

REPUBLIC OF KENYA



OFFICE OF THE AUDITOR-GENERAL

REPORT



OF

THE AUDITOR-GENERAL

ON

**THE FINANCIAL STATEMENTS OF
NZOIA WATER SERVICES COMPANY
LIMITED**

**FOR THE YEAR ENDED
30 JUNE 2018**



NZOLA WATER SERVICES COMPANY LIMITED

ANNUAL REPORTS AND FINANCIAL STATEMENTS

**FOR THE FINANCIAL YEAR ENDED
JUNE 30, 2018**

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

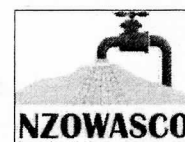


TABLE OF CONTENTS

Key Entity Information	1
Board of Directors	2
Management Team	5
Chairman's Statement	7
Report of the Managing Director	8
Statement of Corporate Governance	10
Management Discussion and Analysis of the Company	13
Corporate Social Responsibility Statement	14
Report of the Directors	15
Statement of Directors Responsibility	16
Report of the Auditor General	17
Statement of Profit and Loss and Other Comprehensive Income	18
Statement of Financial Position	19
Statement of Changes in Equity	20
Statement of Cash flows	21
Statement of Comparison of Budget and Actual Amounts	22
Notes to the Financial Statements	24



Key Entity Information:

Background Information:

The company was established as a result of the Water Act 2002 enacted by parliament as part of the reforms in the water sector. Pursuant to this water act, Lake Victoria North Water Services Board was established and mandated to appoint water service providers as their agents. Nzoia Water Services Company Limited was appointed to serve in Trans Nzoia and Bungoma regions.

Nzoia Water Services Company Limited was registered under the company's Act (CAP 486) on 4th February 2004 and became operational a year later on 9th February 2005. The company is fully owned by the county governments of Trans Nzoia and Bungoma and mandated to provide water and sewerage services within the two counties.

The company operates several water treatment works namely; Kapolet and Nzoia in Trans Nzoia County and Nabuyole, Matisi, Kapkateny and Chesikaki all in Bungoma County.

Principal Activities:

The principal activity of Nzoia Water Services Company Limited is to provide adequate water and sanitation services efficiently, economically and in a sustainable manner to all consumers in areas under its jurisdiction.

Company Vision:

To be a world class water service provider.

Company Mission:

To provide quality portable water and sanitation services in a sustainable manner using world class practices for the satisfaction of customers and stake holders.

Core Values:

- ❖ Team work
- ❖ Integrity
- ❖ Competence
- ❖ Innovation
- ❖ Customer focus
- ❖ Excellence



Directors:

Lusweti Furaha B.K.S	Chairman	Non Executive	Appointed in June 2016
Kennedy K. Wekesa	Ag Managing Director	Executive	Appointed in January 2018
Rebecca C. Nafula	Director	Non Executive	Appointed in June 2016
Prof. Chrispus K. Ndiema	Director	Non Executive	Appointed in June 2016
Millicent K. Wafula	Director	Non Executive	Appointed in June 2016
John Meng'wa	Director	Non Executive	Appointed in November 2017
Eng John M. Situma	Director	Non Executive	Appointed in April 2015
Wambeye K. Marakia	Chairman	Non Executive	Left in February 2018
Eng. Patrick W. Munialo	Managing Director	Executive	Left in January 2018
Eng Timon Koros	Director	Non Executive	Left in April 2016
Dina N. Makokha	Director	Non Executive	Left in January 2018

Corporate Secretary:

CS Dickson Kirui,
P.O Box 1087 – 20200,
KERICHO.

Corporate Headquarters:

Nzoia Water Services Company Limited,
P.O Box 1010 – 50205,
WEBUYE

Corporate Contacts:

Telephone:(254)(020)2060538
E-Mail: info@nzoiawater.or.ke
Website: nzoiawater.or.ke

Corporate Bankers:

Equity Bank Limited,
Kitale Branch,
P.O Box 801 – 30200,
KITALE.

Kenya Commercial Bank,
Webuye Branch,
P.O Box 332 – 50205,
WEBUYE

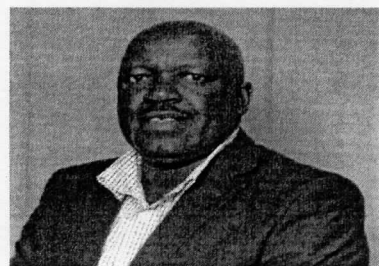
Independent Auditors:

Office of the Auditor General,
Anniversary Towers, University Way,
P.O Box 30084- 00100 GPO,
NAIROBI.

Principal Legal Advisers:

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

BOARD OF DIRECTORS:



Lusweti Furaha B.K.S – Chairman (Born 1962)

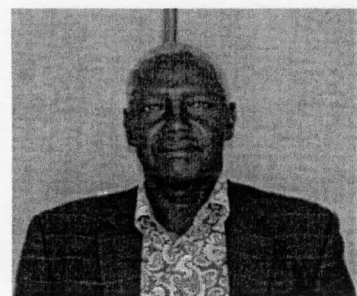
He was appointed Chairman of the Board in January 2018. He is a trained teacher and a graduate of Bachelor of Business Management Marketing option from Moi University. From 1989 to 2006, he taught at Mandera Boys High School, Marigat mixed Secondary School, Chewoyet High School, Kamito Boys High School, St Micheal Top Station Secondary School and St Patricks Waitaluk High School. He is currently the executive Secretary of KUPPET



Rebecca Catherine Nafula - Director (Born 1967)

She joined the Board in June 2016. She holds a Master of Education degree in Educational Planning and Management from Masinde Muliro University of Science and Technology. She is currently the senior Head of Department (Science) at St Kizito Mayanja Mixed Secondary School. Before then she served as Deputy Head Teacher at Luuya Girls Secondary School and Head of Department Science at Kibabii Boys High School. She has published the following papers

1. Impact of school environment on academic performance in girls schools in Bungoma South District
2. Negative cultural influence on girls academic performance in Bungoma County.



Prof. Chrispus Kuruswo Ndiema - Director (Born 1951)

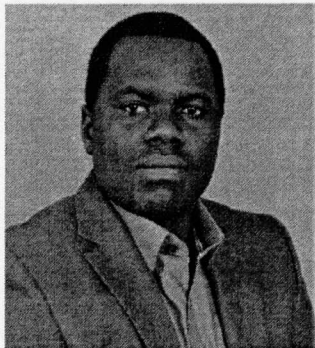
He holds a PhD in Mechanical/ Energy Engineering and a Master's of Science in Mechanical/ Energy Engineering both from Leeds University, UK. He began his career as a Senior Lecturer at Kenya Polytechnic, later moved to Egerton University in the same capacity. He was promoted to Associate Professor teaching Thermodynamics and Applied Energy. In 2003 he moved to Masinde Muliro University of Science and Technology as a Professor in Mechanical/ Energy Engineering.



Millicent Khaoma Wafula – Director (Born 1970)

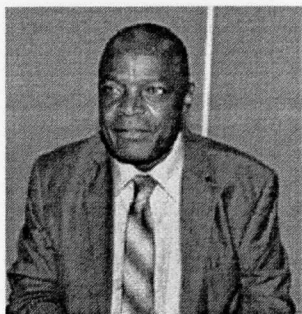
She joined the Board in June 2016 to represent the County Government of Bungoma. She holds a Bachelor of Commerce majoring in Finance from Catholic University Of East Africa. She is also a Certified Public Accountant of Kenya.

BOARD OF DIRECTORS: (Continued)



John Meng'wa – Director (Born 1977)

He joined the Board in November 2017. He holds a Masters degree in Public Health and Bachelor of Science in Education Biochemistry both from Moi University and a Diploma in Public in Administration and Management from Galilee – Israel. He is the County Chief Officer Water County Government of Trans Nzoia. He represents the County of Trans Nzoia in the Board.



Eng. John Situma Mukhwana – Director (Born 1958).

He was appointed to the Board in April 2015. He holds a Master of Science Degree in Water Resources Engineering from University of Newcastle Upon Tyne UK. He worked as a Hydrologist II then Research Officer I, Project Engineer with KFFWSP, Project Coordinator with CWSMP and Monitoring and evaluation Manager with CTDF before joining County Government of Bungoma as Chief Officer Water and Natural Resources. He represents the County Government of Bungoma in the Board



Kennedy Kilali Wekesa – Ag Managing Director (Born 1980)

He holds a Bachelor of Science from Egerton University and a Diploma in Project Management from Kenya Institute of Management.

MANAGEMENT TEAM: (Continued)



Calistus W. Waswa - Risk and Internal Audit Manager,(Born 1972)

He holds a Master of Science Degree in Finance from Kenyatta University, Bachelor of Education in Accounting and Economics from The University of Nairobi and a Post Graduate Diploma in Human Resource Management. He is also a Certified Public Accountant of Kenya.



