

REPUBLIC OF KENYA



OFFICE OF THE AUDITOR-GENERAL

REPORT

OF

THE AUDITOR-GENERAL

ON

THE FINANCIAL STATEMENTS OF
NAIROBI CITY WATER AND SEWERAGE
COMPANY LIMITED

FOR THE YEAR ENDED
30 JUNE 2017

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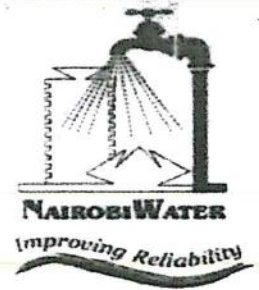


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OFFICE OF THE AUDITOR GENERAL
P. O. Box 30984 - 00102 NAIROBI
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Annual Report and Accounts

2016 / 2017

NAIROBI CITY WATER AND SEWERAGE COMPANY LTD

Annual Report and Accounts

2016/2017

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Corporate Information

Principal Place of Business & registered Office

Kampala Road, Industrial Area

P.O. Box 30656 – 00100, NAIROBI

KENYA

Email: info@nairobiwater.co.ke

Website: www.nairobiwater.co.ke

Auditor

Auditor General

Kenya National Audit Office

12th Floor, Anniversary Towers

University Way

P.O Box 30084-00100, NAIROBI

KENYA

Principal Banker

Co-operative Bank of Kenya

Industrial Area Branch

P.O. Box 67881 – 00200, NAIROBI

KENYA

Board of Directors

The Company's Board of Directors is appointed in accordance with the provisions of the Companies Act, Laws of Kenya. The Board of Directors was appointed on 15th July 2016 by the shareholder.

Nairobi City Water & Sewerage Company Ltd
Annual Report and Accounts
For the year ended 30th June 2017

Board of Directors

The Company's Board of Directors is appointed in accordance with the provisions of the Companies Act, Laws of Kenya. The Board of Directors was appointed on 15th July 2016 by the shareholder.

Notice of Annual General Meeting

DIRECTORS' REPORT

The Board of Directors was appointed on 15th July 2016. The directors hereby submit their report for the year ended 30th June 2017, which shows the state of the Company's affairs.

INCORPORATION

The Company is incorporated in Kenya under the Companies Act of the Laws of Kenya. It is a private limited liability Company domiciled in Kenya.

PRINCIPAL ACTIVITY

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

RESULTS

The results for the year are summarized below:

	2017	2016
	KSHs	KSHs
Deficit/Surplus for the Year	(295,911,748)	114,736,389

DIVIDENDS

The Company Board of Directors does not recommend the payment of a dividend in respect of the year ended 30th June 2017 as per the provisions of the Water Act 2016, section 131(3).

FINANCIAL STATEMENTS

As at the date of this report, there are no circumstances which would have rendered the values attributed to the assets in the financial statements misleading.

DIRECTORS

The Company is managed under the direction of a Board of Directors appointed by the shareholders (Nairobi City County Government). The Board of Directors was appointed on 15th July 2016 as listed below.

CURRENT DIRECTORS	
Mr. Raphael M. Nzomo, MBS	Chairman- Appointed 15th July 2016
Ms. Joanne Mwangi-Yelbert	Vice Chair - Appointed 15th July 2016
Mr. John K. Wanyama	Appointed 15th July 2016
Mr. Samuel O. Ojanga	Appointed 15th July 2016
Mr. Rosemary L.Khamati	Appointed 15th July 2016
Ms. Mercy M. Mutua	Appointed 15th July 2016
Mr. Gregory S.Mwakanongo	Appointed 15th July 2016
Eng. Christine A.Ogut	Appointed 15th July 2016
Dr. Kennedy J. Omoke	Appointed 15th July 2016
Mr. Lawrence A.O. Ouma	Appointed 15th July 2016
Mr. Phillip Arungah	Appointed 15th July 2016
Eng Philip G. Gichuki	Executive Director (Managing Director)

KEY OFFICERS

Name	Title	Qualification
Eng Philip G. Gichuki	Managing Director	Bsc.(Civil Eng), Msc. (Agric Eng)
Rosemary A. Kijana	Director Human Resources and Administration	B.ed Hons, MA(Economics), higher Diploma –HRM, Dip. HRM
Johnson H. Randu	Director Financial Services & Strategy	BA.(Economics), CPA, CPS, MBA
Eng. Stephen Mbugua	Director Commercial services	Bsc. (Mechanical Engineering), MBA
Eng Nahason M. Muguna	Director Technical Services	Bsc.(Mechanical Eng) Msc-Eng, MBA
Martin W. Nangole	Director Information & Communications Technology	Bsc.(Computer science), Masters in IT, CISCO, MCP
Griffine Songole	Director Internal Audit & risk management	BCom.(Accounting), CPA(K), CFA, CIA
Ivy K. Nyarango	Company Secretary	LLB (hons), LLM (dist.), Dip. (Law), CPS (K), Dip (International protection of HR)

DIRECTORS' BENEFITS

Since the last Annual General Meeting of the Company to the date of this report, no Director has received or become entitled to receive any benefit other than Directors' fees and amounts received under employment contract for the Managing Director. The aggregate amount of emoluments for Directors' services rendered in the financial year is disclosed in notes 10 and 26.

AUDIT, RISK AND GOVERNANCE COMMITTEE

Dr. Kennedy J. Omoke	Chairman
Ms. Joanne Mwangi -Yelbert	Member
Mr. Gregory Mwakanongo	Member
Ms. Mercy Mutua	Member

The Committee was constituted in August 2016 following the BOD appointment.

INDEPENDENT AUDITORS

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

By order of the Board



Ivy Nyarango – Company Secretary

CORPORATE GOVERNANCE STATEMENT ON THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH JUNE 2017.

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

ROLE OF THE BOARD

The Board is responsible for:

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

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

COMPOSITION OF THE BOARD

The Board is composed of eleven non-executive Directors from whom the Chairman was elected by the Board members. The executive member of the Board is the Managing Director. All the non-executive Directors are independent of management.

BOARD COMMITTEES

1) AUDIT, RISK AND GOVERNANCE COMMITTEE

This is composed of four board members and the Director Internal Audit and Risk Management who serves as the secretary to the committee. The Committee reports to the Board of Directors; it is responsible for assisting the Board to discharge its corporate governance responsibilities as follows:

- Internal Control and risk management- The Committee had the responsibility of reviewing the risk philosophy, strategy and policies recommended by the company and consider reports by the company. The Committee shall ensure compliance with such policies, and with the overall risk profile of the company.
- Review of financial information in particular annual financial statements to ensure compliance with accounting standards, legislation and other disclosure requirements.
- Reviews the external auditors proposed audit scope and approach and ensure no unjustified restrictions or limitations have been placed on the scope.
- Review of the function, operations and findings of the Internal Audit Directorate.

ii) FINANCE AND COMMUNICATION COMMITTEE

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

Finance

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

Legal

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

Communication

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

iii) HUMAN RESOURCE ADMINISTRATION COMMITTEE

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

Human Resource and Administration

- Review and approve terms and conditions for Company employees.
- Handle policy issues on human resources and administration including recruitments of senior management staff.
- Receive and update the Board on the progress on human resource and administration issues.
- Ensure establishment of the right organization structure aligned to the Company's business processes.

