

GOVERNMENT OF NAIROBI CITY COUNTY



THE NAIROBI CITY COUNTY ASSEMBLY

OFFICE OF THE CLERK

SECOND ASSEMBLY-THIRD SESSION

NBI CA. PLC. 2019 / (042)

4<sup>th</sup> June, 2019

PAPER LAID

Pursuant to Article 229 (7) of the Constitution of Kenya, I beg to lay the following Paper on the Table of the Assembly, today Tuesday 4<sup>th</sup> June, 2019.

REPORT OF THE OF THE AUDITOR – GENERAL ON THE FINANCIAL STATEMENTS OF NAIROBI CITY WATER AND SEWERAGE COMPANY LIMITED FOR THE YEAR ENDED 30 JUNE, 2018.

(Leader of the Majority Party)

Copies to:  
The Speaker  
The Clerk  
Hansard Editor  
Hansard Reporters  
The Press

*Approved for table*  
*[Signature]*  
*04 June 2019.*

*Paper laid  
on the table  
on 4/6/19  
@ 2:30pm  
[Signature]  
Sm Clerk  
4/6/19*

100

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# REPUBLIC OF KENYA

Telephone: +254-20-342330  
Fax: +254-20-311482  
E-mail: [oag@oagkenya.go.ke](mailto:oag@oagkenya.go.ke)  
Website: [www.kenao.go.ke](http://www.kenao.go.ke)



P.O. Box 30084-00100  
NAIROBI

## OFFICE OF THE AUDITOR-GENERAL

Ref: NBI-HUB/FS/NAIROBI WATER/2017-2018/ (4)

6 May, 2019

Mr. Jacob Ngwele,  
Clerk to the Nairobi City County Assembly,  
P.O. Box 45844 - 00100,  
**NAIROBI.**

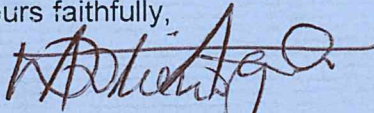


Dear Sir,

### REPORT OF THE AUDITOR-GENERAL ON THE FINANCIAL STATEMENTS OF NAIROBI CITY WATER AND SEWERAGE COMPANY LIMITED FOR THE YEAR ENDED 30 JUNE 2018

I transmit the report of the Auditor-General on the examination and audit of the financial statements of Nairobi City Water And Sewerage Company Limited for the year ended 30 June, 2018 in accordance with the provisions of Article 229(7) of the Constitution of Kenya for the necessary action as required by Article 229(8) of the Constitution.

Yours faithfully,

  
**William O. Agunda**  
**For: AUDITOR-GENERAL**

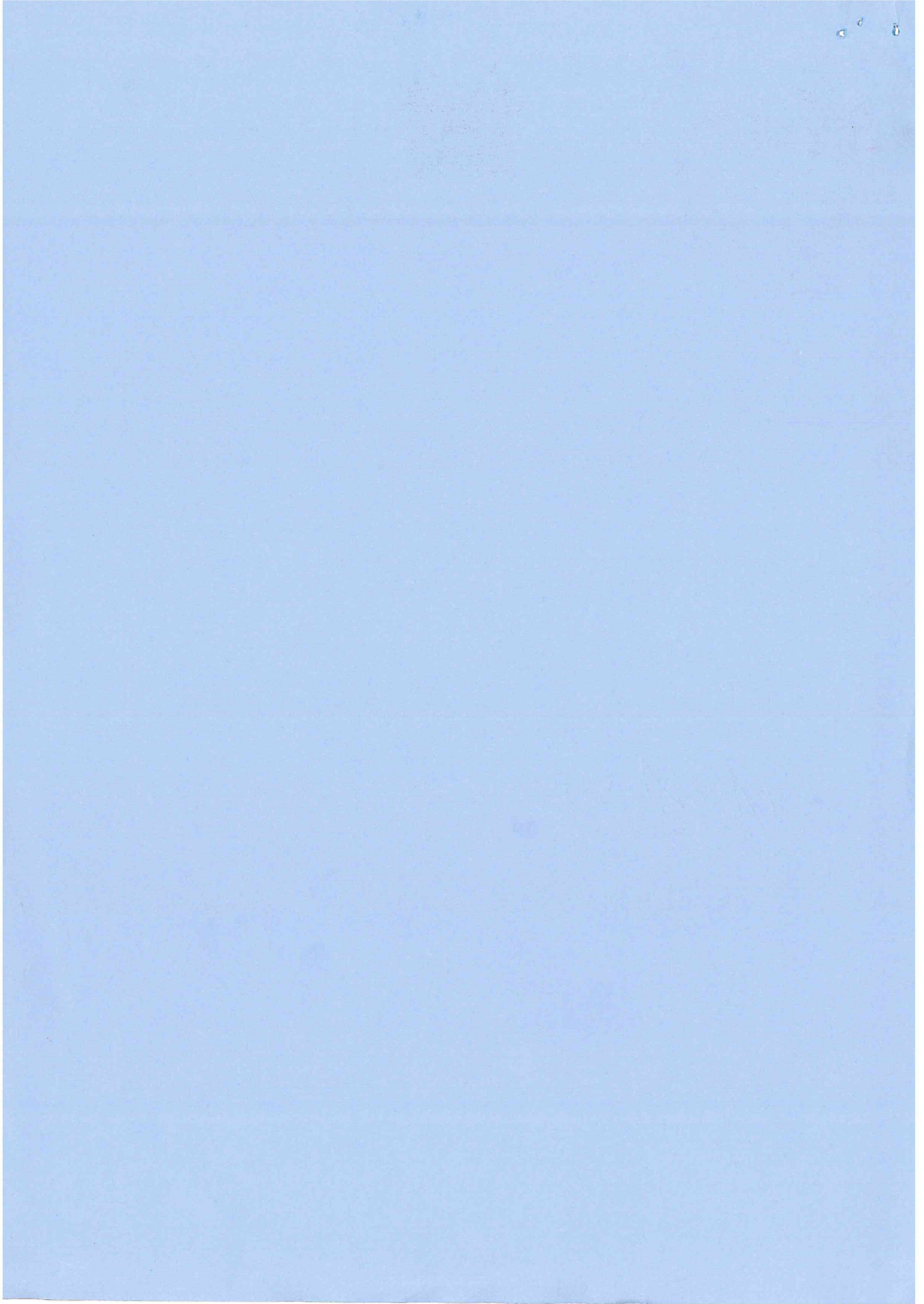
Copy to: Mr. Jeremiah Nyegenye  
Clerk to the Senate  
P. O. Box 41842 - 00100  
**NAIROBI.**

The Principal Secretary  
National Treasury  
P.O Box 30007-00100  
**NAIROBI.**

*Snr/C.A. (Lip)*  
*Table is forward*  
*to P.I.C*  
*7/June*  
*08/1*

*Judy - C.A.*  
*Prepare paper laid*  
*9/5/2019.*

1871



REPUBLIC OF KENYA



**OFFICE OF THE AUDITOR-GENERAL**

**REPORT**

**OF**

**THE AUDITOR-GENERAL**

**ON**

**THE FINANCIAL STATEMENTS OF  
NAIROBI CITY WATER AND SEWERAGE  
COMPANY LIMITED**

**FOR THE YEAR ENDED  
30 JUNE 2018**





# Annual Report and Accounts

2017 / 2018

NAIROBI CITY WATER AND SEWERAGE COMPANY LTD

# Annual Report and Accounts

2017/2018

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## Corporate Information

### Principal Place of Business & registered Office

Kampala Road, Industrial Area

P.O. Box 30656 – 00100, NAIROBI

KENYA

Email: [info@nairobiwater.co.ke](mailto:info@nairobiwater.co.ke)

Website: [www.nairobiwater.co.ke](http://www.nairobiwater.co.ke)

### Principal Banker

Co-operative Bank of Kenya

Industrial Area Branch

P.O. Box 67881 – 00200, NAIROBI

KENYA

### Auditor

Auditor General

Kenya National Audit Office

12th Floor, Anniversary Towers

University Way

P.O Box 30084-00100, NAIROBI

KENYA

## **Board of Directors**

The Company's Board of Directors is appointed in accordance with the provisions of the Companies Act, Laws of Kenya. The Board of Directors was appointed on 15<sup>th</sup> July 2016 by the shareholder. However their operations were suspended on 27th September 2017.

**Notice of Annual General Meeting**

## DIRECTORS' REPORT

The Board of Directors was appointed on 15<sup>th</sup> July 2016 and its operation suspended on 27<sup>th</sup> Sep 2017. The Company submits the report for the year ended 30<sup>th</sup> June 2018, which shows the state of the Company's affairs.

## INCORPORATION

The Company is incorporated in Kenya under the Companies Act of the Laws of Kenya. It is a private limited liability Company domiciled in Kenya. It is wholly owned by the Nairobi City county Government.

## PRINCIPAL ACTIVITY

The Company provides water and sewerage services in Nairobi and its environs.

## RESULTS

The results for the year are summarized below:

	2018	2017
	KSHs	KSHs
Deficit for the Year	(634,895,405)	(295,911,748)

## DIVIDENDS

The Company does not recommend the payment of a dividend in respect of the year ended 30<sup>th</sup> June 2018 as per the provisions of the Water Act 2016, section 131(3).

## FINANCIAL STATEMENTS

As at the date of this report, there are no circumstances which would have rendered the values attributed to the assets in the financial statements misleading.

## DIRECTORS

The Company is managed under the direction of a Board of Directors appointed by the shareholders (Nairobi City County Government). The Board of Directors was appointed on 15<sup>th</sup> July 2016 and its operations suspended on 27<sup>th</sup> Sep 2017 as listed below.

