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**REPORT**

**OF**

**THE AUDITOR-GENERAL**

**ON**

**NAROMORU WATER AND SANITATION  
COMPANY LIMITED**

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





**NAROMORU WATER & SANITATION COMPANY,**  
P.O. Box 234 – 10105,  
NAROMORU  
Email: [narowasco@gmail.com](mailto:narowasco@gmail.com)  
MOBILE: 0723- 656-412

**ANNUAL REPORT & FINANCIAL STATEMENTS FOR  
THE**

**YEAR ENDED 30<sup>TH</sup> JUNE, 2019**



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

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**NAROMORU WATER & SANITATION COMPANY LIMITED.**  
**ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019**

**KEY ENTITY INFORMATION**

The Board of Directors present their report together with the audited financial statements for the year ended 30<sup>th</sup> June 2019 which disclose the state of affairs of the Company.

**PRINCIPAL ACTIVITY**

The principal activity of the Company is to provide Water and Sanitation Services to residents of Naromoru Town in Nyeri County and lower parts of Lamuria Location in Tigithi Sub-Location in Laikipia County.

**VISION, MISSION AND CORE VALUES**

The Company has developed the vision and mission statements as well as core values which are outlined here below.

**VISION OF NAROWASCO**

The vision of Naromoru Water and Sanitation Company (NAROWASCO) reflects its main role and functions are as follows:-

“To be the model Water Services Provider in Nyeri County and in Kenya”

**MISSION OF NAROWASCO**

The Mission of Naromoru Water and Sanitation Company (NAROWASCO) is inclined towards serving the expectations of the Company’s stakeholders and is as shown below:

“To ensure provision of quality, affordable, Reliable and Sustainable Water and Sanitation Services by operating and maintaining Water and Sanitation facilities”

**CORE VALUES**

To achieve our mission and vision, the following core values will be our guiding principles:

- Customer focus
- Accountability
- Transparency
- Integrity
- Commitment to teamwork
- Quality
- Innovative(Innovation)



**REGISTERED OFFICE**

Naromoru Town, Kanyua Building behind Popular Supermarket  
P. O. Box 234-10105

Naromoru,  
Nyeri County

KENYA.

E-mail: [narowasco@gmail.com](mailto:narowasco@gmail.com)

Mobile : 0723656412

**BANKERS**

KCB Bank Ltd Naromoru Branch

P. O. BOX 393 -10105

Naromoru.

KENYA

**AUDITORS**

Auditor General

Office of the Auditor General

P.O. Box 30084 - 00100

Nairobi.

KENYA.

**PRINCIPAL LEGAL ADVISOR**

The Company Secretary

Gikuhi Kiana & Company

Kimathi Street, Kang'aru Annex Building

P.O Box 1271-10100

Nyeri.

KENYA

## **BOARD OF DIRECTORS**

- |                                 |   |
|---------------------------------|---|
| 1. Lawrence Muchiri Kariuki     | - Chairman –re-elected on 15-01-2015                        |
| 2. Pst. Francis Nderitu Wothaya | - Director-elected on 15-05-2016                            |
| 3. Naomi Waitherero Githinji    | - Director-elected on 15-05-2016                            |
| 4. Esther Gathoni Kabochi       | - Director-re-elected on 15-01-2015-(Retired in March 2019) |
| 5. Rachael Wangui Muturi        | - Director-elected on 15-3-2019                             |
| 6. Stanley Maina Mutuota        | - Chief Officer (CO-Water Department)                       |
| 7. Simon Ndirangu Gachunia      | - Appointed in 2018   |
| 8. Samuel Mbutu Mwaura-         | - Elected on 15-01-2015- During AGM                         |
| 9. David Gitonga Ndirangu-      | - Secretary to the Board of Directors                       |

## **BOARD COMMITTEES**

### **(I) FINANCE, ADMISTRATION AND HUMAN RESOURCES**

- |                             |                                     |
|-----------------------------|-------------------------------------|
| • Stanley Maina Mutuota     | - Appointed in May 2017             |
| • Samuel Mbutu Mwaura       | - Appointed Chairperson in May 2015 |
| • Naomi Waitherero Githinji | - Appointed in May 2016             |
| • Simon Ndirangu Gachunia   | -Appointed in 2018                  |

### **(II) AUDIT COMMITEE**

- |                                  |                                    |
|----------------------------------|------------------------------------|
| • Naomi Waitherero Githinji      | -Appointed in May 2016             |
| • Esther Gathoni Kabochi- Member | -Appointed Chairperson in May 2015 |
| • Francis Nderitu Wothaya        | -Appointed in May 2016             |






### **(III) TECHNICAL COMMITTEE**

- |                             |                                     |
|-----------------------------|-------------------------------------|
| • Stanley Maina Mutuota     | - Appointed 2017                    |
| • Samuel Mbutu Mwaura       | - Appointed in May 2015             |
| • Naomi Waitherero Githinji | – Chairperson Appointed in May 2016 |






**Details of Board Members:**

No.		
1.		<p><b>Mr Lawrence Muchiri Kariuki:</b> Holds a Diploma in Animal Production in Egerton University and Diploma in Education from Kenya Technical Teacher's College. He has worked at St Monica Secondary school and is currently at Mureru Secondary school as Head of Department (Science)</p>
2.		<p><b>Mr Mbutu Mwaura</b> Mbutu Mwaura is an Economist with Masters degree from University of Nairobi, Kenya (1998) and a Water and Sanitation Services Practitioner with International Executive Masters in Water Supply and Sanitation Services Management from AgroParisTech Institute, France (2018) (has monitoring certificate awaiting degree certificate). He is currently pursuing (cleared course work and now on Thesis phase entitled 'Productivity analysis among Water Service Providers in Kenya') PhD in Economics at Kenyatta University, Kenya. He has over 19 years of professional work experience in both public and private sectors in the fields of policy analysis, planning, research, development finance and monitoring and evaluation.</p> <p>Mbutu Mwaura is currently, since 2008, the Corporate Planning, Monitoring and Evaluation Manager with Nairobi City Water and Sewerage Company Ltd. Previously, he worked with Fineline Systems and Management Consulting firm (1999 – 2002), Kenya Union of Savings and Credit Cooperatives (KUSCCO) Ltd. (2002 – 2003) and Kenya Institute for Public Policy, Research and Analysis (2004 – 2008).</p> <p>On governance and leadership facets, Mbutu Mwaura is the Chairman, Board of Management for St. Peters Kambura-ini Secondary School and a member of Board of Directors (and Chairman of Finance, Human Resources and Administration Committee and a member of Technical Committee) of Naromoru Water and Sanitation Company Ltd., both in Nyeri County, Kenya. He is also an Associate member of Kenya Institute of Management (KIM).</p>
3.		<p><b>Revered Francis Wothaya Nderitu</b> Holds a Diploma in Bible and Theology from Machakos College of Theology. Currently, he is the Revered in-charge Africa Inland Church-Naromoru. He is the Chairman of Pastor's Fellowship in Naromoru.</p>

