REPUBLIC OF KENYA

OFFICE OF THE AUDITOR-GENERAL

Enhancing Accountability

REPORT

OF

THE AUDITOR-GENERAL

ON

NAIROBI CITY WATER AND SEWERAGE COMPANY LIMITED

FOR THE YEAR ENDED 30 JUNE, 2019

Annual Report and Financial statements, For the year ending 30th, June 2019

2018 /2019

NAIROBI CITY WATER AND SEWERAGE COMPANY LTD

Annual Report and Accounts

2018/2019

Contents

Corporate Information

Principal Place of Business & registered Office

Kampala Road, Industrial Area

P.O. Box 30656 – 00100, NAIROBI

KENYA

Email: info@nairobiwater.co.ke

Website: www.nairobiwater.co.ke

Auditor

Auditor General

Kenya National Audit Office

12th Floor, Anniversary Towers

University Way

P.O Box 30084-00100, NAIROBI

KENYA

Principal Banker

Co-operative Bank of Kenya

Enterprise Road Branch

P.O. Box 67881 – 00200, NAIROBI

KENYA

Principal Legal Advisor

Company Secretary –Nairobi city water and sewerage company

Board of Directors

The Company's Board of Directors is appointed in accordance with the provisions of the Companies Act, Laws of Kenya. During the year the company did not have an active Board of Directors as its operations were suspended on 27th September 2017. The current Board of Directors was appointed on19th July 2019 by the shareholder.

Notice of Annual General Meeting

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

During the Financial Year 2018/2019, the operations of the Board remained suspended in line with the letter from the shareholder dated 27 September 2017. Further, all the Board members ceased to hold office as tabulated below:

FORMER DIRECTORS	Date on which director ceased to hold office
Mr. Raphael Nzomo	05/12/2018
Ms Joanne Mwangi	05/12/2018
Mr. Lawrence Otieno Atonga	05/12/2018
Mr. John Kennedy Wanyama	05/12/2018
Ms. Rosemary Lugalia Khamati	05/12/2018
Ms. Mercy M. Mutua	05/12/2018
Ms. Christine A. Ogut	16/07/2019
Mr. Samuel O.Ojanga	16/07/2019
Mr. Kennedy J. Omoke	16/07/2019
Mr. Philip Arungah	16/07/2019
Mr.Gregory S. Mwakanongo	16/07/2019

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

	NAME	Qualifications and experience
1	Leonard Munyao Kamba Kiiti - Chairman (DoB 1957)	Bachelor of Science. Chairman Maukeni CDF, Chairman Machakos Water and Sewerage Company ,Chairman Makueni District Eductaion Board, Golf captain Machakos Golf Club, Chairman-Mwaani Boys High School and Board of Management - Mwaani Girls
2	Berly Lillian Achieng Okumu – Vice chairman (DoB 1953)	LLb, Post grad dip in Law Chaiman-kenya Railways staff retiremen benefit scheme,Deputy Town Clerk -City of Mutale Zimbabwe, Legal Advisor - Urban Development Coropation (Harare Zimbabwe) , Deputy CEO - Chitugwiza Town Council (Zimbabwe)
3	Karen Njeri Nyamu (DoB 1979)	Master of International relations; LLB, Dip in Law Managing partner-Njeri Nyamu & Co; Head of conveyancing-B.M & Co advocates

4	Martin Kuruga Mbichire (DoB 1982)	LLB; Post grad diploma in Law, Advocate - Mbiriche & Co; Pioneer University - Assistant lecturer
5	Michael Mumo Makau (DoB 1971)	MA - International Journalism, BA- Communication Board member-Capital Group Ltd, Editorial Director-capital; Head of news-Nation radio & television
6	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
7	Emmah Mukuhi Muthoni (DoB 1983)	BCOM- Business Administration; DIP County executive member -Nairobi County government, Head of corporate services - Toddy civil Engineering, Chief Financial Controller- Toddy civil Engineering
8	Timothy Maceru Muriuki (DoB 1969)	BA Land Economics Chairman - Index commercial projects; GM-International house, Facilities manager-Lloyd Masika, Board member - Nairobi Central Business District Association, Board member -Athi Water Services Board, Board member - Nairobi City Water & Sewerage Company
9	Mohamed Abdi Abdirahman (DoB 1987)	Bachelor – Business Administration, HR Marketing Director – Iqra Agencies Limited, Nominated member of Nairobi City County Assembly, County Chief Officer – Water & Sanitation (NCCG)
10	Simon Leboo Morintat (DoB 1966)	MBA – Stategic Management, BA – Government and Public Administration Deputy Town Clerk (Trans Mara & Nairobi), Town Clerk (Litein town council & Kilifi), Director - Kilifi Mariakani Water Services Company & Nairobi City Water & Sewerage Co., , Board member - Local Authorities Provident Fund, County Chief Officer - Devolution & Public Service Management and acting County Secretary
11	Charles K. Kerich	County Executive Committee Member – Finance and Economic planning. Journalist and former Chairman of the Media Council

KEY OFFICERS

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

CHAIRMAN'S STATEMENT

Introduction

On behalf of the Board of Directors of Nairobi City Water and Sewerage Company Limited (NCWSC), I am pleased to present this report that highlights the key global, regional and country level and the water and sanitation sub-sector issues that directly and indirectly affected the company's performance during the financial year 2018 / 2019.

Global and Regional Scene

According to the Kenyan Economic Survey 2019, the world economy experienced decelerated growth of 3.6 per cent in 2018 compared to 3.8 per cent in 2017. Particularly, growth in the emerging markets and developing economies decelerated from 4.7 per cent in 2017 to 4.6 per cent in 2018. This notwithstanding, Sub-Saharan Africa region remained on a recovery path growing by 3.0 per cent during the review period compared to a growth of 2.9 per cent in 2017. This growth was attributed to robust global oil demand. Prices of agricultural produce remained broadly stable but declined slightly in the second half of the year.
World trade volume rose by 3.9 per cent in 2018 compared to a growth of 5.2 per cent in 2017. Volume of trade in the emerging markets and developing economies grew by 4.7 per cent in the review period compared to a growth of 6.9% per cent in 2017, this trend was largely affected by the increase in oil prices. The overall fiscal deficit as a percentage of GDP stood at 2.9 per cent in 2018 compared to 2.3 per cent in 2017.

Domestic Scene

Real Gross Domestic Product (GDP) is estimated to have expanded by 6.3 per cent in 2018 compared to 4.9 per cent in 2017. The growth was attributed to increased agricultural production, accelerated manufacturing activities, sustained growth in transportation and vibrant service sector activities. The growth realized was anchored on a relatively stable macroeconomic environment in 2018. Inflation remained low at 4.87 per cent in 2018 compared to 8.0 per cent in 2017 majorly as a result of considerable declines in prices of food. The current account deficit narrowed to stand at KSh 441.8 billion in 2018 compared to KSh503.4 billion in 2017 mainly die to a faster growth of imports of goods and services.

Water and Sanitation sub-sector

Since the commencement of the actualization of water sector reforms in the country following enactment of Water Act 2002 and its subsequent alignment to the Kenya Constitution 2010, Which has since lead to the enactment of Water Act 2016, water sector actors have made commendable progress towards improving water resources management and water services delivery. The government has pursued aggressive legal and institutional reforms in the sector, resulting in increased confidence of our partners to massively up-scale support. In fulfillment of its constitutional responsibility of facilitating access to water and sanitation services and ensuring that there is no discrimination in the provision of these services, while at the same time staying on course to meet the development targets set in the Vision 2030, the government Increased monetary resource allocations to water sector, albeit, share of the sector budget is on a declining trend, at averages of 2.2 per cent of total national budget and relatively constant at 0.6 percent of gross domestic product over the period 2014-2018. The sector contribution to GDP was constant at about 0.7 per cent in the same period 2014-2018.

Company's Performance

Although the spiral effect of long failed rainfall witnessed in 2017 that saw the dam level drop to less than 25 per cent greatly affected the company's performance in the period under review, through concerted efforts by the staff and stakeholders remarkably eschewed the hurdle by employing and adopting strategies to ensure efficacy and post admirable results. Favorable rains that were received in the catchment from May 2019 offered assurance to improved services. During the period under review, the company produced a total of 180.5 million M3 of water reflecting an improvement by 7.73 million cubic meters from 172.77 million cubic meters of water production registered in the FY 2017/2018.The customer base stood at 535,662 as at June 2019 as compared to 521,662accounts during the financial year 2017/2018. Although Non-Revenue-Water still poses a major challenge, the company managed to reduce it to an average 36.4 per cent during the year against annual target set of 33 per cent and an improvement from 38% realized in 2017/18. The company has also optimized both water and waste water treatment operations by ensuring there's a decrease in sewer leaks and bursts. Increase in water and sewer services to the targeted communities has significantly improved.

