

ANNUAL REPORT &
FINANCIAL STATEMENTS JUNE 2017

Our Vision

To be the most admired service provider

Our Mission

To provide quality water and sewerage services for improved livelihoods

Our Values

- Integrity
- Professionalism
- Creativity and Innovation
- Customer focus
- Team Work

Our Slogan

Refresh life

Our Strategic Priorities

- Water and waste water infrastructure development
- Operational Efficiency
- Customer Service
- Pro-poor Initiatives
- Financial Sustainability
- Institutional Strengthening
- Corporate Governance

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Piloting of prepaid meters in the areas of Manyatta, Nyalenda, Obunga and Nyawita

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Notice of the Annual General Meeting

Notice is hereby given that the 13th Annual General Meeting of the members of Kisumu Water and Sewerage Company Ltd will be held on 23rd November 2018 at Sunset Hotel, Kisumu from 11.00 am to transact the following business:-

1. To table duly executed proxy forms from members, receive apologies and note presence of quorum
2. To read the notice convening the meeting and agenda
3. To confirm the minutes of the 12th AGM held on 29th March 2018 and consider matters arising therefrom
4. Matters Arising/Action Status
5. To receive Chairman's and Managing Director's report
6. To receive and approve Financial Statements for the year 2016/17 and Auditor's report thereon
7. To note that Auditor General shall continue in office for the year 2017/18 in accordance with Section 721(2) of the Company's Act, and to authorize Directors to fix their remuneration
8. To approve amended Memorandum and Articles of Association to comply with Companies Act 2015
9. To elect Director representing:
   (i) Business Community
10. To discuss any other business for which Notice has been given in accordance with Article of Association.

By Order of the Board,



S.O. Awino
COMPANY SECRETARY

A member entitled to attend and vote at the meeting is entitled by Sec.299 to appoint a proxy to attend and vote on his/her behalf. A proxy needs not to be a member of the company.

Enclosed herein, please find a proxy form for execution as appropriate.
The completed proxy form must be returned to the registered office of the company 48 hours before the meeting date.

Strategic Plan Launch











1. Deputy Governor, Kisumu County Dr. Mathews Owili launches the strategic plan 2. Strategic plan 3. Deputy Governor, Kisumu County Dr. Mathews Owili delivers a speech during the launch 4 St.Anne's Academy Mamboleo presents a Scottish dance 5. Invited guests follow proceedings during the launch

Board of Directors



Mr. Israel Agina
Chairman



Eng. David Onyango HSC
Managing Director



Prof. Barrack Abonyo



Mr. Arthur Rateng



Mr. Francis Asunah



Mr. William Orondo



Mrs. Sheila Okal



Mr. George Ongaya



Dr. Margaret Kaseje



Ms. Lydia Muthoni Orlale

Managing Non Revenue Water



Staff testing and calibration of Kajulu production bulk meter to determine the meter's accuracy through the use of a standard portable ultrasonic flow meter.

Chairman's Statement

"In line with our business growth strategy, we have invested significantly in network expansion and modernization projects to improve on efficiency in service delivery and accelerate customers connections for supply."

Mr. Israel Agina
Chairman





As we mark the 13th Annual General meeting of the members of Kisumu Water and Sewerage Company limited, I am pleased with how well our business has performed despite the tough economic and political environment experienced in 2017. We saw improved performance in our profitability and customers connections. Non-revenue water reduction remains work in progress. Exciting opportunities lie ahead for our business and we look forward to contributing to the Lake region society in which we operate.

Operating Environment

Kenya's economy is estimated to have expanded by 4.9 per cent in 2017 compared to a revised growth of 5.8 per cent in 2016. The slowdown in the performance of the economy was partly attributable to uncertainty associated with a prolonged electioneering period coupled with adverse effects of weather conditions.

Generally, key macroeconomic indicators remained stable and supportive of growth in 2017. Interest rates declined due to the impact of their capping that became effective in September 2016. In the money market, the Kenyan Shilling strengthened against most of the major trading currencies but weakened against the Euro and the US Dollar in 2017. The current account deficit widened in the year under review on account of significant growth of imports against a slower growth of exports. There was a moderate build up in inflationary pressures mainly due to increase in oil and food prices during the year under review. Consequently, inflation rate rose from 6.3 per cent in 2016 to 8.0 per cent in 2017.

Performance across the various sectors of the economy varied widely, with Accommodation and Food services; Information and Communication Technology; Education; Wholesale and Retail trade; and Public Administration registering accelerated growths in 2017 compared to 2016. On the other hand, growth in Manufacturing; Agriculture, Forestry and Fishing; and Financial and Insurance decelerated significantly over the same period and therefore dampened the overall growth in 2017.

Agriculture Sector Review

The agriculture sector recorded mixed performance in 2017 which led to a decelerated growth of 1.6 per cent compared to 5.1 per cent growth in 2016. Drought coupled with pests such as the fall army worms and diseases led to the overall decline in agricultural production in 2017. Despite reduced production of major crops during the period under review, better prices were realized for the marketed agricultural output. Maize production declined from 37.8 million bags in 2016 to 35.4 million bags in 2017. Similarly, sugarcane production declined from 7.2 million tonnes in 2016 to 4.8 million tonnes in 2017. The recorded declines in production of maize and sugarcane resulted in huge imports of maize and sugar to bridge the deficit.

Environment and Natural Resources

In 2017, the Environment and Natural Resources sector registered mixed performance in indicators. The total expenditure by national government on water and related services is expected to decline by 19.1 per cent from KSh 43.9 billion in the year 2016/17 to KSh 35.5 billion in 2017/18.

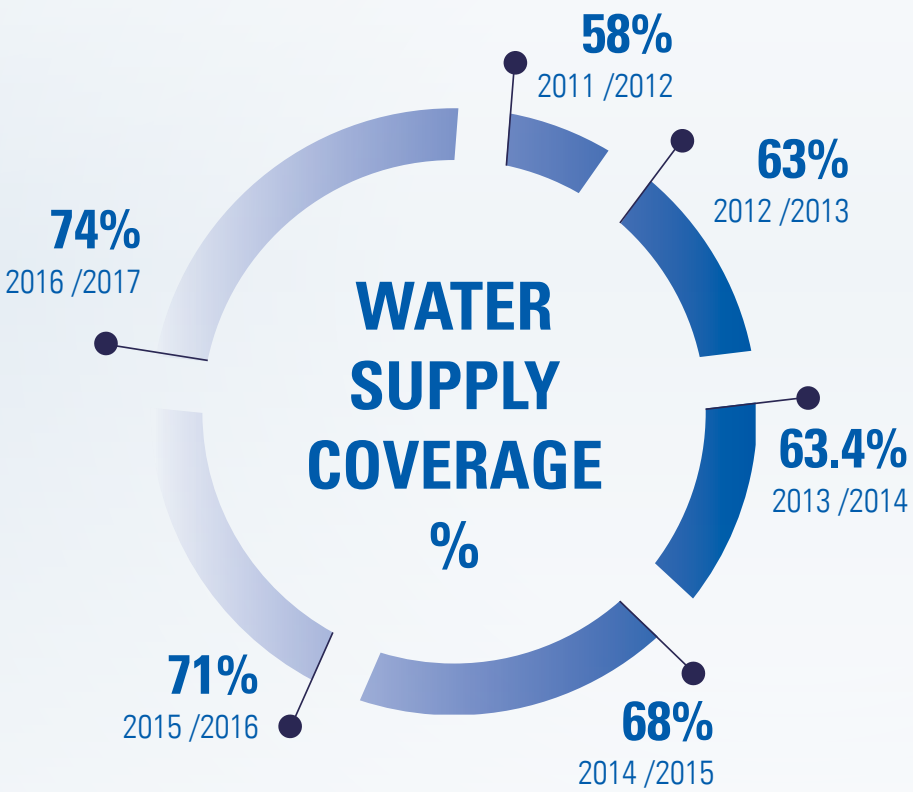
Current Institutional Framework

The Water Act 2016 anticipates the formation and transformation of various water sector institutions to

Chairman's Statement (Continued)

align to the constitution. Below are some highlights:

- The Water Services Regulatory Board (Wasreb), retains its name and role as a regulator of water services although with an enhanced mandate. This enhancement is particularly in the area of monitoring and the fact that the Regulator will now play a more direct role in the licensing of Water Service Providers (WSPs).
- The Water Resources Management Authority (WRMA) changes name to Water Resources Authority (WRA) with the mandate of regulation of the management and use of water resources at the national level. At the regional level, Catchment Areas Advisory Committees (CAACs) change name to Basin Water Resources Committees with the responsibility for the management of water resources at basin level.
- Water Services Boards (WSBs) are meant to transform to Water Works Development Agencies (WWDAs) with a mandate over cross-county public water works on a needs basis.
- The National Water Conservation and Pipeline Corporation changes name to National Water Harvesting and Storage Authority (NWHSA) with the mandate to undertake, on behalf of the national government, the development of national public works for water storage and flood control. Existing Water Service Providers (utilities) continue operating as county water service providers or cross county water service providers as the case may be. Other water service providers may be established by county governments as public limited liability companies under the Companies' Act 2015 but have to comply with the standards of commercial viability set out by Wasreb. This also applies to other bodies providing water services to the public.
- The Water Services Trust Fund (WSTF) changes from a financing mechanism to a financing institution and is renamed the Water Sector Trust Fund, with an expanded mandate for collaboration with County Governments and Water Resource Users Associations (WRUAs) over water service provision in underserved areas and catchment management respectively. Further, the WSTF has the mandate to mobilize financial resources from private investors for onward lending to creditworthy utilities and to promote research on water services and water resources. The core of its mandate is to assist in financing the development and management of water services in marginalized areas or any underserved area.
- The Water Appeals Board changes name to Water Tribunal. It has powers to hear and determine appeals from any person or institution directly affected by the decision or order of the Cabinet Secretary responsible for matters relating to water, the Water Resources Authority and the Water Services Regulatory Board. The tribunal also has powers to hear and determine any dispute concerning water resources or water services where there is a business contract, unless the parties have otherwise agreed to an alternative dispute resolution mechanism.



Climate Change

The recent drought experienced in most parts of the country and the resultant effect on availability of water resources implies that the effects of climate change can no longer be wished away. To alleviate against the effects of climate change the Company is focused on:

a) Ensuring strategies that enhance water storage and flood control
b) Upholding resilience of the water supply systems
c) Managing water demand among competing needs and
d) Improving O+M costs to reduce wastage. Faced with the reality of climate change, we urge all stakeholders and players in the water sector to develop climate resilient systems.

