REPUBLIC OF KENYA

OFFICE OF THE AUDITOR-GENERAL

Enhancing Accountability

REPORT

OF

THE AUDITOR-GENERAL

ON

SIBO WATER AND SANITATION COMPANY LIMITED

FOR THE YEAR ENDED 30 JUNE, 2019

Table of Contents

Page

KEY ENTITY INFORMATION ..... i-ii

THE BOARD OF DIRECTORS ..... iii-iv

MANAGEMENT TEAM ..... v-vi

CHAIRMAN'S STATEMENT vii

REPORT OF THE CHIEF EXECUTIVE OFFICER ..... viii-ix

CORPORATE GOVERNANCE STATEMENT ..... x-xiv

MANAGEMENT DISCUSSION AND ANALYSIS ..... xv-xvi

REPORT OF THE DIRECTORS xvii

STATEMENT OF DIRECTORS' RESPONSIBILITIES xviii

REPORT OF THE INDEPENDENT AUDITORS ON THE ENTITY xix

STATEMENT OF PROFIT AND LOSS AND OTHER COMPREHENSIVE INCOME 1

STATEMENT OF FINANCIAL POSITION 2

STATEMENT OF CHANGES IN EQUITY 3

STATEMENT OF CASH FLOWS 4

STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS FOR THE PERIOD ENDED 30 JUNE 2019 5

NOTES TO THE FINANCIAL STATEMENTS 6-35

APPENDIX I: PROGRESS ON FOLLOW UP OF AUDITOR RECOMMENDATIONS 36-37

APPENDIX II: PROJECTS IMPLEMENTED BY THE ENTITY 38-39

APPENDIX III: INTER-ENTITY

APPENDIX IV: RECORDING OF TRANSFERS FROM OTHER GOVERNMENT ENTITIES 40

ENTITY INFORMATION

kground information

O Water and Sanitation Company Ltd Was Incorporated On 12th June 2006 under the Company's Act (Cap . The Company was formed by Lake Victoria South Water Services Board and originally given the date Of Providing Water and Sanitation Services within Siaya and Bondo districts which has been enhanced ver Siaya County represented as follows

Siaya sub-county- Siaya Scheme
Bondo sub-county- Bondo and South Sakwa Schemes.
Rarieda sub-county- Asembo-Ndori scheme
Gem sub-county- Sidindi-Malanga scheme
Ugunja sub-county-Ugunja scheme
Ugenya sub-county- Ukwala, Sega and Mauna Schemes

directors who served the company during the year/period were as follows:

Mrs. Roseline Achieng Omuga	- Chairperson	- Appointed In Aug 2017
Mr. George Alaka	- MD	- Appointed In Mar 2018
Mrs. Florence Okut	- Member	- Appointed In Aug 2017
Mr. Elias Ongowo	- Member	- Appointed In Aug 2017
Eng. Bob Macodawa	- Member	- Appointed In Aug 2017
Bishop Martin Arara	- Member	- Appointed In Aug 2017
Eng. Adrain Ouma	- Member	- Appointed In June 2018
Mr.Geoffrey Ochieng	- Member	- Appointed In Aug 2017

tered Office

pany's Building
ent To Siaya DC's Residence Avenue/Road/Avenue
Box 214, 40600
, KENYA

orate Headquarters

Water and Sanitation Co. Ltd
Box 214, 40600
, KENYA

orate contacts

hone: (254)708558944
il: sibowasco@gmail.com

Corporate Bankers

1. Kenya Commercial Bank,
   Siaya Branch
   P. O. Box 52
   SIAYA

2. Co-operative Bank Of Kenya,
   Siaya Branch
   P.O. Box 847
   SIAYA

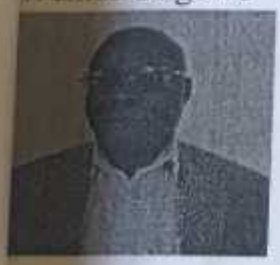
Independent Auditors

Auditor General
Kenya National Audit Office
Anniversary Towers, University Way
P.O. Box 30084-00100
NAIROBI, KENYA

Principal legal advisers

Kirui Registrars
Certified Public Secretaries and Management Consultant
Ground Floor-Murkiyeny Building
P.O.Box 1087-20200
KERICHO, KENYA.

E BOARD OF DIRECTORS

Ms.Roseline Achieng	**Age:** 49Years **Academic /Professional Qualification:** KCE DIV 2 Chair Kenya chamber of commerce Siaya branch C.E.O Rouzhen Investments
r. Elias Ongowo 	**Age :** 65years **Academic Professional Qualification:** ▪ Diploma in sanitary Engineering ▪ Certificate in water ▪ Director Staff training ▪ Has vast experience in the water sector, having served as the Managing Director and Technical advisor for Mikutra Water Co. and other senior positions under the Ministry of water for over 25 years
Ms. Florence Okut	**Age: 52** years **Academic /Professional Qualification:** Bachelor's degree in Education Masters in Education Teacher & Principal (Ngiya Girls High School
PA Geoffrey Ochieng	**Age: 34** years **Academic /Professional Qualifications:** ▪ MBA ▪ BCOM ▪ C.P.A
Bishop Martin Arara	**Age :**57years **Academic /Professional Qualification:** ▪ KACE,A LEVEL ▪ Communication Technology- KCCT

6. Eng. Bob Macodawa	**Age** 67years **Academic /Professional Qualification:** ▪ BSc. Mechanical Engineering ▪ Member institute of Engineers Kenya
7. Eng. Adrian Ouma	**Age: 41** years **Academic/Professional Qualification:** ▪ Bsc. Civil Engineering
8. Mr. George Alaka	**Age** 45 years **Academic/Professional Qualification :** ▪ B.Com, Marketing ▪ Kenya institute of bankers ▪ Managing Director

BOARD COMMITTEES:

COMMITTEE	COMPOSITION
I. FINANCE & HUMAN RESOURCE COMMITTEE	I. Florence Okut-Chairperson II. Geofrey Ochieng-Member III. Elias Ongowo-Member
2.TECHNICAL COMMITTEE	I. Bob Mc Odawa-Chairperson II. Bishop Martin Arara-Member III. Adrian Ouma-Member
3.AUDIT COMMITTEE	I. Bishop Martin Arara-Chairperson II. Bob Mc Odawa-Member III. Adrian Ouma-Member

ANAGEMENT TEAM

1. Mr.George Alaka	**Qualification :** B.com, Marketing **Responsibility :** Managing Director
2. CPA Beryl Odhiambo	**Qualification:** B.com- Accounting CPA(K) CIFA (Part 1) **Responsibility** Finance Manager (Since March 2019)
3.CPA George Keter	**Qualification:** MBA(Finance) B.Com-Accounting CPA(K) **Responsibility** Internal Auditor
. Gregory Okeyo	**Qualification** Diploma in Water Engineering **Responsibility:** Technical Manager **(Ag)**

5. Marcilus Ogunde 	**Qualification:** MBA (Finance) Bachelor of Business Administration, Finance Dip. Water Engineering Certificate in Plumbing **Responsibility** Commercial Manager (since February 2019)
6. Patrick K. Opisa 	**Qualification :** MBA(Human Resources Management) B.A General **Responsibility :** Human Resource **Consultant** Joined in October 2018 and left in June 2019
7. Ms. Cheril Ariko 	**Qualification:** Bachelor of Business Administration Purchasing &Supplies Management **Responsibility:** Procurement Officer

CHAIRPERSON'S STATEMENT

Sibo Water And Sanitation Company Ltd was established in 2006 after the water sector reforms to provide efficiently clean, safe, affordable drinking water and sanitation services in Siaya County.

We have succeeded in improving our water provision and sanitation services thanks to the help and support we receive from the County Government of Siaya, asset developer- Lake Victoria Water Workd Development Agency and the Government of Kenya. Other stakeholders like Water Services Trust Fund and Water Services Regulatory Board have also played a very key role in the water sector.

I wish to sincerely thank all the stakeholders, development Partners/Donors for their most kind heart in providing financial and material help .The company has received in the past, mobile water tanker and motor bikes and all these were realized courtesy of our development partners.

The AfDB (African Development Bank) funded project in Yala is about to be completed and this will improve our water production in the county, thus improving water service delivery to residents of Siaya, Bondo and Yala, and it will also reduce the high electricity power bills.

The company has been growing from time to time since we took over as members of the board of directors. However, we have experienced several challenges including; high debts owed by the company to suppliers , High level of non-revenue water , poor and dilapidated infrastructure and limited resources. As board of Directors, we have made every effort within our means to sail through the difficulties up to this level.

The Board undertook a major restructuring during the financial year, which turned around the company as evidenced in the financial results. This saw the company acquire professionals with expertise in key areas that ensured that the company's vision is realized. During the same period, the board launched a 5 year strategic plan which is in implementation in the new financial year and is expected to turn around the fortunes of the company and propel it to greater heights of sound management systems, financial and operational stability.

We are still working hard and hopefully, we shall achieve our core mandate of providing efficient, clean, safe, affordable drinking water and sanitation services to residents of Siaya County

Thank you.

.....

Roselyne Achieng Omuga

CHAIRPERSON – BOARD OF DIRECTORS

REPORT OF THE MANAGING DIRECTOR

I am delighted to present the Annual Report and Financial statements for the year ended 30th June 2019. The performance of the company in this financial year witnessed a significant improvement largely due to persistent pursuant of the fundamental strategies adopted by the company that has facilitated the exit in the troubled waters. The company recorded an operating loss of Kshs 3,361,777 compared to an operating deficit of Ksh.4,797,599 incurred the previous year representing 29% improvement. The company's internal revenue base grew by 97% from 51 million last year to 101.4 million this financial year a miss in our annual target by 71 million and external revenue of 20.5 million from the County Government. The corresponding operating expenses grew from 65 million last financial year to 115 million this financial year.