iv) **TECHNICAL, COMMERCIAL AND ICT COMMITTEE**

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

- Prepare and table reports on its deliberations to the Board through the Chairman or by any nominated member of the committee.
- Carry out any special responsibility as may be delegated to it by the Board.
- Work closely with other relevant committees so as to promote the objectives as set out in the Company's business plan.
- Review all ICT, technical and commercial proposals from the management team that focus on improving water and sewerage services that would require Board's approval for implementation.
- Review all proposals for procurement of infrastructure, development and support whose procurement is subject to approval by the Board prior to tendering.
- Receive and deliberate on the progress reports for all projects being implemented by the NCWSC with a view to providing guidance to the management and the Board.
- Consider and recommend for full Board approval ICT, technical and commercial services policies of the Company.
- Receive and consider periodic progress reports on technical, commercial and ICT-related activities and report on the same to the full Board on quarterly basis.
- Give guidelines/opinions to the management on areas of improvement as far as ICT, technical and commercial activities are concerned.
- Oversee, on behalf of the Board, that the Company achieves the set annual targets in water production, water distribution, revenue generation, market growth and customer satisfaction.
- Review the performance of the ICT, Technical and Commercial Directorates and recommend action to be taken for improvement and enhancement of the performance.
- Make periodic visits to the Company's installations and evaluate reports on the dams, treatment works as well as on the networks of water pipelines and sewer lines on a quarterly basis.

INTERNAL AUDIT FUNCTION

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

COMMUNICATION WITH SHAREHOLDERS STAKEHOLDERS

The Company is committed to:

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

DIRECTORS' BENEFITS AND LOANS

All the non-executive Directors have continued to receive Directors' remuneration as prescribed and no additional benefits or allowances were given to the Directors. The aggregate amount of Directors' remuneration is disclosed in notes 10 and 26 to these financial statements.

DIRECTOR _____ DATE: ^{14th}-----SEPTEMBER 2017

DIRECTOR _____ DATE: ^{14th}..... SEPTEMBER 2017

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

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

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

The statement was approved by the Board of Directors on 14 September 2017 and signed on its behalf by:

DIRECTOR _____

DIRECTOR _____

Nairobi City Water & Sewerage Company Ltd
Annual Report and Accounts
For the year ended 30th June 2017

**THE AUDITOR- GENERAL'S REPORT ON NAIROBI CITY WATER AND
SEWERAGE COMPANY LIMITED**



OFFICE OF THE AUDITOR-GENERAL

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

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of Nairobi City Water and Sewerage Company Limited set out on pages 14 to 41, which comprise the statement of financial position as at 30 June 2017, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, 2015. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

In my opinion, except for the effects of the matter described in the basis for Qualified Opinion section of my report, the financial statements present fairly, in all material respects, the financial position of Nairobi City Water and Sewerage Company Limited as at 30 June 2017, and of its financial performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards and comply with the Water Act, 2002 and the Companies Act, 2015 of the Laws of Kenya.

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

Basis for Qualified Opinion

1. Property Plant and Equipment

1.1 Water Infrastructure Assets

The property, plant and equipment balance of Kshs.2,132,063,627 as at 30 June 2017 as disclosed at Note 12 to the financial statements includes buildings, plant and machinery and equipment with net book values of Kshs.39,200,771, Kshs.455,480,886 and Kshs.215,245,054 respectively, all of which comprise improvements to the water supply system and infrastructure belonging to the defunct Nairobi City Council, but otherwise assigned to the Nairobi City Water and Sewerage Company Limited. However, the value and parcels of land on which the expansion and improvements have been carried out are not reflected or disclosed in the financial statements under review. Further,

Report of the Auditor-General on the Financial Statements of Nairobi City Water and Sewerage Company Limited for the year ended 30 June 2017

although the improvements to the water supply system and infrastructure have been included as assets in the financial statements, as per vesting agreements, they are owned by Athi Water Services Board which is the presumed water infrastructure assets developer.

1.2 Encroachment of Land

As reported in 2015/2016, various parcels of land belonging to the Company meant for expansion, storage, water and sewerage treatment works have been encroached by private developers. The affected parcels of land include:

- (i) Loresho water reservoir (Nairobi Block 90/587) which was subdivided into six sub plots-block 90/596 (currently where the reservoir is located), 90/591, 90/592, 90/593, 90/594 and 90/595. The five blocks were subsequently transferred and issued out to new owners. This was irregular as the original block of land was reserved for future water works expansion.
- (ii) Kariobangi North Sewerage and treatment works, where the land was allocated to several groups including Kariobangi Sewage Farmers Self-help Group, Provincial Administration (chief's camp), Our Lady of Fatima Secondary School, Alice Nursing Homes and Kariobangi Catholic Church for Polytechnic construction. Records relating to allocation, survey and subdivision of the land have, however, to date not been made available for audit review. Consequently, the purported subdivision and allocation can still not be verified.
- (iii) Encroachment on LR No.13119/2 –Booster Station II. The parcel of land is situated off Kabete Road where water from Ruiru Dam is pumped into Kabete treatment works for redistribution. Information available indicate that a complaint had been lodged by the Company in June 2007 concerning the encroachment. However, records of the land have still not been made available for audit review. Consequently, the status of resolution on the reported encroachment cannot be established.
- (iv) Ruiru Dam - Kabete pipeline transmission has been encroached at Good Shepherd and Kiangima area. The structures under construction have been erected on top of 16" and 24" pipes at AV (Air Valve) number 42 (Good Shepherd area), 9", 12" and 24" pipes between wash out 38 and AV(Air Valve) number 38 (Kiangima area).

Consequently, the completeness, accuracy and ownership of property, plant and equipment balance of Kshs. 2,132,063,627 as at 30 June 2017 can not be confirmed.

2. Inventories

The statement of financial position reflects inventories balance of Kshs.454,911,099 as at 30 June 2017 (Kshs.389,341,992 as at 30 June 2016) an increase of Kshs.65,569,107

from the previous year. Some of the stock have been held for a long period thereby incurring additional storage and maintenance cost and also exposure to the risk of obsolescence. However, no provision for impairment has been made in these financial statements. Consequently, the value and accuracy of inventories balance of Kshs.454,911,099 as at 30 June 2017 can not be confirmed.

3. Trade and Other Receivables

The trade and other receivables balance of Kshs.2,876,606,925 as at 30 June 2017 (2016-Kshs.2,523,118,332) includes other receivables of Kshs.1,310,929,463 as at 30 June 2017 (2016- Kshs.909,274,478) an increase of Kshs.401,654,985 or 44% from the previous year. As reported in 2015/2016, the balance includes Kshs.478,001,144 and Kshs. 429,343,644 which relates to claims receivable on unassessed lodgments and unclaimed VAT from KRA respectively. However, the opening balance of the claims receivable of Kshs.278,498,647.60 included a claim of Kshs.21,366,509 for the period July to September 2009 lodged but remains un-evaluated as at 30 June 2017.

Under the circumstances, the accuracy and full recoverability trade and other receivables balance of Kshs. 2,876,606,925 as at 30 June 2017 cannot be ascertained.