4.		<p><b>Ms Esther Gathoni Kabochi</b> She is an “O” level holder. Holds a Certificate in Counselling. She is a business woman. She represents the Women Group.</p>
5.		<p><b>Mrs Naomi Githinji</b> She is an “A” level holder at Star Sea High School. Holds a Diploma in Electrical Engineering at Kiambu Institute of Science and Technology. Currently, she is a businesswoman running an electrical workshop in Naromoru.</p>
6.		<p><b>Eng. Stanley Maina Mutuota</b> Holds BSC Irrigation Water Management from the University of Nairobi Has worked as Provincial Irrigation Water Management Officer in Central Province &amp; Eastern Province before Devolution 2013. Currently serving Chief Officer Water Environment &amp; Sanitation in Nyeri County Government. He represents the County Government in the Board of NAROWASCO.</p>
7.		<p><b>Mr Simon Ndirangu Gachunia</b> He holds a Masters of Arts in Internal Relations from United States International University (USIU). He has a Post Graduate Degree in Cross Cultural Communications and International Works from the Hald Internajionale Senter, Norway. Holds Bachelor of Education’s Art (Mathematics and Business Studies) from Kenyatta University. He is the current chairman of Choice Microfinance Bank and B.O.M chairman of St. Gregory Karima Secondary School. He represents the Governor in the Board of NAROWASCO</p>
8.		<p><b>Ms Rachael Wangui Muturi</b> Holds a Diploma in Farm Management from Egerton University, 2006. Has worked as a Divisional Environment and Land Management Officer in Kieni East and as an Agricultural officer in Kieni East Sub-County since 2010. She is currently serving as a Ward Agricultural in charge of Thegu River Ward. She represents women group in the Board of NAROWASCO.</p>
9.		<p><b>Mr David Gitonga Ndirangu</b> Holds an A” level certificate from Mang’u High School , Diploma in Water Engineering from Kenya Polytechnic Nairobi, has worked in District Water .Engineer’s Office in Nyeri in Planning and Design Section for 10 years, Divisional Water Officer in Othaya for 2 years, Development/Maintenance Superintendent in OMWASCO for 2 years ,District Water Officer Tharaka North for 1 year and Kieni East for 2Years .Currently he is the General Manager &amp; Secretary to the Board of Directors of NAROWASCO</p>

**NAROMORU WATER & SANITATION COMPANY LIMITED.  
ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019**

**MANAGEMENT TEAM**

	<p><b>Mr David Gitonga Ndirangu:</b> Holds an A” level certificate from Mang’u High School , Diploma in Water Engineering from Kenya Polytechnic Nairobi, has worked in District Water .Engineer’s Office in Nyeri in Planning and Design Section for 10 years, Divisional Water Officer in Othaya for 2 years, Development/Maintenance Superintendent in OMWASCO for 2 years ,District Water Officer Tharaka North for 1 year and Kieni East for 2Years .Currently he is the General Manager &amp; Secretary to the Board of Directors of NAROWASCO</p>
	<p><b>Mr Timothy Kabugi Wamae</b> Holds Bachelor’s degree BSC Water Resources Engineering from the University of Nairobi. Has worked in Meru Water Services (MEWAS) - Data analyst for 1 year, Othaya, Mukurweini Water and Sewerage (OMWASCO) for 5 years as an Area Manager. He is currently the Technical Services Manager for NAROWASCO</p>
	<p><b>Ms Gladys Njeri Warugongo</b> Holds Bachelor’s degree in Business Administration (Finance) from Kenya Methodist University She also holds a Professional Certificate in Certified Public Accountants (CPA) by KASNEB Has worked in Tetu Aberdare Water &amp; Sanitation Company (TEAWASCO) as an Accountant Assistant for seven (7) years. She is currently the Accountant and Head of Commercial Department for NAROWASCO</p>

**NAROMORU WATER AND SANITATION COMPANY LIMITED**

**CHAIRMAN'S REPORT**

I am happy to report that 2018/2019 was a successful year for the company despite a very challenging operating environment.

As is typical in depressed economies, disposable incomes in the whole world continued to decline resulting in reduced consumers spending. This greatly constrained our volumes and hindered growth in turnover during the year under review. However, despite the very difficult economic conditions, the, Company water billing increased from Kshs **8,967,005** in 2017-2018 to Kshs **11,623,368** in 2018-2019.

The company will strive to provide a 24 hours Water and Sanitation Service and I believe this position shall be achieved in our expansion programmes.

Our effort to grow and improve as a company would not be possible without the leadership of our talented Board of Directors, the Management, our esteemed customers, County Government of Nyeri, Tana Water Services Board, Sub County Water Officer- Kieni East and other potential development partners especially Water Sector Trust Fund (WSTF) who also deserve commendation for their hard work and loyalty.

The results presented in this report would not have been achieved without the support of the directors and for this I wish to thank my colleagues in the board.

On behalf of the board, I wish to record our gratitude to our consumers for their continued loyalty and support and to all our employees in the company for their hard work and dedication without which the results would not have been possible.



Lawrence Muchiri Kariuki  
**CHAIRMAN –NAROWASCO**

## **GENERAL MANAGER'S REPORT**

### **WATER SECTOR REFORMS**

One of the main principles of the Water Act 2002 was that Water and Sanitation Services were to be managed at the lowest level possible. In line with this principle the Ministry of Water, Natural Resources and Irrigation transferred the provision of Water and Sanitation Services to Water Services Boards with effect from July 2005. The Water Act 2002 stipulates that the Water Service Boards shall contract agents, known as Water Service Providers, (WSP) for provision of Water and Sanitation Services. Under the new constitutional dispensation Water and Sewerage services are functions of the County Government. Therefore, Narowasco is an agent of County Government of Nyeri.

### **HISTORY AND LEGAL ESTABLISHMENT**

In compliance with the above Water Sector Reforms Act, Naromoru residents registered Naromoru Water and Sanitation Company. The Company was incorporated under the Companies Act (Cap.486) and that the Company is limited by Guarantee on 30<sup>th</sup> July 2012 (Certificate of Incorporation for the Company No.CPR/2012/79833.) The Company's mandate is to be responsible for the provision of Water and Sanitation Services in Naromoru and its environs as mandated to be a Water Service Provision Agreement in accordance with section 113 of the Water Act 2002 by Tana Water Works.

NAROWASCO as a Company has been given the responsibility to take charge of the Management of all the assets that were previously under the Management of both Ministry of Water and Irrigation and County Council of Nyeri. Over the years all the existing water systems handed over to the Company have passed their ultimate design period, and in the process they have been dilapidated and outlived their economic life. Hence, they need to be rehabilitated and augmented.

However, in order to be able to achieve sustainability there is need to develop and implement the infrastructure involving various components. However, these undertakings requires huge amount of money which is beyond the capability of the Company to generate internally, therefore demanding external funding. In view of the above, the company is working closely with Nyeri County Government, Tana Water Services Board, Water Services Trust Fund and District Water Office in developing capital works.

### **DEVELOPMENT PLANS**

The Company has earmarked to undertake the following activities in our future development programmes.

