"Maji Safi Kwa Wote"

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED

30TH JUNE 2018

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

Registered Office:

Bomet Water Company Limited,
Bomet Town,
Kipjamba Road
P.O. Box 588-20400
Bomet, Kenya.

Corporate Contacts:

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E-mail: bomwasco@gmail.com
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Corporate Bankers:
Co-operative Bank of Kenya,
Bomet branch,

Equity Bank
Bomet, Kenya

Postbank
Bomet Branch

Independent Auditors:

Office of Auditor General,
Kenya National Audit Office,
Anniversary Towers, University Way,
P.O. Box 30084,
GPO 00100,
Nairobi, Kenya.

BOARD OF DIRECTORS

Photo	Directors and Qualification	Date of Birth and Experience
	Mr Paul Langat Diploma in Education	**Date of Birth:** 1964 Over 30 years' Experience in Teaching and community water management.
	Mr Joseah Korir Degree in Education	**Date of Birth:** 1973 Over 15 years of Teaching and community water management
	Mrs Sarah Koskei Diploma in Education	**Date of Birth:** 1949 Over 37 years Experience in Business and Community Water Management.
	Mrs Diana Sang Bachelor of Science in Education	**Date of Birth:** 1974 Over 22 years in Teaching and Senior Management level, Several years in Community Water Management.
	Mr Livingstone Bii Diploma in Theology	**Date of Birth:** 1961 Over 38 years in Teaching profession, Businessman and several years in community water management.
	Mrs Joyce Kemei MBA Finance, B.Com Degree in Accounting option.	**Date of Birth: 1979** Over 7 years of accounting experience In accounting field
	Eng. John Cheruiyot Bachelor of Science in civil Engineering, Water Engineer and Trained Director.	**Date of Birth: 1959** **Experience:** 31years in water Sector. 15 years as CEO of Water Companies.

MANAGEMENT TEAM

Photos & Designation	Management and Qualification	Date of Birth and Experience
Ag Managing Director	**Mr. David K Koech** PHD Student Masters in water management Bachelor of Science Chemistry	**Date of Birth:**1968 **Experience:**23 years experience in Kenya Bureau of Standards
 Ag. Technical and operation Manager	**Mr. Milton Kitur** Diploma in Water technology	**Date of Birth:**1976 **Experience:** Acting Technical and operation Manager. Over 5 years of teaching experience and 7 years in water sector.
 Human Resource and Administration Manager	**Mrs Anne Turgut** Masters in organisational Leadership Bachelor of Commerce in Human resource management, Diploma in Human resource management, Public Relations and Banking Certificate in Information Technology(ICDL)	**Date of Birth:1967** **Experience:** 5 years experience as Director Human Resource management County Government of Bomet. Over 22 years experience in Central Bank of Kenya and 3 years Experience in Kenya National Examination Council.
 Commercial and Finance Manager	**Mr. Patrick Langat** Bachelor of Business Management, Diploma Civil Engineering and Certificate in GIS.	**Date of Birth:**1978 **Experience:** Commercial and Finance Manager with Over 15 years working experience in Kericho Water and Sanitation Company and Bomet Water Company Limited.

CHAIRMAN'S STATEMENT

I take this immense pleasure at this opportunity to present to you the Annual Report and financial statements for the period ended 30th June 2018.

Operating Environment

During the year under review, the National Growth Rate increased by 1.2 % from 4.6 % in 2017 to 5.8% in 2018 (*Kenya Economic Update (KEU)*.This was attributed to better weather and less political risk after last year's presidential election.
The company, during the period under review, operated under the new Water Act 2016 which came into operation from April 2017. However, the regulations are yet to be released by the parent ministry which will fully operationalize the Act. Nonetheless, the Act has streamlined the functions of National and County Governments which had hitherto been in conflict.

Performance Review

The Company has continued to expand the services in an effort to reach more customers in our coverage as laid in our five-year strategic plan. Last year, we held various Board meetings which met the threshold of the required minimum of yearly meetings. We played our oversight and policy making roles. Therefore, I stand here to inform you that the business of the Company was executed with due diligence; always ensuring that the interests of the shareholder and those of the community, were taken care of.

Financial performance

The financial year 2017/2018 is the 1st complete year where the company implemented the new tariffs introduced in April 2017; the company reported an increase in turnover by about 18.5 per cent from Kshs 91.8m to Kshs 108.7m. The growth in turnover can be attributed to increase in tariff, increased customer base, and increased metered customers. The Company continued to receive subsidies from the County Government of Bomet to a tune of Kshs.91.3million. There was an improvement in revenues; however, the amounts generated are still low and the company continues to rely heavily on County government to cover some cost of operations.

Challenges

The company has been in operation for the last four years; however, it is faced with a few challenges which are being addressed. The main challenges are low customer base, high electricity cost, inflation, vandalism of infrastructure and high Non Revenue Water.

a. High Electricity Cost

The Company continues to rely heavily on pumping system in all its facilities which leads to high electricity cost. This makes water provisions unsustainable. This is being address by changing the technology to gravity systems. Towards this end the National Government in collaboration with County Government are implementing two mega gravity projects which are expected to be completed by 2021.

b. Low customer base

The Company inherited water infrastructure which covers 20% of Bomet county area. This area of coverage is low and it is expected that the above two mega gravity projects once completed will increase the coverage to 70% of the county and hence bring about sustainability.

c. Damage of pipeline network due to ongoing road construction.

During the period under review, the company incurred major losses due to damage of pipe reticulation system by road contractors undertaking various projects in the county. The affected areas include, Chepalungu (tarmacking of Chebole- Siongiroi road), Kapletundo and Kaplong area (tarmacking of Kapletundo-Kapingogen road), Kamureito area (tarmacking of Chebole-Daraja sita road), Simoti area (tarmacking of Kaptengecha –Koiwa road).

d. Inflation

During the financial year 2017/2018, the company had to cope with inflation in prices of various factors of production including:

- Chemicals
- Electricity
- Fuel

This is evidenced by the increase in the cost of the said items during the financial year vis a vis the cost in the previous financial year.

e. High Non-Revenue Water

The Non revenue water stood at 54% during the period. The company has been steadily reducing the same from 67% at the inception of the company to the current level which is still high and now requires a technological intervention to accelerate the rate of reduction. The company has partnered with Netherlands based Vitens Evides in a program to reduce NRW in Bomet area with a planned replication in other areas.

f. Implementation of V.A.T. levy on Sewer charges and meter rent.

During the period under review, the Kenya Revenue Authority (KRA) implemented Value Added Tax levy on all sewer and meter rent charges. This is bound to increase the consumer bills from the current level. It will be noted that the V.A.T. levy had not been factored in the water tariff and the company may be forced to pass on the same to the consumer.

Future Outlook

BOMWASCO continues to implement the 2015-2019 strategic plan which is set to end next year. We continue to count on the support of all our stakeholders to achieve the vision of our company. We look forward to the implementation of the planned gravity mega projects of Bosto and Bomet-Mulot through the National Government, the Chebang'ang' water project through Partnership of The Kenya Red Cross Society and County Government of Bomet as well as the numerous interventions within the Department of Water and Irrigation of Bomet County

Government. Through these projects, the company is expected to finally achieve its goals of self sustainability provision of water services to all, and contribute towards the achievement of the National Governments Big 4 agenda.

From the aforementioned, indeed the future of the company is bright.

Conclusion

As the chairman of board, I wish to confirm Board's commitment in directing the company to achieve its heights. The immense support the county government of Bomet continues to give the company in terms of subsidy, technical and moral support is highly appreciated. I congratulate all the Board Members, Management and the entire staff of Bomet Water Company Ltd for their commitment and dedication. Going forward, we shall continue to rely on your support in order to deliver on our promise to the delight our customers.

THANK YOU, AND GOD BLESS US ALL

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ENG. BENSON SANG
CHAIRMAN, BOARD OF DIRECTORS

REPORT OF THE MANAGING DIRECTOR

INTRODUCTION

Bomet Water Company prepared this annual report to fulfil its obligation of providing information on performance to the licensee, the water regulator, the Government of Kenya, and the stakeholders. In the period covered by the financial report, there was regular provision of water services save for minor interruptions occasioned by power outages, power fluctuations, drought and general breakdowns. A major chunk of the company's service area was also affected by damage of pipes by road contractors who are undertaking tarmacking of roads within Bomet County.

Financial review

During the year 2017/2018, the company turnover rose from Kshs 91,798,000 to Kshs 108,730,365 representing 18.5 percent increase. There was however decline in subsidies received from the County Government of Bomet from Kshs 100,599,890 to Kshs 91,300,000 representing 9.24 percent. This was in line with Company's strategic objectives of achieving financial sustainability. The total costs increased from Kshs 169,190,711 to Kshs 189,823,922 representing 8.2 percent. This was occasion by increased distribution in an effort to reach more customers and as a result translated to increase in turnover.
The operation & maintenance cost recovery increased from 48% to 54% during the period. The revenues improved drastically. However the amounts generated are still low and the company continued to rely heavily on County Government to cover some cost of operations.
The company had been operating under an Extra Ordinary Tariff (ETA) of the year 2009 since it began operations. During the period under review, the company applied for a Regular Tariff from the regulator. The new tariffs were subjected to a public consultation meeting in Bomet town as well as being advertised across national newspapers for comments, after which they were approved by the regulator. The company began implementation of the tariff in March 2017 as directed by the Regulator. It is important to note that these approved tariffs are still not cost recovery since cost recovery tariffs would have made water unaffordable to the customers. To cushion the company, the national water regulator factor subsidy from the County Government.

Customer focus

During the year the company migrated to cashless mode in revenue collection with an aim of improving service delivery and ease of payment by our customers. Customer care assistants were deployed to all areas in an effort to get closer to the customers and reduce time taken to resolve customer complaints as per the company's service charter.
The company is in the process of acquiring e-billing software to automate customer interactions as well as enable customers to query and track their bill payments.

Water Quality

Numerous tests were carried out on water prior to and after treatment in order to ensure that the water produced and supplied is of high quality and meets the standards required. All the tests carried out passed the minimum threshold of the national water quality standards

Technical Operations

During the period the company produced 3,912,273 cubic meters of water in all its schemes which were supplied to customers within our area of coverage. A total of 14.76 km of pipeline extension within the coverage area were laid.

The company commenced operation of Sigor water supply project which was being constructed under the Bomet Integrated Development Programmes (BIDP). The project was co-funded by the Kenya Redcross Society and the County Government of Bomet. The project is gravity fed; however, there is an element of pumping to elevate water to a tank serving 30% of the service area.

Water was supplied to customers for a minimum of 12 hours and to maximum of 22 hours depending on the uniqueness of each scheme.

The overall Non-Revenue Water (NRW) currently stands at 54% which is an increase of 4% from 50% during the previous period caused by damaged pipeline by the ongoing road constructions within Bomet County. During FY2017/18 the company implemented an NRW program under the Performance Enhancement of Water Utilities in Kenya, PEWAK programme. The exercise was able to reduce the NRW in Bomet Scheme from 40% to 31% during the period. The Company plans to upscale the lessons learnt from the program and cover Sotik and Longisa.