4. Cash and Cash Equivalents

The statement of financial position reflects cash and cash equivalents balance of Kshs.123,801,631 as at 30 June 2017. The Company operated twenty-two (22) bank accounts and two (2) agent accounts during the period under review. However, out of the 22 bank accounts, 7 were dormant. No explanation has been provided for failure to close the seven dormant accounts to avoid unnecessary bank charges. In addition, bank reconciliation statements in support of the bank balance of Kshs.115,270,125 as disclosed in Note 16 to the financial statements have not been provided for audit verification. In the circumstances, the accuracy of cash and cash equivalents balance of Kshs.123,801,631 as at 30 June 2017 cannot be confirmed.

5. Amounts Due to Related Parties

The statement of financial position reflects amount due to related parties under current and non-current liabilities of Kshs.1,146,615,016 (2016-Kshs.1,146,615,016) and Kshs.2,332,481,979 (2016-Kshs.1,363,410,975) as at 30 June 2017 respectively. As disclosed in Note 25 to the financial statements, lease fee as at 1 July 2016 was 2,323,072,313 while lease fee for the year under review amounted to Kshs.1,235,987,113. During the year, the Company settled Kshs.266,916,107, leaving a balance of Kshs.3,292,143,319 as at 30 June 2017 which significantly contributed to the increase in amounts due to related parties.

6. Revenue Reserves

Revenue reserve balance of Kshs.(3,005,132,991) as at 30 June 2017 includes Kshs.697,223,410 transferred from the capital reserves in 2007/2008. According to

records available, the capital reserves had been determined through a logical deduction method, as no statement of affairs had been prepared to assess the value of assets and liabilities taken over from the defunct City Council of Nairobi by the Company. As reported in the previous year, no justification has, however been provided by the Company for the application of this accounting method. In the absence of a statement of affairs, independent valuation, due diligence and the audited financial statements of the defunct City Council of Nairobi for 2004, it has not been possible to confirm the accuracy of the revenue reserve balance of Kshs. (3,004,701,028) as at 30 June 2017.

In addition, the Company made prior year adjustments of Kshs.417,427,001 (2016 Kshs.309,177,993) through the revenue reserves for the revised water bills. Although this is a significant reduction, it is indicative that measures put in place to ensure accurate meter readings for billings are yet to be fully realized.

7. Customers with Credit Balances

The statement of financial position as at 30 June 2017 reflects customers with credit balances of Kshs. 152,679,015 (2016- Kshs. 88,891,517) and as disclosed at Note 23 to the financial statements. As previously reported, the accounts continue to reflect credit balances despite being active but with no corresponding billings or claims and reconciliation for considerably long period of time. Consequently, the validity of customers with credit balance of Kshs.152,679,015 as at 30 June 2017 cannot be confirmed.

8. Trade and Other Payables

Trade and other payables balance of Kshs. 2,686,596,174 as at 30 June 2017 includes outstanding audit fees balance of Kshs. 18,698,009 that has accumulated for five years contrary to the requirement of Section 41 (c) of the Public Audit Act, 2015. The Company is therefore in breach of the law.

9. Leased Assets

As reported in the previous years, the Company entered into a tripartite agreement with the defunct City Council of Nairobi and Athi Water Services Board in April 2004, for assignment of all water and sewerage fixed assets and infrastructure to the Company at a consideration of 20% of the total revenue collected during the period 2007 to 2009 out of which the Company paid a total of Kshs.1,558,808,316 during that period. Further, amounts of Kshs.709,361,211, Kshs.753,671,911, Kshs.792,855,936, Kshs.996,155,804, Kshs.920,215,065, Kshs.665,557,199, Kshs.799,930,770 and Kshs.266,916,107 were paid in the financial years ended 30 June 2010, 2011, 2012, 2013, 2014, 2015, 2016 and 2017 respectively in relation to the same assets. However, the assigned assets and infrastructure have never been valued casting doubt on the basis of setting the lease payments.

In the circumstances, the value of any impending liability in respect of the leased assets cannot be ascertained as at 30 June 2017.

10. Board Remuneration

As disclosed in Note 6 to the financial statements, expenditure on board remuneration for the year ended 30 June 2017 amounted to Kshs.17,740,846. A review of this expenditure indicates that an amount of Kshs. 6,842,794 equivalents to about 39% of the total amount was in respect of allowances paid on foreign trips. Further, some board members travelled in business class on various occasions instead of economy class as provided in the Company's human resource policy thereby occasioning an over expenditure of Kshs.15,463,511 on the budget item. Some board members also changed flights by either returning back earlier or later than scheduled time, occasioning extra payments totalling Kshs.468,001. Further, three board members were paid a total of Kshs.4,789,436 to travel to various destinations on official duties but failed to go or returned earlier than the scheduled dates but did not refund a total of Kshs.2,899,642 as per returns. In the circumstance, the validity of expenditure incurred on the above specific cases can not be confirmed.

11. Non-Revenue Water

During the year under review, the company produced 181,363,932 cubic meters (m3) of water but earned from the water an income of Kshs. 5,103,161,621 only as disclosed at Note 3 to the financial statements. Out of this volume, only 112,787,608 cubic meters (m3) was billed to customers. The balance of 68,560,389 cubic meters or approximately 38% of the total produced represents Non-Revenue Water (NRW) which is over and above the allowable loss of 25% in accordance with the Water Services Regulatory Board guidelines. The excess Non-Revenue Water of 13% may have resulted in loss of revenue estimated at Kshs.1,044,873,270.

12. Material Uncertainty Related to Going Concern

During the year under review, the company made a loss of Kshs.295,911,748 which resulted to depletion of the revenue reserves from negative Kshs. 2,291,794,242 as at 1 July 2016 to negative Kshs.3,005,132,991 as at 30 June 2017. Further, the current liabilities of Kshs.4,327,590,052 as at 30 June 2017 exceeded the current assets of Kshs.3,455,319,655 resulting in a negative working capital of Kshs.872,270,397. This is an indication that the company may be experiencing financial difficulties in settling maturing obligations as and when they fall due and its long-term sustainability is in jeopardy. This material uncertainty has, however, not been disclosed in the notes to the financial statements.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of Nairobi City Water and Sewerage 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 audit opinion.

Key Audit Matters

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

Other Matter

1. Budget and Budgetary Controls

During the year under review, the company budgeted to spend Kshs.11,856,837,953. However, actual expenditure for the year was Kshs.10,934,891,358 resulting to an under expenditure of Kshs. 921,946,595 which is equivalent to about 8% of the total budget. Further analysis of the budget against actual expenditure indicate operating cost for the year amounted to Kshs9,964,051,281 against a budget of Kshs. 9,369,588,300 resulting to an over expenditure of Kshs.594,462,981. Further, out of the capital budget of Kshs.2,487,249,653 only Kshs.970,840,077 was spent resulting to under expenditure of Kshs.1,516,409,576, a 61% shortfall. This implies an extremely low investment in capital assets which may impact negatively on service delivery by the Company. The under investment was mainly on land and buildings, plant and machinery, motor vehicles and equipment. In addition, the Company budgeted to collect revenue totalling Kshs.11,229,000,000 in the year under review. However, actual collection amounted to Kshs.9,668,139,533 resulting in a budget deficit of Kshs.1,560,860,467. The under expenditure and under collection is an indication that approved programs were not fully implemented.

