

**GUMA VALLEY WATER COMPANY**

**FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31<sup>ST</sup> DECEMBER 2016**



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## GENERAL INFORMATION

<b>Board of Directors</b>	Ing. Max Thompson	- Chairman
	Ing. Stalin Frazer	- Member
	Ing. Amadu Barrie	- Member
	Mr. Idrisa Barrie	- Member
	Mr. Michael Kargbo	- Member
	Mr. Arthur Kwesi - John	- Member

**Corporate Secretary** Mr. Lahai Kanu

**Bankers:** Standard Chartered Bank Sierra Leone Limited  
Sierra Leone Commercial Bank Limited  
Rokel Commercial Bank (Sierra Leone) Limited  
Guaranty Trust Bank (Sierra Leone) Limited  
FiBank (SL) Limited  
Union Trust Bank

**Auditors** Audit Service Sierra Leone  
Tower Hill  
Freetown  
Sierra Leone

**Registered office** Guma Building  
12/14 Lamina Sankoh Street  
Freetown  
Sierra Leone



## REPORT OF THE AUDITORS – AUDIT SERVICE SIERRA LEONE TO THE BOARD OF DIRECTORS

### Audit of the *Financial Statements of Guma Valley Water Company* performed by the Auditor General of Sierra Leone

**Addressee:** *The General Manager*

**Date:**

Dear *Sir*

#### **Adverse Opinion**

I have audited the accompany Financial Statements of the Guma Valley Water Company which comprise a separate statement of the financial position as at 31<sup>st</sup> December 2016, a separate statement of comprehensive income for the year to 31<sup>st</sup> December 2016, a statement of cash flow, a statement of changes in equity for the year to 31<sup>st</sup> December 2016 and summary of significant accounting policies and other explanatory notes as set out on pages 12 to 33.

In my opinion, because of the significance of the matter discussed in the *Basis for Adverse Opinion* section of my report, the accompanying financial statements do not *give a true and fair view of* the financial position of the Entity as at *31st December 2016*, and of its performance for the year then ended.

#### **Basis for Adverse Opinion**

##### **Inability to obtain audit sufficient appropriate audit evidence**

I was not able to obtain sufficient appropriate audit evidence in respect of the following amounts included in the financial statements:

- Bowser revenue of **Le1.3 billion** as Log books, distribution lists and other relevant supporting documents were not submitted for audit review
- Difference of **Le6.9 billion**, was noted between receivable ledgers and total list of customers' balances from the EDAMS revenue software and this was not corrected in the financial statements.
- Customers' accounts with credit balances amounting to **Le683.5 million**, were identified and disclosed as receivable balances instead of as payable balances in the financial



statements submitted for audit. In addition, supporting documents to validate these balances were not provided for audit.

### ***Lack of Comprehensive Asset Register***

The Company did not maintain a Comprehensive Non-current Assets Register. Hence, I could not verify or confirm by alternative means the physical existence, accuracy and completeness of the non-current assets disclosed in the statement of financial position of **Le90billion** as at 31<sup>st</sup> December 2016. Consequently, the accuracy of the depreciation charge of **Le3.4 billion** reported in the financial statements could also not be ascertained.

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

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

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

Those charged with governance are responsible of overseeing the entity's financial reporting process.

### ***Auditor's Responsibility for the Audit of the Financial Statements***

My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards for Supreme Audit Institutions will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the





aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with International Standards for Supreme Audit Institutions, I exercise professional scepticism 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 controls.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Entity's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence, obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the Entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

I communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

I also provide those charged with governance with a statement that I have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships



and other matters that may reasonably be thought to bear on my independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, I determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. I describe these matters in my auditor's report unless law or regulation precludes public disclosure about the matter or, when, in extremely rare circumstances, I determine that a matter should not be communicated in my report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

**AUDITOR GENERAL**

Date:

13/Oct/2020.





## **REPORT OF THE DIRECTORS**

The Directors present their annual report and the audited financial statements for the year ended 31<sup>st</sup> December 2016.

### **Directors' Responsibility Statement**

The Company's directors are responsible for the preparation and fair presentation of the financial statements, comprising the statement of financial position at 31<sup>st</sup> December 2016, the statement of comprehensive income, the statement of changes in equity and statement of cash flows for the year then ended and the notes to the financial statements, which include a summary of significant accounting policies and other explanatory notes, in accordance with International Financial Reporting Standards and in the manner required by the Sierra Leone Companies Act 2009, and the Guma Valley Water Ordinance, 1961.

The Directors' responsibility includes: designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of these financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable to the circumstances.

### **Principal Activity**

The principal activity of the Company continues to be to procure a supply of water and to distribute it within the limits of supply and elsewhere.

### **Results**

The results for the year and the state of the Company's affairs are set out in the attached financial statements.

### **Dividend**

The directors do not recommend the payment of dividend.

### **Going Concern**

The directors have made an assessment of the Company's ability to continue as a going concern and have no reason to believe the business will not be a going concern in the year ahead.

For the reasons described in note 29 of the financial statements, the financial statements have been prepared on the going concern basis of accounting, which assumes the company will and can continue to exist as a going concern. Assets and liabilities are therefore included at values in the company's statement of financial position, which assume this fundamental basis of preparation.