Tom W. Musungu – Regional Manager – Kitale(Born 1970)

He holds a Bachelor of Arts Degree in Sociology and Geography from The University of Nairobi and a Diploma in Sales and Marketing.



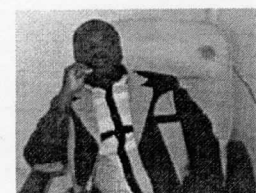
Joseck J. Maloba – Regional Manager – Webuye.(Born 1979)

He holds a Master of Business Administration in Strategic Management from Jomo Kenyatta University of Agriculture and Technology, Master of Science in Water Resources Engineering from Masinde Muliro University of Science and Technology and Bachelor of Science in Agricultural Engineering from Jomo Kenyatta University of Science and Technology.



Jacob Tindi – Regional Manager – Bungoma(Born 1977)

He holds a Bachelor of Arts in Social Studies with a bias in Political Science and Public Administration from Moi University and a Diploma in Water Engineering from Kenya Water Institute.

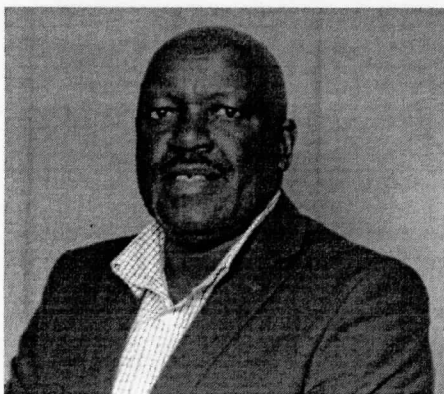


Hudson Makhanu – Regional Manager – Kimilili (Born 1979)

He holds a Bachelor of Science in Civil and Structural Engineering from Masinde Muliro University of Science and Agriculture and a High National Diploma in Water Engineering from Kenya Polytechnic.



Chairman's Statement:



Lusweti Furaha B.K.S – Chairman of the Board

It gives me great pleasure to report to shareholders the affairs of Nzoia Water Services Company Limited for the year ended 30th June 2018.

During the year the company worked hard to improve the delivery of basic water services to its customers by elevating the quality of its network and services to high standards. These efforts have borne fruit as we have slightly brought down system losses to 41.66% from 42% in the previous year

In the same vain the company improved marginally and attained total revenue of ksh 356 million up from ksh 328 million representing 9% growth.

Ladies and gentlemen during the financial year the management worked tirelessly to improve production, transmission and distribution of water to customer in the areas of jurisdiction and managed to produce 7.2 million m3 of water and sold 4.2 million m3

to its customers.

On operational front the expenses decreased by ksh 20 million from Ksh 254 million to Ksh 234million incurred in 2017.

The overall performance of the company was a surplus of ksh 11 million compared to a deficit of Ksh 16 million made from previous year.

I thank the members of the Board, the management team, the entire workforce of Nzoia Water and our shareholders for your continued support and trust.

We are confident that we shall continually make NZOWASCO a world class service provider.

God bless us all

Luswet Furaha B.K.S
CHAIRMAN



related infrastructure services within

the area of operation but the efforts are hampered by low revenue inflow due to non-cost recovery tariff. Discussions are at an advanced stage to have a tariff capable of meeting the company's operation costs and enable the Nzoia Water undertake infrastructural development.

To combat unauthorized water consumption the company is lobbying the county governments concerned to legislate rules that will help deter people from engaging themselves in this vice. The company has also initiated a door to door campaign to root out all illegal connections and have them regularized.

Technology is an important agent of development. To this end Nzoia Water Services Company Limited is setting aside ksh 12 million in its 2017-18 budget to go towards technological advancement of company's operation that will improve efficiency of service delivery.

I thank our customers, the Board of Directors, our dedicated and talented staff for their support as well as their efforts in making sure that NZOWASCO achieves its goals and objectives.

I also appreciate our service providers, the county governments of Trans Nzoia and Bungoma and all other stake

holders for their respective contributions to the company during the year.

I look forward to continued support as we strive to transform Nzoia Water Services Company Limited to a world class service provider.

A handwritten signature in black ink, appearing to read "Kennedy Wekesa Kilali", is written over a light blue circular stamp.

Kennedy Wekesa Kilali
Ag MANAGING DIRECTOR

Statement of Corporate Governance:

Nzoia Water believes that corporate governance should be present in its everyday business operations. The company's corporate governance practices are anchored on its Board manual and supplemented by the company's articles and Mwongozo (the code of governance for state corporations).

The Board of Directors oversees the management of the company and provides direction towards the formulation of sound corporate strategy. The Board is the guardian of fairness, transparency and accountability in all of the business dealings of the company with the end in view of protecting the interests of shareholders and stakeholders.

The Board has 8 non-executive members and 1 executive member who double as the Managing Director. Of the 8 non – executive directors four (4) represent the county governments of Trans Nzoia and Bungoma and are appointed by the respective Governors. Their term of office is dependent on the discretion of the Governors who appointed them. One (1) represent business community, one (1) represent professionals, one (1) consumers and one (1) represent women. The other four (4) are competitively appointed by a consultant and required to serve for a period of 3years based on performance and will retire by lot.

Under the manual the company shall have a minimum of eight independent directors. A director is considered independent if he holds no interests or relationship with the company that may hinder his independence from the company or its management, which should interfere with the exercise of independent judgment in carrying out the responsibilities of a director.

Board Meetings

Regular meetings of the Board are held quarterly. Special meetings may be called by the chairman.

The company's director shall act in good faith, with due care and in the best interest of the company and its shareholders.

Each director is expected to attend board meetings and applicable committee meetings. Directors are expected to ensure that other commitments do not interfere in the discharge of their duties.



Statement of Corporate Governance: (Continued)

Board Committee

The Board is supported by three (3) Committees namely: Technical Committee, Finance and Establishment and Audit and Governance Committee all of which are required to report to the Board a summary of the actions taken at committee level.

Technical Committee	Prof. Chrispus Kuruswo Ndiema - Chairman
	Eng. John Mukhwana Situma
	Dina Makokha
Finance and Establishment Committee	Dina Makokha - Chairperson
	Eng. John Mukhwana Situma
	Lusweti Furaha B.K.S
Audit and Government Committee	Millicent Nafula - Chairperson
	Prof. Chrispus Kuruswo Ndiema
	Rebecca Catherine Nafula

Board Attendance

The following table summarizes the attendance of the directors to meetings held in the year ended 30th June 2018.

Director	Meetings Held	Meetings Attended	% Attendance
Lusweti Furaha B.K.S	15	15	100%
Rebecca C. Nafula	15	10	66%
Prof. Chrispus K. Ndiema	15	11	73%
Millicent K. Wafula	15	12	80%
Eng John M. Situma	15	9	60%
Wambeye K. Marakia	15	6	40%
John Mengwa	15	9	60%
Dina N. Makokha	15	7	47%

Board Remuneration

By resolution of the Board each director shall receive a gross of ksh 19,000 as sitting allowance subject to tax of 30% and ksh 2,000 lunch allowances if lunch is not served during the meeting. The Chairman receives monthly allowance of ksh 25,000 subject to 30% tax. As compensation the Board shall allocate an amount not more than 2% of the total revenue of the company.

Corporate Social Responsibility Statement:

Nzoia Water remains committed to its sustainability objectives. Through the years, combining social and environmental goals with its objectives has been uniquely entrenched in every aspect of the company's way of doing business.

The company believes that by doing things excellently, it can balance the economic and environmental outcomes, thereby creating value for both the company and its key stakeholders especially its customers.

To ensure that its water sources are sustainable the company in collaboration with Water Resources Management Authority (WARMA) and Lake Victoria North Water Services Board (LVNWSB) planted over 1,000 tree seedlings in Kapolet. This will go a long way in preserving river Nzoia which is a major source of water for residents of Kitale and Webuye

The company in partnership with Water Services Trust has been able to provide services to informal settlements of Kitale, Bungoma and Webuye through construction of water Kiosks and yard taps. The residents of the informal settlements are able to access clean portable water at an affordable price of ksh 2 per 20 litre jerican.

Other programs that made an impact in the informal settlement include UBSUP (Up scaling Basic Sanitation for the Urban Poor) a Water Services Trust Fund program geared to up scaling sanitation services. The program encourages families to construct toilets to given standard by offering them subsidy of Ksh 20,000 per door of anew toilet and ksh 15,000 per door for a renovated toilet. The project was carried out in Kitales informal settlements namely Kipsongo, Mitume, Tuwani and Shanty where 200 toilets were constructed. The same was done in Bungomas- mjini and Mandizini settlements where 200 toilets were also constructed. The program was able to reach 2,000 people in Kitale and Bungoma respectively.