2. Nairobi Sanitation Output Based Aid Project Performance

During the year under review, Nairobi Sanitation Output Based Aid Project budgeted to receive a total of Kshs.354,086,089 comprising of World Bank grant of Kshs.121,878,052 and counter-part funding of Kshs.232,208,037 from the Company. However, actual receipts during the year amounted to Kshs.85,898,390 from World Bank and Kshs.232,208,037 from the Company, resulting in a shortfall of Kshs. 35,979,662. Further, total sewer and water connections as at 30 June 2017 stood at 4,850 units against overall project targeted output of 15,051 units which translate to an average of a 32% completion as at 30 June 2017 as detailed below:

Connection Type	Target Output No.	Unit Cost (Kshs)	Total Target Cost (Kshs)	Attained Output No.	Performance Difference No.	% of Output Attained
Sewer Type A	4,871	54,573	265,825,083	689	4,182	14
Sewer Type B	3,742	164,478	615,476,676	2,261	1,481	60
Water	6,438	23,084	148,614,792	1,900	4,538	30
TOTAL	15,051		1,029,916,551	4,850	10,201	32

Although 67% of the project duration had lapsed as at 30 June 2017, only 32% of the targeted output had been achieved, an indication that the project is clearly behind schedule. It is therefore unlikely that the project's goals of increasing access to sanitation and water services in the target areas will be achieved by the end of the project in February 2018.

3. Sasumua Dam Laboratory Project

A company was contracted to build and equip Sasumua Dam Laboratory. As at the time of the audit, the company had been paid a total of Kshs.11,367,969.84. However, although the building works had been completed by 30 June 2016, the facility has not been equipped to start operating as some vital installations had not been done by the contractor. Consequently, the Company has not obtained value for the investment totalling Kshs11,367,969.84 as at 30 June 2017.

4. Vehicles with Private Number Plates

Three vehicles registration numbers; KBT 635Q, KBS 149T and KBS 150T were transferred from Athi Water Services Board to the Company in January 2017. However, the number plates have not been changed to blue as required by law.

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

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the

management either intends to cease operations or have no realistic alternative but to do so.

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

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

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

The audit objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion in accordance with the provisions of Section 48 of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution. 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.

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.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances and for the purpose of giving an assurance on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Conclude on the appropriateness of the management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern 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's 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.

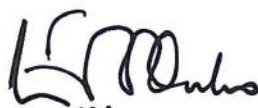
I communicate with the management regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that are identified during the audit.

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.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

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

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



FCPA Edward R. O. Ouko, CBS
AUDITOR-GENERAL

Nairobi

19 February 2018

FOR THE YEAR ENDED 30TH JUNE 2017

	Note	2017	2016
		Kshs	Kshs
OPERATING INCOME	3	9,602,512,333	9,154,417,461
GRANT INCOME	4	65,627,200	23,475,685
Total		9,668,139,533	9,177,893,146
EXPENSES			
Staff costs	5	5,456,469,975	5,030,951,923
Operations	6	3,177,527,550	2,799,911,444
Maintenance	7	472,608,280	351,792,034
Other expenses	8	784,562,347	826,876,337
Total		9,891,168,152	9,009,531,738
Deficit/ Surplus Before Interest & Tax		(222,028,619)	168,361,408
Finance costs	9	72,883,129	53,625,019
SURPLUS BEFORE TAX		(295,911,748)	114,736,389
Tax			
Net Deficit/ Surplus for the year		(295,911,748)	114,736,389

STATEMENT OF FINANCIAL POSITION AS AT 30TH JUNE 2017

ASSETS	NOTE	2017	2016
NON- CURRENT ASSETS			
		Kshs	Kshs
Property, plant and equipment	12	2,132,063,627	1,354,106,225
Intangible assets	13	17,141,868	25,542,164
		2,149,205,495	1,379,648,389
CURRENT ASSETS			
Inventories	14	454,911,099	389,341,992
Trade and other receivables	15	2,876,606,925	2,523,118,332
Cash and Cash equivalents	16	123,801,631	167,099,343
		3,455,319,655	3,079,559,667
TOTAL ASSETS		5,604,525,150	4,459,208,056
CURRENT LIABILITIES			
Trade and other payables	22	2,686,596,174	2,600,554,530
Customers with credit balances	23	152,679,015	88,891,517
Provisions for Leave	24	259,749,088	313,986,034
Borrowings	21	81,950,760	95,984,641
Amounts due to related parties	25	1,146,615,016	1,146,615,016
		4,327,590,052	4,246,031,738
NET ASSETS		1,276,935,097	213,176,318
SHAREHOLDERS' FUNDS AND LIABILITIES			
CAPITAL AND RESERVES			
Share Capital	17	100,000	100,000
Revenue Reserve	18	(3,005,132,991)	(2,291,794,242)
Capital Grant	19	946,077,066	407,711,145
		(2,058,955,925)	(1,883,983,097)
NON-CURRENT LIABILITIES			
Customer deposits	20	762,732,504	686,617,784
Borrowings	21	240,676,539	47,130,656
Amounts due to related parties	25	2,332,481,979	1,363,410,975
		3,335,891,022	2,097,159,415
TOTAL SHAREHOLDERS' FUNDS AND LIABILITIES		1,276,935,097	213,176,318

The financial statements on pages 14 to 41 were approved by the Board on 14th September 2017

Eng Nahason M. Muguna -Ag. Managing Director

Paul E. Omondi -Ag Finance & strategy Director

STATEMENT OF CHANGES IN EQUITY AS AT 30TH JUNE 2017

	Notes	Share Capital	Revenue Reserve	Capital Grant	Restated Total
		Kshs	Kshs	Kshs	Kshs
As at 30th June 2015		100,000	(2,141,973,778)	196,003,058	(1,945,870,720)
Prior year adjustments	27		(264,556,853)		(264,556,853)
Restated balance		100,000	(2,406,530,632)	196,003,058	(2,210,427,574)
Amortization				(759,444)	(759,444)
Additions for the year				212,467,532	212,467,532
Surplus for the year	10		114,736,389		114,736,389
As at 30th June 2016		100,000	(2,291,794,242)	407,711,145	(1,883,983,097)
As at 30th June 2016		100,000	(2,291,794,242)	407,711,145	(1,883,983,097)
Prior year adjustments	27		(417,427,001)		(417,427,001)
Restated balance		100,000	(2,709,221,243)	407,711,145	(2,301,410,098)
Amortization				(7,067,846)	(7,067,846)
Additions for the year				545,433,768	545,433,768
Deficit for the year	10		(295,911,748)		(295,911,748)
As at 30th June 2017		100,000	(3,005,132,991)	946,077,066	(2,058,955,925)

STATEMENT OF CASH FLOW FOR THE YEAR ENDED 30th JUNE 2017			
	NOTE	2017	2016
		Kshs	Kshs
Operating activities:			
Cash generated from operations	28	278,329,726	576,375,942
Interest paid		(72,883,129)	(53,625,019)
Net cash generated from operating activities		205,446,597	522,750,923
Cash flow from investing activities:			
Purchase of property, plant and equipment	12	(970,840,079)	(670,595,368)
Purchase of intangible assets	13	(2,850,000)	(20,441,000)
Net cash used in investing activities		(973,690,079)	(691,036,368)
Cash flow from financing activities:			
Proceeds from long-term borrowings		290,723,203	70,949,210
Proceeds from financing assets		545,433,768	212,467,530
Repayment of long-term borrowings		(111,211,201)	(56,029,173)
Net cash generated from financing activities		724,945,770	227,387,567
Net increase/(decrease) in cash and cash equivalents		(43,297,712)	59,102,122
Movement in cash and cash equivalents:			
As at 1st July		167,099,343	107,997,221
Increase/(decrease)		(43,297,712)	59,102,122
As at 30th June	16	123,801,631	167,099,343

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH JUNE 2017

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

a) Basis of preparation

The financial statements are prepared in compliance with International Financial Reporting Standards (IFRSs). The financial statements are prepared under the historical cost basis of accounting and presented in the functional currency, Kenya Shillings (Kshs) rounded to the nearest Shilling.