- √ Improvement of water quality by constructing a conventional treatment plant.
- √ Constructing of storage facilities/reservoirs including rehabilitation and augmentation of existing water systems.
- √ Water Catchment conservation and protection programme.
- √ Construction of office block.
- √ Construction of sewerage system for waste water disposal

### **PROJECT PROPOSAL**

For the purpose of improving service delivery at the same time achieve sustainability there is an urgent need to augment the existing systems through development of the infrastructure by implementing the activities outlined in the company's project proposal document.

### **WATER CATCHMENT CONSERVATION**

The company has joined hands with other stakeholders concerned in planting indigenous trees in the water Catchment area.

### **FINANCIAL STATUS.**

In the financial year 2018/2019 the total turnover for water sales was **Kshs 11,623,368** and operating Surplus of **Kshs 653,210**. The company was also able to get salary grant of **Kshs 592,200** from the Ministry of Water, Natural Resources and Irrigation through County Government of Nyeri.

### **STAFF**

The company has 21 employees: - 1 is seconded by the County Government of Nyeri and 20 are recruited by the Board of Directors. The company aims to develop policies to enable it recruit its own staff guided by the transfer plan. The ultimate goal is to make the company an enterprising entity. In this regard the company has in place Human Resource Policy and Procedure manual that includes health and safety, work injury benefits HIV/Aids awareness to enable staff deliver services.

### **CONCLUSION**

With the implementation of Vision 2030 strategy there is great demand for water supply in all sectors contributing to economic development. This is a great opportunity for the company's bright future that depicts a company as a going concern. The company therefore, strives to meet the ever growing water service demand.

### **GRATITUDE**

I would like to take this opportunity to thank County Government of Nyeri, Tana Water Works, Sub County Water Officer Kieni East Sub County, Water Sector Trust Fund and NAROWASCO Board of Directors for their support during the year, also our esteemed customers and our suppliers who were all instrumental to our success this year. I am also grateful to our staff for their commitment and effort in striving to ensure the company meets its objectives.



D.P. Gitonga Ndirangu  
**GENERAL MANAGER**

## **CORPORATE GOVERNANCE STATEMENT**

Naromoru Water and Sanitation Company limited is committed to operating under a clear governance framework and strongly adheres to sound management and control practices.

Naromoru Water and Sanitation Company limited is committed to ensuring compliance with the provisions of Water Act 2002 and Service Provision Agreement granted by Tana Water Services Board among other regulatory and supervisory corporate governance requirements.

In ensuring that corporate governance is enhanced and that the power of Naromoru Water and Sanitation Company limited is exercised in the stewardship of the company total portfolio of assets and resources with the objective of maintaining stakeholder value, the Boards of Directors have constituted the following committees:

### **1. FINANCE, ADMINISTRATION AND HUMAN RESOURCES**

The Finance, Administration, Human Resources Committee is the overseer of the financial reporting process and sourcing of funds for Company's capital works.

Naromoru Water and Sanitation Company limited makes cognizance of the fact that Human resources is one single asset in achieving the goals of the Company. It's the duty of the Finance and Administration Committee to ensure that Naromoru Water and Sanitation Company limited has the right staff, at the right place and doing the right thing. More so, the Committee will ensure that staff welfare is guaranteed.

The Committee is the overseer of the financial reporting process.

It ensures that there is adequate asset development, maintenance and infrastructure improvement to ensure sustainability of all water infrastructures.

### **2. AUDIT COMMITTEE**

In order to promote good corporate governance, NAROWASCO has constituted an Audit Committee for purposes of

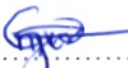
- Safeguarding of the assets.
- Scope and effectiveness of the internal controls.
- Audit of the Annual financial statements.
- Compliance with all applicable regulatory requirements and accounting standards.

### 3. TECHNICAL COMMITTEE

In order to construct good and sound infrastructures, Naromoru Water and Sanitation Company has constituted a Technical Committee for purposes of: -

- Ensuring that the company's infrastructures meet the required standards and specifications.
- Ensuring that the Construction of company facilities meet the economic values.
- Ensuring that the company prepares viable proposals for funding by its development Institutions.

By order of the Board  
For and on its behalf

  
.....  
David Gitonga Ndirangu  
**GENERAL MANAGER**  
**NAROMORU WATER AND SANITATION COMPANY**

Date 27/07/2020.....



## **CORPORATE SOCIAL RESPONSIBILITY STATEMENT**

Naromoru Water And Sanitation Company Ltd practices corporate social responsibility within its area of jurisdiction. Consumer within its area of jurisdiction, the community in liaison with the office of the assistant chief has identified persons living with disabilities.

The company has connected such identified persons with water.

The work involves:-

1. Free cost of installation for metered service lines.
2. Free water consumption.
3. Free maintenance of such connections.
4. Offering attachments to Persons with Disabilities and others etc.

The company of late considered Internship for a student who is physically challenged.

It has also conducted training on staff needs through facilitating the staff to Kenya Water Institute for short courses.

## REPORT OF THE DIRECTORS

The Directors submit their report together with the audited financial statements for the year ended June 30, 2019 which show the state of the company affairs.

### Principal activities

The principal activity of the Company is to provide Water and Sanitation Services to residents of Naromoru Town in Nyeri County and lower parts of Lamuria Location in Tigithi Sub-Location in Laikipia County.

### Results

The results of Naromoru Water and Sanitation Company for the year ended June 30, 2019 are set out on page 18-39

### Directors

The members of the Board of Directors who served during the year are shown on page 4. During the year Ms Naomi Mathenge who represented the County Government of Nyeri was replaced by Mr Samuel Gachunia Ndirangu.

### Dividends/Surplus remission

The limited by guarantee and does not pay dividends. Any surplus realised is ploughed back to finance capital expenditure.

### Auditors

The Auditor General is responsible for the statutory audit of the company in accordance with Public Finance Management which empowers the Auditor General to appoint an auditor to audit on his behalf.

By Order of the Board



Company Secretary  
Nyeri  
Date

### **STATEMENT OF DIRECTORS' RESPONSIBILITY**

Section 81(i) of the Public Finance Management Act, 2012 and public Audit Act, require the Directors to prepare financial statements in respect of Naromoru Water and Sanitation Company limited, which give a true and fair view of the state of affairs of Naromoru Water and Sanitation Company limited at the end of the financial year 2018-2019 and the operating results of the Naromoru Water and Sanitation Company limited for that year 2018-2019. The Directors are also required to ensure that Naromoru Water and Sanitation Company limited, keeps proper accounting records which disclose with reasonable accuracy the financial position of Naromoru Water and Sanitation Company limited. The Directors are also responsible for safeguarding the assets of the company.

