

REPUBLIC OF KENYA



**REPORT**

**OF**

**THE AUDITOR-GENERAL**

**ON**

**NAKURU WATER AND SANITATION  
SERVICES COMPANY LIMITED**

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



Baraka niyo vita



**NAKURU WATER AND SANITATION SERVICES  
COMPANY LIMITED**

**ANNUAL REPORT AND FINANCIAL STATEMENTS**

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

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 Reports and Financial Statements**  
**For the year ended 30<sup>th</sup> June 2019**

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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 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 the technical, commercial, financial and administrative functions.
- To provide the services within its 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 condition and not to dispose of any assets without the authorization of the Licensee.
- To prepare proposals for improvement of the assets so as to enhance service delivery.
- To propose tariff adjustments to the Licensee and Regulator.

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

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

- 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 County Government. NAWASSCO is an agent of Nakuru County Government 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.


**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 Strategic and Business 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:



	NAME	PROFILE
1	 Eng. John Karanja Kimani Non-Executive (Chairman)	<p>Eng. Karanja, 64, 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 Nakuru County which include; the fabrication and erection of Nyayo and Afraha Stadiums flood light towers and structural steel works for Menengai Oil Refineries. Other assignments 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 36 years.</p>



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2	 <p><b>Gladys Achieng' Ndeda</b> Non-Executive Director</p>	<p>Ms Gladys Ndeda, 60, was appointed on 3<sup>rd</sup> February 2016 to represent Professional Bodies. She is the Vice Chair of the Board.</p> <p>She has a Degree in Bachelor of Laws, Diploma from Kenya School of Law and has served as a Chief Magistrate of the High Court. Ndeda is a practicing lawyer. She has attended various courses in management and administration.</p> <p><b>Committee membership:</b> Finance &amp; Staff and Audit &amp; Governance Committee.</p>
3	 <p><b>Monicah Wanjiru Gitone</b> Non-Executive Director</p>	<p>Ms Wanjiru, 44, was appointed on 23<sup>rd</sup> May 2016 to represent the Business Community.</p> <p>She has served in various institutions including Chairperson -Bahati Sub County Hospital Management Committee, Women Representative -county peace forum, Cohesion Monitor -NCIC, Lead Facilitator in training of youth on entrepreneurship and business creation in Nakuru County, Community health worker on family health and development, Member of Board of Management-Nakuru Day Secondary School and PTA Member -Moi Primary School.</p> <p>She has a Diploma in Theology and has attended various courses in management, leadership, community development, finance, and conflict resolution. She has a wealth experience in managing businesses in Nakuru Town</p> <p><b>Committee membership:</b> Technical &amp; Social and Audit &amp; Governance Committee.</p>
4	 <p><b>Jennifer Jepchumba Kigen</b> Non-Executive Director</p>	<p>Ms Jepchumba, 56, was appointed on 3<sup>rd</sup> February 2016 to represent Women Organisations.</p> <p>She is also the Executive Director, Rongai Social Economic Women Organisation</p> <p>She holds a degree in Bachelor of Business Administration and Management from St. Pauls University and she is currently pursuing a Masters degree in Strategic Management at St. Paul University. She has attended various courses in leadership and management</p> <p><b>Committee membership:</b> Finance and Staff (Chairperson) and Audit &amp; Governance Committee.</p>

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5	 <p><b>Eng. Festus K. Ngeno Non-Executive Director</b></p>	<p>Eng. Ngeno, 39, 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; Shirtliff 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 (12years) 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>
6	 <p><b>Dr Peter Katyenya Non-Executive Director</b></p>	<p>Dr Peter K. Katyenya, was appointed on 10<sup>th</sup> April, 2019 and he represents the County Government of Nakuru. He is the County Executive Committee Member (CECM) in charge of Finance and Economic Planning.</p> <p>Before joining the County Government, Dr Katyenya was the General Manager Finance at the Kenya Rural Roads Authority for 5 years and he had also worked as Deputy Director Finance at Kenya Forest Service for 3 years. Previously he worked as a Senior Accountant at NHIF.</p> <p>Dr Katyenya holds degrees in both Bachelor of Commerce and Bachelor of Science in Applied Accounting. He has a Masters Degree in Business Administration and a PHD in Business (Banking and Finance Option).</p>



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		<p>Committee membership: Audit &amp; Governance committee (Chairman) and Finance &amp; Staff committee.</p>
7	 <p>James N. Gachathi          Managing Director</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 22 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	 <b>James N. Gachathi</b> <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 22 years.</p>
2	 <b>Isaac Mokaya Makori</b> <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 24 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. In addition he has a certificate in Strategic Leadership Development Programme (SLDP) from the Kenya School of Government (KSG), Baringo Campus</p>
3	 <b>James Muthee Gathairu</b> <b>Commercial</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 7 years and Chief Accountant with BlueShield Insurance Co. Ltd for 7 years. He has a rich experience in finance and business development spanning for over 24 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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Manager		
4	 <p><b>Joseph John Githinji Internal Audit Manager</b></p>	<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 19 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 ICPS(K)</p>
5	 <p><b>Margaret Wanjiru Kinyanjui Technical Manager</b></p>	<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 Wanjira 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 9 years</p>
6	 <p><b>Mrs Anne Chepkorir Turgut HR &amp; Admin. Manager</b></p>	<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</p>



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		Human Resources Management (IHRM). She has a rich experience in Human Resource Management and leadership spanning for over 16 years
7	 <p>Mr Willy Kibet Procurement Manager</p>	<p>Mr. Willy Kibet ,31, was appointed on 1<sup>st</sup> march 2019</p> <p>Before joining the company, Mr. Kibet worked as a Tutorial Fellow for Maseno University. Prior to Maseno University, he was an Assistant Director Procurement County Government of Bomet and seconded to Bomet Water Company.</p> <p>Kibet holds a degree in Purchasing and Supplies Management and a master degree in Procurement and Logistics from Jomo Kenyatta University of Agriculture and Technology (JKUAT). He is a registered member of the Certified Procurement and Supply Professional of Kenya (CPSP-K) and the Kenya Institute of Supplies Management (KISM)</p> <p>He has a rich experience in procurement spanning over 8years.</p>
8	 <p>Anthony Kipkurui Kamar ICT Manager</p>	<p>Mr Kamar, 31, was appointed on 1<sup>st</sup> march 2019</p> <p>Before joining the company, Mr Kamar worked with the Kenya Film Classification Board for 8 years as the Head of ICT. He has vast experience in project management, ICT security &amp; audit and implementation of management information systems.</p> <p>Mr Kamar holds a bachelor's degree in Business management and IT from Kabarak university, an MBA (operations management) from the University of Nairobi; He is a member of the computer society of Kenya (FCSK).</p> <p>He has a rich experience in ICT spanning over 8years</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 2019. 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 93% 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 6.3 % compared to 5.6 % in 2017/19 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. Major growth was recorded in Agriculture, Manufacturing and Tourism

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 was better than the previous year as the company recorded a pre-tax profit of Kshs74.6M compared to a Kshs9 .4M during the previous year. The sharp increase in performance was mainly attributed to the implementation of the new tariff in July 2018 and reduced NRW from 35% to 31%.

The cost of electricity remained the same at Kshs18.6m per month during the year due to increase in tariff compared to Kshs16m last financial year. The cost of personnel went up due to review of salaries for staff. Other operating and maintenance costs remained low.

### **Business Development**

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

The WSTF through funding from Up-scaling Basic Sanitation for the Urban Poor (UBSUP) supported the Low-income consumers through construction of toilet facilities and sewerage services

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(emptying, dumping services and treatment of sludge). In this project 1000 No. Toilets were constructed benefiting over 10,000 people.

In addition the Vitens Evides International under the Water 4 Life funded the construction of 1000 No. toilets at Western Zone (Kaptembwa & Rhonda benefiting over 10,000 people.

The construction of the Itare Dam water project being implemented by the Rift Valley Water Works Development Agency (RVWDA) 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. However for the last one year the works stopped due to the financial difficulties facing the contractor.

### **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.

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



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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 also continued to partner 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. 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. Under the County Ministry for Water Energy Environment and Natural Resources (WEENR), the company participated in the planning and attended the Nakuru Agricultural Society of Kenya (ASK) Show for one week in July 2018. NAWASSCO showcased different water and sanitation services provided including: social connection, the process of water application, lab testing, and water treatment among others. The theme was *'Promoting Innovation and Technology in Trade and Agriculture'*. During the ASK show, the company interacted with the 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. Customer engagement is a deliberate effort made by a company to constantly interact with its customers. NAWASSCO has also made efforts to build loyalties with its customers. 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 participated in the Annual World Customer Service Week that was marked in NAWASSCO by awarding the customers with MakaaDotcom briquettes. The events were also captured on NAWASSCO's twitter page under the hash tag – *"#Excellence Happens at NAWASSCO"*.

For NAWASSCO to succeed as a company, the communities in which we live and work must thrive. Over the years, we have pledged to use our resources to help the communities around us. We have been committed to the idea that a company can have a positive impact on its employees, surrounding communities, and the planet. NAWASSCO family visited the Holy family Children's Home, Barut in May 2019. The home is comprised of over 50 children from a few days old to 18year old. Most of the children in the home were abandoned under different circumstances. During the visit, a 23 day old child was present. The malnourished sick child had been abandoned by the mother in a latrine and was taken to the home. NAWASSCO was able to donate much needed items to the home namely: diapers, dry food stuff, and milk and school stationery.