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

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

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

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

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

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

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

- a) When the intangible asset is expressed as a measure of revenue; or
- b) When it can be demonstrated that revenue and consumption of the economic benefits of the intangible asset are highly correlated.

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

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

b) Property, plant, equipment and depreciation

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

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

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

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

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

If any such indications exist and where the carrying values exceed the recoverable amount, property, plant and equipment are written down to their recoverable amounts.

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

c) **Financial instruments**

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

d) **Revenue recognition**

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

i) **Provision of water and sewerage services**

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

ii) **Meter rent income**

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

iii) **Miscellaneous income**

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

iv) **Grant**

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

e) **Intangible assets**

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

f) **Inventories**

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

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

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

g) **Foreign currency transactions**

Transactions during the year are converted into Kenya Shillings at rates ruling at the transactions dates. Assets and liabilities at the balance sheet date which are expressed in foreign currencies are translated into Kenya Shillings at rates ruling at that date. The resulting differences from conversion and translation are dealt with in the income statement in the period in which they arise.

h) **Trade and other receivables**

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

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

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

i) **Employee benefits**

i) **Pension obligations**

The Company operates a defined contribution retirement benefit scheme for employees on permanent terms of service administered in three different forms: National Social Security Fund, a Provident Fund and a pension fund. These schemes are funded by contributions from both the Company and employees.

The Company's contributions to the schemes are charged to the income statement in the year to which they relate.

ii) Other employee entitlements

Employee entitlements to gratuity are recognized when they fall due. These entitlements are provided for on annual basis in accordance with the annual contracts.

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

j) Capital grant

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

k) Provisions

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

l) Contingent liabilities

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

m) Taxation

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

n) Cash and cash equivalents

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

o) Trade and other payables

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

p) Leases

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

q) Interest bearing borrowings

All borrowings are recognized at cost.

r) **Revenue reserve**

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

s) **Customer deposits**

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

t) **Related parties**

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

u) **Provision for overtime**

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

2. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

i) **Critical accounting estimates and assumptions**

Property, plant and equipment; Intangibles and Capital grant and amortization of intangibles and capital grant.

Critical estimates are made by Directors in determining depreciation and amortization rates for property, plant, equipment, intangibles and capital grant. The rates used are set out in note 1(b), 1 (e) and 1 (j) above.

ii) **Critical judgments in applying the entity's accounting policies**

In the process of applying the Company's accounting policies, Directors have made judgments in determining:

- The classification of financial assets and leases.
- Whether assets are impaired.
- Provisions and contingent liabilities.
- Presentation of financial statements.

3. OPERATING INCOME

	2017	2016
	Kshs	Kshs
Water	5,103,161,621	4,784,610,607
Sewer services	3,396,938,262	3,258,181,053
Meter rent	151,131,800	150,909,964
Other income	943,165,163	960,715,837
Interest Income	8,115,487	
	9,602,512,333	9,154,417,461

Other income comprises income from exhauster services rendered, sale of water by tanker, survey fees, sale of sludge, sale of tender documents, claims compensation, fraud charges, provision for bad debts recovery and Grant Amortization (2017: Kshs 7,805,409 and 2016: Kshs 759,444).

4. GRANT INCOME

	2017	2016
	Kshs.	Kshs
Grant Income	65,627,200	23,475,685

Grant income received from Athi Water Service Board in the year 65,627,200 (2016: kshs 23,475,685 from Nairobi City County)

5. STAFF COSTS

STAFF COSTS	Note	2017	2016
		Kshs	Kshs
Salaries and wages		2,623,529,432	2,457,474,501
House allowances		835,970,949	712,389,929
Leave allowances		167,177,777	136,758,742
Bonus		24,250,655	21,861,010
Overtime		360,702,254	326,303,543
Retirement benefits	29	596,228,113	514,465,008
Other allowances		556,452,947	523,601,610
Medical expenses		225,251,526	211,509,523
Staff awards		5,517,000	6,107,150
Leave pay provision		0	65,063,433
Welfare		61,389,321	55,417,474
		5,456,469,974	5,030,951,923

The number of employees at the end of the financial year was 3,511 (2016:3,162). The average per category is indicated below

Grade	Category	Average Number	
		2017	2016
1	Managing Director	1	1
2	Functional Directors	7	7
3	Departmental/Regional managers	33	30
4	Co-ordinators	120	108
5	Officers	223	198
6	Unionizable staff	656	517
7	Unionizable staff	795	880
8	Unionizable staff	1,549	1,299
9	Unionizable staff	127	122
	Grand Total	3,511	3,162

6. OPERATIONS

	2017	2016
	Kshs	Kshs
Chemicals	191,156,286	269,275,874
Office supplies	28,285,273	35,440,063
Tyres and related accessories	13,028,602	14,785,838
Fuel, oil and lubricants	73,793,048	58,411,250
Uniforms and protective clothing	139,138,764	53,235,584
Electricity	227,880,548	262,564,592
Telecommunications	47,547,621	31,591,856
Postal and couriers	68,669	135,870
Water and conservancy	3,957,361	11,854,824
Insurance	76,894,252	64,420,813
Rent and rates	100,101,710	80,898,375
Hire of equipment and Vehicles	2,361,159	6,188,474
Claims, damages and compensation	90,353,998	27,105,795
Traveling and subsistence- local	142,152,040	108,949,004
Bank charges	15,285,727	14,848,570
Staff development & external travel	212,308,846	136,100,789
Security	73,449,453	80,055,842
Commissions	4,409,270	16,720,758
Publicity and advertising	44,080,357	34,946,110
Donations/ Corporate Social Responsibility	73,227,594	11,911,031
Sports and recreation	76,019,652	61,964,863
Corporate year end party	6,493,617	7,339,812
Library	269,575	146,038
Board remuneration	17,740,846	0
AGM Expenses	2,000,000	2,000,000
Audit fees	3,552,830	7,845,523
Legal fees	19,995,065	19,553,412
Consultancy	13,891,124	8,438,328
Licensing, lease and levy	1,425,489,710	1,205,092,721
Asset Renewal(AWSB)	0	83,333,333
Research & Development	889,875	205,125
Stakeholders expenses	51,704,678	84,448,077
IWA- conference	0	101,500
Total	3,177,527,550	2,799,911,444