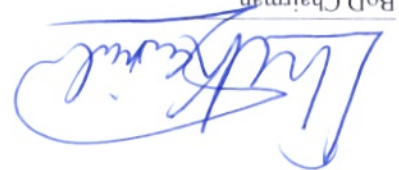
The Directors are responsible for the preparation and presentation of the Company's financial statements, which give a true and fair view of the state of affairs of the company for and as at the end of the financial year ended on June 30, 2019. This responsibility includes: (i) maintaining adequate financial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

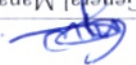
The Directors accept responsibility for the company financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgments and estimates, in conformity with International Financial Reporting Standards (IFRS), and in the manner required by the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

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

**Approval of the financial statements**

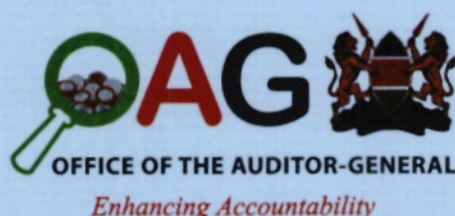
Naromori Water and Sanitation Company financial statements were approved by the Board on 26<sup>th</sup> September 2019 and signed on its behalf by:

  
BOD Chairman

  
General Manager

# REPUBLIC OF KENYA

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



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

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

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### **REPORT ON THE FINANCIAL STATEMENTS**

#### **Qualified Opinion**

I have audited the accompanying financial statements of Naromoru Water and Sanitation Company Limited set out on pages 18 to 38, which comprise of the statement of financial position as at 30 June, 2019, statement of comprehensive income, statement of changes in equity, statement of cash flows and the statement of comparison of budget and actual amounts for the year then ended, and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, 2015. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

In my opinion, except for the effects of the matter described in the Basis for Qualified Opinion section of my report, the financial statements present fairly, in all material respects, the financial position of the Naromoru Water and Sanitation Company Limited as at 30 June, 2019, and of its financial performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards (IFRS) and comply with the Water Act, 2016, Companies Act, 2015 and the Public Finance Management Act, 2012.

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

##### **1. Unconfirmed Statement of Financial Position**

As previously reported, the Company at its formation in 2012 was handed over assets and liabilities by the defunct County Council of Nyeri. However, a listing of assets and liabilities handed were not availed for audit review. No statement of affairs was prepared to indicate the capital structure of the new entity at its formation. As a result, the statement of financial position does not reflect any shares and the value of capital structure of the Company. Although the statement of financial position reflects property, plant and equipment balance of Kshs.22,803,620, the Company did not include the value of water distribution pipeline, water tanks and buildings which were

owned by the defunct County Council of Nyeri and the assets have not been properly identified and valued.

Consequently, the accuracy and completeness of assets and liabilities balances reflected in the statement of financial position as at 30 June, 2019 could not be confirmed.

## **2. Unsupported Cash and Bank Balances**

As disclosed in Note 9 to the financial statements, the statement of financial position reflects cash and bank balances of Kshs.4,974,734 which consisting of Kshs.80,640 in respect of the current account. However, the balance has not been reconciled to the cash book balance of Kshs.1,164,345.05. Further, the cash book balance was incomplete and did not have revenue transactions recorded.

Further, no cash books were maintained for the expenditure account, savings account and Water service Trust Fund (WSTF) account which had a closing balance of Kshs.3,160, Kshs.349,123 and Kshs.4,541,811 respectively, and the balances were therefore extracted from certificate of bank balances instead of the cash books.

As a result, the accuracy, completeness and validity of cash and bank balances of Kshs.4,974,734 reflected in the statement of financial position as at 30 June, 2019 could not be confirmed.

## **3. Long Outstanding Trade Receivables**

As disclosed in Note 8 to the financial statements, the statement of financial position reflects trade receivables balance of Kshs.2,106,298. Review of a schedule on aging analysis showed that the balance included debtors totalling Kshs.750,680 which had been outstanding for over 90 days as of 30 June, 2019. However, the Company did not explain reasons for not collecting the debt or include a provision for bad and doubtful debts.

Consequently, the accuracy and recoverability of receivables balance of Kshs.2,106,298 reflected in the statement of financial position as at 30 June, 2019 could not be confirmed.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the Naromoru Water and Sanitation Company Limited Management in accordance with ISSAI 130 on Code of Ethics. I have fulfilled other ethical responsibilities in accordance with the ISSAIs 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 Information**

The Board of Directors is responsible for the other information. The other information comprises the Company's information, corporate governance and the report of Board of Directors as required by the Companies Act, 2015. The other information does not include the financial statements and the auditor's report thereon.

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

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

## **REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES**

### **Conclusion**

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

### **Basis for Conclusion**

#### **1. Non-compliance with Non-Revenue Water Guidelines**

During the financial year under review, the Company produced 273,732 cubic meters (m<sup>3</sup>) of water out of which only 194,590 cubic meters (M<sup>3</sup>) was billed to the customers. The balance of 79,142 cubic meters (M<sup>3</sup>) which is approximately 28.91% of the total volume represented Unaccounted for Water (UFW) which was over and above the allowable loss of 25% by 3.91% according to the Water Services Regulatory Board (WASREB) guidelines. No explanations were given for the high NRW and measures being put in place to comply with guidelines.

Consequently, the Management is in breach of the law.

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

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

### **Conclusion**

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

### **Basis for Conclusion**

#### **Non-Tagging of Fixed Assets**

A physical verification of the property, plant and equipment recorded in the Assets Register revealed that the assets were neither tagged nor labelled for ease of identification, control and safety.

In the circumstances, I am unable to confirm existence of effective control measures on assets.

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

## REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

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



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

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

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

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

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

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

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

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

The audit objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion in accordance with the

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

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

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

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

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

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

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Management.
- Conclude on the appropriateness of the Management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in the auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my audit report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information and business activities of the Company to express an opinion on the financial statements.
- Perform such other procedures as I consider necessary in the circumstances.

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

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

  
**Nancy Gathungu**  
**AUDITOR-GENERAL**

**Nairobi**

**23 September, 2021**

**STATEMENT OF PROFIT/LOSS & OTHER COMPREHENSIVE INCOMES**

	NOTES	2018/2019	2017/2018
BILLING	3	11,623,368	8,967,005
OTHER INCOMES	3b	13,571,509	5,443,713
TOTAL		25,194,877	14,410,718
<b>OPERATING EXPENSES</b>			
Personnel & Administration Costs	4	9,712,048	7,635,753
Distribution, Operation & Maintenance Costs	5	14,640,799	5,626,864
Production Costs	6	131,300	109,020
Sub-Total		24,484,147	13,371,637
OPERATING SURPLUS		710,730	1,039,081
Finance Charges	7	57,520	23,150
SURPLUS BEFORE TAX		653,210	1,015,931
<b>TAXATION</b>			
NET SURPLUS		653,210	1,015,931

The notes set out on pages 29 to 39 form an integral part of these Financial Statements

**NAROMORU WATER & SANITATION COMPANY LIMITED.**  
**ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019**

**STATEMENT OF FINANCIAL POSITION**

<b>DETAILS</b>	<b>NOTES</b>	<b>2018/2019</b>	<b>2017/2018</b>
<b>ASSETS</b>			
<b>NON-CURRENT ASSETS</b>			
Property, Plant & Equipment	14	22,803,620	25,209,421
Intangible Asset (Software)	14b	191,048	208,364
		<b>22,994,668</b>	<b>25,417,785</b>
<b>CURRENT ASSETS</b>			
Trade Receivables	8	2,106,298	1,894,606
Cash & Bank Balances	9	4,974,734	1,291,409
Inventories			561,200
<b>TOTAL CURRENT ASSETS</b>		<b>7,081,032</b>	<b>3,747,215</b>
<b>TOTAL ASSETS</b>		<b>30,075,700</b>	<b>29,165,000</b>
<b>EQUITY AND LIABILITIES</b>			
Retained Earnings	10	4,082,821	613,984
<b>NON-CURRENT LIABILITES</b>			
Deferred Income	12.a	19,709,388	22,525,015
<b>EQUITY AND LIABILITIES</b>		<b>23,792,209</b>	<b>23,138,999</b>
<b>CURRENT LIABILITIES</b>			
Consumer Deposits	11.a	1,562,000	1,263,000
Trade Payable	11.b	1,905,864	1,545,142
Deferred Income	12.b	2,815,627	3,217,859
<b>TOTAL CURRENT LIABILITY</b>		<b>6,283,491</b>	<b>6,026,001</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>30,075,700</b>	<b>29,165,000</b>

The Financial Statements set out on pages 18 to 40 were signed on behalf of the Board of Directors on 29/02/2020

General Manager.....