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

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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 provision of feedback once the complaints are resolved.

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 participated 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 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. In addition the Company through its Subsidiary Company, NAWASSCOAL produces 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 WSTF program the company assisted customers in the construction of 1000 toilets at a cost of Kshs20M including the emptying of sanitation facilities and disposing of sludge at the company waste water treatment plants.

The company received funding from Vitens Evides International under the Water 4 Life towards construction of 1000 No. toilets at Western Zone (Kaptembwa & Rhonda). The project will improve access to sanitation benefiting over 10,000 people.

### **Future Outlook**

During the year the company implemented its new strategic plan 2018/19 to 2022/23. The plan details various investment plans which aim to ensure NAWASSCO's growth including the completion of Itare Dam Water Project by Rift Valley Water Works Development Agency (RVWWDA). 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 European Union (EU), Water Sector Trust Fund (WSTF), Water and Sanitation for the Urban Poor (WSUP), Up scaling Basic Sanitation for the Urban Poor (UBSUP) and County Government of Nakuru.

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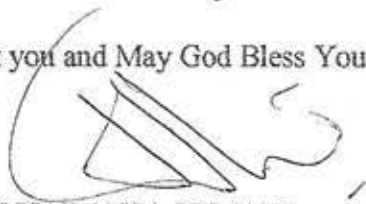
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Finally the future of NAWASSCO looks bright. The company has positioned itself to produce more water to meet the demand and increase sewer network.

**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 2019. 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 2018/19. 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**



## **MANAGING DIRECTOR'S REPORT**

I am pleased to present the Annual Report and Financial Statements of NAWASSCO for the year ended 30<sup>th</sup> June 2019. This is the 15<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 (2018/19 -2022/23) 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.

### **Financial Overview**

The financial performance during the period was better than the previous year as the company recorded a pre-tax profit of Kshs 74.6M compared to a Kshs9.4M during the previous year. The better and sharp increase in performance was mainly attributed to the implementation of the new tariff in July 2018 and reduced NRW from 35% to 31%.

The cost of electricity remained the same at Kshs18.6m per month during the year due to increase in tariff compared to Kshs16m last financial year. The cost of personnel went up due to review of salaries for staff. Other operating and maintenance costs remained low.

### **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 17hrs/day compared to 16hrs per day in 2017/18 and the amount of water provided was an average of 34,180 per day compared to 33,999M3 per day in 2017/18. The Non Revenue Water was 31.7% compared to 35% in 2017/18.

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

- (i) Maintenance of water distribution network
- (ii) Maintenance of sewer network
- (iii) Improvement of sanitation at the low income areas
- (iv) Continued use of customer complaint tracking module
- (v) Continued up-scaling of the production of briquettes (charcoal) from faecal matter (human waste) and saw dust.
- (vi) Took the customer services closer to the customers by partnering with Mpesa and banks on revenue collection.

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 Collective Bargaining Agreement (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 Nyeri 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, Water and Sanitation Urban for the Poor (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. However for the last one year the works were stopped due to the financial difficulties facing the contractor.

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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**



## **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 2015
- 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.

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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 (%)	93	93	The water coverage was maintained because during the period under review the company did not have new sources of water until the year 2022 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. However for the last one year the works were stopped due to the financial difficulties facing the contractor.
Water quality standards (%)	100	97.7	The company achieved 97.7% against the required 100%. This is mainly due to turbidity levels in bulk water supply from NARUWASSCO mainly during the rainy season. Samples taken from consumer points in raw water supply system do not meet drinking water quality standard mainly during the wet seasons.
Non Revenue Water (NRW) (%)	29	31.7	This was not achieved mainly because of the dilapidated water infrastructure which is old and dilapidated and infrastructure damaging due to a lot of road construction works.
Hours of Supply (Hrs)	17.5	18	This was achieved due to more bulk supplier (NARUWASSCO) of water increased their average supply from 2700M <sup>3</sup> against a target 4300M <sup>3</sup> per day.
Metering ratio (%)	96	97	This was achieved due to the efforts which company has put in place to achieve 100% metering ratio.
Collection Efficiency (%)	93	96.3	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 promptly and are in arrears of Kshs 59.1m



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• **Financial Performance**

The financial performance during the period was better than the previous year as the company recorded a pre-tax profit of Kshs74.6M compared to a Kshs9.4M during the previous year. The better and sharp increase in performance was mainly attributed to the implementation of the new tariff in July 2018 and reduced NRW from 35% to 31.7%.

The cost of electricity remained the same at Kshs18.6m per month during the year due to increase in tariff compared to Kshs16m last financial year. The cost of personnel went up due to review of salaries for staff. Other operating and maintenance costs remained low.

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

**i. Procurement of an ERP System**

During the year under review the company entered into a partnership agreement between Vitens Evides International, Nakuru Rural Water and Sanitation Company (NARUWASCO), Nakuru Water and Sanitation Company (NAWASSCO) and Naivasha Water and Sewerage Company (NAIVAWASS) for the procurement of an Enterprise Resource Planning (ERP) System. In the partnership agreement, the role of the three water utilities was to support the lead partner Vitens Evides International objectives of ensuring availability and sustainable management of safe water and sanitation.

The overall responsibility of the lead partner was project planning, implementation and management whereas the three water utilities as part of the water operators partnership was to locally contribute and procure for an Enterprise Resource Planning System.

An agreement was on 19<sup>th</sup> August, 2019 signed with the consultant at for the design and implementation is in progress and it is expected to take a period of 12 months.

**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 Rift Valley Water Works Development Agency (RVWWDA) 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 Rift Valley Water Works Development Agency. However for the last one year the works were stopped due to the financial difficulties facing the contractor.

**iii. Water Network Extensions**

The company received funding from Vitens Evides International under the Water 4 Life towards construction of 49.176 km water network extension at Western Zone (Kaptembwa & Rhonda). The project will improve access to water benefiting over 25,000 people.

**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 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- Kshs59.1M**

The County Government of Nakuru currently owes the company several months' water bills amounting to Kshs 59.1m 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)- Kshs 215M**

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

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accumulated. We were informed that the amount owed by the defunct MCN was handed over to the defunct Transitional Authority which and it is yet to be settled.

**iii. VAT Refund Claims Owed by Kenya Revenue Authority (KRA)- Kshs 64.9M**

The Kenya Revenue Authority (KRA) owes the Company VAT refund claims amounting to Kshs 64.9m relating to period between the year 2015 and 2018 before water and sewerage services moved from VAT zero rated to VAT exempt. KRA has been very slow in processing of these claims despite the many follow ups.

**iv. Un predictable Increase of Kenya Power Monthly bills ranging between Kshs16m to Kshs20m**

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. In addition there is no special tariff for the water sector that would make the services cheaper given that we offer a social good.

**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, Rift Valley Water Works Development Agency (RVWWDA) 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 70,000M3 of water per day will get to Nakuru Town. However for the last one year the works were stopped due to the financial difficulties facing the contractor.

**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 Rift Valley Water Works Development Agency (RVWWDA)/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 Works Development Agency (RVWWDA) who is the asset developer. We are only an agent who is provided with the assets to provide water and sanitation services.

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

The Company is located between the Aberdare's 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.



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

The changes in the VAT Act, 2013 as contained in the Finance Act 2018 made water services VAT exempt meaning the water companies no longer claim the input VAT thus making water services more expensive and yet it is a social good.

**ix. Un Accounted for Water (UFW)- 31.7%**

The water sector is faced with the challenge of water losses which is at 60% nationally and 31.7% at our company level with the acceptable level being below 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.

**x. Low Sewerage Coverage - 27%**

The company sewerage coverage is very at 27% due to low funding from the County/National Government. This is a great risk to the town as it may be faced with sanitation related diseases. However through a project to be funded by KFW bank under the Lake Nakuru Bio-Diversity Project the sewer network will be improved and expanded.

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

**1. Rift Valley Water Works Development Agency (RVWWDA) Administrative Fees –Kshs 410.3M**

The outstanding payment to RVWWDA is as a result of the instructions which we received from the County Government of Nakuru in the year 2015 not to pay. The Company is waiting for the decision of the County Government on the way forward.

**2. African Development Bank (AfDB) Loan Repayment Arrears –Kshs 92.1M**

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

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 RVWWDA at Kshs39, 468,544.80 p.a.

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The Company got into arrears in the repayment of the loan due to the County Government that is not regularly paying its water bills which have accumulated to Kshs59.1M as at 30<sup>th</sup> June, 2019 and the defunct Municipal Council of Nakuru which owes Kshs215m thus affecting payments to our suppliers and statutory requirements.

**3. Former Ministry of Water & Natural Resources- Kshs168m**

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 Works Development Agency (RVWDA) 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.

**4. National Social Security Fund- Kshs5.5m**

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- Kshs 59.1M**

The County Government currently owes the company Kshs59.1m 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)- shs215m**

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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) –Kshs64.9m**

The water and sanitation services were previously being VAT 0% rated and the company was entitled to claim VAT input which the Kenya Revenue Authority (KRA) stopped refunding in February, 2015 due to the misinterpretation of the treatment VAT arising from sewer services. The company got a favourable interpretation and the refunds started being settled but at a very slow pace with a balance of Kshs64.9m as at 30<sup>th</sup> June, 2019.



## **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 Water Companies Sports Organization (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.

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 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.