7. MAINTENANCE

	2017	2016
	Kshs	Kshs
Ground	1,167,539	740,032
Plant and machinery	31,329,733	47,708,886
Buildings	5,424,650	6,953,948
Equipment	19,875,114	12,472,976
Motor vehicles	30,412,756	35,065,686
Furniture and fittings	514,022	275,814
Software	8,119,660	134,768
Water fittings and accessories	278,774,480	195,349,440
Water meters	96,990,326	53,090,484
Total	472,608,280	351,792,034

8. OTHER EXPENSES

	Note	2017	2016
		Kshs	Kshs
Provision for bad and doubtful debts	15	580,429,376	634,328,837
Depreciation of property, plant and equipment	12	192,882,675	183,525,188
Amortization of intangible assets	13	11,250,296	9,022,312
Total		784,562,347	826,876,337

9. FINANCE COSTS

	2017	2016
	Kshs	Kshs
Interest on loan	44,496,445	20,765,999
Interest on overdraft	9,431,611	15,729,279
Interest on customer security deposits	18,955,073	17,129,741
Total	72,883,129	53,625,019

10. SURPLUS BEFORE TAX

	2017	2016
	Kshs	Kshs
The surplus before tax is stated after charging:		
Depreciation of property, plant and equipment	192,882,675	183,525,188
Amortization of intangible assets	11,250,296	9,022,312
Directors' emoluments:		
-Fees	17,740,846	0
-Other emoluments	13,727,509	13,032,532
Auditors' remuneration	3,552,830	7,845,523
Retirement benefits	596,228,113	514,465,008
Interest expense	72,883,129	48,313,735
And after crediting:		
Other income	(952,018,213)	(960,715,837)

11. TAXATION

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

(1) The Company is wholly owned by Nairobi City County, a County Government. The Company Operations are under the County Government and as per the provision of the Constitution **FOURTH SCHEDULE** (Article 185 (2), 186 (1) and 187 (2)). It is principally a vehicle used by Nairobi City County to deliver services as per the county government Act. According to the 1st schedule paragraph 8 of the Income Tax Act (ITA), the income of a County Government is exempted from the provisions of ITA. The income thus generated by the Company in pursuit of its mandate and as its agent, is tax exempt. Any surplus arising thereon is re-invested in the water services infrastructure for development and enhancing sustainability.

12. PROPERTY, PLANT AND EQUIPMENT

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

Matroli City Water & Sewerage Company Ltd
 Annual Report and Accounts
 For the year ended 30th June 2017

PROPERTY, PLANT AND EQUIPMENT

COST	BUILDINGS		MACHINERY		MOTOR VEHICLES		EQUIPMENT		RELATED EQUIPMENT		FURNITURE & FITTINGS		WIP		TOTAL	
	KSHS		KSHS		KSHS		KSHS		KSHS		KSHS		KSHS		KSHS	
As at Jul 2015	15,596,796		644,657,780		356,150,266		679,458,309		434,499,339		99,886,210		254,374,278		2,484,622,978	
Additions at cost			63,398,467		23,887,559		78,386,748		12,824,179		16,413,250		471,685,275		670,595,368	
Reclassification	18,571,059		27,078,211				11,485,237						(57,134,507)		0	
As at June 2016	34,167,855		737,144,558		382,037,825		769,330,284		447,323,517		116,299,460		668,925,046		3,155,218,345	
Depreciation at 1 July 2015	3,463,835		380,981,499		325,208,297		526,522,830		315,747,328		65,663,144		0		1,617,586,932	
Charge for the year	428,610		72,064,931		12,077,677		41,672,490		47,597,732		9,733,748				183,525,188	
Accumulated Depreciation	3,892,445		453,046,430		337,235,974		568,195,320		363,345,059		75,396,892		0		1,801,112,120	
NBV AS AT 30 JUNE 2016	30,275,410		284,087,928		44,801,851		201,134,964		81,978,458		40,902,568		668,925,046		1,354,106,225	
As at Jul 2016	34,167,855		737,134,358		382,037,825		769,330,284		447,323,517		116,299,460		668,925,046		3,155,218,345	
Additions at cost			91,536,614		40,063,021		51,760,154		51,662,121		12,828,541		722,999,627		970,840,077	
Reclassification	9,799,974		143,896,598				4,493,264		2,711,545				(160,901,380)		0	
As at June 2017	43,967,829		972,537,570		422,100,846		825,583,702		501,697,182		129,128,001		1,231,023,293		4,126,058,422	
Depreciation at 1 July 2016	3,892,445		453,046,430		337,235,974		568,195,320		363,345,059		75,396,892		0		1,801,112,120	
Charge for the year	874,613		64,040,354		21,912,196		42,143,328		51,718,561		9,173,723				192,882,675	
Accumulated Depreciation	4,767,058		517,076,684		359,178,170		610,338,648		418,063,620		84,570,615		0		1,993,994,795	
NBV AS AT 30 JUNE 2017	39,200,771		455,480,886		62,922,676		215,245,054		83,633,562		44,557,386		1,231,023,293		2,132,063,627	
NBV AS AT 30 JUNE 2016	30,275,410		284,087,928		44,801,851		201,134,964		83,978,458		40,902,568		668,925,046		1,354,106,225	

15. TRADE AND OTHER RECEIVABLES

	2017	2016
	Kshs	Kshs
Trade receivables	7,818,710,669	8,073,918,941
Less: provision for bad and doubtful debts	(6,285,289,822)	(6,554,846,700)
Net trade receivables	1,533,420,847	1,519,072,241
Other receivables	1,310,929,463	909,274,478
Less: provision for bad and doubtful debts	(55,512,564)	(55,512,564)
Net other receivables	1,255,416,899	853,761,914
Prepayments and deposits	87,769,179	150,284,177
	2,876,606,925	2,523,118,332

Specific provision has been made for all known doubtful debts. Bad debts are written off when all reasonable steps to recover them have been taken without success. The provisions relating to the reporting period are Kshs 6,334,867,077 year 2017 (2016: Kshs 6,610,359,264). This is based on the provision of bad debts of beyond 480 days as per the adopted policy. This includes ksh 5,935,309 under Nairobi Water and Sewerage institutional Restructuring project that was closed in 30 June 2008 and ksh 49,577,255 for VAT claims.

Other receivables include balances claimable from Postal Corporation of Kenya, Kenya Revenue Authority (KRA). The carrying amounts of receivables approximate to their fair value.

16. CASH AND CASH EQUIVALENTS

	2017	2016
	Kshs	Kshs
Cash in hand	8,531,506	8,992,436
Cash at bank	115,270,125	158,106,907
Total	123,801,631	167,099,343

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

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

The work in progress (WIP) relates to water pipeline network and sewer relief network construction ongoing in various locations and boundary walls on various company installations.

