

GOVERNMENT OF NAIROBI CITY COUNTY



THE NAIROBI CITY COUNTY ASSEMBLY

OFFICE OF THE CLERK

THIRD ASSEMBLY  
(FIRST SESSION)

NCCA/TJ/PL/2022(17)

22<sup>nd</sup> November, 2022

---

PAPER LAID

SUBJECT: REPORT OF AUDITOR GENERAL

Pursuant to Standing Order 229 (7), I beg to lay the following Paper on the Table of this Assembly, today Tuesday 22<sup>nd</sup> November 2022.

— THE REPORT OF THE AUDITOR GENERAL ON NAIROBI CITY WATER AND SEWERAGE COMPANY LIMITED FOR THE YEAR ENDED 30<sup>TH</sup> JUNE 2021.

*(The Leader of Majority Party)*

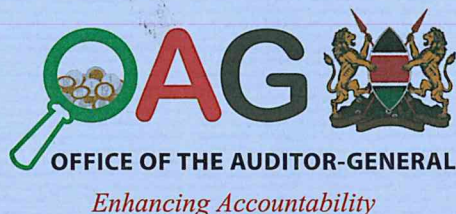
Copies to:  
The Speaker  
The Clerk  
Hansard Editor  
Hansard Reporters  
The Press





REPUBLIC OF KENYA

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



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

III SEA -   
Kindly Present  
for tabling  
Refer  
PCA (2018)  
17/11/22

OAG/NAWASCOL/2020/2021/(31)

14 November, 2022

**Mr. Edward Gichana**

Clerk of the Nairobi City County Assembly  
P. O. Box 45844-00100  
**NAIROBI**

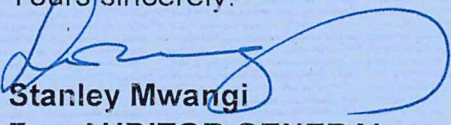


Dear Mr. Gichana,

**REPORT OF THE AUDITOR-GENERAL ON NAIROBI CITY WATER AND SEWERAGE COMPANY LIMITED FOR THE YEAR ENDED 30 JUNE 2021**

I transmit the report of the Auditor General on the audit of the financial statements for Nairobi City Water and Sewerage Company Limited for the year ended 30 June 2021 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 sincerely,

  
**Stanley Mwangi**

**For: AUDITOR GENERAL**

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

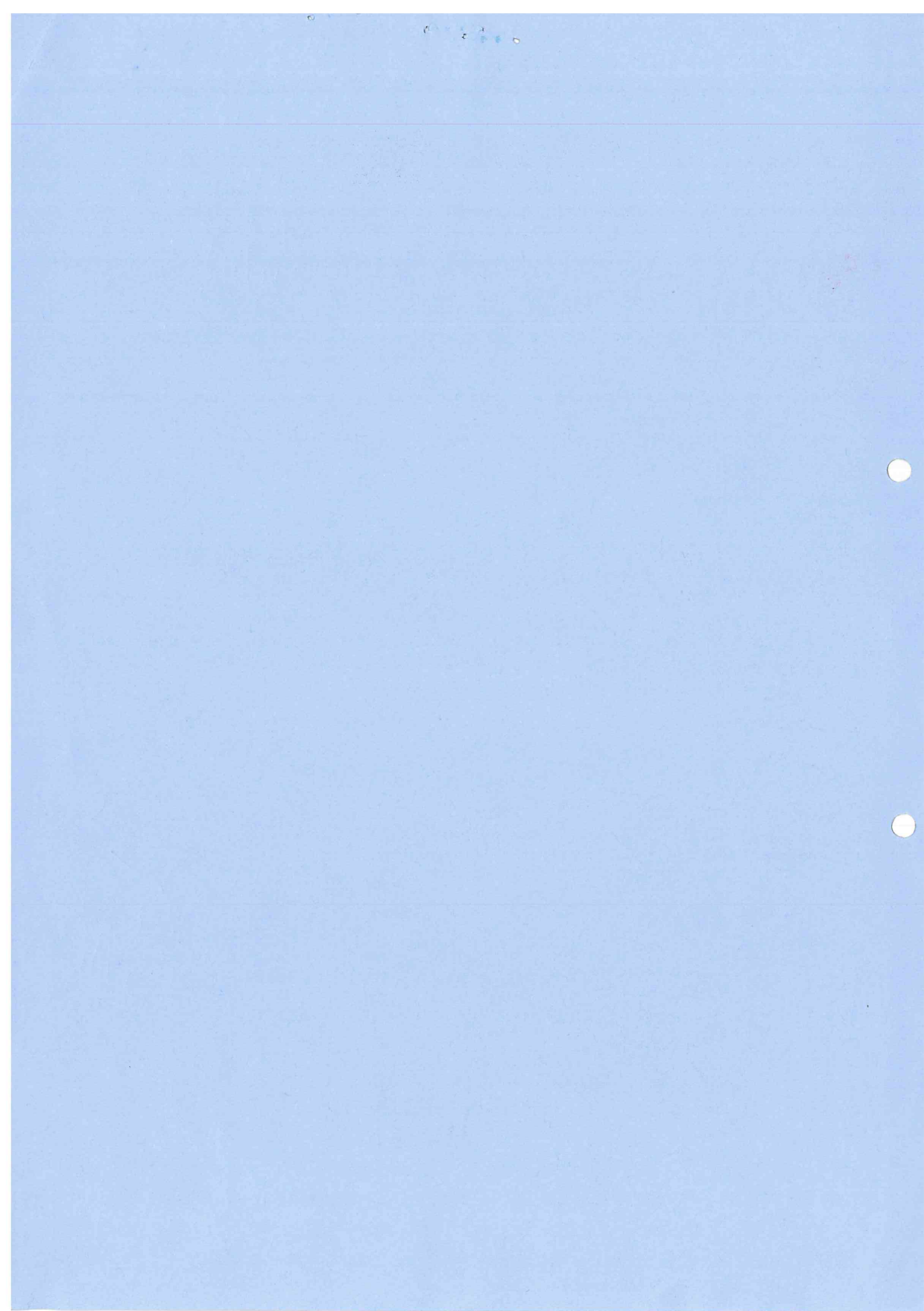
**Mr. Jeremiah Nyegenye, CBS**  
Clerk to the Senate  
P. O. 41842-00200  
**NAIROBI**

**Mr. Lary Wambua**  
The County Executive Committee Member-Finance  
Nairobi City County Government  
P. O. Box 4344-00900  
**NAIROBI**

~~IPLS~~  
Kindly note  
and deal  
Chung  
15/11/22

~~IPCA - L & P~~  
Kindly deal  
DLs  
17/11/22

~~CA - PIC~~  
Table before the Committee  
and by the draft  
workplan.  
DLs  
16/11/22







**REPORT**

**OF**

**THE AUDITOR-GENERAL**

**ON**

**NAIROBI CITY WATER AND SEWERAGE  
COMPANY LIMITED**

**FOR THE YEAR ENDED  
30 JUNE, 2021**





NAIROBI CITY WATER AND SEWERAGE COMPANY LTD

OFFICE OF THE AUDITOR GENERAL  
P. O. Box 30084 - 10010, NAIROBI  
REGISTRY

2021

RECEIVED



# Annual Report and Financial statements, For the year ending 30<sup>th</sup>, June 2021

2020 /2021

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

# Annual Report and Financial statements

2020/2021

## Table of Contents

KEY CORPORATE INFORMATION .....	2
BOARD OF DIRECTORS .....	3
DIRECTORS .....	4
CHANGES DURING THE YEAR: .....	6
KEY OFFICERS .....	7
CHAIRMAN'S STATEMENT .....	9
MANAGING DIRECTOR'S STATEMENT .....	12
STATEMENT OF PERFORMANCE AGAINST PREDETERMINED OBJECTIVES FOR FY 2020/2021 .....	18
MANAGEMENT DISCUSSION AND ANALYSIS .....	20
CORPORATE SOCIAL RESPONSIBILITY STATEMENT/SUSTAINABILITY REPORTING .....	24
DIRECTORS' REPORT .....	26
CORPORATE GOVERNANCE STATEMENT ON THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 <sup>TH</sup> JUNE 2021 .....	27
STATEMENT OF DIRECTORS' RESPONSIBILITIES .....	32
THE AUDITOR- GENERAL'S REPORT ON NAIROBI CITY WATER AND SEWERAGE COMPANY LIMITED .....	33
STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 30 <sup>TH</sup> JUNE 2021 .....	34
STATEMENT OF FINANCIAL POSITION AS AT 30 <sup>TH</sup> JUNE 2021 .....	35
STATEMENT OF CHANGES IN EQUITY AS AT 30 <sup>TH</sup> JUNE 2021 .....	36
STATEMENT OF CASH FLOW FOR THE YEAR ENDED 30 <sup>TH</sup> JUNE 2021 .....	37
STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS FOR THE PERIOD ENDED 30 JUNE 2021 .....	38
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 <sup>TH</sup> JUNE 2021 .....	39

## KEY CORPORATE INFORMATION

### Background information

The Nairobi City Water and Sewerage Company Ltd 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, although its services have been transferred to Nairobi Metropolitan Services (NMS) under the deed of Transfer. The deed of transfer between the NCCG and the National government is for 2 years w.e.f March 2020.

### PRINCIPAL ACTIVITY

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

**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)

**Bankers**  
The Co-operative Bank of Kenya Ltd, Enterprise Road Branch P.O. Box 67881– 00200, Nairobi, Kenya.

Equity Bank (K) Limited, Equity centre, Hospital road, upper hill P.O Box 75104-00200 Nairobi, Kenya

Absa Bank of Kenya PLC  
Absa Headquarters, Waiyaki Way  
P.O Box 30120-00100, Nairobi Kenya

Citibank N.A  
Citibank House, Upper Hill Road  
P.O Box 30711-00100, Nairobi, Kenya  
NCBA Limited NCBA Centre, Mara & Ragati Road P.O Box 44599-00100 Nairobi, Kenya

Sidian Bank Limited, K-rep Centre, Kilimani Road P.O Box 25363-00603 Nairobi, Kenya

**Bankers (Continued)**Diamond Trust Bank Limited  
Diamond Trust House P.O Box - 00100 Nairobi,

**Housing Finance Corporation**Rehani House, Kenyatta Avenue, P.O Box 30088-00100 Nairobi, Kenya

**Company Secretary**  
Ivy Nyarango  
Certified Public Secretary (K)  
P.O Box 30656-00100, Nairobi

**Principal Legal Advisor:**  
Attorney General

**Auditor**  
Auditor General  
Office of the Auditor General  
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 current Board of Directors was appointed on 19<sup>th</sup> July 2019 by the shareholder.














## DIRECTORS

The Company is managed under the direction of a Board of Directors appointed by the shareholder (Nairobi City County Government).

The current Board of Directors was appointed on 19<sup>th</sup> July 2019 and is listed below: -

	NAME	Qualifications and experience	Status
1	Beryl Lillian Okumu Odinga Chair (DoB 1956) 	LLB, Post graduate diploma in Law Chair - Kenya Railways Staff Retirement Benefit Scheme Deputy Town Clerk - City of Mutale, Zimbabwe Legal Advisor - Urban Development Corporation (Harare Zimbabwe) Deputy CEO - Chitungwiza Town Council (Zimbabwe)	Appointed 19 <sup>th</sup> July 2019
2	Timothy Maceru Muriuki (DoB 1969)- Vice Chair 	B.A. Land Economics Chair - Index Commercial Projects General Manager - International House Facilities Manager - Lloyd Masika Board member - Nairobi Central Business District Association Board member - Athi Water Services Board Board member - NCWSC	Appointed 19 <sup>th</sup> July 2019
3	Leonard M Kamba Kiiti - (DoB 1957) 	Bachelor of Science Chair - Makueni CDF Chair - Machakos Water and Sewerage Company Chair - Makueni District Education Board Golf Captain - Machakos Golf Club Chair - Mwaani Boys High School Board of Management - Mwaani Girls	Appointed 19 <sup>th</sup> July 2019
4	Karen Njeri Nyamu (DoB 1979) 	Master of International Relations Bachelor of Law (LL.B) Diploma in Law Managing partner - Njeri Nyamu & Co. Advocates Head of conveyancing - B.M & Co advocates	Appointed 19 <sup>th</sup> July 2019

NAME	Qualifications and experience	Status
<b>5</b> Martin Kuruga Mbichire (DoB 1982) 	Bachelor of Laws (LL.B) Post grad diploma in Law Advocate - Mbichire & Co Assistant Lecturer - Pioneer University	Appointed 19 <sup>th</sup> July 2019
<b>6</b> Michael Mumo Makau (DoB 1971) 	Master of Arts, International Journalism Bachelor of Arts, Communication Board member - Capital Group Ltd Editorial Director – Capital Group Head of News - Nation radio & television	Appointed 19 <sup>th</sup> July 2019 and retired on 25 <sup>th</sup> August 2020
<b>7</b> Mohamed Abdi Abdullahi (DoB 1990) 	MBA, Strategic Management Bachelor of International Business Administration Finance Director - Tristar Energy limited Production Manager -Premier Petroleum Monitoring and Evaluation Officer-Save Somali Women and Children	Appointed 19 <sup>th</sup> July 2019
<b>8</b> Emmah Mukuhi Muthoni (DoB 1983) 	BCOM, Business Administration DIP County Executive Committee Member -Nairobi City County Government Head of corporate services - Toddy Civil Engineering Chief Financial Controller- Toddy Civil Engineering	Appointed 19 <sup>th</sup> July 2019
<b>9</b> Justus M. Kathenge (DoB 1969) 	Ag County Secretary & Head of County Public Service	Appointed 17 <sup>th</sup> April 2020 and retired 6 <sup>th</sup> . January 2021

	NAME	Qualifications and experience	Status
10	Allan Igambi Esabwa (DoB 1976)	County Executive Committee member -Finance and Economic Planning	Appointed 17 <sup>th</sup> April 2020
			
11	Ann K. Mwenda (DoB 1980)	Chief officer Environment, Water and Sanitation	Appointed 17 <sup>th</sup> April 2020 and retired on 6 <sup>th</sup> January 2021
			
12	Mohamed Abdi Abdirahman (DoB 1987)	Bachelor of Business Administration, HR Marketing Director – Iqra Agencies Limited Nominated member of Nairobi City County Assembly County Chief Officer – Water & Sanitation (NCCG)	Appointed 6 <sup>th</sup> January 2021
			
13	Jairus Musumba	County Secretary	Appointed on 6 <sup>th</sup> January 2021
			
15	Eng Nahason M. Muguna	Managing Director ,Msc-Eng, MBA, Bsc.(Mechanical Eng)	Appointed MD 27 <sup>th</sup> May 2020
			
16	Ivy Nyarango	Company Secretary, LLM (dist.), LLB (hons), Dip.(Law),CPS (K), Dip(International protection of HR)	
			

#### Changes during the year:

1. Membership of the County Secretary – Justus M. Kathenge was replaced by Jairus Musumba who took over from 6<sup>th</sup> January 2021.









2. Membership of County Chief Officer (Water) – Ann K. Mwenda was replaced by Mohamed A. Abdirahman who took over from 6<sup>th</sup> January 2021.  
Michael Mumo – resigned from the board with effect from 25<sup>th</sup> August 2020

## KEY OFFICERS

In line with the Company's governance documents, the Board delegates the day to day operations and management of the Company to the Managing Director.

Structurally, the company is headed by the Managing Director, who reports to the Board of Directors. The Managing Director provides overall leadership and chairs the Board of Management which comprises all heads of directorates of the company as follows;

Name	Title	Qualification
<b>Eng. Nahason M. Muguna</b> 	Managing Director	Msc-Eng, MBA, Bsc.(Mechanical Eng)
<b>Monica N. Tuli</b> 	Ag. Director Human Resources and Administration	Msc ( HRM), Bachelor of Arts , Higher Dip (HRM),CHRP
<b>Paul Evans Omondi</b> 	Ag. Director Financial Services & Strategy	MBA (Strategic Management),B.Com (Finance), CPA(K)
<b>Eng. Stephen Mbugua</b> 	Director Commercial services	MBA (Strategic Management) BSc (Mechanical Engineering)
<b>Eng. Lucy Njambo</b> 	Ag. Director Technical Services	MSc Water and Sanitation,Bsc Civil Engineering
<b>Martin W. Nangole</b> 	Director Information & Communications Technology	Masters in IT, Bsc.(Computer science), CISCO,MCP

For the year ended 30 June 2014

**Griffine Songole**



Director Internal Audit &  
risk management

BCom.(Accounting),CPA(K), CFA,  
CIA

**Ivy K. Nyarango**



Company Secretary

LLM (dist.), LLB (hons),  
Dip.(Law),CPS (K), Dip(International  
protection of HR)

Under the above named directorates, the company structure is reinforced by several business process units which are headed by respective managers with a mandate of overseeing actualization of the company mission.



## CHAIRMAN'S STATEMENT

### Global Macroeconomic Overview

According to 2021 Kenyan Economic Survey, the world real GDP contracted by 4.2 per cent in 2020 basing on the growth of 2.7 per cent in 2019. This contraction is mainly attributed to the slowdown of economic activities owing to the emergence of COVID 19 pandemic that witnessed a global decline in supply and demand of services. The real GDP in advanced economies is estimated to have contracted by 5.8 percent compared to 1.7 per cent growth in 2019.

Global inflation eased from 3.5 per cent in 2019 to 3.2 per cent in 2020 largely due to significant decline in oil prices. World trade volume contracted by 10.3 per cent in 2020 compared to 1.0 per cent growth in 2019, a reflection of pronounced weakness in aggregate demand. The decline in trade volume was as a result of lockdowns and restriction of movements coupled with border closures that notably constrained consumption of a wide variety of goods. World current account surplus as a percentage of GDP narrowed from 0.5 per cent in 2019 to 0.2 per cent in 2020. This was mainly attributed to weak external demand and decline in oil prices. Global employment levels deteriorated substantially during the review period. Unemployment rate stood at 6.5 per cent in 2020 from 5.5 per cent in 2019.

The economic outlook for Africa and economies in translation is clouded by relatively low commodity prices and protracted weaknesses in some large countries. Indeed, the world over negative impact of the Corona Virus Infectious Disease 2019 (COVID 19) makes the global economic outlook more worrying.

### Sub-Sahara African and East African Community regional overviews

The onset of the COVID 19 pandemic somehow delayed in Sub-Saharan Africa and even after the first case was reported in Sub-Saharan Africa region, its impact was less severe compared to other regions of the world. The impact of the pandemic was projected to be worse than it actually was, as most countries showed some signs of recovery as the year progressed. The recovery was attributable to swift response by countries that implemented accommodative monetary and fiscal policies and stimulus programmes thereby cushioning the economies against steeper contraction. Consequently, in Sub Saharan Africa the real GDP contracted by 1.9 per cent in 2020 against real GDP growth of 3.2 per cent in 2019.

Inflation rose from 8.5 per cent in 2019 to 10.8 per cent in 2020; reflecting higher food prices, impact of currency depreciation and COVID-19-related disruptions to local and imported food supplies. Current account deficit as a percentage of GDP slightly increased to 3.7 per cent in 2020 from 3.6 per cent recorded in 2019. The widening of the deficit was majorly due to decline in exported goods especially for the oil exporting countries, increase in importation of medical supplies and postponement of direct investment by foreigners.

### East African Community overview

East African Community real GDP contracted by 0.2 per cent in 2020 from a growth of 6.2 per cent recorded in 2019. COVID-19 affected the East Africa Community members in many ways such as having negative effects on tourism earnings, falling commodity prices and waning financial flows, consequently worsening the region's fiscal and current account balances. In addition, disruptions in supply chains affected food production and trade distribution in the region.