### **Directors and their interests**

The following directors served during the year:

Ing. Max Thompson	- Chairman
Ing. Stalin Frazer	- Member
Ing. Amadu Barrie	- Member
Mr. Idrisa Barrie	- Member
Mr. Michael Kargbo	- Member
Mr. Arthur Kwesi - John	- Member





The present Directors, having been appointed by the Government of Sierra Leone, as the majority beneficial owner of the shares in the Company, continue in office until their appointments are otherwise determined or renewed by the National Commission for Privatisation pursuant to Section 13 of the National Commission for Privatisation Act 2002.

No director had, during the year, or has a material interest in any contract or arrangement of significance to which the Company was or is a party.

**Approval of the financial statements**

The financial statements of the Company as indicated above were approved by the Board of Directors

on ..... 2020 and are signed on their behalf by:

**By order of the Board**

.....  
*B. Myers*  
**Director**

.....  
*[Signature]*  
**Director**



**STATEMENT OF FINANCIAL POSITION**

*In Thousands of Leones*

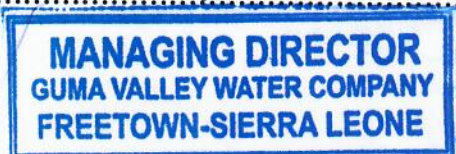
ASSETS	Notes	2016	2015
<b>Non-Current Assets:</b>			
Intangible (Software)	15a	527,068	452,659
Property, plant & equipment	15b	90,349,743	90,886,472
Available -for-sale financial assets	16	112,495	112,495
Special reserve investment	17	480	480
Deferred tax account		7,444,064	7,444,064
<b>Total Non-Current Assets</b>		<b>98,433,850</b>	<b>98,896,170</b>
<b>Current Assets:</b>			
Inventory	18	2,179,348	1,931,044
Receivables	19	36,617,737	31,574,166
Cash and Bank Balances	20	219,129	860,832
<b>Total Current Assets</b>		<b>39,016,214</b>	<b>34,366,042</b>
<b>Total Assets</b>		<b>137,450,064</b>	<b>133,262,212</b>
<b>EQUITY AND LIABILITIES</b>			
<b>Equity</b>			
Share capital	21	1,223,872	1,223,872
Reserves	22	15,600,566	15,600,566
Retain earnings	23	60,142,131	59,422,940
<b>Total Equity</b>		<b>76,966,569</b>	<b>76,247,378</b>
<b>Liabilities</b>			
Borrowings	24	-	-
Retirement benefit obligation	25	25,849,564	23,812,085
Deferred income	29	12,524,374	14,401,223
<b>Total Non-Current Liabilities</b>		<b>38,373,938</b>	<b>38,213,308</b>
Bank Overdraft	20	237,682	44,533
Borrowings	24	2,164,500	2,164,500
Payables	26	11,725,769	8,919,112
Income Tax Payable	11	7,981,606	7,673,381
<b>Total Current Liabilities</b>		<b>22,109,557</b>	<b>18,801,526</b>
<b>Total Equity and Liabilities</b>		<b>137,450,064</b>	<b>133,262,212</b>

These Financial Statements were approved by the Board of Directors on .....2020

.....*B. Myers*.....Director

.....*[Signature]*.....Director

.....*[Signature]*.....General Manager





**STATEMENTS OF COMPREHENSIVE INCOME**

*In Thousands of Leones*

	Notes	2016	2015
Revenue	6	27,183,902	28,867,838
Direct Expense	7	<u>(12,607,065)</u>	<u>(11,359,001)</u>
<b>Gross Profit/(Loss)</b>		<b>14,576,837</b>	<b>17,508,837</b>
Other operating income	8	5,315,608	5,132,248
Administrative expenses	9	<u>(18,692,296)</u>	<u>(20,048,199)</u>
<b>Result from operating activities</b>		<b><u>1,200,149</u></b>	<b><u>2,592,886</u></b>
Finance income		-	-
Finance expenses		(172,733)	(256,203)
<b>Net finance</b>	10	<b><u>(172,733)</u></b>	<b><u>(256,203)</u></b>
Other income		<u>-</u>	<u>-</u>
<b>Profit/(Loss) for the year before tax</b>		<b>1,027,416</b>	<b>2,336,683</b>
Income tax expense		<u>(308,225)</u>	<u>(701,005)</u>
<b>Net profit/( loss) for the year</b>		<b><u>719,191</u></b>	<b><u>1,635,678</u></b>
Attributable to:			
<b>Equity holder of the company</b>		<b><u>719,191</u></b>	<b><u>1,635,678</u></b>
<b>Profit per share (expressed in Leone per share)</b>			
<b>Basic earnings per share</b>		<b><u>2</u></b>	<b><u>2.7</u></b>
<b>Diluted earnings per share</b>		<b><u>2</u></b>	<b><u>2.7</u></b>



