

REPUBLIC OF KENYA



OFFICE OF THE AUDITOR-GENERAL

**REPORT**

**OF**

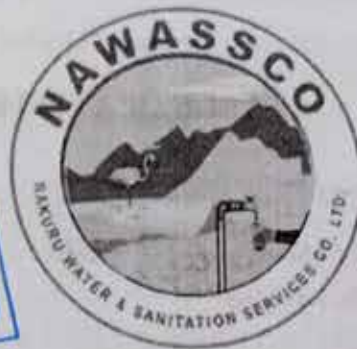
**THE AUDITOR-GENERAL**

**ON**

**THE FINANCIAL STATEMENTS OF  
NAKURU WATER AND SANITATION  
SERVICES COMPANY LIMITED**

**FOR THE YEAR ENDED  
30 JUNE 2018**

OFFICE OF THE AUDITOR GENERAL  
P. O. Box 30084 - 00100, NAIROBI  
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*Enriching Life*

**NAKURU WATER AND SANITATION SERVICES  
COMPANY LIMITED**

**ANNUAL REPORT AND FINANCIAL STATEMENTS**

**FOR THE PERIOD ENDED 30<sup>TH</sup> JUNE 2018**

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

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Nakuru Water and Sanitation Services Company Limited  
 Annual Report  
 For the year ended June 30, 2018  
 KEY EXPLANATIONS  
 (a)

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## **KEY ENTITY INFORMATION**

### **(a) Background information**

Nakuru Water and Sanitation Services Company Ltd (NAWASSCO) is a Private Company Limited by Shares under the Companies Act 2015. The Company was registered on 8<sup>th</sup> September 2003 and it is fully owned by the County Government of Nakuru. Pursuant to the provisions of the Water Act 2016, the Company is an agent of Rift Valley Water Services Board (RVWSB) / County Government of Nakuru and it is mandated with the provision of water and sanitation services in the area under the jurisdiction of Nakuru town east and Nakuru town west sub-counties and its environs.

### **Vision**

“To be the Leading Water Utility in Kenya”

### **Mission**

“To provide Quality, Reliable, Adequate, sustainable water and Sanitation Services to the delight of our customers”

### **Core Values**

These values form the foundation on which we perform our work and conduct ourselves. The values underlie our work, how we interact with each other, and the strategies we employ to fulfil our mission. They are the practices we use every day in everything we do and are a constant description of who we are.

Our core values include the following:

Customer Focus, Professionalism, Integrity, Team Work and Innovation & Creativity

### **(b) Principal Activities**

The mandates of the Company are as follows:

- To ensure that it possesses and retains all the necessary expertise necessary to fulfil the technical, commercial, financial and administrative functions.
- To provide the services within the Service Provider’s Defined Service Area.
- To meet all the required water standards, guidelines and provisions of the Service Provision Agreement (SPA)
- To obtain all necessary licenses, permits and warranties necessary to carry out its obligations in accordance with statutes in force.
- To maintain the assets in good working order and not to dispose of any assets without the authorization of the Licensee.
- To come up with proposals for improvement of the assets so as to enhance service delivery.

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- To propose tariff adjustments to the Licensee and Regulator.

**(c) The Water Sector in Kenya**

The Water Act 2016 created different but complimentary institutions to carry out functions in the sector. This includes:

- Ministry of Water and sanitation –Responsible for policy and direction on water and sanitation services in the country.
- The Water Services Regulatory Board (WASREB) -Responsible for regulation of water and sewerage services in the country.
- Water Works Development Agencies (WWDAs) – Responsible for development, maintenance and management of the national public water works within their areas of jurisdiction.
- Water Service Providers (WSPs) – Are agents of the WWDAs. NAWASSCO is an agent of the RVWSB and it is responsible for provision of water and sanitation services in the jurisdiction of Nakuru Town East and Nakuru Town West sub counties and its environs.
- Water Resources Authority (WRA). Responsible for regulation, management and use of water resources.
- National Water Harvesting Authority- Responsible for the development and management of national public water works for water resources storage and flood control.
- Water Sector Fund- Responsible for the provision of conditional and unconditional grants to counties in addition to the equalisation fund and to assist in financing the development and management of water services in marginalised areas/ underserved areas.
- County Governments- Under the constitution 2010, water and sanitation services is a devolved function under the County Governments

**(d) Shareholding**

The Company is fully owned by the County Government of Nakuru and is registered with 5,000 shares of Kshs. 20 each. According to the Company Memorandum and Articles of Association the shares are held in trust are as follows:

Shareholding	Number of Shares Held
The County Government of Nakuru	4,996
His Excellency the Governor of County Government of Nakuru	1
The County Executive Committee Member, Finance & Economic Planning, County Government of Nakuru	1
The County Executive Committee Member, Water, Environment, Energy & Natural Resources, County Government of Nakuru	1
The County Secretary, County Government of Nakuru	1
<b>TOTAL</b>	<b>5,000</b>

Each person has one voting right and the County Government is represented by a proxy during meetings.

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**Auditors**

The Company Auditor is the Auditor General, KENAO of P.O BOX 30084 Nairobi as provided for by the Public Audit Act 2003.

**Registered office**

NAWASSCO Plaza  
Government Road  
P.O Box 16314-20100  
NAKURU

**Main bankers**

Co-operative Bank of Kenya  
Nakuru Branch  
P.O. Box 2982-20100  
NAKURU

**Corporate Contacts**

Telephone: +254221269  
E-mail:  
info@nakuruwater.co.ke  
Website:  
www.nakuruwater.co.ke

**Principal Advocates**

Kipkoech Ogolla & Co.  
Advocates  
Tamoh Plaza ,2<sup>nd</sup> Floor  
P.O Box 17580  
NAKURU

By order of the Board

  
**SECRETARY**

Dated

21/9

2018

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**BOARD OF DIRECTORS' & MANAGEMENT TEAM**

**Board of Directors**



The Company has a Board of Directors which is responsible for:

- a) The efficient management of the human, physical, and financial resources of the Company;
- b) Making policies for the Company;
- c) Approving Strategies and Development plans for the Company;
- d) Any other matters related to the management of the Company;

Members of Board of Directors who held office during the year under review were the following:



1	NAME	PROFILE
	 Eng. John Karanja Kimani Non-Executive (Chairman)	<p>Eng. Karanja, 63, was appointed on 3<sup>rd</sup> February 2016 to represent Resident organisations and he is the <b>Chairman of the Board</b>.</p> <p>He was formerly the Branch Chairman of Agricultural Society of Kenya, Central Rift Branch. He has been involved in various assignments in the county which include; the fabrication and erection of Nyayo and Afraha Stadiums flood light towers, structural steel works for Menengai Oil Refineries, civil and mechanical works for the automation of the Seven Folks Dam in the installation of the SCADA systems, and many more private projects such as churches, go downs, petrol stations canopies and foot bridges. Outside the country he was involved in the rehabilitation of several tea factories under Ocir Tea in Rwanda, major expansion of Tanwett Factory for Rai Group of Companies in Njombe Tanzania. He was also involved in a major expansion of Kinyara Sugar Factory for Rai Group of Companies in Northern Uganda.</p> <p>Karanja has a Degree in Bachelor of Science in structural Engineering. Eng. Karanja has attended various courses in leadership and corporate governance and project management.</p> <p>Karanja has business interests in Nakuru Town and he has a vast experience in structural engineering and construction spanning for over 35 years.</p>

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	<b>Non-Executive Director</b>	Audit & Governance Committee.
6	 <p>Ibrahim Mohamed Osman <b>Non-Executive Director</b></p>	<p>Mr Mohamed Osman, 46, was appointed on 23<sup>rd</sup> May 2016 to represent the Manufacturing Community. He is a member of Jua Kali Association (small manufacturers)</p> <p>He is currently pursuing a degree in business management at St Pauls University and he is a trustee of Jamia Muslim Association. He has wealth of experience in managing businesses in Nakuru town.</p> <p><b>Committee membership:</b> Audit &amp; Governance and Finance &amp; Staff committee.</p>
7	 <p>Eng. Festus K. Ngeno <b>Non-Executive Director</b></p>	<p>Eng. Ngeno, 38, was appointed on 9<sup>th</sup> September, 2017 and he represents the County Government of Nakuru. He is the County Executive Committee Member (CECM) in charge of Water, Environment, and Energy &amp; Natural Resources. Other positions he has held before include: Group Manager, Water Treatment Division at Davis &amp; Shirliff Ltd, and Managing Director at Kericho Water &amp; Sanitation Company Ltd.</p> <p>Eng. Ngeno sits in other Boards including: Council of Governors on Water, Forestry &amp; Mining -CECMs Caucus, World Vision Kenya (WVK), Nakuru Rural Water &amp; Sanitation Services Co. Ltd, Naivasha Water &amp; Sanitation Company Ltd and Imarisha Lake Naivasha Management Board.</p> <p>Eng. Ngeno is a Water, Sanitation &amp; Environmental Engineer. He has degree in BSc Water &amp; Environmental Engineering from University of Nairobi, a Masters degree in MSc, Water &amp; Environmental Engineering from University of Nairobi and Currently pursuing a Doctorate Degree (PhD) in Water &amp; Environmental Engineering at the University of Nairobi. He also has a Post Graduate Diploma Course in Leadership &amp; Corporate Governance from Kenya College of Accountancy (KCA) University.</p> <p>He has eleven (11years) in-depth hands-on experience and expertise in Water, Sanitation, Environmental and GIS sectors. In addition he has good experience in the Public and Private Sector at Senior Management Level Managing Operations in Kenya, Uganda, Zambia, S. Sudan, Rwanda, Tanzania and Ethiopia.</p> <p><b>Committee membership:</b> Technical &amp; Social and Audit&amp; Governance Committee.</p>
8		Mr Joseph Kiuna, 51, was appointed on 15th November 2017 and he represents the County Government of Nakuru. He is the County



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 <p>Joseph W. Kiuna  <b>Non-Executive Director</b></p>	<p>Executive Committee Member (CECM) in charge of Finance and Economic Planning.</p> <p>Mr. Kiuna has worked in the Kenyan Insurance industry for over 22 years and is a Chartered Insurance Practitioner. Among the positions he has held before include: CEO Britam General Insurance Company; Group CEO Real Insurance Company Limited; Deputy Managing Director Madison Insurance Company Limited; Division Director AON Minet Insurance Brokers and General Manager Chancery Wright Insurance Brokers Limited.</p> <p><b>Committee membership:</b> Audit &amp; Governance committee (<b>Chairman</b>) and Finance &amp; Staff committee.</p>
<p>9</p>  <p>James N. Gachathi  <b>Managing Director</b></p>	<p>Mr Gachathi, 49, was appointed on 26<sup>th</sup> June 2014 as the Managing Director. Before his appointment, Mr Gachathi was the Technical Manager having been appointed on 23<sup>rd</sup> October 2007.</p> <p>Before joining the Company, Mr Gachathi was the Technical Manager of Nyahururu Water and Sanitation Company.</p> <p>He has a Degree in Bachelor of Science in Civil Engineering from University of Nairobi and on –going student of MBA (Strategic Management Option) at Egerton University.</p> <p>He has a rich experience in Water Sector spanning for over 21 years</p>

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**CORPORATE MANAGEMENT TEAM**

The day to day operations of the Company is run by Corporate Management Team (CMT) headed by a Managing Director.

The following are the Corporate Management Team:

	NAME	PROFILE
1	 James N. Gachathi <b>Managing Director</b>	<p>Mr Gachathi, 49 years old was appointed on 26<sup>th</sup> June 2014 as the Managing Director. Before his appointment, Mr Gachathi was the Technical Manager having been appointed on 23<sup>rd</sup> October 2007.</p> <p>Before joining the Company, Mr Gachathi had worked as the Technical Manager of Nyahururu Water and Sanitation Company.</p> <p>He has a Degree in Bachelor of Science in Civil Engineering from University of Nairobi and on -going student of MBA (Strategic Management Option) at Egerton University. Mr Gachathi has a rich experience in Water Sector spanning for over 21 years.</p>
2	 Isaac Mokaya Makori <b>Finance Manager</b>	<p>Mr Makori, 49, was appointed on 18<sup>th</sup> May 2009.</p> <p>Before joining the Company, Mr Makori had worked at Pyrethrum Board of Kenya. He is experienced in Financial and Management Reporting, people management, monitoring and evaluation, Taxation and project Accounting. He has 23 years of work experience.</p> <p>Mr Makori holds a Bachelor of Commerce (Accounting Option) from Kenyatta University and an MBA (Finance Option) from Kenya Methodist University. He is CPA (K) and a Member of the ICPAK. He is also a Certified M&amp;E expert, and a member of Kenya Institute of Management. He served as a member of the Local Committee at Kenya Revenue Authority, Nakuru for 2 years</p>
3	 James Muthee Gathairu <b>Commercial Manager</b>	<p>Mr Gathairu, 49, was appointed on 18<sup>th</sup> May 2009.</p> <p>Before joining the Company, Mr Gathairu was an accountant with Kenindia Assurance Co. Ltd for 7years and Chief Accountant with BlueShield Insurance Co. Ltd for 7 years. He has a rich experience in finance and business development spanning for over 23 years.</p> <p>Mr Gathairu holds a degree in Bachelor of Arts (Business Studies &amp; Economics) from Kenyatta University and an MBA (Finance Option) from University of Nairobi. He has CPA (K) and is a Member of ICPAK.</p>

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4	 <b>Joseph John Githinji</b> <b>Internal Audit Manager</b>	<p>Mr Githinji, 43, was appointed on 1st November 2013.</p> <p>Before joining the Company, Mr Githinji previously worked with M/s Kariru &amp; Associates (Certified Public Accountants), Kenya Wildlife Service (KWS) (Ag. Manager Internal Audit and Mombasa Water (Internal Audit Manager).</p> <p>He has a rich experience in Accounting spanning for a over 18 years</p> <p>Mr Githinji holds a degree in International Business Administration (Finance Option) from United States International University (USIU). He has CPA (K) and CS (K). He is a Member of the ICPAK and CS(K)</p>
5	 <b>Margaret Wanjiru Kinyanjui</b> <b>Technical Manager</b>	<p>Ms Wanjiru, 34, was appointed on 1<sup>st</sup> September, 2018</p> <p>Before joining the Company, M/s Wanjiru worked as the Technical Manager of Nanyuki Water &amp; Sewerage Company. Prior to Nanyuki Water Company, she was the Operations Manager Nyahururu Water &amp; Sanitation Company and Assistant Resident Engineer of JBG GAUFF INGENIEURE.</p> <p>Ms Wanjiru holds a BSc degree in Water &amp; Environmental Engineering from Egerton University and an MSc in Project Planning &amp; Management from Jomo Kenyatta University of Agriculture &amp; Technology (JKUAT). She is a Certified M&amp;E expert, and has various certificates in AUTOCAD, MS Project and leadership.</p> <p>She has a rich experience in Water &amp; Sanitation Management spanning for over 8 years</p>
6	 <b>Mrs Anne Chepkorir Turgut</b> <b>HR &amp; Admin. Manager</b>	<p>Mrs Anne C. Turgut, 51, was appointed on 1st September, 2018.</p> <p>Before joining the Company, Anne worked as the County Director Human Resources, County Government of Bomet, but Seconded to Bomet Water Company. Prior to that she worked at Central Bank of Kenya where she served for 22 years in various departments including Research, Currency Operations and Branch Administration and Human Resources.</p> <p>Anne holds a degree in Bachelor of Commerce (HRM Option) from Kenyatta University and a Masters degree in Organizational Leadership from International Leadership University. She also holds a Diploma in HR, PR, and Banking.</p> <p>Anne is currently pursuing a PhD in Management and Leadership at Management University of Africa.</p> <p>Anne is a certified life coach and Practicing Member of the Institute of Human Resources Management (IHRM). She has a rich experience in Human Resource Management and leadership spanning for over 15years</p>

## CHAIRMAN'S STATEMENT

On behalf of the Board of Directors, am pleased to present to you an overview of the annual report and financial statements of the Company for the year ended 30<sup>th</sup> June 2018. The strong foundation that we have laid over time by embracing our vision to be the leading Water Utility in Kenya; supported by a robust governance structure; continue to drive growth in NAWASSCO and providing momentum for a secure future.