In pursuit of sustainable gravity projects, the company provided necessary assistance for the designs of Bosto and Bomet-Mulot water project which are to be funded by the National Government through National Water Conservation & Pipeline Corporation and Lake Victoria South Water Services Board respectively.

The Company operated the new Bomet Town sewerage system and formally took over the completed LVEMP II project which involved laying of sewer line within the Bomet Town and construction of office and laboratory at the sewerage treatment plant. The company is actively participating in the drafting of the scope for LVEMP III-program.

Conclusion

On my behalf and that of our Board of Directors, I wish to thank you, our shareholders for the unwavering support you extended to the company throughout the year. We appreciate our customers for remaining loyal to us. I am grateful to the management team and staff for putting in so much effort in realizing this impressive performance.

We continue to count on your support and reaffirm our commitment to meeting all the company's goals while remaining focused on delighting our customers.

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DAVID K KOECH
Ag. MANAGING DIRECTOR

CORPORATE GOVERNANCE STATEMENT

The corporate governance structure ensures that we act with high standards of corporate behaviour and in the best interests of our stakeholder. The Board of Directors has the authority to perform the functions and determine the policies that control the trust activities.

The Board is responsible for our overall corporate governance and approves strategic directions and budgets. On the other hand the management ensures that all statutory requirements are complied with, internal control systems are in place and operate effectively; in addition the management ensures that board decisions are fully implemented.

The structure of the Board is as per the corporate governance guidelines issued by the Water Services Regulatory Board.

- The Board of Directors comprises 5 members nominated from each sub county and 2 members who are representative from the County Government of Bomet , Department of Water and Finance
- The Managing Director sits in the board as a full time director and as a board secretary.
- The Directors are appointed for terms of up to three years and are eligible for re-appointment for another final term of three years.
- The Directors have broad range of skills and experience.
- The Board has three committees namely; Technical Committee, Finance & Human Resource Committee and Audit Committee.
- Any issue(s) outside the above committees may be handled by specially constituted Ad Hoc committee, made by a resolution of the Board of Directors including its membership & role.
- The Board, in consultation with management, develops strategic direction for the annual and long-term period.
- The board also prepares for the Annual General Meeting and determines the agendas in which annual audited accounts are presented.

At its regular meetings, the Board considerations include:

- Technical performance & capital investment projects
- Finance and HR progress quarterly reports and budget approval
- Audit reviews and quarterly reports.

Other considerations include approval of policies & amendments thereof.

Bomet Water Company Ltd is committed to the values and principles of good corporate governance. Good corporate governance requires that the board of directors must govern the company with integrity and enterprise in a manner which entrenches and enhances the mandate it has. Towards this end all directors attended two (2) days Board Retreat.

Composition of the Board of Directors

The Board is chaired by Mr. Paul K Langat who also attends the Technical, Finance and Human Resource committee as in attendance. He chairs the board meetings giving direction during board meetings.

Technical Committee

The committee is chaired by Josiah Korir and includes; Mrs. Sarah Koskei, and Mr. David Langat. The committee secretary is the Technical Manager. Each member of the Committee has a general familiarity with the technical aspects of the water and sanitation industry necessary to undertake the committee's responsibilities to oversee the company's technical activities. The committee receives and review reports on operational performance. It assists the Board of Directors in monitoring and reviewing any project(s) development and major asset acquisition. The committee reviews and makes recommendations to the Board of Directors on matters relating to the infrastructure assets of the Company, including building master plans, capital project plans and so on.

Finance and Human Resource Committee

The committee is chaired by Mrs. Diana Sang Rono and includes Mr. Paul Langat, Mr. Livingstone Bii and Mrs. Joyce Kemei. The committee secretary is the Commercial and Finance Manager. Each member has experience in management skills necessary for discharge of duties. The committee supports and assists the Board in the effective discharge of the Board's responsibilities in finance, human resource, information and communication and inventories. The committee receives and reviews reports on the financial performance, annual budget, changes to the water tariff and staff matters. The committee ensures that adequate plans, policies and programmes are in place to promote the effectiveness, integrity and security of the Company information technology systems and their operations.

Audit Committee.

The committee is chaired by Mrs. Sarah Koskei and includes Mr. Joseah Korir and Mr. Livingstone Bii. The committee secretary is the Internal Auditor. Each member has experience and necessary skills to undertake the committee's responsibilities to oversee the Company's financial reporting principles and policies, controls and procedures and its auditing activities. The audit committee meets and reviews reports from the Internal Auditor and major findings on internal audit and investigations and considers management response or actions thereto.

The Committee's reports summarized issues discussed by the respective committee to the full board. The same are deliberated upon and resolutions made accordingly.

MANAGEMENT DISCUSSION AND ANALYSIS

COMMERCIAL PERFOMANCE

During the year, the number of customer connections increased by 1,120 connections. This was due to marketing and pipeline expansion undertaken. The Company also managed to bill customers a total of Kshs 108.7 million and collected total revenue of Kshs 75 million representing collection efficiency of 69%.
During the year, there was an increased in total expenditure from Kshs 169,190,711 to Kshs 189,823,922 representing an increase of Kshs 20,633,211 and translating to 12 % increase due to increased distribution cost in an effort to increase number of new customer connections and repairs of damaged pipeline caused by the ongoing road expansion within Bomet County. There was an increased in electricity costs from Kshs 58,322,114 to Kshs 68,789,821 representing an increase of Kshs 10,467,707 translating to 18% increased. This is attributed to payment of electricity arrears which was under dispute between KPLC and the Company.

OPERATIONAL PERFOMANCE

During the period, the company was able to produce 3.9M cubic meters of water from water production facilities. Out of these 2.1million cubic meters was sold. The water produced was of high quality meeting WHO standard as recommended by the regulator. As indicated above, the Non Revenue Water during the period was 53% which is a drop from 50% the previous financial year due damaged pipeline caused by road network construction. The Company mounted various programmes to reduce Non Revenue Water. Among the programme is Performance Enhancement of Water Utilities in Kenya, PEWAK which is a partnership program between Vitens and Evide from Netherland and the Company. Bomet Water scheme was piloted and this has resulted in a reduction in NRW from 40% to 31% while at Sotik and Longisa, their implementation plans were ready to be rolled out.
In order to secure future water demand, two major water projects were at various stages of design during the year. Bosto Water Project contract with a designed capacity of 80,000 cubic meters per day was awarded by the client whereas Bomet-Mulot with a designed capacity of 20,000 cubic meters per day was still under detailed design stage. These projects once implemented by the National Government agencies will increase water coverage area from current 20% to 70% of the county.
On sewerage, phase II of LVEMP project was completed during the year. However, we were able to connect 71 customers including a major Hotel with a bed capacity of about 200.

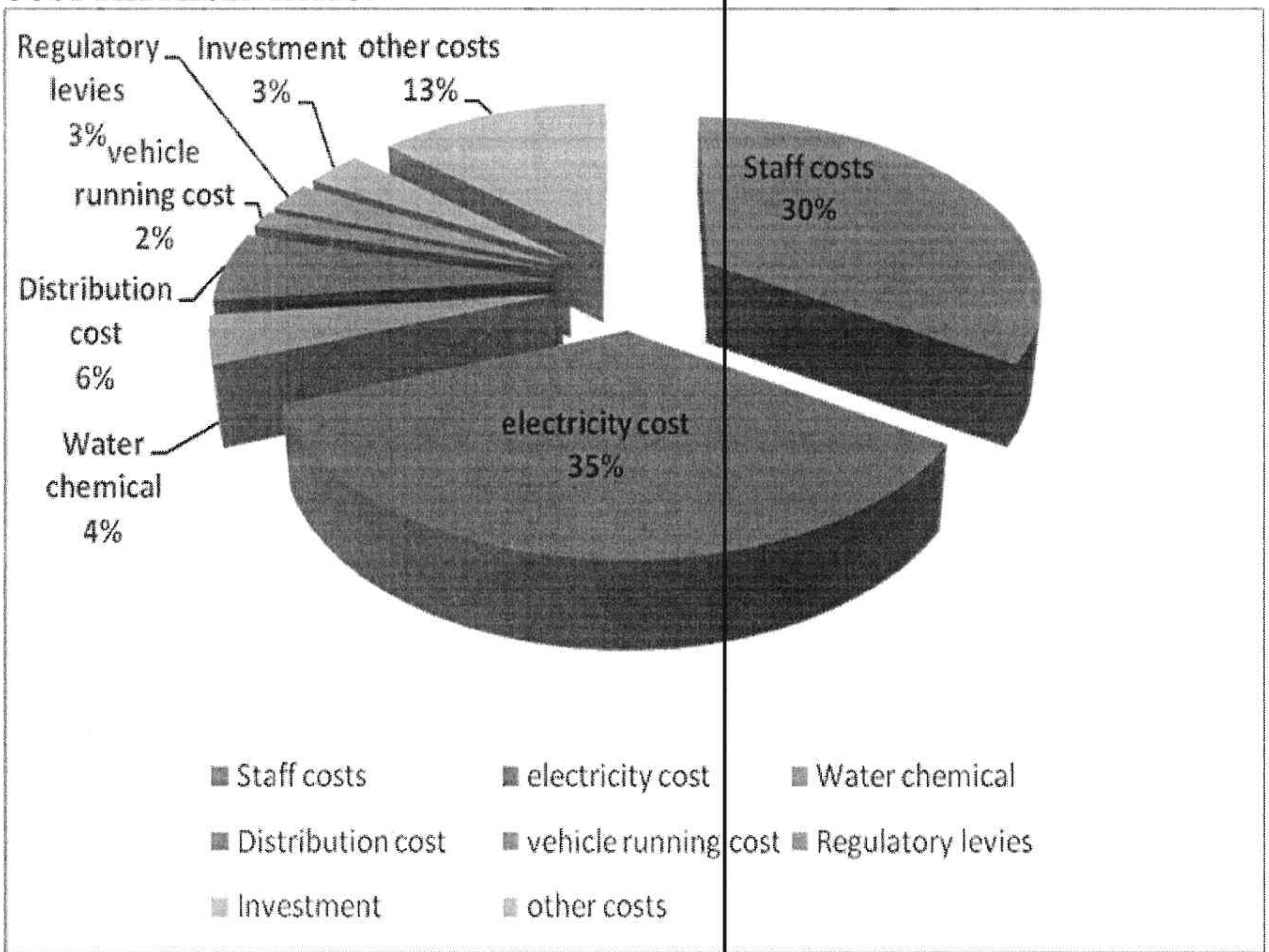
HUMAN CAPITAL

During the period, the company implemented staff performance management system whereby senior and middle level staff signed performance contract whereas the lower carder signed key performance indicators. This improved the performance drastically.