In the backdrop of this performance, the management is working on rededicating their efforts and focus to revamp the revenue channels by fixing the gaps identified in the sales and distribution infrastructure. During the year our connections grew from 5117 to 6484 connections and the billing moved from Ksh 4.2 million averagely per month to Ksh 8.4 against a budget of 9.5 million averagely per month while the collection efficiency stood at 75% against a sector benchmark of >95%. We continue to align our efforts aimed at ensuring that the company's water treatment plants are run in the most efficient and effective ways. The production has remained a thorn in our flesh with the AfBD funded Siaya Bondo water project operating at 63% with frequent breakdowns and all other production units in our areas/schemes operating below 40% .This affected our coverage and reliability which in turn ruined our water sales. We hope to bridge these production gaps in the new financial year by attaining production targets set in the new FY budget by minimizing wastages in the production and distribution systems. Plans are underway to have standby pumping units in all our outlets to leverage on service hours and reliability on supply.

In human resource and administration, the department managed to resolve major administrative issues both within the organization as well as with the regulatory authorities which has boosted the morale, productivity and discipline amongst our employees. During the year employees were awarded 40% rise in their salaries by the board of directors. The management is implementing performance contracting to all staff as a way of ensuring that quality service provision to our esteemed customers for improved business performance. This will also ensure effective and smooth administrative operations.

ORPORATE GOVERNANCE STATEMENT

Corporate Governance is a system of rules practices and process by which a company is directed and controlled. Corporate Governance involves many stakeholders e.g. shareholders, senior management, customers, suppliers, financiers, the government and the Community. It also provides framework for attaining SIBOWASCO objectives and includes practically every sphere of management from action plans and internal controls to performance measurement and corporate disclosure.

The board of Directors is pivotal in governance, and can have major ramifications for equity valuation.

Communicating a company's corporate governance is a key component of community and investor relations. The company outlines its corporate leadership, constitutive documents, board charter, committee charter and articles of incorporation.

Good corporate governance creates a transparent set of rules and controls in which Shareholders, Directors and Officers have aligned incentives.

For this purpose we have considered some areas of corporate governance in Sibo Water and Sanitation Company Limited as follows:-

1. **Number of Board meetings**

Consultative	–	Three	(3)
Committees	–	Eleven	(11)
Full Board	–	Five (5)	
Special Board Meetings	-	Nine (9)	
Special General Meeting	-	None	
Annual General Meeting	-	One	

2. **Attendance to Board meetings**

Committees	–	99%
Full Board	–	80%
Average for both	–	90%

3. **Succession plan**

Article 93 B of the Company's Articles of Association deals with Board succession policies and period in office.

The Non-Revenue Water (NRW) menace poses sustainability threat to the company and an NRW team has been formed with clear terms of reference to steer implementation of strategies that will ensure that NRW levels are kept at a maximum of 48% from previous average of 70% in the current financial year through a clear NRW reduction roadmap.

Finally, on behalf of the management team of SIBO water and Sanitation Company, I wish to thank the Board of directors for the prudent guidance and direction and the entire staff for their dedication and hard work, the customers for their support, and to all the stakeholders of the company. I also wish to express my gratitude to Water Sector Trust Fund (WSTF), Lake Victoria South Water Works Development Agency, Siaya County Government and Kenya Integrated Water, Sanitation and Hygiene (KIWASH) for their continued support to the company that has enabled us to make the needed difference in our mission and vision.

Thank you very much.

.....

George Alaka
Managing Director

The Article specifically provides for retirement of two thirds of the stakeholder directors. This then leaves a third for institutional memory and succession. The rotation affects only stakeholder Directors. During this F/Y no director is due for retirement

Existence of a Board charter

A board charter is a policy document that clearly defines the respective roles, responsibilities and authorities of the board of directors (both individually and collectively) and management in setting the direction, the management and the control of the organization.

Sibo Water and Sanitation Company Limited as at this date doesn't have a board Charter and Committee charter in place

5. **Process of appointment and removal of directors**

The procedures for appointment and removal of Directors are clearly stated in the Company's Act No. 17 of 2015 and the Company's Articles of Association.

The procedure under Article 68 (i), (ii), (iii) and (iv) clearly spells out the size of the board, background of the directors, eligibility criteria and stakeholder participation procedure. Further, Article 84 deals with disqualification of directors. The Companies Act further provides procedures for removal of director.

The current board of directors are due for retirement in the year 2020.

6. **Roles and functions of the Board**

Article 73 of the Company's Articles of Association spells out the powers, duties, functions and authorities of SIBOWASCO board. It states that the Board of Directors shall adhere to the Memorandum and Articles of Association whose first object is to be an agent of the Water Services Board. Specifically, the Board of Directors shall:

1. Before commencing business sign the code of ethics as circulated by WASREB.
2. Have a schedule of full board meetings at the end of every year for the next year. The schedule was put in place and there's need for the schedule to be respected and adhered to.
3. Have only one full board meeting in every quarter. It was followed though emphasis must be placed on the right date.
4. Inform the respective Water Services Board of other meetings not within the schedule of board meetings.
5. Employ and define the limits of authority of the Managing Director and other top executives in a schedule of duties.

6. Approve an annual budget in consultation with the respective Water Services Board in accordance with the Service Provision Agreement.
7. Devote sufficient time to their responsibilities.
8. Have an approved organizational structure and adhere to the staff efficiency ratio guideline by WASREB 8 staff per 1,000 connections.
9. Have a performance management and appraisal system in place.
10. Map out communication strategy for internal and external liaisons to include at least one public forum in its area of supply.
11. Define how the Board will operate including:
    (a.) Submission of the following information to them by management on a quarterly basis:
        i.) Amount of regulatory levy and other levies paid.
        ii.) Service obligation and performance report for supply area providing commercial and technical issues.
        iii.) Financial report reflecting the levels of tariff revenues and subsidies.
    (b.) Submission of the following reports on an annual basis:
        i.) Financial report.
        ii.) Audited financial report for the year ending.
        iii.) Performance achievement report covering commercial and technical improvements on performance.
12. Embark on benchmarking with other WSPs to constantly monitor management performance and the financial progress of the company.
13. Evaluate its own performance at least once every year based on the Service Provision Agreement. Need to be looked into especially with regard to the SPA.
14. Ensure that the company is properly managed and for the attainment of lawful objectives.
15. Ensure that the company's affairs are not managed or conducted in a manner oppressive to any of its shareholders or for fraudulent purposes.
16. Ensure that the company complies with all statutory requirements, including directives issued by WASREB. There is need to ensure all Resolutions are implemented and statutory requirements adhered to e.g filling of annual returns, KRA returns and NEMA

17. Ensure that sitting allowances and other expenditures of the board and its committees do not exceed two percent of the annual recurrent budget for a WSP for efficiency purposes;
18. Ad hoc committee to determine chairman's remuneration (Honoraria) in line with the WASREB or Government regulation. The chairman is entitled to honoraria based on number of visits made officially (excluding boards meetings).

SIBOWASCO does not have a Board charter, manual and conflict of interest policy. The Board needs to perform their oversight role with more vigor and a clear strategy to avoid becoming subordinate to other bodies and/or individuals. Further, there needs to be a clear procedure and templates for reporting company's performance to the Board. A communication strategy with employees, shareholders, stakeholders and other interested parties needs to be developed as a matter of priority. There should also be a mechanism for tracking action on resolutions and other directives.

7. **Training**

Continuous training and development keeps Board members abreast of acceptable activities, policies, rules and regulations impacting the organization. This also involves training them on the ever changing business environment and their challenges

8. **Board and member performance**

Article 73 (i) of the Company's Articles of Association clearly states that the Board shall evaluate its performance once every year and set up achievable action points to assess its performance as a whole and that of individual members including the Managing Director. The resultant report is then presented to the shareholders. The board did a self-evaluation during the financial year including that of the MD.

9. **Conflict of interest**

A conflict of interest is a transaction or relationship which presents or may present a conflict between a Board member's obligations to the Company and the Board member's personal, business or other interests.

The Company has a conflict of interest register but does not have a policy

The company should give priority to conflict of interest policy

The Companies Act No. 17 of 2015 and the Company's Articles of Association clearly spell out the provisions and sanctions of non-compliance with the same.

Board remuneration

Article 73 (h) (5) clearly states that the Board shall set up an independent ad Hoc Committee to fix the

remuneration of directors which must remain within the benchmark set by WASREB. The total Board expenditure for the financial year was **Kshs1, 962,135**

Ethics and conduct

The Code of conduct and ethics defines business conduct of the directors of SIBOWASCO and embodies their commitment to pursue the highest standards of ethical conduct. The code is intended to describe areas of ethical risk, provide guidance to directors and helps foster a culture of honesty, transparency and accountability.

Article 68 (IV) (7) of the Company's Articles of Association clearly states that Directors must sign the code of ethics before commencing business. The Directors signed a code of ethics; however there is still a lot to be done to achieve maximum results

Governance Audit

A Governance Audit is an independent assessment of an organization with a view to expressing an opinion on the adequacy and effectiveness of the organization's policies, systems, practices and processes. It is an objective assurance engagement. SIBOWASCO Board did not conduct a governance audit during the period.

ANAGEMENT DISCUSSION AND ANALYSIS

PERFORMANCE OVERVIEW

1.0 INTRODUCTION

The management of SIBOWASCO hereby presents to the shareholders and stakeholders reports and statements on the financial performance of the company for the financial year ended June 2019. The year was characterized with tremendous revenue growth and investments towards improved services.