The demand for water and sanitation services in Nakuru continues to increase due to expansion of Nakuru Town and given the limited sources of water. The water demand is at over 70,000m<sup>3</sup> per day against an average supply of 40,000m<sup>3</sup> per day but National Government is constructing a dam at Mau Forest (Itare Dam) which will bring an additional 100,000m<sup>3</sup> by the year 2021. Water coverage is currently at 92% while sewerage coverage is at 27% for which various development partners have expressed interest for its network extension.

### Operating Environment

During the period under review the Kenyan economy recorded a growth rate of 5.6 % compared to 5 % in 2016/17 financial year due to the growth of the economy arising from less political activities and public acceptance of the bank interest rates capping which had constrained credit expansion leading to reduced private sector investment. In the water industry, the cost of electricity which is the most common input remained high due to electricity tariff thus becoming the highest component in the cost of water production. The cost of chemicals and other inputs was maintained.

### Financial Overview

The financial performance during the period remained almost the same as the previous year as the company recorded a pre-tax profit of Kshs9.4M compared to a Kshs12.2M during the previous year. The marginal decline in performance was mainly attributed to some increase in revenue realised compared to the previous year as a result of increased volumes of water produced and increase in cost of sales arising from increased volumes of bulk water purchased.

The cost of electricity remained the same at Kshs16m per month net of VAT during the two years. The cost of personnel went up due to review of salaries for staff and payment of gratuity for contract employees. Other operating and maintenance costs increased due to maintenance of pumps & motors, buildings, sewer networks and sewerage treatment plants.

### Business Development

During the period under review, the company continued to partner with donors in the funding of various projects.

The Up-scaling Basic Sanitation for the Urban Poor (UBSUP, through Water Sector Fund supported the Low-income consumers through construction of toilet facilities and sewerage services (emptying,

dumping services and treatment of sludge). The UBSUP project targets the construction of 1000 No. of toilets which is expected to reach 10,000 people. In addition the project funded construction/rehabilitation of sanitation facilities at both the household and plot level whereby the household/landlord cover more than 50% of the cost of investment, emptying of sanitation facilities and disposing of sludge.

The construction of the Itare Dam water project being implemented by the Rift Valley Services Board and National Government funded by the Italian Government is progressing well. The project is expected to produce over 100,000 m<sup>3</sup> of water per day compared to the current sources of water which produce 40,000 m<sup>3</sup> of water per day against a demand of 70,000 m<sup>3</sup> of water per day by the year 2021.

RVWSB through the Belgium Government funded replacement of 51KM of AC pipes with HDPE pipes in the central zone. This will assist in the reduction of NRW.

The Nakuru County Sanitation Programme, a European Union co-funded project implemented under the Company's Low Income Consumer Section (LICs) in partnership with the Nakuru County Government, Vitens Evides International (VEI) and Egerton University researched and developed a biomass fuel and fertilizer from faecal matter. The briquette product which is carbonised round shaped is made from faecal matter and sawdust with molasses as a binder. The innovative biomass fuel provides an environmentally sustainable, hygienic/clean and potentially affordable source of fuel targeting both domestic and industrial usage thus contributing to the conservation of the forests. The product has a high demand as a source of energy in the country. The business will also help to address the issue of sanitation in the unsewered low income areas of Nakuru County by using the faecal sludge/matter collected from these areas as a key raw material for the production of briquettes. The briquette factory is currently being managed by NAWASSCOAL a subsidiary of the company. After the up scaling of the production the factory will produce up to 250 tonnes per month selling at a price of Kshs30 per a kilo.

### **Corporate Social Responsibility**

The Company is more than a business that has served the community since 2004. The Company's Corporate Social Responsibility (CSR), policy sets out the guiding principles by which the organization is run in order to fulfil its core mission. This policy brings together the ways in which the Company ensures, at corporate level, that its activities are carried out ethically, sustainably and for the public benefit.

During the period under review, the Company was involved in a number of initiatives which have benefited the surrounding community. The initiatives are in line with the right to water and sanitation as enshrined in Chapter 4 (41 & 43) Kenyan Constitution – The Bill of Rights. Our initiatives are focused on the environment, good business and ethical labour practices.

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To the employees, the Company is committed to being a good employer, and contributes positively to the creation of employment in the Country and Nakuru County. As an employer the Company is committed to ensuring that all the employees are fully supported in their work, have a decent working environment, are fairly rewarded, and maintain a good work-life balance. The Company recognizes staff trade unions that represent and protect their interests. The Company has in place two retirement benefits schemes (Pension and NSSF) for its staff which will provide earnings during the retirement period. In addition the Company has a medical and accident cover for its staff. The Company also carries out employee satisfaction survey after every two years with a view of improving the conditions and working environment of its employees and keep in touch with emerging employee issues. The company also participates in the WASCO games where the staffs have an opportunity to participate in various games and interact with staff from other water companies.

To the Local Community the Company has always ensured that the water available is distributed equitably to all the customers and sewer systems are maintained. The Company is a major stimulus for economic growth in Nakuru region. Rapid housing development has occurred in Nakuru Town making it one of the fastest growing Towns. Land values in town have increased as a result of the services offered by the Company. The Company has also partnered with donors in the area of sanitation by funding the construction of toilets at public schools and other low income settlement areas of Nakuru Town to ensure a clean environment. Through the partnership with Water and Sanitation for the Urban Poor (WSUP), the Company completed expanding sewer network at Mwariki A estate and currently working on Githima estate sewer line which will greatly improve the sanitation standards in the area. To serve the community around us which don't have piped water, the company has a water tanker donated by the County Government of Nakuru which will be used to ferry water at a fee. The Company was also able to assist the Solai Dam Tragedy victims by donating Kshs 100,000/- through to the Red Cross Society. The company also participated in the Nakuru Agricultural Society of Kenya show where various products and services were displayed including: water and sewer services, briquettes (MakaaDotcom) and bio-fertilisers. During the ASK show, the company attended to customers and answered their queries.

To the Customers who are the pillar of the Company's existence, great concern is put to ensure their satisfaction. Annually, the company conducts a customer satisfaction survey to ascertain whether the efforts put by the Company are felt by the customers and issues raised are addressed promptly. During the period, the company with the help of a consultant conducted a Customer Satisfaction Survey in which the company managed to attain a Customer Satisfaction Index of 73%. The noted Key improvement was on Communication to Customers on issues affecting them. The Company annual open day was held at Standard Chartered Grounds on 20<sup>th</sup> & 21<sup>st</sup> June 2018 for all the zones whose aim was to bring services closer to the customers and we were able to display various products and services including; Water, Laboratory Services, briquettes (Makaa Dotcom) and bio-fertilisers. During this two day activity, the company staffs were able to interact with customers and deal with various complaints.

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On taking care of persons Living with Disability all stations were fixed with detachable rumps for ease of entry for persons confined to wheel chairs. A desk offering special services to persons living with disability was put in place at the head office. In addition one special toilet for persons living with disability was rehabilitated at the head office.

The Company is committed to service delivery to its customers by creating a customer friendly environment. The Company does this activity by use of customer voice and choice system which records all customer complaints and provision of feedback once the complaints are resolved. In addition the Company also in an effort to improve service delivery to customers holds meetings with Focus Group Discussions in all Zones Low, Income Areas with Low income Consumer Section with the aim of improving communication to customers and get feedback on service provision.

To the Environment, the Company which is located within a touching distance of Mau and Aberdare Forests and the Lake Nakuru National Park recognizes environmental sustainability as the greatest challenge of the 21st century and commits to ensuring that all its major strategies and operations consider environmental and ecological aspects and impacts. The Company participates in the conservation of the environment by planting trees at Aberdare and Mau forests. The Company ensures that discharge to Lake Nakuru National Park meets the required standards by conducting regular tests through its laboratory which is ISO 17025 certified. The Company also support initiatives that minimize our impact on the environment and help create a sustainable community by working closely with NEMA and various county departments such as the Environment and Public Health to enhance and protect the environment around us. In addition the Company has also developed briquettes (charcoal) called Makaa.com from human waste (faecal matter). Faecal matter (human waste) is an invaluable resource that can be harnessed for economic, health and environmental development. The faecal matter briquettes help in the mitigation of climate change risks brought about by deforestation and using dirty fuels i.e. petroleum based products.

The Company continued to partner with donors in the area of sanitation by funding the construction of toilets in low income settlement areas of Nakuru Town. Under WSF program the company got funding for construction of 783 toilets were at a cost of Kshs 14,070,000 including the emptying of sanitation facilities and disposing of sludge at the company waste water treatment plants. Under the Nakuru County Sanitation Programme (NCSP) the company has been striving to demonstrate and implement a commercially viable sanitation value chain which is targeted to benefiting residents of un-sewered Low Income Areas of Nakuru town whereby the major focus of the programme was increased hygiene awareness campaigns and training support based on assessed needs of target group. The programme also supported in sanitation marketing and monitoring of toilet construction in Nakuru West – Mwariki A, Rhonda and Kaptembwo in which total of 3,612 toilets were constructed at a total cost of Kshs. 33, 329,250. In addition, a School sanitation programme was able to support construction of sanitation facilities in three public schools within Nakuru town.

**Future Outlook**



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During the year the company completed the implementation of its 2013-2018 business plan. The plan had detailed various investment plans which ensured NAWASSCO's growth including the completion of Itare Dam Water Project by RVWSB. The project implementation is in progress and is projected to be completed by the year 2021. The review of the new strategic plan for 2018/19 to 2022/23 is in progress and will be launched in the 2018/19 financial year. The main objectives of the new strategic plan are: increased water production to meet the demand, reduction of NRW, financial sustainability, improved corporate image & visibility and improved customer service.

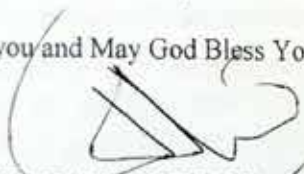
The company enjoys donor confidence due to its leadership and good corporate governance. This is evidenced by the success in implementation of minor projects and partnership with the EU, WSTF, WSUP, UBSUP and County Government of Nakuru.

Finally the future of NAWASSCO looks bright. The company has positioned itself to produce more water to meet the demand and increase sewer network.

**Appreciation**

I would like to appreciate all our stakeholders, more so the County Government of Nakuru and Development partners for their solid commitment and support during the year ended on 30<sup>th</sup> June 2018. To our esteemed Customers, thank you for your loyalty and support. Thank you my Board colleagues, the management and staff for the good work and together we celebrate our achievements for the year 2017/18. Let us all practice our core values of Customer focus, Professionalism, Teamwork, Integrity, Innovation and Creativity to the delight of our customers so as to make a difference in our country.

Thank you and May God Bless You all



**JOHN KARANJA KIMANI**  
**CHAIRMAN, BOARD OF DIRECTORS**

I am pleased to present the Annual Report and Financial Statements of NAWASSCO for the year ended 30<sup>th</sup> June 2018. This is the 14<sup>th</sup> annual report and financial statements for the Company and demonstrates how far we have come.

NAWASSCO has continued to gain momentum over the short period since inception. The company has in place a Strategic Plan (2013-2018) which is used to improve service delivery and ensure achievement of set targets by emphasizing on areas of priority in provision of water and sanitation services. The review of the new strategic plan 2018/19 to 2022/23 is in progress to be launched in the 2018/19.

### **Financial Overview**

The financial performance during the period remained almost the same as the previous year as the company recorded a pre-tax profit of Kshs9.4M compared to a Kshs12.2M during the previous year. The marginal decline in performance was mainly attributed to some increase in revenue realised compared to the previous year as a result of increased volumes of water produced and increase in cost of sales arising from increased volumes of bulk water purchased.

The cost of electricity remained the same at Kshs16m per month net of VAT during the two years. The cost of personnel went up due to review of salaries for staff and payment of gratuity for contract employees. Other operating and maintenance costs increased due to maintenance of pumps & motors, buildings, sewer networks and sewerage treatment plants.

### **Service Delivery**

During the year under review, as envisaged in one of our core values of customer focus, the company continued to maintain satisfactory levels in service delivery. The water produced was distributed to customers equitably through a rationing programme. During the period the average water supply was 16hrs/day compared to 16hrs per day in 2016/17 and the amount of water provided was an average of 33,999m<sup>3</sup> per day compared to 30,136m<sup>3</sup> per day in 2016/17. The Non-Revenue Water was 35% compared to 31% in 2016/17.

Generally there was a remarkable improvement in service delivery and the following activities were carried out: -

- (i) Renewal of water network by changing from Asbestos Cement (AC) pipes to high density poly ethylene (HDPE) pipes in Central Zone including the district master meters and customer connections.
- (ii) Maintenance of water distribution network
- (iii) Maintenance of sewer network
- (iv) Improvement of sanitation at the low income areas
- (v) Continued use of customer complaint tracking module
- (vi) Continued with upscaling the production of briquettes (charcoal) from faecal matter (human waste) and saw dust.
- (vii) Took the customer services closer to the customers by partnering with Mpesa and banks on revenue collection.

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The Company has in place a social connection policy which seeks to intervene in the challenges of accessibility, affordability, and reliability of clean safe water and sanitation in the low income areas.

### **Staff Development**

During the period, the company continued to improve staff competence in an effort to maintain good service delivery.

The managers who are members of various professional bodies attended seminars, workshops and symposiums for the purpose of improving their skills, networking and job satisfaction. Other soft programs including the training of peer educators on HIV and Environmental Health & Safety activities were also carried out by providing PPE's as guided by the Occupational Health and Safety Act to employees exposed to various types of hazards. On Industrial Relations a healthy and cordial relationship was maintained between Kenya County Government Workers Union and the management through continuous consultation and engagement on various issues affecting employees. On Staff Retention, motivation and welfare, the company ensured total compliance with all policies put in place including the CBA and encouraged employee involvement and participation through staff meetings across all departments; as a result, risks of high labour turnover rates were mitigated. Interdenominational Monthly prayers continued to be held on every last Friday of the month throughout the period with participation from all employees to enhance cohesion and harmony. In addition an enhanced 24 hour employee insurance cover (WIBA and GPA) was procured for all employees for injuries sustained in occupational/non –occupational accidents and an executive medical cover was procured for all employees across the establishment.