For NAWASSCO to succeed as a company, the communities in which we live and work must thrive. Over the years, we have pledged to use our resources to help the communities around us. We have been committed to the idea that a company can have a positive impact on its employees, surrounding communities, and the planet. NAWASSCO family visited the Holy family Children's Home, Barut in May 2019. The home is comprised of over 50 children from a few days old to 18year old. Most of the children in the home were abandoned under different circumstances. During the visit, a 23 day old child was present. The malnourished sick child had been abandoned by the mother in a latrine and was taken to the home. NAWASSCO was able to donate much needed items to the home namely: diapers, dry food stuff, and milk and school stationery.

### **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 in place by the Company are felt by the customers and any 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.

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On Persons Living with Disability all stations are fixed with detachable rumps for ease of entry for persons confined to wheel chairs. A desk offering special services to persons living with disability is in place at the head office. In addition one special toilet for persons living with disability is in place d 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 they are assigned a ticket number for provision of feedback once the complaints are resolved.

In addition, during the year the company closed its banking hall and gave the customers the opportunity to be served from the nearest points of partner banks and their agents (Co-operative, Family & Equity) , Mpesa and Posta

## **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
- Public Procurement and Assets Disposal Act and Regulations
- Public Finance Management and Regulations

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 Corporate Social Responsibility (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.



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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.

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.

**Nakuru Water and Sanitation Services Company  
Limited Annual Reports and Financial Statements For  
the year ended 30<sup>th</sup> June, 2019.**

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**REPORT OF THE DIRECTORS**

The Board of Directors present their Annual Report together with the Financial Statements for the year ended 30th June, 2019 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, 2019 are set out on page 1 to 45. The net profit for the period of Kshs74, 593,382.00 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 v to viii 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 Auditor General, Office of the Auditor General of P.O BOX 30084 Nairobi as provided for by the Public Audit Act 2015.

**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:**  
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**Principal Advocates**  
Kipkoech Ogolla & Co. Advocates  
Tamoh Plaza, 2nd Floor  
P.O Box 17580  
NAKURU

By order of the Board



SECRETARY

Dated 25/9 2019

## STATEMENT OF DIRECTORS' RESPONSIBILITIES

Section 81 of the Public Finance Management Act, 2012 and the Kenyan Companies Act, 2015 require the Directors to prepare financial statements in respect of the company, which give a true and fair view of the state of affairs of the company as at the end of the financial year and the operating results of the company for that year/period. The Directors are also required to ensure that the company keeps proper accounting records which disclose with reasonable accuracy the financial position of the company. Directors are also responsible for safeguarding the assets of the company.

The Directors are responsible for the preparation and presentation of the Company's financial statements which give a true and fair view of the state of affairs of the company for and as at the end of the financial year (period) ended on June 30, 2019. This responsibilities includes; (i) maintaining adequate financial management arrangements and ensuring that these continue to be effective throughout the reporting period; (ii) maintain proper accounting records, which disclose with reasonable accuracy at any time the financial position of the company; (iii) designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of the financial and ensuring that they are free from material misstatements, whether due to error or fraud; (iv) safeguarding the assets of the company; (v) selecting and applying appropriate accounting policies; and (vi) making accounting estimates that are reasonable in the circumstances

The Directors accept responsibility for the company's financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity with International Financial Reporting Standards (IFRS) and the requirements of the Kenyan Companies Act, 2015. The Directors are of the opinion that the company's financial statements give a true and fair view of the state of the company's transactions during the financial year ended June 30, 2019, and of the company's financial position as at that date. The Directors further confirm the completeness of the accounting records maintained for the company, which have been relied upon in the preparation of the company's financial statements as well as the adequacy of the systems of internal financial control.

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

### Approval of the financial statements

The company's financial statements were approved by the Board on 25<sup>th</sup> September, 2019 and signed on its behalf by:



Chairman



Managing Director

Dated 25/9 2019

Dated 25/9 2019



# REPUBLIC OF KENYA

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**HEADQUARTERS**  
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NAIROBI

## **REPORT OF THE AUDITOR-GENERAL ON NAKURU WATER AND SANITATION SERVICES COMPANY LIMITED FOR THE YEAR ENDED 30 JUNE, 2019**

### **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 45, which comprise the statement of financial position as at 30 June, 2019, and statement of profit or loss and other comprehensive income, statement of changes in equity, statement of cash flows and the 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 matters described in the Basis for Qualified Opinion section of my report, the financial statements present fairly, in all material respects, the financial position of Nakuru Water and Sanitation Services Company Limited as at 30 June, 2019, and of its financial performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards (IFRS) and comply with the Companies Act, 2015, and Water Act, 2016.

#### **Basis for Qualified Opinion**

##### **1. Inaccuracies in the Financial Statements**

The statement of profit or loss and other comprehensive income reflects net profit amount of Kshs.74,593,382 but had the following errors and inconsistencies: -

1.1. The statement of profit or loss and other comprehensive income reflects sales/turnover of Kshs.963,149,470; (2018 - Kshs.860,874,266) and as disclosed under Note 6(a) to the financial statements. However, the supporting schedules reflect a balance of Kshs.966,269,708 resulting to unexplained variance of Kshs.3,120,238;

1.2. The statement of profit or loss and other comprehensive income reflects provision for impairment losses of Kshs.5,253,928 whereas Note 15(a) the corresponding disclosure



to the financial statements reflects a decrease in the provision to Kshs 49,036,883; (2018 - Kshs.162,456,714) resulting to an unexplained variance of Kshs.108,165,903, and

1.3. The statement of profit or loss and other comprehensive income reflects water fittings of Kshs.11,063,775; (2018 - Kshs.10,168,130) and as disclosed under Note 8(d) to the financial statements. However, the balance differs from supporting schedule amount of Kshs.9,549,214 resulting to a variance of Kshs.1,514,561.

Consequently, the accuracy of the net profit amount of Kshs.74,593,382 could not be ascertained.

## **2. Undisclosed Loan from African Development Bank (AfDB)**

The statements of profit or loss and other comprehensive income reflects operating and maintenance costs of Kshs.295,719,736;(2018-Kshs.318,924,551) and as disclosed under Note 8(d) to the financial statements. Included in this amount is the AfDB Loan repayment amount of Kshs.39,468,540. As previously reported, although the Company procured the amount of Kshs.994,706,658 from African Development Bank (AfDB) through Rift Valley Water Works Development Agency (RWWDA) and continues to service it, the outstanding loan balance is not reported on the financial statements as required by the standards. This is also in breach of section 628(3) of the Companies Act No.17 of 2015 which requires company accounting records to contain day to day entries of all amounts of money received and spent.

Consequently, the accuracy and fair statement of the Company financial position could not be established.

## **3. Doubtful Reserve Assets Transferred**

As previously reported, the statement of financial position reflects reserve assets transferred balance of Kshs.262,893,991 and as disclosed under Note 18(c) to the financial statements. However, the balance is not supported by way of detailed analysis of customer accounts contrary to Regulation 99(3) of the Public Finance Management (County Governments) Regulations, 2015 that requires every entry in the accounts to be supported by a voucher or document containing full details, clear narrations and particulars of the items to which it relates.

Consequently, the accuracy and fair statement of reserve assets transferred balance of Kshs.262,893,991 as at 30 June, 2019 could not be established.

## **4. Trade and Other Payables**

The statement of financial position reflects trade and other payables balance of Kshs.683,831,716; (2018 - Kshs.621,740,720) and as disclosed under Note 17 to the financial statements. The following issues were noted: -



## **4.2 Audit Fees Understatement**

Included in the balance is outstanding audit fees of Kshs.382,500. However, this differs with the invoiced amount of Kshs.1,567,472 by the Office of the Auditor-General resulting to an unreconciled and unexplained variance of Kshs.1,184,972. Further, the audit charge provision for the year has not been incorporated in the financial statements.

## **4.3 Customer Deposits**

Included also in the balance is customer deposits amounting to Kshs.85,080,307. However, there was no certificate of bank balance or reconciliation for the account holding the customer deposits in support of the balances. Detailed breakdown of the customers was also not provided for audit review. This is contrary to the provisions of Regulation 107(2)(b) of the Public Finance Management (County Governments) Regulations, 2015 that requires monthly bank reconciliations to be carried out.

## **5 Long Outstanding Debt - Rift Valley Water Works Development Agency**

The statement of financial position reflects trade and other payables balance of Kshs.83,831,716 and as disclosed under Note 17 to the financial statements. Included in this amount is Kshs.410,356,723 owed to Rift Valley Water Works Development Agency on account of administrative fees payable that has accrued since 2013 due to instructions not to pay issued by the County Government of Nakuru. This is in breach of the service provision agreement. Further, records maintained at the Agency reflects receivables from the Company of Kshs.275,796,820 resulting to an overstatement of Kshs.134,559,903. No explanation has been provided or evidence of steps taken by the company to resolve the matter.

From the foregoing, the accuracy and fair statement of trade and other payables balance of Kshs.683,831,716 as at 30 June, 2019 could not be confirmed.

## **6 Trade and Other Receivables**

The statement of financial position reflects trade and other receivables of Kshs.738,069,728; (2018 - Kshs.710,483,930) and as disclosed under Note 15(a) to the financial statements. Included in the balance is net trade receivables of Kshs.653,001,621; (2018 - Kshs.604,673,801). However, the trade receivables balance is unsupported by way of detailed debtors aging analysis contrary to Paragraph 5.2 of the Company's financial manual. The adequacy of provisions for likely impairment could therefore, not be established.

