Annual Report 2015/2016

Water & Sewerage Company

WASCO

SAVE EVERY DROP

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Vision

"To be a Sustainable Provider of Quality and Reliable Water and Sanitation Services"

Mission Statement

"To provide potable water and sanitation services to customers in urban and other designated areas in Lesotho for socio-economic development and environmental health through the efficient use of resources"

Corporate Profile

Water and Sewerage Company (WASCO) serves almost 300 000 people in the urban centres with potable water. The Company has over 92 000 customers which is 60% of the total urban population. The safe drinking water to is supplied through post paid, pre paid and standpipe connections. The Company also serves the many industries and commercial premises, particularly in Maseru namely; Nien Hsing, C&Y, Global Garment and Lesotho Brewing Company, which use about 40% of the water produced. In total 60% of the water produced is used in industries and commerce.

WASCO has covered 49% of sites in urban centres with water connections and 13% of sewer connections. Over and above the said connections, the Company regulates sewage tanker service. This service is done by private tank owners in Maseru and this has recently been introduced in other urban centres. The emptying service is provided to households and businesses in areas that have a reticulated water supply but do not have access to piped sewerage. The tankers are used to empty septic and conservancy tanks including VIP toilets.

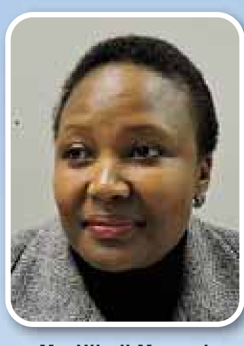
On average, water production for the city of Maseru is 40 mega litres per day. Maseru residential and industrial customers obtain their water mainly from the Metolong dam and Mazenod, Morija, Roma and Teyateyaneng also get supply from Metolong. However, Tikoe Thetsane water treatment plant and the Maseru water treatment plant are still in operation to serve a few selected places in Maseru which are yet to be connected to the Metolong water supply system.

Board of Directors

Mr. Malefetsane Mohafa
Chairman of the Board

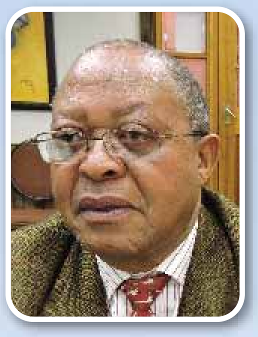
Mrs. Mpho Elias

Ms. Mothepane Kotele

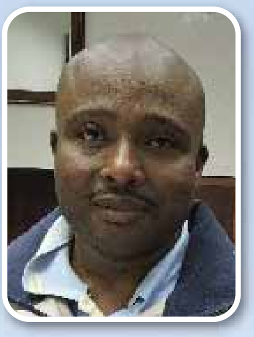


Ms. Nthati Moorosi

Mr. Motlatsi Ramafole



Mr. Victor Lechesa



Mr. Mohau Kobile

Mr. Alphonce Ramone

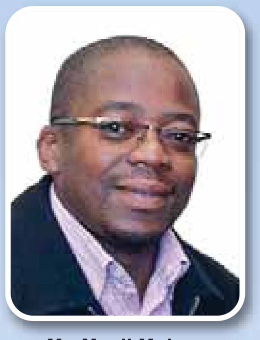
Mr. Mathealira Lerotholi
Chief Executive

Executive Management

Mr. Mathealira Lerotholi
Chief Executive

Mrs. 'Mamojela Koneshe
Director of Strategic Services and Human Resources

Mr. Soaile Mochaba
Director of Finance



Mr. Moeti Makoa
Director of Operations and Maintenance

Mrs. 'Mamathe Makhaola
Director of Engineering

EXECUTIVE MANAGEMENT

Mr. Mathealira Lerotholi
Chief Executive
MA- Environmental Eng.
(Water Resource Management)

Mr. Soaile Mochaba
Director of Finance
CA (Lesotho)

Mr. Moeti Makoa
Director of Operations & Maintenance
B.Civil Eng.

Mrs. 'Mamathe Makhaola
Director of Engineering
BEng. Civil Eng.