In conclusion, I wish to take this opportunity to thank all the stakeholders who made 2018/2019 a success for the company. On behalf of the Board of Directors, I wish to sincerely thank the Kenyan Government, through the Ministry of Water and Sanitation for providing policy direction and enabling business environment. I also want to thank Nairobi City County Government and Water Service Regulatory Board (WASREB) for their continued support during the year. In addition, I wish to thank our development partners for the collaboration that we have enjoyed during the year under review, above all, I wish to thank our esteemed customers for loyalty.

Mr. Leonard Munyao Kamba
Chairman

REPORT OF THE MANAGING DIRECTOR

Introduction

This report highlights a performance overview of the Nairobi City Water and Sanitation Company limited (NCWSC) for the year ended 30th June 2019. During this financial year 2018/2019, the company sustained its mandate which is provision of water and safe disposal of resultant waste water in Nairobi City County and its environs. Below are highlights of performance per directorate during the review year.

Water production and supply improvements

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 equipment with a view of enhancing their optimal performance to effectively deliver water supply to the city. The company produced a total of 180.5 million cubic meters of water reflecting an improvement by 7.73 million cubic meters from 172.77 million cubic meters of water produced in the financial year 2017/2018, and by passing the year's annual target of water production of 180 million cubic meters by 0.5million cubic meters.

To improve water supply services in the formal areas, the company extended a total of 13.3 km of water pipeline against a target of 6.1 km translating to 218% achievement. In the informal settlements, the company extended a total of 17.4 km of water pipeline in various informal settlements across the city against a target of 7.9 km translating to 220% achievement. In addition, 3.95 Kms and 4.7 kms of sewer lines were extended in formal areas and informal settlements against the annual targets of 14.7 Kms and 5.1 km, representing 27% and 92% performance respectively. Against an annual target of reducing Non-Revenue Water to 33%, the company performed at 36.4% 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, water supply constancy of 117.5 hours was achieved per week against the targeted water supply constancy per week of 11.25 per week. The company upheld environmental protection through way of planting trees and conducting security surveillances along the catchment.

Technology in service provision

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 customer's directory with a view of reaching out electronically via mobile phones and post customer bills, disconnection notices and settlement of bills. Further, use of an electronic customer feedback system (Maji-Voice) application was sustained.

During the period, the company upheld Mobile Meter Assistant (MFA), ICT application which has since improved meter reading efficiency. To ensure security of data, Offsite Backup, Data Replication (DR) and Cloud Backup was implemented. In this regard, all the critical applications including CMS, Oracle Financial and Mail are being replicated to the offsite DR center hence ensuring data security.

Financial Stewardship

The revenue of the Company grew from Kshs 8.478 billion in the financial year 2017/2018 to Kshs 9.299 billion in 2018/2019. This is attributed to the improvement in water production, operational efficiency and reduction in Non-revenue water. The operating expenses remained largely unchanged despite the increase in cost of business. Consequently, the company posted a surplus of Kshs 61.2 million, compared to a deficit of Kshs 634.9 million in the previous year.

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 WaSSIP data were compiled and submitted, annual WARIS data was submitted on timely basis. Following the conclusion of strategic business plan 2014/2015 to 2018/2019, the company has developed the 2019/2020 to 2023/2024 Strategic plan to guide the Company to greater heights.

Integrity Assurance

To enhance corporate governance, during the period under review, the directorate aligned the institutional corruption policy to the Ethics and Anti-Corruption Commission's (EACC) guidelines. Further, awareness creation on integrity among staff was enhanced and capacity building for members of Corruption Prevention and Integrity Assurance Committees was conducted. To ensure that the entire NCWSC fraternity moved along the same continuum on corporate governance related issues, all staff were sensitized on anti – corruption matters.

Conclusion

In conclusion, I take this opportunity to most sincerely thank all the stakeholders who enabled us eschew challenges 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 the newly inaugurated Board of Directors (BoD), the company will achieve better results in coming years.

Eng. Nahason Muguna
Ag. Managing Director

MANAGEMENT DISCUSSION AND ANALYSIS

Company Profile

NCWSC reaches out to its customers through seven administrative regions, namely Northern, Eastern, North Eastern, Central, Southern, Western and Informal Settlement regions. Further, the company has development 28 sub-business units (zones).

Organizational Structure

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 Committee which comprises all heads of directorates of the company namely;

- Technical Directorate
- Commercial Directorate
- Finance and Strategy Directorate
- Directorate of Human Resource and Administration
- Information Communication and Technology Directorate
- Company Secretary
- 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 managers with a mandate of overseeing actualization the company mission.

Broadly, the company operations are anchored on strategic business plan which is normally designed to resonate with the international (SDGs), regional (AFWA) and national water sector i.e. National Water Sector Strategy, Kenya Government economic blue print -Vision 2030, the Nairobi County 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 signed but negotiated annual performance contract between the Managing Director and Nairobi County government.

Key Performance Areas 2018/2019

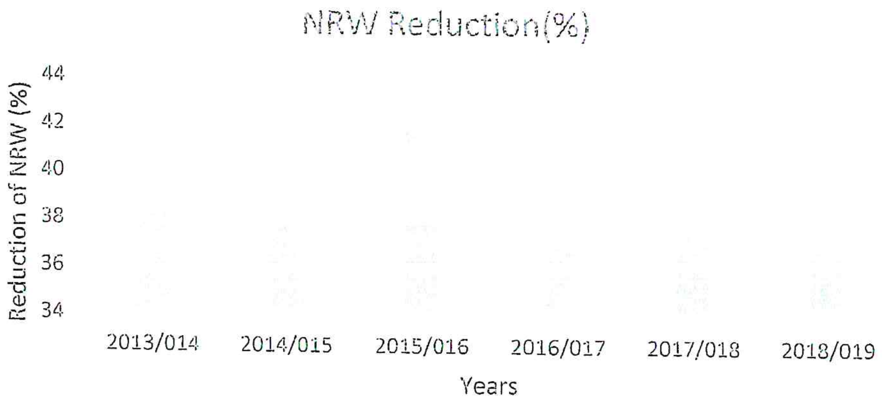
Water and Sewer Services Expansions

Ensuring everybody has access to adequate and quality water and sanitation services is a constitutional obligation. Further, it has been observed that, water service is an enabler in the realization of the government's big four agenda. Cognizant of this, the company during the year of review, envisaged to expand water pipeline within the city by 14 km on identified projects listed in the performance contract 2018/019. Specifically, 6.1km and 7.9 km of water pipelines were to be extended in the formal and informal settlements respectively. Against this target, the company extended a total of 6.24km of water pipeline, 1.14km in the formal settlement and 5.10km in the informal settlements. However, outside the company's planned projects, as per the 2018/19 Performance Contract, the company also carried out other projects during the year under review. Under this projects, a total of 24.5 km of water extension/rehabilitation was realized.

On sewer management, the company planned to extend the existing sewer network by 19.7km. 14.7km and 5km in the formal and informal settlements respectively. Against this target, the company managed to extend a total of 7km, 3km in the formal settlement and 4km in the informal. Although the company did not achieve the aforementioned mentioned targets on water and sewerage extensions, an indication towards improving its service coverage is demonstrated.

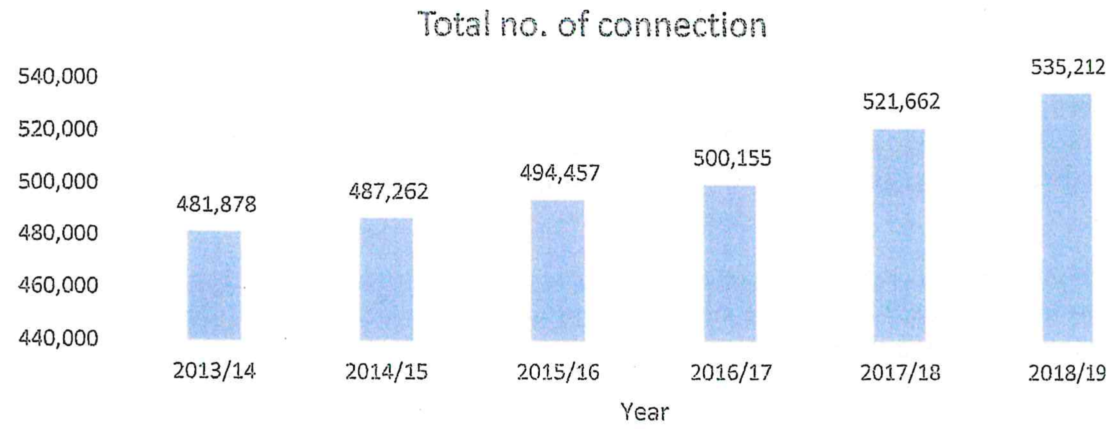
Non- Revenue Water

Managing Non –Revenue-Water is a challenge. Indeed, the national Water Services Regulator (WASREB), in its impact report issue No 11 of 2019, observes that the average NRW is at 41 per cent as at close of June 2018. The company has put mechanism in place to address reduction of NRW within the city. More resources have been allocated towards this endeavor besides forming a department with a sole mandate to address and contain NRW within the city. During the year of review, NRW was 36.4 per cent against the annual target of 33 per cent. The graph below illustrates the NRW reduction trend since financial years 2013/014 to the year under review.