Report of the Directors:

The Board of Directors has the pleasure to submit the annual report and financial statements for the year ended 30th June 2018 in accordance with International Financial Reporting Standards and the company's Act which discloses the affairs of the company.

Principal activity

The principal activity of Nzoia Water Services Company Limited is to provide adequate water and sanitation services efficiently, economically and in a sustainable manner to all consumers in areas under its jurisdiction.

Results

The results of the entity for the year ended June 30, 2018 are set out on page 20.

Dividends

The company does not pay dividends rather uses the surplus to enhance its principal activity.

Directors

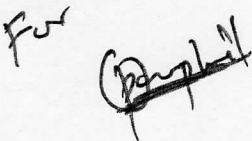
The members of the Board of Directors who served during the year are shown on page 3 to 4. The directors will retire in lots after 3 years.

Auditors

The Auditor General is responsible for the statutory audit of the entity in accordance with Article 229 of the Constitution of Kenya and the Public Audit Act 2015.

By Order of the Board

CS Dickson Kirui,

For


CORPORATE SECRETARY

Statement of Directors Responsibility:

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

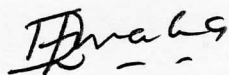
The Directors are responsible for the preparation and presentation of the entity's financial statements, which give a true and fair view of the state of affairs of the entity for and as at the end of the financial year (period) ended on June 30, 2018. This responsibility includes: (i) maintaining adequate financial management arrangements and ensuring that these continue to be effective throughout the reporting period; (ii) maintaining proper accounting records, which disclose with reasonable accuracy at any time the financial position of the entity; (iii) designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of the financial statements, and ensuring that they are free from material misstatements, whether due to error or fraud; (iv) safeguarding the assets of the entity; (v) selecting and applying appropriate accounting policies; and (vi) making accounting estimates that are reasonable in the circumstances.

The Directors accept responsibility for the entity's financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgments and estimates, in conformity with International Financial Reporting Standards (IFRS), and in the manner required by the PFM Act, 2012 and (the State Corporations Act) – entities should quote applicable legislation as indicated under) . The Directors are of the opinion that the entity's financial statements give a true and fair view of the state of entity's transactions during the financial year ended June 30, 2018, and of the entity's financial position as at that date. The Directors further confirm the completeness of the accounting records maintained for the entity, which have been relied upon in the preparation of the entity's financial statements as well as the adequacy of the systems of internal financial control

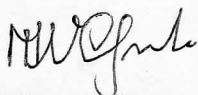
Nothing has come to the attention of the Directors to indicate that the entity will not remain a going concern for at least the next twelve months from the date of this statement.

Approval of the financial statements

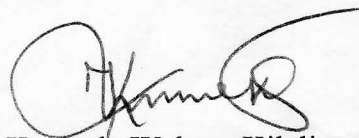
The entity's financial statements were approved by the Board on 24-08 2018 and signed on its behalf by:



Lusweti Furaha B.K.S
CHAIRMAN



Millicent Khaoma Wafula
DIRECTOR



Kennedy Wekesa Kilali
MANAGING DIRECTR



OFFICE OF THE AUDITOR-GENERAL

REPORT OF THE AUDITOR-GENERAL ON NZOIA WATER SERVICES COMPANY LIMITED FOR THE YEAR ENDED 30 JUNE 2018

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of Nzoia Water Services Company Limited set out on pages 18 to 54, which comprise the statement of financial position as at 30 June 2018, and the statement of comprehensive income, statement of changes in equity, statement of cash flows and statement of comparison of budget and actual amounts for the year then ended, and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, 2015. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

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

Basis for Qualified Opinion

1. Cash and Bank Balances

The statement of financial position reflects cash and cash balance of Kshs.7,542,959 as at 30 June 2018. However, the management did not maintain cash books for the five (5) bank accounts operated by the company contrary to the provisions of Section 100 of the Public Finance Management (County Governments) Regulations, 2015 which requires accounting officers in all offices concerned with receiving cash or making payments to maintain a cash book showing the receipts and payments and maintain such other books and registers as may be necessary for the proper maintenance and production of the accounts of the budget for which he or she is responsible.

Consequently, the accuracy and existence of the cash and cash equivalent balance of Kshs 7,542,959 as at 30 June 2018 cannot be confirmed.

2. Capital Works

The statement of financial position reflects property, plant and equipment balance of Kshs.77,412,736 as at 30 June 2018 which includes capital works figure of Kshs.32,135,465 as disclosed in note 15 to the financial statements. The management explained that this amount relates to receipts from Water Sector Trust Fund (WSTF) for construction of water kiosks and ablution blocks in Kitale and Bungoma respectively under the Urban Project Concept (UPC). However, no records or supporting schedules were availed for audit review to show how the figure was arrived at. In addition, information available indicates that the projects were completed between 2013 and 2016 and are in use as per the completion certificates provided for audit. However, no reason was also given for not transferring the value of the completed projects to Lake Victoria North Water Services Board who are supposed to be the custodian of the completed projects.

Further, the project funds are managed independently by a fund accountant, but the project cashbook and other books of account were not availed for audit review.

Consequently, the accuracy and authenticity of the capital works balance of Kshs.32,135,465 could not be confirmed as at 30 June 2018.

3. Deferred Tax Asset

The statement of financial position reflects deferred tax asset balance of Kshs.10,106,651 under non-current assets indicated in note 17 to the financial statements as tax losses carried forward as compared to Kshs.15,949,061 in the previous year. However, the reconciliation (computation) giving details of the reconciling items was not provided for audit review. Consequently, the accuracy and validity of the deferred tax asset balance of Kshs.10,106,651 as at 30 June 2018 could not be ascertained.

4. Water Sector Trust Fund Grants

Information available indicates that between 2016/2017 and July 2018, the Nzoia Water Services Company Limited received a total of Kshs.26,112,218 from the Water Sector Trust Fund to implement three programmes under the Up-Scaling Basic Sanitation for Urban Poor (UBSUP) namely Nzoia Bungoma Household Sanitation Project Phase II, Bungoma Town Household Sanitation project and Kitale Sanitation project and Chwele Public Sanitation Project funded under Urban Projects Concept (UPC) Call No.7.

The Nzoia Bungoma Household Sanitation Project Phase II was advanced Kshs.6,735,000, Bungoma Town Household Sanitation project got Kshs.7,017,710 and Kitale Sanitation project got Kshs.7,017,710 being subsidy for putting up 300 SafiSan Toilets each. In addition Chwele Public Sanitation Project funded under UPC Call No.7 received funding of Kshs.5,341,798 (Kshs.2,034,970 in July 2017 and the balance in July 2018).

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However, the management has not provided records showing how the grants amounting to Kshs.26,112,218 was utilised and also the same has not been disclosed in the financial statements for the year ended 30 June 2018. Consequently, the accuracy and completeness of the financial statements cannot be confirmed for the year ended 30 June 2018.

5. Trade Receivables

The statement of financial position reflects trade and other receivables balance of Kshs.257,780,546 as at 30 June 2018 which includes trade receivables of Kshs.231,565,270 as disclosed in note 19 to the financial statements. The trade receivables balance of Kshs.231,565,270 is net of provision for bad and doubtful debts of Kshs.12,187,646. The trade receivables figure include Kshs.149,380,405 which has been outstanding for over a year (Kshs.22,489,309 for over five years) and therefore may not be collectable as detailed below :

Details	2017/2018 (Kshs)	2016/2017 (Kshs)
Less than 1 year	94,372,513	72,534,706
Between 1 and 2 years	24,234,832	26,677,251
Between 2 and 3 years	34,005,718	22,794,055
Between 3 and 4 years	14,964,552	57,000,972
Between 4 and 5 years	53,685,994	4,047,733
Over 5 years	22,489,309	25,289,008
Total	243,752,917	208,343,726
Provision for bad and doubtful debts	(12,187,646)	(10,417,186)
Net	231,565,270	197,926,539

This is contrary to the company credit management policy of September 2016 which requires that on 121st day of debts outstanding, names of the defaulters be sent to Credit Reference Bureau (CRB) for defaulting and that on 151st day, legal action may begin after sending the notice of the outstanding bills and all administrative action has failed. However, no documentary evidence has been provided to confirm that the management adhered to this policy. Further, the provision for bad and doubtful debts rate of 5% has no supporting policy and has also not been disclosed under the significant accounting policies in the financial statements.