Projects Commissioning/ Partnerships

Riat Hills Water Supply Project

On 4th August 2017, the board undertook a ground breaking ceremony of the Riat hills water supply project. The event took place next to Riat College off Kisumu /Kakamega highway .The project seeks to carry out expansion of connections at Riat/Nyahera area under the output based aid (OBA) project at a cost of Kshs 111,783,138. The WSTF has committed funds amounting to Kshs 68,400,000 as the total subsidy amount. The project is expected to benefit

at least 7,500 people residing on the project areas which cover Kanyakwar, Riat, Kogony and Mkendwa. The project cost will cater for; water supply pipeline, water reservoirs, pumps, electrical switch gears and pump house.

WSTF 7th Call Manyatta Koyango and PEWAK

The company completed the WSTF 7th call Manyatta Koyango water supply improvement and the Kachok project under Performance Enhancement for Water Utilities in Kenya (PEWAK) project supported by Vitens Evides International. The two projects were commissioned by H.E the Governor on Thursday 15th June 2017. Both projects contributed towards expansion of water pipelines, creation of DMMs, construction of water kiosks, installation of prepaid meters, supply, installation, testing and commissioning of 2 horizontal centrifugal single stage pumps.

KIWASH

Through the Kenya Integrated Water, Sanitation and Hygiene Project (KIWASH), KIWASCO identified informal settlements that are not getting sufficient water supply and where KIWASH will give full grant support. The informal settlement identified includes, Gudka, Nyalenda, Pamoja Uzalendo, Bandani-Kombedu and transformer, Katuk, Corner mbaya, love bar and Arito-Riat extensions. The aim of this work is to densify the network and increase household connections. This work is to be funded by KIWASH to a tune of Kshs 11,195,950 as a grant.

Stakeholders' Forum

The board successfully held a stakeholder forum at the Kisumu hotel on 7th December 2016.The forum was well attended with representation from political, business and community stakeholders in the County of Kisumu. The audience was taken through presentations on the activities of the company, its successes, achievements and challenges. We appreciate and value the feedback that we continue to receive from our stakeholders.

As a Board we continued to ensure the defined operational objectives of the plan period were achieved. This are mainly increasing the water supply coverage and billing, maintaining quantity and quality of potable water delivered to the customers and reduction of non-revenue water.

Performance

Despite a challenging operating environment, characterized by prolonged electioneering period, depressed private sector credit growth and the after effects of drought experienced earlier this year, KIWASCO continued to deliver on its mission of providing quality water and sewerage services for improved livelihoods.

Our Company achieved a turnover of six hundred and twenty million two hundred and seventy seven thousand five hundred and one shillings (Kshs. 620,277,501 million) up from five hundred and forty three million eighty three thousand one hundred and fifty seven shillings (Kshs. 543,083,157 million) in 2016 a 14% improvement and a profit after tax of sixteen million six hundred and sixty three thousand six hundred and eighty seven. (Kshs.16, 663, 687).

Total assets increased by 19% due to infrastructure expansion to better our production operations. The customer base increased by 3,589 number of connections from 23,862 (2016) to 27,451 (2017) signifying a 15% increase. Water coverage which is the number of people served with potable water expressed as a percentage of the total population stood at 74%. This shows that the company is well on the path to reaching out to all its customers despite the economic challenges in place.

Dividends

In order to sustain optimum achievement of service coverage as a public utility company, the Board of Directors do not propose payment of a dividend. The reserves are to be utilized to support water development projects within the area of jurisdiction of the water Company in line with the regulators guidelines.

Moving Forward

As we look into the future, it is important to reflect on the gains we have made. In line with our business growth strategy, we have invested significantly in network expansion and modernization projects to improve on efficiency in service delivery and accelerate customers connections for supply. Consequently our assets have grown and our customers increased.

Our medium term corporate strategy is centered on seven priority areas;

1. Water and waste water Infrastructure Development
2. Operational Efficiency
3. Customer Service
4. Pro-poor initiatives
5. Financial Sustainability
6. Institutional Strengthening
7. Corporate Governance

In addition we will leverage on goodwill from our stakeholders including County government and development partners to foster business growth as we work towards achieving our corporate mission of providing quality water and sewerage services for improved livelihoods.

Board Activities

The company has a unitary Board Structure, with 11 Directors representing various stakeholders. The Board is regularly assisted by various committees in discharging its responsibilities. The Board currently has four standing committees namely Technical, Finance & Commercial, HR & Legal and Audit & Risk all of which are guided by clear terms of reference. The membership and leadership of these committees is regularly reviewed by the Board. All committees report on their activities to the full Board on a regular basis. Scheduled meetings were held to discuss key activities during the year including strategic plan, budget review, regular committee reports on financial performance, investment activities, operations oversight and risk tolerance.

Board Changes

During the year Director Mr. Arthur Anam Rateng retired. I appreciate him for his invaluable contribution in the Board. We wish him well in his future endeavors.

Accolades

The Company emerged the best Water Service Provider in customer service and was given an award. I congratulate all who made this possible as the award has put the Company in the limelight and many water companies are visiting to benchmark with us.

Acknowledgement

In conclusion I wish to thank the County Government of Kisumu for its confidence in our ability, the Board of Directors and all stakeholders for their support throughout the period under review. I also thank all our employees for the hard work and commitment to the mission of the Company and our development partners and investors who have continued to support our expansion projects.

Thank you

Israel Otieno Agina



Chairman



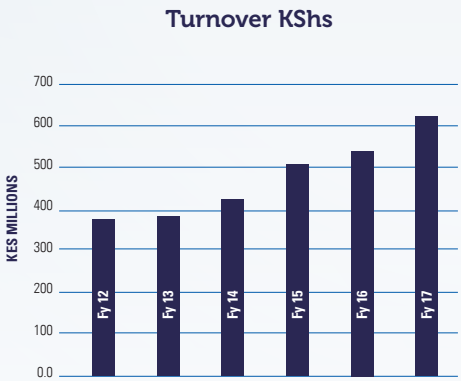
Installing a higher accuracy Electromagnetic Flowmeter at Mashujaa DMM

Managing Director's Statement

Our Company grew its turn-over by 14% from Kshs. 543,083,157million to Kshs. 620,277,501million.

Eng. David Onyango HSC
Managing Director





It is with great pleasure that I present my report for the year ending June 2017.

Results

Despite some macro-economic uncertainties during the year, the business remained resilient and delivered solid results. Of concern was the drought that affected parts of the country, creeping inflation, prolonged electioneering year disruptions as well as regulatory pressure. Although we recorded positive results, the operating environment continues to be challenging given sector wide difficulties related to taxation of sewer services and slow VAT refund on in-put tax suffered.

Our Company grew its turn-over by 14% from Kshs. 543,083,157million to Kshs. 620,277,501million. The profit after tax increased to Kshs. 16,663,687 from Kshs. 1,278,302. The increase of after tax profit was driven by increase in new connections, improved sales, savings on electricity, office repairs, maintenance costs and decrease in meters impairment loss.

Strategic Plan 2017 - 2022

The Company completed documentation of its 2017 -2022 Strategic direction. Several factors informed the need for this strategic plan including the regular updating of the strategic plan per WASREB guidelines and the need to align the company's vision with the County Integrated Development Plan, among others. The purpose of the strategic plan was to:

- Set a clear strategic direction for KIWASCO to improve water and sewerage services;
- Assess and adjust KIWASCO's direction in response to changing internal and external environments;
- Enable KIWASCO operate in a more efficient and effective business manner and strengthen its capacities to deliver on its mission: and
- Align KIWASCO and its activities to the aspirations of stakeholders.

The strategic plan was developed through a consultative process, which included:

- Consultations with KIWASCO's Management and the Board of Directors,
- Data gathering from KIWASCO departments and from relevant external sources,
- A stakeholder workshop to identify and deliberate on the issues identified during the information gathering process.

As a result of information gathering, analysis and identification of the strategic destinations, key strategic issues were identified. These issues were the basis of developing KIWASCO's Strategic Priorities. Seven strategic priorities identified give direction to the determination of key strategies and activities for the period 2017 - 2022. The seven priorities include:

1. Water and waste water Infrastructure Development
2. Operational Efficiency
3. Customer Service
4. Pro-poor initiatives
5. Financial Sustainability
6. Institutional Strengthening
7. Corporate Governance

Managing Director's Statement (Continued)

Appendices are provided including the organization structure, five-year financial projections model, and the strategic objective implementation matrix.

Water Supply and Network Coverage

The Company currently uses two sources of water; Kajulu and Dunga. Dunga supply involves multi-stage pumping to the distribution network.

The challenge that is facing the City is inadequate distribution network to rapidly cover many people who need to be reached but cannot without expansion of the current network. Discussions are on-going with development partners on a new project focused on expanding distribution pipelines.

That notwithstanding, I am happy to report that the coverage increased from 71% in the previous year to 74%. The areas supply was expanded to include Otonglo, Chiga, Kanyakwar, Buoye and many settlements in Kajulu.

Kisumu is over 100 years old and 70% of pipelines are over 50 years in age. There are therefore many areas of weaknesses in the network that require rehabilitation and replacement. The program started in 2013 to internally overhaul sections of old pipeline gradually. We have approached our development partners. We are hopeful they will commit resources to this important initiative shortly to help alleviate the losses currently suffered through frequent pipe bursts.

Sewerage

The recorded growth in sewer coverage is minimal. Coverage stood at 18% at the end of the year.

Encroachment on sewer wayleaves by developers continues to present a challenge to effective sewer operations and maintenance. Many structures occupy sewer wayleaves and new temporary structures are emerging in areas not previously occupied. We will continue to collaborate with the City authorities to stem this tide.

Vandalism and theft of sewer manhole covers and other associated water infrastructure is a problem that is facing the entire water sector in Kenya. The Ministry of Energy constituted a committee to fast-track the enactment of Scrap Metal Regulation Act to help water and other sectors with assets in public space from continued suffering. KIWASCO and other water companies made meaningful suggestions to the committee.

In waste treatment, the rehabilitation of both treatment plants; Nyalenda and Kisat Treatment Plant were completed. The two treatment plants with a combined treatment capacity of 17,700m3/d have been adequately treating the waste water. Quality has improved significantly and meet the requirements of the EMCA Act with regard to standards of discharge of liquid waste to water bodies. The average BOD5 was 25.9mg/l which is below the threshold required by the EMCA of 30mg/l.

We recorded a resolution rate of 98% on all sewer related problems reported within 12 hours. This is very commendable but sewer misuse is still a problem despite our strong outreach programme in the residential areas.

The pilot project on use of dry wetland for sewer treatment in conjunction with a Chinese and local university was concluded. The experiments are on-going and we are confident that we can demonstrate the use of this technology to other towns around Lake Victoria to support environmental protection of the lake.