### CURRENT DIRECTORS

**Mr. Raphael M. Nzomo, MBS**      **Chairman**

Ms. Joanne Mwangi-Yelbert      Vice Chair

Mr. John K. Wanyama

Mr. Samuel O. Ojanga

Mr. Rosemary L. Khamati

Ms. Mercy M. Mutua

Mr. Gregory S. Mwakanongo

Eng. Christine A. Ogut

Dr. Kennedy J. Omoke

Mr. Lawrence A.O. Ouma

Mr. Phillip Arungah

Eng Nahason M. Muguna      Ag. Executive Director (Managing Director)-Appointed on 17 August 2017

## KEY OFFICERS

Name	Title	Qualification
<b>Eng. Nahason M. Muguna</b>	Ag. Managing Director	Bsc.(Mechanical Eng) Msc-Eng, MBA)
<b>Monica N. Tuli</b>	Ag. Director Human Resources and Administration	Bachelor of Arts , Msc ( HRM), Higher Dip (HRM)certified HRP
<b>Paul Evans Omondi</b>	Ag. Director Financial Services & Strategy	B.Com (Finance), MBA (Strategic Management), CPA(K)
<b>Rachel Ngethe</b>	Ag. Director Commercial services	BCom (Marketing) MBA (Strategic Management)
<b>Eng. Lucy Njambi</b>	Ag. Director Technical Services	Bsc Civil Eng, MSc Water and Sanitation
<b>Martin W. Nangole</b>	Director Information & Communications Technology	Bsc.(Computer science), Masters in IT, CISCO,MCP
<b>Griffine Songole</b>	Director Internal Audit & risk management	BCom.(Accounting),CPA(K), CFA, CIA
<b>Ivy K. Nyarango</b>	Company Secretary	LLB (hons), LLM (dist.), Dip. (Law), CPS (K), Dip (International protection of HR)

## DIRECTORS' BENEFITS

Since the last Annual General Meeting of the Company to the date of this report, no Director has received or become entitled to receive any benefit other than Directors' fees and amounts received under employment contract for the Managing Director. The aggregate amount of emoluments for Directors' services rendered in the financial year is disclosed in notes 10 and 26.

## AUDIT, RISK AND GOVERNANCE COMMITTEE


Dr. Kennedy J. Omoke	Chairman
Ms. Joanne Mwangi -Yelbert	Member
Mr. Gregory Mwakanongo	Member
Ms. Mercy Mutua	Member

The Committee held office until 27<sup>th</sup> September 2017 when its operations were suspended.

## INDEPENDENT AUDITORS

The Auditor -General is the independent auditor in accordance with the Public Audit Act and the Companies Act and continues in office.

By order of the Management



Ivy Nyarango – Company Secretary

## **CORPORATE GOVERNANCE STATEMENT ON THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30<sup>TH</sup> JUNE 2018**

The Company is committed to the standards of good corporate governance. The following disclosures aim at emphasizing this commitment.

### **ROLE OF THE BOARD**

The Board is responsible for:

- Establishing the strategic plan and guiding its implementation.
- Ensuring that appropriate management structures and policies are in place.
- Approving performance targets including budgets and monitoring their achievements.
- Ensuring preparation and presentation of the annual financial statements in accordance with International Financial Reporting Standards and disclosures of other relevant information to shareholders.
- Identifying and mitigating risks and overseeing the implementation of governance processes that promote compliance with legislation, professional standards and the best corporate governance practices promulgated by relevant authorities.

The Board meets regularly as scheduled but special meetings may be called when the need arises. Board members are given notices and agenda for all meetings which are circulated on a timely basis together with the respective documents for discussion. They are required to declare any conflicts of interest on any matters before the Board and are disqualified from participating in deliberations where there is such a conflict. Board members have signed a code of ethics while employees have signed a code of conduct. Non-executive members of the Board are institutional and hold office for three years. The Board appoints committees to assist in executing its mandate. The Board also co-opts expertise to its committees for the discharge of its business. The execution of the Board's policies is vested in the Managing Director who is appointed by the Board and is also responsible for the effective performance of the management team which provides support and advice to the Board and its Committees.

### **COMPOSITION OF THE BOARD**

The Board is composed of eleven non-executive Directors from whom the Chairman is elected by the Board members. The executive member of the Board is the Managing Director. All the non-executive Directors are independent of management.

### **BOARD COMMITTEES**

#### **i) AUDIT, RISK AND GOVERNANCE COMMITTEE**

This is composed of four board members and the Director Internal Audit and Risk Management who serves as the secretary to the committee. The Committee reports to the Board of Directors: It is responsible for assisting the Board to discharge its corporate governance responsibilities as follows:

- Internal Control and risk management- The Committee had the responsibility of reviewing the risk philosophy, strategy and policies recommended by the company and consider reports by the company. The Committee shall ensure compliance with such policies, and with the overall risk profile of the company.
- Review of financial information in particular annual financial statements to ensure compliance with accounting standards, legislation and other disclosure requirements.
- Reviews the external auditors proposed audit scope and approach and ensure no unjustified restrictions or limitations have been placed on the scope.
- Review of the function, operations and findings of the Internal Audit Directorate.

## ii) **FINANCE AND COMMUNICATION COMMITTEE**

This is composed of four non-executive directors. It is responsible for assisting the Board to discharge its corporate governance responsibilities as follows:

### **Finance**

- To consider and recommend for Board approval, the Financial Services Policies for the Company.
- To receive and consider progress reports on Financial Services matters.
- To consider and recommend for Board approval, the Financial budgets for the Company.
- To receive and consider periodic financial performance reports of the Company.
- To adjudicate on any financial policy matters referred to it by the management.

### **Legal**

- Ensure compliance at all times with the provisions of the Companies under which the company is registered, Company's Memorandum and Articles of Association.
- Ensure effective handling of litigation matters.
- Provide advice and counsel to the Board as required on contract issues, including contract interpretation, evaluation of the law, recommendations etc.
- Advise the Board on measures to be taken in order to comply with legal provisions as provided for by various pieces of legislation.

### **Communication**

- To ensure effective company communication to the public.
- To ensure establishment of correct corporate image and good stakeholder relations.
- To advise on available publicity opportunities on various issues including exhibitions and handling technical conferences.
- In charge of Company's publications and documentaries

## iii) **HUMAN RESOURCE/ADMINISTRATION COMMITTEE**

This is composed of four non-executive directors. It is responsible for assisting the Board to discharge its corporate governance responsibilities as follows:

### **Human Resource and Administration**

- Review and approve terms and conditions for Company employees.
- Handle policy issues on human resources and administration including recruitments of senior management staff.
- Receive and update the Board on the progress on human resource and administration issues.
- Ensure establishment of the right organization structure aligned to the Company's business processes.

#### **iv) TECHNICAL, COMMERCIAL AND ICT COMMITTEE**

This is composed of four non-executive directors. It is responsible for assisting the Board to discharge its corporate governance responsibilities as follows:

- Prepare and table reports on its deliberations to the Board through the Chairman or by any nominated member of the committee.
- Carry out any special responsibility as may be delegated to it by the Board.
- Work closely with other relevant committees so as to promote the objectives as set out in the Company's business plan.
- Review all ICT, technical and commercial proposals from the management team that focus on improving water and sewerage services that would require Board's approval for implementation.
- Review all proposals for procurement of infrastructure, development and support whose procurement is subject to approval by the Board prior to tendering.
- Receive and deliberate on the progress reports for all projects being implemented by the NCWSC with a view to providing guidance to the management and the Board.
- Consider and recommend for full Board approval ICT, technical and commercial services policies of the Company.
- Receive and consider periodic progress reports on technical, commercial and ICT-related activities and report on the same to the full Board on quarterly basis.
- Give guidelines/opinions to the management on areas of improvement as far as ICT, technical and commercial activities are concerned.
- Oversee, on behalf of the Board, that the Company achieves the set annual targets in water production, water distribution, revenue generation, market growth and customer satisfaction.
- Review the performance of the ICT, Technical and Commercial Directorates and recommend action to be taken for improvement and enhancement of the performance.
- Make periodic visits to the Company's installations and evaluate reports on the dams, treatment works as well as on the networks of water pipelines and sewer lines on a quarterly basis.

#### **INTERNAL AUDIT FUNCTION**

The Company has an Internal Audit function headed by the Director Internal Audit and Risk Management. The function is responsible for evaluating business and operating risks and the internal controls put in place to mitigate the risks. It is also responsible for evaluation of the Company policies and procedures. The function reports to the Board Audit and Governance Committee and administratively to the Managing Director.

#### **COMMUNICATION WITH SHAREHOLDERS/STAKEHOLDERS**

The Company is committed to:

- Ensuring that shareholders and stakeholders are provided with full and timely information about its performance.
- Complying with the statutory and regulatory communication requirements.
- Distributing information to the shareholders/stakeholders through the periodic reports and stakeholder forums.

#### **DIRECTORS' BENEFITS AND LOANS**

All the non-executive Directors received Directors' remuneration as prescribed and no additional benefits or allowances were given to the Directors. The aggregate amount of Directors' remuneration is disclosed in notes 10 and 26 to these financial statements.

DIRECTOR \_\_\_\_\_ DATE: 6<sup>TH</sup> SEPTEMBER 2018

DIRECTOR \_\_\_\_\_ DATE: 6<sup>TH</sup> SEPTEMBER 2018

## STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Kenyan Companies Act 2015, The Public Finance Management Act, 2012 section 81 and section 14 of the State Corporations Act requires the Directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company, as at the end of the financial year and of its operating results for the year. It also requires the Directors to ensure that the Company keeps proper accounting records, which disclose, with reasonable accuracy, the financial position of the Company. They are also responsible for safeguarding the assets of the Company.

The Directors accept responsibility for the 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. The Directors are of the opinion that the financial statements give a true and fair view of the state of the financial affairs of the Company and of its operating results. The Directors further accept responsibility for the maintenance of accounting records, which may be relied upon in the preparation of financial statements, as well as adequate systems of internal financial control.

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

The statement was approved by Management on behalf of Board of Directors on 6<sup>th</sup> September 2018 and signed on its behalf by:

DIRECTOR



DIRECTOR



Nairobi City Water & Sewerage Company Ltd  
Annual Report and Accounts  
For the year ended 30<sup>th</sup> June 2018

**THE AUDITOR- GENERAL'S REPORT ON NAIROBI CITY WATER AND  
SEWERAGE COMPANY LIMITED**

# REPUBLIC OF KENYA

Telephone: +254-20-342330  
Fax: +254-20-311482  
E-mail: [oag@oagkenya.go.ke](mailto:oag@oagkenya.go.ke)  
Website: [www.kenao.go.ke](http://www.kenao.go.ke)

P.O. Box 30084-00100  
NAIROBI



## OFFICE OF THE AUDITOR-GENERAL

### REPORT OF THE AUDITOR-GENERAL ON NAIROBI CITY WATER AND SEWERAGE COMPANY LTD FOR THE YEAR ENDED 30 JUNE 2018

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#### REPORT ON THE FINANCIAL STATEMENTS

##### Qualified Opinion

I have audited the accompanying financial statements of Nairobi City Water and Sewerage Company Ltd set out on pages 14 to 41, which comprise the statement of financial position as at 30 June 2018, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, 2015. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

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

##### Basis for Qualified Opinion

#### 1. Failure to Disclose Material Uncertainty in Relation to Going Concern

During the financial year ended 30 June 2018, the Company recorded a net operating loss of Kshs.634,895,405 (2017: a net operating loss of Kshs.295,911,7498), which depleted further the revenue reserve from negative Kshs.3,005,132,991 as at 30 June 2017 to negative Kshs.4,524,091,163 as at 30 June 2018. The current liabilities balance of Kshs.4,536,415,303 exceeded the current assets balance of Kshs.3,167,964,349 and thus, resulting in a negative working capital of Kshs.1,368,450,954 as at 30 June 2018.