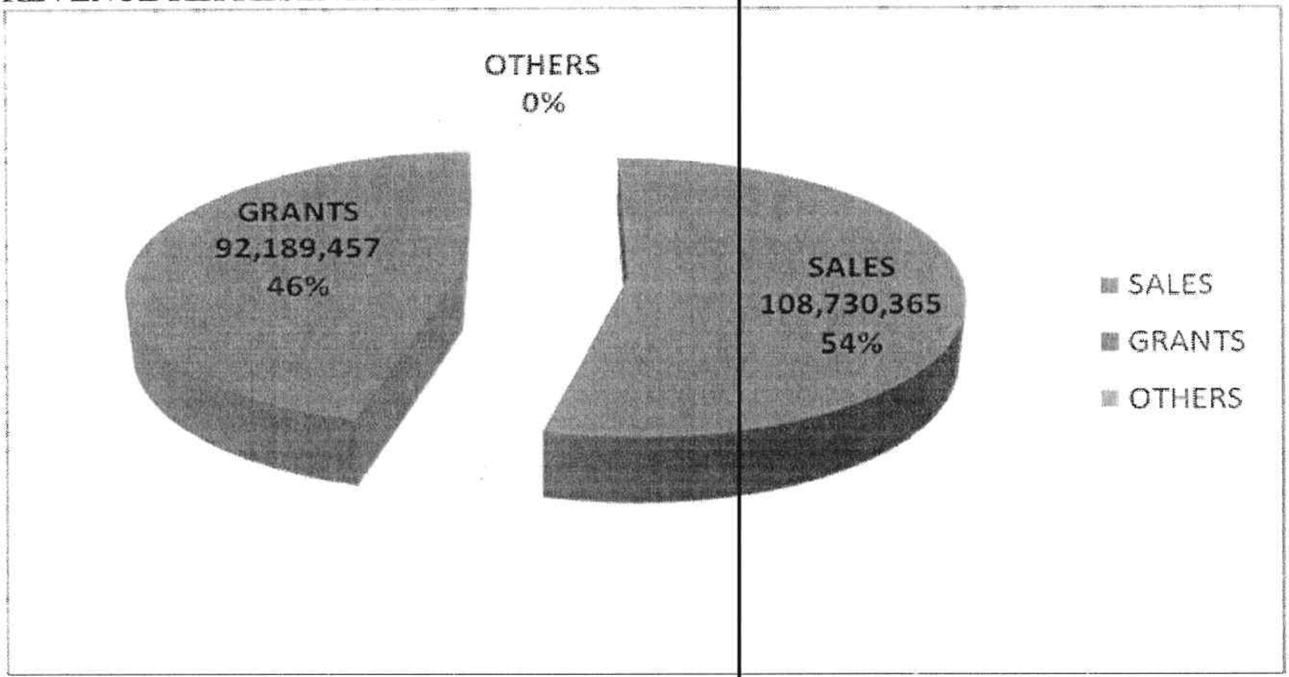
In order to further improve performance, the company mounted several capacity building programs geared towards improving staff skills. These include training on customer care, billing, supervision, audit, finance, credit control, operation & maintenance, NRW control and management. This went along way in enhancing staff motivation.

Graphical representations:

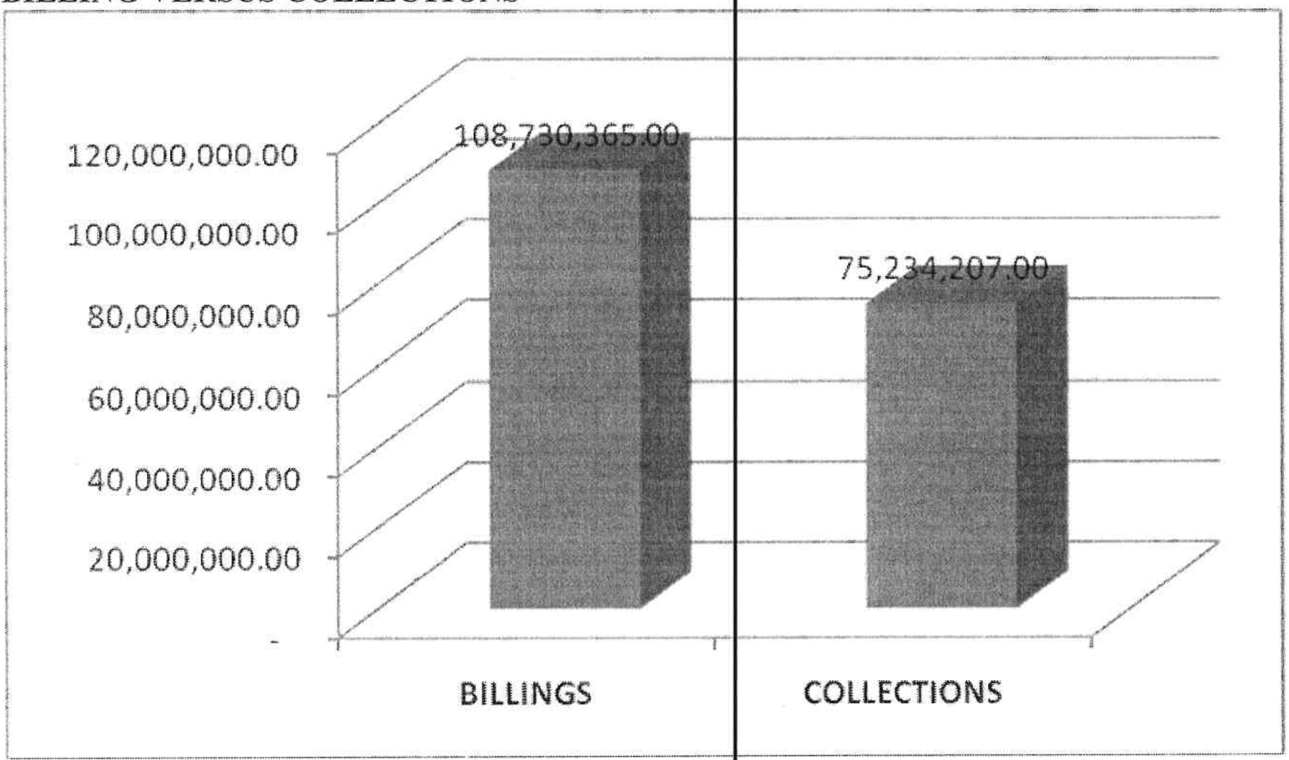
COST REPRESENTATION



REVENUE REPRESENTATION



BILLING VERSUS COLLECTIONS



CORPORATE SOCIAL RESPONSIBILITY STATEMENT

The Company recognizes that it has responsibilities to all stakeholders which include the interests of customers, suppliers and employees and the community; the need for company's relationships with customer, suppliers and others and the impact of its operations on the local communities and the surrounding environment where it operates. Customers are highly regarded and valued and their contribution to the Company is highly respected.

The Environment

The Company relies on the environment which provides water which is produced, treated and transmitted via pipeline to respective customers. On sewer management, the sewerage system is still new and has not yet discharge effluent to the environment. The water treatment plant uses certified chemicals in dosing system. A well managed environment is the key to human kind survival and the BOMWASCO shall endeavour to play its role.

Social Events/Community

The company recognizes co-existence with others and hence it has been actively involved in activities and social events occurring within its area of jurisdiction. Bomet water acknowledges its responsibility to the society in its capacity as a corporate citizen. Consequently, it endeavours to play an active role in water issues in the county. In the year under review Bomwasco provided water tanker services to schools, health facilities and public functions at areas outside the gazetted area of jurisdiction at an affordable rate. The company also visited children's home.

The Customer

Efficient delivery of services to our customer is one of the crucial areas of the Company's operations. The hours of water supply range from 12 to 22 hour service per day. The interruptions were minimal. Customer service is an area of high priority as the Company is cognizant of the importance of the customer in the service delivery process and indeed to its overall performance. The Company is therefore committed to effective communication with the customers and sensitizing them on key issues in the management of water resource especially at the consumption point.

Though the company has not fully met needs of unserved customers, the company has endeavoured to extend service using its own resources and has even mobilized funds from donors to extend service to customers.

Human Resource

The Company recognizes that health, safety and training, play a key role in ensuring that our employees committed to responsibility in the workplace and a working environment in which personal and employment rights are upheld. Effective policies and procedures are aligned with Company needs and the promotion of good communication processes, to assist timely and consistent delivery of relevant information to employees.

The Company provides equal opportunity for all employees and job applicants. It has in place policies covering issues such as performance management, training and family friendly policies. E.g. Compassionate Leave, Paternity Leave. The employees of the Company are active players of various teams which complete locally and nationally.

Stakeholders

The company actively encourages open communication with stakeholder. Principally through the board, the company endeavors to establish and maintain healthy relationships with its institutional stakeholders by holding regular consultations on issues requiring stakeholder participation as enshrined in the Constitution of Kenya 2010.

REPORT OF THE DIRECTORS

The Directors submit their report together with the audited financial statements for the year ended June 30, 2018 which show the state of the Company's affairs.

Principal activities

The principal activities of the Company are that of the provision of water and sanitation services to residents of Bomet County.

Results

The results of the Company for the year ended June 30, 2018 are set out on page 21 – 41

Directors

The members of the Board of Directors who served during the year are shown on page 5 in accordance with Regulation of the company's Articles of Association.

Auditors

The Auditor General is responsible for the statutory audit of the company in accordance with Article 229 of the Constitution of Kenya and the Public Audit Act 2015
Signed

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Director

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Companies Act, require the Directors to prepare financial statements in respect of the company, which give a true and fair view of the state of affairs of the company at the end of the financial year/period and the operating results of the company for that 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 of the company for and as at the end of the financial year (period) ended on June 30, 2018. This responsibility includes: (i) maintaining adequate financial management arrangements and ensuring that these continue to be effective throughout the reporting period; (ii) maintaining proper accounting records, which disclose with reasonable accuracy at any time the financial position of the company; (iii) designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of the financial statements, and ensuring that they are free from material misstatements, whether due to error or fraud; (iv) safeguarding the assets of the company; (v) selecting and applying appropriate accounting policies; and (vi) making accounting estimates that are reasonable in the circumstances.

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

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

Approval of the financial statements

Bomet Water and Sanitation Company Limited financial statements were approved by the Board on 8th September, 2018 and signed on its behalf by:

Director

Director

REPUBLIC OF KENYA

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P.O. Box 30084-00100
NAIROBI

HARAMBEE

OFFICE OF THE AUDITOR-GENERAL

REPORT OF THE AUDITOR-GENERAL ON BOMET WATER COMPANY LIMITED FOR THE YEAR ENDED 30 JUNE 2018

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of Bomet Water Company Limited set out on pages 20 to 39, which comprise the statement of financial position as at 30 June 2018, and the statement of comprehensive income, statement of changes in equity, statement of cash flows and statement of comparison of budget and actual amounts for the year then ended, and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, 2015. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

In my opinion, except for the effects 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 Bomet Water Company Limited as at 30 June 2018, 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 Kenyan Companies Act, 2015.