On Learning and Development, the employees across all cadres attended various trainings/workshops for performance and skill enhancement as guided by a comprehensive Learning and Development plan.

In addition our staff participated in the WASCO games held at Bungoma in which they won various trophies and had an opportunity to interact with staff from other water companies. All these were carried out to ensure a health, motivated and satisfied workforce who will in turn contribute immensely to the growth of the company. During the year, WSUP also sponsored capacity building programmes for staff through trainings and benchmarking visits.

### **Future Plans**

The Company has however faced similar challenges over the years which include limited sources of water, old infrastructure and low sewer coverage due to low funding. These are being addressed through other mechanisms that include partnerships with County Government, National Government and other Development Partners. The construction of the Itare Dam project through the Rift Valley Services Board and National Government funded by the Italian Government is in progress and it is expected to be completed in the year 2021. The project is expected to produce over 100,000 m<sup>3</sup> of water per day in addition to the current water production of 40,000m<sup>3</sup> of water per day against a demand of 70,000m<sup>3</sup> of water per day.

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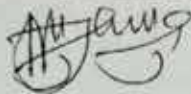
water per day in addition to the current water production of 40,000m<sup>3</sup> of water per day against a demand of 70,000m<sup>3</sup> of water per day.

The company will continue partnering with WSTF, EU/Vitens Evides, WSUP and UBSUB for funding projects in the low income areas.

**Appreciation**

I take this opportunity to thank the County Government, Shareholders, Board of Directors, Management, Staff, and other stakeholders for their mutual cooperation, and continued support.

**Thank you and best wishes to you all**



**JAMES N. GACHATHI**  
**MANAGING DIRECTOR**

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**CORPORATE GOVERNANCE STATEMENT**

The Board of Directors of NAWASSCO is responsible for the overall management of the Company and is committed to ensuring that its business and operations are conducted with integrity, professionalism, and in compliance with the law, internationally accepted principles and best practices in corporate governance.

In the recent years various recommendations have been made in several legal and professional publications in an attempt to determine the most appropriate way for companies to be structured to achieve the highest standards of corporate governance. The Board is committed to full compliance of all the relevant laws including the Guidelines on Corporate Governance issued by the Regulator, WASREB

The Corporate Governance of NAWASSCO takes place within a framework which exists to regulate and/or guide the conduct of Board members, staff, customers and members of public in assessing the Company's facilities and services. The objective of the framework is to provide for the effective, ethical and accountable governance and management of the Company. The key instruments within the governance framework are:

- The Kenya Constitution
- The Water Act 2016
- The Companies Act, 2015
- The Public Financial Management Act 2012
- The Public Financial Management Regulation 2014
- The Public Procurement and Asset Disposal Act 2015
- Employment Act 2007
- The NAWASSCO Service Charter
- NAWASSCO approved policies and procedures

For the sake of coherence and legitimacy, it is in the best interest of the Company that its conduct be regulated by the most appropriate type of governance instrument.

**The Board of Directors**

The Company Board of Directors are appointed in accordance with section 69 of the Company's Articles of Association

The Board of Directors are responsible for the following: -

- Implementation of Memorandum and Articles of Association
- Provision of guidelines and control function of the Company
- Approval of the organisation structure and maintenance of staff terms and conditions of service
- Approval of business plans and budgets

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- Provision of management guidelines
- Approval of major contracts/projects
- Approval of tariff adjustment
- Prudent investment of funds to ensure continuity of service
- Appointment of Corporate Management Team

The Board is responsible for drawing and implementing strategies for the long term success of the company as well as carrying out the fiduciary duty of monitoring and overseeing the activities of management. The Board meets regularly and has a formal schedule of meetings to discuss matters reserved for its decision with a view of determining and reviewing the strategies of the Company and overseeing the Companies compliance with statutory and regulatory obligations.

Notices and agenda for all Board meetings are circulated to all Directors on a timely basis together with the respective documents for discussion.

### **Composition of the Board**

The Board is composed of 8 non-executive Directors including an independent Chairman and one executive director who is also the Managing Director. The Directors represent various stake holding. They have a wide range of skills and experience and each contributes independent judgement and knowledge to the Board's discussions.

On appointment, each Director is provided with a comprehensive and tailored induction process covering the Company's business and operations and also provided with information relating to their legal and regulatory obligations.

All the Directors except the Managing Director and representatives of the County Government are required to submit themselves for re-election in accordance with the Company's Articles of Association.

### **Board Meetings**

The Board meets 6 times in one financial year.

### **Board Committees**

The Board has constituted 3 sub-committees chaired by one director in each, namely Finance and Staff, Technical and Social; and Audit and Governance. Each committee meets 4 times in one financial year.

The Board appoints other committees as and when necessary.

## MANAGEMENT DISCUSSION AND ANALYSIS

### 1. Operational and Financial Performance

- Service Delivery

On Service Delivery the following was achieved against the set targets:

Target Description	Target	Actual	Comments
Water Coverage (%)	92	92	The water coverage was maintained because during the period under review the company did not have new sources of water until the year 2021 when Itare Dam project is expected to provide an additional 70,000M <sup>3</sup> of water per day to supplement the current sources producing an average of 40,000M <sup>3</sup> of water per day
Water quality standards (%)	100	100	This was achieved due to daily monitoring of the quality using our laboratory which is ISO 17025 certified.
Non-Revenue Water (NRW) (%)	30	35	This was not achieved due to road construction going on in town which led to damages of the pipes thus causing water leakages. In addition water was lost during the replacement of pipe network from Asbestos cement (AC) pipes to High Density Poly Ethylene (HDPE) pipes
Hours of Supply (Hrs)	17	16	This was not achieved due to power outages at the borehole stations and prolonged drought which affected the water levels at the rivers and boreholes. In addition the contracted bulk supplier of water supplied an average of 2700M <sup>3</sup> against a target 4300M <sup>3</sup>
Metering ratio (%)	94	96	This was achieved due to the efforts which company has put in place to achieve 100% metering ratio.
Collection Efficiency (%)	92	95	This was achieved due to the efforts which company has put in place to achieve 100% collection efficiency. However we have a challenge in collecting revenue from the County Government of Nakuru who are not paying their water bills and are in arrears of Kshs60m

• **Financial Performance**

The financial performance during the period remained the same as the previous year as the company recorded a pre-tax profit of Kshs9.4M compared to a Kshs12.2M during the previous year. The marginal decline in performance was mainly attributed to some increase in revenue realised compared to the previous year as a result of increased volumes of water produced and increase in cost of sales arising from increased volumes of bulk water purchased.

Cost of electricity remained almost the same at Kshs16m per month vet of VAT during the two years. The cost of personnel went up due to review of salaries for staff and payment of gratuity for contract employees. Other operating and maintenance costs increased due to maintenance of pumps & motors, buildings, sewer networks and sewerage treatment plants.

**2. Key Projects/ Investments Decisions Implemented or Ongoing**

**i. Improvement of Distribution Network at the Central Zone**

The company is operating an old water network which is prone to water leakages. The RVWSB funded by the Belgium Government, replaced 51km of aged AC water pipes with HDPE pipes in the Central Zone with aim of reducing NRW. The cost of the project has been incorporated in the books of the asset owner RVWSB.

**ii. Itare Dam**

The Company is faced with the challenge of limited sources of water. The current water production capacity is 40,000m<sup>3</sup> of water per day against a demand of 70,000m<sup>3</sup> of water per day. As a mitigating measure, the National Government through RVWSB is constructing the Itare Dam water project funded by the Italian Government and upon completion in the year 2021 it is expected to produce over 100,000 m<sup>3</sup> of water per day out of which 70,000M<sup>3</sup> per day will get to Nakuru Town. Upon completion the cost of the project has been incorporated in the books of the asset owner RVWSB. However, for the last 4 months the works are not going on because of the financial constraints facing the Contractor.

**iii. Briquette Factory**

The Nakuru County Sanitation Programme, a European Union co-funded projects implemented under the Company's Low Income Consumer Section (LICs) in partnership with the Nakuru County Government, Vitens Evides International (VEI) and Egerton University researched and developed a biomass fuel and fertilizer from faecal matter. The briquette product which is carbonised round shaped is made from faecal matter and sawdust with molasses as a binder. The innovative biomass fuel provides an environmentally sustainable, hygienic/clean and potentially affordable source of fuel



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targeting both domestic and industrial usage thus contributing to the conservation of the environment.

According to the studies the product as a source of energy has got a high demand in the country. The business will also help to address the issue of sanitation in the unsewered low income areas of Nakuru County by using the faecal sludge/matter collected from these areas as a key raw material for the production of briquettes.

The briquette factory is currently being managed by NAWASSCOAL a subsidiary of the company. After the up scaling of the production, the factory will produce up to 250 tonnes per month selling at a price of Kshs30 per a kilo.

### 3. Compliance with Statutory Requirements

The company is compliant with the various statutory requirements including:

- **Salaries Deductions**- The salaries and allowances were paid on time and remittances of statutory deductions to Pension Scheme, KRA, NSSF, NHIF and SACCOs were done before due dates. As a result the company won a trophy from its Pension Administrator –CPF for timely remittance of pension monies in the sector.
- **VAT**. The Company being a VAT withholding Agent of KRA was able to file monthly returns on time.
- **CORPORATION TAX** return was promptly filed with KRA
- **NEMA** requirements were complied with by obtaining the licences for our sewer treatment plants and regularly monitoring through our ISO certified laboratory that the discharges to the environment meet the standards.
- **WASREB** levies were remitted.
- **WARMA** water abstraction fee was paid promptly.
- **NITA** industrial training levy was remitted on a monthly basis

However an amount of Kshs 5,562,345.00 owed to National Social Security Fund has not been paid as it relates to the liabilities which were inherited from the defunct Municipal of Council of Nakuru. We disputed the amount because we were informed that the debt had been settled during the time of Local Authorities Transfer Fund (LATF) and County Government of Nakuru is currently assisting the employees who are retiring to access their benefits.

### 4. Major Risks Facing the Organisation

Various major risks are currently facing the company. These include:-

#### i. Water Bills Amount Owed by the County Government of Nakuru

The County Government of Nakuru currently owes the company several months' water bills amounting to Kshs60m which they have not settled despite several meetings and reminders. This has caused a challenge to the company in meeting its financial obligations.

**ii. Water Bills Amount Owed by the Defunct Municipal Council of Nakuru (MCN)**

The former MCN owes the Company Kshs215m which they refused to pay but continued demanding for services which led the company face a lot of financial difficulties in settling its debts which had accumulated. We were informed that the amount owed by the defunct MCN was handed over to the defunct Transitional Authority which is yet to be settled.

**iii. VAT Refund Claims Owed by Kenya Revenue Authority (KRA)**

The Kenya Revenue Authority stopped refunding VAT refund claims in February, 2015 and currently owes the company Ksh96m because of the issues of VAT on sewer and meter rent incomes which they said are VAT exempt and not water related to qualify for 0% VAT rate. The water companies disputed KRAs interpretation of the VAT Act which led to suspension of VAT refunds. In addition in the Finance Act 2018 water services income were also moved from 0% VAT rate to exempt denying the Water Companies VAT refunds which is used to subsidize the expenses thus making water and sanitation services expensive.

**iv. Un predictable Increase of Kenya Power Monthly bills**

90% of the water that the company supply is from boreholes. The boreholes are rather deep and thus expensive to run in terms of energy costs (electricity). In addition the cost of electricity is unpredictable as it keeps on rising while our water tariff is fixed for a period. Our monthly electricity cost currently varies between Kshs16m to Kshs20m.

**v. Scarce Sources of Water**

The Company is faced with the challenge of limited sources of water. The current water production capacity is 40,000m<sup>3</sup> of water per day against a demand of 70,000m<sup>3</sup> of water per day. This is being addressed through other mechanisms that include partnerships with County Government, National Government and other Development Partners. Through RVWSB and National Government, the construction of the Itare Dam water project funded by the Italian Government is in progress and it is expected to be completed in the year 2021. The project is expected to produce over 100,000 m<sup>3</sup> of water per day of which 70,000M<sup>3</sup> of water per day will get to Nakuru Town.

**vi. Water Loss through Old and Dilapidated Water Infrastructure.**

The Company loses a lot of water through technical means as arising from old and dilapidated water infrastructure. The role of the company is limited to proper management and introduction of efficiency measures which the RVWSB/County Government is supposed to provide the infrastructure. The bulk of the water is lost through dilapidated network which was built many years ago and requires over Kshs 800 million to replace. This is the work of the National Government through Rift Valley Water Services Board (RVWSB) who is the asset developer. We are only an agent who is provided with the assets to provide water and sanitation services. Rift Valley Water Services Board is aware of this issue and its magnitude and have started replacing the old Asbestos

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Cement (AC) pipes with HDPE pipes in the Central Zone which we hope will reduce the unaccounted for Water.

**vii. Destruction of Forests Around Water Sources thus Affecting Water Levels**

The Company is located between the Aberdares and Mau forests whose ecosystem has been interfered with by the cutting of the trees and human settlements. If the two forests are not restored there is a likely hood of affecting the surface and underground water levels in the future.

**viii. VAT on Water and Sanitation Services**

The changes in the VAT Act, 2013 as contained in the Finance Bill 2018 has made water services VAT exempt meaning the water companies will no longer claim the input VAT thus making water services more expensive.

**ix. Un Accounted for Water (UFW)**

The water sector is faced with the challenge of water losses which is at 60% nationally and 35% at our company level with the acceptable level being 25%. This contributes to loss of revenues for water companies thus making water expensive. The water losses occur through technical and commercial ways. In the technical ways water is lost through leaks and bursts while in the commercial ways water is lost through illegal connections and meter tampering. The company through RVWSB is in the process on renewing its old and dilapidated water network to address the technical losses and it has also put in place an illegal use detection team and installation of territory meters to address commercial losses.

**5. Material Arrears in Statutory and Other Financial Obligations**

**1. Rift Valley Water Services Board (RVWSB) Administrative Fees –Kshs359, 455,261.40**

The outstanding payment to RVWSB is as a result of the instructions which we received from the County Government of Nakuru in the year 2013 not to pay. The larger portions of this balance relate to the period when the defunct Municipal of Council of Nakuru (MCN) refused to pay for their water bills but continued demanding services from the company leading to financial constraints. The MCN balance of Kshs215M still owes and we hope it will be paid by the Government so that we also pay RVWSB. In addition the Company is in discussion with the County Government with a view of agreeing on the way forward.