Inflation rose from 4.0 per cent in 2019 to 4.5 per cent in 2020; partly due to currency depreciation and increase in prices of imported food products. Current account deficit widened to 5.7 per cent in 2020 from 5.2 per cent recorded in 2019, partly attributed to low demand for exports and decline in remittances.

### **National overview**

The National economy was adversely affected by the Coronavirus Disease (COVID-19) and the consequent containment measures both domestically and Internationally. These significantly slowed down economic activities in 2020. During the period, the government's priority was premised on the need to safeguard the lives of Kenyans and Kenyan residents while at the same time cushioning the economy from the effects of COVID-19 pandemic. Consequently, the health crisis required the introduction of temporal restrictive measures to curb the spread of the virus resulting to serious negative impacts on some key sectors of the economy. The temporal measures included ban of local and international travel, cessation of movement in and out of some counties and zones, closure of educational facilities, leisure and eating places. The restriction in movement and the need for social distancing led to disruption in labour supply while a reduction in household disposable incomes led to reduced demand for goods and services. Pick up of economic activities resumed in the third quarter of 2020 though not to the full extent. Further improvements were notable during the fourth quarter of 2020 but by and large the containment measures constrained the economy from realizing its full potential. Real Gross Domestic Product (GDP) was estimated to have contracted by 0.3 per cent in 2020 compared to a revised growth of 5.0 per cent in 2019.

In 2019, Kenya's overall score in Ease of Doing Business (EDB) was 73.2% and ranked position 56 out of 190 economies. This was an improvement from position 61 in 2018. The Kenyan Government is taking EDB as a key strategy for attracting investment and improving competitiveness and targets to be among the top 30 worldwide going forward. Among the areas of major improvement are: registering property, operations at Mombasa Port and Malaba Border and dealing with construction permits. Nairobi City Water & Sewerage Company (NCWSC) jointly shares the dealing with construction permits indicator together with Nairobi Metropolitan Services (NMS)/Nairobi City County (NCC), National Environmental Management Authority (NEMA) and National Construction Authority (NCA) where in 2019 EDB, Kenya scored 67.6% and was ranked no. 105 worldwide.

Specifically, the 2019 EDB showed that it takes an average of 30 days to connect a standard warehouse to water and sewerage services. To improve on this indicator, the four agencies have proposed concurrent application processes in all the agencies and NCWSC has automated its water and sewerage application and connection processes and aims at sustaining the time taken to connect to water and sewerage services within the average of 11 days realized in 2020/2021 and in any case not outside the 14 days provided in the customer service delivery charter.

### **Water and Sanitation Subsector overview**

Access to safe water and sanitation is a human right. Governments are the duty bearers of the progressive realization of this right in their jurisdictions. Kenya, under Sustainable Development Goal 6 and Vision 2030, has committed itself to achieve by 2030 universal and equitable access to safe and affordable water for all; access to adequate and equitable sanitation and hygiene for all and an end to open defecation, paying special attention to the needs of women, girls and those in vulnerable situations. Against the above background, the 2019/2020 Water Service Regulatory Board (WASREB) report issue no.13 indicates that at the national level, sanitation coverage

improved from 81% in 2018/19 to 88% in 2019/20 but water and sewerage coverage declined from 59% to 57% and from 17% to 15% respectively.

#### **Nairobi City Water and Sewerage Company's performance**

During 2020/2021 financial year, just like other businesses, the Company was adversely affected by COVID 19 Pandemic. However, there was intervention by the National Government, through Water Sector Trust Fund (WSTF) where the Company benefited from KShs. 2.8 billion of World Bank funded Conditional Liquidity Support Grant (CLSG). Due to its prudent management of this grant, the Company was among 39 utilities that were selected to competitively participate in the second phase of the grant on Financial Recovery Plan (FRP) where a proposal of KShs. 1.7 billion has been submitted. Such intervention saw the revenue collection increase by 3.6% from KShs. 8.3 billion in 2019/20 to KShs. 8.6 billion in 2020/21.

My gratitude goes to the National Government agencies directly and indirectly responsible for provision of Water and Sanitation services led by the Ministry of Water & Sanitation and Irrigation and sub-sector agencies including the regulator, WASREB, and Nairobi Metropolitan Services (NMS); Nairobi City County government; our esteemed customers and other strategic stakeholders including the development partners for unwavering commitment and support during the year. The Board of Directors also wish to thank the management and staff for sustainability of water and sanitation services. We urge all the stakeholders to maintain and enhance the support and collaboration with our clarion call being 'Water for All' with respect to access and 'All for Water' from responsibility point of view.

  
**Beryl Lilian Okumu Odinga**  
**Chairperson**



## MANAGING DIRECTOR'S STATEMENT

### Introduction

This report highlights performance overview of the Nairobi City Water and Sanitation Company limited (NCWSC) for the year ended 30th June 2021. During this financial year 2020/2021, the company sustained its mandate of provision of water and safe disposal of resultant waste water in Nairobi City County and its environs despite the Corona Virus Infectious Disease 2019 (COVID 19). Below are highlights of performance per directorate during the review year.

### Technical Directorate

During the period, the company at production level maintained its raw and treated water supply pipelines, cleaning of screens at the intakes & desilting, sustained timely reactive maintenance of equipment and adhered to preventative maintenance schedule of plant and equipment with a view of enhancing their optimal performance to effectively deliver water supply to the city. The company produced a total of 179.35 million cubic meters of water reflecting an increase by 3.31 million cubic meters from 176.04 million cubic meters of water produced in the financial year 2019/2020.

To improve water supply services in the formal areas, the company extended and rehabilitated a total of 16.2 km of water pipeline against an annual target of 13.1 km translating to 123 % achievement. In the informal settlements, the company extended and rehabilitated a total of 11.3 kms of water pipeline across the city against a target of 21 km translating to 54% achievement. In addition, 3.95 Kms and 11 kms of sewer lines were extended and rehabilitated in formal areas and informal settlements respectively against the annual targets of 10.5 Kms and 13.2 km, representing 38% and 83% performance respectively. Against an annual target of reducing Non-Revenue Water to 33%, the company performed at 50.19% during the year under review. To maintain and ensure compliance of the quality of treated water, laboratories were adequately stocked with necessary detergents and chemicals. Quality monitoring through sampling and testing of both pretreated and post treated water was efficiently carried out as per schedule. Consequently, during the period under review, the quality of water produced complied 100% to both World Health Organization (WHO) and Kenya Bureau of Standards (KeBS) requirements. Equitable distribution of water to customers was enhanced through the monitoring of the four corridors of water supply through

which, an average water supply constancy of 16.3 hours was achieved per day based on supply-demand estimates against target of 16.3 translating to 100%. The company upheld environmental protection through way of planting trees and conducting security surveillances along the catchment area.

### **Commercial Directorate**

During the period, the company continued to identify and implement suitable service delivery innovations as well as enhancing the existing ones. To optimize on the emerging technology and innovation, the company updated its customers' directory with a view of reaching out electronically via mobile phones and post customer bills, disconnection notices and settlement of bills. This has since lead to closure of most of cash offices in all business centres. Further, the Company managed 130% on adherence to customer service charter through follow up on customer complains resolution within Turn Around Time (TAT) despite the Governments directive on management of Covid-19 pandemic to ensure service delivery.

### **Human Resource and Logistics Administration Directorate**

During the period, the company heightened effectiveness of staff through training. 1,131 out of a target of 1,000 staff were trained during the period. This translates 113% performance. It is hoped that the staff who benefited in training will cascade the skills acquired to other staff and hence boost productivity during the next financial year. In consistence with the best practices in water sector world over, the number of staff per 1000 water connections was sustained at 6. To create supportive work environment and ensure compliancy to Operational, Health and Safety Act (OSHA) 2007, the company procured and issued personal protective clothing to all eligible staff accordingly.

Owing to the impact of COVID 19 pandemic and in adherence to the government directive, guidelines and regulations, the company provided all the staffs with masks and Sanitizers and frequently disinfection of office surfaces was carried out as a preventive measure of COVID-19. The company fleet was regularly maintained per schedule and fuelled to sustain effective service delivery.



#### **Financial Services and Strategy Directorate**

During the period under review, the company posted positive net results (Surplus). There was proper budgeting and budgetary control were put in place by adhering to prudent financial management and financial expenditure planning as per the approved annual budget of the financial year 2020/21. There was great improvement in safe custody and retrieving of financial documents as well as effective use of the company's funds and assets. Control on revenue collected was strengthened, monitored and reconciled daily.

Planning was effectively conducted through annual monitoring and evaluation of various business units against set targets as envisaged in the annual plans. During the period under review, Quarterly Performance Contract and Water and Sanitation Services Implementation Project (WaSSIP) data were compiled and submitted, annual Water Regulatory Information System (WARIS) data was submitted on timely basis. The company has continued implementation of its fifth strategic business plan and internal implementation status for 2019/20 and 2020/21 was 55% and 51% respectively, majorly owing to the challenges associated with COVID Pandemic.

#### **Information Communication and Technology Directorate**

In order to deliver efficiently, the acquisition of Computer hardware and software was enhanced and the ICT usage and uptake increased. During the period, the company acquired a new system, BASIS II and enhanced Mobile Meter Assistant (MFA) to Utility Master (UM), ICT application which has since improved meter reading efficiency to 85.33%. To ensure security of data, Offsite Backup, Data Replication (DR) and Cloud Backup was implemented. In this regard, Oracle Financial and Mail are being replicated to the offsite DR center hence ensuring data security.

#### **Legal and Company Secretary's Services Directorate**

The Company has a legal and company secretary directorate that regularly advises the Board of Directors and the management team with a view to ensure legal and regulatory compliance and good corporate governance practices within the organization. During the year under review, the Company's Board and its committees held meetings to make strategic decisions in furtherance of the Company's mission and strategic plan. Legal claims lodged against the Company were assiduously defended in the interests of the Company and the public

## **MANAGING DIRECTORS' Directorate**

There are eight departments; (NRW, Security, Quality Assurance, e-Water, ISO, Supply Chain, Corporate Affairs, and Liaison Office) that are directly under Managing Director. Performances of NRW and QAD are highlighted above under the technical directorate while others are highlighted below.

### **Corporate Affairs Corporate**

The company has for many years been contributing to the welfare of the community. During the period under review, the company was pro-active in supporting community initiatives on Education, Health, and Environment conservation, and contributions to water catchments protection in Aberdares through a community based organization. In conjunction with partners and riparian communities within the catchment areas, NCWSC has been marking Annual tree planting in partnership with the National Government and the local communities within the catchments.

Under the community investment program, the utility has come up with solutions aimed at solving problems in the informal settlements through water kiosks, donation of water tanks to schools and dispensaries in the informal settlements and within the city at large. All this is aimed at serving the less privileged members of the society.

In line with the reality of confirmed COVID-19 cases in March 2020 by the Ministry of Health and in our belief of empowering our customers and communities, the Company, in partnership with National Government, set up 600 No. free hand washing points across Nairobi County as one of the measures to stop spread of the virus.

### **Supply Chain**

In line with Public Procurement and Disposal Act 2015, the company diligently determined goods and services to procure through procurement committee, before tender advertisements. All tenders were subsequently subjected to tender opening committee and eventually tender evaluations undertaken. To ensure quality of services, works and goods procured conform to the required specifications, an evaluation is usually conducted. Procurement and Disposal committee meets on a quarterly basis to discuss on the best method of disposing idle assets that may exist in the Company.



## **Security**

Company Infrastructure, Installations and offices were well guarded by the company internal security and outsourced government administration police security personnel. Security of assets was reinforced by installed security alarms and CCTV Cameras.

## **ISO**

During the period under review, the company was re-certified with ISO 9001: 2015 International Standard. This was achieved after conducting thorough pre recertification activities including Internal Quality Audits, Management Review Meetings

## **Internal Audit and Risk Management Directorate**

To continuously enhance effective performance, the company has an internal audit and risk management functions that check on implementation and effectiveness of policies, systems and procedures and identifies risks and proposes on how they can be mitigated. This function reports to the office of the Managing Director operationally but technically, it reports to audit and governance board committee.

To enhance corporate governance, during the period under review, the directorate carried Corruption Risk Assessment (CRA) and submitted a CRA reports together with mitigation plans to Ethics and Anti-Corruption Commission (EACC) on Core mandate of the Organization and on loopholes & risks in various systems in the organization Further, awareness creation on integrity among staff was enhanced and capacity building to ensure that the entire NCWSC fraternity moved along the same direction on corporate governance related issues.

## **CONCLUSION**

In conclusion, I take this opportunity to most sincerely thank all the stakeholders who enabled us eschew the challenges experienced especially those related to COVID 19 Pandemic and post favorable results to achieve what has been highlighted above and whom we also bank on for our continuous growth. In particular, I strongly believe that with the stewardship and leadership of Nairobi Metropolitan Services, (NMS), Nairobi City County (NCC), Ministry of Water &

Sanitation and Irrigation and our Board of Directors (BoD), the company will achieve better results in coming years.



**Eng. Nahason M. Muguna**

**Managing Director**

## STATEMENT OF PERFORMANCE AGAINST PREDETERMINED OBJECTIVES FOR FY 2020/2021

Nairobi City water and Sewerage Company Ltd has identified seven (7) strategic themes within its Strategic Plan for the FY 2019/2020- 2023/2024 in order to enhance the Company's performance and impact of its services, as well as ensure growth and sustainability. These strategic themes are as follows:

- i. Water Sources, Treatment, Transmission and Distribution
- ii. Waste Water Networks, Conveyance and Treatment
- iii. Non-Revenue Water Management
- iv. Customer Focus and Stakeholder Engagement
- v. Governance and Institutional Capacity Development
- vi. Information & Communication Technology (ICT) and other Support Infrastructure
- vii. Financial Stewardship

In the 2020/21 financial year, the Company implemented its second year of the current Strategic Plan (2019/20 – 2023/24) via the annual Performance Contracts and the work plans. Overall, the implementation achievement of the Strategic Plan during the 2020/21 FY is estimated at 59% as detailed in the table below. This performance was achieved amid the adverse effects of COVID-19 pandemic and was as a result of support from both the NMS, the National and County governments. This support was in terms of both financial recovery and facilitation. Additionally, support from development partners in particular the World Bank, through its KShs. 2.76 billion COVID-19 Conditional Liquidity Support Grant (CLSG). Broadly, COVID 19 pandemic impacted negatively to nearly all company's business operations hence significantly influenced the performance results as indicated in table 1 below:

**Table 1: Implementation of 2019/20 – 2023/24 Strategic Plan during 2020/21 Financial Year**

SNo.	2019/20 – 2023/24 Strategic Themes	Estimated Implementation during 2020/21 FY
1	Water Sources, Treatment, Transmission and Distribution	34%
2	Waste Water Networks, Conveyance and Treatment	46%
3	Non-Revenue Water Management	36%
4	Customer Focus and Stakeholder Engagement	82%
5	Governance and Institutional Capacity Development	39%
6	Information & Communication Technology (ICT) and other Support Infrastructure	90%
7	Financial Stewardship	89%
<b>Overall Implementation Estimates</b>		<b>59%</b>



## MANAGEMENT DISCUSSION AND ANALYSIS

### Company Profile

Nairobi City Water & Sewerage Company (NCWSC) Ltd mandate is to provide clean water and sewerage services to the residents of Nairobi County, in a financially sustainable manner and within Government regulations and reaches her customers through seven administrative regions, namely Northern, Eastern, North Eastern, Central, Southern, Western and Informal Settlement regions. These regions are further sub-divided into 28 sub-business units (zones) and sub-zones.

### Organizational Structure

Structurally, the company is headed by the Managing Director, who reports to the Board of Directors (BOD). The Managing Director provides overall leadership and chairs the Board of Management (BOM), which comprises all heads of directorates of the company namely;

- i. Technical Directorate
- ii. Commercial Directorate
- iii. Finance and Strategy Directorate
- iv. Directorate of Human Resource and Administration
- v. Managing Director's Directorate
- vi. Information Communication and Technology Directorate
- vii. Company Secretary
- viii. Internal Audit and Risk Management Directorate

Under the above named directorates, the company structure is reinforced by several business process units, which are headed by respective Business Process Owners (BPOs) with a mandate of overseeing actualization of the company mission.

Broadly, the company operations are anchored on strategic business plan which is normally designed to resonate with the international development frameworks like Sustainable Development Goal (SDG) number six, Kenya Government economic blue print -Vision 2030, 2015 National Water Sector Strategy (NWSS), the Nairobi Metropolitan Services (NMS) and Nairobi City County (NCC) water development plans and any other existing water and sanitation

sector policies. In addition, the company's annual performance is guided and monitored on quarterly basis through negotiated and signed annual Performance Contract (PC) between the Company and its principal.

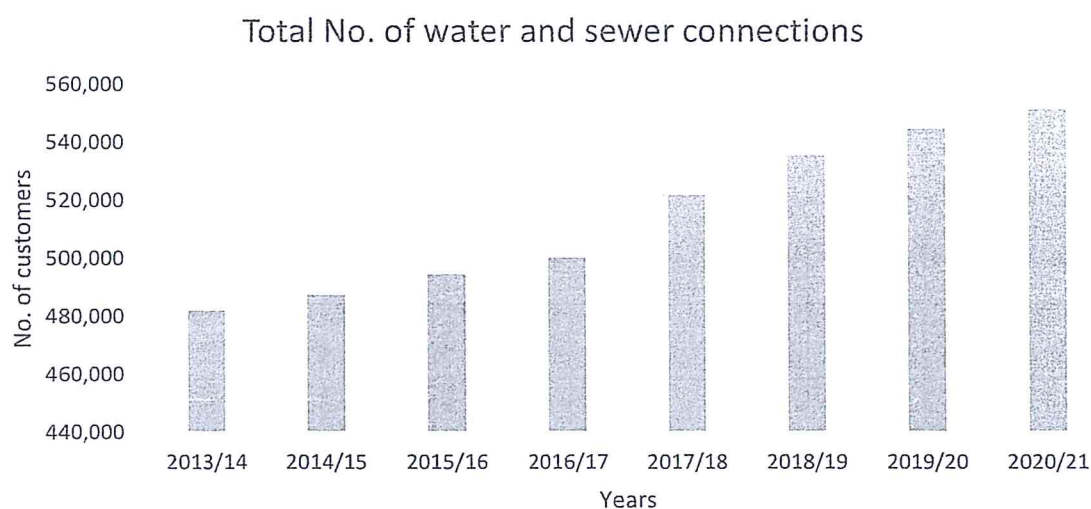
## Key Performance Areas 2020/2021

### Non- Revenue Water

Non-Revenue Water (NRW) is one of the key efficiency parameters in water utilities. NRW levels continue to be very high across the country. In the 13<sup>th</sup> Impact Report by the regulator, the national NRW average worsened from 43% to 47%. During the year 2020/21, the Company performance on NRW stood at 50.19% against a target of 33% translating to 66% performance. Strategies and mechanism have been put in place in the 2019/20 – 2023/24 Strategic Plan to address reduction of NRW within the city. More resources have been allocated towards this endeavour.