Chairman.....



NAROMORU WATER & SANITATION COMPANY LIMITED.  
ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30<sup>TH</sup> JUNE, 2019

STATEMENT OF CHANGES IN EQUITY	
2017/2018	
DETAILS	RETAINED EARNINGS Kshs
Surplus b/f 1/7/2017	-224,367
Surplus for the year	1,015,931
Prior year adjustments	-177,580
<b>Balance C/F 30/6/2018</b>	<b>613,984</b>

2018/2019	
DETAILS	RETAINED EARNINGS Kshs
Surplus b/f 1/7/2018	613,984
Surplus for the year	653,210
Amortisation of Grants	2,815,627
<b>Balance C/F 30/6/2019</b>	<b>4,082,821</b>

## STATEMENT OF CASH FLOWS

### CASH FLOW FROM OPERATING ACTIVITIES

	NOTES	2018/2019	2017/2018
Net surplus for the year		653,210	1,015,931
Adjustment for depreciation & Amortization		3,474,605	3,829,634
Operating surplus before		<b>4,127,815</b>	<b>4,845,565</b>
<b>working capital adjustments</b>			
Increase/(Decrease in receivables)		-211,692	-763,590
Increase/Decrease in payable	7	360,722	329,876
Deposits	10b	299,000	306,000
Increase (Decrease) in differed liability	12	-569,094	-3,677,553
Increase in Inventory		561,200	-561,200
Prior year Adjustments			1,080
<b>Total working Capital Adjustments</b>		<b>434,589</b>	<b>-4,365,387</b>
<b>Net cash generated from operating activities</b>		<b>4,561,652</b>	<b>480,178</b>
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>			
Purchase of property, plant& equipment		-878,328	-161,500
Interest earned			
Grants(WSTF)		0	-9,418,266
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>			
Net increase in cash and cash equivalents		3,683,325	-9,099,588
Cash and cash equivalents at the beginning of the year		1,291,409	10,390,997
Cash and cash equivalents at the end of the year	9	<b>4,974,734</b>	<b>1,291,409</b>

## STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS

	Original budget	Adjustments	Final budget	Actual on comparable basis	Performance difference
	2018-2019	2018-2019	2018-2019	2018-2019	2018-2019
Revenue	Kshs	Kshs	Kshs	Kshs	Kshs
Billing	12,669,000	0	12,669,000	11,623,368	1,045,632
Other Income	0	0	0	4,033,959	-4,033,959
WSTF Grant	14,260,701	0	14,260,701	5,440,680	8,820,021
County Government Grant		0	0	4,096,870	-4,096,870
<b>Total income</b>	<b>26,929,701</b>	<b>0</b>	<b>26,929,701</b>	<b>25,194,877</b>	<b>1,734,824</b>
		0			
<b>Expenses</b>		0			
Personnel & Administration Costs	10,289,000	0	10,289,000	9,712,048	576,952
Distribution, Operation & Maintenance Costs	2,040,000	0	2,040,000	9,200,119	-7,160,119
WSTF Grant	14,260,701	0	14,260,701	5,440,680	8,820,021
Production Costs	310,000	0	310,000	131,300	178,700
Finance Costs	30,000	0	30,000	57,520	-27,520
<b>Total expenditure</b>	<b>26,929,701</b>	<b>0</b>	<b>26,929,701</b>	<b>24,541,667</b>	
<b>Surplus for the period</b>	<b>0</b>		<b>0</b>	<b>653,210</b>	



**NAROMORU WATER & SANITATION COMPANY LIMITED.**  
**ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019**  
**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**1. ACCOUNTING POLICIES**

**a) BASIS OF PREPARATION**

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

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

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

**b) REVENUE RECOGNITION**

i) **Revenue from the provision of water** is recognized in the year in which Naromoru Water and Sanitation Company provides water in which customers accepted the commodity and pays for the services provided.

ii) **Grants** from Government are recognized in the year in which Naromoru Water and Sanitation Company receives such grants.

iii) **Other income** is recognized as it accrues

**c) PROPERTY PLANT AND EQUIPMENT**

Property Plant and Equipment are stated at cost less the depreciation charged.

**d) DEPRECIATION**

Depreciation is charged on reducing balance method using the following rates

Pipes	12.5%
Telephone & computers	30%
Office furniture & equipment	12.5%
Plant and Equipment	12.5%
Motor bikes and vehicles	25%

A full year's depreciation charge is recognized both in the year of asset purchase and in the year of asset disposal.

Depreciation and impairment of property, plant and equipment

Items of property, plant and equipment are reviewed annually for impairment. Where the carrying amount of an asset is assessed as greater than its estimated recoverable amount, an impairment loss is recognized so that the asset is written down immediately to its estimated recoverable amount.

**e) AMORTIZATION AND IMPAIRMENT OF INTANGIBLE ASSETS**

Amortization is calculated on the straight-line basis over the estimated useful life of computer software of three years at a rate of 33.3%

All computer software is reviewed annually for impairment. Where the carrying amount of an intangible asset is assessed as greater than its estimated recoverable amount, an impairment loss is recognized so that the asset is written down immediately to its estimated recoverable amount.

**f) INVENTORIES**

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

**g) SURPLUS**

The Board of Directors does not recommend distribution of dividends and surplus is ploughed back to finance company activities.

The revaluation reserve relates to the revaluation of certain items of property, plant and equipment. As indicated in the Statement of Changes in Equity, this is stated after transfer of excess depreciation net of related deferred tax to retained earnings. Revaluation surpluses are not distributable.

**h) TRADE RECEIVABLES**

They are recognized and carried at the realizable value

<b>i) Cash and Bank balances</b>	<b>2018-2019</b>	<b>2017-2018</b>
Cash at bank	4,974,734	1,291,409
Cash in hand	nil	nil
	<b>4,974,734</b>	<b>1,291,409</b>

*These were the closing balances as the company closed the year.*

**j) Related party disclosure**

Companies and other parties related to the company include those parties who have ability to exercise control or exercise significant influence over its operating and financial decisions. Related parties include management personnel, their associates and close family members.