Water Quality Assurance

The quality of water produced continues to occupy the top of our agenda. We are happy to report that the water quality in the period under review met both KEBS and WASREB standards.

Bi-annual surveillance audits by KEBS on our processes give us comfort that the systems will continue to guarantee quality water to our customers into the future. In the period under review, water quality compliance to KEBS standards was 98.3%. The bench-mark is 95%. KEBS continue to conduct surveillance audits on our system as part of fulfillment of requirement to retain ISO 9001:2008 standard. The audits give us comfort that our systems will continue to support the quality standards required by the Regulator.

We conducted Water Safety Planning (WSP) audit as part of WSP certification by International Water Association (IWA). We are pleased to report that the IWA audit certified KIWASCO to be WSP compliant. This is a further confirmation that KIWASCO is committed to supplying quality water.

The completion of the rehabilitation of sewer treatment plants at both Nyalenda and KISAT have also contributed to improvement of the quality of waste water discharged into the lake. The discharges meet all the standards. However some factories still exhibit reluctance to pretreat their waste prior to discharge into the public sewer system. We appeal to NEMA and KAM to help solve this problem as we are persuaded that compliance with EMCA Act should be of priority for all industries.

Commercial Operations and Customer Service

The Company rolled out digital meter reading, electronic bills distribution and electronic payment platforms in an effort to improve our customer service. We continued to elevate customer service to be the core of our operations.

Our complaints resolution stood at 97% using the recently introduced telephone hotline. Hours of water supply improved from 23.5hours/day to 23.9hours/day. All metered customers received a bill each month and the collection efficiency was 92.2%. Our customers need to support us more by paying the bills not only promptly but adequately. The public bodies still cannot pay monthly bills due to their unique structure of resource flows, but more needs to be done in this area to avoid accumulation of large debts.

We shall continue to open up more digital communications channels so as to engage with our customers more.

Pro-Poor Services

In pursuit of the SDGs Goal 6 on Water, KIWASCO has to work towards universal coverage – water and sanitation for all. However, due to economic and social disparities in Kisumu County, some areas and communities are disadvantaged and if left on their own may not access the services. The Constitution of Kenya 2010 confirmed water as a basic human right. It is because of this that KIWASCO pays special attention to the poor. The Company has made it a strategic priority to focus on ensuring that the poor have access to quality drinking water and are not disadvantaged due to their status. Strategies to realize this goal shall include:

- Improve access in the low income areas from 78% to 90%
- Sustaining already implemented pro poor initiatives
- Enhancing Community participation
- Development of partnerships
- Implementing sustainable initiatives

Managing Director's Statement (Continued)

Non-Revenue Water

NRW reduction is envisioned in key strategic objective number 6.1.1 under the Strategic Priority number 1 (Water and Sewerage Infrastructure Development). KIWASCO is set to manage NRW through Active leak detection, elimination of illegal connections, pressure management, improving meter accuracy and development of NRW reduction framework.

KIWASCO currently has its annual average NRW at about 41%. The company intends to reduce this number to below 25% by the end of the strategic period 2017 – 2022. KIWASCO faces a number of challenges in NRW management. These challenges include but are not limited to:

- Dilapidated networks
- Frequent static meters
- Network vandalism
- Illegal activities
- Pressure imbalances (unaware of specific pressure zones) from transient flows
- Meter management issues: readings and accuracies
- NRW Data management



Vandalised meters chamber cover at Nyalenda

There exist a number of strategic approaches proposed both internally and from other institutions on managing the losses further. These approaches are short-term, medium term and long term mainly depending on impact expected and implementation requirements. Short term approaches are made to mainly strike the low-hanging fruits.

Key focus areas for us as a Company are not limited to:

1. Improving on effectiveness of meter reading through smart meters and integrity in data capture
2. Effective meter management
3. Use of pressure loggers in management of pressure
4. Effectiveness in NRW reporting through identification of KPIs and including in water balance
5. Adoption of GIS in NRW management
6. Establishment of District Metered Areas (DMA's)
7. Proactive monitoring of illegal water activities
8. Effective customer engagement to draw their support in NRW activities

ICT and Innovation

ICT continues to drive change across sectors and the water sector has not been excluded. Use of ICT has given us the flexibility and agility to drive customer-centered solutions in improving services.

Completion of the first phase of the GIS project has mapped all our pipelines and manholes, archived them in electronic form that is easy to access, query and manipulate.

The second phase is mapping meters with their co-ordinates on the ground to help access meters more easily.

In addition to M-pesa, many new channels of payments and bill access have been opened and we are still in pursuit of more partnerships in revenue collections strategy. We have improved bill query, repositioned Facebook and Twitter as channels of customer communication, expanded M-pesa collection and targeting introduction of an electronic collection platform that integrates all mobile money channels.

Human Capital

The introduction of Balanced Score Card (BSC) as a performance management system in 2013 has significantly improved the performance of our staff and the focus of the Company towards attaining a balanced development.

The Company believes in increasing the personal effectiveness as a means to achieving high organizational performance. Targeted training are offered to staff in areas that skills gaps are noted. Experiential training has also been our focus for the last 4 years targeting mainly our technical staff in the areas of maintenance, quality and production management.

Our relationship under the Water Operators Partnership with Vitens, a utility from Netherlands has helped us gain confidence in our abilities as we aspire to operate a world class service. The trainings offered under this partnership have been invaluable in shaping our approach and given us critical exposure to contemporary thought and technologies.

The Company supports and encourages staff to register for self-sponsored training at universities and institutions of higher learning.

On industrial relations, our strong shared vision of the KIWASCO of the future has guided our relationships and strongly influenced our dealings with staff representatives. We will continue to build on this experience for the mutual good.

Customer Service

Customer focus is key to the success of KIWASCO. As defined in the customer value proposition in our Strategic Plan, KIWASCO intends to create a long lasting and memorable customer experience. As a result, there is then a need to ensure that customers are highly satisfied. This will entail understanding the needs of the customers and supporting all the processes that address those needs.

Within the framework of our mission 'To provide quality water and sewerage services for improved livelihoods. We have set a goal to reach more customers with our services and increase the number of customers by 10% to ensure a coverage of 80%. This we shall achieve by:

- Strengthening customer service management systems
- Entrenching a customer focus culture among all employees
- Establishing a customer care center
- Improving on the levels of customer satisfaction
- Improving on customer engagements and loyalty
- Developing and implementing a customer focused Marketing Strategy

Corporate Social Responsibility (CSR)

We supported a number of CSR activities in line

with our CSR Policy. In the year under review, we supported the Governor's Christmas Fund, World AIDS Day, World Water Day and Friends of River Kisat – a multi-sectorial effort to clean River Kisat.

We shall continue to support causes that positively impact on the society we are part of.

Conclusion

I wish to thank the Board, the County Government of Kisumu, Lake Victoria South Water Services Board and all other stake-holders, staff, customers, and development partners, for all the support in the year.

I look forward to continued co-operation.

Eng. David Onyango, HSC
Managing Director



Hon. Jack Ranguma former Governor Kisumu County commissioning community water projects at Manyatta-Koyango and at Kachok in Nyalenda. These projects were made possible by the support of two organization, Water Sector Trust Fund (WSTF) and Vitens Evides International (VEI).

Corporate Governance Statement

Preamble
KIWASCO is committed to observing highest standards in corporate Governance in its operations. For effective governance the Board recognizes that even though it has delegated the daily running of the business to the management team, the Board is ultimately and fully responsible for the way the Company is managed. The Board is therefore actively engaged in leading the Company and is confident that there is an effective system of Corporate Governance in place.

Board Calendar
Operations of the Board are governed by Annual Board Calendar which contains the schedule of meetings of the Board and its Committees.

Board Composition and Appointment
The Board is composed of eleven directors, ten of whom are non executive and independent. The Board is composed of directors with good mix of skills, experience and competence in the relevant fields.

Members of the Board are appointed by various stakeholder segments and elected at the Annual General Meeting.

Board Meetings
The Board meets at least four times a year. The Board deals with all significant matters including strategic directions, ensuring competent management of the business, internal controls, compliance with laws and regulations and reporting performance to the shareholders.

Information to the Board
The Directors are given timely information on key activities of the business regularly.

Conflict of Interest
The Directors are under a fiduciary duty to act honestly and in the best interest of the Company. There is a policy in place that provides that Directors, their families and Companies in which they have interest in do not transact any business with KIWASCO.

Committees of the Board
Subject to strategic policy or formal issues reserved for its approval, the Board has delegated some of the responsibilities to Board Committees which operate within definite terms of reference laid down by the Board.



MD explains to the media effects of the water hyacinth weed on the Company's operations

The Board has four Committees namely:

- Audit and Risk
- Finance and Commercial
- Technical
- Human Resource and Legal

Internal Controls
The Board reviews from time to time the effectiveness of internal controls and relies on management to establish appropriate systems of control for running the business.

The system of internal controls has defined procedures for operational and financial controls to ensure assets are safeguarded, transactions are properly authorized, recorded and irregularities are prevented or detected within reasonable period of time.

Accountability and Audit
The Board recognizes its responsibility to present a balanced assessment of the Company's financial position and prospects.

Financial information is prepared using appropriate accounting policies which are consistently applied.

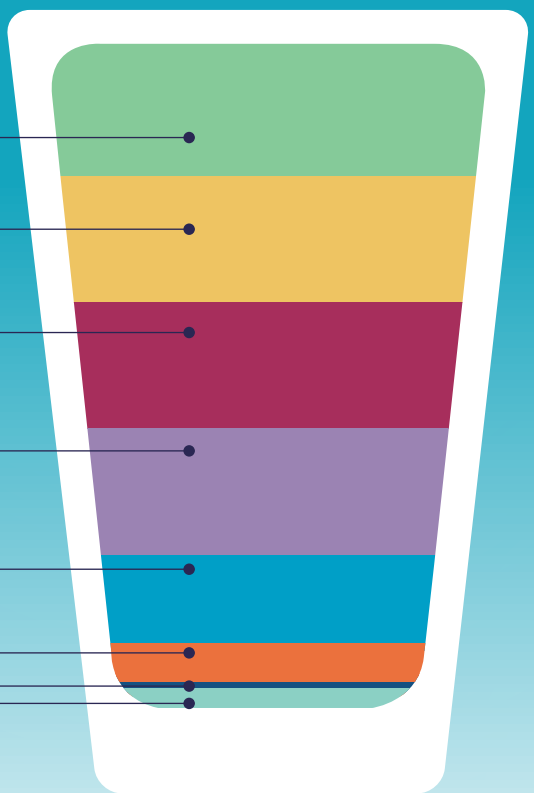
The Financial statements are prepared in accordance with IAS and the requirements of the Companies Act, and audited in accordance with the recognized auditing standards.