### Water and sewerage Connections

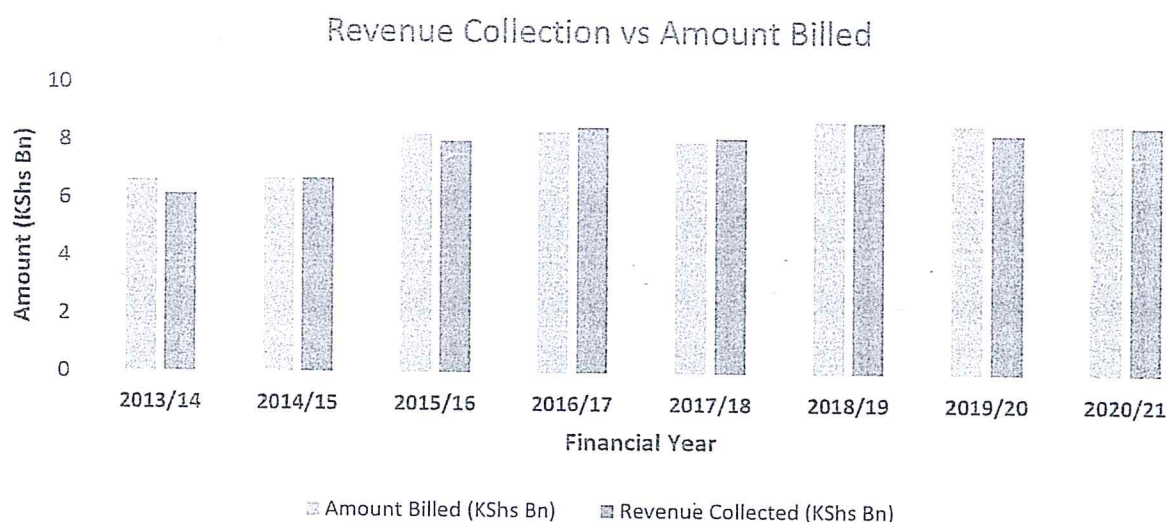
The size of a utility is determined by the total number of water and sewer connections. NCWSC is reported in the impact and other sector reports as the largest utility in the country. Over the years, the number of water and sewerage connections have been growing. During the period, the total active number of water and sewerage connections was 551,034 which was an increase by 6,589 accounts from 544,445 connections in 2019/20. The graph below shows the connections per year during the last eight years.



### Revenue Collection against Billed Amounts

Collection Efficiency is used to measure the effectiveness of the revenue management system in a utility. Revenue collected, as opposed to amount billed is what impacts on a utility's direct ability to fund its operations. In the period under review, the Company collected 99.5% of the amount

billed. The actual amount collected was KShs. 8.63 billion against a billed amount of KShs. 8.67 billion. The graph below depicts the trend of the revenue collected against the billed amounts in the last eight years.



### **NCWSC's Contribution into Ease of Doing Business**

As part of EDB reforms, the company launched and rolled out an online customer contracting system in February 2020. This enabled the company achieve 11 days performance of the contracting process in FY2020/21, an improvement on the 14-day target stipulated in the Customer service charter.

The company is working in partnership with other stakeholders to progressively implement reforms in water and sanitation services delivery so as to improve Kenya's attractiveness to local and foreign investment and its competitiveness.



## **CORPORATE SOCIAL RESPONSIBILITY STATEMENT/SUSTAINABILITY REPORTING**

Nairobi City Water & Sewerage Company Ltd (NCWSC) aspires to make a positive difference to the communities we are in and to the nation overall through the services we provide, the way we provide them and the way we run the organization as a whole, while ensuring that this does not detract from our core purpose. We aim to act responsibly in our actions with key tenets of:

- Providing sustainable benefits for our stakeholders
- Minimizing our impact on the environment, both directly and through what we do for our stakeholders
- Providing support for the wellbeing and development of staff
- Securing our own financial sustainability and independence
- Improving the positive impact on the communities we live and work in and reducing the negative impact
- Developing our partnerships with suppliers
- Continuous development of our governance and transparency.

The following activities took place in the period under review:

- In conjunction with the Nairobi Metropolitan Services (NMS) and riparian communities within the catchment areas, the Company held a tree planting activity at Dandora Sewerage Treatment Works (DSTW) in Ruai.
- Under the community investment program, the utility has ensured that the informal settlements have water through water kiosks and water tanks, we also have rehabilitation of ablution blocks and boreholes in the settlements and within the city at large going on. All this is aimed at serving the less privileged members of the society.
- Donation of water tanks (10,000 litres) to strategic groups such as schools, health facilities and youth and women groups through area Members of the County Assembly (MCAs).

This assists in water conservation as well as educating them on the importance of environmental and water conservation.

- As a result of the COVID-19 pandemic and in support of our members in the society, collaborated with NMS and Athi Water Works Development Agency (AWWDA) to complement the efforts of the National Government by providing hand-washing points in strategic points in Nairobi City County as an immediate measure to stop the spread. These facilities are available in all the police stations, public toilets and high human traffic areas within and outside the Nairobi Central Business District (CBD). Special attention has been given to the informal settlements, given its uniqueness of high population density and overcrowdedness.
- In partnership with Water and Sanitation for the Urban Poor (WSUP), the Company rolled out the hygiene behavior change communication (HBCC) project whose intention was to drive hygiene behavior change communication through mass media channels, utility digital media platforms and community engagement, in the fight against Covid-19.

## DIRECTORS' REPORT

The Board of Directors was appointed on 19<sup>th</sup> July 2019. The Board of Directors submits the report for the year ended 30<sup>th</sup>, June 2021, 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:

	2021	2020
	KSHs	KSHs
Surplus/Deficit for the Year	98,098,644	(850,815,607)

## DIVIDENDS

The Company does not recommend the payment of a dividend in respect of the year ended 30<sup>th</sup> June 2021 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' 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 14 and 30.

## INDEPENDENT AUDITORS

The Auditor - General is the independent auditor in accordance with Article 229 of the Constitution of Kenya, the Public Audit Act, 2015 section 35 and the Companies Act and continues in office.

By order of the Board



Ivy Nyarango

Company Secretary



## CORPORATE GOVERNANCE STATEMENT ON THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30<sup>TH</sup> JUNE 2021

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.

### COMPOSITION OF THE BOARD

The Board is composed of eleven non-executive Directors who are appointed by the shareholder in line with applicable provisions. The Board members elect the Chairman. The Managing Director is ex-officio member of the Board with no voting rights. All the non-executive Directors are independent of management.

### Roles of the Chair and the Managing Director

The roles of the Chair and the Managing Director are separate, with each holder having distinct and clearly defined duties and responsibilities.

The Chair is responsible for leadership of the Board and ensuring its effectiveness while safeguarding the interests of the shareholder and other stakeholders. On the other hand, the Managing Director has overall responsibility for the performance of the business and provides leadership to management to facilitate successful planning and execution of the objectives and strategies agreed by the Board.

### Board meetings/activities

The Board and its committees meet once every quarter as scheduled, but special meetings may be called when need arises. The members are given notices and agenda for all meetings, which are circulated on a timely basis together with the respective documents for discussion. Members of the Board are required to declare any conflict of interest on issues for deliberation and are disqualified from participating in deliberations where such conflict exists.



#### Board remuneration

- i. The directors are entitled to a sitting allowance, lunch allowance and transport allowance for attending a duly convened and constituted meeting of the Board meeting or of any of the committees
- ii. The chairperson receives a monthly honorarium.
- iii. A sitting allowance is paid to non-executive directors for attending a duly convened and constituted meeting of the Board or of any of the committees.
- iv. A sitting allowance is paid to non-executive directors for any day of travel from regular station in order to attend to duties of the company.
- v. Medical insurance cover is provided to all non-executive directors for their individual medical requirements for both inpatient and outpatients

A summary of Board meetings and attendance is shown below;

Board Member*	No. of meetings attended
Beryl Lilian Okumu Odinga	8
Allan E. Igambi	6
Ann K. Mwenda	4
Emmah M. Mukuhi	8
Jairus Musumba	1
Justus M. Kathenge	0
Karen N. Nyamu	8
Leonard M. Kamba	7
Martin K. Mbichire	7
Michael M. Makau	1
Mohamed A. Abdirahman	1
Mohamed A. Abdullahi	8
Timothy M. Muriuki	8

#### Key achievements for FY2020/2021

Focus for the Board's activities and topics discussed during the year included the following matters:—

- i. Consideration and approval of the FY2019/20 financial statements;
- ii. Consideration and approval of the FY2021/22 budget;
- iii. Consideration of the FY2021/22 procurement plan;
- iv. Regularly monitored performance against approved targets, budget and procurement plan of the Company;
- v. Proposed tariff review.

- vi. Review of policy documents e.g. Workplace Management of Alcohol, Drugs & Substance Abuse (ADSA); Personal Protective Equipment (PPE); Medical Policy; etc.
- vii. Implementation of a Conditional Liquidity Support Grant (CLSG) programme with the objective of providing short-term liquidity support to maintain operations and service levels during the COVID19 crisis.
- viii. Retirement benefit schemes to which employees of the Company were members with direction as to addressing pension debt.

#### Board Induction and development

Each director is provided with a comprehensive and tailored induction covering the Company's business and operations; the applicable legal and regulatory obligations; and special focus on corporate governance. In addition, other workshops/trainings were held on corporate governance, Mwongozo, etc.

#### BOARD COMMITTEES

The Board appoints committees to assist in executing its mandate. The board has four committees as follows

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

The committee is comprised of six (6) 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 including reviewing the risk philosophy, strategy and policies recommended by the Company. The Committee ensures compliance with such policies and with the overall risk profile of the Company.
  - Reviewing financial information in particular annual financial statements to ensure compliance with accounting standards, legislation and other disclosure requirements.
  - Reviewing the external auditors' proposed audit scope and approach and ensuring no unjustified restrictions or limitations have been placed on the scope.
- Reviewing the function, operations and reports of the Internal Audit Directorate

##### ii) FINANCE COMMITTEE

The committee is composed of 3 board members.

The Committee assists the Board in discharging its responsibilities as follows:

- Consider and recommend for Board approval, the financial services policies for the Company.
- Receive and consider progress reports on financial services matters.
- Consider and recommend for Board approval, the financial budgets for the Company.
- Receives and considers periodic financial performance reports of the Company.
- Adjudicates on any financial policy matters referred to it by management.



- Ensures compliance at all times with the provisions of the Companies Act under which the Company is registered, Company's Memorandum and Articles of Association and the prevailing regulatory framework
- Provide advice and counsel to the Board as required on legal issues.
- Advise the Board on measures to be taken in order to comply with legal provisions as provided for by various pieces of legislation

### iii) HUMAN RESOURCE, ADMINISTRATION AND COMMUNICATION COMMITTEE

The committee is composed of eight (8) board members. It is responsible for assisting the Board to discharge its responsibilities as follows:

- Reviewing and recommending for approval terms and conditions of service for Company employees including compensation philosophy, strategy, and guidelines; performance related pay schemes; retirement benefits;
- Handling policy issues and strategies on human resource and administration e.g. creation of a long term human resource skills and competency reservoir; succession planning; safety and physical working conditions
- Assisting and supporting the Board in the recruitment of senior management staff;
- Assisting the Board in fulfilling its obligations relating to human resource and compensation matters and establish a plan for continuity and development of staff;
- Recommending a performance evaluation process for the Chief Executive Officer and, when approved, leading the process in conjunction with the Board Chair;
- Reviewing major changes in the organization structure as proposed by the CEO and/or the Committee
- Ensuring that policies are developed and implemented to comply with all human resource-related standards, laws and regulations;
- Considering progress reports on human resource and administration issues and keeping the Board updated on fundamental human resource and administration issues affecting the Company;
- Ensuring effective company communication to the public that promotes correct corporate image and good stakeholder relations including the use of exhibitions, technical conferences, Company's publications and documentaries.

### iv) TECHNICAL, COMMERCIAL AND ICT COMMITTEE

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

- Reviewing 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.
- Subject to all applicable laws, reviewing proposals for procurement of infrastructure, development and support.
- Deliberating on progress reports for projects being implemented by the NCWSC with a view to providing guidance to the management and the Board.
- Considering and recommending for full Board approval ICT, technical and commercial services policies of the Company.



- Receiving and considering periodic progress reports on technical, commercial and ICT-related activities and report on the same to the full Board on quarterly basis.
- Giving guidelines/opinions to the management on areas of improvement as far as ICT, technical and commercial activities are concerned.
- Ensuring, 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.
- Reviewing the performance of the ICT, Technical and Commercial Directorates and recommending action to be taken for improvement and enhancement of the performance.
- Evaluating 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

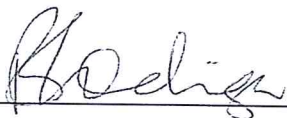
The Company is committed to:

- 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 13 and 29 to these financial statements.

CHAIRMAN:



DATE: 23 SEPTEMBER 2021

MANAGING DIRECTOR



DATE: 23 SEPTEMBER 2021

## STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Kenyan Companies Act 2015 section 147, The Public Finance Management Act, 2012 section 164 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.

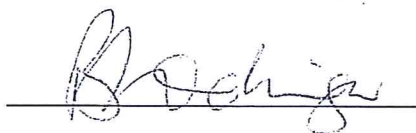
The Directors accept responsibility for the financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgments and estimates, in conformity with International Financial Reporting Standards. The Directors are of the opinion that the financial 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.

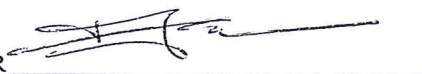
The directors acknowledge that the independent audit of the financial statements does not relieve them of their responsibility.

Board of Directors approved the statement on 25 September 2021

CHAIRMAN



MANAGING DIRECTOR







# REPUBLIC OF KENYA

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



OFFICE OF THE AUDITOR-GENERAL

*Enhancing Accountability*

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

## REPORT OF THE AUDITOR-GENERAL ON NAIROBI CITY WATER AND SEWERAGE COMPANY LIMITED FOR THE YEAR ENDED 30 JUNE, 2021

---

### PREAMBLE

I draw your attention to the contents of my report which is in three parts:

- A. Report on the Financial Statements that considers whether the financial statements are fairly presented in accordance with the applicable financial reporting framework, accounting standards and the relevant laws and regulations that have a direct effect on the financial statements.
- B. Report on Lawfulness and Effectiveness in Use of Public Resources which considers compliance with applicable laws, regulations, policies, gazette notices, circulars, guidelines and manuals and whether public resources are applied in a prudent, efficient, economic, transparent and accountable manner to ensure Government achieves value for money and that such funds are applied for intended purpose.
- C. Report on Effectiveness of Internal Controls, Risk Management and Governance which considers how the entity has instituted checks and balances to guide internal operations. This responds to the effectiveness of the governance structure, the risk management environment, and the internal controls developed and implemented by those charged with governance for orderly, efficient and effective operations of the entity.

An unmodified opinion does not necessarily mean that an entity has complied with all relevant laws and regulations, and that its internal controls, risk management and governance systems are properly designed and were working effectively in the financial year under review.

The three parts of the report are aimed at addressing the statutory roles and responsibilities of the Auditor-General as provided by Article 229 of the Constitution, the Public Finance Management Act, 2012 and the Public Audit Act, 2015. The three parts of the report, when read together constitute the report of the Auditor-General.

### REPORT ON THE FINANCIAL STATEMENTS

#### Qualified Opinion

I have audited the accompanying financial statements of Nairobi City Water and Sewerage Company Limited set out on pages 34 to 88, which comprise of the statement of financial position as at 30 June, 2021, statement of profit or loss and other comprehensive income, statement of changes in equity, statement of cash flows and the

---

*Report of the Auditor-General on Nairobi City Water and Sewerage Company Limited for the year ended 30 June, 2021*



statement of comparison of budget and actual amounts for the year then ended, and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, 2015. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

In my opinion, except for the effect of the matters described in the Basis for Qualified Opinion section of my report, the financial statements present fairly, in all material respects, the financial position of the Nairobi City Water and Sewerage Company Limited as at 30 June, 2021, and of its financial performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards (IFRS) and comply with the Companies Act, 2015, the Water Act, 2016 and the Public Finance Management Act, 2012.

## **Basis for Qualified Opinion**

### **1.0 Unconfirmed Operating Income**

The statement of profit or loss and other comprehensive income reflects operating income totalling to Kshs.9,659,858,547 which, as disclosed in Note 6 to the financial statements comprised of income from water sales amounting to Kshs.4,667,347,991, sewer services of Kshs.3,718,868,570, meter rent of Kshs.160,627,581 and other income of Kshs.1,113,014,405. However, the following anomalies were noted in respect to the balance:

#### **1.1 Unreconciled Water Sales**

Note 6 to the financial statements indicates that water sales from piped and prepaid public dispenser systems totalled 86,841,421.58 cubic meters (m<sup>3</sup>). At the simple average tariff of Kshs.103.25 per cubic meter, including sewer and other charges payable in the year under review, the volume should have resulted in revenue totalling to Kshs.8,966,376,778 and not Kshs.4,667,347,991 reflected in the financial statements. Therefore, the revenue from direct water sales totalling to Kshs.4,667,347,991 is understated by an estimated balance of Kshs.4,299,028,787.

#### **1.2 Unexplained Water Losses**

Examination of data on water production records revealed that volume of water losses totalling to 97,457,006.58 (m<sup>3</sup>) were recorded against the total output of 180,142,925 (m<sup>3</sup>) attained in the year under review. The shortfall resulted in loss of potential revenue at the rate of 103.25/l amounting to Kshs.10,062,435,929, inclusive of sewer and other charges. The records indicated that the Commercial Department reported the highest ratio of losses, as indicated in the following table:

<b>Distribution Losses</b>	<b>Volume of Water Loss (M<sup>3</sup>)</b>	<b>Ratio of Losses (%)</b>
Commercial Losses	53,005,594.33	54
Technical Losses	21,289,157.68	22
Non-Revenue Water-transmission	10,634,594.84	11
Transmission Losses	12,527,659.73	13
<b>Total Volume</b>	<b>97,457,006.58</b>	<b>100</b>

*Report of the Auditor-General on Nairobi City Water and Sewerage Company Limited for the year ended 30 June, 2021*



Management ascribed the losses to various anomalies that included, inaccuracies in metering, data handling errors and illegal use of water leakages from water pipes. However, the records provided for audit did not disclose sufficient information on how the volume of lost water volume was arrived at.

### **1.3 Under-Collection of Trucked Water Supplies Revenue**

The operating income balance includes income from water revenue totalling Kshs.4,667,347,991. The records indicated that the Company made sales amounting to Kshs.16,692,758 through water trucking bowzers and incurred direct expenses totalling Kshs.23,319,858 from purchase of 249,552.73 litres of fuel. However, records maintained by the Company's Commercial Department indicated that the 21 bowzers drew 8,039,437.53 (m<sup>3</sup>) of water which retailed at Kshs.0.3125 per litre. This should have resulted in revenue totalling to Kshs.2,512,324,228 and not Kshs.16,692,758 reflected in the Company's records.

Management did not provide any explanation for the revenue shortfall estimated at Kshs.2,495,631,470. In addition, work tickets for the water tankers reflected movement from a location named 'Nairobi Metropolitan' to Industrial Area and back and as a result, the locations that the water supplies were drawn from and trucked to could not be confirmed.

In the circumstances, the accuracy and completeness of the income totalling to Kshs.16,692,758 reported in respect thereof could not be confirmed.

### **1.4 Unconfirmed Value of Water Supplies to Informal Settlements**

Examination of records on billed water indicated that Nairobi Metropolitan Services (NMS) water tankers supplied 332,719.10 (m<sup>3</sup>) of water free of charge to informal settlements in the year under review. However, records on NMS tankers indicated that 277,273 cubic meters of water were supplied to informal settlements, whereas the Commercial Department of the Company reported supplies to informal settlements of 332,719.10 cubic meters. No explanation was provided for the variance of 55,446 cubic meters between the two sets of records.

In the circumstances, the quantity and value of water supplied to informal settlements could not be confirmed.

Further, although the 17 bowzers operated by NMS were reported to have consumed fuel totalling 103,916.39 litres costing Kshs.9,881,335, which was paid for by the Company, the work tickets to the vehicles did not disclose the water supply destinations.

In the circumstances, the propriety and completeness of the fuel costs totalling to Kshs.9,881,335 reported to have been incurred by the tankers could not be confirmed.