**2. African Development Bank (AfDB) Loan Repayment Arrears –Kshs100, 585,242.80**

The amount relates to a loan which was acquired from African Development Bank (AfDB) by Rift Valley Water Services Board (RVWSB) for the construction of the Ol Banita Well Field. According to the documents provided by Rift Valley Water Services Board (RVWSB), the Government of Kenya acting through its Ministry of Finance In the year 2005 signed a loan agreement with RVWSB

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for financing projects to improve water supply and sanitation services. The loan was from African Development Bank (AfDB) to the Government of Kenya for on-lending to the RVWSB. The RVWSB was required to use the money for projects in its service area being served by Nakuru Water and Sanitation Services Company Ltd (NAWASSCO), Naivasha Water and Sanitation Services Ltd (NAIVAWASS) and Nakuru Rural Water and Sanitation Company Ltd (NARUWASCO). The Principal loan amount was Kshs.1, 367,823,916.00 at an interest rate of 2.5% p.a over a tenor of 30 years including a grace period of 5 years which after completion of the various projects in each Company's area of jurisdiction was shared proportionately according to the projects undertaken. The portion for NAWASSCO was Kshs.994, 706,658 which we are servicing through RVWSB at Kshs.39, 468,544.80 p.a.

As at 30th June, 2018 the Company had paid at total of Kshs.228M on with an outstanding arrears of Kshs100, 585,242.80 which was due to financial constraints arising from non cost recovery tariff which had expired in June 2016 and the Regulator, WASREB took long to approve the new tariff until July, 2018. In addition the County Government is not regularly paying its water bills which have accumulated to Kshs60m and the defunct Municipal Council of Nakuru which never paid Kshs215 m thus affecting payments to our suppliers and statutory requirements.

With the new tariff now in place we have started paying the arrears together with the current months.

**3. Former Ministry of Water & Natural Resources- Kshs168, 490,370/=**

In accordance with the provisions of the Water Act 2002, Nakuru Water and Sanitation Services Company Limited assumed responsibility of providing water and sanitation services in the jurisdiction of the defunct Nakuru Municipal Council with effect from 1<sup>st</sup> June 2004. To facilitate this service provision, certain operational assets and liabilities were assigned to the company by the Director of Water –Ministry of Water Resources Management and Development. The operational assets included customer accounts amounting to Kshs 443,091,806.00 while the operational liabilities included amounts due to National Water Corporation Kshs 168,490,370, KPLC Kshs 45,108,015.00 Staff pension contributions to LAP Trust Kshs6, 145,100.00 and NSSF Kshs5, 562,345.00 were assigned to the company for the time being subject to resolution with the Treasury - Ministry of Finance.

The amounts owing to KPLC Kshs 45,108,015 and LAP Trust Kshs6, 145,100.00 have since been paid.

The company through the Rift valley Water Services (RVWSB) is negotiating with the Ministry of Water and Sanitation, Ministry of National Treasury and Water Conservation and Pipeline Corporation to write off the liability of Kshs168, 490,370.00 because the majority of the customer arrears which were inherited turned out to be unrecoverable.

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**4. National Social Security Fund- Kshs. 5, 562,345.00**

As explained in No. 3 above, this is part of the liabilities which were inherited from the defunct Municipal of Council of Nakuru which is under dispute because we were informed that the debt was settled by the defunct MCN during the time of Local Authorities Transfer Fund (LATF) and County Government of Nakuru is assisting the employees who are retiring to access their benefits.

The above payment arrears were caused by various challenges facing the company. These include:

**i. Water Bills amount Owed by the County Government of Nakuru- Kshs60m**

The County Government currently owes the company Kshs60m which they have not settled despite several meetings and reminders. We are hoping that the County Government will soon settle their water bills so that we also settle our financial obligations.

**ii. Water Bills Amount Owed by the Defunct Municipal Council of Nakuru (MCN)- Kshs215m**

The former MCN owes the Company Kshs215m which they refused to pay but continued demanding for our services which led the company face a lot of financial difficulties in settling its debts which continued accumulating. The company was forced to settle some of the urgent debts which included employee pension deductions thus affecting the settlement of the outstanding debts.

We were informed that the amount owed by the defunct MCN was handed over to the defunct Transitional Authority who also handed it over to the National Government which is yet to pay.

**iii. VAT Refund Claims Amount Owed by Kenya Revenue Authority (KRA) -Kshs93m**

The water and sanitation services previously being VAT 0% rated, the company was entitled to claim VAT input which the Kenya Revenue Authority stopped refunding February, 2015 and the amount owing increased to Ksh120m because of the disputes of VAT on sewer and meter rent being moved to 16% VAT rate in June, 2015 which the company sort for a legal interpretation from KRA on their VAT treatment. The company got a favourable interpretation and the refunds have started being settled but a very slow pace with a balance of Kshs93m currently remaining.

## **CORPORATE SOCIAL RESPONSIBILITY STATEMENT**

The Company's Corporate Social Responsibility (CSR), policy sets out the guiding principles by which the organization is run in order to fulfil its core mission. This policy brings together the ways in which the Company ensures, at corporate level, that its activities are carried out ethically, sustainably and for the public benefit.

The company has formed a strong belief which helps to maximize the level of Corporate Social Responsibility (CSR) by making a number of key initiatives to effect and encourage employee responsibility through embracing CSR which has positively impacted customers, employees and the community at large.

The company CSR Policy is made up of three central pillars:

- People and Community
- Finance and Economic Activity
- Environmental Sustainability

### **1. People and Community**

#### **The Company as an employer**

The Company is committed to being a good employer, and contributes positively to the creation of employment in the Country and Nakuru County. Our mission is to foster an environment where employees feel recognized for their contributions, appreciated for their individuality, and challenged to do their best. As an employer the Company is committed to ensuring that all the employees are fully supported in their work, have a decent working environment, are fairly rewarded, and maintain a good work-life balance. The Company recognizes staff trade unions that represent and protect their interests. The Company currently offers competitive terms and conditions of service to its employees. The Company has in place two retirement benefits schemes (LAP Trust and NSSF) for its staff which provides earnings during the retirement period. In addition the Company has a medical and accident cover for its staff.

The Company also carries out employee satisfaction survey after every two years with a view of improving the conditions and working environment of its employees and keep in touch with emerging employee issues. In addition the Company has put in place many ways to contribute to positive changes to its employees including on-job trainings, participation at the WASCO games and bench marking sessions that develop the employees and ensure that the company vision is achieved.

#### **Local Community**

The Company has always ensured that the water available is distributed equitably to all the customers and sewer systems are maintained.

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The Company is a major stimulus for economic growth in Nakuru region. Rapid housing development has occurred in Nakuru Town making it one of the fastest growing Towns. Land values in town have increased as a result of the services offered by the Company.

The Company has also partnered with donors in the area of sanitation by funding the construction of toilets at public schools and other low income settlement areas of Nakuru Town. Through the partnership with Water and Sanitation for the Urban Poor (WSUP), the Company completed expanding sewer network at Mwariki A estate and currently working on Githima estate which will greatly improve the sanitation standards of the area.

To serve the community around us which don't have piped water, the company has a water tanker donated by the County Government of Nakuru which will be used to ferry water at a fee.

The Company was also able to assist the Solai Dam Tragedy victims by donating Kshs 100,000/- through to the Red Cross Society.

The company participated in the Nakuru Agricultural Society of Kenya show where we displayed various products and services including: water and sewer services, briquettes (MakaaDotcom) and bio-fertilisers. During the ASK show, the company attended to customers and answered their queries. The stand was visited by a number of people including customers, farmers and institutions. During the one week event, the company stand emerged the best in Water and Waste Water services and was awarded a trophy and certificate.

#### **The Customers**

To the Customers who are the pillar of the Company's existence, great concern is put in place to ensure their satisfaction. Annually, the company conducts a customer satisfaction survey to ascertain whether the efforts put by the Company are felt by the customers and issues raised are addressed promptly. During the year, the company with the help of a consultant conducted a Customer Satisfaction Survey in which the company managed to attain a Customer Satisfaction Index of 73%. The noted Key improvement was on Communication to Customers on issues affecting them.

The Company annual open day was held at Standard Chartered Grounds on 20<sup>th</sup> & 21<sup>st</sup> June 2018 for all the zones. The aim was to bring services closer to the customers and we were able to display various products and services including: Water, Laboratory Services, briquettes (MakaaDotcom) and bio-fertilisers. During this two day activity, the company staffs were able to interact with customers and deal with various complaints.

On Persons Living with Disability all stations were fixed with detachable rumps for ease of entry for persons confined to wheel chairs. A desk offering special services to persons living with disability was put in place at the head office. In addition one special toilet for persons living with disability was rehabilitated at the head office.

**Nakuru Water and Sanitation Services Company Limited**  
**Annual Reports and Financial Statements**  
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The Company is committed to service delivery to its customers by creating a customer friendly environment. The Company does this activity by use of customer voice and choice system which records all customer complaints and they are assigned a ticket number for provision of feedback once the complaints are resolved.

The Company also in an effort to improve service delivery to customers holds meetings with Focus Group Discussions in all Zones Low, Income Areas with Low income Consumer Section with the aim of improving communication to customers and get feedback on service provision.

## **2. Finance and Economic Activity**

The Company recognizes the fact that the way in which it conducts its activities financially has a bearing on those with an interest in its work. The Company's Financial Regulations reinforce its core values in informing policy, practice and guidance to staff of the Company to ensure fair and ethical financial practices.

The Company's financial activity is undertaken with reference to the following guidelines and policies:

- Directors and staff code of conduct
- Public officers ethics

As part of their conditions of employment, all staffs are required to follow such policies and guidelines to ensure the Company conducts its activities in an appropriate manner.

The Company also commits to the following as a good organizational citizen:

- providing clear information where required to organizations with whom we engage financially
- incorporating CSR considerations in tender submission reviews from potential suppliers in line with Government policy on women, youth and the disabled
- furthering the use of electronic data to reduce paper use and environmental degradation

## **3. Environmental Sustainability**

The Company is located within touching distance of Mau and Aberdare Forests and the Lake Nakuru National Park. The Company recognizes environmental sustainability as the greatest challenge of the 21st century and commits to ensuring that all of its major strategies and operations consider their environmental and ecological aspects and impacts.

The Company participates in the conservation of the environment by planting trees at Aberdare forest. The Company also ensures that discharge to Lake Nakuru National Park meets the required standards by conducting regular tests through its laboratory which is ISO certified.



**Nakuru Water and Sanitation Services Company Limited**  
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The Company supports initiatives that minimize our impact on the environment and help create a sustainable community by working closely with NEMA and various county departments such as the Environment and Public Health to enhance and protect the environment around us. The Company has also developed briquettes (charcoal) called Makaa.com from human waste (faecal matter). Faecal matter (human waste) is an invaluable resource that can be harnessed for economic, health and environmental development which also shows that sanitation related challenges can be solved by using market based approaches that ensures sustainability. In addition, the faecal matter briquettes help in the mitigation of climate change risks brought about by deforestation and using dirty fuels i.e. petroleum based products.

Water  
Annual Report  
for the year  
REPORT  
The Board  
ended 30th  
Principal  
The prime

## **REPORT OF THE DIRECTORS**

The Board of Directors submit their Annual Report together with the Financial Statements for the year ended 30<sup>th</sup> June, 2018 which shows the state of the Company's trading affairs and financial position.

### **Principal activities**

The principal activities of the company are the provision water and sewerage services.

### **Results and dividend**

The results of the Company for the Year ended 30<sup>th</sup> June, 2018 are set out on page 1 to 39. The net profit for the period of Kshs 9,425,045.00 has been added to retained earnings. The directors do not recommend the payment of dividend.

### **Directors**

The Directors who held office during the year and to the date of this report are shown on page vi to ix. In accordance with Company Memorandum and Articles of Association, Directors serve for a term not exceeding 3 years renewable for another one term.

### **Auditors**

The Company Auditor is the Office of the Auditor General, (OAG) of P.O BOX 30084 Nairobi as provided for by the Public Audit Act 2003.

By Order of the Board

  
**SECRETARY**

Dated 21/9 2018

**Nakuru Water and Sanitation Services Company Limited**  
**Annual Reports and Financial Statements**  
**For the year ended June 30, 2018**

Phone: +254-20-3423  
+254-20-311482  
E-mail: oag@oagkenya.org  
Website: www.oagkenya.org

**STATEMENT OF DIRECTORS' RESPONSIBILITIES**

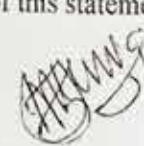
The Kenyan Companies Act 2015 requires the Directors to prepare financial statements for each financial year that give a true and fair view of the state of affairs of the company as at the end of the financial year and of its profit or loss. It also requires the Directors to ensure that the company keeps proper accounting records that disclose, with reasonable accuracy, the financial position of the company. They are also responsible for safeguarding the assets of the company.

The Directors accept responsibility for the annual financial statements, which have been prepared using appropriate accounting policies supported by reasonable estimates, in conformity with International Financial Reporting Standards and the requirements of the Kenyan Companies Act. The Directors are of the opinion that the Financial Statements give a true and fair view of the state of the financial affairs of the company and of its profit or loss in accordance with International Financial Reporting Standards. The Directors further accept responsibility for the maintenance of accounting records that may be relied upon in the preparation of financial statements, as well as designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of financial statements that are free from material mis-statement.

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

  
\_\_\_\_\_

**Chairman**

  
\_\_\_\_\_

**Managing Director**

Dated 21/09/ 2018

Dated 21/9 2018

# REPUBLIC OF KENYA

Telephone: +254-20-342330  
Fax: +254-20-311482  
E-mail: oag@oagkenya.go.ke  
Website: www.oagkenya.go.ke



P.O. Box 30084-00100  
NAIROBI

## OFFICE OF THE AUDITOR-GENERAL

### REPORT OF THE AUDITOR-GENERAL ON NAKURU WATER AND SANITATION SERVICES COMPANY LIMITED FOR THE YEAR ENDED 30 JUNE 2018

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#### REPORT ON THE FINANCIAL STATEMENTS

#### Qualified Opinion

I have audited the accompanying financial statements of Nakuru Water and Sanitation Services Company Limited set out on pages 1 to 44, which comprise the statement of financial position as at 30 June 2018, and the statement of profit and loss and other comprehensive income, statement of changes in equity, statement of cash flows and statement of comparison of budget and actual amounts for the year then ended, and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, 2015. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit

In my opinion, except for the effects of the matter described in the Basis for Qualified Opinion section of my report, the financial statements present fairly, in all material respects, the financial position of Nakuru Water and Sanitation Services Company Limited as at 30 June, 2018, and its financial performance and cash flows for the year then ended, in accordance with International Financial Reporting Standards and comply with the Companies Act, 2015.

#### Basis for Qualified Opinion

##### 1. Non-Disclosure of ADB Loan

Note 8(d) on operating and maintenance expense reflects total expenditure of Kshs.319,924,551, which includes Kshs.39,468,545 ADB Loan repayment. The Company is servicing a loan of Kshs.994,706,658 due to the African Development Bank (ADB) through the Rift Valley Water Services Board (RVWSB) at the rate of Kshs.39,468,544.80 p.a. It was however noted that the loan was not disclosed as a long term liability in the statement of financial position although loan repayment of Kshs.39,468,544.80 has been reflected under note 8 (d).

In the circumstances, it has not been possible to confirm total loan repaid and the amount outstanding as at 30 June 2018.

##### 2. Doubtful Reserve-Assets Transferred

The statement of financial position reflects reserve- assets transferred of Kshs.262,893,991 as at 30 June 2018. However, note 18 (c) indicates operational assets transferred to the Company by the Ministry of Water Resources Development in the year 2004, included customers accounts of Kshs.443,091,806. Further, no details of the customers account

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*Report of the Auditor-General on the Financial Statements of Nakuru water and Sanitation Services Company Limited for the year ended 30 June 2018*

balance transferred were provided for audit verifications, and hence it was not possible to confirm the existence of the assets.