1.1 REVENUES

The company achieved a turnover of **Ksh. 122,008,223** against a budget of **Kshs 193,434,000** representing **63%** performance with a total expenditure of Ksh. **125,370,000** resulting to a deficit before tax of **Kshs. 3,361,777.** The incomes were made up of company water sales at **Kshs 85,977,741,** sewerage sales at Kshs **3,332,866,** Bowser & Exhauster Sales of Kshs **3,095,148,** grants from County Government at **Kshs 20,547,067** in electricity bills and pipeline extensions and other miscellaneous income due to sale of tenders, penalties and meter rent of Kshs **8,356,402.**The company achieved an average monthly billing of **Kshs 8.4 Million**. The company had an average collection efficiency of **75%** against the Water Sector benchmark of >95% and an average of 65% Non-Revenue Water level against a sector benchmark of <25%.

1.2 EXPENDITURES

The company incurred total operational expenditures of **Kshs. 125,370,000** against a budgeted **Kshs. 113,927,802.**The cost recovery rate of the company stood at 81%, an improvement from last year's 79% against a sector benchmark of >_100%. This is due to the high operational costs occasioned by operating an old dilapidated water supply system as well as high commercial losses due inefficient metering ratio.

1.3 FINANCIAL POSITION

The company attained net fixed assets of **Kshs 39.8 Million** due to new assets acquired in the course of the financial year. The current assets stood at **Ksh 105 Million** against current liabilities of **Kshs 117 Million**, giving a current ratio of **0.90** against a recommended ration of **2.**There was an addition of **Kshs 17.7 Million** to the capital reserves due to transfer of deferred Income liability to capital after a successful completion and handing over of the asset developed by the deferred income grant (WSTF Funded Ugunja-Nyasanda Water Project). All these are explained further in the Statement of Financial Position in page **2.**

1.4 COMPLIANCE WITH STATUTORY REQUIREMENTS

The company is committed to paying all statutory obligations as and when they fall due. These levies and fees are WASREB, WRMA and LVSWSB levies. There has been a cash flow challenge crippling this commitment over the past and presently. The company will strive to pay current continuous liabilities to such bodies as and when they fall due in the subsequent years. Amounts owed to these bodies as at 30 June 2019 stood as follows;

WASREB- 8,744556

WRMA- 6,403,724

LVSWSB- 35,833,930

TOTAL 50,982,210

1.5 RISKS

The company faces several risks that might impede the achievement of its objectives. The major risks identified are:-

- Harsh economic conditions in the country
- Credit risk resulting from debtors not paying all their bills as and when they fall due
- Insecurity caused by Political activities
- Water pollution
- Sabotage from competitors and road contractors
- Inadequate network expansion funds.
- Delay in receiving support from Development partners
- Destruction of water catchment thereby threatening sustainability of water sources

1.6 DEVELOPMENTS

The company during the period under review had operationalized a new treatment plant in Yala funded through AfDB. This plant will tremendously increase the production capacity of the company and greatly reduce production costs since it's turbine driven and distributes water purely on gravity. The company still expects to have more development partnerships that can provide interventions towards Non-Revenue Water reduction through plant and network rehabilitations and increased metering efficiency so as to achieve sustainable operations. During the Financial year, the company invested in acquiring 2,500 consumer meters, a move towards Non Revenue water reduction and improved billing. The company also acquired a new robust billing system which has helped to integrate key functions thereby improving service delivery. This system has made it possible for real time update of customer payments thereby minimizing human error as well as real time SMS short code which customers can use to make bill inquiries and report any complaint.

1.7 CHALLENGES

The company still experiences several challenges crippling its smooth operations. The following are some of the challenges:

- High level of outstanding bills due to poor bill payment by the customers
- Low cost recovery due to old dilapidated system which increases operational costs.
- Vandalism of existing infrastructure by the public especially on the clear water and waste water pipelines and manhole covers
- Poor commercial financing access due to poor Asset ratio since most of the assets are developed and owned by Lake Victoria Water Works Development Agency hence the Company's Balance sheet cannot offer loan security.
- High Non-Revenue Water levels occasioned by both commercial and technical losses due to old network system and illegal connections.
- Low network coverage hence low service coverage within the service area

REPORT OF THE DIRECTORS

The directors submit their report together with the unaudited financial statements for the year ended 30 June 2019 which shows the state of the company's affairs.

Principal activities

The principal activity of the company is to provide water and sanitation services within the county.

Results

The results of the company for the year ended 30 June 2019 are set out on page 9 – 28.

Dividends

The directors do not propose any dividend for the year

Directors

The members of the board of directors who served during the year are shown on page 2 in accordance with the regulation of the company's articles of association.

Auditors

The auditor general is responsible for the statutory audit if the company in accordance with the section 29 of the exchequer and audit act, Cap 412 and sections 14 and 15 the Public Finance Management (PFM) Act, 2012, which empowers the auditor general to nominate other auditors to carry out the audit on his behalf.

By Order of the Board

.....

Kirui Registrars
Certified Public Secretaries and Management Consultant
Ground Floor Murkiyeny Building
P.O. Box 1087-20200
KERICHO,KENYA.

STATEMENT OF DIRECTORS' RESPONSIBILITIES

Section 167 of the public finance management act, 2012 and section 68 of the State Corporations Act, require the directors to prepare financial statements in respect of that company at the end of the financial year/period. The directors are also required to ensure that the company keeps 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 are responsible for the preparation and presentation of the company's financial statements, which give a true and fair view of the state of affairs for and as at the end of the financial year (period) ended on June 30, 2019. This responsibility includes: (i) maintaining adequate financial management arrangements and ensuring that these continue to be effective throughout the reporting period;(ii) maintaining proper accounting records, which disclose with reasonable accuracy at any time the financial position of the entity '(iii)designing ,implementing and maintaining internal controls relevant to the preparation and fair presentation of the financial statements ,and ensuring that they are free from material misstatements ,whether due to error or fraud;(iv) safeguarding the assets of the company ;(v) selecting and applying appropriate accounting policies and (vi) making accounting estimates that are reasonable in the circumstances.

The directors accept responsibility for the Company's financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgments and estimates, in conformity with international financial reporting standards (IFRS), and in the manner required by the PFM Act and the states Corporations act. The directors are of the opinion that the company's financial statements give a true and fair view of the states of company's transactions during the financial year ended June 30th, 2019 and of the company's financial position as at that date. The directors further confirm the completeness of the accounting records maintained for the company, which have been relied upon in the preparation of the company's financial statements as well as the adequacy of the systems of internal financial control. Nothing has come to the attention of the directors to indicate that the company will not remain a going concern for at least the next twelve months from the date of this statement.

The financial statements were approved by the board on 26th September 2019 and signed on its behalf by:

.....
Chairperson of the Board

.....
Managing Director.

REPUBLIC OF KENYA

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P.O. Box 30084-00100
NAIROBI

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

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of SIBO Water and Sanitation Company Limited set out on pages 1 to 39, which comprise the statement of financial position as at 30 June, 2019, and the statement of profit or loss and other 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 provision of Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, 2015. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

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

Basis for Qualified Opinion

1. Inaccuracies in the Financial Statements

1.1. Inaccurate Comparative Balances

The comparative balances reflected in the financial statements for the year ended 30 June, 2019 differ from the balances reflected in audited financial statements for the year ended 30 June, 2018 as detailed below.

Item	Comparative Balance as per 2018/2019 Financial Statements (Kshs.)	Comparative Balance as per Audited 2017/2018 Financial Statements (Kshs.)	Variance (Kshs.)
Capital Reserve	2,058,000	20,558,000	(8,500,000)
Capital Development Grants/Fund	17,130,815	17,806,010	(675,195)
Total Changes in Equity	(11,939,047)	(21,452,446)	9,513,399

Item	Comparative Balance as per 2018/2019 Financial Statements (Kshs.)	Comparative Balance as per Audited 2017/2018 Financial Statements (Kshs.)	Variance (Kshs.)
Deferred Income Grant	17,760,815	675,195	17,085,620
Plant and Machinery	1,950,240	1,025,161	925,079
Motor Vehicles and Motorcycles	3,313,392	232,205	3,081,187
Computers and Related Equipment	2,123,990	14,728	2,109,262
Office Equipment, Furniture and Fittings	213,568	66,091	147,477
Trade Receivables-Mauna Scheme	1,892,008	0	1,892,008
Accrued Statutory Levies	46,280,118	52,218,436	(5,938,318)

1.2. Unsupported Prior Year Adjustment

The statement of changes in equity includes a prior year adjustment of Kshs.11,215,505 whose supporting documents were not provided for audit review.

1.3. Unsupported Provision for Doubtful Receivables

The statement of financial position reflects a balance of Kshs.88,194,740 under trade receivables which, as disclosed in Note 15(b) to the financial statements, is net of provision for doubtful receivables of Kshs.29,398,247. However, the Policy on provisions for doubtful debts was not provided for audit review.

Under the circumstances, the accuracy of the financial statements for the year ended 30 June, 2019 could not be confirmed.

2. Going Concern Uncertainty

During the year under review, the Company made an operating loss of Kshs.3,361,777 as compared to a loss of Kshs.4,706,599 reported in financial year 2017/2018. Further, the current liabilities balance of Kshs.117,166,352 exceeded the current assets balance of Kshs.105,043,395 resulting in a negative working capital of Kshs.12,122,957 as at 30 June, 2019. The Company is therefore technically insolvent and unable to meet its financial obligations as and when they fall due.

The financial statements have been prepared on a going concern basis on the assumption that it will continue to receive financial support from both the National and County Governments, creditors and bankers. The material uncertainty relating to going concern has not been disclosed in the financial statements.

3. Unsupported Trade and Other Payables

As disclosed in Note 21 to the financial statements, the statement of financial position reflects a balance of Kshs.108,876,388 under trade and other payables which increased by 47% from an amount of Kshs.74,101,420 reported as at 30 June, 2018. However, the customer's account statements (invoices) indicating the invoiced amounts, payments received and the account balance as at 30 June, 2019 were not provided for audit review.