Mrs. 'Mamojela Koneshe
Director of Strategic Services and Human Resources
MA- Industrial Relations and Human Resource

MIDDLE MANAGEMENT

CE

Mr. Sekhonyana Sekhonyana
Assistant to The Chief Executive
MSc. Economics

Mr. Pheello Masoabi
Manager Legal Affairs
LLB

Ms. Pulane Pitso
Chief Internal Auditor
BA. Economics and Accounting

Mrs. Lineo Moqasa
Public Relations Manager
MA-CCMS

Mr. Pefole Pefole
Strategic Services Manager
BA Economics and Statistics

Mr. Kamohelo Hlomisi
Information and Communications Technology Manager
MBA, BSC Computer Science and Physics

HUMAN RESOURCES

Ms. Nts'iuoa Seala
BA Public Administration and Political Science

ENGINEERING

Mr. Thabo Nteko
Manager Projects Planning and Studies
MSC in Projects Implementation and Management

Mr. Thabo Thabane
Acting Project Manager MWWP
BTECH Construction Management (Civil)

Mr. Lebakeng Phooko
Manager Engineering Design
BA Civil Eng (Environment.)

Mr. Isaace Sebonyane
Manager Contracts Administration
BSC Hons Build Environment Studies

FINANCE

Ms. Mponeng Nyabela
Financial Systems Manager
General Accountant - (Lesotho)

Ms. Tselane Mohapi
Financial Accounting Manager
Registered Accountant

Mr. Ts'ukulu Phafoli
Shared Services Manager
MA Human Resource Management and Development Planning

Ms. Mariam Rats'iu
Credit Controller
BCom. (Accounting)

Mr. Chabeli Machake
Metering and Customer Care Manager
BCom. (Hons.)

OPERATIONS

Mrs. Ponts'o Tau
Manager Network and Distribution
Civil Eng.

Mr. Letlama Jobo
Manager Sewerage
BSc. Civil Eng.

Mr. Mahlomola Senamolele
Manager Maintenance and Production
BSc. Electro-Mechanical Eng.

Mr. Toloko Ramaema
Regional Manager South
BTech. Civil Eng.

Mr. Matjeketjeke Mokhesi
Regional Manager North
BTech. Civil Eng.

Mr. Mpho Mokoatleng
Laboratory Manager
MBA and BSC

Ms. Lintle Maliehe
Manager Production
Hons Civil Eng.

Statement of the Chairman of the Board of Directors

Strong leadership

It gives me a great pleasure to present this year's Chairman of the Board of Directors review on behalf of the WASCO's Board of Directors. I would like to welcome each and every member of the Board of Directors that was formally inaugurated in June 2015. Following an intensive induction program, the Board of Directors held a number of ordinary and special meetings in which it got insights into the operations and financial position of WASCO. A visit to the Metolong Water Treatment plant by the Board members provided further details on water treatment and supply as well as sewerage services, this assisted in building our understanding of the business. and this was the set target for the period.

Mr. Malefetsane Mohafa

Overall performance

During 2015/16, despite challenges in debt collection and drought, we made steady progress. Our expertise in water treatment and supply as well as sewerage services together with our focus on the quality of experience of our customers, have contributed heavily to this progress.

The Company delivered a good underlying performance in 2015/16 with the overall results reflecting the non-repeat of 2014/15. On debt management, the accumulated debt was still substantial but efforts were made and collection substantially improved during the financial year as a whole. Cash collection averaged 16 million Maloti. A disconnection campaign that generated M3, 024, 078 was launched. It constituted; litigation, use of debt collectors, issuing of warning messages and actual disconnections which had a substantial effect to customer payments and hence improved WASCO's liquidity.

Strengthening governance and capacity

The Board is responsible for setting the right tone from the top and ensuring that a robust governance structure is in place to enable the business to succeed and deliver long-term sustainable growth. As part of this responsibility the Board has continued in 2015/16 with its programme of considering and approving quite a number of submissions and policy documents as well as to make governance decisions aimed at improving the governance, management and direction of WASCO.

The setting up of specialised committees of the Board has not been dealt with during the period as planned due to the delay in finalising the review of the Board's committees and their membership. The Board Charter has been drafted and is yet to be considered by the EXCO for submission to the Board. A planned Annual General Meeting which was scheduled for the reporting period could not be convened due to lack of quorum of shareholders.

At the end of the year most of the planned activities were implemented save for some that could not be implemented due to several challenges. There are still delays in the filling up of the membership of the various Board's Committees. A number of policies were developed by management and submitted to the Board for consideration and approval. At the end of the review period the PMS had not been fully implemented with a partial submission of assessment reports to HR by divisions.

The implementation of the organisational structure review moved to the next phase of the project being the development of the Decision Making Framework. Members of staff received formal letters informing them of their new positions in the new WASCO structure marking the formal implementation of the structure.