Israel Agina
Chairman

Eng. David Onyango
Managing Director

AVERAGE INDOOR HOUSEHOLD WATER USE





Source: TL Barker - Copyright © 2016 City of Jal, New Mexico







Bandani/ Kombedu KIWASH project launch

Company Information

BOARD OF DIRECTORS

Mr. Israel Agina	:	Chairman
Mrs. Sheila Okal	:	Director
Mr. Arthur Anam Rateng	:	Director (Retired in October 2016)
Miss. Muthoni Orlale	:	Director
Mr William Orondo	:	Director
Dr. Margaret Kaseje	:	Director
Eng. David Onyango	:	Managing Director
Mr. Francis Asunah	:	Director
Mr. George Ongaya	:	Director
Prof. Barrack Abonyo	:	Director

MANAGEMENT TEAM

Eng. David Onyango	:	Managing Director
Simon Ondigo	:	Head of Audit and Risk
Evelyne Opiyo	:	Head of Human Resources & Administration
Eng. Moses Jura	:	Head of Technical Services
Nicholas Moseti	:	Head of Finance
Thomas Odongo	:	Head of Commercial Services
Anthony Ogwang	:	Supply Chain Manager

REGISTERED OFFICE

: Nafaka House
: Oginga Odinga Street
: P.O. Box 3210, 40100
: KISUMU

AUDITORS

: Auditor General
: P.O. Box 30084, 40100
: NAIROBI

COMPANY SECRETARY

: Equity Secretaries and Registrars
: Certified Public Secretaries
: P.O. Box 14868, 00100
: NAIROBI

PRINCIPAL BANKER

: Co-operative Bank of Kenya Limited
: P.O. Box 1511, 40100
: KISUMU

LEGAL ADVISOR

: Ouma Njoga and Company Advocates
: P.O. Box 2536, 40100
: KISUMU

Board Committees

FINANCE AND COMMERCIAL COMMITTEE

Mr. William Orondo	:	Chair
Mr. George Ongaya		
Mrs. Sheila Okal		
Eng. David Onyango		

AUDIT AND RISK COMMITTEE

Miss. Muthoni orlale	:	Chair
Dr. Margaret Kaseje		
Mr. William Orondo		
Mr.George Ongaya		
Mrs. Sheila Okal		

TECHNICAL COMMITTEE

Mr. Francis Asunah	:	Chair
Miss. Muthoni Orlale		
Prof. Barrack Abonyo		
Eng. David Onyango		

HUMAN RESOURCE AND LEGAL COMMITTEE

Dr. Margaret Kaseje	:	Chair
Mrs. Sheila Okal		
Prof. Barrack Abonyo		
Eng. David Onyango		

Report of the Directors

The directors submit their report and the audited financial statements for the year ended 30 June 2017 which disclose the state of affairs of the company.

PRINCIPAL ACTIVITIES

The principal activities of the company are:

i) To provide and distribute a constant supply of water for commercial, industrial and domestic purposes within the jurisdiction of County Government of Kisumu.

ii) To be responsible for the provision and maintenance of water and sewerage services within the jurisdiction of County Government of Kisumu.

RESULTS	2017 Shs	2016 Shs
Profit before tax	22,480,240	3,116,908
Tax	(5,816,552)	(1,838,606)
Profit for the year	16,663,687	1,278,302

DIVIDEND

The directors do not propose a dividend for the year.

DIRECTORS

The directors who held office during the year and to the date of this report are shown on page ii.

AUDITORS

The company's auditor is the Auditor General and continues in office in accordance with section 159(2) of the Companies Act (Cap. 486).

BY ORDER OF THE BOARD

DIRECTOR
KISUMU
22nd September, 2017

DIRECTOR
KISUMU
22nd September, 2017

Statement of Board of Directors' Responsibilities

The Companies Act (Cap. 486) 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 profit and loss for that year. It also requires the directors to ensure that the company maintains proper accounting records which disclose with reasonable accuracy the financial position of the company. The directors are also responsible for safeguarding the assets of the company.

The directors accept the responsibility for the preparation and fair presentation of the financial statements that are free from material misstatements whether due to fraud or error. They also accept responsibility for:

i. Designing, implementing and maintaining such internal control as they determine what is necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error;

ii. Selecting and applying approporiate accounting policies; and

iii. Making accounting estimates and judgements that are reasonable in the circumstances;

The directors are of the opinion that the financial statements give a true and fair view of the state of the financial position of the company as at 30 June 2017 and of the company's financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Kenyan Companies Act.

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.

Approved by the board of directors on 22nd September, 2017 and signed on its behalf by:

DIRECTOR

DIRECTOR

REPUBLIC OF KENYA

Telephone: +254-20-342330
Fax: +254-20-311482
E-mail: cag@kenyaweb.com

P.O. Box 30084-00100
NAIROBI

KENYA NATIONAL AUDIT OFFICE

REPORT OF THE AUDITOR- GENERAL ON KISUMU WATER AND SEWERAGE COMPANY LIMITED FOR THE YEAR ENDED 30 JUNE 2017

REPORT ON THE FINANCIAL STATEMENTS

QUALIFIED OPINION

I have audited the accompanying financial statements of Kisumu Water and Sewerage Company Limited set out on pages 1 to 25, which comprise the statement of financial position as at 30 June 2017, and the statement of comprehensive income, statement of changes in equity, statement of cash flows and statement of comparison of budget and actual amounts for the year then ended, and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, 2015. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

In my opinion, except for the effect of matters described in the Basis for Qualified Opinion paragraph, the financial statements present fairly, in all material respects, the financial position of Kisumu Water and Sewerage Company Limited as at June 30, June 2017 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 company's Act 2015.

In addition, as required by Article 229(6) of the Constitution, except for the matters described in the Basis for Qualified Opinion section of my report, based on the procedures performed, I confirm that nothing has come to my attention to cause me to believe that public money has not been applied lawfully and in an effective way.

Basis for Qualified Opinion

1. **Delayed Remittances of Statutory Deductions**

   As reported in the previous years, the Company owes the National Social Security Fund (NSSF) and the employees' pension fund Kshs. 2,288,965 and Kshs. 5,808,481 respectively. The payables have been outstanding for a considerable long period of time and therefore their settlement is in doubt. As a result, the Company has not complied with various aspects of the Retirement Benefits Act. Consequently, the Company is exposed to penalties and interests on the long outstanding balances.

2. **Share Capital**

   The share capital of Kshs. 100,000 divided into 5,000 shares of Kshs. 20 each previously issued to the defunct local authority taken over by the County Government of Kisumu had as at 30th June 2017 not been paid for. The share capital still remains in the defunct local authority's name and have not been officially transferred to County Government of Kisumu.

   In the circumstances, it has not been possible to confirm whether the County Governments are desirous in having its objectives as outlined in the Memorandum and Articles of Association.

   The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of in accordance with ISSAI 30 on Code of Ethics. I have fulfilled other ethical responsibilities in accordance with the ISSAI and in accordance with other ethical requirements applicable to performing audits of financial statements in Kenya. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Key Audit Matters

Key audit matters are those matters that, in my professional judgment, were of most significance in the audit of the financial statements .Except for the matters described in the Basis for Qualified section of my report, I have determined that there are no Key Audit Matters to communicate in my report.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and for such 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.

REPORT OF THE AUDITOR- GENERAL ON KISUMU WATER AND SEWERAGE COMPANY LIMITED FOR THE YEAR ENDED 30 JUNE 2016 (Continued)

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern/sustain services, disclosing, as applicable, matters related to going concern/ sustainability of services and using the going concern basis of accounting unless the management either intends to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

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

Those charged with governance are responsible for overseeing the financial reporting process.

Auditor-General's Responsibilities for the Audit of the Financial Statements

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 of Kenya. 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 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.

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

- Identify and assess the risks of material misstatements of 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 basis for my opinion. The risk of not detecting a material misstatements 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.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances and for the purpose of giving an assurance on the effectiveness of the Company's 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 auditors' 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 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 consolidated and separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities to express an opinion on the financial statements.
- Perform such other procedures as I consider necessary in the circumstances.

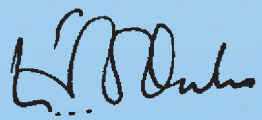
I communicate with the management regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that are identified during the audit.

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.

REPORT ON LEGAL AND OTHER REGULATORY REQUIREMENT.

As required by the companies Act, 2015 I report 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 the audit;
ii. In my opinion, adequate accounting records have been kept by the Company, so far as appears from the examination of those records;
iii. The company's statement of financial position and statement of profit or loss and other comprehensive income are in agreement with the accounting records; and
iv. In my opinion, the information given in the report of the directors is consistent with the financial statements.



FCPA Edward R. O. Ouko, CBS
AUDITOR-GENERAL
Nairobi
28 June, 2018

Statement of Comprehensive Income

For the year ended 30th June 2017

	Notes	2017 Shs	2016 Shs
Revenue	1	620,277,501	543,083,157
Cost of sales	**6**	**(129,029,227)**	**(123,948,846)**
Gross profit		491,248,274	419,134,311
Other operating income	2	22,233,140	17,146,964
Employment expenses	4	(213,660,763)	(164,009,234)
Administrative expenses	26	(87,779,952)	(81,971,173)
Establishment expenses	27	(125,489,041)	(131,445,584)
Maintenance expenses	28	(62,360,256)	(52,179,070)
Operating profit		**24,191,403**	**6,676,214**
Finance costs	5	(1,711,163)	(3,559,306)
Profit before tax		**22,480,240**	**3,116,908**
Tax Charge	7	(5,816,552)	(1,838,606)
Profit for the year		**16,663,687**	**1,278,302**
Total comprehensive income for the year		**16,663,687**	**1,278,302**
Dividend:			
Proposed final dividend for the year	8		
Total dividend for the year		-	-

The significant accounting policies on pages 12 to 16 and the notes on pages 17 to 30 form an integral part of these financial statements.

Report of the independent auditors - pages 5 and 6.