**STATEMENT OF CASH FLOW**

<i>In Thousands of Leones</i>	<i>Notes</i>	<b>2016</b>	<b>2015</b>
<b>Cash flows from operating activities</b>			
Cash receipts from customers	27	27,455,939	29,367,244
Cash paid to suppliers and employees	28	(25,219,127)	(20,921,673)
<b>Net cash generated from operations</b>		<b>2,236,812</b>	<b>8,445,571</b>
Interest received		-	-
<b>Cash flow from operating activities</b>		<b>2,236,812</b>	<b>8,445,571</b>
<b>Cash flow from investing activities</b>			
Payments to acquire property, plant and equipment	15	(3,071,664)	(4,075,734)
<b>Net cash used in investing activities</b>		<b>(3,071,664)</b>	<b>(4,075,734)</b>
Tax paid		-	-
<b>Cash flow from financing activities</b>			
Increase in borrowings		-	-
<b>Cash flow from financing resources</b>		<b>-</b>	<b>-</b>
<b>Net decrease in cash and cash equivalents</b>		<b>(834,852)</b>	<b>4,369,837</b>
Cash and cash equivalents at 1 January		816,299	(3,550,538)
<b>Cash and cash equivalents at 31 December</b>		<b>(18,553)</b>	<b>816,299</b>

### STATEMENT OF CHANGES IN EQUITY

<i>In thousands of Leones</i>	Share Capital	Retained Earning	Development Reserve	Reserves	Special Reserve	Total
Balance at 1st January 2015	1,223,872	58,217,057	250	15,599,836	480	75,041,495
Net profit for the year	-	1,635,678	-	-	-	1,635,678
Movement ( Unexplained)	-	-	-	-	-	-
Prior Year Adjustment	-	(429,795)	-	-	-	(429,795)
<b>Balance at 31st December 2015</b>	<b>1,223,872</b>	<b>59,422,940</b>	<b>250</b>	<b>15,599,836</b>	<b>480</b>	<b>76,247,378</b>
Balance at 1st January 2016	1,223,872	59,422,940	250	15,599,836	480	76,247,378
Net profit/(loss) for the year	-	719,191	-	-	-	719,191
Movement ( Unexplained)	-	-	-	-	-	-
Prior Year Adjustment	-	-	-	-	-	-
<b>Balance at 31st December 2016</b>	<b>1,223,872</b>	<b>60,142,131</b>	<b>250</b>	<b>15,599,836</b>	<b>480</b>	<b>76,966,569</b>

## NOTES TO THE FINANCIAL STATEMENTS

### 1 REPORTING ENTITY

Guma Valley Water Company (the "Company") is a company domiciled in Sierra Leone. It is a parastatal established under the Guma Valley Water Ordinance 1961. It was incorporated in Sierra Leone in 1961. The address of the Company's registered office is 12/14 Lamina Sankoh Street, Freetown. The financial statements of the Company as at, and for the year ended, 31 December 2014 comprise those of the Company alone. The Company primarily is involved in the provision of water services to the urban and rural areas in the western area.

### 2 BASIS OF PREPARATION

#### *(a) Statement of compliance*

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) and the Guma Valley Water Ordinance, 1961.

#### *(b) Basis of measurement*

The financial statements have been prepared on the historical cost basis except as stated elsewhere at fair value. *(c) Functional and presentation currency*

These financial statements are presented in Leones, which is the Company's presentational and functional currency.

#### *(d) Use of estimates and judgements*

The preparation of financial statements requires management to make judgements, estimates and assumptions that the applications of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

In particular, information about significant areas of estimation uncertainty and critical judgement in applying accounting policies that have significant effect on the amounts recognised in the financial statements are described in the following notes:

- |                  |   |   |
|------------------|---|---|
| Note 3(f) and 25 | - | Retirement benefit obligations.             |
| Note 3(h) and 6  | - | Revenue recognition.                        |
| Note 4 and 19    | - | Measurement of the recoverable receivables. |



## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 3 SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these financial statements.

Certain comparative amounts have been reclassified to conform to the current year's presentation.

(a) Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currency of the company at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are re-translated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the period. Foreign currency differences arising on re-translation are recognised in profit or loss.

(b) Financial instruments

(i) **Non-derivative financial instruments**

Non-derivative financial instruments comprise investments in equity and debt securities, trade and other receivables, cash and cash equivalents, loans and borrowings and trade and other payables.

Non-derivative financial instruments are recognised initially at fair value plus (for instruments not at fair value, through profit or loss) any directly attributable transaction costs, except as described below. Subsequent to initial recognition, non-derivative financial instruments are measured as described below:

- A financial instrument is recognised if the company becomes a party to the contractual provisions of the instrument. Financial assets are derecognised if the company's contractual rights to the cash flows from the financial assets expire or if the company transfers the financial assets to another party without retaining control or transfer substantially all risks and rewards of the asset.
- Financial liabilities are derecognised if the company's obligations specified in the contract expire or are discharged or cancelled.
- Cash and cash equivalents comprise cash balances and call deposit.
- Bank overdrafts that are repayable on demand and form an integral part of the company's cash management are included as a component of cash and cash equivalents for the purpose of the cash flow statement.

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

- Accounting for finance income and expenses is discussed in note 3(i).

### (ii) **Held-to-maturity investments**

If the company has the positive intent and ability to hold debt securities to maturity, then they are classified as held-to-maturity investments. Held-to-maturity investments are measured at amortised costs using the effective interest method, less any impaired losses.