The precarious financial situation described above is an indication of the existence of a material uncertainty which may cast a significant doubt on the Company's ability to continue as a going concern and to meet its obligations as and when they fall due. The financial statements have been prepared on a going concern basis on the assumption that the Company will continue to receive financial support from the Nairobi City County Government and its creditors. However, this material uncertainty in relation to going concern and any mitigating measures put in place by the Company's directors to reverse the undesirable precarious financial position have not been disclosed in the notes to the financial statements.

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*Report of the Auditor-General on the Financial Statements of Nairobi City Water and Sewerage Company Limited for the year ended 30 June 2018*

## 2. Trade and Other Receivables

The statement of financial position reflects a net balance of Kshs.2,510,067,254 against trade and other receivables as at 30 June 2018. The balance includes long outstanding trade receivables amounting to Kshs.549,615,629.06 as shown below:

<b>Account</b>	<b>Amounts Kshs</b>
KRA receivable	478,001,144.53
IDA receivable	5,935,309.00
Postal Corporation of Kenya	64,069,175.53
EACC	350,000.00
Other receivables	1,260,000.00
<b>Totals</b>	<b>549,615,629.06</b>

Although specific provisions have been made for all known doubtful debts, recoverability of the above amounts in full appear to be uncertain given that they been outstanding for more than one year.

Further, in the audit report for 2016/2017 reference was made to the amount of Kshs.478,001,144.53 due from KRA in respect of claims receivable on unassessed lodgements. No explanations were provided for failure to resolve this matter with KRA in the year under review.

## 3. Amounts Due to Related Parties

The statement of financial position as at 30 June 2018 reflects under current liabilities and non-current liabilities balances of Kshs.1,146,615,016 and Kshs.3,619,665,878 in respect of amounts due to related parties. As disclosed in Note 25 to the financial statements the amounts were due to Athi Water Services Board(AWSB) for lease fee as at 30 June 2018.

Although the management explained that lease fee was based on an arbitrary figure during tariff settings by AWSB, the lease agreement was not provided audit review and therefore, the basis upon which lease fee was determined could not be ascertained.

## 4. Property, Plant and Equipment

### 4.1. Water Infrastructure Assets

The statement of financial position reflects property, plant and equipment balance of Kshs.2,949,972,964 as at 30 June 2018. The balance includes buildings, plant and machinery, and equipment valued at Kshs.63,790,389, Kshs.586,591,708 and Kshs.224,595,626, respectively comprising improvements to the water and sewerage transmission works and other infrastructure belonging to the defunct Nairobi City Council,

but otherwise assigned to the Nairobi City Water and Sewerage Company Limited. However, the parcels of land including dams on which the expansion and improvements had been carried out have not been disclosed or reflected in the financial statements under review.

The audit also revealed that some other water infrastructure assets of undetermined values including land, dams, water pipelines, sewer system and water treatment plants owned by the Nairobi City Water and Sewerage Company Limited and used in revenue generation have not been disclosed or included in the financial statements.

#### **4.2. Encroachment on Company's Land.**

As previously indicated in the audit report for 2016/2017, various parcels of land belonging to the Company meant for expansion, storage, water and sewerage treatment works have been encroached on by private developers. The affected parcels of land include:

- (i) Loresho water reservoir (Nairobi Block 90/587) which was subdivided into six sub plots-block 90/596 (currently where the reservoir is located), 90/591, 90/592, 90/593, 90/594 and 90/595. The five blocks were subsequently transferred and issued out to new owners. This was irregular as the original block of land was reserved for future water works expansion.
- (ii) Kariobangi North Sewerage and treatment works, where the land was allocated to several groups including Kariobangi Sewage Farmers Self-help Group, Provincial Administration (chief's camp), Our Lady of Fatima Secondary School, Alice Nursing Homes and Kariobangi Catholic Church for Polytechnic construction. Records relating to allocation, survey and subdivision of the land have, however, to date not been made available for audit review. Consequently, the purported subdivision and allocation can still not be verified.
- (iii) Encroachment on LR No.13119/2 –Booster Station II. The parcel of land is situated off Kabete Road where water from Ruiru Dam is pumped into Kabete treatment works for redistribution. Information available indicate that a complaint had been lodged by the Company in June 2007 concerning the encroachment. However, records of the land have still not been made available for audit review. Consequently, the status of resolution on the reported encroachment cannot be established.
- (iv) Ruiru Dam - Kabete pipeline transmission has been encroached at Good Shepherd and Kiangima area. The structures under construction have been erected on top of 16" and 24" pipes at AV (Air Valve) number 42 (Good Shepherd area), 9", 12" and 24" pipes between wash out 38 and AV(Air Valve) number 38 (Kiangima area).

In view of the circumstances described above, the completeness, accuracy and ownership of property, plant and equipment balance of Kshs. 2,949,972,964 as at 30 June 2018 could not be confirmed.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of Nairobi City Water and Sewerage Company 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 and Basis for Conclusions on Lawfulness and Effectiveness in Use of Public Resources and Effectiveness of Internal Controls, Risk Management and Governance sections, I have determined that there are no Key Audit Matters to communicate in my report.

### **Other Information**

The directors are responsible for the other information. The other information comprises the report of directors as required by the Companies Act, 2015, and the statement of the directors' responsibilities which are obtained prior to the date of this report, and the annual report which is expected to be made available after that date.

My opinion on the financial statements does not cover the other information and I do not express an audit opinion or any form of assurance thereon.

In connection with the audit of the financial statements, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or the knowledge obtained in the audit, or otherwise appears to be materially misstated. Based on the work I have performed on the other information obtained prior to the date of this auditor's report, if I conclude that there is material misstatement of this other information, I am required to report that fact. I have nothing to report in this regard.

## **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 Qualified Opinion and Basis for Conclusions on Lawfulness and Effectiveness in Use of Public Resources and Effectiveness of Internal Controls, Risk Management and Governance sections of my report, I confirm that, nothing else has come to my attention to cause me to believe that public resources have not been applied lawfully and in an effective way.

## **Basis for Conclusion**

### **1. Budget Performance - Under Collection of Revenue**

During the financial year ended 30 June 2018, Nairobi City Water and Sewerage Company Ltd had an approved budget of Kshs.10,761,000,000 for operating revenue. The statement of comprehensive income for the year ended 30 June 2018, however, reflects an operating income of Kshs.8,478,139,252. This implies that an amount of Kshs.2,282,860,748 or 21% of the budgeted revenue was not realized, an indication that the Company did not use the public resources at its disposal efficiently and effectively to collect the revenue.

### **2. Budget Performance - Under Absorption of Capital Expenditure Budget**

During the financial year ended 30 June 2018, Nairobi City Water and Sewerage Company Ltd had an approved budget of Kshs.16,339,360,000 comprising of operating expenditure of Kshs.9,927,866,000 and capital expenditure of Kshs.6,471,494,000. Although the statement of comprehensive income for the year under review reflects operating including finance costs totalling Kshs.9,113,034,657 or a 92% budget absorption, the assets movement schedule reflects additions of Kshs.1,030,262,148 only on capital expenditure. The latter situation therefore means that only 16% of the capital expenditure budget was absorbed. Failure to execute 84% (Kshs.5,441,231,852) of the capital expenditure budget resulted in an ineffective delivery of water and sewerage services to the resident of Nairobi City County.

### **3. Non-Revenue Water**

During the year under review, the Company produced a total volume of 172,767,812 cubic meters (m<sup>3</sup>) of water. Out of this volume, 106,803,022 cubic meters (m<sup>3</sup>) was billed to customers. The balance of 65,964,740 cubic meters or approximately 38% of the total volume produced represented Non-Revenue Water (Unaccounted for Water). The Non-Revenue Water is 13% over and above the allowable loss of 25% as provided for in the Water Services Regulatory Board guidelines.

### **4. Gap Detections on Revenue Generated through the Customer Management System**

The Company's revenue data is generated through a Customer Management System. An analysis of the data generated through the system revealed several gaps in the system generated bill numbers contrary to Section 2.4.1. of the Nairobi City Water and Sewerage Company Ltd Commercial Operations Policy, 2015. A summary of the missing gaps is as shown in the table below:

<b>Gap Detection Summary</b>	
<b>Month</b>	<b>Missing Records/ Amount Kshs</b>
July 2017	1,039,838
August 2017	845,199
September 2017	1,028,848
October 2017	978,736
November 2017	951,760
December 2017	1,224,785
January 2018	1,316,485
February 2018	1,176,441
March 2018	1,337,200
April 2018	1,143,868
May 2018	1,567,343
June 2018	1,061,161
<b>Total</b>	<b>13,671,664</b>

## **5. Construction Projects**

### **5.1. Kasarani Sports View Sewer Reticulation**

Nairobi City Water and Sewerage Company awarded a tender no. NCWSC/24/2013 for Kasarani Sports View Sewer Reticulation to a contractor at Kshs.24,523,677.51. The scope of the works involved construction of DN 225 sewerage reticulation 1300m within Kasarani Sports Drive estate near ICIPE.

The works started on 27 February 2014 and were due for completion within 153 calendar days from the commencement of the project. In October 2014, the contractor abandoned the site and gave a go ahead to the Company to terminate the contract citing unavoidable circumstances. The contract was terminated on 16 October 2018 vide letter Ref No. NCWSC/SCD/24/13/Vol.III/5584/BKK/rbm.

The engineer's report on the status of the project dated 28 July 2016 shows that the contractor had been paid Kshs. 13,860,545.94 which was 56.52% of the contract sum. The engineers' report also indicated the project to have been abandoned at 74% completion level.

Audit inspection of the project on 5 February 2019 revealed anomalies as follows:

- (i) There had been no activity on site after the contractor abandoned the project.

(ii) Works had been left in a deplorable condition with gaping manholes, open trenches which posed danger to residents

(iii) The Company had not recovered liquidated damages after termination of the contract.

Consequently, it was not possible to ascertain that value for money had been realized in respect of the expenditure of Kshs. 13,860,545.94 incurred on the project.