Water and sewerage

The company has sustained a positive growth in the number of water and sewerage connections. As at the close of this financial under review, the company had 535,212 number of connections compared to 521,662 reported in the previous year. The graph below illustrates the connections per year during the last six years.

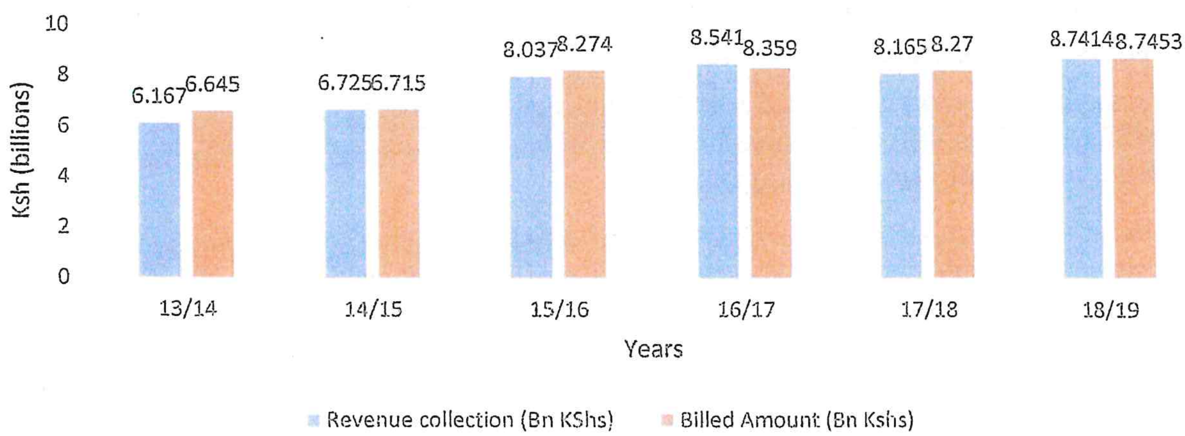


Customer Care

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 customer's 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 cash offices in all business centres. Further, use of an electronic customer feedback system (Maji-Voice) application was sustained.

Revenue Collection against Billed Amounts

Over the years, the company has endeavoured to improve collection efficiency against the billed amount. During the period under review, the company collected 99 per cent against the amount billed. The graph below depicts the trend of the revenue collected against the billed amounts in the last six years.



CORPORATE SOCIAL RESPONSIBILITY STATEMENT/SUSTAINABILITY REPORTING

Nairobi City Water & Sewerage Company Ltd (NCWSC) has a Corporate Social Responsibility policy that is guided by a widely agreed framework that the company utilizes to strategically engage in activities with its internal and external stakeholders in a manner that is effective and promote NCWSC's vision, mission, goals and strategic objectives. The policy is currently under review.

The Company may also seek partnerships to fund certain activities viewed for the wider publics and not necessarily only benefit the target group. Funding may be in form of sponsorship or agreed contribution relating to the activity.

The UN General assembly proclaimed March 21st as the International day of forests, the theme for this year was, 'Forests and Education.' It sought to create awareness on how sustainably managed forests provide a wide array of contributions in the area of education. The Company marked this day at the Ruiru dam in Githunguri Sub-county. The dam supplies 4% of the current water supply to the residents of Nairobi County and its environs.

The activity was held in partnership with Bidco Kenya, the local community in the area among other stakeholders. 2,000 bamboo trees were planted in this occasion. Bamboo trees are advantageous to the catchment in that they regulate the quantity and quality of water in the river.

Nairobi City Water & Sewerage Company Ltd (NCWSC) will be a direct beneficiary of the increased forest cover as envisaged by government as the depleted forest cover means a decrease in rainfall which directly affects the inflows into Ndakaini dam. The cumulative rainfall in the aberdares catchment area is usually between 1700mm to 2000mm. The short rains in October – November 2017 were low about 700mm- Ndakaini dam rose to 36.5 Million m^3 (52%) which necessitated the rationing the City of Nairobi experienced from January, 2018. By the end of the short rains, the dam had reached 95% capacity.

To this end, the company has been supportive of tree planting activities with its staff and stakeholders. Various activities have taken place this period, these include our annual tree planting day which saw 3,000 trees planted in the catchment surrounding Thika Dam in Ndakaini.

The Company has been marking tree planting days in the four dams; Kikuyu Springs, Ruiru Dam, Sasumua Dam and Thika (Ndakaini) Dam during the rainy season over the years, in collaboration with partners as well as communities living in the catchment areas. So far, around 800,000 trees have been planted since the program began.

At the same time, slum water supply is often provided through illegal connections and water points whose water quality cannot be ascertained hence charging residents up to 100 times the official price of water. As a result, it is estimated that as much as 37 percent of Nairobi's water supply is lost due to leakages and water has become a rare commodity to these areas.

To this end, the utility has come up with programs aimed at solving this problem such as water kiosks, donation of water tanks to schools and dispensaries in the informal settlements and in the city at large. All these aid in bringing the important resource to these less privileged members of the society.

The most vital CSR activity the Company involves itself with is issuing of water tanks to strategic groups such as schools, health facilities and youth groups in wards via the MCAs as well as the communities residing in the catchment areas. 32 No. of tanks have been issued in the year 2018/2019. This assists in water conservation, maintaining good rapport with the local communities as well as educating them on the importance of environmental and water conservation.

DIRECTORS' REPORT

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

	2019	2018
	KSHs	KSHs
Surplus/deficit for the Year	61,200,388	(634,895,405)

The Company does not recommend the payment of a dividend in respect of the year ended 30th June 2019 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 9 and 25.

INDEPENDENT AUDITORS

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

By order of the Board

Ivy Nyarango – Company Secretary

CORPORATE GOVERNANCE STATEMENT ON THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH JUNE 2019

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

ROLE OF THE BOARD

The Board is responsible for:

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

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

COMPOSITION OF THE BOARD

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

BOARD COMMITTEES

i) AUDIT, RISK AND GOVERNANCE COMMITTEE

During FY 2018/2019 the committee comprised of four board members and the Director Internal Audit and Risk Management who serves as the secretary to the committee. The Committee reports to the Board of Directors: It is responsible for assisting the Board to discharge its corporate governance responsibilities as follows:

- Internal Control and risk management- The Committee had the responsibility of reviewing the risk philosophy, strategy and policies recommended by the company and consider reports by the company. The Committee shall ensure compliance with such policies, and with the overall risk profile of the company.

- Review of financial information in particular annual financial statements to ensure compliance with accounting standards, legislation and other disclosure requirements.
- Reviews the external auditors proposed audit scope and approach and ensure no unjustified restrictions or limitations have been placed on the scope.
- Review of the function, operations and findings of the Internal Audit Directorate.