Other non-derivative financial instruments are measured at amortised cost using the effective interest method, less any impairment losses.

### (iii) **Share capital**

Ordinary shares

Incremental costs directly attributable to issue of ordinary shares and share options are recognised as a deduction from equity.

### (c) **Property, plant and equipment**

#### (i) **Recognition and measurement**

Items of property, plant and equipment are measured at cost less accumulated depreciation and impairment losses.

Cost includes expenditures that are directly attributable to the acquisitions of the assets. The cost of self constructed assets includes the cost of materials and direct labour, borrowing costs, any other costs directly attributable to bringing the assets to a working condition for its intended use, and the cost of dismantling and removing the items and restoring the site on which they are located. Purchased software that is integral to the functionality of the related equipment is capitalised as part of the equipment.

#### (ii) **Subsequent costs**

The cost of replacing part of an item of property, plant and equipment is recognised in the carrying amount of the items, if it is probable that the future economic benefits embodied within that part will flow to the company and its cost can be measured reliably. The cost of the day-to-day servicing of property, plant and equipment are recognised in profit or loss, as incurred.

#### (iii) **Depreciation**

Depreciation is recognised in profit or loss on a straight line basis over the estimated useful lives of each part of an item of property, plant and equipment. Leasehold assets are depreciated over the shorter of the lease term and the useful lives of the assets. Land is not depreciated.



## NOTES TO THE FINANCIAL STATEMENTS (Continued)

The estimated useful lives for the current and comparative periods are as follows:

	Years
Buildings	20
Dams and reservoirs	50
Mains	50
Other distribution mains	33.33
Plant and equipment	4 - 10
Motor vehicles	4

Depreciation methods, useful lives and residual values are re-assessed at the reporting date.

(iv) *Disposals*

Gains or losses on the disposal or scrapping of property, plant and equipment are determined as the difference between the sales price less the cost of dismantling, selling and re-establishing the assets and the carrying amount. Any gains or losses are recognised in the statement of comprehensive income as other operating income or administrative expenses respectively.

(d) *Inventories*

Inventories are measured at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated cost of completion and selling expenses.

Costs include actual cost of acquisition including related expenses such as duties and freight. Cost of pipes and fittings, chemicals, fuel and lubricants is determined using purchased cost.

(e) *Impairment of financial assets*

A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cashflows of that asset. An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the original effective interest rate. An impairment loss in respect of an available-for-sale financial asset is calculated by reference to its current fair value.

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

All impairment losses are recognised in profit or loss. Any cumulative loss in respect of an available-for-sale financial asset recognised previously in equity is transferred to profit or loss.



## NOTES TO THE FINANCIAL STATEMENTS (Continued)

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised. For financial assets measured at amortised cost and available-for-sale financial assets that are debt securities, the reversal is recognised in profit or loss. For available-for-sale financial assets that are equity securities, the reversal is recognised directly in equity.

(f) *Employee benefits*

(i) **Defined contribution scheme**

The company operates a defined contribution scheme, which is funded by monthly contributions to the National Social Security and Insurance Trust. Thereafter, the company has no legal or constructive obligations to pay further contributions, if the fund does not hold sufficient assets to pay all employees the benefit relating to the employees' service in the current and prior periods.

(ii) **Defined benefit plan**

The company provides end of service benefits to its retirees. The entitlement to these benefits is conditional on the completion of a minimum service period. End-of-service benefit is a post-employment benefit plan. The liability recognised in the statement of financial position is the present value of the end of service benefit obligation at the balance sheet date, together with adjustments for actuarial gains or losses and past service costs. The present value of the obligation is determined by discounting the estimated future cash outflows taking into account average service period and salary increases and using interest rates of Bank of Sierra Leone Treasury Bonds that are denominated in the currency in which the obligation will be paid and that matures in one year's time. The calculation is performed by an actuary using the projected unit credit method.

(iii) **Superannuation scheme**

The company operates a superannuation scheme in addition to the NASSIT scheme. Members of staff who participate in the scheme contribute 7% of basic salary and the company also contributes 7% to the scheme. The scheme is managed by trustees appointed under the trust deed and approved by the board of directors. The scheme is governed by its rules and regulations.

(g) **Provisions**

A provision is recognised if as a result of a past event, the company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation.

Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

(h) Revenue recognition

Revenue from operations consists of recurring revenues, such as billings to customers for water consumed. Recurring revenue is recognised when the related service is rendered. Revenue from connection fees is recognised when the customer is connected to the company's water mains.

Other revenues, which arise from other operations such as poundage and reconnection fee, private work, sundry sales, rental, etc, are recognised as the services are rendered and sales made.

In relation to the rendering of services, revenue is recognised by reference to the stage of completion of the transaction at the balance sheet date. Revenue is recognised when no significant uncertainties remain concerning the derivation of consideration or associated costs.

(i) *Finance income and expenses*

Finance income comprises gains on disposal of available-for-sale finance assets, foreign currency gains, interest earned and dividend income.

Dividend income is recognised on the date that the company's right to receive payment is established.