Under the circumstances, the accuracy of the trade and other payables of Kshs.108,876,388 as at 30 June, 2019 could not be confirmed.

4. Unsupported Customer Deposits

The statement of financial position reflects customer deposits of Kshs.8,289,964 as at 30 June, 2019 which was not supported by a bank statement or certificate of bank balance.

Consequently, the accuracy and validity of customer deposits of Kshs.8,289,964 as at 30 June, 2019 could not be confirmed.

5. Lack of Ownership Documents

As disclosed in Note 13 to the financial statements, the statement of financial position reflects a balance of Kshs.37,483,230 under property, plant and equipment as at 30 June, 2019. However, all the motor vehicles and equipment were not registered under the Company's name as indicated below.

Registration No.	Chassis Number	Make	Registered Owner	Location	Description of Body	Year of Manufacture
KBH260V	MPATFS54H9H5 30022	ISUZU	Lake Victoria South Water Services Board	Head Office	Pickup	2009
KCM185S	AHTES8CB20103 0545	Toyota	Lake Victoria South Water Services Board	Head Office	Hilux	2017
KCH969Q	AHTKS8CB60179 0335	Toyota	Lake Victoria South Water Services Board	Head Office	Hilux	2016
KBV679Z	AHTF22G206069 388	Toyota	China Jiangxi International	Head Office	Hilux	2012
KHMA562C	JCB3CX4TL0211 1473	Back Hoe	GANATRA Plant and Equipment	Head Office	Wheel Loader	2013
KBT215N	JALFTS33H9700 0481	ISUZU	Lake Victoria South Water Services Board	Head office	Lorry Truck	2009
KBV681Z	AHTFR22G70606 9385	Toyota	China Jiangxi International	Head Office	Hilux	2012

Further, the land where the Company's offices are situated had no title deed and the assets were not tagged.

Under the circumstances, the accuracy and completeness of the reported property, plant and equipment balance of Kshs.37,483,230 as at 30 June, 2019 could not be confirmed.

6. Unsupported Expenditure on Consultancy Fees

The statement of profit or loss and other comprehensive income reflects an expenditure of Kshs.71,119,663 in respect of administration costs which, as disclosed in Note 9(a) to the financial statements, includes consultancy fees of Kshs.1,330,795. The latter balance includes an amount of Kshs.1,272,728 incurred on acquiring the services of a company

secretary. However, supporting documents on how the service was procured and the fees determined were not provided for audit review.

Under the circumstances, the accuracy and propriety of the expenditure of Kshs.1,272,728 could not be confirmed.

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

Key Audit Matters

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

Other Matter

Budgetary Control and Performance

The statement of comparison of budget and actual amounts reflects budgeted revenue and actual on comparable basis of Kshs.193,434,000 and Kshs.122,008,223 respectively resulting to an under-funding of Kshs.71,425,778 or 37% of the budget. Similarly, the Company spent a total of Kshs.125,370,000 against an approved budget of Kshs.113,927,802 resulting to an over-expenditure of Kshs.11,442,198 or 10% of the budget. However, the approved budget, approval for the over-expenditure and explanations for the variations in the budget performance were not provided for audit review. Further, the underfunding affected the planned activities and may have negatively impacted on service delivery to the public.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

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

Basis for Conclusion

1. Irregular Employment

During the year under review, the Company employed a finance manager and an accountant but the positions were not competitively filled. The vacancies were not advertised and no interviews were conducted contrary to Section 3.2.3 of Human Resource and Policies Procedure Manual which states that vacant position should be advertised and interviews of shortlisted candidates carried out by the Management or consultants appointed by the Company.

Consequently, the Company was in breach of the Human Resource and Policies Procedure Manual.

2. Lack of Regional Balancing in Employment

As previously reported, review of human resource records revealed that out of the total seventy-one (71) employees of the Company, sixty-nine (69) or 97% of employees were from one ethnic community. This is contrary to Section 7 (2) of the National Cohesion and Integration Act, 2008 which states that no public establishment shall have more than one third of its staff from the same ethnic community.

Consequently, the Company was in breach of the law.

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

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

Basis for Conclusion

Lack of Approved Policy Documents

During the year under review, the Company did not have an approved Human Resource Manual, Financial Management Procedures Manual, Risk Management Policy, and an ICT Policy. In the absence of approved policies to guide its business process, Management may not be able to guide its processes in a structured and consistent way, and this may hinder achievement of the mandate of the Company.

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

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

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

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

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

(iii) The Company's financial statements are in agreement with books of account.

Responsibilities of Management and the Board of Directors

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards (IFRS) and for 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 and for its assessment of the effectiveness of internal control, risk management and governance.

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

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

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

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

Auditor-General's Responsibilities for the Audit

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

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

Further, in planning and performing the audit of the financial statements and audit of compliance, I consider internal control in order to give an assurance on the effectiveness of internal controls, risk management and governance processes and systems in accordance with the provisions of Section 7(1)(a) of the Public Audit Act, 2015 and submit the audit report

in compliance with Article 229(7) of the Constitution. My consideration of the internal control would not necessarily disclose all matters in the internal control that might be material weaknesses under the ISSAIs. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

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

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

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

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

- Conclude on the appropriateness of the Management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern or to sustain its services. If I conclude that a material uncertainty exists, I am required to draw attention in the auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my audit report. However, future events or conditions may cause the Company to cease to continue as a going concern or to sustain its services.

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

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

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

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

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

CPA Nancy Gathungu, CBS
AUDITOR-GENERAL

Nairobi

22 December, 2021

STATEMENT OF PROFIT AND LOSS AND OTHER COMPREHENSIVE INCOME

	Note	2019	2018
		Kshs	Kshs
REVENUES			
Sales/Turnover	6	93,104,754	51,241,782
Grants from County Government	7(a)	20,547,067	9,499,917
Other Income	8	8,356,402	91,000
TOTAL REVENUES		**122,008,223**	**60,832,699**
OPERATING EXPENSES			
Administration Costs	9(a)	71,119,663	34,906,479
Production and Distribution Costs	10	48,714,872	30,052,104
Depreciation of property, plant and equipment	13	4,395,466	580,715
Amortization of Intangible Assets	13(b)	1,140,000	-
TOTAL OPERATING EXPENSES		**125,370,000**	**65,539,298**
OPERATING PROFIT/(LOSS)	11	**(3,361,777)**	**(4,706,599)**
PROFIT/(LOSS) BEFORE TAXATION		**(3,361,777)**	**(4,706,599)**
INCOME TAX EXPENSE/(CREDIT)		**(1,008,533)**	-
PROFIT/(LOSS) AFTER TAXATION		**(2,353,244)**	**(4,706,599)**
Earnings per share-basic and diluted		0	0
Dividend per share		0	0

The financial statements were approved by the Board on 26th September 2019 and signed on its behalf by:

.....	.....	.....
MANAGING DIRECTOR GEORGE ALAKA	Head of Finance BERYL ODHIAMBO	Chairperson of the Board

ICPAK M/NO: 22243

TATEMENT OF FINANCIAL POSITION

	Note	2019 Ksh	2018 Ksh
ASSETS			
Non-Current Assets			
Property, Plant & Equipment	13	37,483,230	18,373,709
Intangible Assets		2,280,000	-
Total Non-Current Assets		**39,763,230**	**18,373,709**
Current Assets			
Inventories	14	10,209,273	381,060
Trade and other receivables	15(a)	88,481,650	45,245,297
Bank and cash balances	16	6,352,472	4,183,272
Total Current Assets		**105,043,395**	**49,809,629**
TOTAL ASSETS		**144,806,626**	**68,183,337**
EQUITY AND LIABILITIES			
Capital and Reserves			
Ordinary share capital	17	100,000	100,000
Capital Reserve		19,818,815	2,058,000
Retained Earnings		(5,955,176)	(32,578,252)
Capital and Reserves		**13,963,639**	**(30,420,252)**
Non-Current Liabilities			
Deferred Income Grant (WSTF)	7(b)	13,676,635	17,760,815
Total Non-Current Liabilities		**13,676,635**	**17,760,815**
Current Liabilities			
Trade & Other Payables	21	108,876,388	74,101,420
Customer Deposits		8,289,964	6,741,354
Total Current Liabilities		**117,166,352**	**80,842,774**
TOTAL EQUITY AND LIABILITIES		**144,806,626**	**68,183,337**

The financial statements were approved by the Board on 26th September 2019 and signed on its behalf by:

.....	.....	.....
MANAGING DIRECTOR GEORGE ALAKA	Head of Finance BERYL ODHIAMBO ICPAK M/NO: 22243	Chairperson of the Board : Roseline Achieng

STATEMENT OF CHANGES IN EQUITY

STATEMENT OF CHANGES IN EQUITY	Ordinary share capital	Capital Reserve	Fair value adjustment reserve	Retained earnings	Proposed dividends	Capital/ Development Grants/Fund	Total
At July 1, 2018	100,000	2,058,000	-	(27,871,653)	-	17,806,010	(7,907,643)
Transfer to capital Reserves	-	-	-	-	-	-	-
Transfer of excess depreciation on revaluation	-	-	-	-	-	-	-
Deferred tax on excess depreciation	-	-	-	-	-	-	-
Fair value adjustment on quoted investments	-	-	-	(4,706,599)	-	-	(4,706,599)
Total comprehensive income	-	-	-	-	-	675,195	675,195
Capital/Development grants received during the year	-	-	-	-	-	-	-
Transfer of depreciation/amortisation from capital fund to retained earning	-	-	-	-	-	-	-
Dividends paid – 2017	-	-	-	-	-	-	-
Interim dividends paid – 2018	-	-	-	-	-	-	-
Proposed final dividends	-	-	-	-	-	-	-
At June 30, 2018	100,000	2,058,000	-	(32,578,252)	-	18,481,205	(11,939,047)
At July 1, 2018	100,000	2,058,000	-	(32,578,252)	-	17,130,815	(11,939,047)
Issue of new share capital	-	-	-	-	-	-	-
Transfer to capital reserves	-	17,760,815	-	17,760,815	-	-	-
Transfer of excess depreciation on revaluation	-	-	-	-	-	-	-
Deferred tax on excess depreciation	-	-	-	-	-	-	-
Prior Year Adjustment	-	-	-	11,215,505	-	-	-
Fair value adjustment on quoted investments	-	-	-	-	-	-	-
Total comprehensive income	-	-	-	(2,353,244)	-	-	(2,353,244)
Capital/Development grants received during the year	-	-	-	-	-	13,676,635	13,676,635
Transfer of depreciation/amortisation from capital fund to retained earning	-	-	-	-	-	-	-
Dividends paid – 2018	-	-	-	-	-	-	-
Interim dividends paid – 2019	-	-	-	-	-	-	-
Proposed final dividends	-	-	-	-	-	-	-
At June 30, 2019	100,000	19,818,815	-	(5,955,176)	-	30,807,450	(615,656)