Consequently, the accuracy and fair statement of the trade and other receivables balance of Kshs.738,069,728 as at 30 June, 2019 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 Management in accordance with ISSAI 130 on Code of Ethics. I have fulfilled other ethical responsibilities in accordance with the ISSAI and in accordance with other ethical requirements applicable to performing audits of financial statements in Kenya. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

### **Key Audit Matters**

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

### **Other Matter**

#### **Budget Control and Performance**

The statement of comparison of budget and actual amounts reflects an approved revenue budget of Kshs.1,074,350,004. The actual income for the year amounted to Kshs.986,183,778 resulting to an overall shortfall of Kshs.88,166,225 or 8% of the budget. Management has not rendered satisfactory explanations for the revenue shortfall that may have impacted negatively on service delivery to the residents of Nakuru town.

## **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, 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**

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

## **REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE**

### **Conclusion**

As required by Section 7(1)(a) of the Public Audit Act, 2015, based on the audit procedures performed, except for the matters described in the Basis for Conclusion on

Effectiveness of Internal Controls, Risk Management and Governance section of my report, I confirm that, nothing else has come to my attention to cause me to believe that internal controls, risk management and overall governance were not effective.

### **Basis for Conclusion**

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

Available records indicate that the Company produced 12,381,852 cubic meters (M<sup>3</sup>) of water, of which only 8,513,010 M<sup>3</sup> were billed to customers leaving out the balance of 3,868,842 M<sup>3</sup> unbilled representing 31% of the production as Non-Revenue Water (NRW). The NRW exceeded the set threshold of 25% as approved by the Water Services Regulatory Board (WASREB) guidelines. No explanations have been rendered for the high NRW and measures being put in place to resolve it so as to reduce revenue losses.

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

### **REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS**

As required by the Companies Act, 2015, except for the matters under the Basis for Qualified Opinion and Conclusion on Effectiveness of Internal Controls, Risk Management and Overall Governance sections of my report, I report based on my audit, that:

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

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

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



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

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

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

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

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

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

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

Further, in planning and performing the audit of the financial statements and audit of compliance, I consider internal control in order to give an assurance on the effectiveness of internal controls, risk management and overall 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 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 Management.
- Conclude on the appropriateness of the Management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in the auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my audit report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information and business activities of the Company to express an opinion on the financial statements.

- Perform such other procedures as I consider necessary in the circumstances.

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

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

  
Nancy Gathungu  
AUDITOR-GENERAL

Nairobi

21 July, 2021

**Nakuru Water and Sanitation Services Company  
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**REPORT OF THE INDEPENDENT AUDITORS ON NAKURU WATER AND  
SANITATION SERVICES COMPANY LTD**



Nakuru Water and Sanitation Services Company  
 Limited Annual Reports and Financial Statements For  
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STATEMENT OF PROFIT AND LOSS AND OTHER COMPREHENSIVE INCOME  
 FOR THE YEAR ENDED 30 JUNE 2019


	Note	2019	2018
		Kshs	Kshs
<b>REVENUES</b>			
Sales/Turnover			
Interest on Fixed Deposit	6(a)	963,149,470	860,874,266
Other Income	6(b)	16,227,615	4,899,583
	6(c)	6,806,693	6,159,704
<b>TOTAL REVENUES</b>		<b>986,183,778</b>	<b>871,933,553</b>
<b>EXPENSES</b>			
Cost Of Sales	8(a)	278,685,569	243,544,445
Administration Costs	8(b)	331,931,163	296,375,232
Operating and Maintenance Costs	8(d)	295,719,736	318,924,551
Provision for impairment losses	15(a)	5,253,928	3,664,280
<b>TOTAL EXPENSES</b>		<b>911,590,396</b>	<b>862,508,508</b>
<b>OPERATING PROFIT/(LOSS) BEFORE TAXATION</b>		<b>74,593,382</b>	<b>9,425,045</b>
Income tax expenses	9 (a)	-	-
<b>PROFIT/(LOSS)</b>		<b>74,593,382</b>	<b>9,425,045</b>

**Nakuru Water and Sanitation Services Company  
Limited Annual Reports and Financial Statements For  
the year ended 30<sup>th</sup> June, 2019**


**STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2019**

	Notes	2019 Kshs	2018 Kshs
<b>ASSETS</b>			
<b>Non-Current Assets</b>			
Property, plant and equipment	11	101,965,772	115,765,802
Intangible assets	12	1,056	1,056
Prepaid operating lease rentals	13	109,536,621	112,441,765
<b>Total Non-Current Assets</b>		<b>211,503,448</b>	<b>228,208,623</b>
<b>Current Assets</b>			
Inventories	14	15,694,087	18,023,437
Trade and other receivables	15(a)	738,069,728	710,483,930
Investments	20	160,100,000	150,000,000
Bank and cash equivalent	16	146,755,522	47,251,416
<b>Total Current Assets</b>		<b>1,060,619,337</b>	<b>925,758,783</b>
<b>TOTAL ASSETS</b>		<b>1,272,122,786</b>	<b>1,153,967,406</b>
<b>EQUITY AND LIABILITIES</b>			
<b>Share Capital and Reserves</b>			
Ordinary share capital	10	100,000	100,000
Revaluation reserve	13	36,640,845	37,922,895
Reserve-Assets transferred	18(c)	262,893,991	262,893,991
Accumulated Profit/Losses		59,608,986	(14,984,396)
<b>Total Share Capital and Reserves</b>		<b>359,243,822</b>	<b>285,932,490</b>
Grants from WSTF	19(i)	51,166,830	67,894,907
Grants from SUWASA	19(ii)	20	20
Grants from Vitens Evides	19(iii)	14,472	14,472
Grants from County Government of Nakuru	19(iv)	3,713,212	4,332,081
<b>Total Share Capital, Reserves and Grants</b>		<b>414,138,356</b>	<b>368,173,970</b>
<b>Non-Current Liabilities</b>			
Non-Current accounts payable	18(c)	174,152,715	174,052,715
<b>Total Non-Current Liabilities</b>		<b>174,152,715</b>	<b>174,052,715</b>
<b>Current Liabilities</b>			
Trade and other payables	17	683,831,716	621,740,720
<b>Total Current Liabilities</b>		<b>683,831,716</b>	<b>621,740,720</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>1,272,122,786</b>	<b>1,153,967,406</b>

The Financial Statements on pages 1 to 45 were approved by the Board of Directors during a meeting held on 25<sup>th</sup> September 2019 and signed on its behalf by: -

  
Chairman  
Dated 25/9/2019

  
Managing Director  
Dated 25/9/2019

  
Finance Manager M/ No. 6774  
Dated 25/09/2019

**Nakuru Water and Sanitation Services Company  
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**STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 JUNE 2019**

	Note	Ordinary share capital	Reserves	Accumulated losses	Total
<b>At July 1<sup>st</sup>, 2017</b>		<b>100,000</b>	<b>397,073,998</b>	<b>(24,409,442)</b>	<b>372,764,556</b>
Grant from CGN	19(iv)	-	4,950,950	-	4,950,950
Amortisation of Grant from WSTF	19(i)	-	(16,728,057)	-	(16,728,057)
Amortisation of Grant from SUWASA	19(iii)	-	(1,260,981)	-	(1,260,981)
Amortisation of Grant from CGN	19(iv)	-	(618,869)	-	(618,869)
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>
<b>At July 1, 2018</b>		<b>100,000</b>	<b>373,058,367</b>	<b>(14,984,397)</b>	<b>358,173,970</b>
Amortisation of Grant from WSTF	19	-	(16,728,077)	-	(16,728,077)
Amortisation of Grant CGN	19	-	(618,869)	-	(618,869)
Total comprehensive income		-	-	74,593,382	74,593,382
<b>At June 30, 2019</b>		<b>100,000</b>	<b>355,711,421</b>	<b>59,608,986</b>	<b>414,138,356</b>



Nakuru Water and Sanitation Services Company  
 Limited Annual Reports and Financial Statements  
 For the year ended 30<sup>th</sup> June, 2019

**STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2019**

	Note	2019 Kshs	2018 Kshs
<b>CASH GENERATED FROM OPERATING ACTIVITIES</b>			
Profit/loss after income tax		74,593,382	9,425,045
<b>Adjustments for:</b>			
Depreciation on plant property and equipment	11	17,481,582	16,163,840
Amortization of prepaid operating lease rentals	13	1,623,093	2,905,144
<b>Changes in working capital</b>			
Increase in Receivables and Prepayments	15(a)	(27,585,798)	(55,806,288)
Increase in Payable and accrued expenses	17	62,090,995	95,215,331
Decrease in Non-current liability	18(c)	-	(6,145,100)
Decrease in Inventories	14	2,329,350	3,611,098
<b>Net cash generated from/(used in) operating activities</b>		<b>130,532,604</b>	<b>65,369,070</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Purchase of property, plant and equipment	11	(21,028,497)	(19,057,309)
Maturity of Fixed bank deposit	20	150,000,000	100,000,000
Investment in Fixed bank deposit	20	(160,000,000)	(150,000,000)
<b>Net cash generated from/(used in) investing activities</b>		<b>(31,028,497)</b>	<b>(69,057,309)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
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>-</b>	<b>(10,358,674)</b>
<b>INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS</b>			
		<b>99,504,107</b>	<b>(14,046,913)</b>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>			
	16	<b>47,251,415</b>	<b>61,298,328</b>
<b>CASH AND CASH EQUIVALENTS AT END OF THE YEAR</b>			
	16	<b>146,755,522</b>	<b>47,251,415</b>