Basis for Qualified Opinion

1. Trade and Other Payables - Customer Deposits

The statement of financial position as at 30 June 2018 reflects trade and other payables balance of Kshs.47,354,771. As disclosed in Note 12 to the financial statements, the balance includes customers' deposits of Kshs.2,137,989 which differs with the bank balance of Kshs.16,076,000 for the account. The resulting difference of Kshs.13,938,011 has not been explained or reconciled. Consequently, the completeness and accuracy of the customers' deposits balance of Kshs.2,137,989 can not be confirmed.

2. Trade Receivables

The statement of financial position reflects trade and other receivables balance of Kshs.126,973,166 which includes trade receivables of Kshs.126,313,747. Out of the trade receivables balance, an amount of Kshs.101,083,663 or 80% relates to customers whose debts had remained uncollected for a period of over 90 days as of 30 June 2018 and thus raising doubts on the collectability of the same.

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. Except for the matters described in the Basis for Qualified Opinion and Basis for Conclusions on Lawfulness and Effectiveness in Use of Public Resources and Effectiveness of Internal Controls, Risk Management and Governance sections, I have determined that there are no Key Audit Matters to communicate in my report.

Other Information

The directors are responsible for the other information. The other information comprises the report of directors as required by the Companies Act, 2015, and the statement of the directors' responsibilities which are obtained prior to the date of this report, and the annual report which is expected to be made available after that date.

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

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

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURSES

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 Qualified Opinion and Basis for Conclusions on Lawfulness and Effectiveness in Use of Public Resources and Effectiveness of Internal Controls, Risk Management and Governance sections of my report, I confirm that, nothing else has come to my attention to cause me to believe that public resources have not been applied lawfully and in an effective way.

Basis for Conclusion

1. Budget Performance Analysis

According to the statement of comparison of budget and actual amounts for the year ended 30 June 2018 the Company had budgeted for an income of Kshs.249,291,985 but the actual receipts were Kshs.200,925,822 leading to under collection of Kshs.48,366,163 or 19%. The under-collection has been attributed mainly to under-funding of the Company by the Bomet County Government to the tune of that govern them. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

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

Basis for Conclusion

1. Fraud Risk Management Policy

Bomet Water Company Limited does not have a fraud risk management policy to guide the management and the Board in dealing with risks relating to fraud. The absence of the policy exposes the Company to the risks of possible misappropriation of assets and financial losses.

2. Environmental Assessment Audit Report

An environmental audit assessment on the operations of the Company undertaken by a consultant in the month of January 2018 at nine water treatment plants owned by the Company revealed several inadequacies and instances of non-compliance with important regulations in the water provision industry including:

i. Poor solid waste management activities - lack of waste segregation and recycling practices.
ii. Lack of a formal policy on environment, health and safety management.
iii. Lack of emergency response plan.
iv. Lack of fire extinguishers in five plants.

The audit was conducted in accordance with ISSAI 1315 and ISSAI 1330. The standards require that I plan and perform the audit to obtain assurance about whether processes and systems of internal control, risk management and governance were operating effectively, in all material respects. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

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

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

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

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

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

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

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

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

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

STATEMENT OF COMPREHENSIVE INCOMES

	Notes	2017/2018	2016/2017
		Kshs	Kshs
Sales	1	108,730,365	91,798,000
Grants	2	92,189,457	101,528,778
Other incomes	3	6,000	37,000
Total Revenues		**200,925,822**	**193,363,778**
Administrative & Operating Expenses			
Administration Costs, Salaries & wages	4	77,042,623	73,742,850
Operation and Maintenance Expenses	5	107,539,893	89,477,548
Depreciation	6&7	5,004,432	5,220,721
Amortisation of Intangible Assets	8	236,974	464,464
Finance cost		-	285,128
Total Administration and Operations Costs:		**189,823,922**	**169,190,711**
Surplus		**11,101,900**	**24,173,067**

STATEMENT OF FINANCIAL POSITION

	Notes	2017/2018 Kshs	2016/2017 Kshs
ASSETS:			
Non-current Assets			
Property, Plant, Equipment	7	22,300,456	21,573,766
Kamureito water project		3,726,301	3,726,301
WIP- WSTF Chebunyo-Siongiroi project	14(a)	17,573,015	17,558,753
Intangible Assets	8	473,949	108,731
Total Non-current Assets		**44,073,721**	**42,967,551**
Current Asset			
Inventories	9	244,791	881,388
Trade and other Receivables	10	126,973,166	102,364,160
Bank and Cash balances	11	2,155,533	4,820,226
		129,373,490	**108,065,774**
Current liabilities			
Trade and other payables	12	47,354,771	18,353,580
Deferred income-WSTF		17,380,856	17,380,856
		64,735,627	**35,734,436**
NET CURRENT ASSETS:		**64,637,863**	**72,331,338**
Long term Liability			
Kamureito water project Loan	14(b)	443,372	443,372
NET ASSETS		**108,268,212**	**114,855,517**
FINANCED BY:			
Ordinary share capital	15	100,000	100,000
Capital reserves	16	39,354,042	39,354,042
Retained earnings		68,814,170	75,401,475
TOTAL EQUITY		**108,268,212**	**114,855,517**

The financial statements was approved by the Board on 8th **September 2018** and signed on its behalf by:

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Eng Benson Sang, Chairman **Mr David K Koech, Managing Director**

STATEMENT OF CHANGES IN EQUITY

	Ordinary share Capital	Retained Earnings	Capital Reserves	Total
At September 1, 2014	100,000.00	-	106,038.00	206,038.00
Restated balances	-	-	40,278,872.00	40,278,872.00
Surplus for the year	-	23,165,890.00	-	23,165,890.00
At June 30, 2015	**100,000.00**	**23,165,890.00**	**40,384,910.00**	**63,650,800.00**
As at 1st July 2015	**100,000.00**	**23,165,890.00**	**40,384,910.00**	**63,650,800.00**
Surplus for the year	-	27,958,787.00	-	27,958,787.00
At June 30, 2016	**100,000.00**	**51,124,677.00**	**40,384,910.00**	**91,609,587.00**
As at July 1st 2016	100,000.00	51,124,677.00	40,384,910.00	91,609,587.00
Prior year adjustment	-	103,730.00	(1,030,867.00)	(927,137.00)
Surplus for the year	-	24,173,067.00	-	24,173,067.00
At June 30, 2017	**100,000.00**	**75,401,474.00**	**39,354,042.00**	**114,855,517.00**
As at July 1st 2017	**100,000.00**	**75,401,474.00**	**39,354,042.00**	**114,855,517.00**
Prior year adjustment	-	(17,689,206.00)	-	**(17,689,206.00)**
Surplus for the year	-	11,101,902.00	-	**11,101,902.00**
At June 30, 2018	**100,000.00**	**68,814,170.00**	**39,354,042.00**	**108,268,212.00**

STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNT FOR THE PERIOD ENDED 30TH JUNE 2018

	Original budget	adjustments	Final budget	Actual on comparable basis	Performance differences	no
	2017-2018	2017-2018	2017-2018	2017-2018	2017-2018	
evenue	**Kshs**	**Kshs**	**Kshs**	**Kshs**	**Kshs**	
/ater and sewerage	94,591,985	-	94,591,985	94,614,681	(22,696)	
xhauster services	6,000,000	-	6,000,000	5,521,649	478,351	
leter rent	3,600,000	-	3,600,000	1,930,446	1,669,554	a
liscellaneous	1,500,000	-	1,500,000	2,162,321	(662,321)	b
ubsidies (CGOB)	139,600,000	-	139,600,000	91,300,000	48,300,000	c
/ater tankers (bowser)	4,000,000	-	4,000,000	4,507,268	(507,268)	d
ubsidies-others	-	-	-	889,457	(889,457)	
otal income	**249,291,985**		**249,291,985**	**200,925,822**	**48,366,163**	
xpenditures						
ılaries and allowance	**54,639,450**		**54,639,450**	**57,716,862**	**(3,077,412)**	
ı & M Expenses					-	
ight out & travelling allowance	2,964,306	800,000	3,764,306	3,738,490	25,816	
lothing & staff ids	525,000	(490,000)	35,000	33,100	1,900	
ıoard allowances	2,500,000	(800,000)	1,700,000	1,611,500	88,500	
gm expenses	300,000	(300,000)	-	-	-	
oard training	800,000	(200,000)	600,000	121,000	479,000	e
/ages & casuals	1,260,000	(800,000)	460,000	504,360	(44,360)	
irtime	600,000	200,000	800,000	806,424	(6,424)	
tationery	800,000		800,000	753,858	46,142	
taff welfare	2,625,000	300,000	2,925,000	3,064,180	(139,180)	
uel	5,500,000	490,000	5,990,000	7,936,558	(1,946,558)	f
ewspapers/periodicals	100,000	(55,000)	45,000	40,650	4,350	
ublicity/adv	1,000,000		1,000,000	775,230	224,770	g
rotective cloth	300,000		300,000	27,850	272,150	h
leaning materials	200,000	(130,000)	70,000	65,280	4,720	
rinting	500,000	280,000	780,000	808,253	(28,253)	
ısurance	2,500,000		2,500,000	1,657,820	842,180	i
ostage	100,000		100,000	15,655	84,345	j
ent	500,000	55,000	555,000	569,800	(14,800)	
lectricity	74,000,000		74,000,000	68,789,821	5,210,179	
ank charges	200,000	150,000	350,000	350,565	(565)	
egulatory levies (Wasreb, Lvswsb)	3,500,000		3,500,000	3,144,060	355,940	
ıther levies (environmental, kebs	500,000	280,000	780,000	858,732	(78,732)	
bstraction fees	3,000,000		3,000,000	1,975,470	1,024,530	k
udit fees	300,000	(300,000)	-	-	-	
rofessional Fees	1,000,000	(800,000)	200,000	140,000	60,000	l
ubscriptions	200,000	50,000	250,000	235,400	14,600	
raining	1,000,000	750,000	1,750,000	1,757,980	(7,980)	
lired transport	300,000	(275,000)	25,000	25,000	-	
hemicals	6,500,000	1,000,000	7,500,000	8,123,412	(623,412)	
aboratory equipments & expenses	1,000,000	(280,000)	720,000	716,600	3,400	
ools & equip	1,000,000	(1,000,000)	-	-	-	
ıil & lubes	500,000	(500,000)	-	-	-	
oan repayment-Kamureito	1,800,000	(1,800,000)	-	-	-	
	117,874,306		**114,499,306**	**108,647,048**	**5,852,258**	
epairs and maintenances						