Finance expenses comprise foreign currency losses and interest expense on borrowings. All foreign exchange losses and gains are recognised in profit or loss.

(j) *Lease payments*

Payments made under operating leases are recognised in the profit or loss on a straight line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

(k) *Earnings per share*

The company presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the company by the weighted average number of ordinary shares outstanding during the year. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effect of all dilutive potential ordinary shares.



## NOTES TO THE FINANCIAL STATEMENTS (Continued)

(l) *Income tax expense*

Income tax expense comprises current income tax and deferred taxes. Income tax expense is recognised in profit or loss except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current income tax is the expected tax payable on the taxable income for the year using tax rates enacted or substantially enacted at the reporting date and any adjustment to tax payable in respect of previous years.

Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary difference can be utilised.

(m) *Revenue grants*

Grants provided by the Government of Sierra Leone and International Development Association in the form of funds for specific projects, and debt cancellations are recognised through profit and loss and accounted for in the specific accounting period to which they relate.

(n) *Borrowings*

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the statement of comprehensive income over the period of the borrowings using the effective interest method.

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

(o) *New standards and interpretations not yet adopted*

A number of new standards, amendments to Standards and Interpretations are not yet effective for the year ended 31<sup>st</sup> December 2011, and have not been applied in preparing these financial statements. These include:

- IFRS 9 - Financial Instruments, effective 1<sup>st</sup> January 2014





## NOTES TO THE FINANCIAL STATEMENTS (Continued)

The impact that initial application of these Standards and Interpretations is expected to have on the Company's financial statements could not be reasonably estimated.

### 4 RECEIVABLES

Receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the company provided services, money and goods directly to a debtor with no intention of trading the receivables. They are included in current assets, and are measured at cost less provision for anticipated losses.

A provision for anticipated losses is determined when there is objective evidence that the company will not be able to collect all amounts due according to the original terms of the receivable. The amount of this provision is recognised in the statement of comprehensive income.

### 5 FINANCIAL RISK FACTORS

The company's activities expose it to a variety of financial risks, including:

#### (a) Credit risk

Credit risk is considered high, as services are provided on credit basis of which the substantial portion ends up unpaid long after the due date. During the year under review, provision made for the impairment of trade receivables was 72% (2013: 72%) of the trade receivables and 40% (2013: 18%) of other receivables.

#### (b) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, and the availability of funding through an adequate amount of committed credit facilities. The Company manages this risk by maintaining sufficient cash and investing any excess cash over its anticipated requirements.

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 6 REVENUE

<i>In thousands of Leones</i>	<b>2016</b>	<b>2015</b>
Government premises	4,003,530	4,232,610
Commercial /industrial customers	12,325,760	14,290,589
Water deliveries	1,336,864	1,564,621
Domestic metered supply	9,480,675	8,753,721
Others	37,073	26,297
	<b><u>27,183,902</u></b>	<b><u>28,867,838</u></b>

### 7 DIRECT EXPENSES

Treatment plant	1,027,210	668,767
Transmission and distribution	1,673,454	1,369,517
Waste control	1,415	3,307
Stores	2,280	17,374
Engineering	6,368,722	4,989,404
Depreciation	3,533,984	4,310,632
	<b><u>12,607,065</u></b>	<b><u>11,359,001</u></b>

### 8 OTHER OPERATING INCOME

Connections	322,794	518,030
Debtors private work and sundry sales	1,630	42,191
Poundage and connection fees	21,499	23,122
Rental income	37,202	8,678
Dividend received	36,923	-
Other misc. non water revenue	18,711	(131,353)
DFID grant (Freetown water supply rehab)	803,942	803,942
DFID grant (EDAMS Software)	50,295	50,295
Grant -Japan (JICA)	1,022,612	1,022,612
Sundry income	-	-
Government grants	3,000,000	2,794,731
	<b><u>5,315,608</u></b>	<b><u>5,132,248</u></b>



## NOTES TO THE FINANCIAL STATEMENTS (Continued)

- 8a** This relates to the World Bank loans which were cancelled under the HIPC, and Multilateral Debt Relief Initiatives for which Sierra Leone became eligible in December 2006.

### **International Development Association grant**

This represents funds received by the Company from International Development Association (IDA) through the Government of Sierra Leone under the Power and Water Project for technical assistance, institutional strengthening and media coverage programmes aimed at improving the operating efficiency of the company in an effort to make it commercially viable.

### **Government of Sierra Leone's debt relief arrangement**

The amount represents debt relief provided by the Government of Sierra Leone to the company under the Heavily Indebted Poor Countries (HIPC) initiative of November 2006 where the company's loans procured from IDA were forgiven and released to the income statement in line with the maturity profile of the loan balances, as directed by the Government of Sierra Leone.

### **DfID Grant (Freetown Water Supply Rehabilitation) Trust Fund**

This represents funds received from DfID through IDA and the Government of Sierra Leone for the purpose of improving sustainable access to essential water supply in Freetown.



## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 9 ADMINISTRATIVE EXPENSES

*In thousands of Leones*

	<b>2016</b>	<b>2015</b>
Salaries and wages	3,999,026	4,309,343
Post-retirement benefit expenses	2,944,250	3,550,603
Other staff expenses	227,044	610,876
Transport expenses	122,706	210,545
Electricity expenses	375,304	246,350
Vehicle insurance	26,135	24,004
Medical expenses	99,347	86,163
Contractual expenses	1,284,477	1,006,063
Maintenance -building	-	-
Maintenance - furniture and fittings	732	415
Directors fees	9,823	23,102
Directors fares and expenses	190,417	62,553
Printing and stationery	149,304	161,455
Rent and rates	253,125	254,845
Postage and stamps	2,295	935
Professional fees	-	800
Telephone expenses	285,022	309,153
Leave allowance	950,500	842,513
Entertainment and gifts	187,632	91,890
Staff education and training	28,358	89,672
Subscriptions and donations	90,756	127,274
Auditors remuneration	150,000	150,000
Public relations and advertising	69,436	40,071
Cleaning and toiletries expenses	69,844	47,568
Miscellaneous expenses	27,756	8,379
Bad debt provision	6,640,996	7,421,733
Computer accessories and consumables	233,723	75,198
Generator expenses	2,820	6,024
Regulatory Fees (SLEWRC)	271,468	290,674
	<b><u>18,692,296</u></b>	<b><u>20,048,199</u></b>

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

**10 FINANCE INCOME AND EXPENSE**

*In thousands of Leones*

	<b>2016</b>	<b>2015</b>
Interest received	-	-
<b>Finance income</b>	<b>-</b>	<b>-</b>
Bank charges	(172,733)	(256,203)
<b>Finance expense</b>	<b>(172,733)</b>	<b>(256,203)</b>
<b>Net financing income and expense</b>	<b>(172,733)</b>	<b>(256,203)</b>

**11 INCOME TAX ACCOUNT**

**(a) Income Tax Account**

Income tax	<b>308,225</b>	701,005
Deferred taxation	-	-
<b>Reconciled balance</b>	<b>308,225</b>	<b>701,005</b>

The tax on the company's profit is arrived at as follows

Profit before tax	1,027,416	2,336,683
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**(b) Effective tax reconciliation**

Tax at 30% of profit before tax (2015: 30%)	308,225	701,005
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**Tax impact of permanent differences**

Non-deductible expenses	-	-
Non-chargeable items	-	-
Tax incentive	-	-
	<b>308,225</b>	<b>701,005</b>

**(c) Income tax payable**

Bal at 1st January	7,673,381	6,972,376
Income Tax	308,225	701,005
Balance at 31 <sup>st</sup> December	<b>7,981,606</b>	<b>7,673,381</b>



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

**12 DISCLOSABLE ITEMS**

*In thousands of Leones*

Loss from operations is stated after charging the following:

	<b>2016</b>	<b>2015</b>
Directors' fees	200,240	85,655
Depreciation	3,533,984	4,310,632
Auditors' remuneration	150,000	150,000
	<u><b>3,883,984</b></u>	<u><b>4,546,287</b></u>

**13 EMPLOYEE BENEFITS AND EXPENSES**

Salaries and allowances	10,298,124	9,336,998
Post-retirement benefits expense	2,944,250	3,550,603
	<u><b>13,242,374</b></u>	<u><b>12,887,601</b></u>

**14 EARNINGS PER SHARE**

*Basic*

Basic earnings per share are calculated by dividing the net profit/(loss) attributable to equity holders of the company by the weighted average number of shares in issue during the year.

Profit attributable to equity holders of the Company	<b>719,191</b>	1,635,678
Weighted average number of ordinary shares in issue	<b>611,396</b>	611,936
Basic earnings per share (expressed in Leones per share)	<u><b>1.2</b></u>	<u>2.7</u>

*Diluted*

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. As at 31 December 2016 and 2015 there were no dilutive potential ordinary shares.



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

*In thousands of Leones*

15a Intangibles –	Software		TOTAL
	(EDAMS) – DFID Grant	SAGE PASTEL	
<b>Cost</b>			
Balance at 1 January 2016	502,954	-	502,954
Additions	-	34,599	34,599
Reclassification		103,948	103,948
Balance at 31 December 2016	<b>502,954</b>	<b>138,547</b>	<b>641,501</b>
<b>Amortisation</b>			
Balance at 1 January 2016	50,295	-	50,295
Charge for the period	50,295	13,843	64,138
Balance at 31 December 2016	<b>100,590</b>	<b>13,843</b>	<b>114,433</b>
<b>Carrying Amount</b>			
As at 1 January 2016	452,659	-	452,659
<b>As at 31 December 2016</b>	<b>402,364</b>	<b>124,704</b>	<b>527,068</b>