Consequently, the accuracy and validity of the trade receivables balance of Kshs.231,565,270 could not be confirmed as at 30 June 2018.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of Nzoia Water Services Company Limited in accordance with ISSAI 30 on Code of Ethics. I have fulfilled other ethical responsibilities in accordance with the ISSAI and in accordance with other ethical requirements applicable to performing audits of financial statements in Kenya. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my 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. Except for the matters described in the Basis for Qualified Opinion section, I have determined that there are no other key audit matters to communicate in my report.

Emphasis of Matter

1. Failure to Remit Pension Contributions

The statement of financial position reflects retirement benefit obligations amount of Kshs.21,674,850 as at 30 June 2018 being employee retirement benefit contributions payable to LAPTRUST, LAPFUND and NSSF. Information available indicates that the amounts have been outstanding for over a year contrary to the provisions of section 53 A(1) of the Retirement Benefits Act, which provides that an employer, having with the agreement of an employee who is a member of a scheme, made a deduction from the employee's emoluments for remittance to the scheme, fails to remit the deduction within fifteen days of the deduction, the scheme may, after giving such employer not less than seven days' notice, institute proceedings for the recovery of the deduction.

Consequently, the management is in breach of the law, risk incurring penalties for non-remittance and also retiring employees may not be able to access their pension benefits when they retire.

2. Withholding Tax

During the year under review, the Company did not deduct and withhold VAT tax from the respective suppliers even though it was appointed as VAT withholding tax agent in accordance with VAT Act, 2013 and the related regulations of 2017. Consequently, the management is in breach of the law.

3. Non Remittance of Administrative Levies

The statement of profit and loss and other comprehensive income for the year ended 30 June 2018 reflects administrative levies amount of Kshs.34,131,691 in respect of administrative levies payable to Lake Victoria North Water Services Board (LVNWSB), Water Services Regulatory Board (WASREB), Water Resource Management Authority (WARMA) and administrative levies to Counties as disclosed in note 9 to the financial statements. The levies are in line with the Company's approved tariff agreement published in the Kenya Gazette Notice No. 34 of 5 January 2018 by Lake Victoria North Water Services Board, which requires the company to remit all the levies deducted to the relevant authorities. However, no reason has been provided for non-remittance of the administrative levies to the respective bodies.

In addition, the management has not provided a basis for accruing deductions amounting to Kshs.6,962,167 in respect of counties since the Water Act, 2016 provides that dividends or other payments shall not be paid to the owners of public water services providers as long as the universal rights of access to safe and clean water have not been achieved in the designated service areas.

Consequently, management is in breach of the law and compromises the ability of the beneficiary institutions to deliver on their regulatory functions and financing agreements.

4. Disclosures and Notes

The statement of compliance and basis of preparation on page 24 includes a note indicated as note xxx on areas involving a higher degree of judgement or assumptions instead of the actual note number. Also, it indicates that the statements were prepared in accordance with the Water Act,2002, but silent to the updates in the Water Act, 2016. Further, there is no disclosure of the capital commitments of the Company during the year as required by the reporting framework prescribed by the International Public Sector Accounting Standards Board. In addition, the financial statements submitted for audit did not include progress report on follow up of auditor recommendations indicating the actions taken by the management to resolve/implement prior year audit recommendations.

Consequently, the management has not complied with the prescribed reporting framework.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

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

Basis for Conclusion

Nugatory Payment

The administrative costs amount of Kshs.191,990,742 for the year ended 30 June 2018 includes repairs and maintenance figure of Kshs.19,395,162 as disclosed in note 8 to the financial statements. The repairs and maintenance figure of Kshs.19,395,162 include plant and treatment works repairs amount of Kshs.4,416,146 and which in turn includes Kshs.780,000 paid to a supplies company on 22 November 2017 vide payment voucher number 1210 in respect of advance payment for supply of a water pump. Information available indicates that the supplies company was awarded the contract to supply the submersible water pump at a contract sum of Kshs.3,900,000 through local purchase order No.1589 being the second lowest bidder after the lowest bidder was unable to supply the pump. However, the pump supplied according to the management failed to meet the

required technical specifications and therefore has remained unused. Further information available indicates that on 25 April 2018, the company vide letter reference No. NWSC/HO/MD/P/T(C-1)/2017-18(1) advised the supplier that the pump supplied did not meet the required specifications and that the same should be collected and that a process to recover the amount paid out of performance security with the bank had been initiated. However, as at the time of audit in March 2019, there was no evidence that the supplier had collected the pump and the advance payment of Kshs.780,000 recovered.

Consequently, the expenditure of Kshs.780,000 amounts to nugatory payment.

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 INTERNAL CONTROLS EFFECTIVENESS, GOVERNANCE AND RISK MANAGEMENT SYSTEMS

Conclusion

As required by Section 7(1)(a) of the Public Audit Act, 2015, because of the significance of the matters discussed in the Basis for Conclusion on Effectiveness of Internal Controls, Risk Management and Governance section of my report, based on the audit procedures performed, I confirm that internal controls, risk management and governance were not effective.

Basis for Conclusion

1. Water Sales Revenue

The statement of profit and loss and other comprehensive income reflects sales figure of Kshs.327,762,199 which includes water charge of Kshs.273,067,833 as disclosed in note 5 to the financial statements. However, the accuracy of the water charge figure of Kshs.273,067,833 could not be confirmed due to variances in water production and sales figures in cubic metres between the records maintained by the production unit and those maintained by the technical unit and which have not been explained or reconciled as below:

Details	Production Unit (M ³)	Technical (M ³)	Variance(M ³)
Production Capacity	14,004,500	18,797,500	(4,793,000)
Produced Water	10,668,324	7,619,385	3,048,939
Water Supplied	9,443,501	4,278,055	5,165,446

Consequently, the accuracy of the water sales revenue or the quantity of water sales attributable to the value of water sales reflected in the financial statements cannot be confirmed for the year ended 30 June 2018.

2. Non-Revenue Water

Information availed for audit review indicated that 7,619,385 cubic meters (M3) of water was produced during the year under review out of which 4,278,055 cubic metres (M3) was billed to customers for Kshs.327,762,199 to leave 3,341,330 cubic meters (M3) or approximately 44% unaccounted for water (UFW), which is 19% over and above the Water Services Regulatory Board (WASREB) guidelines allowable loss of 25%. The significant level of unaccounted for water (UFW) of 3,341,330 M3 at a rate of Kshs.76.61 per cubic metre may have resulted to a loss of sales estimated at Kshs.255,979,291 which may impact negatively on the company's profitability and long term sustainability.

The audit was conducted in accordance with ISSAI 1315 and ISSAI 1330. The standards require that I plan and perform the audit to obtain assurance about whether effective processes and systems of internal control, risk management and governance were operating effectively, in all material respects. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

As required by the Companies Act, 2015, I report based on my audit, that:

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

Responsibilities of Management and Those Charged with Governance

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

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related

to going concern and using the going concern basis of accounting unless the management either intends to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

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

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

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

Auditor-General's Responsibilities for the Audit

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

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

Further, in planning and performing the audit of the financial statements and audit of compliance, I consider internal control in order to give an assurance on the effectiveness of internal controls, risk management and governance processes and systems in accordance with the provisions of Section 7(1)(a) of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution. My consideration of the internal control would not necessarily disclose all matters in the internal control that might be material

weaknesses under the ISSAIs. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

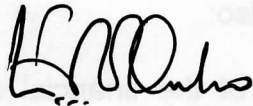
Because of its inherent limitations, internal control may not prevent or detect misstatements and instances of non-compliance. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the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

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

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

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

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



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

Nairobi

12 July 2019

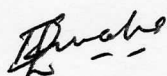
**Statement of profit and loss and other comprehensive income:
For the Year ended 30th June, 2018**

	Notes	2018 Kshs	2017 Kshs
Revenues			
Sales	5	327,762,199	302,156,999
Cost of sales	6	(103,684,418)	(95,901,327)
Gross profit		224,077,781	206,255,672
Other Income	7	28,856,288	26,640,822
Net revenue		252,934,069	232,896,494
Operating expenses			
Administration costs	8	(191,990,742)	(209,647,945)
Administrative levies	9	(34,131,691)	(31,414,088)
Depreciation of property, plant & equipment	15	(7,443,956)	(13,457,908)
Amortisation of Intangible Assets	16	(714,622)	(19,414)
Total operating expenses		(234,281,011)	(254,539,355)
Operating profit/(loss)	10	18,653,058	(21,642,861)
Finance Income	11	472,458	787,500
Finance Costs	12	(2,135,899)	(2,633,569)
Profit/(loss) before taxation		16,989,617	(23,488,930)
Income tax expense	13	(5,842,410)	7,121,272
Profit/(loss) after taxation		11,147,207	(16,367,658)
Earnings per share – basic and diluted	14	2	(4)