In the circumstances, the reported balance of Kshs.262,893,991 in respect of reserve-asset transferred in the statement of financial position could not be confirmed.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of Nakuru Water and Sanitation Services Company Limited in accordance with ISSAI 30 on Code of Ethics. I have fulfilled other ethical responsibilities in accordance with the ISSAI and in accordance with other ethical requirements applicable to performing audits of financial statements in Kenya. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

**Key Audit Matters**

Key audit matters are those matters that, in my professional judgment, are of most significance in the audit of the financial statements. Except for the matter(s) described in the Basis for Qualified Opinion section, I have determined that there are no other key audit matters to communicate in my report.

**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 Payables**

Note 17 to the financial statements reflects trade payables, accrued expenses and other payables of Kshs.621,740,721 out of which Kshs.359,455,261.40 was outstanding Rift Valley Water Service Board (RVWSB) administrative fees which has accumulated over time since year 2013. The accumulation of the administrative fees resulted from "not to pay" instructions issued by the County Government of Nakuru. It is however not clear why the board has failed to resolve this matter.

In the circumstances, the unpaid balance may not be cleared.

**2. Trade and Other Receivables**

Examination of records provided for audit in respect of trade and other receivables as at 30 June 2018 disclosed the following unsatisfactory matters: -

## 2.1 Lack of Debtor Aging Analysis Report

During the year under review, the company had debtors totaling Kshs.710,483,930 as disclosed under note 15 to the financial statements .However, the company failed to prepare debtors aging analysis report contrary to provisions of Section 5.2 of its finance manual which requires for the preparation of monthly debtors aging analysis report . Lack of aging analysis may result into insufficient provision for bad and doubtful debts and may also affect debt collection strategies.

No satisfactory explanation has been given for failure to prepare debtors aging analysis report and therefore the accuracy of the debtors balance as at 30 June, 2018 could not be confirmed.

## 2.2 Long Outstanding Debts

- i. Reported among the debtors is long outstanding debts owed by the County Government of Nakuru amounting Kshs.60,000,000 in respect of water supplied .It is not clear why the County Government of Nakuru, a major shareholder of the Company with shareholding of 99.92% has been unable to settle water bills. Further, it was noted that no efforts appear to have been made to collect the outstanding amount as no evidence of disconnection orders issued were provided for audit verifications.
- ii. Also reported under debtors is an amount of Kshs.215,000,000 owed by the defunct Municipal Council of Nakuru. It is however, not clear why this debt has not been transferred to the County Government of Nakuru since all assets and liabilities of defunct Local Authorities were inherited by County Governments.
- iii. It was further noted that trade and other receivables increased by Kshs.55,806,288 from Kshs.654,677,642 reported in the previous year to Kshs.710,483,930 during the period under review. This increase has not been explained.

In the circumstances, the accuracy of the debtors balance as at 30 June, 2018 could not be confirmed.

My responsibility is to express a conclusion based on the review. The review was conducted in accordance with ISSAI 4000. The standard requires that I comply with ethical requirements and plan and perform the review so as to obtain limited assurance as to 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.

A review is limited primarily to analytical procedures and to inquiries, and therefore provides less assurance than an audit. I have not performed an audit, and, accordingly, express my conclusion in the form of limited assurance, which is consistent with the more limited work I have performed under this compliance review.

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, GOVERNANCE AND RISK MANAGEMENT SYSTEMS

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### Conclusion

As required by Section 7(1)(a) of the Public Audit Act, 2015, based on the procedures performed, except for the matter described in the Conclusion on Effectiveness of Internal Controls 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. Revenue

##### 1.1. Non- Revenue Water (NRW)

During the year under review, the Company produced 12,409,678 cubic meters of water. However, out of this volume, only 8,026,147 cubic meters of water was billed to customers with total revenue amounting to Kshs.860, 874,266. The balance of 4, 383,531 cubic meters of water or approximately 35% of the total revenue represented Non-revenue Water (NRW). According to the Water Services Regulatory Board (WASREB) guidelines, this quantity is 10% above the allowable loss of 25%. The abnormal loss of 10% of the water produced may have resulted in a loss of approximately Kshs.3,886,633. No proper explanation has been given for the persistent water loss. The significant level of unaccounted for water (UFW) may negatively impact on the company's profitability and long term sustainability.

The audit was conducted in accordance with ISSAI 1315 and ISSAI 1330. 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 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 Companies Act, 2015 I report based on my audit, that:

- i. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit;
- ii. In my opinion, adequate accounting records have been kept by the , so far as appears from the examination of those records; and,
- iii. The 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 (Accrual Basis)

and for maintaining effective internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error and for its assessment of the effectiveness of internal control.

In preparing the financial statements, management is responsible for assessing the Nakuru Water and Sanitation Services Company Limited ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the applicable basis of accounting unless the management either intends to liquidate the Nakuru Water and Sanitation Services Company or to cease operations, or have no realistic alternative but to do so.

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

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 money is applied in an effective manner.

Those charged with governance are responsible for overseeing the Nakuru Water and Sanitation Services Company Limited 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 review is planned and performed to express a conclusion with limited assurance as to 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 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. The nature, timing and extent of the compliance work is



limited compared to that designed to express an opinion with reasonable assurance on the financial statements.

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

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

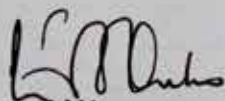
As part of an audit conducted in accordance with ISSAIs, I exercise professional judgement and maintain professional skepticism throughout the audit. I also:

- 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 Nakuru Water and Sanitation Services Company Limited 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 Nakuru Water and Sanitation Services 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.

- se on the
- Obtain sufficient appropriate audit evidence regarding the financial information and business activities of the Nakuru Water and Sanitation 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.



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

**Nairobi**

**16 April 2019**

**Nakuru Water and Sanitation Services Company Limited**  
**Annual Reports and Financial Statements**  
**For the year ended June 30, 2018**

**STATEMENT OF PROFIT AND LOSS AND OTHER COMPREHENSIVE INCOME**

	Note	2018	2017
		Kshs	Kshs
<b>REVENUES</b>			
Sales/Turnover	6(a)	860,874,266	817,539,385
Other Income	6(b)	11,059,287	13,498,960
<b>TOTAL REVENUES</b>		<b>871,933,553</b>	<b>831,038,345</b>
<b>EXPENSES</b>			
Cost Of Sales	8(a)	243,544,445	227,347,041
Administration Costs	8(b)	296,375,232	282,310,036
Operating and Maintenance Costs	8(d)	318,924,551	305,788,787
Provision for impairment losses	15	3,664,280	3,389,894
<b>TOTAL EXPENSES</b>		<b>862,508,508</b>	<b>818,835,758</b>
<b>OPERATING PROFIT/(LOSS) BEFORE TAXATION</b>	7	<b>9,425,045</b>	<b>12,202,587</b>
Income tax expenses	9 (a)	-	-
<b>PROFIT/(LOSS)</b>		<b>9,425,045</b>	<b>12,202,587</b>

**REPORT OF THE INDEPENDENT AUDITORS ON THE ENTITY OFFICE OF THE  
AUDITOR GENERAL**

*(The table content is extremely faint and illegible due to low contrast and blurring. It appears to be a financial statement table with multiple columns and rows.)*

**Nakuru Water and Sanitation Services Company Limited**  
**Annual Reports and Financial Statements**  
**For the year ended June 30, 2018**

**STATEMENT OF FINANCIAL POSITION**

	Note	2018 Kshs	2017 Kshs
<b>ASSETS</b>			
<b>Non-Current Assets</b>			
Property, plant and equipment	11	115,765,802	126,529,290
Intangible assets	12	1,056	1,056
Prepaid operating lease rentals	13	112,441,765	115,346,905
<b>Total Non-Current Assets</b>		<b>228,208,623</b>	<b>241,877,251</b>
<b>Current Assets</b>			
Inventories	14	18,023,437	21,634,535
Trade and other receivables	15	710,483,930	654,677,642
Investments	20	150,000,000	100,000,000
Bank and cash equivalent	16	47,251,416	61,298,328
<b>Total Current Assets</b>		<b>925,758,783</b>	<b>837,610,505</b>
<b>TOTAL ASSETS</b>		<b>1,153,967,406</b>	<b>1,079,487,756</b>
<b>EQUITY AND LIABILITIES</b>			
<b>Share Capital and Reserves</b>			
Ordinary share capital	10	100,000	100,000
Revaluation reserve	13	37,922,895	37,922,895
Reserve-Assets transferred	18(c)	262,893,991	262,893,991
Accumulated losses		(14,984,396)	(24,409,442)
Grants from WSTF	19(i)	67,894,907	94,981,656
Grants from SUWASA	19(ii)	20	398,576
Grants from Vitens Evides	19(iii)	14,472	876,877
Grants from County Government of Nakuru	19(iv)	4,332,081	-
<b>Total Share Capital and Reserves</b>		<b>358,173,970</b>	<b>372,764,553</b>
<b>Non-Current Liabilities</b>			
Non-Current accounts payable	18(c)	174,052,715	180,197,815
<b>Total Non-Current Liabilities</b>		<b>174,052,715</b>	<b>180,197,815</b>
<b>Current Liabilities</b>			
Trade and other payables	17	621,740,721	526,525,389
<b>Total Current Liabilities</b>		<b>621,740,721</b>	<b>526,525,388</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>1,153,967,406</b>	<b>1,079,487,756</b>

The Financial Statements on pages 1 to 39 were approved by the Board of Directors meeting held on 11<sup>th</sup> September 2018 and signed on its behalf by: -

.....  
**Chairman**

Dated 21/09/ 2018

.....  
**Managing Director**

Dated 21/9 2018

.....  
**Finance Manager No. 6774**

Dated 21/09/ 2018

Annual Financial Statement

**Nakuru Water and Sanitation Services Company Limited**  
**Annual Reports and Financial Statements**  
**For the year ended June 30, 2018**

**STATEMENT OF CHANGES IN EQUITY**

	Note	Ordinary share capital	Reserves	Accumulate d losses	Total
<b>At July 1, 2016</b>		<b>100,000</b>	<b>400,119,323</b>	<b>(36,612,029)</b>	<b>363,607,294</b>
Grants from WSTF	11	-	44,496	-	44,496
Grant SUWASA amortisation	11	-	(2,227,419)	-	(2,227,419)
Grant Vitens amortisation	11	-	(862,405)	-	(862,405)
Profit for the year		-	-	12,202,588	12,202,588
<b>At June 30, 2017</b>		<b>100,000</b>	<b>397,073,998</b>	<b>(24,409,442)</b>	<b>372,764,553</b>
<b>At July 1, 2017</b>		<b>100,000</b>	<b>397,073,998</b>	<b>(24,409,442)</b>	<b>372,764,553</b>
Grant from CGN	11	-	4,950,950	-	4,950,950
Grant from WSTF amortisation	11	-	(16,728,057)	-	(16,728,057)
Grant SUWASA amortisation	11	-	(1,260,981)	-	(1,260,981)
Grant CGN amortisation	11	-	(618,868)	-	(618,868)
Grant refund to WSTF	19(i)	-	(110,000)	-	(110,000)
Grant WSTF input tax disallowable	19(1)	-	(10,248,674)	-	(10,248,674)
Profit for the year		-	-	9,425,045	9,425,045
<b>At June 30, 2018</b>		<b>100,000</b>	<b>373,058,367</b>	<b>(14,984,397)</b>	<b>358,173,970</b>

**STATEMENT OF CASH FLOWS**

	Note	2018 Kshs	2017 Kshs
Profit/loss after income tax		9,425,045	12,202,587
<b>Adjustments for:</b>			
Depreciation on plant property and equipment	11	16,163,840	13,995,362
Amortization of software	12	-	147,945
Amortization of prepaid operating lease rentals	13	2,905,144	2,905,144
<b>Changes in working capital</b>			
Increase in Receivables and Prepayments	15	(55,806,288)	(91,583,562)
Increase in Payable and accrued expenses	17	95,215,331	126,727,949
Decrease in Non-current liability	18(c)	(6,145,100)	-
Decrease in Inventories	14	3,611,098	2,884,015
<b>Net cash generated from/(used in) operating activities</b>		<b>65,369,071</b>	<b>67,279,440</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Purchase of property, plant and equipment	11	(19,057,309)	(22,304,849)
Maturity of Fixed bank deposit	20	(100,000,000)	(100,000,000)
Investment in Fixed bank deposit	20	(150,000,000)	-
<b>Net cash generated from/(used in) investing activities</b>		<b>(69,057,309)</b>	<b>(122,304,849)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Grant from WSTF	19(i)	-	44,496
WSTF refund	19(i)	(110,000)	-
WSTF Input VAT disallowed	19(i)	(10,248,674)	-
<b>Net cash generated from/(used in) financing activities</b>		<b>(10,358,674)</b>	<b>44,946</b>
<b>INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS</b>		<b>(14,046,912)</b>	<b>(54,980,913)</b>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>	16	<b>61,298,328</b>	<b>116,279,241</b>
Effects of foreign exchanges rate fluctuations		-	-
<b>CASH AND CASH EQUIVALENTS AT END OF THE YEAR</b>	16	<b>47,251,416</b>	<b>61,298,328</b>

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STATEMENT OF COMPARISON OF BUDGET AND ACTUAL

	Original budget	Final budget	Actual on comparable basis	Performance difference		Explanation of Variances
	2017-2018	2017-2018	2017-2018	2017-2018		
Revenue	Kshs	Kshs	Kshs	Kshs	%	
Water and sewerage charges	977,470,000	977,470,000	860,874,266	(116,595,734)	(12)	The budgeted was under achieved by 12% due to failure to meet the water volume production budget as a result of low water production and less supply by the bulk water provider as well as the expected Non Revenue Water of 25% which was not achieved due to leakages occasioned by frequent pipes bursts when roads were being constructed in the town as well as the leakage due to replacement of old pipeline network within town under ASPAC Project funded by Belgium Government through RVWSB.
Other income	9,097,434	9,097,434	11,059,287	1,961,853	22	The over achievement of the budget by 22% was due to fixed deposit interest.
<b>Total income</b>	<b>986,567,434</b>	<b>986,567,434</b>	<b>871,933,553</b>	<b>(114,633,881)</b>	<b>10</b>	
<b>Expenses</b>						
Compensation of employees	259,844,333	259,844,333	255,156,164	4,688,169	2	The under spending was due to not filling of the vacant positions as planned
Board Expenses	10,072,857	10,072,857	9,331,837	741,020	7	The under spending was due to not spending on BOD retreat which was rescheduled