The financial statements were approved by the Board on 26th September 2019 and signed on its behalf by:

MANAGING DIRECTOR: GEORGE ALAKA	Head of Finance BERYL ODHIAMBO ICPAK M/NO:22243	Chairperson of the Board ROSELINE ACHIENG

STATEMENT OF CASH FLOWS

	Note	2019	2018
		Kshs	Kshs
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash generated from/(used in) operations	23 (a)	1,837,465	(158,967)
Net cash generated from/(used in) operating activities		**1,837,465**	**(158,967)**
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property, plant and equipment	13	(9,924,900)	(1,500,000)
Purchase of intangible assets	13(b)	(3,420,000)	-
Net cash generated from/(used in) investing activities		**(13,344,900)**	**(1,500,000)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Capital Grants	13	13,676,635	675,195
Net cash generated from/(used in) financing activities		13,676,635	**675,195**
INCREASE/(DECREASE) IN CASH AND CASH		2,169,200	**(983,772)**
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	29	4,183,272	**5,168,044**
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	29	**6,352,472**	**4,183,273**

The financial statements were approved by the Board on 26th September 2019 and signed on its behalf by:

MANAGING DIRECTOR:
GEORGE ALAKA

Head of Finance
BERYL ODHIAMBO
ICPAK M/NO: 22243

Chairperson of the Board
ROSELINE ACHIENG

STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS FOR THE PERIOD ENDED 30 JUNE 2019

	Original budget	Adjustments	Final budget	Actual on comparable basis	Performance difference
	2018-2019	2018-2019	2018-2019	2018-2019	2018-2019
Revenue	Kshs	Kshs	Kshs	Kshs	Kshs
Water & Sewerage Sales	114,000,000	-	114,000,000	89,300,606	24,699,394
Bowser ,Exhauster & Excavator Sales	8,160,000	-	8,160,000	3,804,148	4,355,852
Grants from the Government	69,000,000	-	69,000,000	20,547,067	48,452,934
Other income	2,274,000	-	2,274,000	8,356,402	(6,082,402)
Total income	**193,434,000**	**0**	**193,434,000**	**122,008,223**	**71,425,778**
Expenses					
Administration Costs	62,854,577	-	62,854,577	71,119,663	(8,265,086)
Production & Distribution Costs	51,073,225	0	51,073,225	48,714,872	2,358,353
Depreciation of PPE		0		4,395,466	(4,395,466)
Amortization of Intangible Assets		0		1,140,000	(1,140,000)
Total expenditure	113,927,802	**0**	113,927,802	125,370,000	(11,442,198)
Surplus for the period	79,506,198	**0**	79,506,198	(3,361,777)	82,867,975

NOTES

i. Water and sewerage sales did not meet the target due to low metering ratio, dilapidated and inaquate systems coupled with High Non Revenue water in the financial year

ii. Bowser and Exhauster sales did not meet the target since only two vehicles were functional while two others were down due to major breakdowns and were revived later in the financial year

iii. Grants from the county government were not realized as envisioned in the budget since the county did not disburse all the grant as budgeted.

iv. Other income went up due to the introduction of late payment penalties to overdue accounts

The financial statements were approved by the Board on 26th September 2019 and signed on its behalf by:

MANAGING DIRECTOR:
GEORGE ALAKA

Head of Finance
BERYL ODHIAMBO

Chairperson of the Board
ROSELINE ACHIENG

NOTES TO THE FINANCIAL STATEMENTS (Continued)

1. GENERAL INFORMATION

SIBO WATER &SANITATION COMPANY LIMITED is established by and derives its authority and accountability from the Company's Act 2015. The Company is wholly owned by the Government of Kenya through the County Government of Siaya and is domiciled in Kenya. The entity's principal activity is provision of water & sanitation services.

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

2. STATEMENT OF COMPLIANCE AND BASIS OF PREPARATION

The financial statements have been prepared on a historical cost basis except for the measurement at re-valued amounts of certain items of property, plant and equipment, marketable securities and financial instruments at fair value, impaired assets at their estimated recoverable amounts and actuarially determined liabilities at their present value. The preparation of financial statements in conformity with International Financial Reporting Standards (IFRS) allows the use of estimates and assumptions. It also requires management to exercise judgment in the process of applying the entity's accounting policies. The areas involving a higher degree of judgment or complexity, or where assumptions and estimates are significant to the financial statements, are disclosed in Note 3 & 5.

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

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

3. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

The Directors do not plan to apply any of the above until they become effective. Based on their assessment of the potential impact of application of the above, they do not expect that there will be a significant impact on the company's financial statements.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principle accounting policies adopted in the preparation of these financial statements are set out below:

a) Revenue recognition

Revenue is recognized to the extent that it is probable that future economic benefits will flow to the company and the revenue can be reliably measured. Revenue is recognized at the fair value of consideration received or expected to be received in the ordinary course of the company's activities, net of value-added tax (VAT), where applicable, and when specific criteria have been met for each of the company's activities as described below.

i) **Revenue from the sale of goods and services** is recognized in the year in which the company delivers products to the customer, the customer has accepted the products and collectability of the related receivables is reasonably assured.

ii) **Grants from National Government** are recognized in the year in which the company actually receives such grants. Recurrent grants are recognized in the statement of comprehensive income. Development/capital grants are recognized in the statement of financial position and realized in the statement of comprehensive income over the useful life of the assets that has been acquired using such funds.

iii) **Finance income** comprises interest receivable from bank deposits and investment in securities, and is recognized in profit or loss on a time proportion basis using the effective interest rate method.

iv) **Dividend income** is recognized in the income statement in the year in which the right to receive the payment is established.

v) **Rental income** is recognized in the income statement as it accrues using the effective lease agreements.

vi) **Other income** is recognized as it accrues.

b) In-kind contributions

In-kind contributions are donations that are made to the company in the form of actual goods and/or services rather than in money or cash terms. These donations may include vehicles, equipment or personnel services. Where the financial value received for in-kind contributions

NOTES TO THE FINANCIAL STATEMENTS (Continued)

can be reliably determined, the company includes such value in the statement of comprehensive income both as revenue and as an expense in equal and opposite amounts; otherwise, the contribution is not recorded.

c) Property, plant and equipment

All categories of property, plant and equipment are initially recorded at cost less accumulated depreciation and impairment losses.

Certain categories of property, plant and equipment are subsequently carried at re-valued amounts, being their fair value at the date of re-valuation less any subsequent accumulated depreciation and impairment losses. Where re-measurement at re-valued amounts is desired, all items in an asset category are re-valued through periodic valuations carried out by independent external valuers.

Increases in the carrying amounts of assets arising from re-valuation are credited to other comprehensive income. Decreases that offset previous increases in the carrying amount of the same asset are charged against the revaluation reserve account; all other decreases are charged to profit or loss in the income statement.

Gains and losses on disposal of items of property, plant and equipment are determined by comparing the proceeds from the disposal with the net carrying amount of the items, and are recognized in profit or loss in the income statement.

d) Depreciation and impairment of property, plant and equipment

Freehold land and capital work in progress are not depreciated. Capital work in progress relates mainly to the cost of ongoing but incomplete works on buildings and other civil works and installations.

Depreciation on property, plant and equipment is recognized in the income statement on a straight-line basis to write down the cost of each asset or the re-valued amount to its residual value over its estimated useful life. The annual rates in use are:

Buildings and civil works	25 years or the unexpired lease period
Plant and machinery	12.5 years
Motor vehicles, including motor cycles	4 years
Computers and related equipment	3 years
Office equipment, furniture and fittings	12.5 years

NOTES TO THE FINANCIAL STATEMENTS (Continued)

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

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

e) Intangible assets

Intangible assets comprise purchased computer software licenses, which are capitalized on the basis of costs incurred to acquire and bring to use the specific software. These costs are amortized over the estimated useful life of the intangible assets from the year that they are available for use, usually over three years.

f) Amortization and impairment of intangible assets

Amortization is calculated on the straight-line basis over the estimated useful life of computer software of three years.

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

g) Investment property

Buildings, or part of a building (freehold or held under a finance lease) and land (freehold or held under an operating lease) held for long term rental yields and/or capital appreciation, and which are not occupied by the entity, are classified as investment property under non-current assets.

Investment property is carried at fair value, representing open market value determined periodically by independent external values. Changes in fair values are included in profit or loss in the income statement.

h) Finance and operating leases

Leases which confer substantially all the risks and rewards of ownership to the entity are classified as finance leases. Upon initial recognition, the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments, and

NOTES TO THE FINANCIAL STATEMENTS (Continued)

the asset is subsequently accounted for in accordance with the accounting policy applicable to that asset.