KIWASCO
Refresh Life

Statement of Financial Position

as at 30 June 2017

	Notes	2017 Shs	2016 Shs
CAPITAL EMPLOYED			
Share capital	24	100,000	100,000
Revaluation reserve		1,176,114	1,176,114
Retained earnings		30,266,445	13,602,758
Shareholders' fund		**31,542,559**	**14,878,872**
Non-current liabilities			
Borrowings	9	0	188,494
Trade and other payables	14	110,623,527	98,762,335
Grants	17	45,261,814	42,451,298
		155,885,341	**141,402,126**
		187,427,901	**156,280,998**
REPRESENTED BY			
Non current assets			
Property, plant and equipment	10	162,060,757	136,725,757
Deferred tax	11	5,014,071	5,014,071
		167,074,828	**141,739,828**
Current assets			
Inventories	12	12,618,422	10,297,824
Trade and other receivables	13	177,769,362	180,858,988
Cash and cash equivalents	29	12,653,182	5,872,769
		203,040,967	**197,029,581**
Current liabilities			
Trade and other payables	14	157,253,673	153,453,154
Provision for liabilities and charges	15	2,835,222	1,459,374
Borrowings	9	3,200,192	12,155,021
Current tax	7	19,398,808	15,420,861
		182,687,894	**182,488,410**
Net current assets		**20,353,073**	**14,541,170**
		187,427,901	**156,280,998**

The financial statements on pages 7 to 30 were authorised for issue by the Board of Directors on 22nd September, 2017 and were signed on its behalf by:

_____ Director

_____ Director

The significant accounting policies on pages 12 to 16 and the notes on pages 17 to 30 form an integral part of these financial statements.

Report of the independent auditors - pages 5 and 6.

Statement of Changes in Equity

For the year ended 30th June 2017

	Notes	Share capital Shs	Revaluation Reserve Shs	Retained earnings Shs	Total Shs
Year ended 30 June 2016					
At start of year	24	100,000	-	10,324,456	10,424,456
		100,000	-	10,324,456	10,424,456
Total comprehensive income for the year		-	1,176,114	1,278,302	2,454,416
Dividends reversal				2,000,000	2,000,000
At end of year		**100,000**	**1,176,114**	**13,602,758**	**14,878,872**
Year ended 30 June 2017					
At start of year		100,000	1,176,114	13,602,758	14,878,872
		100,000	1,176,114	13,602,758	14,878,872
Total comprehensive income for the year		-	-	16,663,687	16,663,687
At end of year		**100,000**	**1,176,114**	**30,266,445**	**31,542,559**

The significant accounting policies on pages 12 to 16 and the notes on pages 17 to 30 form an integral part of these financial statements.

Report of the independent auditors - pages 5 and 6.

KIWASCO
Refresh Life

Statement of Cash Flows

For the year ended 30th June 2017

	Notes	2017 Shs	2016 Shs
Operating activities			
Cash generated from operations	16	40,478,533	19,948,474
Gratuity Paid		-	-
Tax paid		(1,838,606)	(642,543)
Net cash generated from operating activities		**38,639,927**	**19,305,931**
Investing activities			
Purchase of property, plant and equipment	10	(47,599,499)	(46,661,384)
Disposal of Assets		706,000	29,802,835
Net cash used in investing activities		**(46,893,499)**	**(16,858,549)**
Financing activities			
Increase in water deposits	14	11,861,193	9,188,006
Decrease in Contributions	14	-	(9,072,281)
Grant received	17	7,495,912	5,014,489
Borrowings Paid	9	(2,611,955)	(5,476,147)
Interest paid	5	(1,711,163)	(3,559,306)
Proceeds from temporary overdrafts	9	-	2,409,303
Repayment of finance leases		-	-
Net cash from financing activities		**15,033,986**	**(1,495,935)**
Increase in cash and cash equivalents		**6,780,414**	**951,447**
Movement in cash and cash equivalents			
At start of year		5,872,769	4,921,322
Increase/(Decrease)		6,780,414	951,447
At end of year	**29**	**12,653,182**	**5,872,769**

The significant accounting policies on pages 12 to 16 and the notes on pages 17 to 30 form an integral part of these financial statements.

Report of the independent auditors - pages 5 and 6.

Statement of Budget Vs. Actual Performance

For the year ended 30th June 2017

	Notes	ORIGINAL BUDGET 2016/2017 Shs	ADJUSTMENTS 2016/2017 Shs	FINAL BUDGET 2016/2017 Shs	ACTUAL ON COMPARABLE 2016/2017 Shs	PERFOMANCE / DIFFERENCE 2016/2017 Shs
Revenue	1	655,946,500	30,000,000	685,946,500	620,277,501	(65,668,999.06)
Cost of sales	6	(172,904,503)	25,200,000	(147,704,503)	(129,029,227)	18,675,276.27
Gross profit		**483,041,997**	**55,200,000**	**538,241,997**	**491,248,274**	**(46,993,722.79)**
Other operating income	2	23,792,000	0	23,792,000	22,233,140	(1,558,859.69)
Employment expenses	4	(213,035,453)	0	(213,035,453)	(213,660,763)	(625,310.06)
Administrative expenses	26	(102,243,027)	(10,000,000)	((112,243,027)	(87,779,952)	24,463,075.24
Establishment expenses	27	(98,384,086)	(27,360,000)	(125,744,086)	(125,489,041)	255,045.01
Maintenance expenses	28	(78,383,875)	(13,000,000)	(91,383,875)	(62,360,256)	29,023,619.09
Operating profit		**14,787,556**	**4,840,000**	**(19,627,556**	**24,191,403**	**4,563,846.80**
Finance costs	5	(2,939,579)	(5,000,000)	(7,939,579)	(1,711,163)	6,228,415.59
Profit before tax		**11,847,978**	**(160,000)**	**11,687,978**	**22,480,240**	**10,792,262.39**
Tax Charge	7	(3,554,393)	0	(3,506,393)	(5,816,552)	(2,310,159.45)
Profit for the year		**8,293,585**	**(160,000)**	**(8,181,585**	**16,663,687**	**8,482,102.94**
Total comprehensive income for the year		**8,293,585**	**(160,000)**	**(8,181,585**	**16,663,687**	**8,482,102.94**

NOTE:

i) Projected revenue and other incomes for the year were not realised due to loss of key customers and slow growth

ii) Increased sales projection was as a result of the new tariff in from May 2017

iii) Employement expenses remained the same despite the supplentary budget review

iv) Administrative,establishment, Finance & Maintenance costs were increased in the supplentary budget

V) Improved profitability due to increased tariff

The significant accounting policies on pages 12 to 16 and the notes on pages 17 to 30 form an integral part of these financial statements.

Significant Accounting Policies

The principal accounting policies adopted in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

a) Basis of preparation

The financial statements are prepared under the historical cost basis except for the measurement at revalued amounts of certain items of property, plant and equipment and financial instruments at fair value, impaired assets at their estimated recoverable amounts. The preparation of financial statements in conformity with International Financial Reporting Standards (IFRS) allows the use of estimates and assumptions. It requires management to exercise judgement in the process of applying the entity's accounting policies.

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

The financial statements have been prepared in accordance with the PFM Act 2014 and International Financial Reporting Standards (IFRS). The accounting policies adopted have been consistently applied to all years presented.

Going Concern
The financial perfomance of the company is set out in the Director's report and in the statement of comprehensive income. The financial position of the company is set out in the statement of finacial position. Disclosures in in respect of risk management are set out in note 20.

Based on the financial perfomance and position of the company and its risk management policies, the directors are of the opinion that the company is well placed to continue in business for the foreseable future and as a result the financial statements are prepared on a going concern basis.

The financial statements comply with the requirements of the Kenyan Companies Act. The statement of comprehensive income represent the profit and loss account referred to in the Act while the statement of financial position represents the balance sheet referred to in the Act.

Adoption of new and revised International Financial Reporting Standards (IFRSs) and Interpretaions (IFRIC)

Adoption of new and revised International Financial Reportinf Standards (IFRS)

i. **New standards and amendments to published standards effective for the period ended 30 June 2016**
   There were no new and revised IFRSs that were effective in the current year that had impact on the amounts reported in these financial statements

ii. **Impact of new and ammended standards and interpretations on the financial statements for the period ended 30 June 2016 and future annual periods**
   In May 2015, IFRS 15 was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. IFRS 15 will supersede the current revenue recognition guidance including IAS 18 Revenue, IAS 11 Construction Contracts and the related interpretations when it becomes effective.

iii. **Early adoption of standards**
   The Company did not early-adopt any new or amended standardsin the financial period.

b) Critical Accounting Judgements and Key sources of estimation uncertainty

In the process of applying the company's accounting policies, the directors are required to make judgements, estimates and assumptions abount 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 ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if revision affects only that period or in the period of revision and future periods if the revision affects both current and future periods.

i. Critical Judgements in applying accounting policies

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

Significant Accounting Policies (Continued)

ii. Key sources of estimation uncertainty

Impairment losses - At the end of each 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 indications exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. Where it is possible to estimate the recoverable amount of an individual asset, the company estimates the recoverable amount of the cash generating unit which the asset belongs.

Property, plant, equipment and intangible assets- Management reviews the useful lives of property plant and equipment on a regular basis. During the financial year, the directors determined no significant changes in the useful lives and residual values.

Contingent liabilities - As disclosed in note 26 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 directors' evaluation, a present obligation has been established.

c) Sigificant judgements made by management in applying the company's accounting policies

Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and/or performance of services, in the ordinary course of business and is stated net of Value Added Tax (VAT), rebates and discounts.

The company recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and when the specific criteria have been met for each of the company's activities as described below. The amount of revenue is not considered to be reliably measured until all contingencies relating to the sale have been resolved. The company bases its estimates on historical results, taking into consideration the type of customer, type of transaction and specifics of each arrangement.

i) Sale of water is recognised upon delivery of water and customer acceptance.
ii) Sale of services are recognised upon performance of the services rendered by reference to the stage of completion of the service contract.

d) Translation of foreign currencies

Transactions in foreign currencies during the year are converted into Kenya Shillings (the functional currency), at rates ruling at the transaction dates. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items that are measured in terms of historical costs in a foreign currency are not retranslated. Assets and liabilities at reporting 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 profit or loss in the year in which they arise.

Translation differences on non-monetary financial assets and liabilities such as equities held at fair value through profit or loss are recognised in profit or loss as part of the fair value gain or loss. Translation differences on non-monetary financial assets such as equities classified as available for sale, are included in other comprehensive income.

e) Property, plant and equipment

All property, plant and equipment is initially recorded at cost and thereafter stated at historical cost less depreciation. Historical cost comprises expenditure initially incurred to bring the asset to its location and condition ready for its intended use.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the company and the cost can be reliably measured. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to profit or loss during the financial period in which they are incurred.

Depreciation on buildings is provided on a straight line basis over its estimated useful life of 40 years.

Freehold land is not depreciated

Leasehold land is depreciated over the remaining period of the lease

Significant Accounting Policies (Continued)

Depreciation on other assets is calculated on the reducing balance basis to write down the cost of each asset, to its residual value over its estimated useful life using the following annual rates:

	Rate %
Buildings	2.5 (Straight line)
Plant, machinery and meters	12.5
Motor vehicles and cycles	25
Furniture and fittings	12.5
Computer equipment	30

Capital work in progress is not depreciated.
The assets residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposal of property, plant and equipment are determined by comparing the proceeds with the carrying amount and are taken into account in determining operating profit/loss. On disposal of revalued assets, amounts in the revaluation reserve relating to that asset are transferred to retained earnings in the statement of changes in equity.

f) Intangible assets

Computer software

Computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives which are estimated to be 5 years.