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Personnel subsistence and performance incentive	18,894,300	18,894,300	18,888,419	5,881	0.03	
Personnel medical and occupational health	8,883,191	8,883,191	7,689,833	1,193,358	13	The under spending of 13% was due to the tender bid responses for medical cover that went below the amount budgeted.
Personnel subscription and training	5,461,000	5,461,000	5,308,980	152,020	3	
Bulk water purchase	43,800,000	43,800,000	42,292,520	1,507,480	3	The under spending was due to less volumes of bulk water supplied.
Chemicals	8,860,000	8,860,000	8,031,180	828,820	9	The under spending was due to less chemical used.
Electricity	195,748,000	195,748,000	193,220,745	2,527,255	1	The under spending was due to less pumping of water due to power outages.
Depreciation	-	-	19,068,984	(19,068,984)	100	This is a non cash outflow which the company does not include in the Budget.
Provision for bad debts	-	-	3,664,280	(3,664,280)	100	This is a non cash outflow which the company does not include in the Budget.
Licensee Administrative Fees and ADB loan	139,997,520	139,997,520	139,997,520	-	0	
Water Fittings	10,622,795	10,622,795	10,168,130	454,665	4	
Professional Fees	11,182,800	11,182,800	9,353,261	1,829,539	16	There was a 16% under expenditure that was occasioned by decrease in legal expenses as the budget was based on the last financial year's actuals.
Abstraction and permit Fees	7,200,000	7,200,000	7,046,193	153,807	2	
Motor Vehicles repairs and maintenance	6,002,400	6,002,400	5,967,332	35,068	1	
Insurance	3,000,000	3,000,000	2,290,966	709,034	24	The was under spending of 24% due to the tender bid responses that went

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						below the amount budgeted for general insurance.
Printing and stationary	10,083,000	10,083,000	10,127,890	(44,890)	0.45	
Telephone	3,534,943	3,534,943	3,488,041	46,902	1	
Security	16,260,000	16,260,000	15,843,696	416,304	3	
Postage	1,541,300	1,541,300	81,376	1,459,922	95	The Company adopted technology in sending water bills i.e. SMSs and emails leading to 95% saving on postage costs
Fuel and Lubricants	12,936,800	12,936,800	12,860,636	76,164	1	
Rent	586,000	586,000	458,400	127,600	22	The company anticipated renting of extra space for Eastern zone but a suitable location was not identified leading to the under expenditure of 22%
Others Expenses	92,764,660	92,764,660	82,172,124	10,592,536	11	The under expenditure of 11% was due to under spending on regulatory levy by Water Services Regulatory Authority levies that are based on Revenue budgeted but we were not able to meet the budgeted revenue
<b>Total expenditure</b>	<b>867,275,899</b>	<b>867,275,899</b>	<b>862,508,511</b>	<b>4,767,391</b>	<b>3</b>	
<b>Surplus for the period</b>	<b>119,291,535</b>	<b>119,291,535</b>	<b>9,425,045</b>	<b>(109,866,490)</b>		

## NOTES TO THE FINANCIAL STATEMENTS

### 1. GENERAL INFORMATION

Nakuru Water and Sanitation Services Company Ltd (NAWASSCO) is a Private Company Limited by Shares under the Companies Act 2015. The Company was registered on 8<sup>th</sup> September 2003 and it is fully owned the County Government of Nakuru. Pursuant to the provisions of the Water Act 2016, the Company is an agent of Rift Valley Water Services Board (RVWSB) / County Government of Nakuru and it is mandated with the provision of water and sanitation services in the area under the jurisdiction of Nakuru town east and Nakuru town west sub-counties and its environs.

### 2. STATEMENT OF COMPLIANCE AND BASIS OF PREPARATION

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

The financial statements have been prepared and presented in Kenya Shillings, which is the functional and reporting currency of the Nakuru Water and Sanitation Services Company Limited.

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 2018

Amendment/Interpretation to a standard	Effective date	Impact
IFRS 15: Revenue from Contracts with Customers <i>(Issued 28 May 2014)</i>	Applicable to an entity's first annual IFRS financial statements for a period beginning on or after 1 January 2018	<p>IFRS 15 provides a single, principles based five-step model to be applied to all contracts with customers.</p> <p>The five steps in the model are as follows:</p> <ul style="list-style-type: none"> <li>• Identify the contract with the customer</li> <li>• Identify the performance obligations in the contract</li> <li>• Determine the transaction price</li> <li>• Allocate the transaction price to the performance obligations in the contracts</li> <li>• Recognise revenue when (or as) the entity satisfies a performance obligation.</li> </ul> <p>Guidance is provided on topics such as the point in which revenue is recognised, accounting for variable consideration, costs of fulfilling and obtaining a contract and various related matters. New disclosures about revenue are also introduced.</p> <p>The amendments apply prospectively for annual periods beginning on or after 1 January 2016. Currently, the Company uses the straight-line method for depreciation and amortisation for its property and equipment, and intangible assets respectively.</p> <p>The directors of the Company do not anticipate that the application of the standard will have a significant impact on the Company's financial statements.</p>
<i>Disclosure Initiative (Amendments to IAS 7)</i> <i>(Issued 29 January 2016)</i>	Effective for annual periods beginning on or after 1 January 2017	Amends IAS 7 <i>Statement of Cash Flows</i> to clarify that entities shall provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities. The company has provided sufficient disclosures.

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Amendment/Interpretation to a standard	Effective date	Impact
<i>Clarifications to IFRS 15 'Revenue from Contracts with Customers' (Issued 12 April 2016)</i>	Effective for annual periods beginning on or after 1 January 2018	Amends IFRS 15 <i>Revenue from Contracts with Customers</i> to clarify three aspects of the standard (identifying performance obligations, principal versus agent considerations, and licensing) and to provide some transition relief for modified contracts and completed contracts.
<i>Annual Improvements to IFRS Standards 2014-2016 Cycle (Issued 8 December 2016)</i>	The amendments to IFRS 1 and IAS 28 are effective for annual periods beginning on or after 1 January 2018, the amendment to IFRS 12 for annual periods beginning on or after 1 January 2017	Makes amendments to the following standards: <ul style="list-style-type: none"> <li>• <b>IFRS 1</b> - Deletes the short-term exemptions in paragraphs E3-E7 of IFRS 1, because they have now served their intended purpose</li> <li>• <b>IFRS 12</b> - Clarifies the scope of the standard by specifying that the disclosure requirements in the standard, except for those in paragraphs B10-B16, apply to an entity's interests listed in paragraph 5 that are classified as held for sale, as held for distribution or as discontinued operations in accordance with IFRS 5 <i>Non-current Assets Held for Sale and Discontinued Operations</i></li> <li>• <b>IAS 28</b> - Clarifies that the election to measure at fair value through profit or loss an investment in an associate or a joint venture that is held by an entity that is a venture capital organisation, or other qualifying entity, is available for each investment in an associate or joint venture on an investment-by-investment basis, upon initial recognition.</li> </ul>

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31/12/2018  
3. APPLICABILITY  
() Relevant and see

ii) New and amended standards and interpretations in issue but not yet effective in the year ended 30 June 2018

Amendment/Interpretation to a standard	Effective date	Impact
<i>IFRS 16: Leases</i> (Issued 13 January 2016)	Applicable to annual reporting periods beginning on or after 1 January 2019	IFRS 16 specifies how an IFRS reporter will recognise, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with IFRS 16's approach to lessor accounting substantially unchanged from its predecessor, IAS 17.
<i>IFRIC 23: Uncertainty over Income Tax Treatments</i> (Issued 7 June 2017)	Applicable to annual reporting periods beginning on or after 1 January 2019	The interpretation addresses the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates, when there is uncertainty over income tax treatments under IAS 12. It specifically considers: <ul style="list-style-type: none"> <li>• Whether tax treatments should be considered collectively</li> <li>• Assumptions for taxation authorities' examinations</li> <li>• The determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates</li> <li>• The effect of changes in facts and circumstances</li> </ul>
<i>Plan Amendment, Curtailment or Settlement</i> (Amendments to IAS 19) (Issued 7 February 2018)	Annual periods beginning on or after 1 January 2019	The amendments in <i>Plan Amendment, Curtailment or Settlement</i> (Amendments to IAS 19) are: <ul style="list-style-type: none"> <li>• If a plan amendment, curtailment or settlement occurs, it is now mandatory that the current service cost and the net interest for the period after the remeasurement are determined using the assumptions used for the remeasurement.</li> <li>• In addition, amendments have been included to clarify the effect of a plan amendment, curtailment or settlement on the requirements regarding the asset ceiling.</li> </ul>

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Amendment/Interpretation to a standard	Effective date	Impact
<i>IFRS 16: Leases</i> (Issued 13 January 2016)	Applicable to annual reporting periods beginning on or after 1 January 2019	IFRS 16 specifies how an IFRS reporter will recognise, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with IFRS 16's approach to lessor accounting substantially unchanged from its predecessor, IAS 17.
<i>IFRIC 23: Uncertainty over Income Tax Treatments</i> (Issued 7 June 2017)	Applicable to annual reporting periods beginning on or after 1 January 2019	The interpretation addresses the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates, when there is uncertainty over income tax treatments under IAS 12. It specifically considers: <ul style="list-style-type: none"> <li>• Whether tax treatments should be considered collectively</li> <li>• Assumptions for taxation authorities' examinations</li> <li>• The determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates</li> <li>• The effect of changes in facts and circumstances</li> </ul>
<i>Amendments to References to the Conceptual Framework in IFRS Standards</i> (Issued 29 March 2018)	Annual periods beginning on or after 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.

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

**4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

**a) Revenue recognition**

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

- i) **Revenue from water and sewerage charges** represents amounts actually billed to customers for water consumption and sewerage.
- ii) **Grants from National and County Governments** are recognized in the year in which the *company* actually receives such grants. Recurrent grants are recognized in the statement of comprehensive income. Development/capital grants are recognized in the statement of financial position and realised in the statement of comprehensive income over the useful life of the assets that has been acquired using such funds.
- iii) **Finance income** comprises interest receivable from bank deposits and investment in securities, and is recognised in profit or loss on a time proportion basis using the effective interest rate method.
- iv) **Other income** is recognized as it accrues.

**b) Property, plant and equipment**

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



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

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

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

**c) Depreciation and impairment of property, plant and equipment**

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

Motor vehicles and equipment are stated at historical cost less depreciation.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the company and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the profit and loss account during the financial period in which they are incurred.

Depreciation is calculated using the straight line method to write down the cost of assets to their residual values over their estimated useful lives, as follows:

Leasehold Land and Buildings	Over the remaining period of the lease
Pumps and Motors	5 years
Motor Vehicles and Cycles	4 years
Furniture, Fittings and Office Equipment	8 years
Computers	3 years
Water Meters	7 years
Prepaid Water Meter	5 years
Office Block	50 years
Software	3 years
Electric fence	8 years
Network extensions	5 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date

Motor vehicles and equipment are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

Gains and losses on disposal of motor vehicles and equipment are determined by reference to their carrying amounts and are taken into account in determining operating profit.

**d) Intangible assets**

Intangible assets comprise purchased computer 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.

**e) Amortization and impairment of intangible assets**

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

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

**f) Finance and operating leases**

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

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

**g) Fixed Deposit investments**

Fixed interest investments refer to investment funds placed under Commercial banks for long-term or short term with the intention of earning interest income upon the maturity. Fixed interest accounted through profit or loss.

**h) Inventories**

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

**i) 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. An estimate is made of doubtful receivables based on a review of all outstanding amounts at the year end. Bad debts are written off after all efforts at recovery have been exhausted.

**j) Taxation**

**Current income tax**

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

Current income tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting

date in the area where the Entity operates and generates taxable income. Current income tax relating to items recognized directly in net assets is recognized in net assets and Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

#### ***Deferred tax***

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

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

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

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

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

Deferred tax relating to items recognized outside surplus or deficit is recognized outside surplus or deficit. Deferred tax items are recognized in correlation to the underlying transaction in net assets. Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

**k) Cash and cash equivalents**

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

**l) Borrowings**

Interest bearing loans and overdrafts are initially recorded at fair value being received, net of issue costs associated with the borrowing. Subsequently, these are measured at amortized cost using the effective interest rate method. Amortized cost is calculated by taking into account any issue cost and any discount or premium on settlement. Finance charges, including premiums payable of settlement or redemption are accounted for on accrual basis and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise. Loan interest accruing during the construction of a project is capitalized as part of the cost of the project.

**m) Trade and other payables**

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

**n) Retirement benefit obligations**

The Company operates a defined pension scheme for all full-time employees. The scheme is administered by Lap trust where employees contribute 12% of their gross pay and the Company contributes 15% of same. The company has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

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The assets of all schemes are held in separate trustee administered funds, which are funded by contributions from both the company and employees. The company and all its employees also contribute to the National Social Security Fund, which is a defined contribution scheme. The company's contributions to the defined contribution schemes are charged to the profit and loss account in the year to which they relate.

The company also contributes to the statutory National Social Security Fund (NSSF). This is a defined contribution scheme registered under the National Social Security Act. The company's obligation under the scheme is limited to specific contributions legislated from time to time and is currently at Kshs.200 per employee per month.

**o) Provision for staff leave pay**

Employees' entitlements to annual leave are recognized as they accrue at the employees. A provision is made for the estimated liability for annual leave at the reporting date.

**p) Budget information**

The original budget for FY 2017-2018 was approved by the Board of Director and was subsequently submitted to the County Government on 3<sup>rd</sup> April 2017.

The Company's budget is prepared on a different basis to the actual income and expenditure disclosed in the financial statements. The financial statements are prepared on accrual basis using a classification based on the nature of expenses in the statement of financial performance, whereas the budget is prepared on a cash basis. The amounts in the financial statements were recast from the accrual basis to the cash basis and reclassified by presentation to be on the same basis as the approved budget. A comparison of budget and actual amounts, prepared on a comparable basis to the approved budget, is then presented in the statement of comparison of budget and actual amounts. In addition to the Basis difference, adjustments to amounts in the financial statements are also made for differences in the formats and classification schemes adopted for the presentation of the financial statements and the approved budget.

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

**q) Subsequent events**

There have been no events subsequent to the financial year end with a significant impact on the financial statements for the year ended June 30, 2018.

## 5 SIGNIFICANT JUDGMENTS AND SOURCES OF ESTIMATION UNCERTAINTY

The preparation of the Company's financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and 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. In the current financial year no adjustments were done.

### a) 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 Entity 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 Entity. Such changes are reflected in the assumptions when they occur.