### **1.5 Unaccounted for Exhauster Discharge and License Fees**

The operating income balance totalling Kshs.9,659,858,547 includes other income receipts balance of Kshs.1,113,014,405 which in turn include undisclosed effluent discharge fees. Review of the approved tariffs indicated that monthly licences for private exhausters that dump waste into the Company's sewer system was Kshs.15,000 per truck per month. However, records to confirm receipt of revenue estimated at



Kshs.137,160,000 from the 762 licensed private exhausters were not provided for audit verification. Further, licencing revenue was only declared for 117 or 15% of the 762 licensed exhausters. As a result, receipt of revenue amounting to Kshs.39,420,000 expected from the remaining 657 or 85% of private exhausters could not be confirmed.

#### **1.6 Mismatch of Exhauster Services Revenue and Expenditure**

Review of water tariff rates revealed that the Company charged an amount of Kshs.4,000 and Kshs.5,000 per trip for exhauster services in informal and formal sectors respectively. Further, the Company owned one exhauster which earned revenue totalling to Kshs.122,870 in the year under review. However the revenue did not match the exhauster's high consumption of fuel of 7,740.36 litres at a total cost of Kshs.716,210. Further productivity of the vehicle was very low and therefore value for money may not have been attained on its use.

In the circumstance, the accuracy of the reported revenue balance could not be confirmed.

#### **1.7 Failure to Install Meters in Fire Hydrants**

Records on the total number of water hydrants in the City were not provided for audit. However, a sampled audit of six-teen (16) fire hydrants revealed that only six (6) had water meters. Further, the risk of loss of revenue from incorrect water billing or unreported drawing of water from the hydrants was high.

In the absence of water meters at the various hydrants water points, the volume and monetary value of water drawn from the hydrants could not be confirmed.

#### **1.8 Undisclosed Borehole Water Supply Quantities**

Examination of records on borehole water production indicated that the Company incurred expenditure of Kshs.325,801,139 on electricity used on production or distribution of water out of which an amount of Kshs.292,235,753 was paid in the year under review. Available records indicated that electricity costs by the Company's and NMS boreholes amounted to Kshs.23,633,859 and Kshs.6,235,937 respectively. However, no records were provided to confirm the quantity of water consumed from the Company's boreholes. As a result, the accuracy and completeness of revenue earned from the boreholes and value for money on the expenditure totalling to Kshs.23,633,859 reported to have been spent on pumping water from the boreholes could not be confirmed.

#### **1.9 Unreconciled Water Production and Billing Records**

The Managing Director's statement appended to the financial statements indicates that the total volume of water produced by the Company in the year under review was 179,341,134 (m<sup>3</sup>). However, review of records at the four water production stations indicated that water produced totalled 180,142,925.06 m<sup>3</sup> in the period between June, 2020 to May, 2021 resulting to a shortfall of 801,791.06 m<sup>3</sup> with a sales value of Kshs.82,784,927, including sewerage and other secondary charges.



## **2.0 Grant Income**

The statement of profit or loss and other comprehensive income reflects grant income totalling to Kshs.1,021,177,143 which, as disclosed in Note 7 to the financial statements comprised a balance of Kshs.1,000,000,000 being World Bank conditional liquidity support grant and chemicals worth Kshs.21,177,143 received from NMS. However, examination of the grant agreement indicated that the grant due to the Company was Kshs.2,767,454,058, resulting to an unexplained shortfall of Kshs.1,767,454,058. Further, the income from NMS totalling Kshs.21,177,143 was not supported with appropriate records.

In the circumstances, the completeness of the grant income balance totalling to Kshs.1,021,177,143 could not be confirmed.

## **3.0 Unsupported Staff Costs**

The statement of profit or loss and other comprehensive income, reflects staff costs amounting to Kshs.6,317,742,440. However, the following unsatisfactory matters were noted:

Analysis of the payroll data revealed that the officers were irregularly paid salary arrears totalling Kshs.96,901,961. The balance included basic salary balance, acting allowance, night-out allowance, risk allowance, special duty allowance and transport allowance but no records were provided to support the payments.

Further, the Company's Human Resource Manual and Collective Bargaining Agreement provide for payment of fuel allowance, responsibility allowance and entertainment allowances. However, information on the approved payment rates and staff cadres entitled to the allowances was not provided for audit review. As a result, the propriety of the payments of Kshs.171,783,032, Kshs.12,172,665 and Kshs.8,154,194 in respect of fuel, responsibility and entertainment allowances could not be confirmed.

In addition, as similarly reported in the previous year, Kshs.22,869,000 was paid out as salary bonus to staff. However, Management did not provide records on the authority and basis for the payment.

In view of these anomalies, the accuracy, and completeness of staff costs expenditure totalling to Kshs.6,317,742,440 could not be confirmed.

## **4.0 Operation Expenses**

The statement of profit and loss and other comprehensive income reflects operations' costs totalling to Kshs.2,848,039,112 as disclosed in Note 9 to the financial statements. However, the following anomalies were noted.

### **4.1 Unconfirmed Fuel Expenditure**

#### **4.1.1 Discrepancies in Fuel Consumption Records**

The balance includes fuel, oil and lubricants payments amounting to Kshs.97,667,690. Review of sampled fuel records indicated that three vehicles consumed fuel costing more than Kshs.1000 each per day for eleven (11) months. Although Management explained

that the consumption included other vehicles and machinery, records on these assets were not provided for audit. Further, examination of records on the three vehicles revealed the following anomalies:

- i. On 3 March, 2021, one vehicle consumed sixty (60) liters of fuel. However, records remitted by the fuel vendor indicated that the vehicle consumed 200 litres of fuel.
- ii. Work tickets for one vehicle indicated that it consumed 2000.41 litres of fuel in April, 2021. However, review of the fuel vendor's records indicated that the vehicle consumed 3,400 litres of fuel during the period.
- iii. In addition, the third vehicle consumed fuel totalling 33,958.10 litres at a cost of Kshs.3,109,982.52 which translated to 100 litres per day.

#### **4.1.2 Lack of Information on Use of Fuel Cards**

Fuel management records indicated that each vehicle was assigned a fuel card that prescribed the maximum quantity of fuel the vehicle was to consume in a specified period. However, records on the cards, including the vehicles they were assigned to, were not provided for review.

#### **4.2 Improper Accounting for Imprests**

The operations costs balance further includes travelling and subsistence expenses totalling Kshs.139,549,749. However, examination of expenditure records indicated that costs totalling Kshs.69,090,930 were incurred through cash to staff assigned various duties that required the use of imprests. Management did not explain why the amounts were not paid as imprests to the assigned staff.

Further, examination of records revealed outstanding imprests amounting to Kshs.28,460,051 as at 30 June, 2022. Management did not provide an analysis for the balance and as a result, the use and due dates for the imprests could not be confirmed.

#### **4.3 Unconfirmed Water Tank Supplies**

The Company issued two local firms with Local Purchase Orders for supply and delivery of 120 and 110 branded water tanks of 10,000 litre capacity each at a cost of Kshs.8,485,400 and Kshs.9,674,400 respectively. However, the distribution list was not provided for audit review.

In view of these issues, the propriety, accuracy and completeness of the operations costs expenditure of Kshs.2,848,039,112 could not be confirmed.

#### **5.0 Cash and Cash Equivalents**

The statement of financial position reflects cash and cash equivalents balance of Kshs.585,121,860, as disclosed in Note 19 to the financial statements. However, examination of records on the balance revealed the following unsatisfactory issues:



## 5.1 Unremitted Water Fees Revenue

The Company used three revenue collection Software systems in the year under review. Records provided for audit indicated that collections under one of the system totalled to Kshs.39,896,843 during the year under review. However, the sums remitted to the Company's main account as at 30 June, 2021 was Kshs.19,991,049 resulting to an unexplained shortfall of Kshs.19,905,794.

## 5.2 Unreconciled Bank Accounts

The cashbook for one of the Company's bank accounts reflected a balance of Kshs.9,072,887 as at 30 June, 2021 whereas the respective bank certificate reflected a balance of Kshs.6,010,770 resulting to an unreconciled variance of Kshs.3,062,117. No reconciliation statements were provided for the Company's bank accounts.

Further, one bank account last used in May, 2018 reflected opening and closing balances totalling Kshs.441,071 and Kshs.463,309 respectively. No explanation was provided by Management for the failure to close the two accounts.

## 5.3 Unreconciled Covid-19 Response Programme Funds

Expenditure records indicated that the Company entered into a financing contract with Water Sector Trust Fund for implementation of Covid-19 Emergency Response Project in Nairobi County at a cost of Kshs.135,750,000. The contract entailed repair and improvements in water supply infrastructure. Examination of the cash book indicated that the Trust Fund accounted for Kshs.81,450,000 of the disbursements resulting to an unexplained variance of Kshs.54,300,000. Further examination of the bank statements for Covid-19 Response Programme account reflected a closing balance of Kshs.47,766,579. No explanation was provided for the failure to utilize the outstanding balance of Kshs.47,766,579 as at 30 June, 2021.

In view of these anomalies, the accuracy of the cash and cash equivalents balance of Kshs.585,121,860 could not be confirmed.

## 6.0 Trade and Other Payables

The statement of financial position reflects trade and other payables totalling to Kshs.2,404,139,904, as disclosed in Note 25 to the financial statements. However, the trade and other payables balance includes Kshs.208,710,125 reportedly owed to LAPTRUST as at 30 June, 2021. However, examination of records on payment of staff pensions indicated that the Company signed a deed of settlement with LAPTrust on 25 June, 2015 in relation to pension contributions amounting to Kshs.591,179,365 outstanding as at 29 June, 2015. The debts were to be paid by the Company through a bank standing order of Kshs.2,000,000 executed each working day, or approximately Kshs.44,000,000 per month. Further, the records indicated that the Company's Pension Committee approved the execution of the standing order in fifteen (15) months from 6 July, 2015 to 6 August, 2016.

In July, 2016, Management by letter instructed the Company's bank to pay LapTrust a sum of Kshs.3,000,000 each working day. However, the Board minutes that approved the



revised standing order were not provided for audit and as a result, its validity could not be confirmed.

Banking records indicated that transfers made to the LapTrust totalled to Kshs.615,000,000 during the year under review. However, the amounts paid from 6 July, 2015 to 30 June, 2020 could not be confirmed as the respective bank statements were not provided for audit. Management did not explain why the standing order was not cancelled upon its expiry on 6 August, 2016.

In the circumstances, the valuation of the balance totalling to Kshs.208,710,125 reflected in the financial statements as due to LAPTrust as at 30 June, 2021, could not be confirmed.

## 7.0 Trade Receivables and Other Receivables

The statement of financial position reflects trade and other receivables totalling to Kshs.3,006,366,480, as disclosed in Note 18 to the financial statements. However, the following anomalies were noted.

### 7.1 Unconfirmed Provisions for Doubtful Debts

Note 18 to the financial statements reflects an allowance for doubtful debts totalling Kshs.6,792,610,184 on debts outstanding beyond 480 days. However, the analyses provided for audit review reflected debts amounting to Kshs.4,679,254,187 outstanding for over 480 days are drawn from the billing system resulting to an unexplained variance of Kshs.2,113,355,997 between the debt balances reflected in the two sets of records.

Further, analysis of the records indicated that debts totalling Kshs.74,574,873 and Kshs.174,524,185 were owed by the County Government of Nairobi under as drawn from the two (2) billing systems. The County Government debts included debts owed by primary and secondary schools totalling to Kshs.108,013,302 as at 30 June, 2021. No explanation was provided for the failure by the County Government to pay these debts.

In addition, outstanding balance drawn from one of the billing system of Kshs.3,561,792,654 included amounts owed by three water companies whose records however reflected balances that varied from the Company's records, as indicated in the following table:

	Balance in NWS Records	Balance in Debtors' Records (Kshs)	Balance in Billing System (Kshs.)	Variance (Kshs.)
1.	Karuri Water and Sanitation Company Limited	42,947,511	32,231,950	10,715,561
2.	Kiambu Water and Sanitation Company Limited	97,878,793	97,607,193	271,600



	Balance in NWS Records	Balance in Debtors' Records (Kshs.)	Balance in Billing System (Kshs.)	Variance (Kshs.)
3.	Githunguri Water and Sanitation Company Limited	120,322,490	121,889,660	1,567,170
<b>Total</b>		<b>261,148,794</b>	<b>251,728,803</b>	<b>12,554,331</b>

In the circumstances, the accuracy of the provisions for doubtful debts and the debts owed by water companies could not be confirmed.

## 7.2 Unsupported Other Receivables

Note 18 to the financial statements further reflects other receivables balance amounting to Kshs.1,439,215,642. However, the debtors' schedule provided for audit reflected a balance of Kshs.1,663,468,989 resulting to an unexplained variance of Kshs.224,253,347. The receivables schedules included revenue amounting to Kshs.192,535,889 collected by two debt collection agents appointed by the Company. The records indicated that arbitration proceedings initiated by Management to recover the money from the agents had not been concluded as at 30 June, 2021.

Further, the balance includes receivables from Kenya Revenue Authority (KRA) balance of Kshs.1,113,808,030 and Kshs.357,125,070 lodged and yet to be lodged Value-Added-Tax claims respectively, arising from payments for zero-rated items. However, records on the lodged claims totalling Kshs.1,113,808,030 were not provided for audit and as a result, the validity of the claim could not be confirmed.

In addition, as in the previous financial year, Management made an additional provision for bad and doubtful debts balance of Kshs.55,512,564. The reasons for keeping the provision constant were not explained.

In the circumstances, the accuracy and recoverability of the other receivables balance of Kshs.1,439,215,642 could not be confirmed.

## 7.3 Unsupported Prepayments and Deposits

The trade and other receivables balance includes prepayments and deposits balance of Kshs.174,545,457, which relates to prepaid insurance premiums and rental deposits whose analyses were not provided for audit review.

In the circumstances, it was not possible to confirm that the trade and other receivables balance of Kshs.3,006,366,480 as at 30 June, 2021, was fairly

## 7.4 Prior Year Adjustments

Note 31 to the financial statements reflects adjustments (reductions) totalling to Kshs.179,830,735 made in respect of trade receivables. Management explained that the adjustments were made to correct billing errors made in previous years. However, records on the receivables adjusted were not provided for audit review.



In view of these matters, the accuracy, completeness of the trade receivables balance totalling Kshs.3,006,366,480 reflected in the financial statements could not be confirmed.

## **8.0 Related Party Transactions**

As disclosed in Note 28 to the financial statements, the statement of financial position reflects amounts due to related parties under current liabilities and non-current liabilities balance of Kshs.924,974,692 and Kshs.6,683,581,899 respectively, amounting to Kshs.7,608,556,591. The following issues were noted in respect to the balance:

### **8.1 Unsupported Debt Owed to Athi Water Works Development Agency**

The statement includes liabilities totalling to Kshs.7,608,556,591 in respect of fees due to Athi Water Works Development Agency (AWWDA) for lease of equipment. However, the terms and conditions for payment of the fees were not provided for audit review.

During the year under review, the Company paid AWWDA Kshs.82,238,724 in respect to the lease of the assets, after making an unexplained adjustment of Kshs.2,606,531. Management regarded the lease fees as an arbitrary charge set by AWWDA. Examination of records on the balances indicated that the amount was pegged on loans reportedly taken by the AWWDA for purchase of water supply equipment used by the Company and other regional water suppliers. However, Management did not provide records on the portion of the AWWDA loan apportioned to the Company, and what the funds were used for. Further, the assigned assets and infrastructure, if any, were not valued, and therefore the basis for settling the lease payments was not disclosed.

In addition, the outstanding balance differs by Kshs.3,496,227,265 with the sum of Kshs.4,112,329,326 reflected as owed by the Company in the financial statements of Athi Water Works Development Agency for the year under review.

In the absence of sufficient records, the accuracy of the loan provision of Kshs.924,974,692 made in the year under review, and the outstanding balance of Kshs.7,608,556,591 could not be confirmed.

### **8.2 Long Outstanding Debt to NACICO Sacco**

Review of records revealed a long outstanding debt balance of Kshs.8,432,730 owed to NACICO Sacco dating back to June, 2014 and earlier years. No explanation was provided for the failure to settle the debt, and whether any penalties or interest were payable on account of the delay in settling the debt.

In the circumstances, the accuracy and completeness of amounts due to related parties balance of Kshs.7,608,556,591 could not be confirmed.

## **9.0 Customer Deposits**

The statement of financial position reflects customer deposits balance of Kshs.1,024,687,575 which, as disclosed in Note 23 to the financial statements amounted to Kshs.1,024,681,632 resulting to unexplained variance of Kshs.5,943. Further, customer deposits balance brought forward from the previous year's audited financial statements amounted to Kshs.960,944,823. However, the analysis provided in respect to the account reflected an opening balance of Kshs.790,977,850 resulting to an

---

*Report of the Auditor-General on Nairobi City Water and Sewerage Company Limited for the year ended 30 June, 2021*



unreconciled variance of Kshs.169,966,973. In addition, records on customer deposits analyses reflected accrued interest balance of Kshs.24,273,887 charged at 3% per annum. However, re-calculation of the interest due yielded a balance of Kshs.29,372,896 resulting to an unreconciled difference of Kshs.5,099,009.

Further, review of the Company's performance information on water and sewerage connections indicates that the Company had 551,034 active water and sewerage connections as at 30 June, 2021 up from 544,445 at the beginning of the year, or 6,589 new customers. However, Note 23 to the financial statements reflects deposits balance of Kshs.41,323,836 received from customers in the year under review against an amount of Kshs.40,321,373 computed from the performance data. Management did not provide a satisfactory explanation for the variance of Kshs.1,002,463. Further, records on water connections indicated that although 16,529 customers had paid deposits, only 6,589 customers were connected to the water supply system resulting to a shortfall of 9,940 or 60% unconnected applicants. No satisfactory explanation was provided by Management for the underperformance.

In addition, expenditure records indicated that deposits and interest totalling to Kshs.1,860,914 were refunded to customers in the year under review. However, the identities of the customers were not provided for audit review.

In the circumstances, the accuracy of the customers deposits balance of Kshs.1,024,687,575 as at 30 June, 2021 could not be confirmed.

#### **10.0 Customers with Credit Balances**

The statement of financial position reflects customers with credit balance of Kshs.266,702,512 as disclosed in Note 26 to the financial statements. Management explained that the customers were overbilled in error and were as a result issued with credit notes for the excess amounts. However, the notes issued were not analyzed to support the balance.

#### **11.0 Inventories**

The statement of financial position reflects inventories totalling Kshs.465,768,643 as further disclosed in Note 17 to the financial statements. However, examination of procurement and stores records revealed discrepancies in supplies of items relating to four (4) water treatment plants amounting to Kshs.27,628,496. These included under-delivery and failure to record reported supplies in stores records.

In the circumstance, the accuracy and completeness of the inventories balance of Kshs.465,768,643 as at 30 June, 2021 could not be confirmed.

#### **12.0 Property, Plant and Equipment**

The statement of financial position reflects property, plant and equipment balance of Kshs.3,322,286,870, as disclosed in Note 15 to the financial statements. However, the following anomalies were noted:

## **12.1 Inaccuracies in Work-in-Progress**

The property, plant and equipment balance includes work-in-progress balance of Kshs.687,483,588 which however, includes a project valued at Kshs.12,866,030 which has been duplicated while cost of construction of an ablution block initiated in 2014 in Ruiru, Kiambu County, was omitted from the work-in-progress balance.

In the circumstances, the accuracy of the work-in-progress balance of Kshs.687,483,588 could not be confirmed.

## **12.2 Undisclosed Policy on Intangible Assets**

Note 16 to the financial statements reflects an intangible assets balance of Kshs.114,975,703 which increased by Kshs.105,855,798 from Kshs.9,119,905 as at 30 June, 2020. The amortization charge for the year amounting to Kshs.9,923,554. However, no explanation was provided on how the charge was computed.