Our people

WASCO is powered by the hard work, passion and commitment of each of our employees. Our aim is for our people to love working at WASCO. This is core to our ability to deliver for our customers and to fulfilling our purpose. We are committed to fostering a culture where our people are happier and healthier because they work at WASCO. We focus on leadership to ensure that our CAP-IT values are present in everything we do. On behalf of the Board I would like to thank all of our people for their contribution in 2015.

Mr. Malefetsane Mohafa
Chairperson of the Board of Directors

Chief Executive's Review

Mr. Mathealira Lerotholi

I am happy to report that the Company delivered a promising financial performance in 2015/16. However, with 58% of progress on achieving the strategic priorities per the Annual Business Plan (ABP), general performance was not satisfactory. This was largely due to the drought that hit most of the country and this let to low production which resulted in low consumption.
August to December 2015 and the early months of 2016 will be remembered as an awful time for many customers in most parts of the country where communities were inundated by severe drought. Dealing with this situation, we worked closely with the Department of Rural Water Supply (DRWS) in using the existing water sources, supplying communities with tankered water and placing tanks in areas hardest hit by the drought such as Mafeteng and Hlotse. The DRWS also assisted with provision of a mobile water treatment plant for treatment of water at Duma Dam in Mafeteng. My appreciation goes to the Government of Lesotho, our employees, suppliers and partners who worked tirelessly to maintain the supply of water and gave up their Christmas holidays to help families and businesses affected by the drought.

Despite the drought, in the year under review, we managed to comprehensively reassess our strategy and formulated the 2015/16 to 2019/2020 strategic plan. This was done on the basis of assessment of the current situation. The new vision and mission was therefore developed and core values agreed upon are: Customer focus, Accountability, Professionalism, Integrity and Team-work (CAP-IT). The strategic plan has four key themes that WASCO will use to deliver its purpose: Strengthen Governance and Capacity, Improve Service and Supply, Optimise Customer and Partner Collaboration and Ensure Financial Sustainability.

Optimise customer and partner collaboration

In the past two years since I had joined the Company, we increased our stakeholder engagement efforts and started stakeholder workshops across all service centres where all stakeholders were educated more about WASCO and the challenges that hinder developments in water supply and sewerage services. In 2015, district water committees were established to be a link between the Company and its stakeholders and this is a big step towards ensuring that stakeholders have a say in decisions that affect them within the water sector. In addition, there have been interventions including public gatherings in various areas to engage with village committees on a number of issues including vandalism of the system, water supply and others. The work on stakeholders' sessions culminated into a national stakeholder's conference held in March 2016.

Furthermore, the update of the WASCO Database has continued during the period and 75 percent of the customer records have been updated. Of all the activities under this theme the implementation of Service level agreements (SLAs) with key suppliers faced challenges that included timely delivery of supplies due to delays in payments by WASCO.

Financial performance

The company experienced a growth in the profit margin coupled with improved revenue during the period under review. There are still challenges in the area of government debts and collection as was the case in the past. WASCO will be employing drastic measures to disconnect customers who default on making payments on their monthly bills preceded by warning campaigns.

Total expenditure for the year up to the end of March 2016 totalled M218, 639, 466. This expenditure falls short of the budgeted expenditure for the period by 3.03 percent. This has been largely attributed to, among other things, the effects of Metolong operations which are under assisted operations and the savings on power on some pump stations which have been shut down due to supply from Metolong. The reduced operation of the Maseru Water Supply plant also had an impact. Further reduction in expenditure was as a result of reduced production due to some plants shutting down due to drought situation that occurred during the year.

The target set for revenue for the 2015-16 period is M236 million. Revenue for the entire financial year ending March 2016 was recorded at 221, 667, 309. At M170, 995, 633, the main driver of revenue, Water Billing fell below its set target of M185.33 million. The main contributor to this has been the drought situation which resulted in reduced production.

Actual collection improved largely due to the efforts made by the Company to urge customers to pay their bills. These included disconnection campaigns and the introduction of payments through Vodacomm's Mpesa and Econet's Ecocash facilities also contributed to this.

Other performance Indicators

Non revenue water (NRW)

The target for Non-Revenue Water for 2015-16 financial year has been set at 26 percent. The average NRW figure for the period was estimated at 31.2 percent.

Much work was put into implementing initiatives aimed at addressing NRW for the period. In this regard up to 10 kilometres of old asbestos pipes have been replaced with UPVC pipes and 398 customers transferred to the new system in Maseru under the Urban and Peri-Urban Water Supply Project. Furthermore, about 396m out of 550m of 63mm diameter pipes, 824m out of 900m of 90mm diameter pipes, 2080m out of 2150m of 110mm diameter pipes and 2040m out of 2600m of 160mm diameter pipes were constructed under the Mafeteng Water Supply Project.