All other leases are treated as operating leases and the leased assets are recognized in the statement of financial position to the extent of prepaid lease rentals at the end of the year. Payments made under operating leases are recognized in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognized as an integral part of the total lease expense over the term of the lease.

i) Fixed interest investments (bonds)

Fixed interest investments refer to investment funds placed under Central Bank of Kenya (CBK) long-term infrastructure bonds and other corporate bonds with the intention of earning interest income upon the bond's disposal or maturity. Fixed interest investments are freely traded at the Nairobi Securities Exchange. The bonds are measured at fair value through profit or loss.

j) Quoted investments

Quoted investments are classified as non-current assets and comprise marketable securities traded freely at the Nairobi Securities Exchange or other regional and international securities exchanges. Quoted investments are stated at fair value.

k) Unquoted investments

Unquoted investments stated at cost under non-current assets, and comprise equity shares held in other Government owned or controlled entities.

l) Inventories

Inventories are stated at the lower of cost and net realizable value. The cost of inventories comprises purchase price, import duties, transportation and handing charges, and is determined on the moving average price method.

m) Trade and other receivables

Trade and other receivables are recognized at fair values less allowances for any uncollectible amounts. These are assessed for impairment on a continuing basis. An estimate is made of doubtful receivables based on a review of all outstanding amounts at the year end. Bad debts are written off after all efforts at recovery have been exhausted.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

n) Taxation

Current income tax

Current income tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting date in the area where the Entity operates and generates taxable income. Current income tax relating to items recognized directly in net assets is recognized in net assets and not in the statement of financial performance.

Current income tax (Continued)

Current income tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting date in the area where the Entity operates and generates taxable income. Current income tax relating to items recognized directly in net assets is recognized in net assets and Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

Deferred tax

Deferred tax is provided using the liability method on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date.

Deferred tax liabilities are recognized for all taxable temporary differences, except in respect of taxable temporary differences associated with investments in controlled entities, associates and interests in joint ventures, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognized for all deductible temporary differences, the carry forward of unused tax credits and any unused tax losses. Deferred tax assets are recognized to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilized, except in respect of deductible temporary differences associated with investments in controlled entities, associates and interests in joint ventures, deferred tax assets are

NOTES TO THE FINANCIAL STATEMENTS (Continued)

recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Unrecognized deferred tax assets are re-assessed at each reporting date and are recognized to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred tax relating to items recognized outside surplus or deficit is recognized outside surplus or deficit. Deferred tax items are recognized in correlation to the underlying transaction in net assets. Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

o) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and cash at bank, short-term deposits on call and highly liquid investments with an original maturity of three months or less, which are readily convertible to known amounts of cash and are subject to insignificant risk of changes in value. Bank account balances include amounts held at the Central Bank of Kenya and at various Commercial Banks at the end of the reporting period. For the purposes of these financial statements, cash and cash equivalents also include short term cash imprests and advances to authorized public officers and/or institutions which were not surrendered or accounted for at the end of the financial year.

p) Borrowings

Interest bearing loans and overdrafts are initially recorded at fair value being received, net of issue costs associated with the borrowing. Subsequently, these are measured at amortized cost using the effective interest rate method. Amortized cost is calculated by taking into account any issue cost and any discount or premium on settlement. Finance charges, including premiums payable of settlement or redemption are accounted for on accrual basis and are added to the carrying amount of the instrument to the extent that they are not settled in the

NOTES TO THE FINANCIAL STATEMENTS (Continued)

period in which they arise. Loan interest accruing during the construction of a project is capitalized as part of the cost of the project.

q) Trade and other payables

Trade and other payables are non-interest bearing and are carried at amortized cost, which is measured at the fair value of contractual value of the consideration to be paid in future in respect of goods and services supplied, whether billed to the entity or not, less any payments made to the suppliers.

r) Retirement benefit obligations

The entity operates a defined contribution scheme for all full-time employees from July 1, 2018 The scheme is administered by an in-house team and is funded by contributions from both the company and its employees. The company also contributes to the statutory National Social Security Fund (NSSF). This is a defined contribution scheme registered under the National Social Security Act. The company's obligation under the scheme is limited to specific contributions legislated from time to time and is currently at Kshs.200 per employee per month.

s) Provision for staff leave pay

Employees' entitlements to annual leave are recognized as they accrue at the employees. A Provision is made for the estimated liability for annual leave at the reporting date.

t) Exchange rate differences

The accounting records are maintained in the functional currency of the primary economic environment in which the entity operates, Kenya Shillings. Transactions in foreign currencies during the year/period are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re- measured. Any foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in profit or loss.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

u) Budget information

The original budget for FY 2018-2019 was approved by the Board of Directors. There were no subsequent revisions or additional appropriations made to the approved budget. Any additional appropriations are added to the original budget by the company upon receiving the respective approvals in order to conclude the final budget.

The company's budget is prepared on a different basis to the actual income and expenditure disclosed in the financial statements. The financial statements are prepared on accrual basis using a classification based on the nature of expenses in the statement of financial performance, whereas the budget is prepared on a cash basis. The amounts in the financial statements were recast from the accrual basis to the cash basis and reclassified by presentation to be on the same basis as the approved budget. A comparison of budget and actual amounts, prepared on a comparable basis to the approved budget, is then presented in the statement of comparison of budget and actual amounts. In addition to the Basis difference, adjustments to amounts in the financial statements are also made for differences in the formats and classification schemes adopted for the presentation of the financial statements and the approved budget.

A statement to reconcile the actual amounts on a comparable basis included in the statement of comparison of budget and actual amounts and the actuals as per the statement of financial performance has been presented in these financial statements.

v) Service concession arrangements

The Company analyses all aspects of service concession arrangements that it enters into in determining the appropriate accounting treatment and disclosure requirements. In particular, where a private party contributes an asset to the arrangement, the Company recognizes that asset when, and only when, it controls or regulates the services the operator must provide together with the asset, to whom it must provide them, and at what price. In the case of assets other than 'whole-of-life' assets, it controls, through ownership, beneficial entitlement or otherwise – any significant residual interest in the asset at the end of the arrangement. Any assets so recognized are measured at their fair value. To the extent that an asset has been recognized, the company also recognizes a corresponding liability, adjusted by a cash consideration paid or received.

w) Comparative figures

Where necessary comparative figures for the previous financial year have been amended or reconfigured to conform to the required changes in presentation.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

x) Subsequent events

There have been no events subsequent to the financial year end with a significant impact on the financial statements for the year ended June 30, 2019.

5 SIGNIFICANT JUDGMENTS AND SOURCES OF ESTIMATION UNCERTAINTY

The preparation of the Company's financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of the reporting period. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods.

Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. The Entity based its assumptions and estimates on parameters available when the financial statements were prepared. However, existing circumstances and assumptions about future developments may change due to market changes or circumstances arising beyond the control of the Entity. Such changes are reflected in the assumptions when they occur.

Useful lives and residual values

The useful lives and residual values of assets are assessed using the following indicators to inform potential future use and value from disposal:

- The condition of the asset based on the assessment of experts employed by the Entity
- The nature of the asset, its susceptibility and adaptability to changes in technology and processes
- The nature of the processes in which the asset is deployed
- Availability of funding to replace the assets
- Changes in the market in relation to the asset

Provisions

Provisions were raised and management determined an estimate based on the information available.

Provisions are measured at the management's best estimate of the expenditure required to settle the obligation at the reporting date, and are discounted to present value where the effect is material

NOTES TO THE FINANCIAL STATEMENTS (Continued)

6. SALES/TURNOVER

	2019	2018
	Kshs	Kshs
Water Sales	85,977,741	49,437,240
Bowser & Exhauster Sales	3,095,148	1,804,543
Excavator Sales	709,000	-
Sewerage Sales	3,322,866	-
Total	**93,104,754**	**51,241,782**

7(a).GRANTS FROM COUNTY GOVERNMENT		
	2019	2018
	Kshs	Kshs
Recurrent grants received	20,547,067	9,499,917
Capital grants realised (see note below)	-	0
Total	**20,547,067**	**9,499,917**

(Note: For capital/development grants the amount recognized in the statement of comprehensive income should be the depreciation/amortization equivalents for assets that have been acquired using such capital/development grant).
[Provide a detailed analysis of grants received from the Government in the table below:]

NOTES TO THE FINANCIAL STATEMENTS (Continued)

7(b). WSTF GRANT

Name of the Entity sending the Grant	Amount recognized in the Statement of Comprehensive Income Ksh	Amount deferred under deferred income Ksh	Amount recognised in capital fund Kshs	Total grant income during the year Kshs	Total Ksh
Ministry/State Department	-	-	-	-	-
WSTF Grant	-	13,676,635	-	13,676,635	13,676,635
Total	-	**13,676,635**	-	**13,676,635**	**13,676,635**

8 OTHER INCOME

	2019	2018
	Kshs	Kshs
Miscelenous Sales	8,323,402	-
Sale of tender documents	33,000	91,000.00
Total	**8,356,402**	**91,000.00**

9 (a) ADMINISTRATION COSTS

	2019	2018
	Kshs	Kshs
Staff costs (note 11b)	30,215,732	15,986,048
Directors' emoluments	1,962,135	1,128,326
Electricity and water	166,580	26,584
Communication services and supplies	494,784	10,960
Transportation, travelling and subsistence	1,313,195	1,198,308

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Advertising, printing, stationery and photocopying	1,531,772	826,266
Rent expenses	59,000	86,000
Staff training expenses	264,555	0
Hospitality supplies and services	111,105	0
Insurance costs	411,255	480,985
Bank charges and commissions	266,913	120,600
Office and general supplies and services	20,000	477,957
M/V & Motor Cycle Repairs and maintenance	2,594,711	1,520,353
M/V & Motor Cycle Fuel	2,802,568	-
Auditors' remuneration	250,000	232,000
LVSWSB Levy	4,053,683	3,262,630
WASREB	3,371,248	483,403
Legal fees	259,400	100,000
Consultancy fees	1,330,795	1,302,951
Office repairs and maintenance	744,291	-
Provision for bad and doubtful debts	14,316,481	4,618,582
Security	2,866,210	1,490,055