Nakuru Water and Sanitation Services Company Limited  
Annual Reports and Financial Statements

For the year ended 30<sup>th</sup> June, 2019

STATEMENT OF COMPARISON OF BUDGET AND ACTUAL FOR THE YEAR ENDED 30 JUNE 2019

	2018/2019		2018/2019		2018/2019		2018/2019		Variance	%	Explanation of Variance
	Kshs		Kshs		Kshs		Kshs				
<b>Revenue</b>											
Water and sewerage charges	1,049,652,576		-	1,049,652,576	963,149,470		(86,503,106)		(8)		The non-achievement of revenue target was due to less volume 540,000m <sup>3</sup> and NRW Target of 31% vs.29%
Other income	24,697,428		-	24,697,428	23,034,308		(1,663,120)		(7)		
<b>Total income</b>	<b>1,074,350,004</b>		<b>-</b>	<b>1,074,350,004</b>	<b>986,183,779</b>		<b>(88,166,225)</b>		<b>(8)</b>		
<b>Expenses</b>											
Compensation of employees	318,705,095			318,705,095	288,653,406		30,051,688	9			The less actual expenditure than target was due to the concluded CBA which factored the rate of inflation and company financial performance.
Board Expenses	10,072,856			10,072,856	10,510,014		(437,158)	(4)			
Personnel subsistence and performance incentive	18,905,400			18,905,400	18,972,211		(66,811)	(0)			
Personnel medical and occupational health	8,915,691			8,915,691	9,231,478		(315,788)	(4)			
Personnel subscription and training	4,531,000			4,531,000	4,564,054		(33,054)	(1)			
Bulk water purchase	27,068,400		21,420,140	48,488,540	48,525,066		323,474	0.7			
Chemicals	7,700,963			7,700,963	5,918,000		1,782,963	23			Less amount on chemicals was due to less amount of water abstracted from river sources which requires a lot of cleaning
Electricity	225,044,820			225,044,820	224,242,504		802,316	0			
Depreciation	19,104,674			19,104,674	19,104,674		-	-			
Provision for bad	5,253,928			5,253,928	5,253,928		-	-			



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debits													
Licenses	101,739,518			101,739,518	103,180,599	(1,441,081)	(1.4)						
Administrative Fees and ADB loan													
Water Fittings	11,511,340			11,511,340	11,063,774	447,566	4						
Professional Fees	5,900,000	10,000,000		15,900,000	16,608,948	(708,948)	(4)						
Abstraction and permit Fees	6,257,305			6,257,305	5,662,372	594,933	10						
Motor Vehicles repairs and maintenance	6,448,134			6,448,134	6,388,620	59,514	1						
Insurance	3,000,000			3,000,000	1,980,872	1,019,128	34						Less amount was spent on insurance due to the competitive bids received during the tender process.
Printing and stationary	4,806,780			4,806,780	4,866,927	(60,147)	(1)						
Telephone	3,174,943			3,174,943	3,215,154	(40,211)	(1)						
Security	16,860,000			16,860,000	16,734,420	125,580	1						
Postage	8,701,300	(6,500,000)		2,201,300	1,351,962	849,338	39						Less amount was spent on postage due to the new innovation of sending bills through mobile phones and internet.
Fuel and Lubricants	9,643,200			9,643,200	9,883,258	(240,058)	(2)						
Rent	576,000			576,000	493,800	82,200	14						Less amounts was spent on rent after negotiation with the landlords on the new revised rates.
Others Expenses	131,637,027	(14,920,140)		116,716,887	95,184,354	21,532,533	18						Less expenditure was majorly on maintenance on manholes and sewerage ponds which was not carries out.
<b>Total expenditure</b>	<b>955,558,373</b>	<b>10,000,000</b>		<b>965,558,373</b>	<b>911,590,397</b>	<b>53,967,978</b>	<b>5.6</b>						
<b>Surplus for the period</b>	<b>118,791,631</b>	<b>(10,000,000)</b>		<b>108,791,631</b>	<b>74,593,382</b>	<b>34,198,247</b>	<b>31.8</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 Works Development Agency (RVWWDA) / 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

#### (i) Statement of compliance

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 is 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.

#### (ii) Basis of preparation

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).

#### Separate Financial Statements

The Company, Nakuru Water and Sanitation Services Company Ltd (NAWASSCO) and its subsidiary Company, NAWASSCOAL Company Ltd prepared separate financial statements.

NAWASSCO is wholly owned (100%) company of the County Government of Nakuru and NAWASSCO wholly owns (100%) shareholding in the subsidiary Company, NAWASSCOAL.

- The determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates
- The effect of changes in facts and circumstances

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

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

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

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

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

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

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

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

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

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

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

In the preparation of the financial statements, the Directors of NAWASSCO were of the opinion that the two companies should prepare separate financial statements because of the following reasons:-

- a. NAWASSCO is a wholly owned company of the County Government of Nakuru meaning the County Government has a direct 100% interest in the subsidiary Company, NAWASSCOAL.
- b. The natures of business for the two companies are different. NAWASSCO is a water and sanitation services provider with a cost recovery objective whereas NAWASSCOAL is a manufacturing and trading Company with a profit making objective.
- c. NAWASSCOAL Company's initial assets were funded by grants from donors. However during the year under review NAWASSCO provided it with a loan of Kshs 4,621,945.

The accounting policies adopted have been consistently applied to all the years presented.

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

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

#### *IFRS 16: Leases*

The new standard, effective for annual periods beginning on or after 1st January 2019, introduces a new lessee accounting model, which requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. The leased assets are of low value hence the IFRS has not been adopted.

#### *IFRIC 23: Uncertainty Over income tax treatments*

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



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

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

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

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

Amendment/Interpretation to a standard	Effective date	Impact
<i>Amendments to References to the Conceptual Framework in IFRS Standards (Issued 29 March 2018)</i>	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.

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 NAWASSCO 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 NAWASSCO's activities, net of value-added tax (VAT), where applicable, and when specific criteria have been met for each of the NAWASSCO'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.

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.

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 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.

**lc) 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 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.

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.

**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 2018-2019 was approved by the Board of Director and was subsequently submitted to the County Government on 3rd April 2019.

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:

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

d) 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 2018-19



6 (a) SALES/TURNOVER

	2019 Kshs	2018 Kshs
Water charges	722,362,103	645,655,700
Sewerage charges	240,787,367	215,218,566
<b>Total</b>	<b>963,149,470</b>	<b>860,874,266</b>

(c) INTEREST ON FIXED DEPOSIT

	2019 Kshs	2018 Kshs
Interest on fixed deposit	16,227,615	4,899,583
<b>Total</b>	<b>16,227,615</b>	<b>4,899,583</b>

The interest on fixed deposit has been separated from the other incomes.

(c) OTHER INCOME

	2019 Kshs	2018 Kshs
Fines and penalties	520,000	1,222,800
Water connection and Reconnection fee	1,869,861	1,435,582
Sewer Connection and Blockage fees	1,752,550	1,172,141
Bulk Water Sales	199,400	-
Labour Charges	1,360,315	1,430,488
Meter Service and Replacement fee	358,600	201,850
Payroll Recoveries	427,271	573,058
Customer Statement and Copy Bill	38,200	-
Interest on NAWASSCOAL Loan	154,064	-

Tender Sales	126,432	123,785
<b>Total</b>	<b>6,806,693</b>	<b>6,159,704</b>

The Company accounted for 68.25 (65% 2017/18) of the water produced. The 31.75(35% 2017/18) loss is due to technical and commercial losses. Other miscellaneous receipts of Kshs 4,936,904 in financial year 2017-18 are broken down into:-

Description	Amount Kshs
Water connection and reconnection fees	1,435,582
Sewer Connection and Blockage fees	1,172,141
Labour Charges	1,430,488
Meter Service and Replacement fee	201,850
Payroll Recoveries	573,058
Tender Sales	123,785
<b>Total</b>	<b>4,936,904</b>

**7) (OPERATING PROFIT/(LOSS))**

	2019 Kshs	2018 Kshs
The operating profit/(loss) is arrived at after charging/(crediting):		
Staff costs (note 8b)	288,653,406	255,156,164
Depreciation of property, plant and equipment	17,481,582	16,163,840
Amortization of land and building	2,905,144	2,905,144
RVWSB Administrative Fees	62,354,445	100,528,975
RVWSB ADB Loan repayment	39,468,545	39,468,545
Provision for bad and doubtful debts	5,253,928	3,664,280
Directors' emoluments - fees	8,128,490	6,527,381
- other	2,066,524	2,804,455
<b>Auditors' remuneration - current year fees</b>	<b>382,500</b>	<b>382,500</b>

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Total	426,694,564	427,601,284
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8 (a) COST OF SALES

	2019 KShs	2018 KShs
Bulk water purchases	48,525,066	42,292,520
Chemicals	5,918,000	8,031,180
Electricity	224,242,503	193,220,745
Total	278,685,569	243,544,445

8. (b) ADMINISTRATION COSTS

	2019 KShs	2018 KShs
Staff costs (note 8 c)	288,653,406	255,156,164
Directors' emoluments	10,510,014	9,331,836
Transportation, travelling and subsistence	18,972,211	18,888,419
Staff training expenses	4,564,054	5,308,980
Personnel medical and occupational health	9,231,478	7,689,833
Total	331,931,163	296,375,232