The first draft of maintenance and intervention procedure document has been drafted and is ready to be considered by management. In the long run this will help in reducing NRW.

Quality

All water treatment plants managed to maintain turbidity levels at 98 and 95 percent mark for the third and fourth quarters respectively. Samples passing microbiology count have been erratic over the 12 month period and largely below the 95 percent but above the 90 percent mark. In particular estimates for the third and fourth quarter are that 95 and 91 percent of the samples tested have passed respectively.

With regard to effluent, samples passing COD testing were recorded at 8 and 10 percent for the third and fourth quarters respectively. Samples passing the suspended solids testing for the third and fourth quarters were at 22 and 36 percent respectively while the same parameters registered similar pass rates of 25 percent in the second quarter. This performance is still reflecting challenges in this area due to inadequate infrastructure for waste water treatment emanating from increased discharge. The drop in quality of effluent is attributed to bad quality of discharge which is high in Suspended Solids and COD from Pre-treatment Plants of wet industries connected to the WASCO system in particular garments factories (to a lesser extend) and Maloti Mountain Brewery which is consistently failing.

Water and sewer connections

The total connections carried out to the end of the period under review has been recorded at 5, 386 water connections and 359 sewer connections. Shortage of materials in most cases has hampered work in this area in the earlier months of the year. Hence why we were unable to achieve the target of 6000 water and 400 sewer connections respectively.

Improve adherence to regulatory requirements

3.5.1 Inspection tours to assist the centres of Thaba Tseka, Mokhotlong and Quthing were carried out during the year. These were aimed at finding out issues that needed correction before the formal LEWA inspections as well as to provide assistance and awareness on the recording of data for monitoring key indicators assessed by LEWA. The development of codes of practice continued during the review period with the finalisation of the draft water and sewerage billing code of practice. These were submitted to management for consideration, approval and submission to LEWA. Routine completion of reporting templates for the monthly and quarterly reporting was carried out and submission made to LEWA.

Conclusion

We are, and will be, affected by the continued uncertainty in water supply due to drought and we are exposed to the potential risks which may emerge. We must navigate these challenges by focusing on what we can control, managing and mitigating risk wherever possible, while at all times maintaining an open dialogue with our stakeholders.

At this stage, I must also reference all of my colleagues whose diligence, attitude and determination to build a sustainable Company is the main reason for today's results. It is a privilege to lead such a committed group of people. Thank you.

We would not have been able to deliver the significant improvements for customers over recent years without the enthusiasm and commitment of our employees. We are proud of their unrelenting dedication and of our sub-contracting partners who have worked very hard all year round in supporting customers and we would like to thank them for their significant contribution. We are pleased to welcome the new Board of Directors with effect from June 2015 and we thank them for the strides they have already made in improving governance.

The company has seen significant change over the last few years and we continue to move through a period of transformation. We are confident that we can build on our strong operational performance and improve further as we progress through this new regulatory period.

Mathealira P. Lerotholi
Chief Executive

Corporate Review

Executive Summary

This is the WASCO annual Report covering the twelve month period ending March 2016. The report is structured in a manner that aligns it with the WASCO Strategic Plan (2014/15-2019/20) using the four themes on the Balanced Score Card (BSC), namely, strengthening governance and capacity; improving service and supply; optimising customer and partner collaboration; and, ensuring financial sustainability.

Overview of performance

Fifty eight (58) percent of planned activities for the financial year have been fully implemented while there have been challenges that have caused others to be partially implemented or could not be carried out at all. Several WASCO indicators continue to be positively attained, namely treated water quality, revenue generation, operating margins to name a few while there were challenges in achieving some, namely effluent quality and debt recovery and water and sewer connections.

Improve service and supply

There are a number of challenges that beset the carrying out of key activities for objectives under this theme. There have however been successes in the implementation of other notable activities namely the replacement of old reticulation in selected areas so as to improve supply. The consultancy to develop the WASCO's Project Management Framework started its work within WASCO with consultations with relevant divisions and sections leading to the presentation of the inception report.