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

*In Thousands of Leones*

### 15. Property, plant and equipment

Assets	Land and Buildings	Dams and Reservoirs	Mains	Plant, Equipment and Motor Vehicles	Capital Work-in Progress	Total
Balance at 1 <sup>st</sup> January 2016	9,156,064	61,859,125	77,538,960	42,534,901	4,404,558	195,493,608
Additions/Adjustment	937,349	1,075,285	764,097	260,334	-	3,037,065
Reclassification to Software	-	-	-	(103,948)	-	(103,948)
<b>Balance at 31<sup>st</sup> December 2016</b>	<b>10,093,413</b>	<b>62,934,410</b>	<b>78,303,057</b>	<b>42,691,287</b>	<b>4,404,558</b>	<b>198,426,725</b>
<b>Depreciation</b>						
Balance at 1 <sup>st</sup> January 2016	7,196,624	28,903,943	27,152,171	41,354,398	-	104,607,136
Charge for the year	752,345	858,124	1,564,200	305,562	-	3,480,231
Reclassification to Software	-	-	-	(10,385)	-	(10,385)
<b>Balance 31<sup>st</sup> December 2016</b>	<b>7,948,969</b>	<b>29,762,067</b>	<b>28,716,371</b>	<b>41,649,575</b>	<b>-</b>	<b>108,076,982</b>
<b>Carrying amount</b>						
<b>At 31<sup>st</sup> December 2016</b>	<b>2,144,444</b>	<b>33,172,343</b>	<b>49,586,686</b>	<b>1,041,712</b>	<b>4,404,558</b>	<b>90,349,743</b>
<b>At 1<sup>st</sup> January 2016</b>	<b>1,959,440</b>	<b>32,955,182</b>	<b>50,386,789</b>	<b>1,180,503</b>	<b>4,404,558</b>	<b>90,886,472</b>

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

**16 Available for sale assets**

<i>In Thousands of Leones</i>	<b>2016</b>	<b>2015</b>
(a) Equity Investment		
Trelawney Sites Ltd: 35,000 shares of Le 2.00 each	70	70
Rokel Commercial Bank (SL) Ltd: 94,478,000 shares of Le 1.00 each	12	12
Standard Chartered Bank (SL) Ltd: 112,495,335 shares of Le 1.00 each	112,495	112,495
Aureol Tobacco Company Ltd: 64,000 shares of Le 10.00 each	10	10
Sierra Leone Brewery Ltd: 30,000 shares of Le 100 each	10	10
<b>Total Equity Investment</b>	<b>112,597</b>	<b>112,597</b>
<b>Total available-for-sale financial asset</b>	<b>112,597</b>	<b>112,597</b>

The Company received 224,942,670 bonus shares valued at Le1.00 each from Standard Chartered Bank (SL) Limited and sold 112,495,335 of the shares at Le3.20 per share in 2009.

**(b) The company's financial assets are summarised below by measurement category**

Equity securities	112,597	112,597
Receivables	36,617,737	31,574,166
<b>Total financial assets</b>	<b>36,730,334</b>	<b>31,686,763</b>

Held to maturity securities and receivables both constitute assets expected to be realised within one year, whilst equity securities held at cost are deemed to be non-current.

**(c) Equity securities**

Unlisted equity securities	<b>112,597</b>	<b>112,597</b>
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**17 Special Reserve Investment**

At 31 December	<b>480</b>	<b>480</b>
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In accordance with section 88 of the Guma Valley Water Ordinance 1961, the special reserve funds shall be deposited in a bank to be increased by accumulation of compound interest or invested in any authorised by the directors.



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

*In Thousands of Leones*

	<b>2016</b>	<b>2015</b>
<b>18 Inventory</b>		
Pipes and fittings	761,090	761,090
Chemicals	966,322	708,723
Fuel & Lubricants	403,370	412,665
Sundry	48,566	48,566
	<u><b>2,179,348</b></u>	<u><b>1,931,044</b></u>
<b>19 Receivables</b>		
Trade	116,955,871	105,462,218
Provision for doubtful debts	<u>(81,068,047)</u>	<u>(74,427,052)</u>
	35,887,824	31,035,166
Others	1,004,109	813,196
Provision for doubtful balances	<u>(274,196)</u>	<u>(274,196)</u>
	<u><b>36,617,737</b></u>	<u><b>31,574,166</b></u>
<b>20 CASH AND CASH EQUIVALENTS</b>		
Bank balance	<u>219,129</u>	<u>860,832</u>
<b>Cash and cash equivalents</b>	<b>219,129</b>	<b>860,832</b>
Bank overdraft	<u>(237,682)</u>	<u>(44,533)</u>
<b>Cash and cash equivalents in the statement of cash flows</b>	<u><b>(18,553)</b></u>	<u><b>816,299</b></u>

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 21 Share Capital

#### *Authorised:*

The company is authorised by Sections 73 and 74 of the Guma Valley Water Ordinance 1961 to create and issue a sufficient number of ordinary shares of Le2.00 each equivalent to the value of the assets transferred to the Company by the Government of Sierra Leone and the Freetown City Council. Also by Clause 7 of the Fourth Schedule, the Company is authorised to issue shares to the Government of Sierra Leone for cash advanced, expenditure on works, or to meet expenses needed to establish the Company and equip it to carry on business. Consequently, 611,936,000 ordinary shares at Le2.00 each were issued and subscribed, as follows:

#### *Issued and fully paid:*

<i>In Thousand Leones</i>	<b>2016</b>	<b>2015</b>
Government of Sierra Leone	1,223,388	1,223,388
City Council of Freetown	484	484
	<u>1,223,872</u>	<u>1,223,872</u>