During the FY 2018/2019, the committee was composed of four board members. Currently, the number is three. It is responsible for assisting the Board to discharge its corporate governance responsibilities as follows:

Finance

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

Legal

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

During FY 2018/2019, the committee was composed of four board members. Currently, the number is six. It is responsible for assisting the Board to discharge its corporate governance responsibilities as follows:

Human Resource and Administration

- Review and recommend for approval terms and conditions of service for Company employees;
- Handle policy issues and strategies on human resource and administration;
- Assist and support the Board in the recruitment of senior management staff;
- Assist the Board in fulfilling its obligations relating to human resource and compensation matters and establish a plan for continuity and development of staff;
- Recommend a performance evaluation process for the Chief Executive Officer and, when approved, lead the process in conjunction with the Board Chair;
- Review and recommend the Company's compensation philosophy, strategy, and guidelines;

- Recommend for approval the design of, and determine targets for, any performance related pay schemes operated by the Company;
- Review major changes in the organization structure of management as proposed by the CEO and/or the Committee
- Ensure that policies are developed and implemented to comply with all human resource-related standards, laws and regulations;
- Ensure that the Company has adequate policies with regard to salary administration;
- Receive, consider, adopt and present progress reports on human resource and administration issues to the Board;
- Keep the Board updated on fundamental human resource and administration issues affecting the Company;
- Oversee the right sizing and structuring of the organization in line with the Company's business processes;
- Spearhead the creation of a long term human resource skills and competency reservoir;
- Oversee management succession planning processes;
- Review the standards and practices established by the Company for the safety and physical working conditions of staff to ensure they are sufficient and well maintained;
- Determine the policy for, and scope of, pension arrangements for staff;
- Ensure that contractual terms on termination, and any payments made, are fair to the individual, and the Company and that failure is not rewarded;
- Oversee any major changes in employee benefits structures throughout the Company;
- Arrange for periodic reviews of its own performance and, at least annually, review its constitution and terms of reference to ensure it is operating at maximum effectiveness and recommend any changes it considers necessary to the board for approval.

Communication

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

iv) TECHNICAL,COMMERCIAL AND ICT COMMITTEE

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

- Prepare and table reports on its deliberations to the Board through the Chairman or by any nominated member of the committee.
- Carry out any special responsibility as may be delegated to it by the Board.
- Work closely with other relevant committees so as to promote the objectives as set out in the Company's business plan.
- Review all ICT, technical and commercial proposals from the management team that focus on improving water and sewerage services that would require Board's approval for implementation.
- Review all proposals for procurement of infrastructure, development and support whose procurement is subject to approval by the Board prior to tendering.

- Receive and deliberate on the progress reports for all projects being implemented by the NCWSC with a view to providing guidance to the management and the Board.
- Consider and recommend for full Board approval ICT, technical and commercial services policies of the Company.
- Receive and consider periodic progress reports on technical, commercial and ICT-related activities and report on the same to the full Board on quarterly basis.
- Give guidelines/opinions to the management on areas of improvement as far as ICT, technical and commercial activities are concerned.
- Oversee, on behalf of the Board, that the Company achieves the set annual targets in water production, water distribution, revenue generation, market growth and customer satisfaction.
- Review the performance of the ICT, Technical and Commercial Directorates and recommend action to be taken for improvement and enhancement of the performance.
- Make periodic visits to the Company's installations and evaluate reports on the dams, treatment works as well as on the networks of water pipelines and sewer lines on a quarterly basis.

INTERNAL AUDIT FUNCTION

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

COMMUNICATION WITH SHAREHOLDERS/STAKEHOLDERS

The Company is committed to:

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

DIRECTORS' BENEFITS AND LOANS

All the non-executive Directors received Directors' remuneration as prescribed and no additional benefits or allowances were given to the Directors. However during the period there was no active board and therefore no fees was paid. The aggregate amount of Directors' remuneration is disclosed in notes 10 and 26 to these financial statements.

CHAIRMAN ______________________ DATE: 19TH SEPTEMBER 2019

MANAGING DIRECTOR ______________________ DATE: 19TH SEPTEMBER 2019

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

The Directors accept responsibility for the financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgments and estimates, in conformity with International Financial Reporting Standards. The Directors are of the opinion that the financial statements give a true and fair view of the state of the financial affairs of the Company and of its operating results. The Directors further accept responsibility for the maintenance of accounting records, which may be relied upon in the preparation of financial statements, as well as adequate systems of internal financial control.

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

The statement was approved by Board of Directors on 19th September 2019

CHAIRMAN ______________________

MANAGING DIRECTOR ______________________

REPUBLIC OF KENYA

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OFFICE OF THE AUDITOR-GENERAL

Enhancing Accountability

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NAIROBI

REPORT OF THE AUDITOR-GENERAL ON NAIROBI CITY WATER AND SEWERAGE COMPANY LIMITED FOR THE YEAR ENDED 30 JUNE, 2019

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 24 to 51, which comprise the statement of financial position as at 30 June, 2019, and the statement of profit and loss and other comprehensive income, statement of changes in equity, and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, 2015. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

In my opinion, except for the effects of the matters described in the Basis for Qualified Opinion 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, 2019, and of its financial performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards and comply with the Water Act, 2016, the Companies Act, 2015 and the Public Finance Management Act, 2012.

Basis for Qualified Opinion

1.0 Inaccuracies in Property, Plant and Equipment

The statement of financial position and as disclosed in Note 11 to the financial statements reflects property, plant and equipment balance of Kshs.3,476,548,192 as at 30 June, 2019. However, the parcels of land including dams on which expansion and improvements have been carried out are not included in the balance of property, plant and equipment. Further, ownership documents for various parcels of land belonging to the Company were not provided. It was also observed that the parcels of land were encroached by private developers.

Consequently, the accuracy, completeness, ownership and the carrying value of the property, plant and equipment balance of Kshs.3,476,548,192 could not be confirmed.

2.0 Long Outstanding Trade Receivables

The statement of financial position and as disclosed in Note 14 to the financial statements, reflects trade receivables and other receivables balance of Kshs.2,993,906,128. Included in the balance are trade receivables of Kshs.7,791,359,151 which includes provision for bad and doubtful debts of Kshs.6,497,690,981.00. Management did not provide for audit a breakdown of the nature of the trade receivables and measures put in place to recover the trade receivables.

In the circumstance, the recoverability of the debts of trade receivables of Kshs.7,791,359,151 could not be confirmed.

3.0 Unsupported Amounts Due to Related Parties

The statement of financial position and as disclosed in Note 24 to the financial statements reflects amounts due to related parties under current liabilities of Kshs.1,311,960,787 and non-current liabilities of Kshs.4,539,004,085 respectively. The liabilities relate to amounts due to Athi Water Services Board (AWSB) for lease fee as at 30 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 for audit review.

In the circumstance, the accuracy and completeness of amounts due to related parties of Kshs.5,850,964,872 could not be ascertained.

4.0 Unanalyzed Staff Costs - Retirement Benefits

The statement of comprehensive income and as disclosed under Note 4 to the financial statements reflects staff costs of Kshs.5,755,445,530. Included in this figure are retirement benefits of Kshs.662,249,841. During the previous year retirement benefits was Kshs.601,618,490. The incremental difference of Kshs.60,618,490 has not been analyzed or explained.

Consequently, the accuracy of retirements benefits amount of Kshs.662,249,841 cannot be ascertained.

5.0 Irregular Payment to Nairobi City County Assembly Members

Examination of payments to stakeholders revealed that a total of Kshs.56,959,267 was irregularly paid to Members of the Nairobi City County Assembly (MCAs) in form of allowances and other expenses for carrying out legislative and oversight duties. This was despite the fact that payment of allowances for legislative and oversight duties are catered for in the budget of the County Assembly.

Consequently, the payment of allowances to Members for the County Assembly amounting to Kshs.56,959,267 was irregular and not a proper charge to public funds.

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.

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

Budgetary Control and Performance

The statement of comparative budget and actual amounts reflects final receipts budget and actual on comparable basis of Kshs.11,275,430,000 and Kshs.9,299,430,987 respectively resulting to an under-collection of Kshs.1,975,999,013 or 17.5% of the budget. Similarly, the Company expended Kshs.9,156,254,553 against an approved expenditure budget of Kshs.11,275,430,000 resulting to an under-expenditure of Kshs.2,119,175,447. The under-collection and underperformance affected the planned activities and may have impacted negatively on service delivery to the public.

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 Conclusions 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-Revenue Water

The Company produced 180,157,370.73 cubic metres (M^3) of water out of which 114,565,369.65 cubic metres (M^3) was billed to customers. The balance of 65,592,001.08 cubic metres or approximately 36% of the total volume produced represented Non-Revenue Water (NRW) which is 11% over and above the allowable loss of 25% as per the Water Services Regulatory Board (WASREB) Guidelines for Non-Revenue Water. The Non Revenue Water of 36% may have resulted in loss of water sales estimated at Kshs.65,517,815.

The significant level of non-revenue water is an indication of inefficiency and lack of effectiveness in the use of public resources and, may negatively the Company's profitability and its long-term sustainability.

2.0 Delayed and Stalled Projects

Analysis of project status report revealed the following issues: -

2.1 Kamunde Road-Kariobangi North Mau Mau Area Sewer Rehabilitation Works

The Company awarded tender for Sewer Rehabilitation Works along Kamunde Road to Kariobangi North Mau Mau area at a contract cost of Kshs.179,768,144. The scope of the works involved construction of DN 450MM sewer line. The works started 21 March, 2017 and were due for completion on 19 November, 2018. However, the Project was 88% complete at the time of the audit.