Costs associated with developing or maintaining computer software programmes are recognised as an expense as incurred. Costs that are directly associated with the production of identifiable and unique software products controlled by the company, and that will probably generate economic benefits exceeding costs beyond one year, are recognised as intangible assets. Direct costs include software development staff costs and an appropriate portion of relevant overheads.

Computer software development costs recognised as assets are amortised over their estimated useful lives which are estimated to be 5 years on a straight line basis.

g) Financial instrument

Financial assets and financial liabilities are recognised when the company becomes a party to the contractual provisions of the instrument.

Financial assets

The company's financial assets which include cash and bank balances and trade and other receivables fall into the following category:
Loans and receivables: financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are classified as current assets where maturities are within 12 months of the reporting date.

All assets with maturities greater than 12 months after the reporting date are classified as non-current assets. Such assets are carried at amortised cost using the effective interest rate method. Changes in the carrying amount are recognised in profit or loss.

Purchases and sales of financial assets are recognised on the trade date i.e. the date on which the company commits to purchase or sell the asset.

A financial asset is impaired if its carrying amount is greater than its estimated recoverable amount. The amount of the impairment loss for assets carried at amortised cost is calculated at the difference between the assets carrying amount and the present values of expected future cash flows, discounted at the financial instrument's effective interest rate. Impairment losses are taken into account for determining operating profit.

Significant Accounting Policies (Continued)

Financial liabilities

The company's financial liabilities which include borrowings, current tax and trade and other payables fall into the following category:

Other financial liabilities: These are initially measured at fair value and subsequently measured at amortised cost, using the effective interest rate method. Borrowings are initially recognised at fair value, net of transaction costs incurred and are subsequently stated at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption value is recognised as interest expense in profit or loss under finance costs.

Fees associated with the acquisition of borrowing facilities are recognised as transaction costs of the borrowing to the extent that it is probable that some or all of the facilities will be acquired. In this case the fees are deferred until the drawn down occurs. If it is not probable that some or all of the facilities will be acquired the fees are accounted for as prepayments under trade and other receivables and amortised over the period of the facility.

All financial liabilities are classified as current liabilities unless the company has an unconditional right to defer settlement of the liability for at least 12 months after the reporting date.

Financial liabilities are derecognised when, and only when, the company's obligations are discharged, cancelled or expired.

Offsetting financial instruments

Financial assets and liabilities are offset and the net amount is presented in the statement of financial position when there is a legally enforceable right to offset the amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

h) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined by the direct purchase value and all costs attributable to bringing the inventory to its current location and condition and is stated on a first-in first-out (FIFO) basis. Net realisable value is the estimate of the selling price in the ordinary course of business, less the selling expenses.

i) Cash and cash equivalents

For the purposes of the statement of cash flows, cash and cash equivalents comprise cash in hand and deposits held at call with banks.

In statement of financial position, bank overdrafts are included within borrowings in current liabilities

j) Share capital

Ordinary shares are classified as equity.

k) Dividends

Proposed dividends are disclosed as a separate component of equity until declared. Dividends are recognised as a liability in the period in which they are approved by the shareholders

l) Taxation

The tax expense for the year comprises current and deferred tax. Tax is recognised in profit or loss.

Current tax
Current tax is provided on the results for the year, adjusted in accordance with tax legislation.

Deferred tax
Deferred tax is provided using the liability method for all temporary timing differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes. Currently enacted tax rates are used to determine deferred tax. Deferred tax assets are recognised only to the extent that it is probable that future taxable profits will be available against which temporary timing differences can be utilised.

Significant Accounting Policies (Continued)

m) Accounting for leases

Leases of property, plant and equipment, where the company assumes substantially all the risks and rewards of ownership, are classified as finance leases. Finance leases are capitalised at cost. Each lease payment is allocated between the liability and finance charges. The interest element is charged to profit or loss over the lease period and is included under finance costs. Such property, plant and equipment are depreciated over its useful life.

Leases of assets under which a significant portion of the risks and rewards of ownership are effectively retained by the lessor are classified as operating leases. Payments made under operating leases are charged to profit or loss on a straight line basis over the period of the lease.

n) Provisions

Provisions for environmental restoration, restructuring costs and legal claims are recognised when the company has present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation nd amount has been reliably estimated. Provisions for future operating losses are not recognised.

The amount recognised as provisions is the best estimate of the present value of expenditures expected obligation using pre-tax rate that reflects the current market assessment of time value of money and the risks specific to the obligation. Increase in provisions due to passage of time is recognised as interest expense in profit or loss under finance costs.

o) Employee entitlements

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

p) Retirement benefit obligations

Employee entitlements to gratuity and long service awards are recognised when they accrue to employees. A provision is made for the estimated liability for such entitlements as a result of services rendered by employees up to the reporting date.

The company operates a defined contribution staff retirement benefit scheme for its permanent and pensionable employees. The assets of this scheme are held in a separate trustee administered fund. The company's contributions to the defined contribution retirement benefit scheme are charged to profit or loss in the year to which they relate. The company has no further payment obligations once the contributions have been paid.

The company and its employees contribute to the National Social Security Fund (NSSF), a statutory defined contribution scheme registered under the NSSF Act. The company's contributions to the defined contribution scheme are charged to profit or loss in the year to which they relate.

q) Grants

Grants related to assets, including-non monetary grants at fair value are presented in the statement of financial position by setting up the grant as deferred income.

The grant is recognised as income on a systematic and rational basis over the useful life of the asset.

r) Borrowing costs

Borrowing costs that are attributable to acquisition, construction or production of a qualifying asset are capitalised as part of the asset based on either on actual cost on specific borrowing or in the case of general borrowings, based on a weighted average cost.

Capitalisation of borrowing costs ceases when all activities necessary to prepare the asset for its intended use or sale are complete. All other borrowing costs are recognised in profit or loss.

s) Comparatives

Where necessary, comparative figures have been adjusted to conform with changes in presentation in the current year.

Notes

1. REVENUE

	2017 Shs	2016 Shs
Sale of Water/Sewerage and services	620,277,501	543,083,157

2. OTHER OPERATING INCOME

Illegal connections	3,026,160	2,816,300
New water connections	7,131,600	4,752,400
Reconnection fees	1,286,500	1,329,750
Sewer agreement forms	18,200	25,000
Sewer connection	630,200	909,000
Tender income	543,000	394,961
Water connection forms	1,123,903	891,900
Surcharge on meter loss	351,300	198,500
Write back of grants	4,685,395	3,624,648
Other miscellenaous income	3,436,882	2,204,505
Donations	-	-
Total other operating income	22,233,140	17,146,964

3. OPERATING PROFIT

The following items have been charged in arriving at operating profit:		
Establishment expenses (Note.27)	102,401,919	114,207,604
Depreciation on property, plant and equipment (Note 10)	23,087,122	19,102,638
Administrative costs (Note.26)	86,500,423	81,391,173
Admin Expenses - Auditors' remuneration		
-Current year	580,000	580,000
Trade receivables - impairment	-	-
Repairs and maintenance (Note.28)	62,360,256	51,875,654
Staff costs (Note 4)	213,660,763	164,009,234

4. EMPLOYMENT EXPENSES

Salaries and wages	145,500,995	108,097,618
Other staff costs	34,235,587	32,543,653
Gratuity (Note 15)	1,375,848	1,157,268
Allowances in lieu of leave	0	340,732
Pension costs:		
-Defined contribution scheme	12,073,511	6,744,456
-National Social Security Fund	685,400	635,400
Staff medical expense	11,338,986	8,381,516
Staff uniform and protective clothing	3,994,054	1,892,840
Staff training	0	2,952,571
Staff welfare	4,264,182	1,074,080
DIT Levy	192,200	189,100
	213,660,763	164,009,233

Notes (continued)

5. FINANCE COSTS

	2017 Shs	2016 Shs
Interest on Asset Finance - CFC Bank	530,951	1,440,534
Inerest on IPF - Medical Insurance	614,211	578,759
Interest on Bank loan - Sidian Bank	566,001	1,540,013
	1,711,163	3,559,306

6. COST OF SALES

Opening inventories of chemicals	1,982,954	2,743,615
Water chemicals	83,279,531	78,463,553
Electricity	45,358,790	44,724,632
Closing inventories of chemicals	(1,592,049)	(1,982,954)
Total cost of sales	129,029,227	123,948,846

7. TAX

Brought forward	15,420,861	12,873,486
Current tax	5,816,552	1,838,606
Deferred tax (credit)/charge (Note 11)	0	1,351,313
Tax paid	(1,838,606)	(642,543)
Overprovision of current tax in prior years		-
	19,398,808	15,420,861
Amount that would arise using the basic rate as follows:		
Profit before tax	22,480,240	3,116,908
Tax calculated at a tax rate of 30% (2016: 30%)	6,744,072	935,072
Tax effect of:		
- expenses not deductible for tax purposes	9,544,000	12,007,119
-income not subject to tax	(10,471,519)	(11,103,585)
Tax charge	5,816,552	1,838,606

8. DIVIDENDS

Payment of dividend is subject to a withholding tax at the rate of 5% for residents and 10% for non-residents or 0% where holding is by a resident company holding more than 12.5%.

There was no dividends declared in the year under review.

Notes (continued)

9. BORROWINGS

	2017 Shs	2016 Shs
Sidian Bank Loan	792,006.66	5,100,718
CFC Asset Finance loan	2,409,108	4,833,493
Coop Bank Overdraft	-	2,409,303
	3,201,115	12,343,514
Marurity Analysis;		
Non-current		
Sidian bank loan	923	188,493
Finance leases	-	-
	923	188,493
Current		
Sidian bank loan	791,084	4,912,224
Coop bank temporary overdraft	-	2,409,303
CFC bank - asset Finance	2,409,108	4,833,493
	3,200,192	12,155,021
Total borrowings	3,201,115	12,343,514

Finance leases are secured by a right over the leased assets.

Weighted average effective interest rates at the year end was 18%.

The fair values of current borrowings equal to their carrying amount, as the impact of discounting is not significant. The fair values are based on cash flows discounted using the weighted average rates mentioned above. In the opinion of the directors, it is impracticable to assign fair values to the company's long-term liabilities due to inability to forecast interest rate.

The carrying amounts of the company's borrowings are denominated in the Kenya Shillings.