## **5.2. Proposed Sewer Extension in Utawala Area**

Nairobi City Water and Sewerage Company awarded a tender no. NCWSC/41/2015 for Sewer Extension in Utawala to a contractor at Kshs. 144,075,079. The scope of the works involved DN225-450 sewer extension to Serve Utawala Estate, AP&GSU training Schools.

The works started on 26 September 2016 and were due for completion on 30 April 2018. However, the contractor suspended works on 5 March 2018 due to non-payment. A status report dated 30 June 2018 shows that the contractor had been paid Kshs.33,884,674.81 with unpaid certificates amounting to Kshs.40,328,902.50. The project was had been done 55% at the time the contractor suspended works.

Audit revealed that the performance bond of Kshs.14,475,017 issued by CFC Stanbic Bank expired on 12 Nov 2017. Consequently, clause 28 of the Condition of Contracts regarding submission of a valid performance bond security became inoperative. It was valid for 573 days from 19 April 2016 to 12 Nov 2017. However, the Contractor continued with works until 5 March 2018 when he suspended works due to non-payment of certificates.

Further, the Company may incur extra cost in payment of accrued interest of Kshs.1,628,634 due to delayed payment of certified works.

## **6. Termination of Directors' Contracts**

Examination of human resource records revealed that the management terminated contracts of three functional directors vide termination letters dated 17 August 2017 contrary to the employment Act 2007 Section 45 (1) and (2). The three directors were in charge of Commercial Services, Human Resource and Administrative Services and Finance and Strategy. The three filed law suits at the Employment and Labor Relations Court under ELRC No 1726 of 2017, Petition No 32 of 2018 and Petition No. 118 of 2018, respectively upon termination of their contracts. The ruling of one of the cases- ELRC No. 1726 was delivered on 13 November 2017 which quashed his dismissal and reinstated him. Alternatively, he was to be paid for the full contract ending 11 September 2017 and for the full contract term commencing 11 September 2017. The other two cases are still pending in court.

The claims by the three directors amounting to Kshs.186,204,338.60 is as tabulated below:

<b>Director In-charge of</b>	<b>Claims Kshs</b>
Commercial Services	53,757,039.00
HR & Administrative Services	70,299,083.60
Finance & Strategy services	62,148,216.00
<b>Total</b>	<b>186,204,338.60</b>

In addition, the Company incurred expenditure totalling Kshs.484,400 in respect of legal fees as per the internal memo from legal department dated 8 October 2017-Ref LEG/394/2017.

#### **7. Payment of Allowances to Nairobi City County Assembly Members**

Examination of expenditure documents revealed that a total of Kshs.33,264,115 was irregularly paid to members of the county assembly in form of allowances to carry out legislative and oversight duties. In addition, the Company did not provide any authority to support payment of the allowances to members of the county assembly.

#### **8. Employees in Acting Positions for More Than Six months**

Examination of the expenditure and the human resource records revealed that, several employees have been in an acting capacity for the period exceeding six months contrary the Company's Human Resource Policy as indicated below:

<b>P/F No</b>	<b>Acting Appointment Date</b>	<b>Confirmed Date</b>	<b>No. of Days in Acting Capacity</b>
02675	05/09/2016	1/08/2017	1 year
02807	16/08/2016	1/08/2017	1 year
02615	16/08/2016	1/08/2017	1 year
08939	17/08/2017	None	1 year 6 months
18693	17/08/2017	None	1 year 6months
17289	02/03/2018	None	11 months
13200	18/08/2017	None	1 year 5 months
19402	18/08/2017	None	1 year 5 months
18888	12/02/2016	None	1 year 11 months
09059	01/12/2015	None	3 years
01903	02/03/2017	None	1 year 9 months

## **9. Non-Payment of Audit fees**

Trade and other payables balance of Kshs.2,845,143,931 as at 30 June 2018 includes outstanding audit fees balance of Kshs.25,951,293 that has accumulated for seven years contrary to the requirement of Section 41 (c) of the Public Audit Act, 2015.

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

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

#### **Conclusion**

As required by Section 7 (1) (a) of the Public Audit Act, 2015, based on the audit procedures performed, except for the matters described in the Basis for Qualified Opinion and Basis for Conclusions on Lawfulness and Effectiveness in Use of Public Resources and Effectiveness of Internal Controls, Risk Management and Governance sections of my report, I confirm that, nothing else has come to my attention to cause me to believe that internal controls, risk management and governance were not effective.

#### **Basis for Conclusion**

##### **1. Non-existence of Board of Directors**

Examination of records relating to the Company's governance revealed that the board of directors' operations were suspended vide the letter ref: NCC/CS/LOM/1067/2017 dated 27 September 2017. As a result, there has been lack of formulation of the Company's new policies, procedures and execution of the functions of the board contrary to section 79(1), Water Act 2016.

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 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 Kenyan Companies Act, 2015 I report based on the 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 my audit;

- (ii) In my opinion, proper books of account have been kept by the Company, so far as appears from the examination of those books;
- (iii) The Company's statement of financial position and statement of comprehensive income are in agreement with books of account; and
- (iv) In my opinion the information given in the report of the directors on pages 5 and 6, is consistent with the financial statements.

### **Responsibilities of Directors and Those Charged with Governance**

The directors are 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 directors 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, the directors are responsible for assessing the ability of Nairobi City Water and Sewerage Company Ltd to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intends to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

The directors are 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, the directors are 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 Nairobi City Water and Sewerage Company Ltd financial reporting process, reviewing the effectiveness of how the entity monitors compliance with relevant legislative and regulatory requirements, ensuring that effective processes and systems are in place to address key roles and responsibilities in relation to governance and risk management, and ensuring the adequacy and effectiveness of the control environment.

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

The audit objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion in accordance with the provisions of Section 48 of the Public Audit Act, 2015 and submit the audit report in compliance with

Article 229(7) of the Constitution. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISSAIs will always detect a material misstatement and weakness when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

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

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

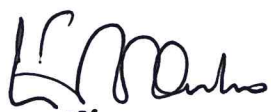
As part of an audit conducted in accordance with ISSAIs, I exercise professional judgement and maintain professional skepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors 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 ability of Nairobi City Water and Sewerage Company Ltd to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in the auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my audit report. However, future events or conditions may cause the Company to cease to continue as a going concern 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 Nairobi City Water and Sewerage Company Ltd to express an opinion on the financial statements.
- Perform such other procedures as I consider necessary in the circumstances.

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



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

**Nairobi**

**24 April 2019**

## STATEMENT OF COMPREHENSIVE INCOME

### FOR THE YEAR ENDED 30th JUNE 2018

		2018	2017
	Note		
		Kshs	Kshs
<b>OPERATING INCOME</b>	3	8,478,139,252	9,602,512,333
<b>GRANT INCOME</b>	4	0	65,627,200
<b>Total</b>		<b>8,478,139,252</b>	<b>9,668,139,533</b>
<b>EXPENSES</b>			
<b>Staff costs</b>	5	5,674,001,522	5,456,469,974
<b>Operations</b>	6	2,703,125,340	3,177,527,550
<b>Maintenance</b>	7	330,578,635	472,608,280
<b>Other expenses</b>	8	319,889,023	784,562,347
<b>Total</b>		<b>9,027,594,520</b>	<b>9,891,168,152</b>
<b>Surplus Before Interest &amp; Tax</b>		<b>(549,455,268)</b>	<b>(223,028,619)</b>
<b>Finance costs</b>	9	85,440,137	72,883,129
<b>SURPLUS BEFORE TAX</b>	10	<b>(634,895,405)</b>	<b>(295,911,748)</b>
<b>Tax</b>		<b>0</b>	<b>0</b>
<b>Net Deficit for the year</b>		<b>(634,895,405)</b>	<b>(295,911,748)</b>

## STATEMENT OF FINANCIAL POSITION AS AT 30<sup>TH</sup> JUNE 2018

ASSETS	NOTE	2018	2017
<b>NON- CURRENT ASSETS</b>			
		<b>Kshs</b>	<b>Kshs</b>
Property, plant and equipment	12	2,949,972,964	2,132,063,627
Intangible assets	13	9,679,895	17,141,868
		<b>2,959,652,859</b>	<b>2,149,205,495</b>
<b>CURRENT ASSETS</b>			
Inventories	14	472,370,111	454,911,099
Trade and other receivables	15	2,510,067,254	2,876,606,925
Cash and Cash equivalents	16	185,526,984	123,801,631
		<b>3,167,964,349</b>	<b>3,455,319,655</b>
<b>TOTAL ASSETS</b>		<b>6,127,617,208</b>	<b>5,604,525,150</b>
<b>CURRENT LIABILITIES</b>			
Trade and other payables	22	2,845,143,931	2,686,596,174
Customers with credit balances	23	209,084,310	152,679,015
Provisions for Leave	24	268,828,212	259,749,088
Borrowings	21	66,743,834	81,950,760
Amounts due to related parties	25	1,146,615,016	1,146,615,016
		<b>4,536,415,303</b>	<b>4,327,590,053</b>
<b>NET ASSETS</b>		<b>1,591,201,905</b>	<b>1,276,935,097</b>
<b>SHAREHOLDERS' FUNDS AND LIABILITIES</b>			
<b>CAPITAL AND RESERVES</b>			
Share Capital	17	100,000	100,000
Revenue Reserve	18	(4,524,091,163)	(3,005,132,991)
Capital Grant	19	1,230,779,923	946,077,066
		<b>(3,293,211,240)</b>	<b>(2,058,955,925)</b>
<b>NON-CURRENT LIABILITIES</b>			
Customer deposits	20	830,998,911	762,732,504
Borrowings	21	433,748,356	240,676,539
Amounts due to related parties	25	3,619,665,878	2,332,481,979
		<b>4,884,413,145</b>	<b>3,335,891,022</b>
<b>TOTAL SHAREHOLDERS' FUNDS AND LIABILITIES</b>		<b>1,591,201,905</b>	<b>1,276,935,097</b>

The financial statements on pages 14 to 41 were approved by the Management on behalf of the Board on 6<sup>th</sup> September 2018