In the circumstance, the accuracy of the intangible assets balance of Kshs.114,975,703 as at 30 June, 2021 could not be confirmed.

## **12.3 Failure to Revalue Property, Plant and Machinery**

Several assets of the Company with Nil net book values had not been revalued, as explained in the following paragraphs:

### **i. Plant and Machinery**

Included in the property, plant and equipment balance of Kshs.3,322,286,870 is a net book value of Kshs.2,236,276,846 for plant and machinery. Although the Company had 426 items of plant and machinery, only 318 of these were depreciated. A total of 108 items with Nil net book as at 30 June, 2021 and which were procured at a cost of Kshs.425,997,911 in 2014 were still in use but had not been revalued.

### **ii. Equipment**

Similarly, the property, plant and equipment balance of Kshs.3,322,286,870 includes equipment with a net book value of Kshs.200,360,291 as at 30 June, 2021. Out of the 11,156 items of equipment owned by the Company, 4,015 procured in 2014, 2015, 2017, 2018, and 2019 at a total cost of Kshs.586,065,682 had zero net book value but were in good condition and in use.

### **iii. Furniture**

The property, plant and equipment balance includes furniture with a net book value of Kshs.34,192,011 as at 30 June, 2021, as indicated in Note 15 to the financial statements. The respective records indicated that although the Company had 6,339 items of furniture, only 4,223 items were depreciated in the year under review. The balance of 2,116 procured in 2014 at a cost of Kshs.77,903,806 had Nil net book values but were in good condition and in use.



#### **iv. Motor Vehicles and Motor Cycles**

Review of asset records revealed that the Company had 228 motor vehicles and 204 motor cycles with a net book value of Kshs.30,738,435 as at 30 June, 2021. However, only eight vehicles procured in the financial year 2020/2021 were charged depreciation in the year under review. The remainder 220 vehicles and 204 motor cycles procured at a cost of Kshs.254,956,932 and Kshs.68,254,868 respectively had Nil net book values as at 30 June, 2021. Included in these were 174 vehicles and 128 motorcycles were in good condition and in use but had not been revalued.

Further, out of the Company's fleet of 228 vehicles and 204 motor cycles, 46 vehicles and 76 motor cycles were not in serviceable condition and were grounded. However, Management did not provide records on the assets' defects.

In the circumstances, Management did not adhere to International Financial Reporting Standards No. 16 on property, plant and machinery which requires assets with Nil book value still in use to be revalued and depreciated annually.

#### **13.0 Revenue Reserves**

The statement of financial position reflects a debit balance under accumulated revenue reserves balance of Kshs.6,015,045,881 as at 30 June, 2021 as reflected in Note 21 to the financial statements.

During the 2019/20, a prior year adjustments of Kshs.391,782,463 was made to revenue reserves. However, the adjustments were not analyzed. These included Value-Added-Tax (VAT) claims that were not honored by the Kenya Revenue Authority (KRA) after amendments to the VAT Act changed the respective items from zero-rated to exempt status. However, in the absence of analyses, it was not possible to confirm whether the items included in the balance were affected by the amendments to the Act. Further, records on KRA's decision on the items were not provided for audit. Therefore, the accuracy of the adjustments totalling Kshs.391,782,463 could not be confirmed.

In the circumstances, the accuracy of the debit balance under accumulated revenue reserves balance of Kshs.6,015,045,881 as at 30 June, 2021 could not be confirmed.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the Nairobi City Water and Sewerage Company Limited Management in accordance with ISSAI 130 on Code of Ethics. I have fulfilled other ethical responsibilities in accordance with the ISSAI and in accordance with other ethical requirements applicable to performing audits of financial statements in Kenya. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

#### **Emphasis of Matter**

#### **Contingent Liabilities**

Examination of records on the legal records of the Company confirmed the existence of the following contingent liabilities:

#### **i. Miscellaneous Legal Suits**

Note 35 to the financial statements reflects contingent liabilities balance of Kshs.5,640,150,798, related to legal suits against the Company. The Directors believe that the resolution of the suits is not likely to have a material effect on the Company's operations.

#### **ii. Arbitration on Unpaid Supplies**

As reported in the financial statements for Nairobi Sanitation Output Based Aid Project, for the year under review, there was an ongoing arbitration in relation to the Company's failure to pay the contractor an advance payment of Kshs.166,224,772.30 provided for in the contract. There is risk that the Company may incur material costs should the case be ruled in favor of the contractor.

My opinion, is not qualified in respect of the effects of the above matters.

#### **Key Audit Matters**

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

#### **Other Matter**

#### **Prior Year Matters**

In the audit report of the previous year, several issues were raised under the Report on Financial Statements, Report on Lawfulness and Effectiveness in Use of Public Resources, and Report on Effectiveness of Internal Controls, Risk Management and Governance. The report on progress on follow-up of the auditor recommendations in the financial statements for the year under review indicates that some of the issues had been resolved and work to resolve the remainder was ongoing as at 30 June, 2021 and the actual status of all the issues will be confirmed after they are discussed by the County Assembly.

#### **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 of the Auditor-General on Nairobi City Water and Sewerage Company Limited for the year ended 30 June, 2021*



# REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

## Conclusion

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

## Basis for Conclusion

### 1.0 Non-Compliance with the Public Sector Accounting Standard Template

The financial reporting template prescribed by the Public Sector Accounting Standards Board (PSASB) requires reporting entities to disclose cost of sales as a direct cost in the statement of profit or loss and other comprehensive income. Stock records indicated that the Company had opening stock, purchases, closing stock and production costs totalling to Kshs.442,979,322, Kshs.536,496,275, Kshs.465,768,643 and Kshs.960,932,669 respectively. However, the financial statements do not disclose the cost of sales. The statement of profit or loss and other comprehensive income does not therefore conform to the reporting requirements prescribed by the PSASB. In addition, it does not provide sufficient disclosure on the financial operations of the Company in the year under review.

In the circumstances, Management was in breach of the law.

### 2.0 Excess Non-Revenue Water

Water production records indicated that the Company produced 180,142,925.06 cubic meters (m<sup>3</sup>) of water in the year under review out of which only 95,213,578 (m<sup>3</sup>) was billed to customers. The balance of 84,929,347.06 or approximately 47% of the total volume produced denoted Non-Revenue Water. The Non-Revenue Water was twenty-two (22) percentage points above the allowable loss threshold of 25% set in guidelines issued by the Water Services Regulatory Board (WASREB).

The amount denoted a highly inefficient water distribution system that lost more than half of the water it received for supply to customers.

Management attributed the losses to water pipeline leakages and other forms of loss. Although measures to stop the losses have been identified and discussed over the years, mitigative actions taken, including monitoring and control, were not disclosed.

In the circumstances, Management was in breach of the law.

### 3.0 Failure to Implement Policies

Expenditure records indicated that the Company spent Kshs.10,734,500 on formulation and presentation of the Draft Human Resource Policies And Procedures Manual, and on a retreat for the Sectoral Committee on Water and Sanitation, and formulation of various other policies. However, the policies had not been implemented by the time of the audit.



As a result, expenditures totalling to Kshs.10,734,500 incurred on formulation of the policies was not effective.

#### **4.0 Unsupported Borrowing**

The statement of financial position reflects borrowings totalling Kshs.371,147,561, as disclosed in Note 24 to the financial statements, a decrease of Kshs.309,855,943 from the Kshs.681,003,504 at the beginning of the year under review. The borrowings were secured by debentures on the assets of the Company valued at Kshs.700,000,000. However, the need for the loans was not clear considering that the Company repaid Kshs.309,855,943 or 46% of the outstanding amount in the year under review. No supporting documents were produced for audit review.

Further, the Board authorized Management to borrow Kshs.25,600,000 from a local bank to pay salaries for the months of May and June, 2020 and corporate group life insurance cover premiums. Both loans were of short-term nature and were repaid within one year of their disbursements incurring interest charges amounting to Kshs.31,836,955. Similarly, no supporting documents were produced for audit review.

In the circumstances, it has not been possible to confirm whether the borrowing was done in prudent way.

#### **5.0 Irregular Payments to Labour Union**

Examination of payroll records indicated that there were three labour unions affiliated to the Company namely Nairobi Union of Water and Sewerage Employees (NUWASE) with five (5) members, Kenya Union of Water and Sewerage Employees (KUWASE) with 322 members and Kenya Local Government Workers Union (KLGWU) with 1,996 members. The Company formally recognized NUWASE and KLGWU on 10 May, 2010, and 18 February, 2013 respectively as provided for in Section 54(2) of the Labor Relations Act, 2007. However, the agreement signed between the Company and KUWASE was not provided for audit review.

Records on staff deductions indicated that a Court Order issued under Case No. 439 of 2010 prohibited KLGWU from purporting to represent or act as an agent of the employees of the Company in any manner from 1 April, 2011. All salary deductions and remittances to the Union were to cease with effect from 1 April, 2011. However, as noted, NCWSC in the year under review, remitted Kshs.14,936,000 to the Union contrary to the orders of the Court. No explanation was provided by Management for maintaining relations with the Union in spite of the Court Order.

#### **6.0 Long Outstanding Trade and Other Payables**

Included in the trade and other payables balance of Kshs.2,404,139,904 are trade payables balance of Kshs.1,538,311,079 which include long outstanding payables to the Water Services Regulatory Board and Water Resource Authority balance of Kshs.786,440,705 and Kshs.418,395,865 respectively. No explanation was provided for the failure to pay the debts contrary to Section 89(1) and 109(1) of the Water Act, 2016.



## **6.1 Unremitted Retirement Benefits**

During the year under review records on staff costs indicated that Kshs.1,054,519,352 was spent on staff retirement benefits in the. The spending related to National Social Security Fund Provident Fund/Pension Fund and Gratuity. However, the funds were not remitted to the respective payees. Similarly, staff salary deductions totalling Kshs.208,711,877 were not remitted to the respective entities.

Further, delay in remitting the amounts may have resulted in interest and penalties that have not been accounted for in the financial statements.

In the circumstances, the Company was in breach of the laws and regulations governing statutory and other deductions related to staff.

## **6.2 Non-Remittance of Labour Union Dues**

The payroll records further indicated that the Central Organization of Trade Unions (COTU) in January, 2021 notified the Company about unremitted members dues totalling to Kshs.150 and Kshs.20 per month from every staff unionized member with effect from 2010. However, review of records revealed that the Company had instead remitted all the dues to Kenya County Government Workers Union (KCGWU) who, however, failed to pay COTU. The Company may have owed COTU an undetermined amount of remittances spanning several years as at 30 June, 2021. The amounts owed have not been included in the financial statements for the year under review.

In the circumstance, Management was in breach of the law.

## **7.0 Incomplete Projects**

Examination of project records indicated that thirty-four (34) projects with contract sums totalling to Kshs.2,330,140,736 and payments totalling Kshs.991,166,615 were not completed in due time. Some of the contractors had vacated the sites and as a result the respective project works were vandalized or rundown. Other anomalies included poor quality works and lack of public participation in planning and executing the projects.

In view of the delay in completion of the projects, the benefits they were intended to provide to the residents of Nairobi County were not realized. Further there is risk that continued delay in completing them will cause their costs to increase due to inflationary and other factors.

## **8.0 Inadequacies Related to Procurement of Computer Software**

### **8.1 Duplicated Computer Software**

Review of the Company's information technology system indicated that the system uses thirteen financial software utilities out of which six (6) require monthly licenses at a total monthly cost of Kshs.12,855,570. During the year under review an amount of Kshs.4,545,967 was paid in respect of the licenses. However, the Company continued to use the three (3) other software systems for the water meter application services for utilities functions that can be executed by one of the software singly.



Management's purchase and use of multiple software modules for identical functions increased licensing costs for the Company and negated value for money in use of public funds. In addition, it has enhanced the risk of errors and misstatements in the Company's revenue and management reports.

## **8.2 Incomplete Software System**

Records provided for audit indicated that one of the system procured by the Company would enable migration of all stored data from the old system. However, data on customer deposits was not migrated.

As a result, the system did not meet the objectives for which it was procured.

## **8.3 Undelivered Water Meters**

The Company issued a Local Purchase Order for procurement of 10,000 water meters to a local vendor. However, review of the stores records indicated that only 250 meters were delivered. No explanation was provided for the failure to cancel the order after the vendor serviced only 2.5% of the order in twelve months after being issued with a Local Purchase Order with a 60-day validity period. Indeed, as highlighted elsewhere in this report, 9,940 residents who applied and paid to be connected to the water supply system were not connected which omission may have been caused by shortage of water meters.

In the circumstance, Management was in breach of the law.

## **9.0 Outstanding Legal Issues**

Examination of records indicated that the Company faced several outstanding legal issues on which Court awards to various parties had been made and legal costs incurred. These included an order by the Court to pay a landowner penalties totalling to Kshs.68,379,869 for delay in compensating him for land purchased by the Company. Others included order to pay members of staff Kshs.11,141,760, Kshs.22,083,200 and Kshs.4,017,838 for wrongful termination of employment contracts; and award of compensation totalling Kshs.11,238,650 to a vendor for delay in payment of water-dispenser equipment supplies, among other ongoing cases.

In the circumstances value for money could not be ascertained and wasteful use of public funds totalling to Kshs.116,861,317.

## **10.0 Irregular Allowance Payments**

Examination of expenditure records indicated that there were irregularities in payment of acting and telephone allowances

During the year under review, allowances amounting to Kshs.231,696,155 comprising house allowance, leave allowance and special duty allowance balance of Kshs.158,711,400, Kshs.43,882,694 and Kshs.11,102,061 respectively were paid at rates that varied from those prescribed in the Company's Human Resource Manual. Further, analysis of the payroll data indicated that officers were overpaid leave allowance by Kshs.46,655,560 in the financial year. The payments were made contrary to Clause



17.1 (f) of the Collective Bargaining Agreement (CBA) which states that employees shall be paid leave allowance equivalent to 72% of their monthly basic pay once a year.

Further, payroll data indicated that some officers were paid acting allowances amounting to Kshs.18,617,261 for periods longer than six (6) months, contrary to the human resource manual. No explanation was provided for the failure to advertise and fill these positions.

In addition, payroll data indicated that some officers were paid telephone allowances totalling to Kshs.4,190,968. However, there were no records to confirm that the payments were authorized in accordance with the law or Company policies.

As a result, the regularity of the allowance payments could not be confirmed.

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

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

### Conclusion

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

### Basis for Conclusion

#### 1.0 Lack of Information Technology Policy

Review of the Company's information technology systems indicated that although the Company uses Enterprise Resource Planning (ERP) and other software in its operations, no policy had been developed for governance and management of its ICT resources.

Further, no ICT Steering Committee had been constituted to guide the development and maintenance of the Company's ICT policy framework and tools.

In the absence of an approved IT policy and Steering Committee, the Company's investment in and use of ICT may not be effective.

#### 2.0 Inadequate Customer Management and Billing Controls

Expenditure records indicated that payments totalling to Kshs.71,359,722.68 had been made on a contract for the supply, delivery, installation, testing and commissioning of a customer management and billing system priced at USD.1,192,596 then equivalent to

Kshs.122,774,419. Although, the system was in use during the year under review, the non-disclosure and service-level agreements signed with the vendor, if any, were not provided for audit. As a result, the existence of the contracts and related confidentiality safeguards and maintenance service requirements could not be confirmed.

In the circumstance, value for money on public funds spent to procure the system could not be confirmed.

### **3.0 Overdue Human Resource Policy and Procedures**

Management records indicated that a Steering Committee of thirteen (13) members was appointed on 17 September, 2018 to review the Company's Human Resource Policy And Procedures. The Committee was required to complete the task within two (2) months.

However, the Committee's records indicated that the report had not been finalized as at 30 June, 2021 even though an amount of Kshs.4,246,500 had been spent in allowances paid to its members.

In the circumstances, the delay in finalizing the documents may have hampered effective management of human resource in the Company.

### **4.0 Failure to Maintain an Updated Asset Register**

Management reported that the Company owned property, plant and equipment balance of Kshs.3,322,286,870 as at 30 June, 2021. However, the fixed asset register was not updated to reflect this balance. Further, sampled verification of the Company's assets in various stations indicated that the assets were not tagged for ease of tracing and safe custody.

In the circumstances, internal controls on management of the Company's fixed assets were inadequate and safe custody could not be confirmed.

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

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

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

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



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

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

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

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

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

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

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

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

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



Further, in planning and performing the audit of the financial statements and audit of compliance, I consider internal controls in order to give an assurance on the effectiveness of internal controls, risk management and overall governance processes and systems in accordance with the provisions of Section 7(1)(a) of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution. My consideration of the internal controls 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 controls may not prevent or detect misstatements and instances of non-compliance. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies and procedures may deteriorate.

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

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



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

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

  
CPA Nancy Gathungu, CBS  
AUDITOR-GENERAL

Nairobi

04 November, 2022





STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE  
INCOME FOR THE YEAR ENDED 30th JUNE 2021

	Note	2021	2020
		Kshs	Kshs
<b>OPERATING INCOME</b>	6	9,659,858,547	9,177,235,710
<b>GRANT INCOME</b>	7	1,021,177,143	5,316,179
<b>Total</b>		<b>10,681,035,690</b>	<b>9,182,551,889</b>
<b>EXPENSES</b>			
Staff costs	8	6,317,742,440	5,787,867,856
Operations	9	2,848,039,112	2,913,612,005
Maintenance	10	272,398,253	250,784,230
Other expenses	11	1,046,136,286	991,763,965
<b>Total</b>		<b>10,484,316,091</b>	<b>9,944,028,055</b>
<b>Surplus Before Interest &amp; Tax</b>		<b>196,719,600</b>	<b>(761,476,167)</b>
Finance costs	12	98,620,955	89,339,440
<b>SURPLUS BEFORE TAX</b>	13	<b>98,098,644</b>	<b>(850,815,607)</b>
<b>Net surplus/ Deficit for the year</b>		<b>98,098,644</b>	<b>(850,815,607)</b>

STATEMENT OF FINANCIAL POSITION AS AT 30TH JUNE 2021

ASSETS	NOTE	2021	2020
<b>NON- CURRENT ASSETS</b>		<b>Kshs</b>	<b>Kshs</b>
Property, plant and equipment	15	3,322,286,870	3,391,015,377
Intangible assets	16	114,975,703	9,119,905
		<b>3,437,262,573</b>	<b>3,400,135,282</b>
<b>CURRENT ASSETS</b>			
Inventories	17	465,768,643	442,979,322
Trade and other receivables	18	3,006,366,480	2,917,410,241
Cash and Cash equivalents	19	585,121,860	202,804,327
		<b>4,057,256,983</b>	<b>3,563,193,890</b>
<b>TOTAL ASSETS</b>		<b>7,494,519,556</b>	<b>6,963,329,172</b>
<b>CURRENT LIABILITIES</b>			
Trade and other payables	25	2,404,139,904	2,486,408,059
Customers with credit balances	26	266,702,512	217,501,924
Provisions for Leave	27	191,252,411	291,402,887
Borrowings	24	68,522,564	183,060,889
Amounts due to related parties	28	924,974,692	1,311,960,787
		<b>3,855,592,083</b>	<b>4,490,334,546</b>
<b>NET ASSETS</b>		<b>3,638,927,473</b>	<b>2,472,994,626</b>
<b>SHAREHOLDERS' FUNDS AND LIABILITIES</b>			
<b>CAPITAL AND RESERVES</b>			
Share Capital	20	100,000	100,000
Revenue Reserve	21	(6,015,045,881)	(5,933,313,790)
Capital Grant	22	1,642,978,883	1,493,461,141
		<b>(4,371,966,998)</b>	<b>(4,439,752,649)</b>
<b>NON-CURRENT LIABILITIES</b>			
Customer deposits	23	1,024,687,575	960,944,823
Borrowings	24	302,624,997	497,942,615
Amounts due to related parties	28	6,683,581,899	5,453,859,837
		<b>8,010,894,471</b>	<b>6,912,747,275</b>
<b>TOTAL SHAREHOLDERS' FUNDS AND LIABILITIES</b>		<b>3,638,927,473</b>	<b>2,472,994,626</b>

The financial statements on pages 33 to 88 were approved by the Board of Directors on  
 \_\_\_September 2021.