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Other operating expenses	1,713,250	1,552,471
Total	**71,119,663**	**34,906,479**

9 (b) STAFF COSTS

Salaries and allowances of permanent employees	28,744,820	11,557,396
Wages of temporary employees	0	3,645,204
Compulsory national social security schemes	209,400	175,400
Other pension contributions	745,114	531,698
Leave pay and gratuity provisions		76,350
Staff welfare	516,398	0
Total	**30,215,732**	**15,986,048**
The average number of employees at the end of the year was:		
Permanent employees – Management	9	4
Permanent employees – Unionisable	53	65
Temporary and contract employees	40	25
Total	**102**	**94**

NOTES:

i. Director's emoluments went up compared to last year due to many board activities compared to the previous year when the directors joined the company in the course of the financial year.

ii. Office & general supplies went down due to management efforts on cost cutting while motor vehicle and motor cycle maintenance and fuel costs went up due to many vehicles which were previously grounded being revived in a bid to improve services. Office repairs went up due to a few office renovations done while security costs went up since more guards were hired to enhance security in all schemes.

iii. WASREB Levies went up due to revision of their rates from 1% to 6% of billing and due to increased billing.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

10 PRODUCTION AND DISTRIBUTION COSTS

	2019	2018
	Kshs	Kshs
Wages of production personnel	533,591	3,148,989
Treatment chemicals	8,287,229	7,093,839
Abstraction charges	1,616,111	736,000
Electricity	22,180,329	15,493,442
Other production and distribution costs	16,097,611	3,579,834.00
Total	**48,714,872**	**30,052,104**

NOTES:

i. Wages of production employees went down since there was a reclassification of those costs where all the technical staff on contract were moved to the general payroll hence only casuals were paid wages.

ii. Electricity costs went up due to increased production compared to the previous year.

iii. Other production and distribution costs went up due to enhanced maintenance towards NRW reduction from 70% to 65%. The company also carried out pipeline network expansion with the help of county government grant. To add to this, the company embarked on stocking pipes and fittings in order to improve response time to bursts and leaks. This is evidenced in the improved inventory levels as seen in the statement of financial position.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

11 OPERATING PROFIT / (LOSS)

	2019	2018
	Kshs	Kshs
The operating profit/(loss) is arrived at after charging/(crediting):		
Staff costs (note 11b)	**30,215,732**	15,986,048
Depreciation of property, plant and equipment	4,395,466	580,715
Amortization of intangible assets	1,140,000	-
Provision for bad and doubtful debts	14,316,481	4,618,582
Directors' emoluments - fees	1,962,135	1,128,326
Auditors' remuneration - current year fees	250,000	232,000
- prior year under-provision	0	0
Loss on disposal of property, plant and equipment	0	0
Total	**52,279,814**	**22,545,671**

NOTES TO THE FINANCIAL STATEMENTS (Continued)

EARNINGS PER SHARE

The earnings per share is calculated by dividing the profit after tax by the average number of ordinary shares in issue during the year. There were not dilutive or potentially dilutive ordinary share as at the reporting date.

12 DIVIDEND PER SHARE

Proposed dividends are accounted for as a separate component of equity until they have been ratified and declared at the relevant Annual General Meeting (AGM). At the AGM to be held before the end of 2019, a final dividend in respect of the year ended June 30, 2018 of for every ordinary share is to be proposed.

13 PROPERTY, PLANT AND EQUIPMENT

2019	Freehold land	Buildings & civil works	Plant and machinery 25%	Motor vehicles, including, motor cycles 25%	Computers & related equipment 30%	Office equipment, furniture & fittings 12.5%	Capital work in progress	Water Meters	TOTAL
COST OR VALUATION									
At July 1, 2018	0	-	1,950,240	3,313,392	2,123,990	213,568	17,035,524		24,636,714
Additions	0	17,760,817	2,336,000	0	986,400	0	13,580,089	6,602,500	41,265,806
Transfers							17,760,817		17,760,817
At June 30, 2019	0	17,760,817	4,286,240	3,313,392	3,110,390	213,568	12,854,796	6,602,500	48,141,703
DEPRECIATION									-
At July 1, 2018	0	0	925,079	3,081,187	2,109,262	147,478	0		6,263,006
Charge for the year	0	710,433	1,071,561	828,348	933,117	26,696	0	825,313	4,395,466
At June 30, 2019	0	710,433	1,996,639	3,909,535	3,042,379	174,174	0	825,313	10,658,473
NET BOOK VALUE									
At June 30, 2019	0	17,050,384	2,289,601	-596,143	68,011	39,394	12,854,796	5,777,188	37,483,230

13. (b) INTANGIBLE ASSETS

	2019 Kshs	2018 Kshs
COST		
At July 1	-	-
Additions	3,420,000	-
Disposals	-	-
At June 30	3,420,000	-
AMORTISATION		
At July 1	-	
Charge for the year	1,140,000	
Disposals	-	
Impairment loss	-	
At June 30	1,140,000	-
NET BOOK VALUE		
At June 30	2,280,000	-

INVENTORIES

	2019	2018
	Kshs	Kshs
Water treatment Chemicals	1,458,133	381,060
Fuel, oil and lubricants	0	0
Motor vehicle spare parts	57,000	0
Pipes and fittings	8,427,120	0
Stationery and general stores	267,020	0
TOTAL	**10,209,273**	**381,060**

15 (a) TRADE AND OTHER RECEIVABLES

	2019	2018
	Kshs	Kshs
Trade receivables (note 27 (b))	88,194,740	45,245,297
Deposits and prepayments	(6722)	0
Staff receivables (note 22 (c))	293,633	0
Other receivables	0	0
Gross trade and other receivables	88,481,650	0
Other: Provision for bad and doubtful receivable	0	0
Net trade and other receivables	**88,481,650**	**45,245,297**

15 (b) TRADE RECEIVABLES

	2019	2018
	Ksh	Ksh
Asembo Scheme	12,163,490	6,183,208
Bondo Scheme	29,491,019	17,622,649
Kogelo Scheme	2,024,663	623,594
Mauna Scheme	4,034,434	1,892,008
Sega Scheme	2,048,094	1,354,987
Siaya Scheme	34,149,847	13,268,568
Sidindi Malanga Scheme	19,450,771	12,208,709
South Sakwa Scheme	5,308,467	2,645,233
Ugunja Scheme	5,660,426	2,599,177
Ukwala Scheme	3,261,775	1,928,929
Gross trade receivables	117,592,986	60,327,062
Provision for doubtful receivables	(29,398,247)	(15,081,766)
Net Trade Receivables	**88,194,740**	**45,245,297**

16 BANK AND CASH BALANCES

	2019	2018
	Rs.Rs	Rs.Rs
Cash in hand	5,219	0
Cash at bank	6,347,253	4,183,272
	6,352,472	**4,183,272**

BANK BALANCES AS AT 30 JUNE 2019

S/No.	Bank	Account No.	Details	Balance (Ksh)	Remarks
1	Cooperative Bank , Siaya	01100255587900	Bowser account	598,325.76	
3	KCB, Siaya	1108257674	Customer deposits account	1,250,707.20	
4	KCB, Siaya	1106893026	Expenditure account (checking account)	1,576,575.96	Current Account
5	KCB, Siaya	1235073211	WSTF project Account (Barkowino - Nyawita water project)	2,602,707.02	Current Account
7	Post Bank	744130011234	collection) Revenue collection account	26,355	Mainly used for cash deposits
8	KCB, Siaya	1108257437	Revenue collection account	106,063	Main account for receiving water billing revenue
9	M-PESA PAY BILL	233491	Revenue collection account	186,511	Used for mobile cash collections
10	Cash in Hand	Held in petty cash		5,219.29	
	Total			6,352,472	

17. ORDINARY SHARE CAPITAL

	2019 Kshs	2018 Kshs
Authorized:		
5000 ordinary shares of Kshs.20 par value each	100,000	100,000
Issued and fully paid:		
5000 ordinary shares of Kshs.20 par value each	100,000	100,000

18 REVALUATION RESERVE

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

19 FAIR VALUE ADJUSTMENT RESERVE

The fair value adjustment reserve arises on the revaluation of available-for-sale financial assets, principally the marketable securities. When a financial asset is sold, the portion of the reserve that relates to that asset is reduced from the fair value adjustment reserve and is recognized in profit or loss. Where a financial asset is impaired, the portion of the reserve that relates to that asset is recognized in profit or loss.

20 RETAINED EARNINGS

The retained earnings represent amounts available for distribution to the *company's* shareholders. Undistributed retained earnings are utilised to finance the company's business activities.