Eng Nahason M. Muguna -Ag. Managing Director

Paul E. Omondi -Ag Finance & strategy Director

## STATEMENT OF CHANGES IN EQUITY AS AT 30<sup>TH</sup> JUNE 2018

	Notes	Share Capital	Revenue Reserve	Capital Grant	Restated Total
		Kshs	Kshs	Kshs	Kshs
As at 30th June 2016		100,000	(2,291,794,242)	407,711,145	(1,883,983,097)
Prior year adjustments	27		(417,427,001)		(417,427,001)
Restated balance		100,000	(2,709,221,243)	407,711,145	(2,301,410,098)
Amortization				(7,067,846)	(7,067,846)
Additions for the year				545,433,768	545,433,768
Surplus for the year	10		(295,911,748)		(295,911,748)
As at 30th June 2017		100,000	(3,005,132,991)	946,077,067	(2,058,955,924)
As at 30th June 2017		100000	(3,005,132,991)	946,077,067	(2,058,955,924)
Prior year adjustments	27		(884,062,767)		(884,062,767)
Restated balance		100,000	(3,889,195,758)	946,077,067	(2,943,018,692)
Amortization				(6,814,697)	(6,814,697)
Additions for the year				291,517,553	291,517,553
Deficit for the year	10		(634,895,405)		(634,895,405)
As at 30th June 2018		100,000	(4,524,091,163)	1,230,779,923	(3,293,211,240)

## STATEMENT OF CASH FLOW FOR THE YEAR ENDED 30<sup>th</sup> JUNE 2018

	NOTE	2018	2017
		Kshs	Kshs
<b>Operating activities:</b>			
Cash generated from operations	28	708,045,195	278,329,726
Interest paid		(85,440,137)	(72,883,129)
Net cash generated from operating activities		622,605,058	205,446,597
<b>Cash flow from investing activities:</b>			
Purchase of property, plant and equipment	12	(1,030,262,148)	(970,840,079)
Purchase of intangible assets	13		2,850,000.00
Net cash used in investing activities		(1,030,262,148)	(973,690,079)
<b>Cash flow from financing activities:</b>			
Proceeds from long-term borrowings		290,449,130	290,723,203
Proceeds from financing assets		291,517,553	545,433,768
Repayment of long-term borrowings		(112,584,240)	(111,211,201)
Net cash generated from financing activities		469,382,442	724,945,770
Net increase/(decrease) in cash and cash equivalents		61,725,353	(43,297,712 )
<b>Movement in cash and cash equivalents:</b>			
As at 1 <sup>st</sup> July		123,801,631	167,099,343
Increase/(decrease)		61,725,353	(43,297,712)
As at 30 <sup>th</sup> June	16	185,526,984	123,801,631

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30<sup>TH</sup> JUNE 2018

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of the financial statements are set out below. These policies have been consistently applied over the years unless otherwise stated:

#### a) Basis of preparation

The financial statements are prepared in compliance with International Financial Reporting Standards (IFRSs). The financial statements are prepared under the historical cost basis of accounting and presented in the functional currency, Kenya Shillings (Kshs) rounded to the nearest Shilling.

The preparation of financial statements in conformity with IFRSs requires the use of estimates and assumptions. It also requires Directors to exercise their judgment in the process of applying the Company's accounting policies. The areas involving a higher degree of judgment and complexity, or where assumptions and estimates are significant to the financial statements are disclosed in note 2 below.

**(i) New standards, amendments and interpretations not yet effective and not early adopted by the company.** A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 January 2015, and have not been applied in preparing these financial statements. None of these are expected to have a significant effect on the financial statements of the Company.

Amendments to IAS 1, 'Presentation of Financial Statements': The amendments are made in the context of the IASB's Disclosure Initiative, which explores how financial statement disclosures can be improved. The amendments, effective 1 January 2016, provide clarifications on a number of issues, including:

- Materiality – an entity should not aggregate or disaggregate information in a manner that obscures useful information. Where items are material, sufficient information must be provided to explain the impact on the financial position or performance.
- Disaggregation and subtotals – line items specified in IAS 1 may need to be disaggregated where this is relevant to an understanding of the entity's financial position or performance. There is also new guidance on the use of subtotals.
- Notes – confirmation that the notes do not need to be presented in a particular order.

As these amendments merely clarify the existing requirements, they do not affect the company's accounting policies or any of the disclosures.

Amendments to IAS 16 and IAS 38 Clarifications of Acceptable Methods of Depreciation and Amortisation

The amendments to IAS 16 prohibit entities from using a revenue-based depreciation method for items of property, plant and equipment. The amendments to IAS 38 introduce a rebuttable presumption that

revenue is not an appropriate basis for amortisation of an intangible asset. This presumption can only be rebutted in the following two limited circumstances:

- a) When the intangible asset is expressed as a measure of revenue; or
- b) When it can be demonstrated that revenue and consumption of the economic benefits of the intangible asset are highly correlated.

The amendments apply prospectively for annual periods beginning on or after 1 January 2016. Currently, the Company uses the straight line method for depreciation and amortisation for its property and equipment, and intangible assets respectively.

The directors of the Company do not anticipate that the application of the standard will have a significant impact on the Company's financial statements.

## **b) Property, plant, equipment and depreciation**

Property, plant and equipment are stated at cost, less accumulated depreciation and any impairment in value.

Subsequent costs are included in the assets' carrying amount or recognized as separate assets as appropriate, only where it is probable that future economic benefits associated with the item will flow to the Company and the cost of the items can be measured reliably. All other repairs and maintenance costs are charged to the income statement in the financial year in which they are incurred.

Property, plant and equipment acquired under hire purchase agreements and finance lease hire arrangements are capitalized at the date of the agreement. The interest element of each installment is charged to the income statement at the time each installment falls due. Depreciation is calculated on the straight line basis, at annual rates estimated to write off carrying values of the property, plant and equipment over their expected useful lives. The rates used are:

Asset Class	Rate
Buildings	2.5%
Plant & Machinery	12.5%
Motor Vehicles, including motorcycles	25%
Equipment	12.5%
Computer & Related Equipment's	30%
Furniture & Fittings	12.5%

The carrying values of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying values may not be recoverable. An impairment loss is recognized

for the amount by which the assets' carrying amount exceeds its recoverable amount. The recoverable amount is the higher of the assets fair value less costs to sell and value in use.

If any such indications exist and where the carrying values exceed the recoverable amount, property, plant and equipment are written down to their recoverable amounts.

Gains and losses on disposal of property, plant and equipment are determined by reference to their carrying amounts and are taken into account in determining operating surplus / (deficit).

#### **c) Financial instruments**

Financial instruments carried on the balance sheet include cash and bank balances, trade and other receivables, trade and other payables and borrowings. The particular recognition methods adopted are disclosed in the individual policy statements associated with each item.

#### **d) Revenue recognition**

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured. The following specific recognition criteria must be met before revenue is recognized.

##### **i) Provision of water and sewerage services**

Revenue from provision of water and sewerage services is recognized when these services are delivered to customers and billed by the Company. However, the amounts will be subjected to adjustments when errors are realized, in relation to meter readings and subsequent billings. Non-Revenue water is not recognized as income since it's not billed.

##### **ii) Meter rent income**

Meter rental income is recognized monthly after water meters are installed at the customers' premises and billed by the Company.

##### **iii) Miscellaneous income**

Miscellaneous income is recognized when the service has been provided and billed.

##### **iv) Grant**

Income from donors is recognized on accrual basis. Grants are recognized at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. For

example, a revenue grant is recognized as income over the years necessary to match the grant on a systematic basis to the costs that it is intended to compensate.

#### **e) Intangible assets**

The costs incurred to acquire and bring to use specific computer software licenses are capitalized. The costs are amortized on a straight line basis over the expected useful lives (3 1/3 years) at the rate of 30% per year.

#### **f) Inventories**

Inventories are valued at the lower of cost and net realizable value.

Cost is determined on a weighted average cost basis. Provisions are made for all anticipated inventory losses and charged to the income statement.

Net realizable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

#### **g) Foreign currency transactions**

Transactions during the year are converted into Kenya Shillings at rates ruling at the transactions dates. Assets and liabilities at the balance sheet date which are expressed in foreign currencies are translated into Kenya Shillings at rates ruling at that date. The resulting differences from conversion and translation are dealt with in the income statement in the period in which they arise.

#### **h) Trade and other receivables**

Trade and other receivables are recognized at anticipated realizable value less an allowance for any uncollectible amounts.

General provisions are made based on directors' valuation of the trade receivables and other exposure in respect of losses, which, although not specifically identified, are known from experience to be present in the trade receivables.

Specific provision is made for all known doubtful debts. Bad debts are written off when all reasonable steps to recover them have been taken without success.

#### **i) Employee benefits**

##### **i) Pension obligations**

The Company operates a defined contribution retirement benefit scheme for employees on permanent terms of service administered in three different forms: National Social Security Fund, a Provident Fund and a pension fund. These schemes are funded by contributions from both the Company and employees.

The Company's contributions to the schemes are charged to the income statement in the year to which they relate.

#### **ii) Other employee entitlements**

Employee entitlements to gratuity are recognized when they fall due. These entitlements are provided for on annual basis in accordance with the annual contracts.

The estimated monetary liability for employees' accrued annual leave entitlement at the balance sheet date is recognized as an expense accrual.

#### **j) Capital grant**

Grants received for capital assets are credited to the capital grant account net of amortization, which is released to the income statement over the expected useful life of the relevant asset on a straight line basis.

#### **k) Provisions**

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

#### **l) Contingent liabilities**

Contingent liabilities are possible obligations whose existence will be confirmed only by uncertain future events or present obligations where the transfer of economic benefit is uncertain or cannot be reliably measured. Contingent liabilities are not recognized in the balance sheet but are disclosed unless they are remote.

#### **m) Taxation**

No tax will be provided in view of the nature of the company's business as explained in note 11.

#### **n) Cash and cash equivalents**

Cash and cash equivalents comprise cash at bank and in hand.

#### **o) Trade and other payables**

Trade and other payables are stated at their nominal value as adjusted for interest on overdue accounts.

#### **p) Leases**

Operating lease payments for use of assets belonging to the Nairobi City County Government payable to the Athi Water Service Board are recognized as an expense in the income statement and are based on the guidelines from Water Service Regulatory Board. Rental payments are recognized as expenses in the income statement when they are incurred.

#### **q) Interest bearing borrowings**

All borrowings are recognized at cost.

**r) Revenue reserve**

Surpluses / (deficits) from the statement of comprehensive income are accumulated in the revenue reserve account on an annual basis.

**s) Customer deposits**

Deposits from customers are recognized when received. Interest on the deposits is accrued at 3% per annum.

**t) Related parties**

In the normal course of business the Company enters into transactions with related parties. The related party transactions are at arm's length.

**u) Provision for overtime**

The Company provides for overtime payment for hours worked in excess of those specified in the terms of contracts for supervisor level and below. This is computed at a rate of one and half times for normal working days and twice for a normal rest day or a gazetted public holiday. Overtime expense is recognized when claimed and approved.