The group is related to

- i. County Government of Nyeri  
**Ksh.0**
- ii. Tana Water Services Board  
**Ksh.135,000**
- iii. WRMA  
**Ksh.89,013**
- iv. WASREB  
**Ksh.155,612**
- v. Key management  
**Ksh.0**
- vi. Board of directors  
**Ksh.0**

2. ADOPTION OF NEW AND REVISED STANDARDS

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

Standard	Impact
IPSAS 39: Employee Benefits	<b>Applicable: 1<sup>st</sup> January 2018</b> The objective to issue IPSAS 39 was to create convergence to changes in IAS 19 Employee benefits. The IPSASB needed to create convergence of IPSAS 25 to the amendments done to IAS 19. The main objective is to ensure accurate information relating to pension liabilities arising from the defined benefit scheme by doing away with the corridor approach.

ii. New and amended standards and interpretations in issue but not yet effective in the year ended 30 June 2017

Standard	Effective date and impact:
IPSAS 40: Public Sector Combinations	<b>Applicable: 1<sup>st</sup> January 2019:</b> The standard covers public sector combinations arising from exchange transactions in which case they are treated similarly with IFRS 3 (applicable to acquisitions only) Business combinations and combinations arising from non-exchange transactions which are covered purely under Public Sector combinations as amalgamations.

**Application of new and revised International Financial Reporting Standards (IFRSs)**

*Relevant new standards and amendments to published standards effective for the year ended 30 June 2017*

The following new and revised IFRSs were effective in the current year and had no material impact on the amounts reported in these financial statements.

Amendments to IAS 32	The amendments to IAS 32 clarify the requirements relating to the offset of financial assets and financial liabilities. Specifically,
Offsetting Financial Assets and Financial Liabilities	the amendments clarify the meaning of 'currently has a legally enforceable right of set-off' and 'simultaneous realisation and settlement'. The amendments require retrospective application. The application of the new standard has not had any impact on the disclosures or the amounts recognised in these financial statements as the Group does not have any offsetting arrangements

**NAROMORU WATER & SANITATION COMPANY LIMITED.**

**ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019**

Amendments to IAS 36 Recoverable Amount Disclosures for Non-Financial Assets	<p>The amendments to IAS 36 remove the requirement to disclose the recoverable amount of a cash-generating unit (CGU) to which goodwill or other intangible assets with indefinite useful lives had been allocated when there has been no impairment or reversal of impairment of the related CGU. Furthermore, the amendments introduce additional disclosure requirements applicable to when the recoverable amount of an asset or a CGU is measured at fair value less costs of disposal. These new disclosures include the fair value hierarchy, key assumptions and valuation techniques used which are in line with the disclosure required by IFRS 13 Fair Value Measurements. The amendments require retrospective application</p> <p>The application of the new standard has not had any impact on the disclosures or the amounts recognized in these financial statements as the Group does not have any goodwill or other intangible assets with indefinite useful lives</p>
Amendments to IAS 39 Novation of Derivatives and Continuation of Hedge Accounting	<p>The amendments to IAS 39 provide relief from the requirement to discontinue hedge accounting when a derivative designated as a hedging instrument is novated under certain circumstances. The amendments also clarify that any change to the fair value of the derivative designated as a hedging instrument arising from the novation should be included in the assessment and measurement of hedge effectiveness. The amendments require retrospective application.</p> <p>The application of the new standard has not had any impact on the disclosures or the amounts recognised in these financial statements as the Group does not have any derivatives.</p>
Amendments to IFRS 10, IFRS 12 and IAS 27 Investment Entities	<p>The amendments to IFRS 10 define an investment entity and introduce an exception from the requirement to consolidate subsidiaries for an investment entity. In terms of the exception, an investment entity is required to measure its interests in subsidiaries at fair value through profit or loss. The exception does not apply to subsidiaries of investment entities that provide services that relate to the investment entity's investment activities.</p> <p>To qualify as an investment entity, certain criteria have to be met. Specifically, an entity is an investment entity when it:</p> <ul style="list-style-type: none"><li>• obtains funds from one or more investors for the purpose of providing them with investment management services;</li><li>• commits to its investor(s) that its business purpose is to invest funds solely for returns from capital appreciation, investment income, or both; and</li><li>• measures and evaluates performance of substantially all of its investments on a fair value basis.</li></ul> <p>Consequential amendments to IFRS 12 and IAS 27 have been made to introduce new disclosure requirements for investment entities. The application of the new standard has resulted in more extensive disclosures in the consolidated financial statements.</p>

**NAROMORU WATER & SANITATION COMPANY LIMITED.**

**ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019**

IFRIC 21 Levies IFRIC 21 addresses the issue of when to recognise a liability to pay a levy. The Interpretation defines a levy, and specifies that the obligating event that gives rise to the liability is the activity that triggers the payment of the levy, as identified by legislation. The Interpretation provides guidance on how different levy arrangements should be accounted for, in particular, it clarifies that neither economic compulsion nor the going concern basis of financial statements preparation implies that an entity has a present obligation to pay a levy that will be triggered by operating in a future period. IFRIC 21 requires retrospective application.

The application of the new standard has not had any impact on the disclosures or the amounts recognized in these financial statements as the Group did not have any levies accounted for as a liability

*(ii) New and amended standards and interpretations in issue but not yet effective in the year ended 30 June 2016*

<i>New and Amendments to standards</i>	<i>Effective for annual periods beginning on or after</i>
IFRS 9	1 January 2018
IFRS 14	1 January 2016
IFRS 15	1 January 2017
Amendments to IAS 16 and IAS 38	1 January 2016
Amendments to IFRS 11	1 January 2016

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

*(iii) Early adoption of standards*

The company did not early-adopt any new or amended standards in 2015.

**CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY**

In the process of applying the company's accounting policies, which are described in note 1, the directors are required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

The key areas of judgment in applying the entities accounting policies are dealt with below:

**NAROMORU WATER & SANITATION COMPANY LIMITED.**  
**ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019**

(a) Critical judgements in applying accounting policies

There are no critical judgments, apart from those involving estimations (see b below), that the directors have made in the process of applying the company's accounting policies and that have the most significant effect on the amounts recognized in financial statements.

(b) Key sources of estimation uncertainty

*Impairment losses*

At the end of each reporting period, the company reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss.

If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. Where it is not possible to estimate the recoverable amount of an individual asset, the company estimates the recoverable amount of the cash generating unit to which the asset belongs.

*Property, plant, equipment and intangible assets*

Critical estimates are made by the directors in determining depreciation rates for property, plant, equipment and intangible assets.

*Contingent liabilities*

As disclosed in note 21 to these financial statements, the company is exposed to various contingent liabilities in the normal course of business including a number of legal cases. The directors evaluate the status of these exposures on a regular basis to assess the probability of the company incurring related liabilities. However, provisions are only made in the financial statements where, based on the directors' evaluation, a present obligation has been established.

*Taxes*

The company is subjected to numerous taxes and levies by various government and quasi-government regulations bodies. As a rule of thumb, the company recognizes liabilities for the anticipated tax/levies payable with utmost care and diligence. However, significant judgment is usually required in the interpretation and applicability of those taxes/levies. Should it come to the attention of managements in one way or other, that the initially recorded liability was erroneous, such differences will impact on the income and liabilities in the period in which such differences are determined.