il[illegible]gs	600,000		600,000	379,320	220,680	m
l[illegible]cs	1,000,000	675,000	1,675,000	1,671,863	3,137	
mps and Motors	-		-	749,600	(749,600)	
ound maintenance	500,000	200,000	700,000	719,400	(19,400)	
otor cycles	200,000	250,000	450,000	393,260	56,740	n
stribution networks	3,000,000	7,350,000	0,350,000	11,990,192	(1,640,192)	o
fice equipment	500,000		500,000	469,140	30,860	
mputers and networking	500,000	(200,000)	300,000	178,893	121,107	p
ant and equipment maintenances	1,500,000	(400,000)	1,100,000	822,775	277,225	q
res	1,500,000		1,500,000	844,162	655,838	r
ncing of installations	1,000,000	(1,000,000)	-		-	
ores stocking	1,500,000	(1,500,000)	-		-	
lter media replacement	2,000,000	(2,000,000)	-		-	
tal repairs and maintenances	**13,800,000**		**7,175,000**	**18,218,605**	**(770,117)**	
epreciation and Amortization			-	5,241,405	(5,241,405)	
tal Expenditure	**186,313,756**		**186,313,756**	**184,582,515**	**2,004,729**	
rplus	**62,978,229**	-	**62,978,229**	**11,101,902**		

a High cost of procuring meters hindered the metering ratio projected during the year.
b More customers were connected to sewer line within Bomet town
c Projections were based on 11.6 monthly subsidy against actual amount of Kshs 8.3M .this is in line with progressive reduction as the company moves towards financial sustainability.
d High demand for water bowser resulted in increase revenue
e All board Members retired in April 2018 before year end
f High inflation during the year pushed pump prices. Drought during the year also resulted in increased consumption of fuel
g Budgeted end of year shareholders forum was not conducted
h OHS programmes began in 2018/2019 financial year since preliminary registration was done during the year
i NBV of assets resulted to lower premium paid
j The company transferred the postage costs to the vendors and only footed the necessary bills
k reduced production of water during the year translated to lower abstraction fees charged
l Consultancy on taxation matter was delayed to next financial year
m Expected renovation of customer care offices postponed in an effort to consider the construction alternative
n New motor cycle procured resulted in efficient and economical usage.
o The company procured more pipes to replace damaged pipeline caused by road network constructions
p Networking of area offices was delayed to next financial year
q replacement of kapmureito water pump resulted in reduction in maintainace cost
r Tyres replacement were minimal during the year due to improved road network in the county

* The adjustments made were reallocation of expenditures from one vote head to the other through the supplementary budget

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

1. 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 judgement in the process of applying the company's accounting policies.

The financial statements have been prepared and presented in Kenya Shillings, which is the functional and reporting currency of the company.
The financial statements have been prepared in accordance with the Companies Act, and International Financial Reporting Standards (IFRS). The accounting policies adopted have been consistently applied to all the years presented.

2. Revenue recognition

Revenue is recognised 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 recognised 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.

a. **Revenue from the water services billed** is recognised 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.

b. **Grants from County Government** are recognised in the year in which the company actually receives such grants.

c. **Other income** is recognised as it accrues.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3. 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-evaluation 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 recognised in profit or loss in the income statement.

4. 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 costs of on-going but incomplete works on buildings and other civil works and installations.

Depreciation on property, plant and equipment is recognised in the income statement on a reducing balance 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:

Plant, Machinery and equipment	20.0%
Motor vehicles, including motor cycles	25.0%
Computers and related equipment	33.3%
Office equipment	12.5%
Furniture and fittings	12.5%
Water meters	12.5%
Building	2.5%

Depreciation is charged to the period irrespective of the time the item was purchased

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

5. Intangible assets

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

6. Amortisation and impairment of intangible assets

Amortisation is calculated on the straight-line basis over the estimated useful life of computer software over a period 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 recognised so that the asset is written down immediately to its estimated recoverable amount.

7. Inventories

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

8. Trade and other receivables

Trade and other receivables are recognised 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.

9. Taxation

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the tax authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantially enacted as at the reporting date. Current income tax relating to items recognised directly in equity is recognised in equity and not in the income statement.

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

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

10. Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and cash at bank, at various commercial banks at the end of the financial year. For the purposes of these financial statements, cash and cash equivalents also include short term cash impressts and advances to authorised officers and which were not surrendered or accounted for at the end of the financial year.

11. Trade and other payables

Trade and other payables are non-interest bearing and are carried at amortised 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 Company or not, less any payments made to the suppliers.

12. Comparative figures

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

13. 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, 2018.

14. Provision for bad and doubtful debts

Provision for bad and doubtful debts is recognized in the income statement at annual rates to be determined by the management from time to time.

15. Significant judgments and sources of estimation uncertainty

The preparation of the Company's financial statements in conformity with IPSAS 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.
State all judgements, estimates and assumptions made: e.g.

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 Company 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 Company. 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 Company
- 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.

16. Financial Risk Management

The Company'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 minimise 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 Company 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.
The board of directors sets the company's credit policies and objectives and lays down parameters within which the various aspects of credit risk management are operated.

ii. Liquidity risk management

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

iii. Market risk

The board has put in place an internal audit function to assist it in assessing the risk faced by the Company 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 Company'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 optimising 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 Company's exposure to market risks or the manner in which it manages and measures the risk.

iv. Capital Risk Management

The objective of the Company's capital risk management is to safeguard the Board's ability to continue as a going concern. The Company capital structure comprises of the following funds; Reserves, Retained earnings and share capital.

NOTES TO THE FINANCIAL STATEMENTS

1. Sales

	2017/2018	2016/2017
	Kshs	Kshs
Water Sales	94,614,681	78,897,468
Exhauster services	5,521,649	3,645,522
Meter Rent	1,930,446	2,593,152
Miscellaneous-sewerage charges	1,214,321	308,043
Water Bowsers	4,507,268	5,048,046
Connection and disconnection fees	942,000	1,305,769
	108,730,365	**91,798,000**

2. Grants

	2017/2018	2016/2017
	Kshs	Kshs
Subsidy-County Government of Bomet	91,300,000	100,599,890
Kenya Red Cross	16,000	32,000
PEWAK-NRW project	873,457	896,888
	92,189,457	**101,528,778**

3. Other incomes

	2017/2018	2016/2017
	Kshs	Kshs
Sale of tender documents	**6,000**	**37,000**

4. Administration costs

	2017/2018	2016/2017
	Kshs	Kshs
Staff cost	58,221,222	53,883,615
Directors Training and allowances	1,732,500	2,589,325
Airtime	806,425	1,182,080
Postages	15,655	19,179
Stationeries	753,858	411,660
Printing	808,253	493,818
Travelling and subsistence allowances	3,738,490	2,967,085
Publicity & Advertisement	775,230	991,522
Newspaper & periodicals	40,650	34,230
Rent Expenses	569,800	695,400
Staff Training Expenses	1,757,980	1,265,170
Staff welfare	3,064,180	3,655,835
Cleaning materials	65,281	22,746
Insurance costs-Motor vehicles	1,657,820	1,575,386
Professional fees	140,000	1,064,834
Clothing & staff IDs	33,100	524,100
Protective clothing	27,850	7,200
Subscription fee	235,400	368,830
Nema Dumping fee & KEBs Levy	858,731	384,470
Laboratory Expenses	697,000	189,990
Repairs to Office equipment and Computers	648,033	875,344
Bank charges	350,565	365,531
Water Quality	19,600	111,500
Hired transport	25,000	48,000
Dirty/Heavy duty allowances	-	16,000
	77,042,623	**73,742,850**

5. Operation, maintenances and distribution costs

	2017/2018	2016/2017
	Kshs	Kshs
Maintenance and repairs of distributions lines	11,990,192	6,836,893
Water chemicals	8,123,412	4,807,797
Electricity	68,789,821	58,322,114
Repair of pumps & motors	749,600	858,220
Vehicles running expenses, Motor cycles and tires	2,909,285	4,415,924
Regulatory Levy Expenses-LVSWSB & WASREB	3,144,060	3,296,900
WRMA Levy	1,975,470	2,045,421
Working tools and equipment	-	9,450
Repairs to office building	379,320	628,964
Ground Maintenance	719,400	646,450
Repair s to plant and equipment	822,775	308,320
Fuels and lubricants	7,936,558	7,301,095
	107,539,893	**89,477,548**

This comprises of expenses used in the routine and maintenance of the water system.

6. Depreciation and amortisation

			2017/2018	2016/2017
			Kshs	Kshs
a.	Depreciation	Water Meter	336,990	385,132
		Plant and Machinery	497,718	436,547
		Computers and Equipments	747,642	849,161
		Office furnitures,Fittings and Equipments	251,484	204,261
		Land	-	-
		Motorcycle	311,709	215,813
		office building and Perimeter wall	118,711	87,727
		Motor vehicles	2,740,177	3,042,080
b.	Amortization	Billing and Accounting software	236,974	464,464
			5,241,406	**5,685,185**

7. Assets movement schedule

	Water Meters	Plant and Machinery	Computers and related equipment	Office Equipment Furniture & fittings	Land	Motor Cycle	Office building/perimeter wall	Motor vehicles	TOTAL
Cost or Valuation									
At Sept 1st , 2014	-	-	-	-	-	-	-	-	-
Additions	318,551	170,900	570,526	268,865	413,440	-		-	1,742,282
Disposals	-	-	-	-	-	-	-	-	-
Total Asset At June 30th , 2015	**318,551**	**170,900**	**570,526**	**268,865**	**413,440**	-	-	-	**1,742,282**
At Sept 1st , 2014	-	-	-	-	-	-	-	-	-
Depr Charge for the year	39,819	34,180	189,985	33,608	-	-	-	-	297,592
understated depreciation				1,000					1,000
Accum depre as at 30th june 2015	**39,819**	**34,180**	**189,985**	**34,608**	-	-	-	-	**298,592**
NBV as at 30th June 2015	**278,732**	**136,720**	**380,541**	**234,257**	**413,440**	-	-	-	**1,443,690**
As at 1st July 2015	278,732	136,720	380,541	234,257	413,440	-	-	-	1,443,690
Additions	**1,253,900**	**1,505,200**	**787,940**	**716,845**	-	**485,000**	**132,180**	**12,324,903**	**17,205,968**
Disposal	-	-	-	-	-	-	-	-	-
Total Asset as At June 30, 2016	**1,532,632**	**1,641,920**	**1,168,481**	**951,102**	**413,440**	**485,000**	**132,180**	**12,324,903**	**18,649,658**
Charge for the year	191,579	328,384	389,104	119,888	-	121,250	3,306	3,081,226	4,234,737
Accum depre as at 30TH June 2016	**191,579**	**328,384**	**389,104**	**119,888**	-	**121,250**	**3,306**	**3,081,226**	**4,234,737**
NBV as at 30th June 2016	**1,341,053**	**1,313,536**	**779,377**	**832,214**	**413,440**	**363,750**	**128,874**	**9,243,677**	**14,415,921**
As at 1st July 2016	**1,341,053**	**1,313,536**	**779,377**	**832,214**	**413,440**	**363,750**	**128,874**	**9,243,677**	**14,415,921**
Additions	1,740,000	870,200	1,770,656	801,870	392,500	499,500N	3,380,200	2,924,640	12,379,566
Disposals	-	-	-	-	-	-	-	-	-
Total Assets as at 30,2017	**3,081,053**	**2,183,736**	**2,550,033**	**1,634,084**	**805,940**	**863,250**	**3,509,074**	**12,168,317**	**26,794,487**
Charge for the year	385,132	436,547	849,161	204,261	-	215,813	87,727	3,042,080	5,220,721
Accum depre as at 30th June 2017	385,132	436,547	849,161	204,261	-	215,813	87,727	3,042,080	5,220,721
NBV as at 30th June 2017	**2,695,922**	**1,746,189**	**1,700,872**	**1,429,823**	**805,940**	**647,437**	**3,421,347**	**9,126,237**	**21,573,766**
As at 1st July 2017	**2,695,922**	**1,746,189**	**1,700,872**	**1,429,823**	**805,940**	**647,437**	**3,421,347**	**9,126,237**	**21,573,766**
Restatement							-20,600		
Additions	-	742,400	544,300	582,042	122,000	599,400	1,327,108	1,834,470	5,751,720
Disposals	-	-	-	-	-	-	-	-	-
Total Assets as at 30,2018	**2,695,922**	**2,488,589**	**2,245,172**	**2,011,865**	**927,940**	**1,246,837**	**4,727,855**	**10,960,707**	**27,325,486**
Charge for the year	336,990	497,718	747,642	251,484	-	311,709	118,711	2,740,177	5,004,432
Depreciation as at 30th June 2018	336,990	497,718	747,642	251,484	-	311,709	118,711	2,740,177	5,004,432
NBV as at 30th June 2018	**2,358,932**	**1,990,871**	**1,497,530**	**1,760,381**	**927,940**	**935,128**	**4,609,144**	**8,220,530**	**22,300,456**