## **2. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS**

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

### **i) Critical accounting estimates and assumptions**

Property, plant and equipment; Intangibles and Capital grant and amortization of intangibles and capital grant.

Critical estimates are made by Directors in determining depreciation and amortization rates for property, plant, equipment, intangibles and capital grant. The rates used are set out in note 1(b), 1 (e) and 1 (J) above.

### **ii) Critical judgments in applying the entity's accounting policies**

In the process of applying the Company's accounting policies, Directors have made judgments in determining:

- The classification of financial assets and leases.
- Whether assets are impaired.
- Provisions and contingent liabilities.
- Presentation of financial statements.

### 3. OPERATING INCOME

	2018	2017
	Kshs	Kshs
<b>Water</b>	4,640,386,837	5,103,161,621
<b>Sewer services</b>	3,368,863,031	3,396,938,262
<b>Meter rent</b>	158,254,250	151,131,800
<b>Other income</b>	310,635,134	943,165,163
<b>Interest Income</b>	0	8,115,487
	<b>8,478,139,252</b>	<b>9,602,512,333</b>

Other income comprises income from exhauster services rendered, sale of water by tanker, survey fees, sale of sludge, sale of tender documents, claims compensation, fraud charges and recoveries, reconnection fee, effluent discharge license fee, chemical analysis fee, sewer connection charges and Grant Amortization (2018: Kshs 6,814,697 and 2017: Kshs 7,805,409).

### 4. GRANT INCOME

	2018	2017
	Kshs.	Kshs
<b>Grant Income</b>	<b>0</b>	<b>65,627,200</b>

No Grant income was received during the year (2017: kshs 65,627,200 from Athi Water Service Board)

## 5. STAFF COSTS

	Note	2018	2017
		Kshs	Kshs
Salaries and wages		2,802,509,753	2,623,529,432
House allowances		880,154,200	835,970,949
Leave allowances		191,634,334	167,177,777
Bonus		25,514,796	24,250,655
Overtime		242,785,239	360,702,254
Retirement benefits	29	601,631,351	596,228,113
Other allowances		594,593,257	556,452,947
Medical expenses		274,210,264	225,251,526
Staff awards		0	5,517,000
Leave pay provision		9,079,124	0
Welfare		51,889,204	61,389,321
		<b>5,674,001,522</b>	<b>5,456,469,974</b>

The number of employees at the end of the financial year was 3,554 (2017: 3,511). The average per category is indicated below

Grade	Category	Average Number	
		2018	2017
1	Managing Director	1	1
2	Functional Directors	7	7
3	Departmental/Regional managers	33	33
4	Co-ordinators	114	120
5	Officers	220	223
6	Unionizable staff	634	656
7	Unionizable staff	770	795
8	Unionizable staff	1,655	1,549
9	Unionizable staff	120	127
<b>Grand Total</b>		<b>3,554</b>	<b>3,511</b>

## 6. OPERATIONS

	2018	2017
	Kshs	Kshs
Chemicals	208,454,958	191,156,286
Office supplies	18,707,347	28,285,273
Tyres and related accessories	12,137,228	13,028,602
Fuel, oil and lubricants	76,709,610	73,793,048
Uniforms and protective clothing	48,264,689	139,138,764
Electricity	267,094,066	227,880,548
Telecommunications	37,450,968	47,547,621
Postal and couriers	21,145	68,669
Water and conservancy	8,277,024	3,957,361
Insurance	80,020,591	76,894,252
Rent and rates	96,174,239	100,101,710
Hire of equipment and Vehicles	3,067,066	2,361,159
Claims, damages and compensation	32,751,421	90,353,998
Traveling and subsistence- local	62,628,785	142,152,040
Bank charges	8,382,745	15,285,727
Staff development & external travel	67,130,722	212,308,846
Security	68,194,342	73,449,453
Commissions	1,005,262	4,409,270
Publicity and advertising	15,479,740	44,080,357
Donations/Corporate Social Responsibility	1,187,700	73,227,594
Sports and recreation	25,018,093	76,019,652
Corporate year end party	214,050	6,493,617
Library	119,384	269,575
Board remuneration	1,843,239	17,740,846
AGM Expenses	2,000,000	2,000,000
Audit fees	4,309,330	3,552,830.00
Legal fees	14,643,775	19,995,065
Consultancy	7,825,718	13,891,124
Licensing, lease and levy	1,499,685,388	1,425,489,710
Research & Development	1,062,600	889,875
Stakeholders expenses	33,264,115	51,704,678
<b>Total</b>	<b>2,703,125,340</b>	<b>3,177,527,550</b>

## 7. MAINTENANCE

	2018	2017
	Kshs	Kshs
Ground	111,582	1,167,539
Plant and machinery	24,542,415	31,329,733
Buildings	3,925,254	5,424,650
Equipment	11,331,835	19,875,114
Motor vehicles	27,914,981	30,412,756
Furniture and fittings	33,084	514,022
Software	5,222,959	8,119,660
Water fittings and accessories	187,168,842	278,774,480
Water meters	70,327,683	96,990,326
<b>Total</b>	<b>330,578,635</b>	<b>472,608,280</b>

## 8. OTHER EXPENSES

	Note	2018	2017
		Kshs	Kshs
Provision for bad and doubtful debts	15	100,074,238	580,429,376
Depreciation of property, plant and equipment	12	212,352,812	192,882,675
Amortization of intangible assets	13	7,461,973	11,250,296
<b>Total</b>		<b>319,889,023</b>	<b>784,562,347</b>

## 9. FINANCE COSTS

	2018	2017
	Kshs	Kshs
Interest on loan	58,179,129	44,496,445
Interest on overdraft	6,779,497	9,431,611
Interest on deposits	20,481,511	18,955,073
<b>Total</b>	<b>85,440,137</b>	<b>72,883,129</b>

## 10. SURPLUS BEFORE TAX

	2018	2017
	Kshs	Kshs
<b>The surplus before tax is stated after charging:</b>		
Depreciation of property, plant and equipment	212,352,812	192,882,675
Amortization of intangible assets	7,461,973	11,250,296
<b>Directors' emoluments:</b>		
-Fees	1,843,239	17,740,846
-Other emoluments	19,035,195	13,727,509
Auditors' remuneration	3,552,830	3,552,830
Retirement benefits	630,599,651	596,228,113
Interest expense	85,440,137	72,883,129
<b>And after crediting:</b>		
Interest income	0	(8,115,487)
<b>OTHER income</b>	<b>(310,635,134)</b>	<b>(952,018,213)</b>

## 11. TAXATION

As earlier reported in the previous years, the Directors in terms of IAS 1 declare that the financial statements present a fair view of the Company's financial position; financial performance and cash flows and that they have complied with applicable International Accounting Standards and interpretations. However, the Company has in terms of IAS 1 paragraphs 13 to 22 departed from the requirements of IAS 12 in order to have a fair representation of its tax liability status for the following reasons:

(i) The Company is wholly owned by Nairobi City County, a County Government. The Company Operations are under the County Government and as per the provision of the Constitution **FOURTH SCHEDULE** (*Article 185 (2), 186 (1) and 187 (2)*). It is principally a vehicle used by Nairobi City County to deliver services as per the county government Act. According to the 1<sup>st</sup> schedule paragraph 8 of the Income Tax Act (ITA), the income of a County Government is exempted from the provisions of ITA. The income thus generated by the Company in pursuit of its mandate and as its agent, is tax exempt. Any surplus arising thereon is re-invested in the water services infrastructure for development and enhancing sustainability.

## 12. PROPERTY, PLANT AND EQUIPMENT

According to the Tripartite Agreement, Hand over deed, Agency Agreement and Service Provision Agreement, NCC handed over to the Company its fixed or landed and other assets on lease basis for the purpose of discharging its mandate under the Water Act of 2002. In terms of the latter documents the Company has been granted rights to carry out any capital improvements to the existing assets hence forming the basis of maintaining a dual asset register. Accordingly, the Company is a co-owner of certain assets. The property, plant and equipment schedule is shown on the next page.

## PROPERTY, PLANT AND EQUIPMENT

COST	BUILDINGS		MACHINERY		MOTOR VEHICLES		EQUIPMENT		COMPUTER & RELATED EQUIPMENT		FURNITURE & FITTINGS		WIP		TOTAL	
	KSHS		KSHS		KSHS		KSHS		KSHS		KSHS		KSHS		KSHS	
As at Jul 2016	34,167,855		737,134,358		382,037,825		769,330,284		447,323,517		116,299,460		668,925,046		3,155,218,345	
Additions at cost			91,526,614		40,063,021		51,760,154		51,662,121		12,828,541		722,999,627		970,840,077	
Reclassification			143,896,598						2,711,544				-160,901,380		0	
	9,799,974						4,493,264									
As at June 2017	43,967,829		972,557,570		422,100,846		825,583,702		501,697,182		129,128,001		1,231,023,293		4,126,058,422	
Depreciation at 1 July 2016	3,892,445		453,046,430		337,235,974		568,195,320		363,345,059		75,396,892		0		1,801,112,120	
Charge for the year	874,613		64,030,254		21,942,196		42,143,328		54,718,561		9,173,723				192,882,675	
Accumulated Depreciation	4,767,058		517,076,684		359,178,170		610,338,648		418,063,620		84,570,615		0		1,993,994,795	
NBV AS AT 30 JUNE 2017	39,200,771		455,480,886		62,922,676		215,245,054		83,633,562		44,557,386		1,231,023,293		2,132,063,627	
As at Jul 2017	43,967,829		972,557,570		422,100,846		825,583,702		501,697,182		129,128,001		1,231,023,293		4,126,058,422	
Additions at cost			19,323,675				54,301,935		24,615,855		17,526,216		914,494,467		1,030,262,148	
Reclassification	25,742,444		192,900,011				838,301						-219,480,756		0	
As at June 2018	69,710,273		1,184,781,256		422,100,846		880,723,938		526,313,037		146,654,217		1,926,037,004		5,156,320,571	
Depreciation at 1 July 2017	4,767,058		517,076,684		359,178,170		610,338,648		418,063,620		84,570,615		0		1,993,994,795	
Charge for the year	1,152,826		81,112,864		22,675,809		45,789,664		51,137,555		10,484,094				212,352,812	
Accumulated Depreciation	5,919,884		598,189,548		381,853,979		656,128,312		469,201,175		95,054,709		0		2,206,347,607	
NBV AS AT 30 JUNE 2018	63,790,389		586,591,708		40,246,867		224,595,626		57,111,862		51,599,508		1,926,037,004		2,949,972,964	
NBV AS AT 30 JUNE 2017	39,200,771		455,480,886		62,922,676		215,245,054		83,633,562		44,557,386		1,231,023,293		2,132,063,627	

The work in progress (WIP) relates to water pipeline network and sewer relief network construction ongoing in various locations and boundary walls on various company installations.