Consequently, value for money has not been realised on the delayed completion of the sewer line rehabilitation.

2.2 Sewer Extension in Utawala Area

The Company awarded tender for the extension of the sewer in Utawala at a Contract sum of Kshs.144,075,079. A site visit conducted on 29 November, 2019 revealed that the Project had stalled and the contractor had abandoned the site. It was also noted that the performance bond of Kshs.14,475,017 which valid for 573 days from 19 April, 2016 to 12 November, 2017 lapsed.

Consequently, value for money has not been realised on the delayed completion of the sewer line extension.

2.3 Embakasi Coca-Cola Relief Sewer-Line

The Company awarded tender for the construction of the Embakasi Coca Cola relief sewer line at a contract sum of Kshs.42,912,784. The project file documents revealed that the Company suspended the works on 11 June, 2014 citing the quantity variation for excavation on hard rocks exceeded the allowed variation of 15% by the Public Procurement and Disposal Act, 2015. Further, a report by the Technical coordinator dated 21 July, 2015 recommended four options for the variation of excavation. However, the documents showing the option chosen and correspondences authorizing the contractor to resume works were not provided for audit. The Project had stalled at the time of the audit and the contractor had abandoned site.

In the circumstance, value for money has not been achieved on the construction of the Embakasi Coca Cola relief sewer line.

2.4 Njiru Sewer Extension Works

The Company awarded the contract for the extension of the Njiru sewer works at a contract sum of Kshs.141,499,576. The works started on 23 March, 2017 and were due to be completed on 23 March, 2018. The contractor notified the company Management that it had suspended works on 12 January, 2018. The status report dated 27 February, 2019 shows that the progress of works stood at 33 percent completion. Audit inspection undertaken on 29 November, 2019 revealed that the contractor had left site.

In the circumstance, value for money has not been achieved due to the delays in completion of the extension of the Njiru sewer works.

2.5 Mwagu & Kiama Intakes Desilting Works

The Company awarded for the desilting of the Mwagu and Kiama intakes at a contract sum of Kshs.139,989,380. The contract period was eight (8) months with the expected completion date of 22 October, 2018. Audit inspection undertaken on 26 November, 2019 revealed that the contractor had left site, the works at Mwagu had not begun and only silt removal was done in Kiama.

In the circumstance, value for money has not been achieved on the desilting of the Mwagu and Kiama intakes.

2.6 Likoni-Nanyuki Road Water Extension Project

The Company awarded a contract for the extension of the Likoni Nanyuki Road water line at a contract sum of Kshs.31,042,678. Scope of works was to improve water supply to factories and business premises along Lungalunga road. The contract was for a five (5) months period with the expected completion date of 30 April, 2016. Review of the status report dated 27 February, 2019 revealed that the works at 70 percent completion. Audit inspection conducted on 28 November, 2019 revealed the project had stalled and the contractor was not on site.

In the circumstance, value for money has not been achieved on the extension of the Likoni Nanyuki Road water line.

2.7 Sasumua Dam Laboratory

The Company awarded tender for the construction and equipping of the Sasumua Dam Laboratory which was completed in June, 2016 and payment of Kshs.1,367,970 made. A site visit conducted on 27 November, 2019 revealed that the laboratory was yet to begin its operations as the fume hood has not been installed. It was noted that Management took over the fume hood installation before the laboratory building was handed over. Further, the lab has not been operationalized for more than three years after its completion in June, 2016.

Consequently, value for money has not been achieved on the construction and equipping of the Sasumua Dam Laboratory.

3.0 Delayed Implementation of Customer Management and Billing System

The Company awarded the contract for the supply, delivery, installation, testing & commissioning of a customer management and billing system at a contract sum of USD. 1,192,596 (equivalent to Kshs.122,774,419). As at 30 June, 2019, the Company had paid Kshs.71,359,722.68 towards the completion of the customer billing system. According to the Addendum to Contract, the system was to go live by February 2019. However, at the time of audit in November, 2019, the system had not been commissioned.

Consequently, value for money has not been achieved on the supply, delivery, installation, testing & commissioning of a customer management and billing system.

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

Basis for Conclusion

Irregular Appointment of the Chairman of the Audit Committee

The Board of Directors for the Company were appointed in July, 2019 and constituted an Audit Risk and Governance Committee among other sub-committees. However, it was noted that the Chairman of the Audit Committee was also a member of Human Resource, and Administration Committee, and the Communications Committee. This was contrary to Regulation 167(9) of Public Finance Management (County Governments) Regulations, 2015 which provides that the chairperson of an audit committee shall not serve concurrently as a member of any other committee of the concerned county government entity, however its members can serve in up to a maximum of three audit committees at the same time.

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

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

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

(i) I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of my audit;

(ii) In my opinion, proper books of account have been kept by the Company, so far as appears from the examination of those books;

(iii) The Company's statement of financial position and statement of profit or loss and other comprehensive income are in agreement with books of account; and

(iv) In my opinion the information given in the report of the directors on page 17, is consistent with the financial statements.

Responsibilities of Directors and those Charged with Governance

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

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

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

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

Those charged with governance are responsible for overseeing the 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 governance and risk management, and ensuring the adequacy and effectiveness of the control environment.

Auditor-General's Responsibilities for the Audit

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

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

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

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

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

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

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.

- Conclude on the appropriateness of the Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the 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 as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information and business activities of the Company to express an opinion on the financial statements.

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

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

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

CPA Nancy Gathungu, CBS
AUDITOR-GENERAL

Nairobi

03 January, 2022

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 30th JUNE 2019

	Note	2019	2018
		Kshs	**Kshs**
OPERATING INCOME	3	9,299,430,987	8,478,139,252
Total		**9,299,430,987**	**8,478,139,252**
EXPENSES			
Staff costs	4	5,755,445,530	5,674,001,522
Operations	5	2,788,380,649	2,703,125,340
Maintenance	6	246,394,942	330,578,635
Other expenses	7	366,033,432	319,889,023
Total		**9,156,254,553**	**9,027,594,520**
Surplus Before Interest & Tax		**143,176,434**	**(223,028,619)**
Finance costs	8	81,976,046	85,440,137
SURPLUS BEFORE TAX	9	**61,200,388**	**(634,895,405)**
Net surplus/ Deficit for the year		**61,200,388**	**(634,895,405)**

STATEMENT OF FINANCIAL POSITION AS AT 30TH JUNE 2019

ASSETS	NOTE	2019	2018
NON- CURRENT ASSETS		Kshs	Kshs
Property, plant and equipment	11	3,476,548,192	2,949,972,964
Intangible assets	12	15,313,313	9,679,895
		3,491,861,505	**2,959,652,859**
CURRENT ASSETS			
Inventories	13	413,454,433	472,370,111
Trade and other receivables	14	2,993,906,128	2,510,067,254
Cash and Cash equivalents	15	194,741,752	185,526,984
		3,602,102,313	**3,167,964,349**
TOTAL ASSETS		**7,093,963,818**	**6,127,617,208**
CURRENT LIABILITIES			
Trade and other payables	21	2,621,994,879	2,845,143,931
Customers with credit balances	22	197,055,127	209,084,310
Provisions for Leave	23	293,689,229	268,828,212
Borrowings	20	59,331,029	66,743,834
Amounts due to related parties	24	1,311,960,787	1,146,615,016
		4,484,031,051	**4,536,415,303**
NET ASSETS		**2,609,932,767**	**1,591,201,905**
SHAREHOLDERS' FUNDS AND LIABILITIES			
CAPITAL AND RESERVES			
Share Capital	16	100,000	100,000
Revenue Reserve	17	(4,690,715,720)	(4,524,091,163)
Capital Grant	18	1,514,181,943	1,230,779,923
		(3,176,433,777)	**(3,293,211,240)**
NON-CURRENT LIABILITIES			
Customer deposits	19	900,011,445	830,998,911
Borrowings	20	347,351,014	433,748,356
Amounts due to related parties	24	4,539,004,085	3,619,665,878
		5,786,366,544	**4,884,413,145**
TOTAL SHAREHOLDERS' FUNDS AND LIABILITIES		**2,609,932,767**	**1,276,935,097**

The financial statements on pages 23 to 51 were approved by the Board of Directors on 19th September 2019.