**NAROMORU WATER & SANITATION COMPANY LIMITED.**  
**ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019**  
**EXPLANATORY NOTES TO FINANCIAL STATEMENTS**

	<b>2018/2019</b>	<b>2017/2018</b>
<b>3 BILLING</b>		
Billing for the year	11,623,368	8,967,005
	<b>11,623,368</b>	<b>8,967,005</b>
<b>3b OTHER INCOMES</b>		
New connection fee	223,900	384,000
G.O.K Salary Grants 2018/2019	592,200	1,382,160
Deferred income	3,217,859	3,677,553
WSTF Grants(UBSUP Subsidy)	5,440,680	0
County Government Grant (Pipes)	4,096,870	0
<b>Sub Total</b>	<b>13,571,509</b>	<b>5,443,713</b>
<b>TOTAL</b>	<b>25,194,877</b>	<b>10,915,599</b>
<b>PERSONNEL AND ADMINISTRATION</b>		
<b>4 COSTS</b>		
<b>4a PERSONNEL</b>		
Salaries	4,257,600	2,797,562
Wages	839,750	536,700
G.O.K Grants 2018/2019	592,200	1,382,760
<b>Sub Total</b>	<b>5,689,550</b>	<b>4,848,322</b>
<b>4b OFFICE ADMINISTRATION EXPENSES</b>		
Printing & Stationary	106,339	103,415
Office expenses	106,962	71,836
Office rent	660,000	585,060
Telephone	109,523	109,082
Postage	7,725	10,960
Travelling & Subsistence	505,840	601,225
Training of staff	194,600	131,300
Training of BoD	0	0
Conference meeting	200,600	200,000
Development of Strategic Plan	310,050	0
Corporate Governance	449,720	0
Electricity	5,905	3,178
Computer & Copier expenses	143,400	107,620
Maintenance of Computer Software	52,000	0
Advertisement	19,488	0
<b>Sub Total</b>	<b>2,872,152</b>	<b>1,792,376</b>
<b>4c PROFESSIONAL CHARGES</b>		
9% T.W.S.B	135,000	-
1%Wasreb	155,612	33,628
Land Rent	50,100	50,100
Directors Allowances	223,500	139,500
WARMA	89,013	168,766
Increase in AGM provision	0	0

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Provision in Audit	116,000	116,000
Provision in AGM	150,000	150,000
Provision for Stakeholder's forum	150,000	0
Professional charges	45,121	295,061
WRUA	36,000	42,000
<b>Sub Total</b>	<b>1,150,346</b>	<b>995,055</b>
<b>TOTAL</b>	<b>9,712,048</b>	<b>7,635,753</b>



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**NOTES TO THE FINANCIAL STATEMENTS (continued)**

	<b>2018/2019</b>	<b>2017/2018</b>
<b>5. DISTRIBUTION, OPERATION &amp; MAINTENANCE COSTS</b>		
Motor Bike Repair	101,300	45,525
Pipes & Fittings	758,730	586,462
County Government Grant (Pipes)	4,096,870	0
General Maintenance	280,542	502,293
Building Materials	0	35,790
Depreciation	3,284,129	3,639,158
Amortization of software	190,476	190,476
Fuel & Oil	82,871	76,680
Improvement of water supply	298,046	323,676
Maintenance of small lines	107,155	226,804
WSTF Grants	5,440,680	
<b>Sub Totals</b>	<b>14,640,799</b>	<b>5,626,864</b>
<b>6. PRODUCTION COSTS</b>		
Chemicals	-	-
Uniforms & Occupation Safety Health	131,300	109,020
<b>Sub Totals</b>	<b>131,300</b>	<b>109,020</b>
<b>7. Finance Charges</b>		
Finance Charges	57,520	23,150
<b>Sub Totals</b>	<b>57,520</b>	<b>23,150</b>

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8	TRADE RECEIVABLES		
	Customer Unpaid Bills	2018/2019	2017/2018
		2,106,298	1,894,606
	Total	<b>2,106,298</b>	<b>1,894,606</b>
9	CASH EQUIVALENT		
	Current Account	80,640	118,840
	Expenditure a/c	3,160	16,870
	Savings Account	349,123	1,155,700
	WSTF	4,541,811	-
	Total	<b>4,974,734</b>	<b>1,291,409</b>
10	RETAINED EARNINGS		
	Reserves	613,984	(224,367)
	Surplus for the Period	653,210	1,015,931
	Prior year adjustment		(177,580)
	Amortization of grant	2,815,627	
	Other reserves		
	Total	<b>4,082,821</b>	<b>613,984</b>
11	PAYABLES		
	Trade Payables and other Payables		
	Pipe fittings	333,375	179,495
	PAYE	42,232	34,612
	9% TWSB	566,541	701,541
	Professional Charges	185,181	0
	Printing & Stationery	28,190	0
	Provision in Audit & AGM	464,000	366,000
	Land Rate & Rents	50,100	50,100
	WASREB	123,232	32,628
	WRUA	24,000	12,000
	WRA	89,013	168,766
	<b>Total</b>	<b>1,905,864</b>	<b>1,545,142</b>
11a	Consumer Deposits		
	Bal B/F	1,263,000	957,000
	Additions	299,000	306,000
	<b>Total</b>	<b>1,562,000</b>	<b>1,263,000</b>

12 Deferred Liability (Wstf Grants)



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Bal B/f	25,742,874	29,420,427
Grant 7 <sup>th</sup> UPC		
Additions		
Amortisation	(3,217,859)	(3,677,553)
Bal C/d	<b>22,525,015</b>	<b>25,742,874</b>

**12 a. Current Deferred Liability =  $(22,525,015 \times 12.5\%) = 2,815,627$**

**12 b. Non-Current Deferred Liability =  $(22,525,015 - 2,815,627) = 19,709,388$**

**13. Amortization schedule**

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<b>Item</b>	<b>Depreciation Rate</b>	<b>Amount</b>	<b>Depreciation Amount</b>
Pipeline extension & Meter (Deferred Liability)	12.5%	25,742,874	3,217,859
<b>Total Amortization</b>			<b>3,217,859</b>



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**14. PROPERTY, PLANT AND EQUIPMENT**