Statement of Financial Position As at 30th June, 2018

	Notes	2018 Kshs	2017 Kshs
Non Current Assets			
Property and equipment	15	77,412,736	74,906,564
Intangible Assets	16	383,438	86,888
Deferred Tax Asset	17	10,106,651	15,949,061
Total Non-Current Assets		87,902,825	90,942,513
Current Assets			
Inventories	18	4,963,338	5,651,553
Trade and other receivables	19	257,780,546	223,255,347
Short-term deposits	20	7,500,000	15,787,500
Cash and bank balances	21	7,542,959	4,304,184
Total Current Assets		277,786,843	248,998,584
Total assets		365,689,668	339,941,097
Equity and liabilities			
Capital and Reserves			
Ordinary share capital	22	90,100,000	90,100,000
General Reserves	23	250,468	250,468
Capital Grant (UPC)	24	32,135,465	32,135,465
Retained earnings		(25,818,083)	(36,965,290)
Total Capital and Reserves		96,667,850	85,520,643
Current Liabilities			
Borrowings	25	7,340,786	20,668,521
Trade and other payables	26	129,015,028	92,759,209
Retirement benefit obligations	27	21,674,850	48,001,569
Due to Related Parties	29	110,991,155	92,991,155
Total Current Liabilities		269,021,819	254,420,454
Total equity and liabilities		365,689,669	339,941,097

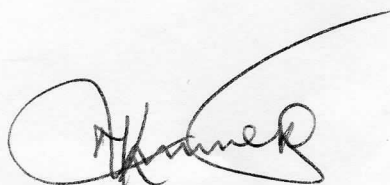
The financial statements were approved by the Board on 24 August 2018 and signed on its behalf by:



Lusweti Furaha B.K.S
CHAIRMAN



Mathew Wakhungu
FINANCE MANAGER



Kennedy Wekesa Kilali
Ag MANAGING DIRECTOR

**Statement of Comparison Budget and Actual Amounts
For the Year ended 30Th June, 2018**

	Original Budget	Adjustments	Final Budget	Actual on Comparabl e basis	Performance Difference	%
	2018 Kshs	2018 Kshs	2018 Kshs	2018 Kshs	2018 Kshs	
Revenue						
Sale of Water	344,210,920	(71,611,688)	272,599,232	273,067,833	468,601	0.17%
Meter Rent	17,832,000	(1,371,100)	16,460,900	16,579,500	118,600	0.72%
Disc/Reconnection fee	2,280,000	1,287,332	3,567,332	2,843,280	(724,052)	(25.47)%
New Connections- Water	7,488,000	(3,602,235)	3,885,765	3,750,664	(135,101)	(3.60)%
Sewer & Sanitation	57,637,000	(1,992,988)	55,644,012	54,694,365	(949,647)	(1.74)%
Other income	7,855,000	(856,687)	6,998,313	13,059,460	6,061,147	46.41%
Total income	437,302,920	(78,147,366)	359,155,554	363,995,102	4,839,548	1.33%
Expenses						
Chemicals	23,473,000	1,749,748	25,222,748	27,652,697	(2,429,949)	(9.60)%
Electricity/Dir.Labour	53,452,000	11,954,000	65,406,000	72,091,458	(6,685,458)	(10.22)%
Fuel Cost- Generator	6,743,100	(1,299,643)	5,443,457	67,373	5,376,084	98.77%
SUB- TOTAL	83,668,100	12,404,105	96,072,205	99,811,528	(3,739,323)	(3.89)%
Salaries,OT & leave all.	123,657,013	(3,234,808)	120,422,205	129,935,558	(9,513,353)	(7.90)%
Terminal dues	7,327,897	(5,652,897)	1,675,000	-	1,675,000	100%
Wages	1,698,000	(397,893)	1,300,107	-	1,300,107	100%
Lapfund,Laptrust NSSF	7,531,176	(2,219,438)	5,311,738	8,481,853	(3,170,115)	(59.68)%
Travelling & Accom.	7,729,600	(306,931)	7,422,669	6,881,475	541,194	7.29%
Staff Training, NITA	3,105,400	(2,339,400)	766,000	366,000	400,000	52.22%
Staff Uniforms PPE	840,000	2,037,773	2,877,773	2,208,880	668,893	23.22%
Medical Cover & GPA	6,200,000	(5,933,356)	266,644	-	266,644	100%
Staff Welfare & Sports	3,134,000	65,000	3,199,000	3,323,398	(124,398)	(3.88)%
SUB- TOTAL	161,223,086	(17,981,950.08)	143,241,136	151,197,164	(7,956,028)	(5.55)%
Board sitting allow.	2,276,000	62,760	2,338,760	2,477,473	(138,713)	(5.90)%
Board Training	2,500,000	-	2,500,000	-	2,500,000	100%
Board travelling	2,500,000	(710,087)	1,789,913	1,835,575	(45,662)	(2.52)%
(A.G.M)	500,000	-	500,000	-	500,000	100%
SUB- TOTAL	7,776,000	(647,327)	7,128,673	4,313,048	2,815,625	39.49%
Office maintenance		184,491	184,491	188,190	(3,699)	(2.00)%
Office Electricity	435,000	(113,515)	321,485	387,467	(65,982)	(20.52)%
Postage services	359,133	923,642	1,282,775	1,273,005	9,770	0.76%
Communication Services	973,063	(576,083)	396,980	2,057,622	(1,660,642)	(419.19)%
Printing, stationery	4,226,770	(888,624)	3,338,146	3,027,661	310,485	92.87%
Advertising and publicity	2,053,360	(199,660)	1,853,700	464,039	1,389,661	74.96%
Hospitality supplies	4,373,000	942,478	5,315,478	5,086,223	229,255	4.31%
Bank charges and interest	4,968,000	762,382	5,730,382	5,350,862	379,520	6.61%
Insurance costs	1,875,000	(1,044,673)	830,327	830,327	-	-

Notes to the Financial Statements
For the Year ended 30Th June, 2018

1 General information

Nzoia Water is established by and derives its authority and accountability from Water Act 2002. The company is wholly owned by the county governments of Trans Nzoia and Bungoma and is domiciled in Kenya. The principal activity of Nzoia Water is to provide adequate water and sanitation services efficiently, economically and in a sustainable manner to all consumers in areas under its jurisdiction.

2. Statement of compliance and basis of preparation

The financial statements have been prepared on a historical cost basis except for the measurement at re-valued amounts of certain items of property, plant and equipment, marketable securities and financial instruments at fair value, impaired assets at their estimated recoverable amounts and actuarially determined liabilities at their present value. The preparation of financial statements in conformity with International Financial Reporting Standards (IFRS) allows the use of estimates and assumptions. It also requires management to exercise judgment in the process of applying the company’s accounting policies. The areas involving a higher degree of judgment or complexity, or where assumptions and estimates are significant to the financial statements, are disclosed in Note xxx.

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

The financial statements have been prepared in accordance with the PFM Act, the water Act 2002, and International Financial Reporting Standards (IFRS). The accounting policies adopted have been consistently applied to all the years presented

3.Application of new and revised international financial reporting standards (IFRS)

i. Relevant new standards and amendments to published standards effective for the year ended 30 June 2018

Amendment/ Interpretation to a standard	Effective date	Impact
IFRS 9: Financial Instruments (Issued 24 July 2014)	Effective for annual periods beginning on or After 1 January 2018	Finalized version of IFRS 9 which contains accounting requirements for financial instruments, replacing IAS 39 Financial Instruments: Recognition and Measurement. The standard contains requirements in the following areas.

Notes to the Financial Statements (continued)

Amendment/ Interpretation to a standard	Effective date	Impact
		<p>Classification and measurement. Financial assets are classified by reference to the business model within which they are held and their contractual cash flow characteristics. The 2014 version of IFRS 9 introduces a 'fair value through other comprehensive income' category for certain debt instruments. Financial liabilities are classified in a similar manner to IAS 39, however there are differences in the requirements applying to the measurement of an entity's own credit risk.</p>
<p>IFRS 9: Financial Instruments (continued) (Issued 24 July 2014)</p>	<p>Effective for annual periods beginning on or after 1 January 2018</p>	<p>Impairment. The 2014 version of IFRS 9 introduces an 'expected credit loss' model for the measurement of the impairment of financial assets, so it is no longer necessary for a credit event to have occurred before a credit loss is recognized</p> <p>Hedge accounting. Introduces a new hedge accounting model that is designed to be more closely aligned with how entities undertake risk management activities when hedging financial and non-financial risk exposures</p> <p>Derecognition. The requirements for the derecognition of financial assets and liabilities are carried forward from IAS 39</p>
<p>IFRS 15: Revenue from Contracts with Customers (Issued 28 May 2014)</p>	<p>Applicable to an entity's first annual IFRS financial statements for a period beginning on or after 1 January 2018</p>	<p>IFRS 15 provides a single, principles based five-step model to be applied to all contracts with customers. The five steps in the model are as follows:</p> <ul style="list-style-type: none"> • Identify the contract with the customer • Identify the performance obligations in the contract • Determine the transaction price • Allocate the transaction price to the performance obligations in the contract.