8(c) STAFF COSTS

Salaries and allowances of permanent employees	238,832,968	201,329,614
Wages of temporary employees	6,842,485	6,865,242
Compulsory national health insurance schemes		3,366,500
Compulsory national social security schemes	1,046,000	1,057,200
Other pension contributions	41,931,953	42,537,608
Total	288,653,406	255,156,164



For the year ended 30<sup>th</sup> June, 2019

The average number of employees at the end of the year was:	2019	2018
Permanent employees – Management	44	44
Permanent employees – Unionsable	155	166
Temporary and contract employees	28	52
<b>Total</b>	<b>227</b>	<b>262</b>

**8 (d) OPERATING AND MAINTENANCE EXPENSES**

	2019 Kshs	2018 Kshs
Depreciation	19,104,674	19,068,984
RWWSB Administrative Fees and ADB Loan Repayment	103,180,594	139,994,520
Water Fittings	11,063,774	10,168,130
Professional Fees	16,608,948	9,353,261
Stationery and photocopying	4,866,927	10,127,891
Rent expenses	493,800	458,400
Abstraction and permit fee	5,662,372	7,046,193
Motor Vehicles repairs and maintenance	6,388,620	5,967,334
Insurance	1,980,873	2,290,967
Telephone	3,215,154	3,488,041
Security	16,734,420	15,843,696
Postage	1,351,962	81,376
Fuel and Lubricants	9,883,259	12,860,636
Other operating expenses	95,184,354	82,172,122
<b>Total</b>	<b>295,719,736</b>	<b>318,924,551</b>

Included in the RWWSB/RVWWSA administrative fees and AfDB loan repayment amount of Kshs103,177,599.00 is Kshs39,468,544.80 towards annual servicing of a principal loan of Kshs994,706,658.00 which RWWSB/RVWWSA took from African Development for the construction of Albanita water project at an interest rate of 2.5% p.a over a period of 30 years

**9 INCOME TAX EXPENSE/ (CREDIT)**

**(a) Current taxation**

	2019 Kshs	2018 Kshs
Current taxation based on the adjusted profit for the year at 30%	-	-

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Current tax: prior year under/(over) provision	-	-
Current year deferred tax charge	-	-
Prior year under-provision for deferred tax	-	-
<b>Total</b>	-	-

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

	2019 Kshs	2018 Kshs
Profit before taxation	74,593,382	9,425,045
Add: Expense not deductible for tax purposes	26,663,522	22,958,813
Less: Expenses deductible for tax purposes	(136,802,570)	(31,508,348)
<b>Adjusted loss for tax purposes</b>	<b>(35,545,666)</b>	<b>875,510</b>
Tax losses B/F	(2,680,769)	(3,556,279)
<b>Total losses C/F</b>	<b>(38,226,435)</b>	<b>(2,680,769)</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 CAPITALS**

	2019 Kshs	2018 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



**II PROPERTY, PLANT AND EQUIPMENT**

2019	Water Meters	Network Extensions	Pumps and Motors	Motor vehicles including motor cycles	Computers & related equipment	Office equipment, electric wires, furniture & fittings	Capital work in progress	Total
<b>COST OR VALUATION</b>								
At July 1, 2018	72,288,789	83,640,386	59,188,733	12,558,871	13,180,947	19,391,405	-	260,249,132
Additions	8,120,000	-	8,964,624	-	257,638	975,409	-	18,317,669
CWIP	-	-	-	-	-	-	2,710,828	2,710,828
Disposals	-	-	-	-	-	-	-	-
At June 30, 2019	80,408,789	83,640,386	68,153,357	12,558,871	13,438,583	20,366,814	2,710,828	281,277,629
<b>DEPRECIATION</b>								
At July 1, 2018	(52,963,422)	(16,728,077)	(43,310,336)	(11,925,726)	(12,287,443)	(7,268,323)	-	(144,482,329)
Charge for the year	(6,555,799)	-	(8,514,351)	(147,400)	(731,770)	(1,532,262)	-	(17,481,582)
Charge for grants	-	(16,728,077)	-	-	-	(618,869)	-	(17,346,946)
At June 30, 2019	(59,519,224)	(33,456,154)	(51,824,687)	(12,073,126)	(13,019,213)	(9,419,454)	-	(179,311,857)
<b>NET BOOK VALUE</b>								
At June 30, 2019	20,889,565	50,184,232	16,328,670	485,745	419,370	10,947,361	2,710,828	101,965,772

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	63,784,244	-	51,389,809	12,558,871	12,400,587	7,627,319	88,480,023	236,240,853
Additions	8,504,545	3,149	7,798,924	-	780,360	1,970,351	-	19,057,329
CWIP	-	-	-	-	-	-	-	-
Disposals	-	(83,637,237)	-	-	-	(4,842,785)	(88,480,023)	-



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2018	Water Meters	Network Extensions	Pumps and Motors	Motor vehicles including motor cycles	Subsidiaries related equipment	Office equipment furniture & fittings	Applications in progress	Total
Grants CGN	-	-	-	-	-	4,950,950	-	4,950,950
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	(46,639,103)	-	(35,310,716)	(11,440,080)	(11,162,427)	(5,159,235)	-	(109,711,562)
Charge for the year	(6,324,321)	-	(6,738,638)	(485,646)	(1,125,016)	(1,490,219)	-	(16,163,840)
Charge for grants	-	(16,728,077)	(1,260,981)	-	-	(618,869)	-	(18,607,927)
At June 30, 2018	(52,963,425)	(16,728,077)	(43,310,336)	(11,925,726)	(12,287,443)	(7,268,323)	-	(144,483,329)
<b>NET BOOK VALUE</b>								
At June 30, 2018	19,325,364	66,912,309	15,878,397	633,145	893,504	12,123,082	-	115,765,802

12 INTANGIBLE ASSETS

	2019	2018
	Kshs	Kshs
<b>COST</b>		
At July 1 <sup>st</sup> 2018		
Additions	5,233,596	5,233,596
Disposals	-	-
At June 30 <sup>th</sup> 2019	5,233,596	5,233,596
<b>AMORTISATION</b>		
At July 1 <sup>st</sup> 2018		
Charge for the year	(5,232,540)	(5,084,595)
Disposals	-	(147,945)
Impairment loss	-	-

For the year ended 30<sup>th</sup> June, 2019

At June 30 <sup>th</sup> 2019	(5,232,540)	(5,232,540)
<b>NET BOOK VALUE</b>		
At June 30 <sup>th</sup> 2019	1,056	1,056

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 <sup>st</sup> 2018	51,375,873	81,101,010	132,476,883
Additions	-	-	-
Transfer to investment property (note 16)	-	-	-
Disposals	-	-	-
At June 30 2019	51,375,873	81,101,010	132,476,883
<b>AMORTISATION</b>			
At July 1 <sup>st</sup> 2018	(10,350,227)	(9,684,891)	(20,035,118)
Charge for the year	(1,282,051)	(1,623,093)	(2,905,144)
At June 30 2019	(10,350,227)	(9,684,891)	(22,940,262)
<b>NET BOOK VALUE</b>			
At June 30 2018	41,025,646	71,416,119	112,441,765
At June 30 2019	42,307,694	73,039,211	109,536,621

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 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.

**14 INVENTORIES**

	2019 KShs	2018 KShs
Technical stocks and stationery	15,694,087	18,023,437
	15,694,087	18,023,437

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

**15 (a) TRADE AND OTHER RECEIVABLES**

	2019 KShs	2018 KShs
Trade receivables	702,038,504	797,130,515
Less accumulated provisions for bad and doubtful trade receivables	(49,036,883)	(162,456,714)
Net trade receivables	653,001,621	604,673,801
Other Receivables		
Deposits and prepayments	10,474,200	10,474,200
VAT recoverable	64,928,203	93,807,990
Staff receivables	61,156	75,811
NAWASSCOAL Loan	4,621,945	-
Other receivables	-	271,295
Water deposit for Nawassco facilities	-	29,700
Cash collection by Posta	252,785	51,598
Bank charges receivable	3,517,305	-
Accrued Interest on NAWASSCOAL Loan	154,065	-
Mpesa receivable from Safaricom		219,697



For the year ended 30<sup>th</sup> June, 2019

Accrued interest on fixed Deposit	1,058,448	1,180,833
Total trade and other receivables	738,069,728	710,483,930

The loan to NAWASSCOAL relates to an amount which was loaned to the subsidiary company whose repayment will start after the 3<sup>rd</sup> year when the subsidiary is expected to breakeven. The interest rate of 5 % is chargeable per months

15 (b) STAFF RECEIVABLES

	2019 Kshs	2018 Kshs
Gross staff loans and advances	61,158	75,811
Provision for impairment loss	-	-
Less: Amounts due within one year	61,158 (61,158)	75,811 (75,811)
Amounts due after one year	0	0

16 BANK AND CASH AND CASH EQUIVALENTS

	2019 Kshs	2018 Kshs
Cash at bank	146,755,522	47,251,416
Cash in hand	-	-
Total	146,755,522	47,251,416

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

Detailed analysis of the cash and cash equivalents

Classification	Account number	2019 KShs	2018 KShs
a) Current account			
Co-operative bank (Revenue A/C)	01136087648601	31,628,898	11,485,944
Co-operative bank (Expenditure A/C)	01136087648600	11,317,436	20,083,921
Co-operative bank (Savings A/C)	01100087648600	90,678,099	13,662,613
Co-operative bank (Water Work A/C)	01136087648611	8,820,012	-
Co-operative bank (NACOSTEC A/C)	01136087648612	111,760	-
Family bank -revenue collection	018000046253	1,345,647	1,168,140
Mpesa receivable from Safaricom		370,090	-
Equity bank -revenue collection	0310261237839	2,483,580	850,798
<b>Grand total</b>		<b>146,755,522</b>	<b>47,251,416</b>