Mr. Leonard M. Kamba – Chairman

Eng. Nahason M. Muguna -Ag. Managing Director

STATEMENT OF CHANGES IN EQUITY AS AT 30TH JUNE 2019

	Notes	Share Capital Kshs	Revenue Reserve Kshs	Capital Grant Kshs	Restated Total Kshs
As at 30th June 2017		100000	(3,005,132,991)	946,077,067	(2,058,955,924)
Prior year adjustments	26		(884,062,767)		(884,062,767)
Restated balance		100,000	(3,889,195,758)	946,077,067	(2,943,018,692)
Amortization				(6,814,697)	(6,814,697)
Additions for the year				291,517,553	291,517,553
Deficit for the year	9		(634,895,405)		(634,895,405)
As at 30th June 2018		100,000	(4,524,091,163)	1,230,779,923	(3,293,211,240)
As at 30th June 2018		100,000	(4,524,091,163)	1,230,779,923	(3,293,211,240)
Prior year adjustments	26		(227,824,945)		(227,824,945)
Restated balance		100,000	(4,751,916,108)	1,230,779,923	(3,521,036,185)
Amortization				(22,394,788)	(22,394,788)
Additions for the year				305,796,808	305,796,808
surplus for the year	9		61,200,388		61,200,388
As at 30th June 2019		100,000	(4,690,715,720)	1,514,181,943	(3,176,433,777)

STATEMENT OF CASH FLOW FOR THE YEAR ENDED 30th JUNE 2019

	NOTE	2019	2018
Operating activities:		**Kshs**	**Kshs**
Cash generated from operations	27	**652,749,287**	**708,045,195**
Interest paid		(81,976,046)	(85,440,137)
Net cash generated from operating activities		**570,773,241**	**622,605,058**
Cash flow from investing activities:			
Purchase of property, plant and equipment	11	(768,729,633)	(1,030,262,148)
Purchase of intangible assets	12	15,925,527	
Net cash used in investing activities		**(784,655,160)**	**(1,030,262,148)**
Cash flow from financing activities:			
Proceeds from long-term borrowings		11,110,026	290,449,1
Proceeds from financing assets	18	305,796,808	291,517,553
Repayment of long-term borrowings		(93,810,147)	(112,584,240)
Net cash generated from financing activities		**223,096,687**	**469,382,442**
Net increase/(decrease) in cash and cash equivalents		9,214,768	**61,725,353**
Movement in cash and cash equivalents:			
As at 1st July		**185,526,984**	**123,801,631**
Increase/(decrease)		9,214,768	61,725,353
As at 30th June	15	**194,741,752**	**185,526,984**

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH JUNE 2019

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

a) Basis of preparation

The financial statements are prepared in 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 and presented in the functional currency, Kenya Shillings (Kshs) rounded to the nearest Shilling.

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

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

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

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

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

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

The amendments to IAS 16 prohibit entities from using a revenue-based depreciation method for items of property, plant and equipment. The amendments to IAS 38 introduce a rebuttable presumption that revenue is not an appropriate basis for amortisation of an intangible asset. This presumption can only be rebutted in the following two limited circumstances:

a) When the intangible asset is expressed as a measure of revenue; or

b) When it can be demonstrated that revenue and consumption of the economic benefits of the intangible asset are highly correlated.

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

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

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

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

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

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

The carrying values of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying values may not be recoverable. An impairment loss is recognized for the amount by which the assets' carrying amount exceeds its recoverable amount. The recoverable amount is the higher of the assets fair value less costs to sell and value in use.
If any such indications exist and where the carrying values exceed the recoverable amount, property, plant and equipment are written down to their recoverable amounts.

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

c) Financial instruments

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

d) Revenue recognition

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

i) Provision of water and sewerage services

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

ii) Meter rent income

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

iii) Miscellaneous income

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

iv) Grant

Income from donors is recognized on accrual basis. Grants are recognized at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. For example, a revenue grant is recognized as income over the years necessary to match the grant on a systematic basis to the costs that it is intended to compensate.

e) Intangible assets

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

f) Inventories

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

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

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

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.

iii) Trade and other receivables

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

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

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

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.

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

k) Provisions

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

l) Contingent liabilities

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

m) Taxation

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

n) Cash and cash equivalents

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

o) Trade and other payables

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

p) Leases

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

q) Interest bearing borrowings

All borrowings are recognized at cost.

r) Revenue reserve

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

s) Customer deposits

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

t) Related parties

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

u) Provision for overtime

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

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 1(b), 1 (e) and 1 (J) 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.

	2019	2018
	Kshs	Kshs
Water	4,951,152,044	4,640,386,837
Sewer services	3,743,354,228	3,368,863,031
Meter rent	160,642,800	158,254,250
Other income	444,281,915	310,635,134
	9,299,430,987	**8,478,139,252**

Other income comprises income from exhauster services rendered, sale of water by tanker, kshs 19,124,592, survey fees, sale of sludge, sale of tender documents, fraud charges and recoveries kshs 59,977,122, claims compensation 39,830,560, reconnection fee kshs 68,805,500, effluent discharge license fee, chemical analysis fee, sewer connection charges, jisomee customer loan repayments kshs 234,149,353 and Grant Amortization kshs 22,394,788 (2018: Kshs 6,814,697)

4. STAFF COSTS

	Note	2019	2018
		Kshs	Kshs
Salaries and wages		2,848,287,536	2,802,509,753
House allowances		856,097,026	880,154,200
Leave allowances		191,604,831	191,634,334
Bonus		24,910,114	25,514,796
Overtime		254,489,788	242,785,239
Retirement benefits	28	662,249,841	601,631,351
Other allowances		596,661,278	594,593,257
Medical expenses		241,561,366	274,210,264
Leave pay provision		24,861,018	9,079,124
Welfare		54,722,732	51,889,204
		5,755,445,530	**5,674,001,522**

The number of employees at the end of the financial year was 3,440 (2018: 3,554). The average per category is indicated below

Grade	Category	Average Number 2019	2018
1	Managing Director	1	1
2	Functional Directors	7	7
3	Departmental/Regional managers	30	33
4	Co-ordinators	111	114
5	Officers	220	220
6	Unionizable staff	632	634
7	Unionizable staff	712	770
8	Unionizable staff	1,611	1,655
9	Unionizable staff	116	120
Grand Total		**3,440**	**3,554**

5. OPERATIONS

	2019	2018
	Kshs	Kshs
Chemicals	191,404,123	208,454,958
Office supplies	20,326,201	18,707,347
Tyres and related accessories	13,618,159	12,137,228
Fuel, oil and lubricants	89,078,909	76,709,610
Uniforms and protective clothing	61,507,615	48,264,689
Electricity	283,709,308	267,094,066
Telecommunications	43,571,096	37,450,968
Postal and couriers	32,446	21,145
Water and conservancy	7,309,387	8,277,024
Insurance	58,417,241	80,020,591
Rent and rates	97,565,184	96,174,239
Hire of equipment and Vehicles	625,069	3,067,066
Claims, damages and compensation	54,445,705	32,751,421
Traveling and subsistence- local	130,731,981	62,628,785
Bank charges	9,303,111	8,382,745
Staff development & external travel	78,364,595	67,130,722
Security	77,105,900	68,194,342
Commissions	1,806,749	1,005,262
Publicity and advertising	15,709,941	15,479,740
Donations/Corporate Social Responsibility	509,655	1,187,700
Sports and recreation	14,845,517	25,018,093
Corporate year end party	6,037,600	214,050
Library	73,983	119,384
Board remuneration	0	1,843,239
AGM Expenses	1,000,000	2,000,000
Audit fees	3,638,910	4,309,330
Legal fees	17,090,881	14,643,775
Consultancy	9,705,597	7,825,718
Licensing, lease and levy	1,443,848,588	1,499,685,388
Research & Development	37,931	1,062,600
Stakeholders expenses	56,959,267	33,264,115
Total	**2,788,380,649**	**2,703,125,340**

6. MAINTENANCE

	2019	2018
	Kshs	Kshs
Ground	362,531	111,582
Plant and machinery	22,826,289	24,542,415
Buildings	3,338,898	3,925,254
Equipment	12,790,836	11,331,835
Motor vehicles	23,655,668	27,914,981
Furniture and fittings	114,447	33,084
Software	501,600	5,222,959
Water fittings and accessories	156,594,862	187,168,842
Water meters	26,209,809	70,327,683
Total	**246,394,942**	**330,578,635**

7. OTHER EXPENSES

	Note	2019	2018
		Kshs	Kshs
Provision for bad and doubtful debts	14	113,586,920	100,074,238
Depreciation of property, plant and equipment	11	242,154,403	212,352,812
Amortization of intangible assets	12	10,292,109	7,461,973
Total		**366,033,432**	**319,889,023**

8. FINANCE COSTS

	2019	2018
	Kshs	Kshs
Interest on loan	60,068,823	58,179,129
Interest on overdraft		6,779,497
Interest on deposits	21,907,223	20,481,511
Total	**81,976,046**	**85,440,137**

	2019	2018
	Kshs	Kshs
The surplus before tax is stated after charging:		
Depreciation of property, plant and equipment	242,154,403	212,352,812
Amortization of intangible assets	10,292,109	7,461,973
Directors' emoluments:		
-Fees	0	1,843,239
-Other emoluments	11,476,304	19,035,195
Auditors' remuneration	3,552,830	3,552,830
Retirement benefits	662,249,841	630,599,651
Interest expense	81,976,046	85,440,137
And after crediting:		
Other income	(444,281,91)	(310,635,134)

10. TAXATION

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

(i) The Company is wholly owned by Nairobi City County, a County Government. The Company Operations are under the County Government and as per the provision of the Constitution **FOURTH SCHEDULE** *(Article 185 (2), 186 (1) and 187 (2))*. It is principally a vehicle used by Nairobi City County to deliver services as per the county government Act. According to the 1st 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.

