20,397,331

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12 INTANGIBLE ASSETS	2019 kshs	2018 kshs
Cost		
As at July 1, 2017	-	-
Additions	3,000,000	3,000,000
As at June 30, 2018	3,000,000	3,000,000
As at July 1, 2018	3,000,000	3,000,000
Additions	-	-
As at June 30, 2019	3,000,000	3,000,000
Amortisation		
As at July 1, 2017	1,000,000	1,000,000
Charge for the year	1,000,000	1,000,000
As at June 30, 2018	2,000,000	2,000,000
As at July 1, 2018	2,000,000	2,000,000
Charge for the year	1,000,000	-
As at June 30, 2019	3,000,000	-
Net Book Value		
As at June 30, 2019	-	1,000,000
As at June 30, 2018	1,000,000	1,000,000
13 TAXATION		
Profit /(Loss) for the year	(9,069,818)	3,301,846
Add-Non Allowable Expenses		
Depreciation/Amortisation	3,221,580	2,870,167
Provision for Bad & Doubtful Debts	-	27,896
Sub Total	(5,848,238)	6,199,909
Less: Non Taxable Income		
County Government of Nandi Grants	17,744,032	23,683,274
Wear & Tear Allowance	3,221,580	2,870,167
Sub Total	20,965,612	26,553,441
Taxable Income	(26,813,850)	(20,353,532)
14 PREPAYMENT (PAYABLES)		
Kenya Power	664	5,152,487
Jamii Telecom	1,462	1,462
Nairobi Iron Mongers	22,040	-
Total	24,166	5,152,487
15 INVENTORIES		
Stationery	35,245	24,430
O & M materials	61,830	90,930
Chemicals	599,256	290,928
Total	696,331	406,288

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16 TRADE & OTHER RECEIVABLES				
Water Debtors			19,292,096	22,805,197
Less: Provision of Bad Debts (10%)			(1,929,210)	(2,280,520)
Staff Advances			458,300	104,100
Total			17,821,186	20,628,777
Water Debtors Aging Analysis				
Less than 30 days			2,918,531	2,366,554
31 - 60 days			2,828,979	2,099,667
61 - 90 days			1,401,576	1,516,920
91 - 120 days			1,066,311	1,141,471
Over 120 days			11,076,699	15,680,585
Total			19,292,096	22,805,197
17 CASH & CASH EQUIVALENT				
Cash at Hand			-	6,000
Cash at Bank			-	6,000
Account NO	A/C Name	Bank		
1131111826	Revenue	KCB	184,062	123,808
1166504891	Expenditure	KCB	122,643	110,909
1166504514	Deposit	KCB	1,974,430	152,585
1177900262	Boozer	KCB	39,963	11,543
Sub Total			2,321,098	398,845
Pay points				
0744130011694	Revenue	Post Bank	443,626	16,225
Cash at M PESA				
Pay Bill NO				
990720	Revenue	Safaricom	95,275	60,202
339885	Bowzer	Safaricom	-	6,000
Sub Total			95,275	66,202
Total			2,859,999	487,272
18 SHARE CAPITAL				
Authorized Share Capital:				
5,000 ordinary shares at kshs 20@				
			100,000	100,000
Issued and Paid up Shares Capital:				
5,000 ordinary shares at kshs 20@				
			100,000	100,000
19 RETAINED EARNINGS				
Balance B/F			11,480,136	8,178,290
Profit/(Loss) for the year			(9,069,818)	3,301,846
Balance C/F			2,410,318	11,480,136