17 TRADE AND OTHER PAYABLES

	2019 KShs	2018 KShs
Trade payables	567,699,435	530,163,987
Accrued expenses	382,500	382,500
Other payables	115,749,781	91,194,233
	<b>683,831,716</b>	<b>621,740,720</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

(b) NAWASSCOAL 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

	2019 Kshs	2018 Kshs
<b>i) Sales to related parties</b>		
Sales of goods /services to County Government of Nakuru	30,029,592	23,684,930
Loan to NAWASSCOAL	4,621,945	
Sale of goods/services to NAWASSCOAL	18,394	
<b>Total</b>	<b>34,669,931</b>	<b>23,684,930</b>
<b>ii) Key management compensation</b>		
Salaries and other short term employment benefits	17,031,491	18,348,626
<b>Total</b>	<b>17,031,491</b>	<b>18,348,626</b>
<b>iii) Directors' remuneration</b>		
Directors sitting allowance	8,128,491	6,527,381
Chairman honorarium	921,423	857,148
<b>Total</b>	<b>9,049,914</b>	<b>7,384,529</b>



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iv) Outstanding balances arising from sale and purchase of goods/services		
Non-current receivables from defunct Municipal Council of Nakuru currently	215,703,436	215,703,436
County Government of Nakuru	59,098,553	58,457,171
Loan to NAWASSCOAL	4,621,945	-

c) Assets and liabilities transferred

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 and payment of staff employees deduction (Pension to LAPTRUST) Kshs 6,145,100 the Non-current accounts payable reduced to Kshs 174,052,100 as at 30<sup>th</sup> June 2019 while the reserve of assets transferred increased to Kshs.262, 893,991.

For the year ended 30<sup>th</sup> June, 2019

	2019	2018
Long term liability movement		
National water Corporation	168,490,370	168,490,370
NSSF	5,562,345	5,562,345
Share capital in NAWASSCOAL	100,000	=
	<u>174,152,815</u>	<u>174,152,815</u>

The total authorized number of ordinary shares is 100 with a par value of Kshs 1000 per share are owned by NAWASCO. All issued shares are not paid for.

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

(i) Project funded by WSTF

	2019 Kshs	2018 Kshs
WSTF-Rhonda Project	6,248,634.00	9,996,793
WSTF-Kaplembwa Project	5,915,042.00	9,463,039
WSTF-London /Manyani	7,283,000.00	10,920,137
WSTF-Free area/Kiratina	7,971,677.06	12,193,587
WSTF Project Mzee Wanyama	7,911,449.00	12,145,102
WSTF Project Prepaid Meters	1,599,782.00	2,559,374
Githima, Bondeni & Misonge WSTF Project	4,072,035.00	5,725,423
Baruti WSTF Project	4,811,558.00	6,928,030
Pre-paid water Meters & Maji Soko kiosks	5,353,653.00	8,322,093
Grants refunded to WSFT after project completion	-	(110,000)
Grant WSTF input tax disallowed	-	(10,248,674)
<b>Total funds</b>	<b>51,166,830</b>	<b>67,894,907</b>

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**(ii) Prepaid Meters by SUWASA**

	2019 Kshs	2018 Kshs
Cost	11,137,096	11,137,096
Accumulated Amortization Charged for the year	(11,137,076)	(11,137,076)
<b>Totals funds</b>	<b>20</b>	<b>20</b>

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

	2019 Kshs	2018 Kshs
Cost	4,312,027	4,312,027
Accumulated Amortization	(4,297,555)	(4,297,555)
<b>Totals funds</b>	<b>14,472</b>	<b>14,472</b>

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

	2019 Kshs	2018 Kshs
Cost	4,950,950	4,950,950
Accumulated Depreciation	(618,869)	-
Charge for the year	(618,869)	(618,869)
<b>Totals funds</b>	<b>3,713,212</b>	<b>4,332,081</b>



**20 INVESTMENTS**

	2019 Kshs	2018 Kshs
Fixed deposit	160,000,000	150,000,000
Investment in subsidiary	100,000	-
Accumulated Investments	160,100,000	150,000,000

**Fixed Deposit**

The company on 4<sup>th</sup> June 2018 invested Kshs150, 000,000 in a fixed deposit at Cooperative Bank at interest rate of 10.9%. The fixed matured on 4<sup>th</sup> June 2019. The company re-invested Kshs160, 000,000 on 4<sup>th</sup> June 2019 in Cooperative bank at interest of 9.50% which will mature on 6<sup>th</sup> June 2020 for which the company has accrued net interest for one month up to 30<sup>th</sup> June 2019 Kshs 1,058,448.

**Investment in subsidiary-NAWASSCOAL**

Company	Acquity	Ownership	2019 Kshs	2018 Kshs
NAWASSCOAL	Manufacturing of Briquettes	100%	100,000	-

**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 minimize 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:

	Total amount Kshs	Fully performing Kshs	Past due Kshs	Impaired Kshs
At 30 <sup>th</sup> June 2018				
Receivables from exchange transactions	737,909,472	135,068,106	602,841,365	-
Bank balances	146,915,778	146,915,778	-	-
Total	884,825,250	281,983,884	602,841,365	-
At 30 <sup>th</sup> June 2019				



Receivables from exchange transactions	710,483,930	136,043,819	574,440,111
Bank balances	47,251,416	47,251,416	-
<b>Total</b>	<b>757,735,346</b>	<b>183,295,235</b>	<b>574,440,111</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.

	Less than 1 month Kshs	Between 1-3 months Kshs		Over 3 months Kshs	Total Kshs
<b>At 30 June 2019</b>					
Trade payables	72,179,191	61,971,725	485,566,332		619,717,248
Customer Deposits	550,000	1,250,000	83,399,809		85,199,809
Accrued audit fees	382,500	-	-		382,500
Unclaimed Mpesa receipts	-	964,182	1,050,922		2,015,103
Employee benefit obligation	18,246,867	-	-		18,246,867
<b>Total</b>	<b>91,358,558</b>	<b>64,185,907</b>	<b>570,017,063</b>		<b>725,561,527</b>
<b>At 30 June 2018</b>					
Trade payables	42,233,449	48,562,863	439,367,674		530,163,987
Customer Deposits	250,000	875,000	76,976,040		78,101,040



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Accrued audit fees	382,500	-	-	382,500
Unclaimed Mpesa receipts	-	-	1,050,922	1,050,922
<b>Total</b>	<b>54,526,646</b>	<b>49,819,438</b>	<b>517,394,636</b>	<b>621,740,720</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.

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

**iv) 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.

**(v) 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:

	2019 KSHS	2018 KSHS

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Revaluation reserve	36,640,845	37,922,895
Retained earnings	59,608,986	(14,984,396)
Capital reserve	317,888,525	335,235,472
Total funds	414,138,356	358,173,971

**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 I: 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	Issues/Comments from Auditor	Management comments	Focal Point person to resolve the issue (Name and designation)	Status (Resolved/Not Resolved)	Timeframe (Period during which you expect the issue to be resolved)
<b>A Basis of Qualified Opinion</b>					
1.0. 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 repayments. The company is servicing a loan of Kshs. 994,706,658 due 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	According to the Water Act 2002, the development of water and sanitation infrastructure is the work of Water Service Boards who appoint agents to operate and maintain the assets while the ownership remains with the Service Boards. The Rift Valley Water Services Board (RVWSB)	Isaac Makori Finance Manager	Not resolved	June, 2020



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Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Action taken by the issue (Name and designation)	Status (Classified / Not Classified)	Timeframe (When did you expect the issue to be resolved)
<p>loan was not disclosed as 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).</p> <p>In the circumstances, it has not been possible to confirm total loan repaid and the amount outstanding as at 30th June 2018.</p>	<p>being owner of the water assets in the year 2004-2009 obtained a loan from the Government of Kenya for the construction of the Olobonita Project and other related works. After the completion of the project it handed over the project to the company for operations and maintenance.</p> <p>According to the loan 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 for financing projects to improve water supply and sanitation services. The loan was from African Development Bank (ADB) to the Government for on-lending to the RVWSB. (Appendix 1)</p> <p>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 (NAWASS) and Nakuru Rural Water and Sanitation Company Ltd (NARUWASSCO). 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.</p> <p>The NAWASSCO works which were done using this loan included augmentation of bulk water supply from Olobonita wellfield, development of Olobonita wellfield &amp; additional boreholes at Kaharini and Boharini wellfields, extensions</p>				



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Revaluation reserve	36,640,845	37,922,895
Retained earnings	59,608,986	(14,984,396)
Capital reserve	317,888,525	335,235,472
Total funds	414,138,356	358,173,971

**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 (Date on due respect the issue to be resolved)
<b>A. Basis of Qualified Opinion</b>					
1.0. 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 repayments. The company is servicing a loan of Kshs. 994,706,658 due 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	According to the Water Act 2002, the development of water and sanitation infrastructure is the work of Water Service Boards who appoint agents to operate and maintain the assets while the ownership remains with the Service Boards. The Rift Valley Water Services Board (RVWSB)	Issac Makori Finance Manager	Not resolved	June, 2020