Notes to the Financial Statements (continued)

Amendment/ Interpretation to a standard	Effective date	Impact
		<p>Recognize revenue when (or as) the entity satisfies a performance obligation. Guidance is provided on topics such as the point in which revenue is recognized, accounting for variable consideration, costs of fulfilling and obtaining a contract and various related matters. New disclosures about revenue are also introduced.</p>
<p>IFRIC 22: Foreign Currency Transactions and Advance Consideration (Issued 8 December 2016)</p>	<p>Applicable to annual reporting periods beginning on or after 1 January 2018</p>	<p>The interpretation addresses foreign currency transactions or parts of transactions where:</p> <ul style="list-style-type: none"> - there is consideration that is denominated or priced in a foreign currency. - the entity recognises a prepayment asset or a deferred income liability in respect of that consideration, in advance of the recognition of the related asset, expense or income; and - the prepayment asset or deferred income liability is non-monetary <p>The Interpretations Committee came to the following conclusion: The date of the transaction, for the purpose of determining the exchange rate, is the date of initial recognition of the non-monetary prepayment asset or deferred income liability If there are multiple payments or receipts in advance, a date of transaction is established for each payment or receipt.</p>
<p>Recognition of Deferred Tax Assets for Unrealised Losses (Amendments to IAS 12) (Issued 19 January 2016)</p>	<p>Effective for annual periods beginning on or after 1 January 2017</p>	<p>Amends IAS 12 Income Taxes to clarify the following aspects. Unrealised losses on debt instruments measured at fair value and measured at cost for tax purposes give rise to a deductible temporary difference regardless of whether the debt instrument's holder expects to recover the carrying amount of the debt instrument by sale or by use.</p>

Notes to the Financial Statements (continued)

Amendment/ Interpretation to a standard	Effective date	Impact
		<p>The carrying amount of an asset does not limit the estimation of probable future taxable profits. Estimates for future taxable profits exclude tax deductions resulting from the reversal of deductible temporary differences. An entity assesses a deferred tax asset in combination with other deferred tax assets. Where tax law restricts the utilisation of tax losses, an entity would assess a deferred tax asset in combination with other deferred tax assets of the same type</p>
<p>Disclosure Initiative (Amendments to IAS 7) (Issued 29 January 2016)</p>	<p>Effective for annual periods beginning on or after 1 January 2017</p>	<p>Amends IAS 7 Statement of Cash Flows to clarify that entities shall provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities</p>
<p>Clarifications to IFRS 15 'Revenue from Contracts with Customers' (Issued 12 April 2016)</p>	<p>Effective for annual periods beginning on or after 1 January 2018</p>	<p>Amends IFRS 15 Revenue from Contracts with Customers to clarify three aspects of the standard (identifying performance obligations, principal versus agent considerations, and licensing) and to provide some transition relief for modified contracts and completed contracts</p>
<p>Classification and Measurement of Share-based Payment Transactions (Amendments to IFRS 2) (Issued 20 June 2016)</p>	<p>Effective for annual periods beginning on or after 1 January 2018</p>	<p>Amends IFRS 2 Share-based Payment to clarify the standard in relation to the accounting for cash-settled share-based payment transactions that include a performance condition, the classification of share-based payment transactions with net settlement features, and the accounting for modifications of share-based payment transactions from cash-settled to equity-settled.</p>
<p>IFRS 16: Leases (Issued 13 January 2016)</p>	<p>Applicable to annual reporting periods beginning on or after 1 January 2019</p>	<p>IFRS 16 specifies how an IFRS reporter will recognise, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with IFRS 16's approach to lessor accounting substantially unchanged from its predecessor, IAS 17.</p>

Notes to the Financial Statements (continued)

Amendment/ Interpretation to a standard	Effective date	Impact
IFRS 23:Uncertainty over Income Tax Treatments (Issued 7 June 2017)	Applicable to annual reporting periods beginning on or after 1 January 2019	<p>The interpretation addresses the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates, when there is uncertainty over income tax treatments under IAS 12. It specifically considers:</p> <ul style="list-style-type: none"> • Whether tax treatments should be considered collectively • Assumptions for taxation authorities' examinations • The determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates • The effect of changes in facts and circumstances
Prepayment Features with Negative Compensation (Amendments to IFRS 9) (Issued 12 October 2017)	Annual periods beginning on or after 1 January 2019	Amends the existing requirements in IFRS 9 regarding termination rights in order to allow measurement at amortised cost (or, depending on the business model, at fair value through other comprehensive income) even in the case of negative compensation payments
Annual Improvements to IFRS Standards 2015–2017 Cycle (Issued 12 December 2017)	Annual periods beginning on or after 1 January 2019	<p>Makes amendments to the following standards:</p> <p>IFRS 3 and IFRS 11 - The amendments to IFRS 3 clarify that when an entity obtains control of a business that is a joint operation, it remeasures previously held interests in that business. The amendments to IFRS 11 clarify that when an entity obtains joint control of a business that is a joint operation, the entity does not re-measure previously held interests in that business.</p> <p>IAS 12 - The amendments clarify that the requirements in the former paragraph 52B (to recognize the income tax consequences of dividends where the transactions or events that generated distributable profits are recognized) apply to all income tax consequences of dividends by</p>

Notes to the Financial Statements (continued)

Amendment/ Interpretation to a standard	Effective date	Impact
		<p>moving the paragraph away from paragraph 52A that only deals with situations where there are different tax rates for distributed and undistributed profits.</p> <p>IAS 23 - The amendments clarify that if any specific borrowing remains outstanding after the related asset is ready for its intended use or sale, that borrowing becomes part of the funds that an entity borrows generally when calculating the capitalization rate on general borrowings</p>
<p>Plan Amendment, Curtailment or Settlement (Amendments to IAS 19) (Issued 7 February 2018)</p>	<p>Annual periods beginning on or after 1 January 2019</p>	<p>The amendments in Plan Amendment, Curtailment or Settlement (Amendments to IAS 19) are: If a plan amendment, curtailment or settlement occurs, it is now mandatory that the current service cost and the net interest for the period after the re-measurement are determined using the assumptions used for the re-measurement. In addition, amendments have been included to clarify the effect of a plan amendment, curtailment or settlement on the requirements regarding the asset ceiling</p>
<p>Amendments to References to the Conceptual Framework in IFRS Standards (Issued 29 March 2018)</p>	<p>Annual periods beginning on or after 1 January 2020</p>	<p>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</p>

e) 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.

f) 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

g) Inventories

Inventories are stated at the lower of cost and net realizable value. The cost of inventories comprises purchase price, import duties, transportation and handing charges, and is determined on the moving average price method. Stock valuation is determined by First in First out (FIFO)

h) 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.

i) Taxation

Current income tax

Current income tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting date in the area where the company operates and generates taxable income. Current income tax relating to items recognized directly in net assets is recognized in net asset and

Notes to the Financial Statements (continued)

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 and Mpesa at the end of the financial year. For the purposes of these financial statements, cash and cash equivalents also include short term cash imprests and advances to authorized staff held as petty cash at regional offices.

k) 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.

l) Trade and Other Payables

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

m) Retirement Benefits Obligations

The company staffs were deployed from municipal councils of Kitale, Webuye and Kimilili, Ministry of Water and Irrigation and National Water Conservation and Pipeline Corporation (NWCPC). The company also contributes to the statutory National Social Security Fund (NSSF). This is a defined contribution scheme registered under the National Social Security Act.

n) 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.

o) Budget Information.

The original budget for FY 2016-2017 was approved by the Board of Directors. Subsequent revisions were made to the approved budget in accordance with specific approvals by the Board of Directors. Accordingly, the company recorded additional revisions on the 2016 2017 budget following the Board of Directors approval. 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.

Notes to the Financial Statements (continued)

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 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 on page 22 to 23 of these financial statements.

p) Comparative figures

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

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, 2017.