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20 CAPITAL GRANTS			
i Water Sector Fund			
	Public Sanitation Facilities	14,123,848	13,609,149
Bal B/F	Water Kiosks	2,735,015	2,735,015
Additions	Public Sanitation Facility	-	514,699
Bal C/F		16,858,863	16,858,863
ii Nandi County Government			
	Water Meters	4,225,000	4,225,000
Bal B/F	Smart Phones	150,000	150,000
	Billing software	3,000,000	3,000,000
Additions	Water Meters	2,230,000	-
Bal C/F		9,605,000	7,375,000
Total		26,463,863	24,233,863
21 WATER DEPOSITS			
Balance B/F		4,491,800	4,176,800
Additions		354,000	315,000
Less: Refunds		(1,000)	-
Balance C/F		4,844,800	4,491,800
22 PREPAYMENT (RECEIVABLES)			
	Water Consumers	294,612	493,332
Total		294,612	493,332
23 TRADE & OTHER PAYABLES			
	Trade Payables	7,638,580	4,855,271
	Office of the Auditor General Kenya	1,456,000	1,456,000
	Staff Payables	-	963,216
Total		9,094,580	7,274,487
24 PROVISION FOR BAD & DOUBTFUL DEBTS			
	Water Debtors	19,292,096	22,805,197
	Provision for Bad & Doubtful Debts (10%) for the year	1,929,210	2,280,520
Accumulated Provision Balance C/F		1,929,210	2,280,520
Accumulated Provision Balance B/F		2,280,520	2,252,624
Increase /Decrease in Provision		(351,310)	27,896
25 RELATED PARTIES DISCLOSURE			
i)	County Government of Nandi		
ii)	Water Sector Fund		
iii)	Key Management		
iv)	Board of Directors;		

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	2018-19 kshs	2017-18 Kshs
i County Government of Nandi		
Recurrent Expenses		
Electricity	9,450,350	18,218,442
Salaries & Wages	8,293,682	5,464,832
Pipes & Fittings	-	-
Sub Total	17,744,032	23,683,274
Capital (Development) Expenses		
Billing Software	-	-
Smart Phones	-	-
Water Meters	2,230,000	-
Sub Total	2,230,000	-
Total	19,974,032	23,683,274
ii Water Sector Fund		
Capital (Development) Expenses		
Public Sanitation Facility	-	514,699
Sub Total	-	514,699
iii Directors & Key Management Compensation		
Directors' Allowances	719,299	330,490
Directors' other Expenses	448,725	96,430
Compensation to Key Management	8,169,471	7,237,588
Sub Total	9,337,495	7,664,508

26 CAPITAL COMMITMENTS

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

27 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.

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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:

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.

ACCOUNT	Total Amount	Fully Performing	Past Due	Impaired
	Kshs	Kshs	Kshs	Kshs
At 30 June 2019				
Receivables from Exchange Transactions	19,292,096	5,747,510	13,544,586	-
Bank Balances	2,859,999	2,859,999	-	-
Total	22,152,095	8,607,509	13,544,586	-
At 30 June 2018				
Receivables from Exchange Transactions	22,805,197	4,466,221	18,338,976	-
Bank Balances	487,272	487,272	-	-
Total	23,292,469	4,953,493	18,338,976	-

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.

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ACCOUNT	Less than 3 months	Between 3- 12 months	Over 1 yr	Total
	Kshs	Kshs	Kshs	Kshs
At 30 June 2019				
Trade Payables	5,007,978	988,405	3,098,197	9,094,580
Provisions	3,221,580			3,221,580
Deferred Income	-	-	-	-
Total	8,229,558	988,405	3,098,197	12,316,160
At 30 June 2018				
Trade Payables	2,806,944	267,837	4,199,706	7,274,487
Provisions	2,898,063	-	-	2,898,063
Deferred Income	-	-	-	-
Total	5,705,007	267,837	4,199,706	10,172,550

(ii) 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 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.

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.

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

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iii) 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	2018-19 Kshs	2017-18 Kshs
Revaluation Reserve	-	-
Retained Earnings	2,410,318	11,480,136
Capital Reserves	26,463,863	24,233,863
Share Capital	100,000	100,000
Total Funds	28,974,181	35,813,999
Total Borrowings	-	-
Trade Payables	9,094,580	7,274,486
Less: Cash and Bank Balances	-2,859,999	-487,272
Net debt/(excess Cash and Cash Equivalents)	6,234,581	6,787,214
Gearing Ratio	22%	19%

28 PROGRESS ON FOLLOW UP OF AUDITOR RECOMMENDATIONS

The Company had a qualified opinion on the financial statements for FY 2017-18; the basis for the opinion was:

1. Property, Plant and Equipment

1.1 Assets not transferred to Lake Victoria North Water Services Board

The statement of financial position as at 30 June 2018 reflects property, plant and equipment balance of Kshs. 20,779,488 which includes an amount of Kshs. 14,610,252 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 2018. 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 2018.