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

PROPERTY, PLANT AND EQUIPMENT

COST	BUILDINGS	PLANT & MACHINERY	MOTOR VEHICLES	EQUIPMENT	COMPUTER &RELATED EQUIPMENT	FURNITURE & FITTINGS	WIP	TOTAL
	KSHS	KSHS	KSHS	KSHS	KSHS	KSHS	KSHS	KSHS
As at Jul 2017	43,967,829	972,557,570	422,100,846	825,583,702	501,697,182	129,128,001	1,231,023,293	4,126,058,422
Additions at cost		19,323,675		54,301,935	24,615,855	17,526,216	914,494,467	1,030,262,148
Reclassification	25,742,444	192,900,011		838,301			-219,480,756	0
As at June 2018	69,710,273	1,184,781,256	422,100,846	880,723,938	526,313,037	146,654,217	1,926,037,004	5,156,320,571
Depreciation at 1 July 2017	4,767,058	517,076,684	359,178,170	610,338,648	418,063,620	84,570,615	0	1,993,994,795
Charge for the year	1,152,826	81,112,864	22,675,809	45,789,664	51,137,555	10,484,094		212,352,812
Accumulated Depreciation	5,919,884	598,189,548	381,853,979	656,128,312	469,201,175	95,054,709	0	2,206,347,607
NBV AS AT 30 JUNE 2018	63,790,389	586,591,708	40,246,867	224,595,626	57,111,862	51,599,508	1,926,037,004	2,949,972,964
As at Jul 2018	69,710,273	1,184,781,256	422,100,846	880,723,938	526,313,037	146,654,217	1,926,037,004	5,156,320,571
Additions at cost	0	153,760,206		61,233,100	7,740,306	5,164,122	540,831,899	768,728,633
Reclassification	9,463,534	1,718,536,786					(1,728,000,320)	0
As at June 2019	79,173,807	3,057,078,246	422,100,846	941,857,038	534,053,343	151,818,339	738,868,583	5,925,050,202
Depreciation at 1 July 2018	5,919,884	598,189,548	381,853,979	656,128,312	469,201,175	95,054,709	0	2,206,347,607
Charge for the year	1,770,940	124,774,555	24,778,106	48,426,020	31,202,106	11,202,676		242,154,403
Accumulated Depreciation	7,690,824	722,964,103	406,632,085	704,554,332	500,403,281	106,257,385	0	2,448,502,010
NBV AS AT 30 JUNE 2019	71,482,983	2,334,114,142	15,468,761	237,402,706	33,650,062	45,560,954	738,868,585	3,476,548,192
NBV AS AT 30 JUNE 2018	63,790,389	586,591,708	40,246,867	224,595,626	57,111,862	51,599,508	1,926,037,004	2,949,972,964

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.

	2019	2018
Computer software:-	**Kshs**	**Kshs**
COST		
At 1 July	**149,208,778**	**149,208,778**
Additions	15,925,527	
At 30 June	**165,134,305**	**149,208,778**
AMORTIZATION		
At 1 July	**139,528,883**	**132,066,910**
Charge for the year	10,292,109	7,461,973
At 30 June	**149,820,992**	**139,528,883**
Net book value at 30th June	**15,313,313**	**9,679,895**
Value of fully Depreciated at 30th June	149,208,778	132,066,910

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

	2019	2018
	Kshs	**Kshs**
Water treatment Chemicals	35,145,021	52,559,719
Office Supplies	15,407,406	10,278,416
Tyres and accessories	5,307,803	4,837,836
Motor Spares	19,225,251	17,044,865
Uniform and protective clothing	5,691,495	4,412,470
Water meters	57,215,247	64,102,348
Water fittings and accessories	275,462,211	319,134,457
Total	**413,454,433**	**472,370,111**

14. TRADE AND OTHER RECEIVABLES

	2019	2018
	Kshs	Kshs
Trade receivables	7,791,359,151	7,467,658,551
Less: provision for bad and doubtful debts	(6,497,690,981)	(6,385,364,060)
Net trade receivables	1,293,668,170	1,082,294,491
Other receivables	1,688,967,158	1,435,986,952
Less: provision for bad and doubtful debts	(55,512,564)	(55,512,564)
Net other receivables	**1,633,454,594**	**1,380,474,388**
Prepayments and deposits	66,783,364	47,298,375
	2,993,906,128	**2,510,067,254**

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 6,553,203,545 (2018: Kshs 6,440,876,624).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. The prepayments and Refundable deposits relate to insurance prepaid and rental deposits respectively. The carrying amounts of receivables approximate to their fair value.

15. CASH AND CASH EQUIVALENTS

	2019	2018
	Kshs	Kshs
Cash in hand	774,343	343,059
Cash at bank	193,967,709	185,183,925
Total	**194,741,752**	**185,526,984**

For the purposes of the cash flow statement, the earned cash and cash equivalents comprise the above balance sheet amount. The company is not exposed to credit risk on cash and bank balances as these are held with sound financial institutions. The cash at bank is held at Co-operative bank of Kenya, Barclays bank of Kenya ltd, Equity bank Ltd, Sidian bank, Citi bank N.A, Housing Finance, Kenya Commercial bank ltd, National bank of Kenya, National Industrial credit bank ltd

(NIC), Diamond trust bank ltd and other held in trust account by M-pesa holding account, Jambo pay and Airtel holding Account.

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

16 SHARE CAPITAL

	2019	2018
	Kshs	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.

[illegible]

	Note	2019	2018
			Restated
		Kshs	Kshs
At 1 July		**(4,524,091,163)**	**(3,005,132,991)**
Prior year adjustments	26	(227,824,945)	(884,062,767)
Restated Opening balance		**(4,751,916,108)**	**(3,889,195,758)**
Surplus/Deficit for the year		61,200,388	(634,895,405)
At 30 June		**(4,690,715,720)**	**(4,524,091,163)**

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

18. CAPITAL GRANT

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

	2019	2018
COST	**Kshs**	**Kshs**
As at 1st July	**1,675,217,905**	**1,383,700,352**
Additions	**305,796,808**	**291,517,553**
	1,981,014,713	**1,675,217,905**
Amortization:		
As at 1st July	444,437,982	437,623,285
Charge for the year	22,394,788	6,814,697
Accumulated Amortization	466,832,770	444,437,982
NET BOOK VALUE AS AT 30TH JUNE	**1,514,181,943**	**1,230,779,923**

19. CUSTOMER DEPOSITS

	2019	2018
	Kshs	Kshs
Balance brought forward	**830,998,911**	**762,732,504**
Deposits received from customers	53,008,680	54,132,704
Accrued interest at 3% per annum	21,907,223	20,481,511
Deposits and interest refunded	(5,903,369)	(6,347,808)
Balance carried forward	**900,011,445**	**830,998,911**

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

However, as is the case with other deposits of a similar nature, customer deposits are not usually withdrawn within one year.

	2019	2018
	Kshs	Kshs
Bank borrowings		
Non- Current	347,351,014	433,748,356
Current	59,331,029	66,743,834
Total Bank borrowings	**406,682,044**	**500,492,190**

The Company currently has two running loans namely;

(a) A five year term loan for the Kirigiti water Extension project at Co-operative bank of kenya for which the monthly principal repayment is Kshs. 1.7 million. Interest rate is as per CBK regulations on reducing balance,

(b) A term loan for financing sanitation connections in the informal settlement of kes 600 million at
Co-operative Bank under the OBA project co-financed by the World Bank. At the close of the period the company had made a drawdown of kes 428, 549,953. Interest rate at 13.5% pa reducing balance.
The company maintains an overdraft facility with the co-operative bank of Kenya of Kshs. 35 million that may be utilized by the company to reduce liquidity risk.