### b) Comparative figures

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

### c) 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 Entity
- 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

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**Provisions**

Provisions are measured at the management's best estimate of the expenditure required to settle the obligation at the reporting date, and are discounted to present value where the effect is material. The provisions for bad debts was estimated as 10% of the outstanding receivable for the FY 2017-18

**6. (a) SALES/TURNOVER**

	2018	2017
	Kshs	Kshs
Water charges	645,655,700	596,803,751
Sewerage charges	215,218,566	220,735,634
<b>Total</b>	<b>860,874,266</b>	<b>817,539,385</b>

**6. (b) OTHER INCOME**

	2018	2017
	Kshs	Kshs
Interest on fixed deposit	4,899,583	2,260,200
Fines and penalties	1,222,800	5,206,250
Other miscellaneous receipts	4,936,904	6,032,510
<b>Total</b>	<b>11,059,287</b>	<b>13,498,960</b>

Other miscellaneous receipts include among others reconnection fees, connection fees, penalties, bulk water sales, laboratory charges, sewer unblocking fees



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7) (OPERATING PROFIT/(LOSS))

	2018	2017
	Kshs	Kshs
The operating profit/(loss) is arrived at after charging/(crediting):		
Staff costs (note 8b)		
Depreciation of property, plant and equipment	255,156,164	243,856,808
Amortisation of intangible assets	16,163,840	13,995,098
Amortization of prepaid operating lease rentals and building	-	147,945
	2,905,144	2,905,144
Licencee administration fees and ADB loan	139,997,520	139,997,520
Provision for bad and doubtful debts	3,664,280	3,389,894
Directors' emoluments - fees	6,527,381	6,235,993
- other	2,804,455	857,148
Auditors' remuneration - current year fees	382,500	382,500
<b>Total</b>	<b>427,601,284</b>	<b>411,768,050</b>

8 (a) COST OF SALES

	2018	2017
	Kshs	Kshs
Bulk water purchases	42,292,520	28,799,781
Chemicals	8,031,180	5,597,035
Electricity	193,220,745	192,950,225
<b>Total</b>	<b>243,544,445</b>	<b>227,347,041</b>

8. (b) ADMINISTRATION COSTS

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	2018	2017
	Kshs	Kshs
Staff costs (note 8 c)	255,156,164	243,856,808
Directors' emoluments	9,331,836	7,093,140
Transportation, travelling and subsistence	18,888,419	19,092,589
Staff training expenses	5,308,980	4,499,925
Personnel medical and occupational health	7,689,833	7,767,574
<b>Total</b>	<b>296,375,232</b>	<b>282,310,036</b>

**8(c) STAFF COSTS**

Salaries and allowances of permanent employees	201,329,614	191,510,179
Wages of temporary employees	6,865,242	5,793,930
Compulsory national health insurance schemes	3,366,500	3,296,900
Compulsory national social security schemes	1,057,200	1,080,000
Other pension contributions	42,537,608	42,175,799
Leave pay and gratuity provisions	-	-
<b>Total</b>	<b>255,156,164</b>	<b>243,856,808</b>
<b>The average number of employees at the end of the year was:</b>		
Permanent employees – Management	44	43
Permanent employees – Unionisable	166	174
Temporary and contract employees	52	47
<b>Total</b>	<b>262</b>	<b>264</b>

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8 (d) OPERATING AND MAINTENANCE EXPENSES

	2018 Kshs	2017 Kshs
Depreciation		
Licensee Administrative Fees and	19,068,984	17,048,451
ADB loan repayment	100,528,975	100,528,975
Water Fittings	39,468,545	39,468,545
Professional Fees	10,168,130	10,843,404
Stationery and photocopying	9,353,261	12,269,075
Rent expenses	10,127,891	10,849,291
Abstraction and permit fee	458,400	701,600
Motor Vehicles repairs and maintenance	7,046,193	5,179,014
Insurance	5,967,334	6,951,670
Telephone	2,290,967	2,472,418
Security	3,488,041	4,967,157
Postage	15,843,696	16,274,807
Fuel and Lubricants	81,376	2,920,544
Other operating expenses	12,860,636	10,640,350
<b>Total</b>	<b>319,924,551</b>	<b>305,788,787</b>

9 INCOME TAX EXPENSE/ (CREDIT)

(a) Current taxation

	2018 Kshs	2017 Kshs
Current taxation based on the adjusted profit for the year at 30%	-	-
Current tax: prior year under/(over) provision	-	-
Current year deferred tax charge	-	-
Prior year under-provision for deferred tax	-	-
<b>Total</b>	<b>-</b>	<b>-</b>

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**Reconciliation of tax expense/ (credit) to the expected tax based on accounting profit**

	2018	2017
	Kshs	Kshs
Profit before taxation	9,425,045	12,202,587
Add: Expense not deductible for tax purposes	22,958,813	21,288,226
Less: Expenses deductible for tax purposes	(31,508,348)	(24,356,584)
Adjusted loss for tax purposes	875,510	9,134,229
Tax losses B/F	(3,556,279)	(12,690,508)
<b>Total losses C/F</b>	<b>(2,680,769)</b>	<b>3,556,279</b>

The company made a profit during the year under review. However according to section 4 of the income tax Act cap 480, losses are supposed to be carried forward for a period of 4 years therefore only losses relating to the year 2014 and after have been carried forward. Since the computed tax profit is negative there is no tax liability for the period

**10. ORDINARY SHARE CAPITAL**

	2018	2017
	Kshs	Kshs
<b>Authorised:</b>		
5,000 ordinary shares of Kshs.20 par value each	100,000	100,000
<b>Issued and fully paid:</b>		
5,000 ordinary shares of Kshs 20 par value each	100,000	100,000

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11 PROPERTY, PLANT AND EQUIPMENT

2018	Water Meters	Network Extensions	Pumps and Motors	Motor vehicles, including motor cycles	Computers & related equipment	Office equipment, furniture & fittings	Capital work in progress	Total
<b>COST OR VALUATION</b>								
At July 1, 2017								
Additions	63,784,244	-	51,389,809	12,558,871	12,400,587	7,627,319	88,480,023	236,240,853
	8,504,545	3,149	7,798,924	-	780,360	1,970,351	-	19,057,329
CWIP								
Disposals	-	83,637,237	-	-	-	-	-	-
Grants CGN	-	-	-	-	-	4,842,785	(88,480,023)	-
At June 30, 2018	72,288,789	83,640,386	59,188,733	12,558,871	13,180,947	19,391,405	-	260,249,132
<b>DEPRECIATION</b>								
At July 1, 2017								
Charge for the year	(46,639,103)	-	(35,310,716)	(11,440,080)	(11,162,427)	(5,159,235)	-	(109,711,562)
Charge for grants	(6,324,321)	-	(6,738,638)	(485,646)	(1,125,016)	(1,490,219)	-	(16,163,840)
At June 30, 2018	(52,963,425)	(16,728,077)	(1,260,981)	(11,925,726)	(12,287,443)	(7,268,323)	-	(144,483,329)
NET BOOK VALUE								
At June 30, 2018	19,325,364	66,912,309	15,878,397	633,145	893,504	12,123,082	-	115,765,802

2017	Water Meters	Network Extensions & Electric Tests	Pumps and machinery	Motor vehicles, including motor cycles	Computers & related equipment	Office equipment, furniture & fittings	Capital work in progress	Total
<b>COST OR VALUATION</b>								
At July 1, 2016								
Additions	58,576,554	9,386,435	41,141,211	11,968,871	11,281,655	7,334,474	83,633,237	223,322,438
Transfers	5,207,690	-	10,248,597	590,000	1,118,932	292,845	4,846,785	22,304,849
Disposals	-	-	-	-	-	-	-	-
At June 30, 2017	63,784,244	9,386,435	51,389,808	12,558,871	12,400,587	7,627,319	88,480,023	245,627,287

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2017	Water Meters	Network Extensions & Electric Fence	Plant and machinery	Motor vehicles, including motor cycles	Computers & related equipment	Office equipment, furniture & fittings	Capital work in progress	Total
<b>DEPRECIATION</b>								
At July 1, 2016	(38,540,030)	(9,386,434)	(28,715,864)	(10,906,934)	(10,032,100)	(4,431,447)	-	(102,012,810)
Charge for the year	(5,732,447)	-	(5,871,654)	533,146	(1,130,327)	(727,788)	-	(13,995,362)
Charge for grants	(2,227,419)	-	(862,405)	-	-	-	-	(3,089,825)
<b>At June 30, 2017</b>	<b>(46,639,103)</b>	<b>(9,386,434)</b>	<b>(35,310,716)</b>	<b>(11,440,080)</b>	<b>(11,162,427)</b>	<b>(5,159,235)</b>	-	<b>(119,097,996)</b>
<b>NET BOOK VALUE</b>								
At June 30, 2017	17,145,140	-	16,079,093	1,118,791	1,238,160	2,468,084	88,480,023	126,529,290

**12 INTANGIBLE ASSETS**

	2018 Kshs	2017 Kshs
<b>COST</b>		
At July 1	5,233,596	5,233,596
Additions	-	-
Disposals	-	-
At June 30	5,233,596	5,233,596
<b>AMORTISATION</b>		
At July 1	(5,232,540)	(5,084,595)
Charge for the year	-	(147,945)
Disposals	-	-
Impairment loss	-	-
At June 30	(5,232,540)	(5,232,540)
<b>NET BOOK VALUE</b>		
At June 30	<b>1,056</b>	<b>1,056</b>

The software is fully amortized and the company is in the process of acquiring a new ERP

13 LAND AND BUILDING

	Lease hold Land Kshs	Buildings Kshs	Total Kshs
<b>COST</b>			
At July 1 2017			
Revaluation	12,077,105	81,101,010	93,178,115
Additions	37,922,895		37,922,895
Transfer to investment property (note 16)	-	-	-
Disposals	-	-	-
<b>At June 30 2018</b>	<b>50,000,000</b>	<b>81,101,010</b>	<b>131,101,010</b>
<b>AMORTISATION</b>			
At July 1 2017			
Charge for the year	(7,692,303)	(8,061,798)	(15,754,101)
	(1,282,051)	(1,623,093)	(2,905,144)
<b>At June 30 2018</b>	<b>(8,974,354)</b>	<b>(9,684,891)</b>	<b>(18,659,245)</b>
<b>NET BOOK VALUE</b>			
At June 30 2018			
At June 30 2017	41,025,646	71,416,119	112,441,765
	42,307,694	73,039,211	115,346,905

The company land, Nakuru Municipality Block 4/27 along government road was on 25<sup>th</sup> August 2011 re-valued to Kshs. 50,000,000 by professional valuers Messrs Hectare & Associates of P.O Box 4170 -20100 Nakuru. The resultant incremental value of Kshs 37,922,895 was incorporated in the Financial Statements. The Buildings relates to the Company Head office block and central Zone office along Government Road Nakuru Municipality Block 4/27.

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14 INVENTORIES

	2018	2017
	Kshs	Kshs
Technical stocks and stationery	18,023,437	21,634,535
	18,023,437	21,634,535

These relates to water chemicals, water fittings, and office stationery.

15 (a) TRADE AND OTHER RECEIVABLES

	2018	2017
	Kshs	Kshs
Trade receivables	797,130,515	709,467,212
Less provision for bad and doubtful trade receivables	(162,456,714)	(162,804,766)
<b>Net trade receivables</b>	<b>★ 604,673,801</b>	<b>546,662,766</b>
<b>Other Receivables</b>		
Deposits and prepayments	10,474,200	10,474,200
VAT recoverable	93,807,990	91,164,160
Staff receivables	75,811	44,319
Other receivables	271,295	1,126,267
Water deposit for NAWASSCO facilities	29,700	29,700
Cash collection by Posta	51,598	284,895
Mpesa receivable from Safaricom	219,697	841,372
Accrued interest on fixed Deposit	1,180,833	5,206,250
<b>Total trade and other receivables</b>	<b>710,483,930</b>	<b>654,677,642</b>



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15 (b) STAFF RECEIVABLES

	2018	2017
	Kshs	Kshs
Gross staff loans and advances		44,319
Provision for impairment loss	75,811	-
Less: Amounts due within one year	(75,811)	(44,319)
<b>Amounts due after one year</b>	<b>0</b>	<b>0</b>

16 BANK AND CASH AND CASH EQUIVALENTS

	2018	2017
	Kshs	Kshs
Cash at bank		61,298,328
Cash in hand	47,251,416	-
<b>Total</b>	<b>47,251,416</b>	<b>61,298,328</b>

The bulk of the cash at bank was held at Cooperative Bank of Kenya, the company's main bankers.

Detailed analysis of the cash and cash equivalents

Financial Institution	Account number	2017-2018	2016-2017
		Kshs	Kshs
<b>a) Current account</b>			
Co-operative bank (Revenue A/C)	01136087648601	11,485,944	8,183,969
Co-operative bank (Expenditure A/C)	01136087648600	20,083,921	10,315,983

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Co-operative bank (Saving A/C)	01100087648600	13,662,613	42,278,151
Co-operative bank WSTF Pre-paid water meters	011360876486010	-	355,724
Family bank –revenue collection	018000046253	1,168,140	43,086
Equity bank –revenue collection	0310261237839	850,798	121,415
<b>Grand total</b>		<b>47,251,416</b>	<b>61,298,328</b>

#### 17 TRADE AND OTHER PAYABLES

	2018	2017
	Kshs	Kshs
Trade payables	530,163,987	425,974,660
Accrued expenses	382,500	382,500
Other payables	91,194,234	100,168,229
	<b>621,740,721</b>	<b>526,525,389</b>

Trade payables relate to suppliers' outstanding balances, Administrative fees to RVWSB and ADB loan repayments. Accrued expenses relate to audit fees

#### 18 RELATED PARTY DISCLOSURES

(a) **County Government of Nakuru**

The County Government of Nakuru is the principal shareholder of the *company*, holding 100% of the company's equity interest

Other related parties include:  
 Key Management  
 Board of Directors

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**(b) Transactions with related parties**

The company was previously owned by the defunct Municipal Council of Nakuru and currently owned by the County Government of Nakuru. There are no other companies that are related to Nakuru Water and Sanitation Services Company Limited through common Shareholdings or common Directorships

	2018 Kshs	2017 Kshs
<b>i) Sales to related parties</b>		
Sales of goods to County Government of Nakuru	23,684,930	27,151,649
<b>Total</b>	<b>23,684,930</b>	<b>27,151,649</b>
<b>ii) Key management compensation</b>		
Salaries and other short term employment benefits	18,348,626	17,959,632
<b>Total</b>	<b>18,348,626</b>	<b>17,959,632</b>
<b>iii) Directors' remuneration</b>		
Directors sitting allowance	6,527,381	6,235,993
Chairman honorarium	857,148	857,148
<b>Total</b>	<b>7,384,529</b>	<b>7,093,141</b>
<b>iv) Outstanding balances arising from sale and purchase of goods/services</b>		
Non-current receivables from defunct Municipal Council of Nakuru currently	215,703,436	215,703,436
County Government of Nakuru	58,457,171	59,515,296

**e) Assets and liabilities transferred**

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In accordance with the provisions of the Water Act 2002, Nakuru Water and Sanitation Services Company Limited assumed responsibility of providing water and sanitation services in the jurisdiction of the defunct Nakuru Municipal Council with effect from 1<sup>st</sup> June 2004. To facilitate this service provision, certain operational assets and liabilities were assigned by the Director of Water –Ministry of

Water Resources Management and Development. The operational assets included customer accounts amounting to Kshs. 443,091,806 while the operational liabilities included amounts due to National Water Corporation Kshs 168,490,370, KPLC Kshs 45,108,015 and employees statutory deductions Kshs.11, 707,446 all amounting to Ksh 225,305,830 were assigned to the company for the time being subject to resolution with the Treasury - Ministry of Finance. Overall the net operational assets amounting to Ksh 217,785,976 were included as a reserve in the Financial Statements.

The company on 16<sup>th</sup> June 2011 wrote to the Rift valley Water Services (RVWSB) requesting them to Negotiate on its behalf with the Ministry of Water and irrigation, Ministry of Finance and National Water Conservation and Pipeline corporation to write off the liability of Kshs.168, 490,370.