Consequently, the validity, accuracy and completeness of property, plant and equipment balance of Kshs. 20,779,488 as at 30 June 2018 could not be confirmed.

Management Comments

The Company could not transfer the assets, for the Financial Year under review, because, while Clause 1.2(4) of the Service Provision Agreement (SPA) requires the Company to transfer some of the assets acquired to LVNWSB, the Water Act (2016) Section 153 (1) and (2) now requires that assets, rights, liabilities, obligations and agreements be vested on county water service providers. The Company therefore stands guided on what can be done on the same.

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Additionally, the Company has initiated the process of acquiring the ownership documents for the land on which the Kapsabet and Nandi Hills offices are domiciled and later carry out the valuation of the same.

Focal person

Mr Anthony Kiboioy – Managing Director

Audit query status

The company has initiated the process of acquiring the ownership documents for the land on which the Kapsabet and Nandi Hills offices are domiciled and later carry out the valuation of the same.

Time frame

One year

The Auditor also pointed out other key matters. These are matters that are significant in the audit and are listed below:

1.0 Trade and Other Payables

The statement of financial position as at 30 June 2018 reflects trade and other payables balance of Kshs. 7,274,486 which includes trade payables of Kshs. 4,855,271 out of which trade payables amounting to kshs 2,922,906 has been outstanding for over 120 days. Under the circumstances, the company is at risk of paying interest on the outstanding creditors.

Management Comments

The Company had challenges on availability of funds and hence did not honour payments to some of its creditors due to the following reasons;

- (i) The County Government of Nandi did not remit the subsidy for payment of electricity to the Company in time and this caused the Company to use its internally generated funds to pay electricity bills.
- (ii) Cash flow challenges arising from the huge outstanding water arrears making it difficult to pay creditors in time.

However, the Company has initiated the process of paying the long outstanding trade and other payables...

Focal person

Mr Simeon Birgen - Accountant

Audit query status

The company has paid some of its Creditors

Time frame

The Company has developed a payment plan that will be agreeable with various entities that are owed

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2.0 Staff Costs

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

During the year, the company employed a total of 8 employees of which all of them were from one ethnic group contrary to sections 7 (1) and (2) of 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 and no establishment shall have more than one third of its establishment from the same community and Section 5(1)(e) of the County Governments Act, 2012. Also, an examination and analysis of the human resource records of the company indicated that, the entity had nine (8) members of the board, four (4) senior management staff and sixteen (16) other permanent and pensionable staff as at 30 June 2018. However, analysis of ethnic background evidenced that, eighty-five per cent (85%) of employees of the company are from the dominant ethnic community contrary to sections 7 (1) and (2) of National Cohesion and Integration Act, 2008 and Section 5(1)(e) of the County Governments Act, 2012. Further, the company did not maintain a scheme of service for its employees showing clearly the points of entry into employment, academic or technical requirements, career progression, promotion requirements, establishment requirements per cadres and others. Consequently, the company was in breach of the law.

Management Comments

The Company received staff from the Ministry of Water and also from the National Water Corporation as per the percentages indicated above.

Furthermore, it is worth to note that most of the staff who transited to Permanent and Pensionable terms (as approved by the Board of Directors) had previously worked in the Company on contract basis for a long time. However, the Board of Directors will observe the rule in future engagements.

Focal person

Mr Anthony Kiboioy – Managing Director

Audit query status

Not achieved

Time frame

All new recruitments will take cognizant of the third rule on staff establishment

1.0 Non-Revenue Water

Records availed for audit review indicated that the Company produced a total of 797,818 cubic meters (M³) of water during the year under review and out of which, 501,162 cubic meters (M³) of water was billed to customers for Kshs. 31,337,330 while the balance of 296,656 cubic meters (M³) or approximately 37% of the total volume of water produced represents non-revenue water. However, the balance of 296,656 cubic meters (M³) for non-revenue water included a volume of 97,202 cubic meters (M³) or approximately 12% which was over and above the allowable loss of 199,455 cubic meters (M³) or 25% of the total production prescribed in the guidelines issued by the Water Service Regulatory board. Consequently, the significant level for non-revenue water of 97,202 cubic meters (M³) or 12 % billed at the rate of Kshs.58.97 per cubic meter (M³) resulted in loss of sales estimated at Kshs. 5,731,972 which had a negative impact on the company's profitability and could erode sustainability of its operations.