### 13. INTANGIBLE ASSETS

	2018	2017
Computer software:-	Kshs	Kshs
<b>COST</b>		
At 1 July	149,208,778	146,358,778
Additions		2,850,000
At 30 June	149,208,778	149,208,778
<b>AMORTIZATION</b>		
At 1 July	132,066,910	120,816,614
Charge for the year	7,461,973	11,250,296
At 30 June	139,528,883	132,066,910
Net book value at 30th June	9,679,895	17,141,868
Value of fully Depreciated at 30th June	132,066,910	98,657,421

### 14. INVENTORIES

Inventories represent the value of water treatment chemicals, office supplies, tyres and accessories, motor spares, water meters and water fittings and accessories kept at various Company stations

	2018	2017
	Kshs	Kshs
Water treatment Chemicals	52,559,719	24,952,529
Office Supplies	10,278,416	12,686,528
Tyres and accessories	4,837,836	4,684,889
Motor Spares	17,044,865	16,813,491
Uniform and protective clothing	4,412,470	2,343,412
Water meters	64,102,348	47,335,615
Water fittings and accessories	319,134,457	346,094,635
<b>Total</b>	<b>472,370,111</b>	<b>454,911,099</b>

## 15. TRADE AND OTHER RECEIVABLES

	2018	2017
	Kshs	Kshs
Trade receivables	7,467,658,551	7,818,710,669
Less: provision for bad and doubtful debts	(6,385,364,060)	(6,285,289,822)
Net trade receivables	1,082,294,491	1,533,420,847
Other receivables	1,435,986,952	1,310,929,463
Less: provision for bad and doubtful debts	(55,512,564)	(55,512,564)
Net other receivables	1,380,474,388	1,255,416,899
Prepayments and deposits	47,298,375	87,769,179
	2,510,067,254	2,876,606,925

Specific provision has been made for all known doubtful debts. Bad debts are written off when all reasonable steps to recover them have been taken without success. The provisions relating to the reporting period are Kshs 6,440,876,624 (2017: Kshs 6,340,802,386). This is based on the provision of bad debts of beyond 480 days as per the adopted policy. This includes ksh 5,935,309 under Nairobi Water and Sewerage institutional Restructuring project that was closed in 30 June 2008 and ksh 49,577,255 for VAT claims.

Other receivables include balances claimable from Postal Corporation of Kenya, Kenya Revenue Authority (KRA), Cellulant Ltd, IDA receivables. The prepayments and Refundable deposits relate to insurance prepaid and rental deposits respectively. The carrying amounts of receivables approximate to their fair value.

## 16. CASH AND CASH EQUIVALENTS

	2018	2017
	Kshs	Kshs
Cash in hand	343,059	8,531,506
Cash at bank	185,183,925	115,270,125
Total	185,526,984	123,801,631

For the purposes of the cash flow statement, the earned cash and cash equivalents comprise the above balance sheet amount. The company is not exposed to credit risk on cash and bank balances as these are held with sound financial institutions. The cash at bank is held at Co-operative bank of Kenya, Barclays bank of Kenya Ltd, Equity bank Ltd, Sidian bank, Citi bank N.A, Housing Finance, Kenya Commercial bank Ltd, National bank of Kenya, National Industrial credit bank Ltd (NIC), Diamond trust bank Ltd and other held in trust account by M-pesa holding account, Jambo pay and Airtel holding Account.

The carrying amounts of the company's cash and cash equivalents are denominated in the Kenya shillings.

## 17. SHARE CAPITAL

	2018	2017
	Kshs	Kshs
Authorized, issued and fully paid:		
5,000 ordinary shares of Kshs. 20 each	100,000	100,000

There was no movement in the share capital during the year.

## 18. REVENUE RESERVE

		2018	2017
			Restated
Note		Kshs	Kshs
At 1 July		(3,005,132,991)	(2,291,794,242)
Prior year adjustments	27	(884,062,767)	(417,427,001)
Restated Opening balance		(3,889,195,758)	(2,709,221,243)
Surplus for the year		(634,895,405)	(295,911,748)
At 30 June		(4,524,091,163)	(3,005,132,991)

Revenue reserve comprises of net worth at conversion and accumulated surpluses over the years. The prior year adjustment relate to errors in previous year Billing. The international Financial Reporting Standard No. 8, requires that this to be restated but due to difficulties in establishing the period that the error relate we have adjusted the prior year adjustment against reserve.

## 19. CAPITAL GRANT

The capital grant represents the cost of property, plant and equipment purchased using donor funds.

	2018	2017
COST	Kshs	Kshs
As at 1 <sup>st</sup> July	1,383,700,352	838,266,584
Additions	291,517,553	545,433,768
	1,675,217,905	1,383,700,352
<b>Amortization:</b>		
As at 1 <sup>st</sup> July	437,623,285	430,555,439
Charge for the year	6,814,697	7,067,846
Accumulated Amortization	444,437,982	437,623,285
<b>NET BOOK VALUE AS AT 30<sup>TH</sup> JUNE</b>	<b>1,230,779,923</b>	<b>946,077,066</b>

## 20. CUSTOMER DEPOSITS

	2018	2017
	Kshs	Kshs
Balance brought forward	762,732,504	686,617,784
Deposits received from customers	54,132,704	65,361,835
Accrued interest at 3% per annum	20,481,511	18,955,073
Deposits and interest refunded	(6,347,808)	(8,202,188)
Balance carried forward	830,998,911	762,732,504

The customer deposits balance comprises of deposits received from customers from 17 May 2004 when the Company commenced operations. The customer deposits received by the former Water and Sewerage Department of CCN have not been included in these financial statements pursuant to Article 4 (sections 3-4) of the Tripartite Agreement dated 5 April 2004, which states that CCN shall continue to hold and be responsible for deposits received from customers before the Company's formation. This Article further states that the Company shall refund deposits as and when demanded, and the same shall be deducted from the lease fees to be paid to CCN by Athi Water Services Board. Customer deposits are withdrawn on demand when accounts are closed. However, as is the case with other deposits of a similar nature, customer deposits are not usually withdrawn within one year.

## 21. BORROWINGS

	2018	2017
	Kshs	Kshs
Bank borrowings		
Non- Current	433,748,356	240,676,539
Current	66,743,834	81,950,760
Total Bank borrowings	500,492,190	322,627,299

The Company currently has four running loans namely;

- A five year term loan for the Kirigiti water Extension project at Co-operative bank of kenya for which the monthly principal repayment is Kshs. 1.7 million. Interest rate is as per CBK regulations on reducing balance,
- A 10 month Insurance premium financing for which the monthly principal repayment is kshs 7.4 million. Interest rate at 8.64% flat rate, and
- A term loan for financing sanitation connections in the informal settlement of kes 600 million at Co-operative Bank under the OBA project co-financed by the World Bank. At the close of the period the company had made a drawdown of kes 428, 549,953. Interest rate at 13.5% pa reducing balance.
- A four year loan from Sidian Bank for the Kayole Soweto project. This loan was fully repaid during the period.

The company maintains an overdraft facility with the co-operative bank of Kenya of Kshs. 35 million that may be utilized by the company to reduce liquidity risk.

The facilities are secured by the following

- i. Debentures over the entire assets of the company for kes 700 million (Seven hundred million only)
- ii. An assignment agreement of our receivables;
- iii. Daily cash/ call deposits build up in the amount of kes 2,000,000 per day via standing order;
- iv. Duly executed lien and cash charge documentation to back the arrangement under items ii and iii above;
- v. Executed general terms and conditions

## 22. TRADE AND OTHER PAYABLES

	2018	2017
	Kshs	Kshs
Trade payables	1,320,019,225	1,171,369,322
Other payables	1,525,124,706	1,515,226,852
<b>Total</b>	<b>2,845,143,931</b>	<b>2,686,596,174</b>

In the opinion of the management, the carrying amounts of Trade payables approximate to their fair value. Other payables includes staff related payments e.g LAPTRUST – Kshs 694,379,455 and Lapfund Kshs 297,694,990. The maturity analysis of trade and other payables are shown in note 33 (a) (ii).

## 23. CUSTOMERS WITH CREDIT BALANCES

	2018	2017
	Kshs	Kshs
<b>Customers credit balances</b>	<b>209,084,310</b>	<b>152,679,015</b>

The customer with credit balances are those whose accounts have been overpaid and or have been issued with a credit note due to previous overbilling.

## 24. PROVISIONS FOR LEAVE ACCRUALS

	2018	2017
	Kshs	Kshs
As at opening	259,749,088	313,986,034
Addition/ Decrease for the year	9,079,124	(54,236,946)
<b>As at closing</b>	<b>268,828,212</b>	<b>259,749,088</b>

Provision for annual leave pay is based on services rendered by full-time employees up to the end of the year.

## 25. AMOUNT DUE TO RELATED PARTY TRANSACTIONS

The Company is owned 100% by the Nairobi City County Government.

Athi Water Services Board (AWSB) is the Asset Holding Entity. During the year the transactions conducted between these related entities were at arm's length and in the normal course of business in compliance with the Water Act 2016. The following transactions were carried out with related parties:-

	2018	2017
	Kshs	Kshs
<b>i) Lease fees for the year payable to Athi Water Services Board:</b>		
As at July	3,292,143,319	2,323,072,313
Fees for the year	1,301,531,577	1,235,987,113
Asset Renewal		
Sub-total	4,593,674,896	3,609,059,426
Lease fees paid	(10,000,000)	(266,916,107)
Lease fee offsets	0	0
Deposits refunded on behalf of AWSB	0	0
Subtotal	(10,000,000)	(266,916,107)
At 30 June	4,583,674,896	3,292,143,319
<b>ii) Inherited debts from Nairobi City County</b>		
At 1 July	186,953,678	186,953,678
Paid during the year	(4,347,679)	
At 30 June	182,605,999	186,953,678
Grand Total	4,766,280,895	3,479,096,997
<b>Classification of related party payables</b>		
Non- current	3,619,665,879	2,332,481,981
Current	1,146,615,016	1,146,615,016
Total	4,766,280,895	3,479,096,997
<b>iii) Billing of Water services to NCC</b>		Restated
At 1 July	212,200,902	84,189,355
Billing for the year	72,983,197	133,309,425
Paid/offset during the year	(5,681,424)	(5,297,878)
Adjustment	(49,475,784)	
At 30 June	230,026,891	212,200,902

The tariffs applicable to Nairobi City County are the same as those charged to other customers.