The facilities are secured by the following

i. Debentures over the entire assets of the company for kes 700 million (Seven hundred million only)

ii. An assignment agreement of our receivables;

iii. Daily cash/ call deposits build up in the amount of kes 2,000,000 per day via standing order;

iv. Duly executed lien and cash charge documentation to back the arrangement under items ii and iii above;

v. Executed general terms and conditions

	2019	2018
	Kshs	Kshs
Trade payables	1,386,279,602	1,320,019,225
Other payables	1,235,715,277	1,525,124,706
Total	**2,621,994,879**	**2,845,143,931**

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 655,627,733 and Lap fund Kshs. 304,026,335.09 The maturity analysis of trade and other payables are shown in note 33 (a) (ii).

22. CUSTOMERS WITH CREDIT BALANCES

	2019	2018
	Kshs	Kshs
Customers credit balances	197,055,127	209,084,310

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.

23. PROVISIONS FOR LEAVE ACCRUALS

	2019	2018
	Kshs	Kshs
As at opening	268,828,212	259,749,088
Addition/ Decrease for the year	24,861,018	9,079,124
As at closing	293,689,229	268,828,212

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

24. AMOUNT DUE TO RELATED PARTY TRANSACTIONS

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

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

AMOUNT DUE TO RELATED PARTY TRANSACTIONS (Continued)

	2019	2018
i)Lease fees for the year payable to Athi Water Services Board:	**Kshs**	**Kshs**
As at July	4,583,674,896	3,292,143,319
Fees for the year	1,076,060,586	1,301,531,577
NCC	11,414,500	
Sub-total	5,671,149,982	4,593,674,896
Paid	(2,587,092)	(10,000,000)
Subtotal	(2,587,092)	(10,000,000)
At 30 June	**5,668,562,890**	**4,583,674,896**
ii)Inherited debts from Nairobi City County		
At 1 July	182,605,999	186,953,678
Paid during the year	(204,016)	(4,347,679)
At 30 June	182,401,983	182,605,999
Grand Total	**5,850,964,873**	**4,766,280,895**
Classification of related party payables		
Non- current	4,539,004,085	3,619,665,879
Current	1,311,960,787	1,146,615,016
Total	**5,850,964,872**	**4,766,280,895**
iii)Billing of Water services to NCC		Restated
At 1 July	230,026,891	212,200,902
Billing for the year	74,624,823	72,983,197
Paid/offset during the year	(5,208,368)	(5,681,424)
Adjustment	0	(49,475,784)
At 30 June	**299,443,346**	**230,026,891**

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

25. MANAGEMENT STAFF COMPENSATION

Key management compensation:	2019	2018
	Kshs	Kshs
Salaries and other short term benefits	1,329,272,801	1,240,336,089
Termination benefits	163,583,396	158,032,260
Post-employment benefits	0	0
Total	**1,492,856,197**	**1,398,368,349**
Director's remuneration:		
-Fees for services as Directors	0	1,843,239
-Other emoluments as Chief executive (included in key management compensation above)	11,476,304	19,035,195
Total	**11,476,304**	**20,878,434**

As earlier reported the board was suspended on 27th September 2017 hence there was no board of directors' remuneration in the period. A listing of the members of the Board of Directors who served is shown on page 5 of these financial statements.

26. PRIOR YEAR ADJUSTMENTS

Prior year adjustments comprise the following:		2019	2018
To revenue reserve		Kshs	Kshs
Trade Receivables	(i)	(227,824,945)	(660,741,392)
Other receivables	(ii)		**(223,321,3750**
Total		**(227,824,945)**	**(884,062,767)**

Sub-notes:

(i) Correction of prior period trade receivable balances due to errors in billings.

(ii) Disallowed VAT claims by Kenya Revenue Authority for previous years claims.

Reconciliation of surplus before tax with cash generated from operations:		2019	2018
	Notes	Kshs.	Kshs.
Surplus /deficit for the year before tax		61,200,388	(637,093,458)
Adjustment for :			
Revenue reserve	26	(227,824,945)	(884,062,768)
Depreciation of property, plant and equipment	11	242,154,403	212,352,812
Amortization of intangible assets	12	10,292,109	7,461,973
Amortization of grant asset	18	(22,394,788)	(6,814,697)
Interest expense	8	81,976,046	85,440,137
Loss on retirement			
Operating surplus before working capital changes		145,403,214	(1,220,517,948)
(Decrease)/ Increase Trade and other receivables		(508,319,889)	422,944,968
Increase /decrease in Inventories		58,915,678	(17,459,012)
Increase in Trade and other payables		(221,807,247)	158,547,758
Increase/Decrease in Provisions		24,861,018	9,079,123
Increase in Customer deposits		69,012,534	68,266,408
Increase in Amount due to related parties		1,084,683,978	1,287,183,898
Cash generated from operations		**652,749,287**	**708,045,195**

The employee retirement benefits expense comprises:

	2019	2018
	Kshs	Kshs
National Social Security Fund	4,639,279	3,612,600
Provident fund/pension fund	494,027,166	439,986,491
Gratuity	163,583,396	158,032,260
	662,249,841	**601,631,351**

29. COMMITMENTS

	2019	2018
	Kshs	Kshs
Contracted but not provided for	292,944,931	474,052,765

30. FUTURE RENTAL COMMITMENTS UNDER OPERATING LEASES

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

	2019	2018
	Kshs	**Kshs**
Within 1 year	73,129,442	80,299,690
After 1 year but less than5 years	97,782,586	150,032,596
	170,912,028	**230,332,286**

31. 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 4,694,499,735, (2018: Kshs 3,051,942,987). 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.

32. 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:

	Fully Performing Kshs	Past due but not Impaired Kshs	Past due and Impaired Kshs	Total Kshs
As at 30th June 2018				
Financial assets				
Trade receivables	464,040,865	618,253,625	6,385,364,060	7,467,658,551
Other receivables	947,573,566	478,001,145	55,512,564	1,481,087,274
Cash at bank	185,526,984			185,526,984
Gross financial assets	**1,597,141,405**	**1,096,254,770**	**6,440,876,624**	**9,134,272,80[illegible]**
As at 30th June 2019				
Financial assets				
Trade receivables	406,929,479	886,738,691	6,497,690,981	7,791,359,151
Other receivables	147,679,576	1,485,775,018	55,512,564	1,688,967,158
Cash at bank	194,741,752			194,741,752
Gross financial assets	**749,350,807**	**2,372,513,709**	**6,553,203,545**	**9,675,068,061**

The past due debtors but not impaired continue to be paid. An impairment provision of Kshs 6,497,690,981) (2018: 6,440,876,624) is held against the impaired receivables. The company does not hold any collateral against the past due or impaired receivables except for the nominal customer deposits. The management continues to actively follow up past due and impaired receivables

ii) Liquidity risk

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

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

Year ended 30th June 2019	0-1 month	1-3 months	3-12 months	over 1 year	Total
Trade payables	383	134	399	470	**1,386**
Payables to related parties	82	164	839	4,766	**5,851**
Other payables	373	156	650	57	**1,236**
Loans from bank	6	12	41	347	**406**
Total	844	466	1,929	5,640	**8,879**
Year ended 30th June 2018					
Trade payables	274	176	397	473	**1,320**
Payables to related parties	109	219	973	3,465	**4,766**
Other payables	473	177	636	240	**1,526**
Loans from bank	9	19	84	388	**500**
Total	865	591	2,090	4,566	**8,112**

iii) Market risk

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

Interest rate risk

The company is exposed to cash flow interest risk on its variable rate borrowings because of changes in market interest rates. The company manages this exposure by maintaining a high interest cover ratio, which is the extent to which profits are available to service borrowing costs. If the interest rates on the company's borrowings at the year-end were to increase/decrease by 1% percentage points, with all other factors remaining constant, the post-tax loss/profit would be lower/higher by Shs 7,903,096

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.

	2019	2,018 Restated
	Kshs	Kshs
Total Debt	2,993,906,128	2,510,067,254
Less cash and cash equivalents (Note 16)	194,741,752	185,526,984
Total Debt net of cash	2,799,164,376	2,324,540,270
Total equity	(3,176,433,776)	(3,293,211,240)
Total Capital resources	(377,269,400)	(968,670,970)
Gearing (net debt over total capital resources)	(741)%	(240)%

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