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Management Comments

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 losses can be divided into two;

- i) Commercial losses
- ii) Technical/Physical losses

1. COMMERCIAL LOSSES

These comprise of illegal connections, self-reconnections and by-passes along the Company pipeline and meter inaccuracies (stuck meters, faulty meters, meter tampering and old meters). These may constitute a considerable percentage in the NRW declared in the Final Accounts Report. To mitigate against this vice, the Company through its inspection team makes random inspections and raids on our area of coverage to ascertain the above. The Company has an approved penalty sheet with clearly defined charges for those who are found with the above malpractices.

The Company also uses the approved WASREB Regulations to guide on the prosecution of the perpetrators of the above malpractices.

The Company acquired new billing software as an effort to enhance its capacity on data management in addition to rolling out the use of smart phones to be used in meter reading and hence minimize on billing and meter reading errors. The Company has, in every financial year, acquired new meters with the view of achieving 100% metering and hence eliminate the flat rate connections and faulty meters.

2. TECHNICAL LOSSES

These comprises of bursts and leakages arising from;

- (i) Old lines.
- (ii) Previous use of inappropriate pipe classes in high pressure zones leading to frequent bursts.
- (iii) Damages to pipelines due to road works.
- (iv) Lack of planning leading to the frequent interference of lines.

The Company has addressed the above by setting standards on the appropriate use of pipes; rehabilitation of old lines, and is liaising with the County Department of Lands with a view of provision of way leaves for the Company pipelines.

The Company has also formed a dedicated team that will ensure quick response to reported burst and leakages in addition to having an emergency contact line (0716006464) for customers to report any cases of bursts and leakages along the pipelines.

Focal person

Mr Gilbert Rotich- Technical Manager

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Mr David Tuwei- Commercial Manager

Audit query status

Still Over 25%

Time frame

5 Years

4.0 Long Outstanding Trade and Other Receivables

The Statement of Financial Position reflects trade and other receivables figure of Kshs. 20,628,777 which includes an amount of Kshs. 20,417,287 which 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 the measures that have been put in place to ensure the long outstanding debts are recovered. In the circumstances, the recoverability of the long outstanding debts balance of Kshs. 20,417,287 could not be confirmed

Management Comments

The outstanding trade and other receivables is Kshs 18,338,976 and not the amount indicated above

Majority of the outstanding amounts owed to the Company are with the domestic consumers who constitute approximately 90% of the total consumers of the Company. While over 1,100 disconnections have been carried out in majority of those consumers who have outstanding arrears, they have always opted for alternative sources of getting water such as streams, roof catchments, and boreholes among others without clearing their outstanding water bills. Nevertheless, as one of the strategies of collecting the outstanding arrears, the Company has issued demand notices to consumers in addition to making house to house visits with a view to reduce these arrears. Out of these efforts, the Company has realized a considerable reduction in the outstanding arrears.

In addition to the above, 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 rain water, streams and shallow wells, and thus they easily opt to use water from these sources upon disconnection from the Company pipeline without clearing their debts.

Formation of Revenue Collection Unit

Having realized the challenges relating to the collection of the outstanding arrears, the management has formed a revenue collection unit with a sole purpose of collecting the amounts and where necessary give the status of some of debtors with the aim of advising the Management and the Board of Directors on the amounts that are collectable and those that are not collectable. 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.

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The Company has also made part payment arrangements to encourage customers under cut off to pay their debts. In an attempt to address the issue of self-reconnections, the Management has also opted for disconnection from the off-take to ensure the customers do not access the water. The management is in discussion with the Legal Department of the County Government of Nandi to write to the water consumers to remind them of legal action on non-payment of water bills.

Focal person

Mr David Tuwei- Commercial Manager

Audit query status

It has reduced to 13 Million

Time frame

5 Years

29 EVENTS AFTER THE REPORTING PERIOD

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