Beryl Lilian Okumu Odinga –  
 Chairman

Eng. Nahason M. Muguna - Managing Director

CPA Paul E. Omondi  
 Ag. Finance & strategy Director

ICPAK No. 3647



STATEMENT OF CHANGES IN EQUITY AS AT 30th JUNE 2021

	Note	Share	Revenue	Capital	Restated
	s	Capital Kshs	Reserve Kshs	Grant Kshs	Total Kshs
As at 30th June 2019		100,000	(4,690,715,720)	1,514,181,943	(3,176,433,777)
Prior year adjustments	30		(391,782,463)		(391,782,463)
Restated balance		100,000	(5,082,498,183)	1,514,181,943	(3,568,216,240)
Amortization				(193,775,766)	(193,775,766)
Additions for the year				173,054,964	173,054,964
Surplus for the year	13		(850,815,607)		(850,815,607)
As at 30th June 2020		100,000	(5,933,313,790)	1,493,461,141	(4,439,752,649)
As at 30th June 2020		100,000	(5,933,313,790)	1,493,461,141	(4,439,752,649)
Prior year adjustments	30		(179,830,735)		(179,830,735)
Restated balance		100,000	(6,113,144,525)	1,493,461,141	(4,619,583,384)
Amortization				(193,775,766)	(193,775,766)
Additions for the year				343,293,508	343,293,508
Surplus for the year	13		98,098,644		98,098,644
As at 30th June 2021		100,000	(6,015,045,881)	1,642,978,883	(4,371,966,998)

# STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2021

	NOTE	2021	2020
<b>Operating activities:</b>		<b>Kshs</b>	<b>Kshs</b>
Cash generated from operations	31	970,254,242	(4,510,249)
Interest paid		(98,620,955)	(89,339,440)
Net cash generated from operating activities		871,633,287	(93,849,689)
<b>Cash flow from investing activities:</b>			
Purchase of property, plant and equipment	15	(406,973,967)	(345,464,161)
Purchase of intangible assets	16	(115,779,352)	
Net cash used in investing activities		(522,753,319)	(345,464,161))
<b>Cash flow from financing activities:</b>			
Proceeds from long-term borrowings			352,251,378
Proceeds from financing assets	22	343,293,506	173,054,964
Repayment of long-term borrowings		(309,855,941)	(77,929,917)
Net cash generated from financing activities		33,437,565	447,376,425
Net increase/(decrease) in cash and cash equivalents		382,317,533	8,062,575
<b>Movement in cash and cash equivalents:</b>			
As at 1 <sup>st</sup> July		202,804,327	194,741,752
Increase		381,317,533	8,062,575
As at 30 <sup>th</sup> June	19	585,121,860	202,804,327



STATEMENT OF COMPARISON OF BUDGET AND ACTUAL ACCOUNTS  
FOR THE PERIOD ENDED 30 JUNE 2021

	Original budget	Actual on	Performance	%
	2020/2021	comparable basis	difference	2020/21
		2020/2021	2020/2021	
<b>REVENUE</b>				
Water	6,485,049,000	4,667,347,991	(1,817,701,009)	(28.03)
Sewerage	4,765,071,000	3,718,868,570	(1,046,202,430)	(21.95)
Meter Rent	180,618,000	160,627,581	(19,990,419)	(11.07)
Miscellaneous	450,000,000	1,113,014,405	407,541,038	147.55
Operating Income	11,880,738,000	9,659,858,547	(2,220,879,453)	(18.70)
Grant Income	293,762,258	1,021,177,143	727,414,885	247.62
<b>TOTAL REVENUE</b>	<b>12,174,500,258</b>	<b>10,681,035,690</b>	<b>(1,493,464,568)</b>	<b>(12.26)</b>
<b>EXPENDITURE</b>				
Staff Costs	6,350,724,002	6,317,742,440	32,981,562	0.52
Operations	3,241,229,004	2,848,039,112	393,189,892	12.13
Maintenance	392,600,000	272,398,254	120,201,746	30.62
Financing Costs	96,600,000	98,620,955	(2,020,955)	(2.09)
Other Expenses	705,512,000	1,046,136,286	340,624,286	(48.28)
<b>TOTAL OPERATING</b>	<b>10,786,665,005</b>	<b>10,582,937,046</b>	<b>203,727,959</b>	<b>2</b>
<b>EXPENSES</b>				
<b>NET INCOME</b>	<b>1,387,835,253</b>	<b>98,098,644</b>	<b>1,289,736,609</b>	<b>(92.93)</b>



## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR END 31<sup>ST</sup> DECEMBER 2014

### 1. General information

Nairobi City water and sewerage Company Ltd is established by and derives its authority and accountability from water Act and the companies act laws of Kenya. The entity is wholly owned by the Nairobi City County Government and is domiciled in Kenya. The entity's principal activity is provision of water and sewerage services.

For Kenyan Companies Act reporting purposes, the balance sheet is represented by the statement of financial position and the profit and loss account by the statement of profit or loss and other comprehensive income in these financial statements.

### 2. Basis of preparation of the financial statements

The financial statements are prepared in accordance with the Accrual Basis of Accounting Method under the International Financial Reporting Standards (IFRS). The financial statements are prepared under the historical cost basis of accounting except for the measurement at re-valued amounts of certain items of property, plant and equipment and presented in the functional currency, Kenya Shillings (Kshs) rounded to the nearest Shilling.

The preparation of financial statements in conformity with IFRSs allows 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 4 below.

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

### Going Concern

The financial performance of the company is set out in the Director's report and in the statement of comprehensive income. The financial position of the company is set out in the statement of financial position. Disclosures in respect of risk management are set out in note 32.

Based on the financial performance and position of the company and its risk management policies, the directors are of the opinion that the company is well placed to continue in business for the foreseeable future and as a result the financial statements are prepared on a going concern basis. In making this assessment, the Directors consider a wide range of information relating to present and anticipated future conditions, including future projections of profitability, cash flows and other resources.

The company has put in place a new billing system to enhance growth of our billing and collections and also enhance controls in revenue management.

The company has also applied for a tariff review as the one in use has been in existence since November 2015 whereas prices of goods have gone up.





The NCWSC is already implementing the non-revenue water reduction strategies which are being fast tracked to improve on our revenue growth.

- (i) Relevant new standards and amendments to published standards effective for the year ended 30 June 2021

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 January 2020, and have been applied in preparing these financial statements.

**IFRS 9 – Financial Instruments** -This new standard, which replaces IAS 39 – Financial Instruments: Recognition and Measurements, was issued to introduce new classification and measurement requirements, a new hedge accounting model, as well as a single forward-looking expected credit loss impairment model. The NCWSC has identified a change in the measurement of trade receivable is equal to the fair value for this type of transaction. Additionally, the standard requires the measurement and recognition of expected impairment losses on financial assets. Under these requirements, a simplified model must be applied when determining an impairment loss for trade receivables with no significant financing component. This applies to the NCWSC's "Trade and other receivables" for which the loss allowance is measured at an amount equal to lifetime expected credit losses. The adoption of this new standard had no impact on the amounts reported in the financial statements.

#### **Amendments to IAS 1 and IAS 8 Definition of material**

The amendments are intended to make the definition of material in IAS 1 easier to understand and are not intended to alter the underlying concept of materiality in IFRS Standards. The concept of 'obscuring' material information with immaterial information has been included as part of the new definition. The threshold for materiality influencing users has been changed from 'could influence' to 'could reasonably be expected to influence'. The definition of material in IAS 8 has been replaced by a reference to the definition of material in IAS 1. In addition, the IASB amended other Standards and the Conceptual Framework that contain a definition of material or refer to the term 'material' to ensure consistency. The amendments are applied prospectively for annual periods beginning on or after 1 January 2020, with earlier application permitted.

Based on their assessment of the potential impact of application of the above, the Directors do not expect that there will be a significant impact on the company's financial statements.

- (ii) New and amended standards and interpretations in issue but not yet effective in the year ended 30 June 2021.

Title	Description	Effective Date
IAS 1 — Presentation of Financial Statements	IAS 1 "Presentation of Financial Statements" sets out the overall requirements for financial statements, including how they should be structured, the minimum requirements for their content and overriding concepts such as going concern, the accrual basis of accounting and the current/non-current distinction. The standard requires a complete	Nairobi City water and Sewerage Company already adopted this form of presentation



	set of financial statements to comprise a statement of financial position, a statement of profit or loss and other comprehensive income, a statement of changes in equity and a statement of cash flows.	
IAS 16 — Property, Plant and Equipment	IAS 16 "Property, Plant and Equipment" outlines the accounting treatment for most types of property, plant and equipment. Property, plant and equipment is initially measured at its cost, subsequently measured either using a cost or revaluation model, or depreciated so that its depreciable amount is allocated on a systematic basis over its useful life.	Nairobi City water and Sewerage Company already adopted this form of presentation

#### 4. 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:

##### Property, plant and equipment

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).

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.

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. Revenue is recognized at the fair value of consideration received or expected to be received in the ordinary course of the entity's activities. The following specific recognition criteria must be met before revenue is recognized.

Revenue from provision of water and sewerage services is recognized when these services are delivered to customers and billed by the Company. The billing is done on monthly billing cycle based on the units consumed as read on the customer water meters and as per approved consumer tariff. If the meter reading is not available, the consumption between the last meter reading and the end of billing cycle is estimated.

#### ii) Meter rent income

Meter rental income is recognized on monthly basis after water meters are installed at the customers' premises. This is based on the approved tariff by water services regulatory board.

#### iii) Other income

This includes sale of tender documents, exhauster services, effluent discharge fees, sale of sludge, fraud charges, claims compensation, survey fees etc.

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

#### iv) Grants

Income grants are recognized in the statement of comprehensive income in the year in which the entity actually receives such grants.

#### d) 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.



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.

The accounting records are maintained in the functional currency of the primary economic environment in which the entity operates, Kenya Shillings.

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.

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.

#### ii) Employee benefits

##### 1) 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.

##### i) 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.



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.

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.

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

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

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

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.

#### r) Interest bearing borrowings

All borrowings are recognized at cost. Borrowing costs are expensed as finance costs.

#### q) Revenue reserve

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

#### r) Customer deposits

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

#### s) 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.

#### t) Provision for overtime

The Company provides for overtime payment for hours worked in excess of those specified in the terms of contracts for employees in grade 6 -9. 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.

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.

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 4(a), 4 (d) and 4 (i) above.

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.

#### 6. OPERATING INCOME

	2021	2020
	Kshs	Kshs
Water	4,667,347,991	4,780,543,825
Sewer services	3,718,868,570	3,731,565,041
Meter rent	160,627,581	165,413,250
Other income	1,113,014,405	499,713,594
	<b>9,659,858,547</b>	<b>9,177,235,710</b>

Other income comprises income from exhauster services rendered,, survey fees, sale of sludge, sale of water by tanker, fraud charges and recoveries, claims compensation, reconnection fee, effluent discharge license fee, chemical analysis fee, sewer connection charges, jisomee customer loan repayments and Grant Amortization kshs 193,775,766 (2020:193,775,766)

#### 7. GRANT INCOME

	2021	2020
	Kshs.	Kshs
Grant Income	1,021,177,143	5,316,179

The Company received grant/funding from World Bank as Conditional Liquidity Support Grant (CLSG) (kshs 1,000,000,000) and funding from Nairobi Metropolitan Services (NMS) kshs 21,177,143 worth of chemicals.



	Note	2021 Kshs	2020 Kshs
Salaries and wages		2,967,150,657	2,905,203,956
House allowances		807,720,741	831,211,865
Leave allowances		203,786,063	197,867,472
Bonus		22,869,000	24,079,053
Overtime		318,275,860	284,846,497
Retirement benefits	32	1,054,519,352	650,648,840
Other allowances		607,711,883	590,173,485
Medical expenses		314,103,432	264,916,816
Leave pay provision		0	0
Welfare		21,605,451	38,919,872
		<b>6,317,742,440</b>	<b>5,787,867,856</b>

The average number of employees at the end of the financial year was 3,239 (2020:3,335). The average per category is indicated below;

Grade	Category	Average Number 2021	2020
1	Managing Director	1	1
2	Functional Directors	4	4
3	Departmental/Regional managers	30	32
4	Co-ordinators	114	113
5	Officers	204	210
6	Supervisors	588	610
7	Unionizable staff	695	669
8	Unionizable staff	1491	1,582
9	Unionizable staff	112	114
<b>Grand Total</b>		<b>3239</b>	<b>3,335</b>



## 9. OPERATIONS

	2021	2020
	Kshs	Kshs
Chemicals	252,590,154	260,354,445
Office supplies	35,052,800	33,510,117
Tyres and related accessories	12,493,814	14,910,393
Fuel, oil and lubricants	97,667,690	88,088,336
Uniforms and protective clothing	18,797,085	24,193,200
Electricity	292,235,753	285,023,587
Telecommunications	52,192,304	45,720,531
Postal and couriers	328,610	181,780
Water and conservancy	2,406,158	8,611,245
Insurance	74,081,795	78,527,881
Rent and rates	79,718,200	95,414,227
Hire of equipment and Vehicles	2,107,313	3,216,775
Claims, damages and compensation	141,703,145	55,881,843
Traveling and subsistence- local	139,549,745	119,118,873
Bank charges	8,516,503	10,068,819
Traveling and subsistence- External	13,561,910	41,644,679
Staff development	70,123,751	94,201,523
Security	71,729,984	77,495,665
Commissions	2,668,465	2,032,076
Publicity and advertising	4,391,660	14,357,565
Donations/Corporate Social Responsibility	0	7,795,683
Sports and recreation	8,432,784	24,077,680
Corporate year end party	0	4,805,450
Library	0	89,892
Board remuneration	29,488,798	50,223,488
AGM Expenses	1,000,000	1,000,000
Audit fees	3,552,830	3,552,830
Legal fees	19,962,859	17,653,015
Consultancy	8,470,378	11,562,790
Licensing, lease and levy	1,365,078,727	1,412,689,622
Stakeholders expenses	40,135,537	27,606,930
<b>Total</b>	<b>2,848,039,112</b>	<b>2,913,612,005</b>



	2021	2020
	Kshs	Kshs
Ground	113,721	1,273,665
Plant and machinery	27,554,090	18,704,821
Buildings	3,134,446	4,679,731
Equipment	13,308,717	19,572,011
Motor vehicles	40,226,174	34,716,546
Furniture and fittings	13,832	146,364
Software	4,584,967	476,100
Water fittings and accessories	173,646,925	138,820,752
Water meters	9,815,382	32,394,240
<b>Total</b>	<b>272,398,254</b>	<b>250,784,230</b>

#### 11. OTHER EXPENSES

	Note	2021	2020
		Kshs	Kshs
Provision for bad and doubtful debts	18	560,510,258	554,573,581
Depreciation of property, plant and equipment	15	475,702,475	430,996,976
Amortization of intangible assets	16	9,923,554	6,193,408
<b>Total</b>		<b>1,046,136,286</b>	<b>991,763,965</b>

#### 12. FINANCE COSTS

	2021	2020
	Kshs	Kshs
Interest on loan	74,105,665	63,496,202
Interest on overdraft	241,403	2,585,449
Interest on deposits	24,273,887	23,257,789
<b>Total</b>	<b>98,620,955</b>	<b>89,339,440</b>

	2021 Kshs	2020 Kshs
The surplus before tax is stated after charging:		
Depreciation of property, plant and equipment	475,702,475	430,996,976
Amortization of intangible assets	9,923,554	6,193,408
Directors' emoluments:		
-Fees	29,488,798	50,223,488
-Other emoluments		11,657,617
Auditors' remuneration	3,552,830	3,552,830
Retirement benefits	1,054,519,352	650,648,839
Interest expense	98,620,955	89,339,440
And after crediting:		
Other income	(1,113,014,405)	(499,713,594)

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 and Nairobi Metropolitan Services (NMS) to deliver services as per the county government Act and the deed of Transfer. 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. Any surplus arising thereon is re-invested in the water services infrastructure for development and enhancing sustainability as provided in water at 2016.

#### 15. PROPERTY, PLANT AND EQUIPMENT

According to the Tripartite Agreement, Hand over deed, Agency Agreement and Service Provision Agreement, NCC handed over to the Company it has fixed or landed and other assets on lease basis for the purpose of discharging its mandate under the Water Act of 2002. However, the water Act 2016 provides the asset linked to water service provision should be vested in the company and the transfer done by CS in-charge of water. This is still pending. The Company was 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	PLANT & MOTOR				COMPUTER & RELATED EQUIPMENT	FURNITURE & FITTINGS	WIP	TOTAL
	BUILDINGS	MACHINERY	VEHICLES	EQUIPMENT				
	KSHS	KSHS	KSHS	KSHS	KSHS	KSHS	KSHS	KSHS
As at Jul 2019	79,173,807	3,057,140,646	422,100,846	941,894,638	534,053,343	151,818,339	738,868,583	5,925,050,202
Additions at cost	798,106	52,861,962		32,431,388	17,684,344	1,063,268	240,625,093	345,464,161
Reclassification	7,182,953	284,636,789		16,585,164			(308,404,906)	0
As at June 2020	87,154,865	3,394,639,397	422,100,846	990,911,190	551,737,688	152,881,607	671,088,770	6,270,514,363
Depreciation at 1 July 2019	7,690,824	722,964,103	406,632,085	704,554,332	500,403,281	106,257,385	0	2,448,502,010
Charge for the year	1,857,573	335,141,011	10,723,327	50,723,666	22,325,539	10,225,860		430,996,976
Accumulated Depreciation	9,548,397	1,058,105,114	417,355,412	755,277,998	522,728,820	116,483,245		2,879,498,986
NBV AS AT 30 JUN 2020	77,606,468	2,336,534,283	4,745,434	235,633,192	29,008,868	36,398,362	671,088,770	3,391,015,377
As at Jul 2020	87,154,865	3,394,639,394	422,100,846	990,911,190	551,737,688	152,881,607	671,088,770	6,270,514,363
Additions at cost	3,215,589	28,250,358	37,815,000	20,217,778	23,443,470	8,487,871	379,072,781	500,502,845
Reclassification	23,607,695	245,460,102					(362,596,678)	(93,528,881)
Disposal			(6,508,950)	(81,290)				(6,508,950)
As at June 2021	113,978,149	3,668,349,854	453,406,896	1,011,210,258	575,181,158	161,369,478	687,483,588	6,670,979,381
Depreciation at 1 Jul 2020	9,548,397	1,058,105,114	417,355,412	755,277,998	522,728,820	116,483,245		2,879,498,986
Depreciation on disposal			(6,508,950)					(6,508,950)
Charge for the year	2,241,528	373,967,894	11,821,999	55,571,969	21,421,983	10,677,102		475,702,475
Accumulated Depreciation	11,789,925	1,432,073,008	422,668,461	810,849,967	544,150,803	127,160,347	-	3,348,692,511
NBV AS AT 30 JUN 2021	102,188,224	2,236,276,846	30,738,435	200,360,291	31,030,355	34,192,011	687,483,588	3,322,286,870
NBV AS AT 30 JUN 2020	77,606,468	2,336,534,283	4,745,434	235,633,192	29,008,868	36,398,362	671,088,770	3,391,015,377

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.