21 TRADE AND OTHER PAYABLES

	2019	2018
	Kshs	Kshs
Accrued Statutory Levies	53,564,210	46,280,118
Trade payables	39,202472	14,060,395
Other payables	16,109,706	13,760,907
TOTAL	**108,876,388**	**74,101,420**

NB: Accrued statutory levies relate to amounts owed to water sector statutory bodies i.e. WARMA, LVSWSB, WASPA, WASREB & OAG, while other payables include payroll liabilities e.g. NHIF, NSSF, PAYE, LAPTRUST, SACCO , Net Salaries due for the month of June 2019

22 *RETIREMENT BENEFIT OBLIGATIONS*

The entity operates a defined benefit scheme for all full-time employees. The scheme is based on 5% p of salary of an employee at the time of retirement. During the year, no actuarial valuers were engaged to value the scheme. The liability at the end of the year was as follows:

The company also contributes to the statutory National Social Security Fund (NSSF). This is a defined contribution scheme registered under the National Social Security Act. The company's obligation under the scheme is limited to specific contributions legislated from time to time and is currently at Kshs.200 per employee per

23 NOTES TO THE STATEMENT OF CASH FLOWS

	2019	2018
	Kshs	Kshs
(a) Reconciliation of operating profit/(loss) to cash generated from/(used in) operations		
Operating profit/(loss)	(3,361,777)	(4,706,599)
Depreciation	4,395,466	580,715
Amortisation	1,140,000	0
Operating profit/(loss) before working capital changes	2,173,689	(4,125,883)
(Increase/Decrease in inventories	(9,828,213)	(30,792)
(Increase/Decrease in trade and other receivables	42,718,347	(5,690,545)
(Increase/Decrease in trade and other payables	(34,774,968)	10,235,871
(Increase/Decrease in customer prepayments	-	(1,690,457)
(Increase/Decrease in customer deposits	1,548,610	1,142,839
Cash generated from/(used in) Operations	**1,837,465**	**(158,967)**
	=======	========

(c) Analysis of cash and cash equivalent		
Short-term deposit		0
Cash at Bank	6,347,253	4,183,272
Cash in hand	5,219	0

24 RELATED PARTY DISCLOSURES

(a) Government of Kenya

The County Government of Siaya is the principal shareholder of SIBO Water and Sanitation Company, holding 100% of the *company's* equity interest. The County Government of Siaya has provided full guarantees to all long-term lenders of the entity, both domestic and external.

Other related parties include:

i. The Parent Ministry;
ii. County Government of Siaya
iii. Key management;
iv. Board of directors;

25 FINANCIAL RISK MANAGEMENT

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

(i) **Credit risk**

The entity has exposure to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when due. Credit risk arises from cash and cash equivalents, and deposits with banks, as well as trade and other receivables and available-for-sale financial investments.

Management assesses the credit quality of each customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external assessment in accordance with limits set by the directors. The amounts presented in the statement of financial position are net of allowances for doubtful receivables, estimated by the company's management based on prior experience and their assessment of the current economic environment

ii) Liquidity risk management

Ultimate responsibility for liquidity risk management rests with the entity's directors, who have built an appropriate liquidity risk management framework for the management of the entity's short, medium and long-term funding and liquidity management requirements. The entity manages liquidity risk through continuous monitoring of forecasts and actual cash flows.

The table below represents cash flows payable by the company under non-derivative financial liabilities by their remaining contractual maturities at the reporting date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances, as the impact of discounting is not significant.

iii) Market risk

The board has put in place an internal audit function to assist it in assessing the risk faced by the entity on an ongoing basis, evaluate and test the design and effectiveness of its internal accounting and operational controls.

Market risk is the risk arising from changes in market prices, such as interest rate, equity prices and foreign exchange rates which will affect the entity's income or the value of its holding of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return. Overall responsibility for managing market risk rests with the Audit and Risk Management Committee.

The company's Finance Department is responsible for the development of detailed risk management policies (subject to review and approval by Audit and Risk Management Committee) and for the day to day implementation of those policies.

There has been no change to the entity's exposure to market risks or the manner in which it manages and measures the risk

c) Interest rate risk

Interest rate risk is the risk that the entity's financial condition may be adversely affected as a result of changes in interest rate levels. The company's interest rate risk arises from bank deposits. This exposes the company to cash flow interest rate risk. The interest rate risk exposure arises mainly from interest rate movements on the company's deposits.

Management of interest rate risk
To manage the interest rate risk, management has endeavored to bank with institutions that offer favorable interest rates

Sensitivity analysis

The entity analyses its interest rate exposure on a dynamic basis by conducting a sensitivity analysis. This involves determining the impact on profit or loss of defined rate shifts. The sensitivity analysis for interest rate risk assumes that all other variables, in particular foreign exchange rates, remain constant. The analysis has been performed on the same basis as the prior year.

b) Financial instruments not measured at fair value

Disclosures of fair values of financial instruments not measured at fair value have not been made because the carrying amounts are a reasonable approximation of their fair values.

iv) Capital Risk Management

The objective of the entity's capital risk management is to safeguard the Board's ability to continue as a going concern. The entity capital structure comprises of the following funds:

	2018-2019 Kshs	2017-2018 Kshs
Revaluation reserve	-	-
Retained earnings	(5,955,176)	(38,516,570)
Capital reserve	19,818,815	2,058,000
Total funds	**13,863,639**	**(36,585,570)**
Total borrowings	108,876,388	80,039,738
Less: cash and bank balances	(6,352,472)	(4,183,272)
Net debt/(excess cash and cash equivalents)	116,387,555	39,270,896
Gearing		

26 INCOPORATION

The entity is incorporated in Kenya under the Kenyan Companies Act and is domiciled in Kenya.

27. EVENTS AFTER THE REPORTING PERIOD

There were no material adjusting and non- adjusting events after the reporting period.

28 CURRENCY

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

29 CONTIGENT LIABILITIES

The Company has three pending legal cases against it by former employees. It is estimated that no material liability will arise hence no provision has been made.

APPENDIX 1: PROGRESS ON FOLLOW UP OF AUDITOR RECOMMENDATIONS

Reference No. in the external audit	Issues/ Observations from Auditor	Management comments	Focal Point Person to resolve the issue (Name and designation)	Status (Resolved/ Not Resolved)	Timeframe
1.0	Unsupported Bank and Cash Balances due to lack of cashbook and bank reconciliations	This was due to frequent staff unrests during the FY therefore no proper accounting records kept. This has since been resolved and reconciliations are done promptly as the department is now fully staffed and well equipped.	Beryl Odhiambo Head of Finance	Resolved	N/A
2.0	Customer deposits reflected as a current liability	The company has made plans to return funds borrowed from customer deposits over time.	George Alaka Managing Director.	Not resolved	Progressive
3.0	Unsupported provision of doubtful debts	The company has developed a credit policy now in draft form awaiting directors approval	Beryl Odhiambo Head of Finance	Not Resolved	December 2020
4.0	Late Submission of Financial Statements	This was due to the high staff turnover experienced then, this has since been resolved and the company is now meeting the set datelines.	Beryl Odhiambo Head of Finance	Resolved	Sept 2019
5.0	Threatened Going Concern due to Negative working	Management together with the board are working on a turnaround strategy to improve the company financial status	Board of Directors Head of Procurement	Not Resolved	Progressive

	Capital				
6.0	Budget Variations	The management has since analysed the budget variations identified and has since put in measures aimed at ensuring that the budget variations are minimized.	Alex Rading Head of Finance	Not Resolved	Progressive
7.0	Irregular employment	The management has endeavored to ensure that recruitment procedures as laid down in the human resource policies and procedure manual are followed.	Loice Omoga Human Resource Manager	Not Resolved	Progressive

eference o. on the xternal udit	Issue / Observations from Auditor	Management comments	Focal Point person to resolve the issue *(Name and Designation)*	Status: *(Resolved / Not Resolved)*	Timeframe: *(Date when the issue is expected to be resolved)*
.0	Failure to meet a third rule in staff composition	The management has endeavored to recruitment from other ethnicities to align in third rule staff composition	George Alaka Managing Director.	**Resolved**	**Progressive**
0	Irregular Procurement of security services	The company has since ensured that all its suppliers for goods and services are procured competitively through open tenders.	Cheril Ariko Procurement Officer	**Resolved**	**December 2019**
0	Irregular Procurement of fuel	The company has since ensured that all its suppliers for goods and services are procured competitively through open tenders. Fuel register has since been developed by the transport department to monitor the fuel usage	Cheril Ariko Procurement Officer	**Resolved**	**Dec 2019**

11.0	Irregular Procurement of a water Pump	The company has since ensured that all its suppliers for goods and services are procured competitively through open tenders.	Cheril Ariko Procurement Officer	**Resolved**	**Dec 2019**
12.0	Lack of Approved Policy Documents	The management has now developed policy documents now in draft form awaiting discussion and approval by the board of directors	George Alaka Managing Director.	**Not Resolved**	**June 2020**

Managing Director: Sign:.....

Date.....29/9/2019

Board Chairperson: Sign:.....

Date.....

APPENDIX I1: PROJECTS IMPLEMENTED BY THE ENTITY

Projects implemented by the Company Funded by development partners

Project title	Project Number	Donor	Period duration	Donor commitment	Separate donor reporting required as per the donor agreement (Yes/No)	Consolidated in these financial statements (Yes/No)
1.UgunjaNyasanda Water Project	07W/LVSWB/SIAYA/ SIBO/50	WSTF	**12** months	18,217,893.75	**NO**	**YES**
2. Barkowino-Nyawita Water Project	07W/LVSWB/SIAYA/ SIBO/50	WSTF	12 Months	17,960,659.50	NO	YES

Status of Projects completion

	Project	Total project Cost	Total expended to date	Completion % to date	Budget	Actual	Source of
1	UgunjaNyasanda Water Project	18,217,893.75	17,760,817	100%	18,217,894.75	17,760,817	WSTF
2	Barkowino-Nyawita Water Project	17,960,659.50	12,854,796	95%	17,960,659.50	12,854,796	WSTF

Transfers from Siaya County Government & WSTF			
Recurrent Grants			
1.Electricity Bills Payment by Siaya County Government 2. Grants for Pipeline extensions	Bank Statement Date Amounts paid directly to KPLC by County Government	Amount (KShs) 18,489,508 2,057,559	Indicate the FY to which the amounts relate 2018/2019
	Total	**20,547,067**	
Development Grants	Bank Statement Date	Amount (KShs)	Indicate the FY to which the amounts relate
WSTF-Barkowino-Nyawita Water Project	30/06/2019	13,676,635	2018/2019
	Total	**13,676,635**	