8. Amortisation of intangible assets

	2017/2018	2016/2017
COST:	**Kshs**	**Kshs**
At July 1	1,393,392	1,300,592
Additions	602,192	92,800
Disposals	-	-
At June 30	**1,995,584**	**1,393,392**
AMORTISATION:		
At July 1	1,284,661	820,197
Charge for the year	236,974	464,464
Disposals	-	-
Impairment loss	-	-
At June 30	**1,521,635**	**1,284,661**
NET BOOK VALUE:		
At June 30	**473,949**	**108,731**

This relates to the billing, accounting and payroll software in use.

9. Stocks

	2017/2018 Kshs	2016/2017 Kshs
Chemicals	244,791	342,975
Tonners	-	149,000
Stationeries	-	174,563
Safety boots	-	4,950
Fittings	-	203,500
Bulbs and union locks	-	6,400
	244,791	**881,388**

10. Trade and other receivables

	2017/2018 Kshs	2016/2017 Kshs
Trade receivables	126,313,747	93,377,009
County Government of Bomet	100,000	8,400,000
Exhausters	559,419	-
PEWAK	-	587,152
	126,973,166	**102,364,161**

This refers to amounts due from customers within the entire water schemes, Tililbei and County Government of Bomet.

Trade and other Receivables breakdown;

	Current	1 - 30	31 - 60	61 – 90	> 90	TOTAL
Bomet Water Supply Scheme	2,560,017.75	1,274,988.40	0.00	1,482,665.00	2,612,827.41	7,930,498.56
Longisa Water Supply Scheme	320,890.00	304,805.00	600.00	351,855.00	4,240,847.10	5,217,797.10
Bomet Area – Other	0.00	0.00	0.00	0.00	-97,250.00	-97,250.00
	2,880,907.75	**1,579,793.40**	**600.00**	**1,834,520.00**	**6,756,424.51**	**13,051,045.66**
Olbutyo Water Supply Scheme	277,125.00	230,570.00	0.00	236,530.00	6,115,272.70	6,859,497.70
Sigor Water Supply Scheme	407,345.00	354,755.00	0.00	379,880.00	6,268,092.45	7,410,072.45
Siongiroi Water Zone	90,555.00	63,190.00	0.00	48,120.00	1,666,027.40	1,867,892.40
Total Chepalungu Area	**775,025.00**	**648,515.00**	**0.00**	**664,530.00**	**14,049,392.55**	**16,137,462.55**
Kaproron	27,010.00	30,210.00	0.00	23,065.00	105,536.00	185,821.00
Konoin (Mogogo) Area	**1,318,762.00**	**1,910,937.00**	**0.00**	**1,708,177.00**	**34,860,125.41**	**39,798,001.41**
Mulot Water supply	121,875.00	90,830.00	0.00	101,520.00	584,612.00	898,837.00
Sergutiet water supply	111,990.00	117,000.00	0.00	139,850.00	886,440.05	1,255,280.05
Chebilat zone	0.00	0.00	0.00	0.00	136,554.00	136,554.00
Chebirbelek Water Supply Zone	433,267.00	689,697.00	0.00	350,557.00	9,456,990.01	10,930,511.01
Kamureitto Water Supply Scheme	153,790.00	152,550.00	500.00	166,010.00	4,190,490.60	4,662,340.60
Kapletundo Zone	194,285.00	292,720.00	0.00	142,295.00	6,197,773.62	6,827,073.62
Ndanai Scheme	0.00	0.00	0.00	0.00	193,707.70	193,707.70
Sotik Water Supply Scheme	564,751.00	602,495.00	0.00	760,610.00	13,381,014.20	15,308,870.20
Sotik Area – Other	0.00	0.00	0.00	0.00	2,954,692.20	2,954,692.20
Total Sotik Area	**1,346,093.00**	**1,737,462.00**	**500.00**	**1,419,472.00**	**36,511,222.33**	**41,013,749.33**
Tililbei Water	2,162,760.00	2,191,460.00	0.00	2,289,420.00	7,329,910.36	13,973,550.36
TOTAL	**8,744,422.75**	**8,306,207.40**	**-1 100.00**	**8,180,554.00**	**101,083,663.21**	**126,313,747.36**

11. Bank balances

Bank	Account number	Account type	Branch	2017/2018 Kshs	2016/2017 Kshs
Postbank	744130011847	Collection account	Bomet	29,380	23,350
Equity	1220262810176	Collection account	Bomet	92,367.80	8,361,838
Mpesa	825330	Collection account	Bomet	507,448	74,707
Cooperative bank	1136357146200	Revenue account	Bomet	248,192.99	0
	1136357146201	Operation account	Bomet	331,051.38	(3,761,275)
	1136357146202	Subsidy account	Bomet	165,943.16	(486,308)
	1136357146203	Deposits account	Bomet	781,013.17	384,487
	1136357146204	WSTF project	Bomet	136.10	223,427
Totals				**2,155,532.6**	**4,820,226**

12. Trade and other payables

As at 30th June 2018 the trade and payables to creditors and suppliers stood at **Kshs.47, 354,771**

	2017/2018	2016/2017
	Kshs	Kshs
LVSWSB	5,904,124	3,584,968
WARMA	1,632,750	1,276,725
WASREB	1,434,648	793,744
KPLC	11,075,200	3,631,413
Staff salaries	15,106,275	4,440,123
Customers Deposits	2,137,989	992,658
Other payables	10,063,785	3,633,950
	47,354,771	**18,353,581**

13. Notes to statement of cash flow

a. Reconciliation of operating profit/ (loss) to cash generated from/ (used in) operations

	Notes	2017/2018	2016/2017
OPERATING ACTIVITIES		Kshs	Kshs
Profit for the Year		11,101,900	24,173,067
Depreciation & amortisation charges	6	5,241,406	5,685,185
Prior year adjustment		(16,620,282)	103,730
Profit after adjusting for Depreciation		**(276,976)**	**29,961,982**
Changes in working capital:			
Increase/(Decrease) in Debtors		(23,463,676)	(14,849,783)
Increase/(Decrease) in Stocks		(636,597)	(881,388)
Decrease/Decrease) in Creditors		28,288,729	(1,517,919)
Increase/(Decrease) in Deferred income-WSTF		-	3,229,549
		4,188,456	**(14,019,541)**
Net cash provided by Operating Activities		**3,911,480**	**15,942,441**

14. a. Analysis of WSTF Chebunyo-Siongiroi Water Project

Opening balances as at 1st July 2017	17,558,753
Additional work during the year	14,262
Closing balances as at 30th June 2018	**17,573,015**

b. Analysis of changes in loans

Balance at beginning of the year	443,372
Receipts during the year	-
Repayments during the year-interest expense	-
Repayments the year-Principal amount	-
Closing balances as at 30th June 2018	**443.372**

15. Ordinary Share Capital

Authorised:

100,000 ordinary shares of Kshs.1 par value each......................................**kshs100, 000**

16. Capital reserve.

The capital reserve refers to the amount of debtors that was there on 1st September when the Company began operation.

17. Related party disclosures

a. Water Service Regulatory Board (WASREB)

WASREB is the regulator of the water sector .The company also pays 1% of the monthly water sales as regulatory Levy.

b. Water Resources Management Authority (WRMA)

WRMA charges 50 cents for every cubic meter of raw water abstracted from the river from all the schemes

c. Lake Victoria South Water Services Board (LVSWSB)

The company pays 4% of the monthly revenue collections as a regulatory levy.

18. Incorporation

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

Sign......................................	Sign......................................
Date......................................	Date......................................
Managing Director	**Chairman of the Board**

PROGRESS ON FOLLOW UP OF AUDITOR RECOMMENDATIONS

The following is the summary of issues raised by the external auditor, and management comments that were provided to the auditor. We have nominated focal persons to resolve the various issues as shown below with the associated time frame within which we expect the issues to be resolved.

Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Focal Point person to resolve the issue *(Name and designation)*	Status: *(Resolved / Not Resolved)*	Timeframe: *(Put a date when you expect the issue to be resolved)*
1.0	The statement of financial position reflects trade and other payables balance of Kshs. 19,284,050 which includes a loan balance of Kshs. 930,469 that is owed toKRep Bank. The loan balance increased by Kshs. 469,708 from Kshs. 460,761 reported in the previous year. The balances of this figure and the movement during the year under review could not be verified due to lack of entries in the creditor's ledgers. Also, the management did not provide documentary evidence to explain the nature of the loan owed to Krep Bank.	The amount reflected as due to K-Rep (Sidian Bank) of Kshs 930,469 was a provision for un posted interest expense dating back to January 2015. During 2015/2016 financial year, the amount posted as finance cost was the entire amount paid of Kshs 1,800,000. This amount ought to have been Splited into two that is the principal amount which was supposed to reduce the loan amount and the interest portion which was supposed to be shown as finance cost. The implication of this entry was that there was an overstatement of finance cost and understated of surplus for the period. To correct this anomaly, we have restated the surplus by Kshs 930,469 as part of prior year adjustments. During the audit, we provided Loan repayment schedule to support the amount as reflected in the annual statement. The agreement was reached between Bomet Water Company and County Government of Bomet to hand over Kamureito Water Project plus all liabilities. The companies have since been servicing the loan at a tune of Kshs 150,000 per month. The balance of the loan as at 30th June 2017 was Kshs 443,372 as supported by Loan repayment schedule	J.Cheruiyot MD	Resolved	2018

Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Focal Point person to resolve the issue *(Name and designation)*	Status: *(Resolved / Not Resolved)*	Timeframe: *(Put a date when you expect the issue to be resolved)*
2.0	The trade and other payables balance of Kshs. 19,284,050 include customer's deposits of Kshs 992,658. A review of customer data base schedule produced for audit indicated that the Water Company inherited 8891 meter connections, each having a customer deposit of Kshs. 1000, which gives a total liability of Kshs. 8,891,000. Further, the water deposit ledger reflected 3910 connections, each having a customer deposit of Kshs. 1,500, which translates to Kshs. 5,865,000. This gives a total customers deposit liability of Kshs 14,756,000. However, the financial statements disclosed only Kshs 992,658, which implies that the liability was understated by Kshs 13,763,342. Therefore, the balance of Kshs. 19,284,050 in respect of trade and other payables were understated by the same amount and was not fairly stated.	Bomet water did not receive deposits from 8,891 customers since some of the customers had already paid the deposits to Chemosit Water Company and the money was never transferred to our company because the bank account was frozen. Secondly, during the formative stage of the company, the County Government of Bomet waived deposits from customers and was required to pay for connection fee of Kshs 500 only. Customers' deposits came to effect from July 2015 and all monies collected are deposited to customers deposits account maintained at cooperative bank account number 01136357146203, Bomet branch.	P.Langat CFM	ongoing	2019

Reference No. on the external audit Report	**Issue / Observations from Auditor**	**Management comments**	**Focal Point person to resolve the issue *(Name and designation)***	**Status: *(Resolved / Not Resolved)***	**Timeframe: *(Put a date when you expect the issue to be resolved)***
3.0(i)	According to paragraph 2.2 on page 3, of the Service Provider Agreement (SPA) signed on 1st September 2014 between Lake Victoria South Water Services Board (LVSWSB) and Bomet Water Company, various assets which include hydraulic structures, plant, motor vehicles and furniture and fittings were handed over to Bomet Water Company. However, as previously reported, these assets were not incorporated in the financial statements for the year ending 30th June 2017.	These are leased assets from the regulatory board as stipulated in clause 8.2 of SPA (Annex 02). The companies have only the right to use and duty to maintain such assets. This implies that the assets are registered under water service Board. Water Services boards hold Assets on behalf of National government and their core mandate is to ensure efficient and economical provision of water and sanitation services. Assets are only incorporated in the financial statement only when there are ownerships documents	J.cheruiyot MD	Resolved	2018
3.0 (ii)	Further and as previously reported, the asset movement schedule indicates land of value Kshs. 805,940. However, the ownership documents and a valuation report for the land were not provided for audit verification.	Title reference number KERICHO/KIPSONOI/1604 measuring 0.14 hectares and KERICHO/KIMULOT/2465 measuring 0.02 hectares are available for confirmation-Annex-03.	P.Langat CFM	Ongoing	Ongoing
3.0(iii)	Note 14 (b) to the financial statements provides an analysis of assets of the Water Services Trust Fund (WSTF) for the Chebunyo- Siongoroi	Documentations in support of stated amount is available	P.Langat CFM	Resolved	2018

Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Focal Point person to resolve the issue *(Name and designation)*	Status: *(Resolved / Not Resolved)*	Timeframe: *(Put a date when you expect the issue to be resolved)*
	water project which is valued at Kshs. 17,558,753.However, the balance was not supported by any documentation to confirm its valuation.				
3.1	Included in the additions of **Kshs 5,208,948.50** to the Chebunyo- Siongiroi Water Project is **Kshs. 1,015,400** which was drawn in cash or imp rests for office use and payment of rent. The officers who were issued with imprest diverted it to works on water distributions lines which had already been contracted. Further the payment to casual workers was not supported with engagement letters, copies of ID and muster rolls. The locations and length of the distribution lines where these casuals were supposedly engaged were not indicated.	The contractor failed to pay the workers. This could have resulted to failure to complete the project within stipulated time as per the terms and condition of the contract hence the public could have suffer due to contractors' failure to adhere to such terms and conditions. There were no cash diverted but it was spend as per the agreement reached between the Employer (Bomet Water Company) and the contractor (Perfcon Limited). The agreement was for trenching, laying, testing and backfilling of 11610 meters pipeline between Siongiroi and Chebunyo. Refer to MOU. The company did not engage any casuals but instead paid workers already engaged by the contractor.	Milton Kitur TOM	Resolved	2018
4.0	The statement of financial position reflects long term liability of Kshs. 585,366 (restated to Kshs 443,372) which is owed to Kamureito Water Project. The	The amount posted of Kshs 585,366.25 (restated to Kshs 443,372) excludes Kshs 11,593.50 being interest expense for June 2017 and Kshs 141,993.56 being the principal amount. We have since posted and the restated amount of loan	P.Langat CFM	Resolved	2018

Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Focal Point person to resolve the issue *(Name and designation)*	Status: *(Resolved / Not Resolved)*	Timeframe: *(Put a date when you expect the issue to be resolved)*
	loan balance reduced by Kshs. 1,093,737 from Kshs. 1,679,103 reported in the previous year. Analysis at note 14(c) to the financial statements shows that the Company made repayments for both the principal and accrued interest. However, the management did not provide documentary evidence to explain the nature and terms of the loan owed to Kamureito Water Project.	due is Kshs 443,372.69 The movement from last year's figure was the principal amount paid during the year as per the loan repayment schedule	P.Langat CFM	Resolved	2018
5.0	The asset movement schedule at note 7 to the financial statements shows that as at 30June 2016, the value of motor vehicle was Kshs 9,243,677. In the year under review, there was an addition of Kshs 2,924,640, giving a total value of Kshs12, 168,317 as at 30th June 2017. The depreciation policy requires the depreciation rate to be charged in full irrespective of the time in the year that it was purchased. Therefore, at the rate of 25%, the depreciation charge on	Observation noted and we have restated as per the recommendations.	Patrick C Langat	Resolved	2018

Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Focal Point person to resolve the issue *(Name and designation)*	Status: *(Resolved / Not Resolved)*	Timeframe: *(Put a date when you expect the issue to be resolved)*
	motor vehicle should be Kshs 3,042,079. However, the asset movement schedule reflected a charge of only Kshs 1,521,040, hence understating the depreciation on motor vehicles by Kshs 1,521,039.				
6.0	The Company spent Kshs. 2,967,085 on travelling and subsistence allowances in the financial period ending 30th June 2017. The ledger presented for audit revealed 77 payments that were made within the period under review. However, such payments were not supported by payment vouchers or surrenders of the imprests issued. Under the circumstance, the propriety of the expenditure could not be confirmed.	The payment vouchers' were availed and readily available for further scrutiny. All surrenders were made in line with the company policy.	Patrick K Langat CFM	Resolved	2018
7.0	The administration costs analyzed under note 4 to the financial statements reflects a balance of Kshs. 695,400 in respect of rent expenses. Out of this amount, Kshs. 240,000 was paid to David Korir quarterly	Lease agreement available for scrutiny	Anne c Turgut HRM	Resolved	2018

Reference No. on the external audit Report	**Issue / Observations from Auditor**	**Management comments**	**Focal Point person to resolve the issue *(Name and designation)***	**Status: *(Resolved / Not Resolved)***	**Timeframe: *(Put a date when you expect the issue to be resolved)***
	instalments, as rent for use of his premises by the Water Company. However, no tenancy agreement was presented to support the payment. Under such circumstances, the propriety of Kshs. 240,000 spent on rent could not be confirmed.				
8.0	Note 4 to the financial statements reflect a balance of Kshs. 3,655,835 which the company spent on staff welfare in the financial period ending 30th June 2017. Examination of the ledger presented for audit verification revealed that the payments were being made to individuals. However, no payment voucher was presented for audit verification in support of the monies spent on staff welfare. Under such circumstances, the propriety of the monies spent on staff welfare could not be confirmed.	The payment vouchers' are readily available for further scrutiny.	Patrick K Langat CFM	Resolved	2018
9.0	The Bomet water company incurred Kshs. 493,818.00 on printing services in the period under review. An	Advertisement was placed on Newspaper and only Scarlet Procures and Printers applied since he is the only supplier of printer compatible with pre-printed water bill papers	Patrick K Langat CFM	Resolved	2018

Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Focal Point person to resolve the issue *(Name and designation)*	Status: *(Resolved / Not Resolved)*	Timeframe: *(Put a date when you expect the issue to be resolved)*
	examination of the payment vouchers revealed that only one firm, Scarlet Procures and Printers was contracted to provide the services during the financial period. Procurement documents presented did not indicate evidence of competitive bidding.				
10.0	The expenditure of Kshs. 53,883,615 in respect of staff costs include Kshs. 5,324,559 which was spent on casual employees. However, it was noted that there was no approval from the Board allowing for the engagement of the casuals. No evidence has been provided to give justification to hire the casuals, the number of casuals to be hired, and the rates to be used to pay them as well as the duration of their engagement. It was therefore not possible to confirm that the funds spent on the casual employees were a fair charge on public funds.	The engagement of casual staff was approved by the Board of Directors in their meeting of 28th April 2016 under minute number 172/BOD/2016/ Staff Establishment and additional staff for 2016. The casuals engaged were as per needs from Departments as indicated in the board minute and the approved staff establishment. (See the attached copies) The payment of casual salaries was pegged on the grading structure that was also approved by the board on 12th June 2015 under minute No. number 134/BOD/2015 / approval of salary grading structure. The then prevailing minimum rate of casual payment as per labour Institutions Act No 12 of 2007 Legal Notice No. 197 was applied	M.Kitur TOM	Ongoing	Continuous

Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Focal Point person to resolve the issue *(Name and designation)*	Status: *(Resolved / Not Resolved)*	Timeframe: *(Put a date when you expect the issue to be resolved)*
11.0	The assets movement schedule at note 7 to the financial statements reflects additions of water meters of Kshs 1,740,000. The amount was paid to a firm, Amua Water Systems to supply 1000 half-inch water meters. The payment was made in two equal instalments vide payment voucher (PV) No. 101 of 29 September, 2016 and PV No. 127 of 4 October, 2017. The supply of the meters was made in two equal deliveries of 500 vide Delivery Notes Nos. 3629 and 3710 of 19 August 2016 and 19 May 2017 respectively. The items were received vide goods received notes (GRN) Nos. 420 and 922 on the respective delivery dates. However, the delivery of the meters could not be verified in the stores since both the delivery notes and the goods received notes did not indicate the serial numbers of the meters that were recorded as received.	Since we could not record all the water meters in delivery note considering the number supplied, we opted to open meter register book **(Annex -08)** for ease of issuance and tracking of the same. The book contains all the details i.e. serial numbers, date received and signed by all the inspection and acceptance committee **(annex-09)** in accordance with public and procurement and Disposal Act 2015. Distributions were made vide the same register. Not all water meters procured were meant for new customers but some were meant to replace damaged or unserviceable meters. Threshold matrix to the Public Procurement Regulations 2006 was met since Water meters were procured on 27th September 2016 and 18th May 2017 both costing Kshs. 870,000 per each consignment. This therefore the management is not bound to use open tenders in such a scenario.	Patrick C Langat CFM	Resolved	Closed

Reference No. on the external audit Report	**Issue / Observations from Auditor**	**Management comments**	**Focal Point person to resolve the issue** ***(Name and designation)***	**Status:** ***(Resolved / Not Resolved)***	**Timeframe:** ***(Put a date when you expect the issue to be resolved)***
	Further there was no distribution list or records indicating the details of the customers who received the meters. In addition, since the company charges Kshs. 1500 as deposit fees for each water meter connected, there is no evidence that liability of customer deposits increased by a total of Kshs 1,500,000 as a result of the 1000 meters that were procured. In addition, the threshold matrix to the Public Procurement Regulations 2006 requires that the purchase of goods whose value exceeds Kshs. 1,000,000 should be done through open tender. No evidence has been provided to show that management used this method.				