### 22 Reserve

#### **a) Development Reserve**

Bal. at 1st January and 31st December	250	250
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#### **b) Revaluation Reserve**

Bal. at 1st January and 31st December	15,599,836	15,599,836
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#### **b) Special Reserve**

Bal. at 1st January and 31st December	480	480
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#### **Grand total**

	<u>15,600,566</u>	<u>15,600,566</u>
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#### *(a) Development reserve*

This represents reserve created by the Company for development projects

#### *(b) Revaluation reserve*

This arose out of the revaluation of the Company's fixed assets, the Standard Chartered Bank shares and the stock of pipes received from contractors under the IDA Urban Water Supply Project. The surplus arising on revaluation was credited to the revaluation reserve. The fixed assets were valued at directors' valuation and the last revaluation was carried out in 2003. The shares and pipes were re-stated at market values.

#### *(c) Special reserve*

This was created out of the revenue of the Company under the provision of Section 88 of Guma Valley Water Ordinance 1961 for investment purposes.

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

**23 RETAINED EARNINGS**

*In thousands of Leones*

	<b>2016</b>	<b>2015</b>
Balance at 1 January	59,422,940	58,217,057
Profit for the year	719,191	1,635,678
Movement ( Unexplained)	-	-
Prior Year Adjustment	-	(429,795)
	<u><b>60,142,131</b></u>	<u><b>59,422,940</b></u>

23a The prior year adjustment relates to unexplained movement in the retained earnings figures.

**24 BORROWINGS**

**Government of Sierra Leone**

*In thousands of Leones*

	<b>2016</b>	<b>2015</b>
Balance at 1 January	-	2,206,400
Movements during the year		
Prior year adjustment	-	(2,206,400)
Balance at 31 December	<u>-</u>	<u>-</u>

The Government of Sierra Leone's loan represents loan amounts paid by the Government of Sierra Leone on behalf attracting interest at 3.4% per annum and is repayable over five years. Disbursements in 2010 represent a soft loan at 0% interest to fund the procurement of chemicals, construct stand posts and extend and or repair the distribution network within the city.

The Government of Sierra Leone does not intend to immediately call up the amounts owed to it by the Company.

*In thousands of Leones*

**Grand total**

**(b) Current**

Islamic Development Bank	2,164,500	2,164,500
IDA loan through Government of Sierra Leone	-	-
Adjustment (23a)	-	-
	<u><b>2,164,500</b></u>	<u><b>2,164,500</b></u>



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

	<b>2016</b>	<b>2015</b>
<b>25 RETIREMENT BENEFIT OBLIGATIONS</b>		
The amounts recognised in the balance sheet are:		
Present value of obligations	<u>25,849,564</u>	<u>23,812,085</u>
<i>Movement in the present value end of service benefit</i>		
At 1 <sup>st</sup> January	23,812,085	7,046,709
Current service costs	2,944,250	3,550,603
Interest cost	-	-
Prior year adjustment		14,218,358
Benefit paid	(906,771)	(1,003,585)
At 31 <sup>st</sup> December	<u>25,849,564</u>	<u>23,812,085</u>
<b>26 PAYABLES</b>		
<i>In thousands of Leones</i>	<b>2016</b>	<b>2015</b>
Trade	595,645	595,645
Non-trade	11,130,124	8,323,467
	<u>11,725,769</u>	<u>8,919,112</u>
<b>27 CASH RECEIPTS FROM CUSTOMERS</b>		
<i>In thousands of Leones</i>	<b>2016</b>	<b>2015</b>
Revenue	27,183,902	28,867,838
Other operating income	5,315,608	5,132,248
Increase in receivables	(5,043,571)	(4,632,842)
	<u>27,455,939</u>	<u>29,367,244</u>

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

**28 CASH PAID TO SUPPLIES AND EMPLOYEES**

<i>In thousands of Leones</i>	<b>2016</b>	<b>2015</b>
Direct expenses	12,607,065	11,359,001
Administrative expenses	18,692,296	20,048,199
Bank charges	172,733	256,203
Depreciation charge	(3,533,984)	(4,310,632)
Deferred income release	1,876,849	1,873,852
Increase/(decrease) in inventories	248,304	361,785
Prior year adjustment (receivable & payables)	-	429,795
Borrowing Cost written off	-	2,206,400
Non-current asset write off	-	-
(Increase)/decrease in retirement benefit obligations	(2,037,479)	(16,765,376)
(Increase)/decrease in payables	(2,806,657)	5,462,446
	<u><b>25,219,127</b></u>	<u><b>20,921,673</b></u>

**29 DEFERRED INCOME**

<i>In thousands of Leones</i>	<b>2016</b>	<b>2015</b>
Balance as at 1st January	14,401,223	15,775,118
Addition	-	502,954
Release to income	(1,876,849)	(1,876,849)
Balance as at 31st December	<u><b>12,524,374</b></u>	<u><b>14,401,223</b></u>

**30 CAPITAL COMMITMENTS**

Capital commitments at 31<sup>st</sup> December 2016: Nil (2015: nil).

**31 CONTINGENT LIABILITIES**

There were no contingent liabilities at 31<sup>st</sup> December 2016 (2015: Le nil).