Notes (continued)

10. (a) Property, plant and equipment

Year ended 30 June 2017 Cost or Valuation	Leasehold improvements Shs 2.50%	Plant, machinery and meters Shs 12.5%	Motor vehicles and cycles Shs 25%	Furniture and fittings Shs 12.5%	Computer equipment Shs 30%	Capital work-in-progress Shs	Project Assets Shs 12.5%	Total Shs
As at 1st July 2016	1,138,554	110,655,113	21,721,137	8,520,985	8,826,210	16,235,189	58,275,528	225,372,717
Additions	0	45,349,540	924,846	1,213,474	467,966	6,633,989	-	54,589,815
Transfers/Disposal/Impairement		(6,897,000)	(2,729,800)			(11,076,354)	11,076,354	(9,626,800)
As at 30th June 2017	1,138,554	149,107,653	19,916,183	9,734,460	9,294,176	11,792,824	69,351,882	270,335,732
Depreciation								
As at 1st July 2016	315,438	46,817,241	12,482,058	5,448,084	6,655,922	-	16,928,218	88,646,960
Reversal on impairment/Acc. Dep		(862,125)	(2,596,982)					(3,459,107)
Charge for the year	20,578	12,678,536	2,507,777	535,797	791,476	-	6,552,958	23,087,122
As at 30th June 2017	336,016	58,633,651	12,392,853	5,983,881	7,447,398	-	23,481,176	108,274,975
Net book value - 30th June 2017	802,538	90,474,001	7,523,330	3,750,579	1,846,778	11,792,824	45,870,707	162,060,757

Year ended 30 June 2016 Cost	Leasehold improvements Shs 2.50%	Plant, machinery and meters Shs 12.5%	Motor vehicles and cycles Shs 25%	Furniture and fittings Shs 12.5%	Computer equipment Shs 30%	Capital work-in-progress Shs	Project Assets Shs 12.5%	Total Shs
As at 1st July 2015	1,138,554	105,751,827	18,248,678	8,149,830	7,700,279	9,249,471	58,275,528	208,514,168
Additions		33,461,321	4,717,259	371,155	1,125,931	6,985,718	-	46,661,384
Transfers		(28,558,035)	(1,244,800)			-	-	(29,802,835)
As at 30th June 2016	1,138,554	110,655,113	21,721,137	8,520,985	8,826,210	16,235,189	58,275,528	225,372,717
Depreciation								
As at 1st July 2015	294,332	47,860,265	10,553,699	5,009,098	5,725,799	-	11,021,459	80,464,652
Reversal on impairment		(7,904,338)	(1,151,335)					(9,055,673)
Charge for the year	21,106	6,861,314	3,079,693	438,986	930,123	-	5,906,759	17,237,980
As at 30th June 2016	315,438	46,817,241	12,482,057	5,448,084	6,655,922	-	16,928,218	88,646,960
Net book value - 30th June 2016	823,116	63,837,872	9,239,079	3,072,901	2,170,288	16,235,189	41,347,310	136,725,757

Notes (continued)

11 Deferred tax

Deferred tax is calculated, in full, on all temporary timing differences under the liability method using a principal tax rate of 30%. (2016:30%). There was no movement in the year under review as shown below:

	2017 Shs	2016 Shs
At start of year	(5,014,071)	(3,662,758)
(Credit)/charge to profit or loss (Note 6)	-	(1,351,313)
At end of year	(5,014,071)	(5,014,071)

Deferred tax (assets) and liabilities, deferred tax charge/(credit) to other comprehensive income and deferred tax charge/(credit) to equity, deferred tax charge/(credit) in profit or loss are attributable to the following items:

	At start of year Shs	(Credit) to profit or loss Shs	At end of year Shs
Deferred tax (assets)			
Provisions	(5,014,071)	0	(5,014,071)
Net deferred tax (asset)	(5,014,071)	-	(5,014,071)

12 Inventories

	2017 Shs	2016 Shs
Chemicals	1,592,049	1,982,954
Consumables	11,026,373	8,314,870
	12,618,422	10,297,824

Notes (continued)

13 Trade and other receivables

	2017 Shs	2016 Shs
Trade receivables	155,671,072	191,865,722
Less: Offset of Inhertited County Government bills	0	(59,169,766)
Less: provision for impairment (13b)	(7,197,865)	(9,982,037)
Net trade receivables	148,473,207	122,713,920
Prepayments and deposits (Appendix c)	4,223,813	3,903,611
Other receivables (Appendix d)	20,948,671	54,241,458
Receivable from related parties (Note 13a on movements)	4,123,671	0
	177,769,362	180,858,988

a) Movement in related parties balances

At start of year	0	67,201,009
Additions in the year - Bills	11,676,114	18,852,940
Prior year adjustments	0	9,984,710
Offset from County Government Liabilities	0	(82,201,690)
Bills paid by the County government	(7,552,443)	(13,836,969)
At end of year	4,123,671	(0)

Related party referred to here is the County Government of Kisumu formerly Municipal Council of Kisumu (MCK). KIWASCO is a wholly owned subsidiary of the County Government of Kisumu and supplies water to various institutions and premises owned and operated by the County Government of Kisumu.

b) Movement in impairment provisions

At start of year	-	-
Additions	7,197,865	9,982,037
At end of year	7,197,865	9,982,037

In the opinion of the directors, the carrying amounts of trade and other receivables approximate to their fair value. The company's credit risk arises primarily from trade receivables. The directors have made a provision for the portion of the receivable whose recovery is in doubt. The carrying amounts of the company's trade and other receivables are all denominated in Kenya Shillings. The maximum exposure to credit risk at the reporting date is the fair value of each class of receivable mentioned above. The company does not hold any collateral as security.

Notes (continued)

14 Trade and other payables

	2017 Shs	2016 Shs
Non current		
Water deposits	83,963,131	72,101,939
County Government of Kisumu - Contributions	26,660,396	35,732,677
Offset of Contributions by KIWASCO debts	0	(9,072,281)
	110,623,527	98,762,334

Non-current liabilities above include water deposits received from customers to mitigate the company against losses which may arise from non payment of water consumed and bills raised. The deposits are refundable on demand by the customers incase of transfer or movement from the premises. An annual provision of Ksh.1,200,000 (Current liability) is estimated to be refunded within one financial year of operations.

Current		
Trade payables	72,262,862	88,871,991
County Government of Kisumu	0	43,664,764
County Government of Kisumu - Conservancy fee	9,712,430	30,550,140
Accruals (Page 35)	16,250,707	13,811,972
Other payables (Page 35)	11,599,563	12,043,956
County Government Lease Fees	8,065,348	58,084,271
Lake Victoria South Water Services Board Levy	38,162,763	37,525,235
Water deposits	1,200,000	1,200,000
Offset of County Government liabilities with debts	0	(132,299,175)
	157,253,673	153,453,154
Total trade and other payables	267,877,200	252,215,489
Movement in County Government of Kisumu (formerly MCK)- Contributions		
At start of year and as previously stated	26,660,396	35,732,677
Prior year adjustment:		
Water deposit	-	-
As restated	26,660,396	35,732,677
Amount offset against irrecoverable water debtors taken over at inception	0	(9,072,281)
At end of year	26,660,396	35,732,677

In the opinion of the directors, the carrying amount of trade and other payables approximate to their fair value.
The carrying amounts of the company's trade and other payables are all denominated in Kenya Shillings.

Notes (continued)

14 Trade and other payables (continued)

	2017 Shs	2016 Sh
The maturity analysis of trade and other payables is as follows:		
Within three months	77,662,862	94,271,991
Three to twelve months	79,590,811	59,181,163
Over one year	110,623,527	98,762,334
	267,877,200	252,215,489

15 Provisions for liabilities and charges

At start of year	1,459,374	302,106
Charge to profit or loss (Note 4)	1,375,848	1,157,268
	2,835,222	1,459,374
Utilised during the year	-	-
At end of year	2,835,222	1,459,374

16 Cash generated from operations

Reconciliation of profit before tax to cash generated from operations:		
Profit before tax	22,480,240	3,116,908
Adjustments for:		
Depreciation on property, plant and equipment (Note 10)	23,087,122	17,237,980
Depreciation reversal - Impairment loss on meters (Note 10)	(862,125)	(7,904,338
Interest expense (Note 5)	1,711,163	3,559,306
Increase/(decrease) provision for liabilities and charges (Note 15)	1,375,848	1,157,268
Grants written back (Note 17)	(4,685,395)	(3,624,648)
Changes in working capital:		
-Increase in Inventories (Note 12)	(2,320,598)	1,064,077
-Increase in trade and other receivables (Note 13)	(4,108,240)	86,473,298
-Increase in trade and other payables (Note 14)	3,800,519	(81,131,376)
Prior year adjustment - Trade payables		
Cash generated from operations	40,478,533	19,948,474

Notes (continued)

17 Grants

	At start of year	Advance during the year	Write back to income	At end of year
Year ended 30 June 2017				
Nyalenda project	1,501,124	-	(187,641)	1,313,484
Lake Victoria South Water Services Board	193,583	-	(24,198)	169,385
Water Service Trust Fund	23,677,827	12,110,627	(4,473,557)	31,314,898
Other Grants	17,078,763	(4,614,716)	-	12,464,047
	42,451,297	7,495,912	(4,685,395)	45,261,814
Year ended 30 June 2016				
Nyalenda project	1,715,571	-	(214,446)	1,501,124
Lake Victoria South Water Services Board	221,238	-	(27,665)	193,583
Water Service Trust Fund	27,060,374	-	(3,382,547)	23,677,827
Other Grants	12,064,273	5,014,489	-	17,078,763
	41,061,456	5,014,489	(3,624,648)	42,451,297

18 Related party transactions and balances

	2017 Shs	2016 Shs
i) Sale of goods and services		
Sale of water to related parties - county of Kisumu	11,676,114	18,852,940
ii) Purchase of goods and services		
Lease charges and levy from related parties - County of Kisumu	43,303,722	45,253,385
iii) Outstanding balances arising from sale and purchase of goods/service and other contractual agreements		
Receivable from related parties (Note 13)	4,123,671	(0)
Payable to related parties (Note 14)	9,712,430	74,214,904
Key Management personnel compensation		
Short term employee benefits	21,256,332	18,868,226
Post employment benefits (Ref: Employment benefits)	2,324,091	1,937,108
	23,580,423	20,805,334

Notes (continued)

19 Risk management objectives and policies

Financial risk management
The company's activities expose it to a variety of financial risks: market risk (including interest rate risk) credit risk and liquidity risk.

The company's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the company's financial performance.

Risk management is carried out by the management under policies approved by the board of directors Management identifies, evaluates and hedges financial risks in close co-operation with various departmental heads. The board provides written principles for overall risk management, as well as written policies covering specific areas, such as interest rate risk, credit risk, and investment of excess liquidity.