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11.1	A firm, Amua Water Systems was paid Kshs 1,214, 100 through cheque No. 31 of Kshs 475,000 and cheque No. 32 of 739,100 for supply of water meters. The goods paid for through Cheque 31 and received through GRN No. 640 and 641 for invoice no 3649 included190 water meters and 90meter boxes respectively. However, the goods paid for through cheque No. 32 were not supported with a GRN. Further, for both payments, there was no delivery notes and acceptance and inspection committee report on the quantity and quality. In the absence of the above records the supply of water meter and fittings could not be verified.	Delivery note number 3710 and 3629 readily available (annex-10). The entire water meter received passed through inspections and acceptance committee.	Patrick C Langat CFM	Resolved	2018

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12	Note 12 to the financial statements lists eight bank accounts operated by Bomet Water Company. It was noted that two accounts at the Co-operative bank A/c No 1136357146201 and A/c No 1136357146202 had negative balances of Kshs 3,761,275 and Kshs 486,308 respectively. It is not clear if the Company had any arrangement with its bankers to over-draw the accounts.	During the close of financial year, June payroll had been posted in the cash book as part of end year closure procedure. The amount was shown as a provision for June payroll and form part of company's liabilities at the close of the financial year. The bank balances for A/c No 1136357146201 and A/c No 1136357146202 was Kshs 177,294.28 Cr and Kshs 42,176.27 Cr respectively. It is also worth noting that we prepare our accounts on accrual basis. Secondly, subsidy for June was erroneous transfer by CGOB to Equity account instead of transferring to subsidy account on 27th June 2017. (Annex-11)	Patrick C Langat CFM	Resolved	2018
13.1	The statement of financial position reflects trade and other receivables balance of Kshs. 102,364,160, which includes Kshs. 93,477,009 in trade receivables. Out of the trade receivables balance, Kshs. 70,485,146 (or 78%) is in respect of customers whose debts have remained uncollected for a period of over 90 days. Apparently the management has not determined the allowable credit period in accordance	Concerted effort has so far been put in place to ensure substantial amount are recovered. During the year the company appointed a team to begin debtors profiling and aging so as to come up with recoverable and non recoverable amount. Recommendation will be tabled before management for consideration. Once approved, provisions to write them off shall be made. These efforts have yielded positive results as evidenced by improvements in collections efficiency which stood at 87%.	Patrick C Langat CFM	Ongoing	2019

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	with Section 5.4 of the Company's financial manual. Therefore, the collectability of the long outstanding debts is in doubt.				
13.2	The trade and other receivables balance includes an amount of Kshs.10,005,181 which was not supported by details of the meter numbers, account numbers and the customer's name. Therefore, it was not possible to confirm the existence of the debtors and the veracity of the debt balance of Kshs. 10,005,181.	All debtors were supported by debtor listing reports and all have account numbers and meter numbers save for a few customers who are yet to be metered. Customer metering is an ongoing and we expect to achieve 100% metering as per company's strategic plan.	Patrick C Langat	Closed	2018
13.3	The trade and other receivables balance includes an amount of Kshs.8, 300,000 which was owed by the County government of Bomet. As at 30 June, 2016, the balance was Kshs. 17,400,000. It was verbally explained that the debt was funds that had been borrowed from the Company by the County Government of Bomet. However, there was no written documentation provided to support the arrangement.	The amount outstanding of Kshs 8.3m was subsidy for June 2017 received in July 2017. .	Patrick C Langat CFM	Closed	2018

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14	During the year the Company produced 4,176,879 m³ of water. However, out this volume, only 2,022,365m³ was billed to customers with total revenue amounting to Kshs. 78,897,468. The balance of 2,154,514 m³ was lost as unaccounted for water (UFW). Given that the WASREB guidelines allow for only 25% loss of the production, this implies that there was an abnormal loss of 1,110,290 m³ which is equivalent to Kshs. 43,315,153 in water sales.	Unaccounted-for water (UFW) represents the difference between "net production" (the volume of water delivered into a network) and "consumption" (the volume of water that can be accounted for by legitimate consumption, whether metered or not). The overall Non-Revenue Water (NRW) currently stands at 50% which is a 2% improvement from 52% during the previous period. During FY2016/17 the company implemented an NRW program under the PEWAK programme. The exercise was able to reduce the NRW in Bomet Scheme from 56% to 40% during the period. The Company plans to upscale the lessons learnt from the program and cover Sotik, Longisa and Sigor schemes. The adopted set acceptable water loss (NRW) is indeed 25% This is a performance target which is aimed at after many years of operation. The baseline NRW (UFW) was 48% as indicated in section 2.4 of the strategic plan. There are many causes and the remedy is also outlined therein. The strategies of addressing NRW include bulk metering, Customer metering, customer surveys, Identification of illegal connections, meter testing, rehabilitation of old pipelines, GIS for block mapping and staff training. These interventions are very costly and requires donor funding. Even when funds become available, there is need for time to implement the intervention measures and hence	Milton Kitur TOM	Ongoing	2018

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		cannot be achieved at the outset. WASREB is cognizant of this fact and allows water companies to progressively reduce their NRW from their baseline over a span of the years. The approved progressive achievement of this standard indicator by WASREB is outlined in chapter 5 page 49 of SPA whereby NRW of 48% was set to be achieved in 2016/2017 and progressively reduced over 5 years so that the acceptable standard of 25% is achieved in 2018/2019. The company achieved a NRW of 50% during the period under review and hence off the performance target by only 4% (52%-48%).			
15	Included under note 5 to the financial statement is the expenditure of Kshs. 7,301,095 which was incurred in respect of fuel and lubricants against a budget of Kshs 5,500,000, implying an over-expenditure of 33%. However, the management did not provide fuel register and vehicle work tickets to confirm that the fuel expenditure was incurred for the official purposes.	The cost of fuel went up drastically during the year and the drought witness during the year resulted in high fuel consumptions. Fuel register and vehicle work ticket was availed during the audit and readily available for further scrutiny.	Patrick C Langat CFM	Resolved	2018

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16	Included under note 5 to the financial statement reflects an expenditure of Kshs. 4,415,924 which was incurred in respect of vehicles running expenses, motor cycles and tires against a budget of Kshs 2,200,000. This implies that the Company exceeded the budget by 101%. A review of the expenditure documents revealed that no inspections were carried before and after repairs, to justify the service provided and the requisite payment. Further the repairs carried out were not recorded in repair logbooks (GP55); hence it was not possible to confirm the propriety of the expenditure	During the year, the county experienced drought and this prompted the County Government of Bomet through disaster management to fund acquisition of additional tires to address high wear and tear of tires. During the year, we received an allocation of Kshs 1million towards procurement of tires and as a result pushed the cost by the same margin.	Patrick C Langat CFM	Resolved	2018
17	Note 5 to the Financial Statement reflect operation, maintenance and distribution cost of Kshs. 89,477,548 which includes an expenditure of Kshs. 4,807,797 in respect of water chemicals, whose budget was Kshs 6,000,000. It was noted that the	Water chemicals and any other consumables are received and inspected by the inspections and acceptance committee who are mandated to execute duties as per their appointment letters as spelt out in Public procurement and disposal Act 2015. Once passed by the committee, they are received by the store keeper in the store records or bin cards before issuing them to the users.	Patrick C Langat CFM	Closed	2018

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	company did not provide the minutes of the inspection and acceptance committee to confirm whether the goods delivered were of the correct quantity and quality. Further the chemicals procured were not taken on charge in the stores records.				
18	Note 5 to the financial statements reflects an expenditure of Kshs. 6,836,893 in respect of maintenance and repairs of distribution lines which had a budget of Ksh6,000,000, implying an over-expenditure of Kshs. 836,893. However, it was noted that the repairs done on distribution lines were not supported by pre-repair and post repair inspection reports to ensure the services were actually needed. Further, the company engaged casual workers to carry out the repair works. However, the expenditure on these workers was not supported by muster rolls that have details of their ID numbers, job descriptions and the locations where	Leakages, bursts and any other repair works are reported through customers care representatives who records them in the customer care record book. Thereafter, the customer care officer report to concerned area managers and technical supervisors for assessment. The area manager will then engaged the area locals to do the excavation work while the technical part is handled by the technical supervisors. Casuals are engaged on a need basis since bursts and leakages cannot last for more than a day and not on a regular basis therefore, the issue of master roll shall not apply. When paying those casuals, we have an approved project capturing all the details of the casuals engaged and areas where such repair works were carried and the amount spent. All repair works are checked and confirmed by Technical and operation Manager prior to making such payments. We exceeded the budget by 12% which is slightly above the variance limit of 10%.	Milton Kitur TOM	Ongoing	2022

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	work was carried out. Under such circumstances, the expenditure of Kshs. 6,836,893.00 on maintenance and repairs of distribution lines could not be confirmed to be a correct charge on public funds.				
19	The statement of financial position reflects capital reserves of Kshs. 39,354,042 which according to note 16, refers to the debtors at the time the company was operational zed on 1 September, 2014. However, the list of those debtors and the minutes of the Board meeting that sanctioned the debt balance has not presented for audit verification. Further, the statement of changes in equity in the financial statement did not include an analysis of the changes in the capital reserves. Under such circumstances, the correctness of the capital reserves balance of Kshs. 39,354,042.00 could not be confirmed	Capital reserve of Kshs. 39.354,042 reflects a true position. During the year, the board approved harmonization of capital reserves as per the records at 1st September 2014. The breakdown is as shown below	John Cheruiyot MD	Resolved	2018