Notes to the Financial Statements (continued)

7 Other Income	2018 Kshs	2017 Kshs
New Connection Fee	3,750,664	4,995,726
Meter Rent Charge	16,579,500	14,894,501
Meter Replacement Charge	66,050	45,000
Rent Income	18,000	33,000
Dis/Reconnection Charge	2,843,280	2,264,273
Illegal Consumption Penalty Charge	807,014	1,517,844
Water Bowser	579,450	313,038
Meter testing Charge	7,000	22,050
Exhauster Services	123,000	26,000
Other Charges	4,082,330	2,529,390
	28,856,288	26,640,822

- New Connection Fee is application charge levied on a customer seeking to secure water and or sewerage services.
- Meter Rent Charge is included in the monthly water bill and it is meant for maintenance and replacement of consumer meters. The charge varies depending on the meter size.
- Meter Replacement Charge is levied on a customer who tempers with the meter making it to malfunction.
- Rent Income is the amount paid by staff staying in company duty houses.
- Dis/Reconnection Charge is levied to customers whose accounts have been disconnected due to non – payment of water bill.
- Illegal Penalty is charged to customers found with unauthorized water connection.
- Water bowser comprises of water sales delivered to customers using company water tanker outside the company area of operation.
- Meter Testing Charge is levied when a customer disputes meter readings and wants it confirmed by an independent party
- Exhauster Services is a charge levied to customers that use the company sewer line to dump waste from their septic tanks.
- Other Income refers to any other fee levied to customers such as statement printing charge, charges on bounced cheques etc

8 Administration Costs	2018 Kshs	2017 Kshs
Staff and Other related Expenses (Note 8(a))	133,881,722	137,891,479
Board Expenses (Note 8(b))	4,313,048	6,026,149
Office General Expenses (Note 8(c))	27,902,474	31,909,300
Repairs & Maintenance (Note 8(d))	19,395,162	21,428,439
Specialized Services (Note 8(e))	4,727,876	12,661,176
Prov. For Bad & doubtful Debts (Note 8(f))	1,770,460	(268,598)
	191,990,742	209,647,945

Notes to the Financial Statements (continued)

8(a) Staff and Other related expenses

	2018 Kshs	2017 Kshs
Staff Costs (Note 8(i))	112,401,101	106,671,345
Employee Benefits (8(ii))	8,936,706	11,016,404
Staff Training Expenses	366,000	3,715,578
Travelling and accommodation	6,881,475	14,182,627
Protective Gears	1,964,703	836,800
Staff Welfare & Sports	3,331,737	1,468,725
	133,881,722	137,891,479

- Staff Costs relates to salaries and allowances to permanent staff, wages to temporary staff, leave allowance and training levy paid to NITA.
- Employee benefits comprise of National Social Security Fund, Laptrust, Lapfund pension scheme and Gratuity paid to staff on contract. (calculated in note 8(ii))
- Staff training costs are incurred in order to equip staff the relevant skills that will enable them perform their duties diligently.
- Travelling and accommodation is incurred to cater for staff travels both within the cluster and outside the company
- Protective gear is the cost incurred on gloves, staff overalls and safety boots.
- Staff welfare and sports is the cost incurred on staff funerals, gift vouchers to outgoing staff and WASCO games

8(b) Board Expenses

	2018 Kshs	2017 Kshs
Sitting allowance & Honorarium	2,477,473	1,381,750
Board Training	-	1,269,495
Board Travelling & Entertainment	1,835,575	3,091,904
Annual General Meeting	-	283,000
	4,313,048	6,026,149

- Sitting allowance and Honorarium refers to sitting allowance paid to members of the Board when they attend meeting. Honorarium is monthly allowance paid to the Chairman of the board.
- Board training is cost incurred to train board of directors about governance issues in the water sector.
- Board travelling & entertainment is a cost incurred to facilitate Board members travels
- Annual General Meeting is cost for facilitating holding of the company shareholders meeting.

Notes to the Financial Statements (continued)

8(c) Office General Expenses	2018 Kshs	2017 Kshs
Office maintenance	188,190	151,921
Office Electricity and water	387,467	374,503
Postage and Courier Services	1,265,498	643,420
Communication Services and Supplies	1,904,886	2,044,978
Printing, Stationery and Photocopy	3,000,074	5,171,303
Advertising and Publicity Promotions	438,119	1,468,226
Hospitality Supplies and Services	5,086,223	7,533,966
Bank Charges and Commissions	3,214,963	2,912,426
Insurance Costs	830,327	661,183
Business Permits & Penalties	1,204,610	472,588
Security Services	10,382,117	10,474,786
	27,902,474	31,909,300

- Office and maintenance expenses include expenditure on repairs of offices and cleaning of the company compound
- Office Electricity refers to expenses incurred on electricity charge consumed in the offices
- Postage and courier services refer to expenses incurred in delivery of parcels and sending bill message alerts to customers.
- Communication services and supplies refer to expenses incurred in the purchase of bundles and internet services
- Printing, stationery and photocopy refer to expenses incurred in the purchase of printing papers, pre- printed bills, general stationery and tonners
- Advertising and publicity promotion refer to expenses incurred in the purchase of newspapers, periodicals, journals, advertisement and public sensitization.
- Hospitality supplies and services include expenses incurred in the provision of tea to staff, meals during meetings and conferences and donations

8(d) Repair and Maintenance	2018 Kshs	2017 Kshs
Pipeline & sewer repairs and maintenance	4,094,630	4,170,333
Plant and Treatment works repairs	4,416,146	8,568,265
Motor Vehicle & Cycle Repairs	4,695,537	3,067,895
Fuel, lubricants for Motor Services Supplies	5,186,656	4,822,990
Generator Fuel	67,373	46,824
Tool and equipment hire	1,820	75,682
Computer and Equipment repairs	933,000	676,450
	19,395,162	21,428,439

Notes to the Financial Statements (continued)

Apportionment of Staff Cost to Cost of Sales

	2018	2017
	Kshs	Kshs
<i>Cost of Sales</i>		
Basic pay	14,006,127	14,534,516
Allowances	7,186,971	6,275,706
Leave allowances	523,200	558,137
To Cost of Sales	21,716,298	21,368,359
Total Staff Cost	134,117,399	128,039,704

Employee Benefits

Compulsory national social security scheme	507,400	511,000
Other pension contributions	5,522,851	6,516,264
Gratuity	2,959,002	5,613,214
Medical expenses	266,644	-
	9,255,897	12,640,478

Apportioned as
Administrative Cost

NSSF	427,400	411,000
Lap fund	2,561,452	2,379,141
Lap trust	2,988,852	2,613,049
Gratuity	2,959,002	5,613,214
To Administrative Costs	8,936,706	11,016,404

Apportioned as
Cost of Sales

NSSF	80,000	100,000
Lap fund	711,956	788,794
Lap trust	553,155	735,280
To Cost of Sales	1,345,111	1,624,074
	10,281,817	12,640,478

8(iii) The average number of employees at year end

Management	13	20
Permanent - Union sable	189	179
Contract and Temporary Employees	52	77
Total Number of Employees	254	276

Notes to the Financial Statements (continued)

9 Administrative Levies	2018 Kshs	2017 Kshs
Administrative Levies to LVNWSB	18,000,000	18,000,000
Administrative Levies to Counties	6,962,167	7,000,000
Administrative Levies to WASREB	3,588,039	3,056,797
Administrative Levies to WARMA	5,581,486	3,357,291
	34,131,691	31,414,088

- Administrative levies to Lake Victoria Water Services Board (LVNWSB) is pegged at a negotiated rate of Kshs 1.5 million per month which translates to an annual amount of Kshs 18 million.
- Administrative levies to County governments of Trans Nzoia and Bungoma is pegged at an annual amount of Kshs 7 million shared according to the proportion of amount water and sewer billed.
- Administrative levies to Water Services Regulatory Board (WAREB) are calculated at the rate of 1% of the total revenue billed by the
- Administrative levies to Water Resource Management Authority (WARMA) is billed quarterly at the rate of 50 cents per meter cubed (M3) of water abstracted from the river by the company.

10 Operating Profit/ (Loss)	2018 Kshs	2017 Kshs
The operating profit/(loss) is arrived at after charging/(crediting):		
Staff and other related expenses	133,881,722	137,891,479
Board expenses	4,313,048	6,026,149
Office general expenses	27,902,474	31,909,300
Repairs & maintenance	19,395,162	21,428,439
Specialized services	4,727,876	12,661,176
Provision For Bad & doubtful Debts	1,770,460	(268,598)
Administrative levies	34,131,691	31,414,088
Depreciation of property, plant and equipment	7,443,956	13,457,908
Amortisation of Intangible Assets	714,622	19,414
	234,281,011	254,539,355

11 Finance Income	2018	2017
Interest Income on Short Term bank deposit	472,258	787,500

The bank operated a fixed deposit account from which it earned interest.

Notes to the Financial Statements (continued)

12. Finance Cost

Interest Expense on Bank Overdraft	2,135,899	2,633,569
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The bank operated an overdraft to which it was charged interest.