(a) Market risk

- Interest rate risk
The company has no interest bearing assets and as a result its cashflows are substantially independent of changes in market interest rates.

The company's exposure to interest rate risk arises from current borrowings. Borrowings obtained at different rates expose the company to interest rate risk. Borrowings obtained at fixed rates expose the company to fair value interest rate risk except where the instruments are carried at amortised cost

	2017 Shs	2016 Shs
Effect on profit-(decrease)	(1,711,163)	(3,559,306)

The table above summarises the effect on post-tax profit had interest rates been 1 percentage point higher, with all other variables held constant. If the interest rates were lower by 1% point, the effect would have been the opposite.

(b) Credit risk

Credit risk arises mainly from cash and cash equivalents and trade and other receivables.
Management assesses the credit quality of the customer, taking into account their financial position, past experience and other factors, when determining credit limits.

Individual limits are set based on internal or external information in accordance with limits set by the management. The utilisation of credit limits is regularly monitored. No credit limits were exceeded during the reporting period, and management does not expect any losses from non-performance by these counterparties.

None of the financial assets that are fully performing has been renegotiated in the last year.
Exposure to this risk has been quantified in each financial asset note in the financial statements along with any concentration of risk.

(c) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. Due to the dynamic nature of the underlying businesses, the company's management maintains flexibility in funding by maintaining availability under committed credit lines.

Notes 9 and 16 discloses the maturity analysis of borrowings and trade and other payables.

Notes (continued)

20 Capital management

The company's objectives when managing capital are:

- to provide an adequate return to shareholders by pricing services commensurately with the level of risk;
- to safeguard the entity's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders; and
- to maintain a strong asset base to support the development of business.
- to maintain an optimal capital structure to reduce the cost of capital.

The company sets the amount of capital in proportion to risk. The company manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the company may adjust the amount of dividends paid to shareholders or issue new shares.

As at the reporting date, the company had sufficient cash and cash equivalents to adequately cover its borrowings.

21 Commitments

	2017 Shs	2016 Shs
Operating lease commitments		
Operating lease payable within one year	20,365,348	24,979,261

22 Incorporation

Kisumu Water and Sewerage Company Limited is incorporated in Kenya under the Companies Act as a private limited liability company and is domiciled in Kenya.

23 Presentation currency

The financial statements are presented in Kenya Shillings (Shs).

24 Share capital

	2017 Shs	2016 Shs
Authorised:		
5,000 (2016: 5,000) ordinary shares of Shs. 20 each	100,000	100,000
Issued and fully paid:		
5,000 (2016: 5,000) ordinary shares of Shs. 20 each	100,000	100,000

The company is owned by County Government of Kisumu who hold 99.9% of the total shares.

Notes (continued)

25 Contingent Liabilities

The Company has contingent liabilities in respect of legal claims arising in the ordinary course of business. There were active litigations against the company as at the reporting date. These are being handled by the company's legal team.

26. Administrative Expenses

	2017 Shs	2016 Shs
Board Expenses	9,162,112	6,051,752
Board retreat and annual general meeting	4,125,410	3,957,220
Advertising and publicity	4,014,087	3,462,341
Tenders	367,750	457,516
Bank charges and commissions	1,631,075	2,068,292
Training	8,190,158	0
Postages and telephones	5,745,538	4,274,488
Vehicle running expenses	15,958,537	15,912,651
Travels and subsistence	8,940,165	5,768,249
Printing and stationery	3,595,249	6,446,916
Audit fees	0	0
-Current year	580,000	580,000
-Under/(over) provision in prior years	0	0
ICT expenses	2,699,529	0
Debt collection	765,000	628,000
Bad debts Provision	7,197,865	9,982,037
Legal, professional fees and subscriptions	2,850,970	7,791,730
Consultancy	7,395,379	10,664,726
Office expenses	4,533,128	3,875,756
Donations	28,000	49,500
Total administrative expenses	87,779,952	81,971,173

Notes (continued)

27. Establishment Expenses

	2017 Shs	2016 Shs
Lease fees	20,365,348	24,979,261
Conservancy fee	15,299,410	13,744,010
LVSWSB Levy	22,938,374	20,274,124
WASREB levy	5,764,773	5,044,955
WRMA levy	5,560,584	5,200,227
NEMA	0	159,800
KEBS levy	400,000	400,000
WASPA	224,000	112,000
Office rent	2,343,348	2,343,348
Office Repairs and maintenance	2,413,901	3,292,608
Electricity	414,919	495,947
General insurance	1,223,202	955,081
Security expenses	14,043,789	12,382,988
Impairment loss on meters	6,034,875	20,653,697
Depreciation on property, plant and equipment	23,087,121	17,237,980
Water Bills	5,375,397	4,169,558
Total establishment expenses	125,489,041	131,445,584

28. Maintenance Expenses

Opening inventories of consumables	8,314,870	8,618,285
Network maintenance	47,551,168	36,733,565
Sewerage maintenace	2,042,732	3,007,387
Laboratory reagents	4,989,050	2,796,128
Water pump maintenance	2,801,844	1,613,452
Electrical items	7,686,966	7,725,123
Closing inventories of consumables	(11,026,373)	(8,314,870)
Total maintenance expenses	62,360,256	52,179,070

29 (a) Cash and cash equivalents

Cash in hand	405,115	3,803,879
Cash at bank	12,248,068	2,068,891
	12,653,182	5,872,769

For the purpose of the statement of cash flows, the year-end cash and cash equivalents comprise the above. Details of bank accounts, account numbers and year end balances for every account comprisng the above totals are annexed in page 30 of this financial statements.

Notes (continued)

29. (b) Bank Register for Cash & Cash Equivalent (Note 14)

As at year ended 30 June 2017

NAME OF THE CORPORATION	NAME OF BANK (BANKERS)	BANK ACCOUNT NUMBERS	BANK BRANCH	CURRENCY	CASH BOOK BALANCE	BANK BALANCE
				KSH	AS AT 30/06/2017	AS AT 30/06/2017
Kisumu Water and Sewerage Company	Cash on Hand	N/A	N/A	KSH	113,253.00	N/A
Kisumu Water and Sewerage Company	Cooperative Bank of Kenya	01100012931300	KISUMU	KSH	73,044.70	73,044.70
Kisumu Water and Sewerage Company	Cooperative Bank of Kenya	01136012931300	KISUMU	KSH	10,479,129.11	10,065,328.11
Kisumu Water and Sewerage Company	Cooperative Bank of Kenya	01136012931301	KISUMU	KSH	617,641.63	1,256,953.63
Kisumu Water and Sewerage Company	Petty Cash	N/A	N/A	KSH	48,299.00	N/A
Kisumu Water and Sewerage Company	Cash on Hand - Mpesa	N/A	N/A	KSH	230,026.00	N/A
Kisumu Water and Sewerage Company	NIC Bank - Pamoja Trust	1001789399	KISUMU	KSH	428,133.59	428,133.59
Kisumu Water and Sewerage Company	Sidian Bank	10090001537	KISUMU	KSH	519,815.10	519,815.10
Kisumu Water and Sewerage Company	Post bank	0744130005547	KISUMU	KSH	4,650.00	4,650.00
Kisumu Water and Sewerage Company	HFCK	7040001942-0	KISUMU	KSH	130,206.21	130,206.21
Kisumu Water and Sewerage Company	Equity Bank	0290265172985	KISUMU	KSH	8,886.80	8,886.80
Kisumu Water and Sewerage Company	NIC Bank - Manyatta	1003339641	KISUMU	KSH	97.34	97.34

Schedule of Other Operating Income and Expenditure

1. Other Operating Income

	2017 Shs	2016 Shs
Illegal connections	3,026,160	2,816,300
New water connections	7,131,600	4,752,400
Reconnection fees	1,286,500	1,329,750
Sewer agreement forms	18,200	25,000
Sewer connection	630,200	909,000
Tender income	543,000	394,961
Water connection forms	1,123,903	891,900
Surcharge on meter loss	351,300	198,500
Write back of grants	4,685,395	3,624,648
Other miscellenaous income	3,436,882	2,204,505
Donations	-	-
Total other operating income	**22,233,140**	**17,146,964**

2. Employment Expenses

Salaries and wages	145,500,995	108,097,618
Contracted workers	34,235,587	32,543,653
Gratuity provision	1,375,848	1,157,268
Allowances in lieu of leave	0	340,732
Staff medical expense	11,338,986	8,381,516
Staff uniform and protective clothing	3,994,054	1,892,840
Staff welfare	4,264,182	1,074,080
Staff training	-	2,952,571
Company contribution to NSSF	685,400	635,400
DIT Levy	192,200	189,100
Company pension contribution	12,073,511	6,744,456
Total employment expenses	**213,660,763**	**164,009,234**

Appendices

1. Accruals

	2017 Shs	2016 Shs
PAYE outstanding	2,855,489	1,663,326
NSSF outstanding	2,288,965	2,954,985
NHIF outstanding	322,250	81,450
Electricity	0	0
Special PAYE	613,552	242,361
WASREB Levy	1,102,456	854,741
Accrued Salaries & Wages	2,859,160	2,410,662
WARMA	2,314,238	2,622,638
WASPA	112,000	
NITA	16,200	16,150
IPF Medical Insurance	1,094,698	873,960
KENAO	2,671,700	2,091,700
	16,250,707	13,811,972

2. Other Payables

Voluntary contribution	3,846,708	3,243,847
Union dues outstanding	1,111,449	1,087,456
Pension outstanding	6,641,406	7,664,375
NUWASE	0	48,278
	11,599,563	12,043,956

3. Prepayments

Telephone deposits	42,000	42,000
Electricity deposits	792,900	732,900
Internet	17,400	17,400
NUWASE	39,343	0
Staff medical insurance	3,332,170	3,111,311
	4,223,813	3,903,611

4. Other Receivables

VAT	20,563,400	54,145,568
Staff advances	385,271	95,890
	20,948,671	54,241,458

PROXY FORM

The Company Secretary
Kisumu Water & Sewarage Company Limited
P.O. Box 3210
Kisumu

I/We _____

of _____

being a *member/members of Kisumu Water & Sewerage Company Limited:

of (address) _____

hereby appoint: _____

to be *my/our proxy, to vote on *my/our behalf at the 13th Annual General Meeting of the Company to be held on **23rd November 2018 at Sunset Hotel from 11.00 am** or any adjournment thereof.

***(Strike out as appropriate)**

Signed this _____ day of _____(Month) 2018.

Notes:

1. A proxy need not be a member.
2. In the case of a corporate body, the proxy must be under its Common Seal.
3. This proxy form should be completed and returned not later than 48 hours before the meeting or any adjournment thereof.

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Dunga water treatment works



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KISUMU WATER AND
SEWERAGE COMPANY LIMITED

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