Further the company on 23<sup>rd</sup> June 2011 and 17<sup>th</sup> may 2016 wrote to Kenya Power requesting them to provide us details on how the Kshs 45, 108, 015 was settled because the current bills were up to date. On 26<sup>th</sup> July 2011 Kenya Power responded that according to their records there was no amount owing and that it was not possible to provide the details of who settled the bills. In view of the Kenya Power response, the Board of Directors resolved that the amount be written off against a reserve of assets Transferred to the Company at inception. After the adjustment the Non -current accounts payable reduced to Kshs 180,197,815 as at 30<sup>th</sup> June 2017 while the reserve of assets transferred increased to Kshs.262, 893,991.

<b>Long term liability movement</b>	<b>2018</b>	<b>2017</b>
National water Corporation	168,490,370	168,490,370
LAP trust	-	6,145,100
NSSF	<u>5,562,345</u>	<u>5,562,345</u>
	<b><u>174,052,815</u></b>	<b><u>180,197,815</u></b>

19) GRANTS FROM WATER SERVICES TRUST FUND (WSTF), SUWASA/USAID, VIENS EVIDES AND CGN

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(i) Project funded by WSTF

	2017-2018	2016-2017
	Kshs	Kshs
WSTF-Rhonda Project	9,996,793	12,496,242
WSTF-Kaptombwa Project	9,463,239	11,828,796
WSTF-London/Manyani	10,920,137	13,101,625
WSTF-Free area/Kiratina	12,193,587	14,822,202
WSTF Project Mzee Wanyama	12,145,102	14,797,498
WSTF Project Prepaid Meters	2,559,374	3,199,218
Githima, Bondeni & Misonge WSTF Project	5,725,224	6,564,737
Baruti WSTF Project	6,928,032	8,082,822
Pre-paid water Meters & Maji Soko kiosks	8,322,093	10,088,516
Grants refunded to WSFT after project completion	(110,000)	-
Grant WSTF input tax disallowed	(10,248,674)	-
<b>Total funds</b>	<b>67,894,907</b>	<b>94,981,656</b>

(ii) Prepaid Meters by SUWASA

	2017-2018	2016-2017
	Kshs	Kshs
Cost	11,137,096	11,137,096
Accumulated Amortization	(10,738,520)	(8,511,101)
Charged for the year	(398,556)	(2,227,419)
<b>Totals funds</b>	<b>20</b>	<b>398,576</b>

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(iii) **Water Equipment by Vitens Evides**

	2017-2018	2016-2017
	Kshs	Kshs
Cost	4,312,027	4,312,027
Accumulated Amortization	(3,435,150)	(2,572,745)
Charged for the year	(862,405)	(862,405)
<b>Totals funds</b>	<b>14,472</b>	<b>876,877</b>

(iv) **Water Equipment by Vitens Evides**

	2017-2018	2016-2017
	Kshs	Kshs
Cost	4,950,950	-
Charged for the year	(618,869)	-
<b>Totals funds</b>	<b>4,332,081</b>	<b>-</b>

**20 INVESTMENT –FIXED BANK DEPOSIT**

	2017-2018	2016-2017
	Kshs	Kshs
Principal fixed deposit	150,000,000	100,000,000
Accrued interest on fixed deposit	1,180,833	5,206,250

The company on 1<sup>st</sup> December 2016 invested Kshs100, 000,000 in a fixed deposit at Cooperative Bank at interest rate of 10.50%. The fixed matured on 1<sup>st</sup> December 2017. The company re-invested Kshs150, 000,000 on 4<sup>th</sup> June 2018 in Cooperative bank at interest of 10.9% which will mature on 4<sup>th</sup> June 2019 for which the company has accrued net interest for one month up to 30<sup>th</sup> June 2018 Kshs 1,180,833.

**21 CONTINGENT LIABILITIES**

The company has no contingent liabilities in respect of bank, guarantees and other matters arising in the course of business

## 22 FINANCIAL RISK MANAGEMENT

The entity'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 entity has exposure to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when due. Credit risk arises from cash and cash equivalents, and deposits with banks, as well as trade and other receivables and available-for-sale financial investments.

Management assesses the credit quality of each customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external assessment in accordance with limits set by the directors. The amounts presented in the statement of financial position are net of allowances for doubtful receivables, estimated by the company's management based on prior experience and their assessment of the current economic environment.

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

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	Total amount Kshs	Fully performing Kshs	Past due Kshs	Impaired Kshs
<b>At 30<sup>th</sup> June 2018</b>				
Receivables from exchange transactions	710,483,930	142,452,932	568,030,998	-
Bank balances	47,251,416	47,251,416	-	-
<b>Total</b>	<b>757,735,346</b>	<b>189,704,348</b>	<b>568,030,998</b>	<b>-</b>
<b>At 30<sup>th</sup> June 2017</b>				
Receivables from exchange transactions	654,677,642	-	-	-
Bank balances	61,298,328	61,298,328	-	-
<b>Total</b>	<b>716,975,970</b>	<b>61,298,328</b>	<b>-</b>	<b>-</b>

The entity has significant concentration of credit risk on amounts due from the County Government of Nakuru

The board of directors sets the company's credit policies and objectives and lays down parameters within which the various aspects of credit risk management are operated.

ii) **Liquidity risk management**

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

	Less than 1 month Kshs	Between 1-3 months Kshs	Over 5 months Kshs	Total Kshs
<b>At 30 June 2018</b>				
Trade payables				
Customer Deposits	42,233,449	48,562,863	439,367,674	530,163,987
Accrued audit fees	250,000	875,000	76,976,040	78,101,040
Unclaimed Mpesa receipts	382,500	-	-	382,500
Employee benefit obligation	-	-	1,050,922	1,050,922
Briquette sales liability	11,660,697	-	-	11,660,697
<b>Total</b>	<b>54,526,646</b>	<b>49,819,438</b>	<b>517,394,636</b>	<b>621,740,720</b>
<b>At 30 June 2017</b>				
Trade payables				
Customer Deposits	24,557,821	41,215,184	360,583,676	426,357,160
Accrued audit fees	300,000	1,152,500	69,976,758	71,429,258
Employee benefit obligation	382,500	-	-	382,500
Employee benefit obligation	10,268,570	18,430,401	-	28,698,971
<b>Total</b>	<b>35,508,891</b>	<b>60,798,085</b>	<b>430,178,413</b>	<b>526,525,389</b>

(iii) Market risk

The board has put in place an internal audit function to assist it in assessing the risk faced by the entity 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 entity's income or the value of its holding of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return. Overall responsibility for managing market risk rests with the Audit and Risk Management Committee.

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

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

**(a) Interest rate risk**

Interest rate risk is the risk that the entity'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.

*Management of interest rate risk*

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

**b) 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 entity capital structure comprises of the following funds:

	2017-2018	2016-2017
	Kshs	Kshs
Revaluation reserve	37,922,895	37,922,895
Retained earnings	(14,984,396)	(24,409,442)
Capital reserve	335,221,050	359,751,100
<b>Total funds</b>	<b>358,159,549</b>	<b>372,764,553</b>

**23 INCORPORATION**

The entity is incorporated in Kenya under the Kenyan Companies Act and is domiciled in Kenya.

**24 EVENTS AFTER THE REPORTING PERIOD**

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

**25 CURRENCY**

The financial statements are presented in Kenya Shillings (Kshs).

**APPENDIX 1: PROGRESS ON FOLLOW UP OF AUDITOR RECOMMENDATIONS**

The following is the summary of issues raised by the external auditor, and management comments that were provided to the auditor. We have nominated focal persons to resolve the various issues as shown below with the associated time frame within which we expect the issues to be resolved.

Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Focal Point person to resolve the issue (Name and designation)	Status: (Resolved / Not Resolved)	Timeframe (Put a date when you expect the issue to be resolved)										
<b>Basis of Qualified Opinion</b>															
1.0. Receivables and Prepayments	<p>The statement of financial position as at 30 June 2017 reported receivables and prepayments balance of Kshs.654, 677,642 as supported by note 15 to the financial statements. Note 15 to the financial statements reported gross trade receivables balance of Kshs. 709,467,212 as at 30 June 2017. The receivables comprised live, dead and suspended accounts as tabulated below.</p> <table border="1"> <thead> <tr> <th>Status</th> <th>Amount (Kshs)</th> </tr> </thead> <tbody> <tr> <td>Dead Account</td> <td>231,879,305.15</td> </tr> <tr> <td>Live Account</td> <td>331,328,663.51</td> </tr> <tr> <td>Suspended Account</td> <td>146,259,243.34</td> </tr> <tr> <td><b>Total</b></td> <td><b>709,467,212.00</b></td> </tr> </tbody> </table> <p>However, the aging analysis for the trade receivables has not been produced in support of the debtors. The bad Debt provision of Kshs 159,414,872 however, falls short of the dead and suspended accounts totaling Kshs. 378,138,548 or 53%. Evidently, the Company has demonstrated lack of prudent debt management policy which may affect cash flow and profitability as the receivables continue to rise. In the circumstances, the collectability and recoverability of the receivables</p>	Status	Amount (Kshs)	Dead Account	231,879,305.15	Live Account	331,328,663.51	Suspended Account	146,259,243.34	<b>Total</b>	<b>709,467,212.00</b>	<p>We concur with the observation. Our current billing system has no provision for debtor's movement schedule and age analysis. However, we are in the process of upgrading the system to incorporate the above reports. The Company has developed a draft of credit control procedures and policies manual to guide in debt management. The draft will be approved by the Board during the coming retreat in July, 2018.</p> <p>As regards the recoverability of the debtors from the records, the dead account of Kshs231m includes Kshs215m owed by the defunct MCN which is yet to be settled by the National Government as submitted by the defunct Transition Authority.</p> <p>The live accounts Kshs331m relate customers with debts dating back to the time when the provision of water and sanitation services was under the former MCN which are in dispute. The Company is in the process of investigating the customer claims and if they are found true they will be adjusted.</p> <p>The live accounts also include the County</p>	James M. Gathairu.  Commercial Manager	Not Resolved	June, 2019
Status	Amount (Kshs)														
Dead Account	231,879,305.15														
Live Account	331,328,663.51														
Suspended Account	146,259,243.34														
<b>Total</b>	<b>709,467,212.00</b>														

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	balance of Kshs. 654,677,642 as at 30 June 2017 could not be confirmed.	<i>Government debt of Kshs60m and National Government Kshs30m which we are sure will be paid. The suspended accounts Kshs146m relates to the accounts which were handed over from the then Water Department under the former MCR. These debts are under investigations with a view of writing them off before end of June, 2018</i>																															
<b>Other Matter</b>																																	
1.0. Non-Revenue Water (NRW)	<p>During the year under review, the Company produced 11,110,963 cubic meters of water. However, out of this volume, only 7,613,803 cubic meters of water was billed to customers with total revenue amounting to Kshs. 813,539,385. The balance of 3,497,960 cubic meters of water or approximately 31.5% of the total revenue represented Non-revenue water (NRW). According to the Water Services Regulatory Board (WASREB) guidelines, this quantity is 6.3% above the allowable loss of 25 %. The abnormal loss of 6.3% of the water produced may have resulted in loss estimated by Kshs. 375,798,385. The significant level of unaccounted for water (UFW) may negatively impact on the Company's profitability and long term sustainability. The table below shows comparison between water produced versus water billed:</p> <table border="1"> <thead> <tr> <th>Month</th> <th>Water Produced (m<sup>3</sup>)</th> <th>Billed Volume (m<sup>3</sup>)</th> <th>UFW Volume (m<sup>3</sup>)</th> </tr> </thead> <tbody> <tr> <td>Jul. 2016</td> <td>892,617</td> <td>588,098</td> <td>304,519</td> </tr> <tr> <td>Aug. 2016</td> <td>1,028,469</td> <td>597,079</td> <td>431,390</td> </tr> <tr> <td>Sept. 2016</td> <td>905,347</td> <td>655,213</td> <td>250,134</td> </tr> <tr> <td>Oct. 2016</td> <td>981,168</td> <td>646,771</td> <td>334,395</td> </tr> <tr> <td>Nov. 2016</td> <td>918,013</td> <td>636,515</td> <td>281,098</td> </tr> <tr> <td>Dec. 2016</td> <td>934,534</td> <td>633,463</td> <td>301,071</td> </tr> </tbody> </table>	Month	Water Produced (m <sup>3</sup> )	Billed Volume (m <sup>3</sup> )	UFW Volume (m <sup>3</sup> )	Jul. 2016	892,617	588,098	304,519	Aug. 2016	1,028,469	597,079	431,390	Sept. 2016	905,347	655,213	250,134	Oct. 2016	981,168	646,771	334,395	Nov. 2016	918,013	636,515	281,098	Dec. 2016	934,534	633,463	301,071	<p><i>The NRW of 31.5% was due to losses which occurred through technical or commercial ways. The company is addressing the commercial losses by metering all the customers and has in place an illegal use detection unit which investigates and identifies illegally connected consumers. As regards technical losses, the role of the company is limited to proper management and introduction of efficiency measures. The bulk of the water is lost through dilapidated network consisting of Asbestos cement (AC) pipes which are more than 70 years old and requires over Kshs.600 million to replace. This is the work of the Government through RWWSB and/or County Government who are the asset developer. The company is only an agent who is provided with the infrastructure and assets to provide water and sanitation services. RWWSB through a grant from the Belgian Government is currently replacing all the AC pipes with HDPE in order to address the physical losses in the central zone which will greatly reduce the UFW.</i></p>	Margaret W. Kinyanjui	Not Resolved	June, 2019
Month	Water Produced (m <sup>3</sup> )	Billed Volume (m <sup>3</sup> )	UFW Volume (m <sup>3</sup> )																														
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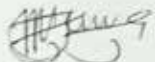
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Jan 2017	968,826	577,833	290,993																														
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		<p><i>manner and responding to them earnestly so as to bring the unaccounted for water below twenty-five (25%) percent.</i></p> <p><i>In addition the company plans to start pressure management in high pressure zones with the help of JICA so as to address physical losses.</i></p> <p><i>With all the above measures which have been put in place over time the company has been able to reduce UFW achieving 41% in 2014/15, 35% in 2015/16 and 31% in 2016/17. The company has planned to achieve 28% and below 25% by end of 2017/18 and 2018/19 financial years respectively.</i></p>			

Signed By:



**JAMES N. GACHATHI**  
**MANAGING DIRECTOR**



**JOHN K. KIMANI**  
**CHAIRMAN OF THE BOARD**

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**APPENDIX II: PROJECTS IMPLEMENTED BY THE ENTITY**

The Company purchased operational assets and electric fence amounting Kshs 24,008,279 as outlined in Note number 11.

**APPENDIX III: INTER-ENTITY TRANSFERS**

There were no inter entities transfers however we received materials worthy Kshs 4,950,950 from the County Government of Nakuru towards construction of electric fence at Old Town Baharini Sewerage Treatment plant located inside Nakuru National park.

**APPENDIX IV: RECORDING OF TRANSFERS FROM OTHER GOVERNMENT ENTITIES**

There were no transfers from other government entities