13. INTANGIBLE ASSETS

	2017	2016
	Kshs	Kshs
Computer software:-		
COST		
At 1 July	146,358,778	125,917,778
Additions	2,850,000	14,591,000
Reclassification from WIP	0	5,850,000
At 30 June	149,208,778	146,358,778
AMORTIZATION		
At 1 July	120,816,614	111,794,302
Charge for the year	11,250,296	9,022,312
At 30 June	132,066,910	120,816,614
Net book value at 30th June	17,141,868	25,542,164
Value of fully Depreciated at 30th June		

14. INVENTORIES

Inventories represent the value of water treatment chemicals, office supplies, tyres and accessories, motor spares, water meters and water fittings and accessories kept at various Company stations

	2017	2016
	Kshs	Kshs
Water treatment Chemicals	24,952,529	37,161,159
Office Supplies	12,686,528	13,965,996
Tyres and accessories	4,684,889	8,433,207
Motor Spares	16,813,491	10,442,655
Uniform and protective clothing	2,343,412	3,126,131
Water meters	47,335,615	25,449,494
Water fittings and accessories	346,094,635	290,763,350
Total	454,911,099	389,341,992

17. SHARE CAPITAL

	2017	2016
	Kshs	Kshs
Authorized, issued and fully paid:		
5,000 ordinary shares of Kshs. 20 each	100,000	100,000

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

18. REVENUE RESERVE

		2017	2016
			Restated
	Note	Kshs	Kshs
At 1 July		(2,291,794,242)	(2,141,973,778)
Prior year adjustments	27	(417,427,001)	(264,556,853)
Restated Opening balance		(2,709,221,243)	(2,406,530,632)
Surplus for the year		(295,911,748)	114,736,389
At 30 June		(3,005,132,991)	(2,291,794,242)

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

19. CAPITAL GRANT

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

	2017	2016
COST	Kshs	Kshs
As at 1 st July	838,266,584	625,799,053
Additions during the year	545,433,768	212,467,531
	1,383,700,351	838,266,584
Amortization:		
As at 1 st July	+30,555,439	+29,795,995
Charge for the year	7,067,846	759,444
Accumulated Amortization	+37,623,285	+30,555,439
NET BOOK VALUE AS AT 30TH JUNE	946,077,066	407,711,145

20. CUSTOMER DEPOSITS

	2017	2016
	Kshs	Kshs
Balance brought forward	686,617,784	611,259,260
Deposits received from customers	65,361,835	64,181,640
Accrued interest at 3% per annum	18,955,073	17,129,741
Deposits and interest refunded	(8,202,188)	(5,952,857)
Balance carried forward	762,732,504	686,617,784

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

21. BORROWINGS

	2017	2016
	Kshs	Kshs
Bank borrowings		
Non- Current	240,676,539	47,130,656
Current	81,950,760	95,984,641
Total Bank borrowings	322,627,299	143,115,297

The Company currently has four running loans namely:

- A five year term loan for the Kirigiti water Extension project at Co-operative bank of kenya for which the monthly principal repayment is Kshs. 1.7 million. Interest rate is as per CBK regulations on reducing balance,
- A 10 month Insurance premium financing for which the monthly principal repayment is kshs 7.4 million. Interest rate at 8.64% flat rate
- A four year working capital for the Kayole Soweto Informal settlement water improvement project at Sidian Bank Ltd. The interest rate is as per CBK regulations on a reducing balance basis, and
- A term loan for financing sanitation connections in the informal settlement of kes 600 million under the OBA project co-financed by the World Bank. At the close of the period the company had made a drawdown of kes 214,684,519. Interest rate at 13% pa reducing balance.

The company maintains an overdraft facility with the co-operative bank of Kenya of Kshs. 35 million that may be utilized by the company to reduce liquidity risk. As at the close of the period the company had utilized Kshs 15,310,034 which is included in the current borrowings.

The facilities are secured by the following

- i. Debentures over the entire assets of the company for kes 500 million (Five hundred million only)
- ii. An assignment agreement of our receivables;
- iii. Daily cash/ call deposits build up in the amount of kes 2,000,000 per day via standing order;
- iv. Duly executed lien and cash charge documentation to back the arrangement under items iii and iv above;
- v. Executed general terms and conditions

22. TRADE AND OTHER PAYABLES

	2017	2016
	Kshs	Kshs
Trade payables	1,171,369,322	1,164,156,160
Other payables	1,515,226,852	1,436,398,370
Total	2,686,596,174	2,600,554,530

In the opinion of the Board, the carrying amounts of payables approximate to their fair value. The maturity analysis of trade and other payables are shown in note 33 (a) (ii).

23. CUSTOMERS WITH CREDIT BALANCES

	2017	2016
	Kshs	Kshs
Customers credit balances	152,679,015	88,891,517

24. PROVISIONS FOR LEAVE ACCRUALS

	2017	2016
	Kshs	Kshs
As at opening	313,986,034	412,381,169
Prior year adjustment	0	(163,458,568)
Restated opening bal	313,986,034	248,922,601
Decrease / Addition for the year	(54,236,946)	65,063,433
As at closing	259,749,088	313,986,034

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

25. AMOUNT DUE TO RELATED PARTY TRANSACTIONS

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

Athi Water Services Board (AWSB) is the Asset Holding Entity. During the year the transactions conducted between these related entities were at arm's length and in the normal course of business in compliance with the provisions of the Service Provision Agreement, the Tripartite Agreement and the Water Act 2002. The following transactions were carried out with related parties:-

	2017	2016
i) Lease fees for the year payable to Athi Water Services Board:	Kshs	Kshs
As at July	2,323,072,313	2,026,541,136
Fees for the year	1,235,987,113	1,013,128,614
Asset Renewal		83,333,333
Sub-total	3,609,059,426	3,123,003,083
Lease fees paid	(266,916,107)	(714,445,211)
Lease fee offsets	0	(85,485,559)
Deposits refunded on behalf of AWSB	0	
Subtotal	(266,916,107)	(799,930,770)
At 30 June	3,292,143,319	2,323,072,313
ii) Inherited debts from Nairobi City County		
At 1 July	186,953,678	186,953,678
Paid during the year		
At 30 June	186,953,678	186,953,678
Grand Total	3,479,096,997	2,510,025,991
Classification of related party payables		
Non- current	2,332,481,981	1,363,410,975
Current	1,146,615,016	1,146,615,016
Total	3,479,096,997	2,510,025,991
iii) Billing of Water services to NCC		Restated
At 1 July	84,189,355	0
Billing for the year	131,863,500	169,674,914
Paid/offset during the year	(5,297,878)	(85,485,559)
At 30 June	210,754,977	84,189,355

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

26. MANAGEMENT STAFF COMPENSATION

Key management compensation:	2017	2016
	Kshs	Kshs
Salaries and other short term benefits	1,171,650,549	911,693,300
Termination benefits	100,902,993	151,356,907
Post employment benefits	52,648,792	42,838,885
Total	1,325,202,334	1,105,889,082
v) Director's remuneration:		
-Fees for services as Directors	17,740,846	0
-Other emoluments as Chief executive (included in key management compensation above)	13,727,509	13,032,532
Total	31,468,355	13,032,532

A listing of the members of the Board of Directors who served during the period is shown on page 7 of these financial statements.

27. PRIOR YEAR ADJUSTMENTS

Prior year adjustments comprise the following:	2017	2016
To revenue reserve	Kshs	Kshs
Trade Receivables (i)	(420,927,001)	(309,177,993)
Other Receivables (ii)		(118,837,429)
Leave pay provision (iii)		163,458,568
Trade payables/Stakeholders expense (iv)	3,500,000	
Total	(417,427,001)	(264,556,853)

Sub-notes:

- (i) Correction of prior period trade receivable balances due to errors in billings
- (ii) Reversal of disallowable VAT refund claims by the Kenya Revenue Authority.
- (iii) Leave pay provision reversal/reduction
- (iv) Stakeholder's expense budgeted at kshs 7million reversal after being reduced to kshs 3.5 million.