<b>DETAILS</b>	<b>PIPES</b>	<b>TELEPHONE &amp; COMPUTERS</b>	<b>OFFICE FURNITUR ES &amp; EQUIPMEN TS</b>	<b>PLANT &amp; MACHINE RY</b>	<b>WIP</b>	<b>TOTAL</b>
<b>FY 2017-2018</b>						
<b>Depreciation Rate</b>	<b>12.50%</b>	<b>30.00%</b>	<b>12.50%</b>	<b>12.50%</b>		
<b>FY 2017-2018</b>						
Opening Bal At Cost 1/7/2017	12,952,716	220,748	17,590	1,091,500	9,887,060	24,169,614
Additions	16,862,626	109,500	0	2,333,200	-9,887,060	9,418,266
Closing Bal As At 30/6/2018	29,815,342	330,248	17,590	3,424,700	0	33,587,880
<b>DEPRECIATION</b>						<b>0</b>
Opening Bal As 1/7/2017	4,275,408	141,187	8,568	314,138		4,739,301
Period Charge	3,192,492	56,718	1,128	388,820	0	3,639,158
<b>Total Depreciation</b>	<b>7,467,900</b>	<b>197,905</b>	<b>9,696</b>	<b>702,958</b>	<b>0</b>	<b>8,378,459</b>
<b>N B V As At 30/6/2018</b>	<b>22,347,442</b>	<b>132,343</b>	<b>7,894</b>	<b>2,721,742</b>	<b>0</b>	<b>25,209,421</b>
<b>N B V As At 30/6/2017</b>	<b>8,677,308</b>	<b>79,561</b>	<b>9,022</b>	<b>777,362</b>	<b>9,887,060</b>	<b>19,430,313</b>
<b>FY 2018-2019</b>						
<b>Opening Bal At Cost 1/7/2018</b>	<b>29,815,342</b>	<b>330,248</b>	<b>17,590</b>	<b>3,424,700</b>	<b>0</b>	<b>33,587,880</b>
Additions	839,328	0	39,000	0		878,328
<b>Closing Bal As At 30/6/2019</b>	<b>30,654,670</b>	<b>330,248</b>	<b>56,590</b>	<b>3,424,700</b>	<b>0</b>	<b>34,466,208</b>
<b>DEPRECIATION</b>						
<b>Opening Bal As 1/7/2018</b>	<b>7,467,900</b>	<b>197,905</b>	<b>9,696</b>	<b>702,958</b>	<b>0</b>	<b>8,378,459</b>
Period Charge	2,898,346	39,703	5,862	340,218	0	3,284,129
<b>Total Depreciation</b>	<b>10,366,246</b>	<b>237,608</b>	<b>15,558</b>	<b>1,043,176</b>	<b>0</b>	<b>11,662,588</b>
<b>N B V As At 30/6/2019</b>	<b>20,288,424</b>	<b>92,640</b>	<b>41,032</b>	<b>2,381,524</b>	<b>0</b>	<b>22,803,620</b>
<b>N B V As At 30/6/2018</b>	<b>22,347,442</b>	<b>132,343</b>	<b>7,894</b>	<b>2,721,742</b>	<b>0</b>	<b>25,209,421</b>

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<b>INTANGIBLE ASSET (SOFTWARE)</b>			
<b>2017/2018</b>			
<b>Cost</b>	<b>Depreciation Rate</b>	<b>DPP</b>	<b>BALANCE</b>
Software cost 520,000	33.3%	190,476	381,524
Maintenance cost 52,000			
<b>Total 572,000</b>			
<b>Less Accumulated Depreciation</b>			190,476
<b>NBV As at 30/06/2018</b>			190,476

<b>INTANGIBLE ASSET (SOFTWARE)</b>			
<b>2018/2019</b>			
<b>Cost</b>	<b>Depreciation Rate</b>	<b>DPP</b>	<b>BALANCE</b>
Software cost 520,000	33.3%	190,476	190,476
Maintenance cost 52,000			
<b>Total 572,000</b>			
<b>Less Accumulated Depreciation</b>			190,476
<b>NBV As at 30/06/2019</b>			0



## 15. COMPUTATION OF TAX

Profit before tax	653,210
Add depreciation	3,474,605
Less differed income	(3,217,859)
<b>Subtotal</b>	
Less wear & tear	(3,474,605)
<b>Total</b>	<b>(2,565,649)</b>
Loss brought forward	(5,492,265)
<b>Loss carried forward</b>	<b>(8,057,914)</b>

## 16. INCORPORATION

The company is a limited company by guarantee and established under company's act cap 486 and licensed by Tana Water Works

## 17. FINANCIAL INSTRUMENTS

### Capital risk management

The company manages its capital to ensure that it will be able to continue as a going concern while maximizing the return to stakeholders through the optimization of the debt and equity balance. The company's overall strategy remains unchanged from 2014.

### Significant accounting policies

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognized, in respect of each class of financial asset, financial liability and equity instrument are disclosed in note 1 to the financial statements.

### Categories of financial instruments

#### Financial assets

#### Financial liabilities

### Financial risk management objectives

The company's activities expose it to a variety of financial risks including credit and liquidity risks, effects of changes in foreign currency and interest rates and changes in market prices of the company's services. The company's overall risk management programme focuses on unpredictability of changes in the business environment and seeks to minimize the potential adverse effect of such risks on its performance by setting acceptable levels of risk. The company does not hedge any risks and has in place policies to ensure that credit is extended to customers with an established credit history.

### Interest rate risk management

The company has reduced its exposure to interest rate risk as the entity borrows from its parent company in the short term at fixed interest rates.

### Credit risk management

Credit risk refers to the risk that customers will default on its contractual obligations resulting in financial loss to the company.

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The company's credit risk is primarily attributable to its trade receivables. The amounts presented in the statement of financial position are net of allowances for doubtful receivables, estimated by the company's management based on the group policy of providing for debts that are over ten months old.

The credit risk on trade receivables is limited because the customers are known customers with high credit ratings.

The credit risk on liquid funds with financial institutions is also low, because the counter parties are banks with high credit-ratings.

The customers under the fully performing category are paying their debts as they continue trading. The default rate is low.

The debt that is overdue is not impaired and continues to be paid.

The debt that is impaired has been fully provided for.

**Liquidity risk management**

Ultimate responsibility for liquidity risk management rests with the board of directors, which has built an appropriate liquidity risk management framework for the management of the company's short and medium-term funding and liquidity management requirements. The company manages liquidity risk by maintaining banking facilities through continuous monitoring of forecast and actual cash flows. The company can also borrow from its ultimate parent company in the short term further reducing its liquidity risk.



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**APPENDIX I: PROJECTS IMPLEMENTED BY THE COMPANY**

**Projects**

Projects implemented by the State Corporation/ SAGA Funded by development partners

Project title	Project Number	Donor	Period/duration	Donor commitment	Separate donor reporting required as per the donor agreement (Yes/No)	Consolidated in these financial statements (Yes/No)
Naromoru Household Sanitation Project	01HS/ TWSB/ NYERI/ NAROMORU /36	Water Sector Trust Fund	6 months		Yes	Yes

**Status of Projects completion**

	Project	Total project Cost	Total expended to date	Completion % to date	Budget	Actual	Sources of funds
1	Naromoru Household Sanitation Project	14,474,611.52	5,440,680	40%	14,474,611.52	14,474,611.52	Water Sector Trust Fund



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

<b>Reference No.</b>	<b>Issue from Auditor</b>	<b>Management comments</b>	<b>Focal Point person to resolve the issue</b>	<b>Status</b>	<b>Timeframe:</b>
1.	Assets and Liabilities Hand-Over	The company wrote to the Chief Officer in-charge of Water requesting for valuation	Nyeri County CEC Water & Company General Manager	Not Resolved	Not known
2.	Property, Plant and Equipment	The company availed documents supporting the accuracy of existence of PPE.	Company Management	Resolved	-
3.	Failure to Disclose Material Uncertainty in Relation to Going Concern	The company is carrying out extensions to under & unserved areas within the company's jurisdiction. The company in conjunction with the County Government Of Nyeri is constructing a water Treatment Facility which will help to improve on water quality to enable reduction of Non-Revenue Water.	Company Management	Resolved	2 years