## 26. MANAGEMENT STAFF COMPENSATION

Key management compensation:	2018	2017
	Kshs	Kshs
Salaries and other short term benefits	1,240,336,089	1,171,650,549
Termination benefits	158,032,260	100,902,993
Post employment benefits	0	52,648,792
<b>Total</b>	<b>1,398,368,349</b>	<b>1,325,202,334</b>
<b>Director's remuneration:</b>		
-Fees for services as Directors	1,843,239	17,740,846
-Other emoluments as Chief executive (included in key management compensation above)	19,035,195	13,727,509
<b>Total</b>	<b>20,878,434</b>	<b>31,468,355</b>

The substantive MD was on terminal leave until 18<sup>th</sup> Jan 2018. The Acting MD assumed office in August 2017. The amount paid to the substantive MD is included in other emoluments above.

As earlier reported the board was suspended on 27<sup>th</sup> September 2017. However a listing of the members of the Board of Directors who served for period up to 27<sup>th</sup> September 2017 is shown on page 7 of these financial statements.

## 27. PRIOR YEAR ADJUSTMENTS

Prior year adjustments comprise the following:	2018	2017
	Kshs	Kshs
To revenue reserve		
Trade Receivables (i)	(660,741,392)	(420,927,001)
Trade payables/Stakeholders expense (ii)	0	3,500,000
Other receivables (iii)	(223,321,375)	0
<b>Total</b>	<b>(884,062,767)</b>	<b>(417,427,001)</b>

Sub-notes:

- (i) Correction of prior period trade receivable balances due to errors in billings.
- (ii) Trade payables/Stakeholders expense reversed
- (iii) Disallowed VAT claims by Kenya Revenue Authority for previous years claims.

## 28. CASH GENERATED FROM OPERATIONS

Reconciliation of surplus before tax with cash generated from operations:		2018	2017
	Notes	Kshs.	Kshs.
Surplus for the year before tax		(637,093,458)	(295,911,748)
Adjustment for :			
Revenue reserve	27	(884,062,768)	(417,427,001)
Depreciation of property, plant and equipment	12	212,352,812	192,882,675
Amortization of intangible assets	13	7,461,973	11,250,296
Amortization of grant asset	19	(6,814,697)	(7,067,846)
Interest expense	9	85,440,137	72,883,129
Loss on retirement			
Operating surplus before working capital changes		(1,220,517,948)	(443,390,495)
(Decrease)/ Increase Trade and other receivables		422,944,968	(289,701,095)
Increase /decrease in Inventories		(17,459,012)	(65,569,107)
Increase in Trade and other payables		158,547,758	86,041,644
Increase/Decrease in Provisions		9,079,123	(54,236,945)
Increase in Customer deposits		68,266,408	76,114,720
Increase in Amount due to related parties		1,287,183,898	969,071,004
Cash generated from operations		708,045,195	278,329,726

## 29. EMPLOYEE RETIREMENT BENEFITS EXPENSE

The employee retirement benefits expense comprises:

	2018	2017
	Kshs	Kshs
National Social Security Fund	3,612,600	2,736,855
Provident fund/pension fund	439,986,491	435,933,093
Gratuity	158,032,260	157,558,165
	601,631,351	596,228,113

### 30. COMMITMENTS

	2018	2017
	Kshs	Kshs
<b>Contracted but not provided for</b>	474,052,765	875,325,293

### 31. FUTURE RENTAL COMMITMENTS UNDER OPERATING LEASES

This relates to leases for operational buildings at various centers at Enterprise centre- Addis Ababa Rd Industrial Area, The mall at Westlands, Showebe Plaza Pangani, Pinnacle business centre –kayole spine Road, Parklands Plaza Westlands, Cameo building –Town centre, Dune Plaza –Ruai, Horizon Plaza Kasarani , Kamrose Plaza Kawangware National water and pipeline corporation (Dunga Road), Shujaa mall along Spine Road. The lease terms are 5 years 3 months, and the majority of the lease agreements are renewable at the end of the lease period at market rates.

	2018	2017
	Kshs	Kshs
<b>Within 1 year</b>	80,299,690	106,905,620
<b>After 1 year but less than 5 years</b>	150,032,596	158,664,054
	<b>230,332,286</b>	<b>265,569,674</b>

### 32. CONTINGENT LIABILITIES

This comprises of (a) pending suits and disputed claims arising from debts inherited from NCC in which the Company has been enjoined as a defendant plus other pending suits instituted against the company, all amounting to Kshs, 3,051,942,987 (2017: Kshs 3,936,101,675). The likely outcome of these matters cannot be determined as at the date of signing these financial statements. Based on the information currently available, the Directors believe that the ultimate resolutions of these legal proceedings, claims and tax exemption application are not likely to have a material effect on the results of the Company's operations, financial position or liquidity.

### 33. RISK MANAGEMENT OBJECTIVES AND POLICIES

#### (a) Financial risk management

The company's activities expose it to various financial risks and market risks e.g. foreign exchange risk, interest rate risk and price risk, credit risk and liquidity risk. The Company's overall risk management policies are set out by the board and implemented by management, and focus on the unpredictability of changes in the business environment and seek to minimize the potential adverse effects of such risks on the Company's performance by setting acceptable levels of risk. The Company does not hedge against any risk.

*i) Credit risk*

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. Credit risk mainly arises from financial assets, and is managed on a company-wide basis. The company does not grade the credit quality of financial assets that are neither past due nor impaired.

Credit risk on financial assets with banking institutions is managed by dealing with institutions with good credit ratings.

Credit Risk on trade receivables is managed through a monthly review of outstanding balances. Payments not received within the contractual credit period are enforced through disconnection. Any identified errors in billing that can delay revenue realization are adjusted on a weekly basis. The debt of over 480 days is provisioned and written back when realized.

The maximum exposure of the company to credit risk as at the balance sheet date is as follows:

	Fully Performing	Past due but not Impaired	Past due and Impaired	Total
	Kshs	Kshs	Kshs	Kshs
<b>As at 30<sup>th</sup> June 2017</b>				
<b>Financial assets</b>				
Trade receivables	560,170,527	973,250,320	6,285,289,822	7,818,710,669
Other receivables	761,103,040	494,103,664	55,512,564	1,310,719,268
Cash at bank	123,801,631			123,801,631
<b>Gross financial assets</b>	<b>1,445,075,198</b>	<b>1,467,353,984</b>	<b>6,340,802,386</b>	<b>9,253,231,568</b>
<b>As at 30<sup>th</sup> June 2018</b>				
<b>Financial assets</b>				
Trade receivables	464,040,865	618,253,625	6,385,364,060	7,467,658,551
Other receivables	947,573,566	478,001,145	55,512,564	1,481,087,274
Cash at bank	185,526,984			185,526,984
<b>Gross financial assets</b>	<b>1,597,141,405</b>	<b>1,096,254,770</b>	<b>6,440,876,624</b>	<b>9,134,272,809</b>

The past due debtors but not impaired continue to be paid. An impairment provision of Kshs 6,440,876,624 (2017: 6,340,802,386) is held against the impaired receivables. The company does not hold any collateral against the past due or impaired receivables except for the nominal customer deposits. The management continues to actively follow up past due and impaired receivables.

## ii) *Liquidity risk*

Liquidity risk is the risk that the company will encounter difficulty in meeting obligations associated with financial liabilities. The board has developed a risk management framework for the management of the company's short, medium and long-term liquidity risk by continuously reviewing forecasts and actual cash flows, and maintaining banking facilities to cover any shortfalls. The Company maintains an overdraft facility of Kshs. 35 million that may be utilized by the company to further reduce liquidity risk. This facility is reviewed annually in order to factor the company's changing circumstances.

The table below summarizes the maturity analysis for financial liabilities to their remaining contractual maturities. The amounts disclosed are the contractual undiscounted cash flows presented in million Kshs.

Year ended 30th June 2018	0-1 month	1-3 months	3-12 months	over 1 year	Total
Trade payables	274	176	397	473	1,320
Payables to related parties	109	219	973	3,465	4,766
Other payables	473	177	636	240	1,526
Loans from bank	9	19	84	388	500
<b>Total</b>	<b>865</b>	<b>591</b>	<b>2,090</b>	<b>4,566</b>	<b>8,112</b>
<b>Year ended 30th June 2017</b>					
Trade payables	113	193	479	386	1,171
Payables to related parties	107	213	916	2,243	3,479
Other payables	348	186	635	346	1,515
Loans from bank	6	11	49	256	322
<b>Total</b>	<b>574</b>	<b>603</b>	<b>2,079</b>	<b>3,231</b>	<b>6,487</b>

## iii) *Market risk*

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate because of changes in market price and comprises three types of risks: currency risk, interest rate risk and other price risk.

### *Interest rate risk*

The company is exposed to cash flow interest risk on its variable rate borrowings because of changes in market interest rates. The company manages this exposure by maintaining a high interest cover ratio, which is the extent to which profits are available to service borrowing costs. If the interest rates on the company's borrowings at the year-end were to increase/decrease by 1% percentage points, with all other factors remaining constant, the post tax loss/profit would be lower/higher by Shs 8,127,529

### *Currency risk*

The Company operates wholly within Kenya and its assets and liabilities are reported in the local currency.

### **(b) Capital management**

The company manages its capital to ensure that it will be able to continue as a going concern while maximizing the return to shareholders through the optimization of the debt and equity balance.

The capital structure of the company consists of debt, which includes the borrowings and equity comprising issued capital, capital grant and revenue reserve as disclosed in notes 17, 18, 19 & 21. In order to improve on the capital structure, the company may replace the short term funding with long term funding and also improve on the efficient management of working capital particularly the accounts receivables.

	2018	2,017
		Restated
	Kshs	Kshs
<b>Total Debt</b>	2,510,067,254	2,876,606,925
<b>Less cash and cash equivalents (Note 16)</b>	185,526,984	123,801,631
<b>Total Debt net of cash</b>	2,324,540,270	2,752,805,294
<b>Total equity</b>	(3,293,211,240)	(2,058,955,524)
<b>Total Capital resources</b>	(968,670,970)	693,849,370
<b>Gearing ( net debt over total capital resources)</b>	(240)%	397%

### **34. COMPARATIVES**

Comparative figures are adjusted to conform to changes in presentation in the current year where necessary.