13 Income Tax Expense

Current taxation based on the adjusted profit for the year at 30%	5,842,410	7,121,434
Current tax: prior year under/(over) provision	-	-
Current year deferred tax charge	-	-
Prior year under-provision for deferred tax	-	-
	5,842,410	7,121,434

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

Profit before Taxation.	16,989,617	(23,488,930)
Tax at the applicable tax rate of 30%	(5,096,885)	7,046,679
Current tax: 2010/2011 under-provision	-	-
Tax effects of expenses not deductible for tax purposes	2,233,187	4,323,868
Tax effects of income not taxable	(2,978,711)	(4,249,113)
Tax effects of excess capital allowances over depreciation/amortisation	-	-
Deferred tax prior year over-provision	-	-
	(5,842,410)	7,121,434

14 Earnings Per Share

No new Ordinary Shares were issued during the year ended 30th June, 2018



Notes to the Financial Statements (continued)

15 Property Plant and Equipment

Cost or Valuation 2018	Furniture & Fittings	Computer & Related Equipment	Network (Water Pipeline and Infrastructure)	Water Meters	Capital Works	Total
At July 1, 2017	6,313,471	9,673,618	67,793,219	14,076,315	32,135,465	129,992,088
Additions		141,655	1,549,856	8,258,617		9,950,128
Disposal		-	-	-	-	-
At June 30, 2018	6,313,471	9,815,273	69,343,075	22,334,932	32,135,465	139,942,216
Depreciation						
At July 1, 2017	(5,935,126)	(8,520,097)	(37,777,637)	(2,852,664)		(55,085,524)
Charge for the year	(505,077.68)	(3,271,757.63)	(2,773,722.98)	(893,397.28)		(7,443,956)
Eliminated on Disposal		-	-	-	-	-
At June 30, 2018	(6,440,204)	(11,791,855)	(40,551,360)	(3,746,061)		(62,529,480)
Net Book Value						
At June 30, 2018	(126,733)	(1,976,582)	28,791,715	18,588,871	32,135,465	77,412,736



Notes to the Financial Statements (continued)

15 Property Plant and Equipment

Cost or Valuation 2017	Furniture & Fittings	Computer & Related Equipment	Network (Water Pipeline and Infrastructure)	Water Meters	Capital Works	Total
At July 1, 2016	6,313,471	5,820,612	64,587,715	8,745,000	32,135,465	117,602,263
Additions	-	3,853,006	3,205,504	5,331,315	-	12,389,825
Disposal At June 30, 2011	-	-	-	-	-	-
Depreciation At July 1, 2016	(5,935,126)	(9,673,618)	(67,793,219)	(14,076,315)	(32,135,465)	(129,992,088)
Charge for the year		(5,295,880)	(29,303,485)	(1,093,125)		(41,627,616)
Eliminated on Disposal		(3,224,217)	(8,474,152)	(1,759,539)		(13,457,908)
At June 30, 2017	(5,935,126)	(8,520,097)	(37,777,637)	(2,852,664)		(55,085,524)
Net Book Value At June 30, 2017	378,345	1,153,521	30,015,582	11,223,651	32,135,465	74,906,564

Notes to the Financial Statements (continued)

20 Short term deposit	2018 Kshs	2017 Kshs
Short term deposit – Equity Bank	7,500,000	15,787,500

The company held ksh 7.5 million in fixed deposit during the year at an effective rate of 7%. The total comprises of interest income earned for 12 months.

21 Cash and Bank balances

Equity - Bungoma (A/C No 0486291148425)	651,791	233,849
KCB - Webuye (A/C No 1107155924)	1,251,337	261,863
Equity Revenue - Kitale (A/C No 033029145916)	188,329	284,250
KCB - Bungoma - Materials (A/C No 1128241358)	3,372,946	80,221
KCB - Bungoma - Savings A/C No 1125051078)	196,360	-
Mpesa Account	1,274,453	2,141,218
Posta	116,856	448,323
Post Bank	490,887	854,460
	7,542,959	4,304,184

22 Ordinary Share Capital

Authorised 7,505,000 shares at ksh 20 par value	150,100,000	150,100,000
Issued and Fully Paid For 2,005,000 Shares at Kshs 20 par value	40,100,000	40,100,000
Issued shares not paid for 2,500,000 Shares at Kshs 20 per value	50,000,000	50,000,000

23 General Reserves

General Reserve relates to a fund created when the company was being formed.

24 Capital Grant (UPC)

Capital commitments refer to funds received from Water Services Trust Fund and used to construct water kiosks and abolition blocks in Kitale and Bungoma.

Notes to the Financial Statements (continued)

25 Borrowings	2018 Kshs	2017 Kshs
Lake Victoria North Water Services Board Loa	4,100,000	4,100,000
Equity Operations Kitale A/C No 033029337641	3,240,786	16,568,521
	7,340,786	20,668,521

The company had a running bank overdraft to sort out cashflow issues. The overdraft would fluctuate depending on the cash collected.

26 Trade and Other Payables		
Trade Payables	41,569,985	40,321,721
Water Deposit NWPC	1,045,560	1,045,560
Payroll Liabilities	3,920,069	13,372,253
Other Payables	46,671,961	8,380,178
Water Deposit	35,807,453	29,639,497
	129,015,028	92,759,209

27 Retirement Benefits Obligation

The company operates a defined benefit scheme (Laptrust and Lapfund) for all full time employees. The scheme is based on 15% basic pay of employee. The liability at the end year is as follows.

Balance	-	32,395,746
Laptrust	10,336,765	7,662,115
Lapfund	11,213,685	7,839,309
NSSF	124,400	104,400
	21,674,850	48,001,569

28 Related Party Disclosures

a) Key Management Compensation

Directors' emoluments	4,313,048	6,026,149
Compensation to the CEO		
Compensation to key management		41,234,706
	4,313,048	47,260,855

Notes to the Financial Statements (continued)

b) Due to Related Parties	2018	2017
	Kshs	Kshs
County Governments	7,152,530	7,152,530
Lake Victoria North Water Services Board	97,732,687	80,232,688
Water Services Regulatory Board	5,504,423	4,484,367
Water Resource Management Authority	601,515	1,121,570
	110,991,155	92,991,155
29 Cash and Cash Equivalents		
Short term deposits	7,500,000	15,787,500
Cash and bank balances	7,542,959	4,304,184
Bank overdraft	(7,340,786)	(16,568,521)
	7,702,173	3,523,163
30 Contingent Liability		
Legal Claims against the Company	5,000,000	5,000,000

As at 30th June, 2018 Nzoia water had pending lawsuits which relate to legal claims by former employees and customers estimated at kshs 5 million.

Judgement in respect of these cases had not been determined as at 30th June, 2018. The amount has been disclosed in these financial statements as it was not possible to accurately quantify the potential liability arising from all of them.

The Directors are of the opinion that any outstanding litigation in this respect will not have a material effect on the financial position or results of the company.

31. Financial Risk Management

The company's activities expose it to a variety of financial risks including credit and liquidity risks. 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 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.

Notes to the Financial Statements (continued)

i) Credit risk

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

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

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

	Fully Performing	Past due	Impaired	Total amount
As at 30 June, 2018	Kshs	Kshs	Kshs	Kshs
Receivable from exchange transactions				
Receivable from non-exchange transactions				
Bank Balances				
Total				
As at 30 June, 2017				
Receivable from exchange transactions	99,211,957	98,714,583	10,417,186	208,343,726
Receivable from non-exchange transactions	18,245,137	7,083,671	-	25,328,808
Bank Balances	4,304,184	-	-	4,304,184
Total	121,761,278	105,798,254	10,417,186	237,976,718

Notes to the Financial Statements (continued)

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

The 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	Between 1-3 months	Over 5 months
At 30 June 2018	Kshs	Kshs	Kshs
Trade Payables			
Other payables			
Employee benefit obligation			
Total			
At 30 June 2017			
Trade Payables	7,548,731	12,208,486	20,564,504
Other payables	52,437,488	-	-
Employee benefit obligation	1,105,075	3,309,592	43,482,502
Total	61,091,294	15,518,078	64,047,006

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.

Notes to the Financial Statements (continued)

	2018	2017
	Kshs	Kshs
Ordinary share capital	90,100,000	90,100,000
General Reserves	250,468	250,468
Capital Grant (UPC)	32,135,465	32,135,465
Retained earnings	(25,818,083)	(36,965,290)
Total Funds	96,667,850	85,520,643
Total borrowings	7,340,786	20,668,521
Less: Cash and Bank balances	(7,542,959)	(4,304,184)
Net debt(excess cash and cash equivalent)	(202,173)	16,364,337
Gearing	0%	19%

32. Incorporation

The company is incorporated in Kenya under the Kenya's Companies Act and it is domiciled in Kenya.

33. Events after the reporting period

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

34. Currency

The financial statements are presented in Kenyan Shillings (Kshs)