	2021	2020
Computer software:-	Kshs	Kshs
<b>COST</b>		
At 1 July	165,134,305	165,134,305
Additions	115,779,352	0
At 30 June	280,913,657	165,134,305
<b>AMORTIZATION</b>		
At 1 July	156,014,400	149,820,992
Charge for the year	9,923,554	6,193,408
At 30 June	165,937,954	156,014,400
Net book value at 30th June	114,975,703	9,119,905
Value of fully Depreciated at 30th June	149,208,778	149,208,778

#### VI. 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

	2021	2020
	Kshs	Kshs
Water treatment Chemicals	56,389,481	38,843,166
Office Supplies	19,010,316	16,942,866
Tyres and accessories	5,639,847	4,153,564
Motor Spares	20,102,365	17,801,616
Uniform and protective clothing	11,393,649	12,834,316
Water meters	41,137,989	56,766,911
Water fittings and accessories	312,094,996	295,636,883
<b>Total</b>	<b>465,768,643</b>	<b>442,979,322</b>





	2021	2020
	Kshs	Kshs
Trade receivables	8,240,728,130	8,173,096,318
Less: Allowance for credit loss	(6,792,610,184)	(6,772,210,774)
Net trade receivables	1,448,117,945	1,400,885,544
Other receivables	1,439,215,642	1,397,217,275
Less: Provision for bad and doubtful debts	(55,512,564)	(55,512,564)
Net other receivables	1,383,703,078	1,341,704,711
Prepayments and deposits	174,545,457	174,819,986
	<b>3,006,366,480</b>	<b>2,917,410,241</b>

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(6,901,694,429) (2020: Kshs (6,772,210,774)). This is based on the provision of bad debts of beyond 480days 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 khs 49,577,255 for VAT claims.

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

#### 19. CASH AND CASH EQUIVALENTS

	2021	2020
	Kshs	Kshs
Cash in hand	2,490,331	2,404,254
Cash at bank	582,631,529	200,400,073
Total	<b>585,121,860</b>	<b>202,804,327</b>

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, National bank of Kenya, National commercial Bank of Africa (NCBA), 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.

	2021 Kshs	2020 Kshs
Authorized, issued and fully paid: 5,000 ordinary shares of Kshs. 20	100,000	100,000

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

		2021 Kshs	2020 Restated Kshs
At 1 July		(5,933,313,790)	(4,690,715,720)
Prior year adjustments	30	(179,830,735)	(391,782,463)
Restated Opening balance		(6,113,144,525)	(5,082,498,183)
Surplus/Deficit for the year		98,098,644	(850,815,607)
At 30 June		(6,015,045,881)	(5,933,313,790)

Revenue reserve comprises of net worth at conversion and accumulated surpluses over the years. The prior year adjustment relates 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.

## 12. CAPITAL GRANT

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

	2021 Kshs	2020 Kshs
<b>COST</b>		
As at 1 <sup>st</sup> July	2,154,069,676	1,981,014,713
Additions	343,293,508	173,054,963
	2,497,363,185	2,154,069,676
<b>Amortization:</b>		
As at 1 <sup>st</sup> July	660,608,536	466,832,769
Charge for the year	193,775,766	193,775,766
Accumulated Amortization	854,384,302	660,608,535
<b>NET BOOK VALUE AS AT 30<sup>TH</sup> JUNE</b>	<b>1,642,978,883</b>	<b>1,493,461,141</b>



	2021	2020
	Kshs	Kshs
Balance brought forward	960,944,823	900,011,445
Deposits received from customers	41,323,836	42,913,438
Accrued interest at 3% per annum	24,273,887	23,257,789
Deposits and interest refunded	(1,860,914)	(5,237,849)
Balance carried forward	1,024,687,575	960,944,823

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. 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.

#### 24. BORROWINGS

	2021	2020
	Kshs	Kshs
Bank borrowings		
Non- Current	302,624,997	497,942,615
Current	68,522,564	183,060,889
Total Bank borrowings	371,147,561	681,003,504

The Company had 4 loan facilities with the cooperative bank of Kenya during the year namely;

- 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. The company made a drawdown of kes 529,201,331. Interest rate at 13.5% pa reducing balance.
- 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.
- Corporate annuity loan of kshs 200,000,000 financed by Co-operative bank of Kenya which was fully settled in May 2021.
- Insurance premium financing of kshs 51,600,000 financed by Co-operative bank of Kenya which was fully settled in February 2021.

The facilities are secured by the following;



- i. Existing all assets fixed and floating debenture over the company assets of kshs700 million (Seven hundred million only) with the co-operative bank of Kenya
- ii. An assignment agreement of our receivables to Co-operative bank of Kenya;
- 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

	2021	2020
	Kshs	Kshs
Trade payables	1,538,311,079	1,570,172,968
Other payables	865,828,825	916,235,091
<b>Total</b>	<b>2,404,139,904</b>	<b>2,486,408,059</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 208,710,125 and Lap fund Kshs. 372,474,790, plus amounts owed to WASREB- kshs 786,440,705, WARMA –kshs 418,395,865. The maturity analysis of trade and other payables are shown in note 33 (a) (ii).

#### 26. CUSTOMERS WITH CREDIT BALANCES

	2021	2020
	Kshs	Kshs
Customers credit balances	266,702,512	217,501,924

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.

#### 27. PROVISIONS FOR LEAVE ACCRUALS

	2021	2020
	Kshs	Kshs
As at opening	291,402,887	293,689,229
Decrease/Addition for the year	(100,150,476)	(2,286,342)
<b>As at closing</b>	<b>191,252,411</b>	<b>291,402,887</b>

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





The Nairobi City County Government owns the Company 100%.

Athi Water Works Development Authority (AWWDA) 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:-

**AMOUNT DUE TO RELATED PARTY TRANSACTIONS**

	<b>2021</b>	<b>2020</b>
	<b>Kshs</b>	<b>Kshs</b>
<b>i) Lease fees for the year payable to Athi Water Works Development Authority</b>		
As at July	6,623,220,806	5,668,562,890
Fees for the year	924,974,692	961,660,824
NCC		
Sub-total	7,548,195,498	6,630,223,714
Paid		(7,002,908)
Subtotal		(7,002,908)
At 30 June	<b>7,548,195,498</b>	<b>6,623,220,806</b>
<b>ii) Inherited debts from Nairobi City County</b>		
At 1 July	142,599,817	182,401,983
Paid during the year	(82,238,724)	(39,802,165)
At 30 June	<b>60,361,093</b>	<b>142,599,817</b>
<b>Grand Total</b>	<b>7,608,556,591</b>	<b>6,765,820,623</b>
<b>Classification of related party payables</b>		
Non- current	6,683,581,899	5,453,859,836
Current	924,974,692	1,311,960,787
<b>Total</b>	<b>7,608,556,591</b>	<b>6,765,820,623</b>
<b>iii) Billing of Water services to NCC</b>		
At 1 July	384,214,463	299,443,346
Billing for the year	78,989,202.	87,633,489
Paid/offset during the year	(6,986,668)	(2,862,372)
Adjustment	(2,606,531)	
At 30 June	<b>453,610,466</b>	<b>384,214,463</b>

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



<b>Key management compensation:</b>	<b>2021</b>	<b>2020</b>
	<b>Kshs</b>	<b>Kshs</b>
Salaries and other short term benefits	1,147,589,456	1,218,005,590
Termination benefits	167,559,425	160,450,030
Post-employment benefits	852,000	854,400
<b>Total</b>	<b>1,316,000,881</b>	<b>1,378,455,620</b>
<b>Director's remuneration:</b>		
-Fees for services as Directors	29,488,798	51,076,500
-Other emoluments as Chief executive (included in key management compensation above)	13,123,543	11,657,617
<b>Total</b>	<b>42,612,341</b>	<b>62,734,117</b>

A listing of the members of the Board of Directors who served is shown on page 5 of these financial statements.

#### 30 PRIOR YEAR ADJUSTMENTS

<b>Prior year adjustments comprise the following:</b>		<b>2021</b>	<b>2020</b>
		<b>Kshs</b>	<b>Kshs</b>
To revenue reserve			
Trade Receivables	(i)	(179,830,735)	(42,660,087)
<b>Other Receivables</b>	(ii)		<b>(357,125,070)</b>
Other payables	(iii)		<b>(8,002,693)</b>
<b>Total</b>		<b>(179,830,735)</b>	<b>(391,782,463)</b>

Sub-notes:

- (i) Correction of prior period trade receivable balances due to errors in billings.
- (ii) Relates to Vat claims not admissible due to change in VAT act from Zero rate to exempt status
- (iii) Pension paid but included as a pension expense in previous periods



Reconciliation of surplus before tax with cash generated from operations:		2021	2020
	Notes	Kshs.	Kshs.
Deficit /Surplus for the year before tax		98,098,644	(850,815,607)
Adjustment for :			
Revenue reserve	30	(179,830,735)	(391,782,463)
Depreciation of property, plant and equipment	15	475,702,475	430,996,976
Amortization of intangible assets	16	9,923,554	6,193,408
Amortization of grant asset	22	(193,775,766)	(193,775,766)
Interest expense	12	98,620,955	89,339,440
Operating surplus before working capital changes		308,739,126	(909,844,012)
Decrease Trade and other receivables		(39,755,651)	96,942,684
Increase /decrease in Inventories		(22,789,321)	(29,524,888)
Increase in Trade and other payables		(82,268,156)	(135,586,820)
Decrease /Increase in Provisions		(100,150,476)	(2,286,342)
Increase in Customer deposits		63,742,752	60,933,377
Increase in Amount due to related parties		842,735,967	914,855,752
Cash generated from operations		970,254,242	(4,510,249)

### 32. EMPLOYEE RETIREMENT BENEFITS EXPENSE

The employee retirement benefits expense comprises:

	2021	2020
	Kshs	Kshs
National Social Security Fund	3,757,200	4,632,800
Provident fund/pension fund	883,202,727	485,566,010
Gratuity	167,559,425	160,450,030
	1,054,519,352	650,648,840

	2021 Kshs	2020 Kshs
Contracted but not provided for	195,251,974	341,138,592

This relates to leases for operational buildings at various centers at Enterprise centre- Addis Ababa Rd Industrial Area, Showebe Plaza Pangani, Parklands Plaza Westlands, Cameo building –Town centre, National water plaza (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.

	2021 Kshs	2020 Kshs
Within 1 year	64,578,940	54,522,653
After 1 year but less than 5 years	93,903,942	41,575,254
	158,482,882	96,097,907

**35. 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, 5,640,150,798(2020):Kshs 5,413,130,798).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.

### 36. 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.



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:

	<b>Fully Performing Kshs</b>	<b>Past due but not Impaired Kshs</b>	<b>Past due and Impaired Kshs</b>	<b>Total Kshs</b>
<b>As at 30<sup>th</sup> June 2020</b>				
<b>Financial assets</b>				
<b>Trade receivables</b>	544,830,310	856,055,234	6,772,210,774	8,173,096,318
<b>Other receivables</b>	219,157,144	1,122,547,567	55,512,564	1,397,217,275
<b>Cash at hand &amp; bank</b>				202,804,327
<b>Gross financial assets</b>	<b>763,987,454</b>	<b>1,978,602,801</b>	<b>6,827,723,338</b>	<b>9,773,117,920</b>
<b>As at 30<sup>th</sup> June 2021</b>				
<b>Financial assets</b>				
<b>Trade receivables</b>	674,670,524	773,447,421	6,792,610,184	8,240,728,130
<b>Other receivables</b>	264,639,696	1,119,063,382	55,512,564	1,439,215,642
<b>Cash in hand &amp; bank</b>				585,121,860
<b>Gross financial assets</b>	<b>939,310,220</b>	<b>1,892,510,803</b>	<b>6,848,122,748</b>	<b>10,265,065,632</b>

The past due debtors but not impaired continue to be paid. An impairment provision of (Kshs(6,957,206,993) (2020: 6,827,723,338) 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.

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.

<b>Year ended 30th June 2021</b>	<b>0-1 month</b>	<b>1-3 months</b>	<b>3-12 months</b>	<b>over 1 year</b>	<b>Total</b>
Trade payables	217	106	274	941	1,538
Payables to related parties	77	154	693	6,685	7,609
Other payables	246	53	125	442	866
Loans from bank	6	12	51	302	371
<b>Total</b>	<b>546</b>	<b>325</b>	<b>1,143</b>	<b>8,370</b>	<b>10,384</b>
<b>Year ended 30th June 2020</b>					
Trade payables	141	159	575	695	1,570
Payables to related parties	89	79	794	5,803	6,765
Other payables	279	175	384	78	916
Loans from bank	11	22	172	476	681
<b>Total</b>	<b>520</b>	<b>435</b>	<b>1,925</b>	<b>7,052</b>	<b>9,932</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.





### *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.

	2021	2020
	Kshs	Kshs
<b>Total Debt</b>	3,006,366,480	2,917,410,241
<b>Less cash and cash equivalents (Note 16)</b>	585,121,860	202,804,327
<b>Total Debt net of cash</b>	2,421,244,620	2,714,605,914
<b>Total equity</b>	(4,371,966,998)	(4,437,802,371)
<b>Total Capital resources</b>	(1,950,722,378)	(1,723,196,457)
<b>Gearing ( net debt over total capital resources)</b>	(124)%	(158)%

### 37. COMPARATIVES

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

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

Reference No.	Issue / Observations from Auditor	Management comments	Focal Point person to resolve the issue	Status: (Resolved / Not Resolved)	Timeframe :
1.0	<p>Lack of ownership documents and valuation of plant and equipment</p> <p>The statement of position and as disclosed in note 15 to the financial statements refelects property Plant and equipment balance of 3,391,015,377. However, the parcels of land and dams on which expansion and improvements of undetermined value have not been included in the property, plant and equipment balance as at June 30,2020. This is contrary to paragraph 7 of the international Accounting Standards (IAS No.1). Further, balance omits various unvalued parcels of land belonging to the company meant for expansion storage, water and sewerage treatment works which have been encroached on by private developers. In addition ownership documents for various parcels of land belonging to the</p>	<p>The ownership of the assets belongs to the Nairobi City County and as per the tripartite agreement the assets have been assigned to Nairobi City Water and Sewerage Company to discharge its mandate. The operationalization of the Water Act and enactment of the County Water &amp; Sanitation Bill, the County Government will transfer the assets. The Company is engaging the CEC in charge of water to facilitate the transfer.</p>	MD/Go rvenor	Not resolved	



Reference No.	Issue / Observations from Auditor	Management comments	Focal Point person to resolve the issue	Status: (Resolved / Not Resolved)	Timeframe :
	company were not provided for audit. Consequently the accuracy, completeness, ownership and the carrying value of the property plant and equipment balance of kshs 3,391,015,377 could not be confirmed.				
2.0	<p>Inaccuracies in Amounts Due to Related Party Transactions</p> <p>The statement of financial position and as disclosed in Note 28 to the financial statements reflects amounts due to related parties under current liabilities and noncurrent liabilities balance of kshs 1,311,960,787 and kshs 5,453,859,837 respectively. The liabilities* relate to amounts due to Athi Water Services Board (AWSB) for lease fee as at June 2019. Although the management explained that lease fee was based on an arbitrary figure during tariff settings by AWSB, the lease agreement was not provided</p>	The lease fee is set out in the approved tariff by the water services regulatory board (attached approved tariff by WASREB).	MD/FD / AWWDA	In progress	

Reference No.	Issue / Observations from Auditor	Management comments	Focal Point person to resolve the issue	Status: (Resolved / Not Resolved)	Timeframe :
	for audit review. In the circumstances, the accuracy and completeness of amounts due to related parties of kshs 6,765,820,624 could not be ascertained.				
3.0	Over-expenditure on Board Remuneration  The statement of profit or loss and other comprehensive income as disclosed in Note 9 to the financial statements reflects operations expenses amount of kshs 2,913,612,005. Included in the amount is board remuneration amount of kshs 50,223,488. However, the company had budgeted an amount of kshs 29,000,000 in respect of Board Remuneration resulting to an unexplained over-expenditure of kshs 21,223,488.	The Company did not have BoD since September 2017 and the current board was appointed on 19th Jul 2019. The new board had a lot of operational issues and policies they needed to handle. The Finance Policy allows the Finance Director to conduct budget alignment in the event of higher expenditure in operations. This adjustment was done in respect of Board expenditure and reported to the Board.	MD/FD	Resolved	
4.0	Irregular Bank borrowings  The statement of financial position and as disclosed in Note 24 of the financial statements reflects	The borrowing was authorized by the Board of Director under Board resolution and within the Company Act	MD/FD	Resolved	



Reference No.	Issue / Observations from Auditor	Management comments	Focal Point person to resolve the issue	Status: (Resolved / Not Resolved)	Timeframe :
	<p>borrowings of kshs 681,003,504 in respect of non-current and current borrowings of Kshs.497,942,615 and Kshs.183,060,889 respectively. The borrowings were secured by debentures on the assets of the company valued at kshs 700,000,000. However, the total borrowings exceeded the allowable threshold of five percent (5%) of the Company's last audited revenues being kshs 464,971,549 by an amount of kshs 216,031,955. In the circumstances, the validity of the borrowings of kshs 681,003,504 for the year ended 30 June 2020 could not be confirmed.</p>	<p>and Memorandum and Articles of Associations.</p> <p>The loan facility is secured by a floating debenture which is floating charge. This is a security interest or lien over a group of non-constant assets, which change in quantity and value. A floating charge is used as collateral to secure a loan for a company.</p> <p>The assets used in a floating charge are usually short-term current assets that the company consumes within one year in our case inventory. We have made full disclosures of the borrowings in the financial statement.</p>			
5.0	<p>Long outstanding Trade Receivables</p> <p>The statement of financial position and as disclosed in Note 18 to the financial</p>	<p>a) The postal corporation of Kenya case was taken to mediation and PCK</p>	MD/FD /FM-R	In progress	

Reference No.	Issue / Observations from Auditor	Management comments	Focal Point person to resolve the issue	Status: (Resolved / Not Resolved)	Timeframe :
	<p>statements, reflects trade receivables and other receivables balance of kshs 2,917,410,241. However the following unsatisfactory matters were noted;</p> <p>(i) Examination of debtors schedules revealed that the company is owed an amount of kshs 192,535,889 in respect of revenue collected by two companies which were contracted as revenue collection Agencies. Although the company has initiated arbitration process to recover the money, the debts remained outstanding as at 30 June 2020</p> <p>(ii) Examination of the company debtors schedules revealed that KRA is listed as a debtor and is owing the</p>	<p>agreed to be remitting kshs 1.5 million per month. The Cellulant Ltd issue is under arbitration but Cellulant Ltd has been settling part of the debt as the matter proceeds.</p> <p>b) The company is pursuing the matter with the tax authority. We have been requested to provide some information vide i-tax in order to settle the matter.</p> <p>The company has restructured its administrative regions and subdivided them into zones to monitor and collect the debts</p>			



Reference No.	Issue / Observations from Auditor	Management comments	Focal Point person to resolve the issue	Status: (Resolved / Not Resolved)	Timeframe :
	<p>company an amount of kshs 1,113,808,030 for claims lodged and kshs 357,125,070 for claims awaiting to be lodged in respect of expenses incurred in purchasing zero rated items. However, the management has not provided any commitment from KRA to settle the outstanding claims</p> <p>(iii) Management made provisions for bad and doubtful debts of kshs 6,772,210,774. However, management has not demonstrated efforts made to collect the debts. In the circumstances, the recoverability of the long outstanding trade</p>	effectively. In addition the commercial, finance policies have been reviewed and approved by the board to help adapt better to the new administrative changes.			