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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: (Pat a date when you expect the issue to be resolved)
2.0 Doubtful Reserve-Assets Transferred	<p>The statement of financial position reflects reserve-assets transferred of Kshs.262, 893,991 as at 30th June 2018. However, note 18(c) indicates operational assets transferred to the company by the Ministry of Water Development in the year 2004, included customer's accounts of Kshs.443, 091,806. Further, no details of the customer's account balance transferred were provided for audit verifications, and hence it was not possible to confirm the existence of the assets.</p> <p>In the circumstances, the reported balance of Kshs.262, 893,991 in the respect of reserve-assets transferred in the statement of financial position could not be confirmed.</p>	<p>and improvements to water and sanitation network and rehabilitation of bulk transmission mains from Mereroni, Kabatini &amp; Boharini, installation of bulk meters, constant flow valves and ancillary works. Other areas where the money was used include capacity building, equipment, tools, consumer meters, consultancy and public awareness.</p> <p>We have correctly disclosed the loan details in our financial statements as payables to RVWSB. As at 31st July, 2019 we had paid a total of Kshs 287,288,140.80 leaving a balance of Kshs707, 418,517.20.</p>	Isaac Makori Finance Manager	Resolved	June, 2019
<p><b>B. REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES</b></p>					
1.0 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	<p>it is true that the Company stopped remittance of the administrative fees to RVWSB due to the instructions which we received from the County Government of Nakuru vide letter reference NCG/S/NWS/VOL.190 dated 2nd April, 2015. The letter was written to RVWSB and copied to</p>	James Gachathi Managing Director	Not resolved	June 2020



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	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			
	us with instructions not to pay until further notice. The letter was tabled before the Board of Directors which has a representation of the County Government of Nakuru for adoption and the way forward. It was resolved that since it was the shareholder who gave the instructions, the company did not have much to do except to wait for further instructions which we have not received to date but the company has made some savings of the money in order to ensure the amount is available for payment when the issue shall be resolved.			

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

			Not resolved	June 2020
2. Trade and Other Receivables				
2.1 Lack of Debtor Aging Analysis Report	<p>During the year under review, the company had debtors totalling 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 may result into insufficient provision for bad and doubtful debts and may also affect debt collection strategies.</p> <p>No satisfactory explanation has been given for failure to prepare debtors aging analysis report and therefore the accuracy of the debtors balance as at 30th June, 2018 could not be confirmed.</p>	<p>We concur with the observation because our current billing system has no provision for debtor's aging analysis. However, we are in the process of upgrading the system into an Enterprise Resource Planning System which will incorporate the aging analysis reports to support the debtors listing.</p> <p>The current billing system has a challenge of aging the debtors as it assigns payment receipts to the current bill as opposed to the month to which it relates. The tender for the Enterprise Resource Planning (ERP) system have been awarded awaiting implementation of the system in 2019/20FY</p>	James Gathairu Commercial Manager Anthony Kamar ICT Manager	June 2020
2.2 Long Outstanding Debts	<p>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, 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</p> <p>ii. Also reported under debtors is an amount of Kshs.215, 000,000 owned by the defunct Municipal Council of Nakuru. It is however, not clear why this debt</p>	<p>i. Outstanding debts owed by the County Government of Nakuru-Kshs.60, 000,000</p> <p>The County Government of Nakuru has not been good in paying for their water bills but continue demanding for services. This issue has always been discussed by the Board which has two CECMs representing the County who have always been tasked to take action but the bills continue accumulating despite our disconnection notices. As a company it becomes a challenge when dealing with a main shareholder of the Company who does not want to pay water bills. However we have since</p>	James Gathairu Commercial Manager	June 2020



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<p>has not been transferred to the County Government of Nakuru since all assets and liabilities of defunct Local Authorities were inherited by County Governments.</p>	<p>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.</p> <p>In the circumstances, the accuracy of the debtors balance as 30th June, 2018 could not be confirmed.</p>	<p>received payments but the balance stands at Kshs 59,852,072.90 as at 30th June, 2019.</p> <p>ii. Outstanding debts owed by the defunct Municipal Council of Nakuru- Kshs215M</p> <p>The debt of Kshs215, 703,435 owed by the defunct Municipal Council of Nakuru was handed over to the Transition Authority for onward transfer to the National Government. The company has done several demand notices to the County Government of Nakuru but the amount is still outstanding.</p>	<p>Not resolved</p>	<p>June 2020</p>
<p>iii. Increase in other receivables 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 majorly relates to:-</p> <p>(a) Water customer debtors. The increase was due to delay in payments by the National and County Governments as well as some customers who were in arrears. The amount which was owed by National government has since been cleared but the one owed the County Government is still outstanding at Kshs59.8m as at 30th June, 2019. We have sent several demand letters which have not yielded much.</p> <p>(b) VAT refund claims which the company had lodged with KRA and had not been paid. The increase was due to the 16% VAT claims within the year net of amount received from KRA. The company has been in constant engagement with KRA to ensure that the amount is paid. As at 30th June, 2019 the amount outstanding was Kshs64.9m</p>	<p>Isaac Makori, Finance Manager</p>	<p>The debt of Kshs215, 703,435 owed by the defunct Municipal Council of Nakuru was handed over to the Transition Authority for onward transfer to the National Government. The company has done several demand notices to the County Government of Nakuru but the amount is still outstanding.</p>	<p>Not resolved</p>	<p>June 2020</p>
<p><b>C. REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, GOVERNANCE AND RISK MANAGEMENT SYSTEMS</b></p>				
<p>1.1. Non- Revenue (NRW)</p>	<p>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</p>	<p>NRW is the greatest challenge in the water sector as most of the volumes of water produced are lost through technical or commercial ways. This is a</p>	<p>The was 31.75% as at</p>	<p>NRW at as at</p>

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<p>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.</p>	<p>great concern to the company and this has been shared with the Rift Valley Water Services Board (RVWSB) and the County Government of Nakuru who have promised to upgrade the old infrastructure in order to seal the technical losses.</p> <p>During the year under review, the NRW was 35% which was above the sector benchmark of 25%. Below were the causes and the interventions which have been undertaken to reduce NRW:-</p> <p>a) Old dilapidated networks within the supply area especially the CBD which led to high physical losses.</p> <p>The company in the year 2017/18 rehabilitated the water network within Central Zone and part of Western Zone by replacing old dilapidated network with new network of about 50kms. This was aimed at reducing physical losses within the network which has since resulted to reduction of NRW within Central Zone from 40% to about 31%.</p> <p>b) Inadequate financing for NRW interventions.</p> <p>NRW management interventions are costly considering the age and status of the network. There has been low funding from County and National Government. Water Act 2016 illustrates that infrastructural development is a duty of the Water Service Boards and the County Government. There has been very little funding from the two agencies.</p> <p>The company has started mobilizing for funds from donors and thus it has been funded through "water for Life" project to rehabilitate 49km water pipeline in Western Zone (low income areas) where water losses through leaks, bursts and illegal uses are high. The project will help reduce both commercial and physical water losses.</p> <p>c) Political interference which resulted to huge unbilled unauthorized water consumption in county estates (Paul Machanga, Shauri yako.</p>	<p>30<sup>th</sup> June, 2019 and will be reduced to below 25% by June 2020.</p>
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	<p>Kimathi, flamingo and Abongolwea)                  The company has undertaken Disconnection and legalisation of water usage in county estates at Paul Machanga, Shauri Yako, Abongolwea, flamingo and Kimathi estates which were previously consuming water from unbilled communal water points. All consumers in these areas currently have individual metered connections after a new water supply network was laid.</p> <p>d) The water infrastructure was not mapped making its management difficult. The company has embarked on Mapping of the entire water infrastructure using GIS. This will ensure efficient management of water infrastructure with easy monitoring of bursts / leaks etc; currently 90% of the water network has been mapped</p> <p>e) About 60% of the consumer meters in use are old (&gt;7yrs) and hence under registering. This leads to low billing.</p> <p>The company has embarked on meter Replacement exercise whereby faulty/old/under registering meters are being replaced with automatic meter reading (AMR) enabled meters which are more accurate with hope to automate them fully for real time meter reading and easier NRW computations. Once automated human errors will be eliminated and accurate billing will be achieved.</p> <p>f) The company has embraced use of mauti voice and social media e.g. Whatsup and toll free line for easy reporting of bursts and leaks as well as illegal use by customers.</p> <p>This has led to faster response to bursts and leaks and it also form a channel for whistle blowing of illegal connections. This will help the company to reduce NRW</p> <p>g) The restructuring of NRW team.</p> <p>Previously management of NRW was under</p>	



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		<p>operation and maintenance team. This was making follow up of NRW interventions difficult. To correct this NRW unit has been formed which comprises of illegal use, leak detection, meter testing and line patrol unit. This has led to easy management of NRW components as well as data collection and analysis process. Through the above interventions the company will reduce NRW to below 25% by June 2020.</p>			
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Signed By:



**JAMES N. GACHATHI  
MANAGING DIRECTOR**



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

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

*The Company purchased operational assets amounting Kshs 21,028,497 as outlined in Note number 11.*

**APPENDIX III: INTER-ENTITY TRANSFERS**

*The company loaned its subsidiary Company, NAWASSCOAL a start-up capital of Kshs 4,621,945 at an interest rate of 5 % p.a. The loan will be paid back in 36 instalments at Kshs 128, 387.35 per month.*

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

*There were no transfers from other government entities*