28. CASH GENERATED FROM OPERATIONS

Reconciliation of surplus before tax with cash generated from operations:		2017	2016
	Notes		Restated
		Kshs.	Kshs.
Surplus for the year before tax		(295,911,748)	114,736,389
Adjustment for :			
Revenue reserve	27	(417,427,001)	(264,556,853)
Depreciation of property, plant and equipment	12	192,882,675	183,525,188
Amortization of intangible assets	13	11,250,296	9,022,312
Amortization of grant asset	19	(7,067,846)	(759,444)
Interest expense	9	72,883,129	53,625,019
Loss on retirement			
Operating surplus before working capital changes		(443,390,495)	95,592,611
(Decrease)/ Increase Trade and other receivables		(289,701,095)	(317,355,067)
Increase /decrease in Inventories		(65,569,107)	25,544,102
Increase in Trade and other payables		86,041,644	499,099,731
Increase in Provisions		(54,236,945)	(98,395,136)
Increase in Customer deposits		76,114,720	75,358,525
Increase in Amount due to related parties		969,071,004	296,531,176
Cash generated from operations		278,329,726	576,375,942

29. EMPLOYEE RETIREMENT BENEFITS EXPENSE

The employee retirement benefits expense comprises:

	2017	2016
	Kshs	Kshs
National Social Security Fund	2,736,355	2,838,480
Provident fund/pension fund	435,933,093	360,269,621
Gratuity	157,558,165	151,356,907
	596,228,113	514,465,008

30. COMMITMENTS

	2017	2016
	Kshs	Kshs
Contracted but not provided for	875,325,293	576,494,914

31. FUTURE RENTAL COMMITMENTS UNDER OPERATING LEASES

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

	2017	2016
	Kshs	Kshs
Within 1 year	106,905,620	87,848,146
After 1 year but less than 5 years	158,664,054	179,625,310
	265,569,674	267,473,457

32. CONTINGENT LIABILITIES

This comprises of (a) pending suits and disputed claims arising from debts inherited from NCC in which the Company has been enjoined as a defendant plus other pending suits instituted against the company, all amounting to Kshs, 3,936,101,675 (2016: Kshs 3,632,721,880). The likely outcome of these matters cannot be determined as at the date of signing these financial statements. Based on the information currently available, the Directors believe that the ultimate resolutions of these legal proceedings, claims and tax exemption application are not likely to have a material effect on the results of the Company's operations, financial position or liquidity.

33. RISK MANAGEMENT OBJECTIVES AND POLICIES

(a) Financial risk management

The company's activities expose it to various financial risks and market risks e.g. foreign exchange risk, interest rate risk and price risk, credit risk and liquidity risk. The Company's overall risk management policies are set out by the board and implemented by management, and focus on the unpredictability of changes in the business environment and seek to minimize the potential adverse effects of such risks on the Company's performance by setting acceptable levels of risk. The Company does not hedge against any risk.

i) *Credit risk*

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. Credit risk mainly arises from financial assets, and is managed on a company-wide basis. The company does not grade the credit quality of financial assets that are neither past due nor impaired.

Credit risk on financial assets with banking institutions is managed by dealing with institutions with good credit ratings.

Credit Risk on trade receivables is managed through a monthly review of outstanding balances. Payments not received within the contractual credit period are enforced through disconnection. Any identified errors in billing that can delay revenue realization are adjusted on a weekly basis. The debt of over 480 days is provisioned and written back when realized.

The maximum exposure of the company to credit risk as at the balance sheet date is as follows:

	Fully Performing	Past due but not Impaired	Past due and Impaired	Total
	Kshs	Kshs	Kshs	Kshs
As at 30th June 2016				
Financial assets				
Trade receivables	632,404,724	886,667,517	6,554,846,700	8,073,918,941
Other receivables	782,147,429	71,614,485	55,512,564	909,274,478
Cash at bank	167,099,343			167,099,343
Gross financial assets	1,581,651,496	958,282,002	6,610,359,264	9,150,292,762
As at 30th June 2017				
Financial assets				
Trade receivables	560,170,527	973,250,320	6,285,289,822	7,818,710,669
Other receivables	761,103,040	494,103,664	55,512,564	1,310,719,268
Cash at bank	123,801,631			123,801,631
Gross financial assets	1,445,075,198	1,467,353,984	6,340,802,386	9,253,231,568

The past due debtors but not impaired continue to be paid. An impairment provision of Kshs 6,340,802,386 (2016: 6,610,359,264) is held against the impaired receivables. The company does not hold any collateral against the past due or impaired receivables except for the nominal customer deposits. The management continues to actively follow up past due and impaired receivables.

ii) *Liquidity risk*

Liquidity risk is the risk that the company will encounter difficulty in meeting obligations associated with financial liabilities. The board has developed a risk management framework for the management of the company's short, medium and long-term liquidity risk by continuously reviewing forecasts and actual cash flows, and maintaining banking facilities to cover any shortfalls. The Company maintains an overdraft facility of Kshs. 50 million that may be utilized by the company to further reduce liquidity risk. This facility is reviewed annually in order to factor the company's changing circumstances.

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

Year ended 30th June 2017	0-1 month	1-3 months	3-12 months	over 1 year	Total
Trade payables	113	193	479	386	1,171
Payables to related parties	107	213	916	2243	3,479
Other payables	348	186	635	346	1,515
Loans from bank	6	11	49	256	322
Total	574	603	2079	3231	6,487
Year ended 30th June 2016					
Trade payables	224	87	396	455	1,162
Payables to related parties	96	191	723	1,500	2,510
Other payables	679	188	453	118	1,438
Loans from bank	8	16	72	47	143
Total	1,007	482	1,644	2,120	5,253

iii) *Market risk*

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

Interest rate risk

The company is exposed to cash flow interest risk on its variable rate borrowings because of changes in market interest rates. The company manages this exposure by maintaining a high interest cover ratio, which is the extent to which profits are available to service borrowing costs. If the interest rates on the company's borrowings at the year-end were to increase/decrease by 1% percentage points, with all other factors remaining constant, the post tax loss/profit would be lower/higher by Shs 7,281,411

Currency risk

The Company operates wholly within Kenya and its assets and liabilities are reported in the local currency.

(b) Capital management

The company manages its capital to ensure that it will be able to continue as a going concern while maximizing the return to shareholders through the optimization of the debt and equity balance.

The capital structure of the company consists of debt, which includes the borrowings and equity comprising issued capital, capital grant and revenue reserve as disclosed in notes 17, 18, 19 & 21. In order to improve on the capital structure, the company may replace the short term funding with long term funding and also improve on the efficient management of working capital particularly the accounts receivables.

	2017	2016
		Restated
	Kshs	Kshs
Total Debt	2,876,606,925	2,523,118,332
Less cash and cash equivalents (Note 16)	123,801,631	167,099,343
Total Debt net of cash	2,752,805,294	2,356,018,989
Total equity	(2,059,261,524)	(1,883,983,097)
Total Capital resources	693,543,770	472,035,892
Gearing (net debt over total capital resources)	397%	499%

34. **COMPARATIVES**

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