Reference No.	Issue / Observations from Auditor	Management comments	Focal Point person to resolve the issue	Status: (Resolved / Not Resolved)	Timeframe :
	receivables could not be confirmed.				
6.0	<p>Irregular payment of staff bonus</p> <p>The statement of profit or loss and other comprehensive income and as disclosed in Note 8 to the financial statements, reflects staff costs figure of kshs.5,787,867,856. Included in this amount is Kshs.24,079,053 paid out as a bonus for which management did not provide the basis for payment. In the circumstances, the validity of the expenditure of kshs 24,079,053 on bonus payment could not be confirmed.</p>	<p>The bonus is paid as a token of appreciation to all employees at a flat rate to all levels as approved by the Board of Directors in a meeting held on 12 November 2019 vide minute number – MIN.6/HRAC/15/2019:AOB.</p>	MD/FD /DHRA	Resolved	
7.0	<p>Long outstanding Trade and other payables</p> <p>The statement of financial position and as disclosed in Note 25 to the financial statements reflects trade and other payables of kshs 2,486,408,059. Included in</p>	<p>The company strives to pay its obligations as they fall due. However due to income shortfalls owing to the impact of COVID-19 pandemic that led to a decline in</p>	MD/FD /RM/F M-R	In progress	





Reference No.	Issue / Observations from Auditor	Management comments	Focal Point person to resolve the issue	Status: (Resolved / Not Resolved)	Timeframe :
	this balance are long outstanding payables to Water Services Regulatory Board and water Resources Management Authority amounting to kshs 576,934,605 and kshs 423,911,247 respectively.	revenues, we were unable to pay the debts in full. Notwithstanding the company has been paying an amount of kshs 9 million on monthly basis to Water Resources Management Authority (WARMA) as agreed and a one month fee to Water Services Regulatory Board (WASREB) albeit in arrears. The Government is providing support under conditional support grant toward part payment of the debt			
8.0	Unsupported customers with credit balances  During the year under review and as disclosed in note 26 to the financial statements are customers with credit balances reflecting a balance	83% of the customers with credit balances are as a result of overpayment as per the attached schedule. However,	MD/FD /FM(R)	In progress	

Reference No.	Issue / Observations from Auditor	Management comments	Focal Point person to resolve the issue	Status: (Resolved / Not Resolved)	Timeframe :
	of kshs 217,501,924. The amount was for customers whose accounts were overpaid and were issued with credit notes due to overbilling. However, no detailed supporting schedules were availed for audit review.	we have instances where a customers' meter reading is estimated resulting into overbilling. In such circumstances the account balance is adjusted downwards when such errors are realized but the customer may have settled the bill as is before the adjustment resulting into the negative balance.			
9.0	<p>Undisclosed material uncertainty relating to Going Concern</p> <p>During the financial year ended 30 June 2020 the company recorded a net operating loss of kshs 850,617,607 (2019 a net operating surplus of kshs 61,200,388) which depleted further the revenue reserve from negative kshs 4,690,715,720 as at 30 June 2019 to negative kshs 5,933,313,790 as at 30 June</p>	Based on the financial performance and position of the company and its risk management policies, the directors are of the opinion that the company is well placed to continue in business for the foreseeable future and as a result the financial	MD/FD /FM(R)	In progress	



Reference No.	Issue / Observations from Auditor	Management comments	Focal Point person to resolve the issue	Status: (Resolved / Not Resolved)	Timeframe :
	<p>2020. Further, the current liabilities balance of kshs 4,490,334,546 exceeded the current assets balance of kshs 3,563,93,890 resulting in a negative working capital of kshs 927,140,656 as at 30 June 2020.</p> <p>The material uncertainty in relation to the going concern and mitigating measures put in place by the company directors to reverse the undesirable precarious financial position have not been disclosed in the notes to the financial statements.</p>	<p>statements are prepared on a going concern basis. In making this assessment, the Directors consider a wide range of information relating to present and anticipated future conditions, including future projections of profitability, cash flows and other resources.</p> <p>The company has put in place a new billing system to enhance growth of our billing and collections and also enhance controls in revenue management. The company has also applied for a tariff review as the one in use has been in existence since November 2015</p>			

Reference No.	Issue / Observations from Auditor	Management comments	Focal Point person to resolve the issue	Status: (Resolved / Not Resolved)	Timeframe :
		<p>whereas prices of good have gone up.</p> <p>The NCWSC is already implementing the non-revenue water reduction strategies which are being fast tracked to improve on our revenue growth.</p> <p>We have initiated the tariff review to increase/ expand the revenue hence reverse the negative working Capital and improve the company liquidity position. In addition the company in conjunction with other water companies is in consultation with WASREB to change the current tariff regime to an index based tariff i.e. the tariff will reflect the</p>			



Reference No.	Issue / Observations from Auditor	Management comments	Focal Point person to resolve the issue	Status: (Resolved / Not Resolved)	Timeframe :
		current macro-economic condition and reviewed yearly unlike the current Operating tariff that is reviewed after three years.			
	Other Maters				
1	<p>Budgetary control and performance</p> <p>The statement of Comparative budget and actual amounts reflects final receipts budget and actual on comparable basis of kshs 11,654,689,000 and kshs 9,182,551,889 respectively resulting to an undercollection of khs 2,472,137,111 or 21% of the budget. Similarly the company incurred expenditure of kshs 10,033,367,495 against an approved expenditure budget of kshs 9,877,222,600 resulting to an over expenditure of kshs 156,144,895. The undercollection affected the planned activities and may</p>	<p>The under billing was due to the COVID 19 pandemic where customers were affected financially and the Company was not able to read meters, disconnect for the period between March and June 2020. For that period alone (March 2020 to June 2020), the collections were 2,386,267,699.91 compared to 2,973,894,656.62 collected in a similar period in year 2019. Besides, there was no growth in revenue as</p>			

Reference No.	Issue / Observations from Auditor	Management comments	Focal Point person to resolve the issue	Status: (Resolved / Not Resolved)	Timeframe :
	have impacted negatively on service delivery to the public.	had been envisaged during the budgeting period.			
	Basis of conclusion				
1.0	<p>Excess Non Revenue water</p> <p>During the year, the company produced a total volume of kshs 176,035,673 cubic meters (M3) of water out of which 86,349,639 cubic meters was billed to customers. The balance of 89,686,033.71M3 cubic meters or approximately 51% of the total volume produced represented Non-Revenue water. The Non-Revenue water is 26% over and above the allowable loss of 25% contrary to Water Services Regulatory Board (WASREB) guidelines for Non-Revenue water.</p>	<p>To address NRW challenges, the company has adopted the following strategies:</p> <p>a) Continued installation of the 700 Automated Meter Reading System (AMRs) for large consumers</p> <p>b) Continued Establishment of 53 No District Metered Areas (DMA) within the entire county and addressing all customer service irregularities identified through the Customer Survey Identification. Northern Region completed and North</p>			



Reference No.	Issue / Observations from Auditor	Management comments	Focal Point person to resolve the issue	Status: (Resolved / Not Resolved)	Timeframe :
		<p>Eastern Region commenced at the end of January 2020.</p> <p>c) Ensuring timely repair of leaks and bursts</p> <p>d) Procure and Install production meters for accurate measurements</p> <p>e) Install regional bulk meters to help analyze water losses per region</p> <p>f) Continued use of Mobile technology for meter reading, disconnection and other technical operations</p> <p>g) Procure and enhance usage of portable water meter testing kits, special seal and related accessories.</p> <p>h) Procure Automated and</p>			

Reference No.	Issue / Observations from Auditor	Management comments	Focal Point person to resolve the issue	Status: (Resolved / Not Resolved)	Timeframe :
		<p>computerized Meter Test Benches and Increase capacity by procurement of additional modern bench for diameters above DN50 to DN150 Plus construction of a new Test Bench Building.</p> <p>i) Metering of all company utilities and fire hydrants</p> <p>j) Continue meter replacements in line with meter management policy.</p> <p>k) Continued flow Audit on the transmission lines</p>			
2.0	Delayed implementation of the Extension of Makongeni – Kaloleni water supply network	The Company revenues were impacted by the 2017/18 drought and Covid-19 pandemic. The two incidents are force majeure, affecting payment to			



<p>During the year under review, the Company awarded a contract for the extension of water supply to serve Makongeni and Kaloleni areas with a scope of site clearing, setting out, excavation, Pipe laying and back filling vide Contract No. NCWSC/69/2016 for a contract sum of Kshs.21,227,663.60. The contract period was eight (8) calendar months from the date of commencement with the project expected to be completed by 1 August, 2020.</p> <p>The contractor had written to the Company in a letter dated 27 August, 2020 REF; NCWS/69/2016, indicating that they were unable to complete the project on scheduled time due to delayed payment, sabotage by illegal water vendors, uncooperative youth leaders and insecurity of the staff and working tools and therefore requested for extension of time, revision of the tender sum, and prompt or advance payment. However, the company declined to revise the tender sum or advance payment and directed the contractor to expedite completion of the pending works, renew insurances, performance bond and request for extension of time specifying the period and submit a revised programme of works by letter dated 3 September 2020. By the time</p>	<p>Contractors leading to works stoppage. The completed sections are in operation supplying water to KRC-houses, areas in the vicinity of the chief's office. We are negotiating with the Contractor to resume works.</p>			
---	---	--	--	--

Reference No.	Issue / Observations from Auditor	Management comments	Focal Point person to resolve the issue	Status: (Resolved / Not Resolved)	Timeframe :
	<p>of audit, a payment of Kshs 6,000,260 or 28% of cost had been paid and the project remained incomplete and the contractor was not on site.</p> <p>Consequently, value for money has not been realized on the implementation of the project.</p>				
3.0	<p>Delayed Implementation of the Donholm – Savannah Sewer Rehabilitation and upgrade</p> <p>During the year under review, the Company awarded a contract for the rehabilitation and upgrade of the sewer at Donholm – Savannah at a contract sum of Kshs. 173,072,513.88 vide Contract number NCWSC/85/2016. The scope of works involved Construction of DN450mm – 4239m DN600mm – 834m and DN600mm Steel – 48m with the objective of improving sanitation status in Donholm area. The works started on 8 January, 2018 and were due for completion after twenty five (25) months.</p>	<p>Two out of the four laterals sewers contracted out have been completed and are in full operation. However, again due to 2017/18 drought and Covid-19 pandemic payments to the contractor have been delayed, leading to slow works progress. We have implored the Contractor to resume works and accelerate completion of the works, as we expedite payment of the pending bills</p>			



Reference No.	Issue / Observations from Auditor	Management comments	Focal Point person to resolve the issue	Status: (Resolved / Not Resolved)	Timeframe :
	However, an audit inspection conducted in the month of January 2021 revealed that kshs 61,187,145 had been paid which was 35% of the cost. The slow progress of completion was attributed to delayed payments of certified works. Consequently, value for money has not been realized on the implementation of the project.				
4.0	<p>Abandoned Rehabilitation of Falcon Road and Sewer Line Works</p> <p>During the year under review, the Company awarded out a contract for the rehabilitation of Falcon Road and sewer line at a contract sum of Kshs.95,288,890 vide contract No NCWSC/83/2016 for a period of twenty five (25) months. The project objective was to carry out sewer upgrade works to address sewer overflows along the roads. The scope of works being construction of Road A – DN450mm – 655m and Falcon Road – DN375mm – 1230m sewer line.</p> <p>Project documents availed for audit revealed that the</p>	<ul style="list-style-type: none"> <li>The Company investment is based on revenue projections from sale of water. During implementation of the project, the Country was experiencing drought that impacted negatively on water production and consequently the Company revenues and ability to pay for the works.</li> </ul> <p>The works progress was again impacted negatively following</p>		In progress	

Reference No.	Issue / Observations from Auditor	Management comments	Focal Point person to resolve the issue	Status: (Resolved / Not Resolved)	Timeframe :
	<p>contractor had stopped works due to objection of reduced excavation of widths. However, the company wrote advising the contractor to adhere to the specified conditions stated in the contract document and adopt specific widths for excavation works.</p> <p>The contractor was further advised to resume works and proceed with the remaining works to avoid further delays to the project. However, a site visit done in the month of January 2021 revealed a payment of kshs 27,474,594 or 29% of the cost and the works remained incomplete (stalled at 90%) and the contractor was not on site.</p> <p>Consequently, value for money has not been realized on the implementation of the project.</p>	the onset of COVID -19 pandemic. The Contractor has since resumed works on site and agreed to undertake the works using the same rates.			
5.0	<p>Delayed completion of Proposed Kamunde Road-Kariobangi North Mau Mau area Sewer rehabilitation Works</p> <p>During the year under review, the Company awarded a</p>	The project was 91.8% complete when it stalled. The total length of sewer slated for construction was 3500m, out of which	MD/TD /EM	In progress	





Reference No.	Issue / Observations from Auditor	Management comments	Focal Point person to resolve the issue	Status: (Resolved / Not Resolved)	Timeframe :
	<p>contract for the rehabilitation and upgrade of Kamunde Road Sewer Line at a contract sum of Kshs. 179,768,143 vide Contract No. NCWSC/47/2016. The project was implemented to improve sanitation at Kariobangi North Area bound by Kamunde road loop. Contract period was five (5) months with an initial competition date of 30 April ,2018. However, the contractor abandoned the works before completion. A letter Ref: NCWSC/TEC/ENG/188/V01.II/054/KNG/wao was sent on 5 November, 2020 from the Technical Director giving notice to termination of the contract as the contractor had not returned to site. The contractor was instructed to resume works within fourteen (14) days and expedite the remaining works failure to which the Company will undertake the remaining works at the expense of the project.</p> <p>A site visit conducted in the month of January 2021 revealed that the contractor was yet to resume work</p>	<p>3213.77m had been completed by the time the project stalled. The main lines were all completed before the project stalled and only lateral lines are incomplete. As a result, the project's failure to complete does not adversely impact on the project's intended objective.</p> <p>Despite the notice to terminate the works issued vide the letter Ref: NCWSC/TEC/ENG/188/V01.II/054/KN G/wao dated 5th November 2020, the contractor expressed willingness to resume work, in a letter Ref. TISCO/ENG/001/V OL.2/56/20210512 dated 12th May</p>			

Reference No.	Issue / Observations from Auditor	Management comments	Focal Point person to resolve the issue	Status: (Resolved / Not Resolved)	Timeframe :
	<p>despite of payment of kshs 98,307,503 and the project remained incomplete.</p> <p>Consequently, value for money has not been realized on the implementation of the project.</p>	<p>2021. The contractor gave a proposal for the resumption of work in the letter. Some of the conditions imposed by the contractor were unacceptable to the Employer, and as a result, consultations and negotiations with the contractor are underway in order to reach an amicable resolution to the project's challenges. If the discussions fail, the contract will be terminated in accordance with the requirements of the Public Procurement and Asset Disposal Act, 2015, and the Public Procurement and Asset Disposal Regulations 2020. Due to diminished Company revenues, arising from the</p>			



Reference No.	Issue / Observations from Auditor	Management comments	Focal Point person to resolve the issue	Status: (Resolved / Not Resolved)	Timeframe :
		2017/18 drought, payment to the Contractor was delayed leading to works stoppage. Please note the already completed sections of the works, and which have been paid for are in operation.			
6.0	<p>Non-Remittance of Retirement Benefits</p> <p>As disclosed under Note 8 to the financial statements, staff costs as at 30 June 2020 reflects Kshs. 5,787,867,856. Records maintained by the company showed that staff pension deductions and employers contribution amounting to kshs 790,013,008 were not remitted to the respective pension funds contrary to section 32(1) of retirement benefit act chapter 197 revised edition 2012. Further noted was long outstanding debt of kshs 142,599,816 dating back to earlier than 30 June , 2014 relating to provident fund LAPTRUST and NACICO</p>	Management has come up with memorandum of understanding with the pension funds on the payment plan which is being honored as agreed on monthly basis.	MD/FD /FM(E &R)	In progress	

Reference No.	Issue / Observations from Auditor	Management comments	Focal Point person to resolve the issue	Status: (Resolved / Not Resolved)	Timeframe :
	and voluntary staff deductions during the year under review amounting to kshs 648,226,384 were not remitted. In the circumstances, the company was in breach of the law and is open to fines and penalties for non remittance of pension dues.				
7.0	Long Outstanding Imprest  During the year under review, an examination of the Company records revealed that an imprest amounting to Kshs. 3,024,802 has been outstanding beyond the stipulated time. Included in this figure is Kshs. 1,807,952 issued to members of staff as standing imprest to cater for procurement of goods and services in the various regions. Some of those have been outstanding since July 2019. Kshs.1,216,850 was for special imprest issued as advance payment for various payment of goods and services and some have been outstanding for more than one year with some officers holding multiple imprests.	All revolving staff imprests are treated as sundry debtors at the close of the period. This is because the staff have to make returns as and when they have either exhausted the funds or made partial claims. Special imprests are advanced for specific purposes and staff are required to submit returns once the project is completed. We regularly request the staff to submit returns where delays	MD/TD /EM	Resolved	



Reference No.	Issue / Observations from Auditor	Management comments	Focal Point person to resolve the issue	Status: (Resolved / Not Resolved)	Timeframe :
	In the circumstances, the Company was in breach of the law.	are realized and necessary action is taken if there is noncompliance.			
	Basis for Conclusion				
1.0	Review of information technology in use revealed that the Company has in place Enterprise Resource Planning (ERP) to manage its operations. However, the company did not have an IT policy for Governance and management of its ICT resources. In addition, there is no ICT steering Committee in place to assist in the development of ICT policy framework to enable the company realize long term ICT strategic goals. Lack of an IT policy may result in unclear direction regarding maintenance of information security across the organization and safeguarding the company's ICT assets. Further without a sound approved framework users do not have any rules and procedures to follow in order to minimize errors, fraud and the loss of data confidentiality integrity and availability.	The technical, commercial and ICT committee of the board is the ICT steering committee that governs and approves ICT strategic directions and guides on the implementation ICT projects. The company has in place approved ICT policies, Business Continuity Plan (BCP) and Disaster Recovery Plan (DRP) both primary and secondary. The BCP and DRP policies detail all backup plans and retentions strategy in place.	MD/IC TD	Resolved	

Reference No.	Issue / Observations from Auditor	Management comments	Focal Point person to resolve the issue	Status: (Resolved / Not Resolved)	Timeframe :
	<p>Further, the Company has not established an IT strategic committee which should provide leadership on information technology matters.</p> <p>Management did not provide explanations of lack of IT policy for governance and management of its ICT resources and for failure to have an IT strategic committee in place.</p>				
2.0	<p>Lack of adequate controls over the customer management and billing system</p> <p>The Company awarded contract No. NCWSV-63-2016- Request for Proposals for supply, delivery, installation, testing &amp; commissioning of a customer management and billing system to Giza Systems Integration (K) Ltd for a contract sum of USD. 1,192,596 equivalent to Kshs.122,774,419. As at June 2020 the company paid kshs 71,735,722.68 towards the completion of the customer billing system. Although the</p>	<p>The Billing System was commissioned and went live in August 2020. The vendor hand held the project as provided in the tender document and contract for the period of one year until August 2021, the defects liability period. The Company is in the process of signing a Service Level Agreement with the vendor to offer support and</p>	MD/IC TD	In progress	



Nairobi City Water & Sewerage Company Ltd  
Annual Report and Financial statements  
For the year ended 30th June 2021

Reference No.	Issue / Observations from Auditor	Management comments	Focal Point person to resolve the issue	Status: (Resolved / Not Resolved)	Timeframe :
	company had gone live as at 30 June 2020, non-disclosure agreements and service level agreements which safeguard the confidentiality of the Company and manages uninterrupted service delivery were not provided for audit. Consequently controls over the customer management and billing system could not be verified.	maintenance services for the billing system.			