WASCO continues to perform optimally for water treated and supplied to its customers. Microbiological, turbidity and residual chlorine parameters continued to be at acceptable levels though not reaching the desired 100 percent. However, performance for these parameters have been maintained above the 90 percent mark. There has been a steady improvement in the measure of the acidity/alkalinity of water supplied to customers during the period. There are still infrastructural challenges, however, that hamper acceptable performance in the area of effluent quality. Performance for COD and Suspended solids have been below the 40 percent mark for the period under review. Actually performance for suspended solids has been at zero for a considerable period during the year, thus demonstrating a very poor performance in this area.

On service coverage, the overall number of connections for the period to the end of March 2016 is at 5, 386 and 359 for water and sewerage respectively. It can be realised that in both cases the set targets have not been reached. This is attributed to shortage of materials in most cases due to suppliers not meeting their delivery obligations. The number of water and sewerage connections were recorded at 925 and 52 respectively for the fourth quarter. At this rate the set quarterly target was not achieved.

Ensuring financial sustainability

The overall operating margin realised for the financial year is estimated at 1.37 percent. Revenue generated for the financial year is recorded at M221.67 million while expenditure at M218.64 million. It should be noted that these are below the set budgeted amounts of M236.59 and M225.47 for income and expenditure respectively.

On debt management, the Company's accumulated debt (debtors) continues to be of substantial magnitude, reaching a peak of M119 million towards the end of the financial year. This has been realised after management proposing and being granted by the Board to write off old debt amounting to approximately M18 million. Average debt days for the financial year were recorded at 181 days. Government of Lesotho Ministries continue to have substantial debts and although some are paying, the payments are not sufficient to meet outstanding debts.

Collection has substantially improved during the financial year as a whole. Cash collection has averaged 16 million Maloti. Completed activities under this theme included the finalisation and submission of the tariff proposal, the TORs for the cost of service study, as well as a disconnection campaign that generated M3, 024, 078. A number of efforts, among others, litigation, use of debt collectors, issuing of warning messages and actual disconnection have had a substantial effect to customer payments and hence improved WASCO's liquidity.

Minister of Water Mr. Ralechate ‘Mokose with Board of Directors and Executive Management

INTRODUCTION

1.1 Background

This report highlights progress of WASCO in the implementation of the Water and Sewerage Company (WASCO) Annual Business Plan for the financial year 2015-16, that has been informed by the new five year Strategic Plan which will end during the 2019-20 financial year. It also takes into consideration the performance of the company for the previous period preceding the quarter up to the end of the review period as well as a way of assessing performance for the entire financial year.

1.2 Performance report

The layout of the corporate review has adopted the broad structure of the WASCO Strategic Plan which is based on four key themes being pursued by WASCO for the period ending 2020. The themes follow a generic balanced scorecard as follows:

- Theme A: Strengthen Governance and Capacity
- Theme B: Improve Service and Supply
- Theme C: Optimise Customer and Partner Collaboration
- Theme D: Ensure Financial Sustainability

1.3 Performance highlights

Out of the 79 initiatives agreed upon to be implemented during the 2015-16 financial year and 46 were fully implemented. This yields 58 percent performance in the implementation of the ABP. Performance of key indicators have been positive for the period under review as well as for the entire financial year. These include profit margin, treated water quality, revenue and collection levels. There are challenges that WASCO experienced in the following areas namely, effluent quality and non-revenue water, water and sewerage connections.

STRENGTHEN GOVERNANCE AND CAPACITY

2.1 Overview of performance

2.1.1 This chapter represents the learning and growth perspective of the balanced scorecard. There are five objectives under this theme and they highlight issues of human resource development and performance; governance issues and matters relating to the management information system.

2.1.2 Most of the objectives under this theme have been achieved. These include development of policies, the continued implementation of the OSR Project, and the implementation of the 2015-16 enterprise training plan, consideration and approval of the 2016-17 enterprise training plan. There were still challenges in the implementation of the Performance Management System by way of completion and submission of performance assessment reports for the period. The development and implementation of the integrated Management Information System (MIS) still had challenges too.

2.2.1 There has not been any meaningful progress in the implementation of activities under this objective for the financial year. One notable success under this objective was the formal constitution of the board in July 2015.

2.2.2 Following its inauguration during this financial year (June 2015) the Board of Directors held a number of ordinary and special meetings in which it considered and approved quite a number of submissions and policy documents as well as to make governance decisions aimed at improving the governance, management and direction of WASCO. These included, among others, the following:

- The 2015 – 2020 Strategic Plan
- The 2015-16 Budget
- Draft 2016-17 Budget
- The 2016-17 Tariff Proposal
- Internal Audit Report and the 2014-15 Audit Report
- Proposal to write-off unrecoverable debt.
- Employee Wellness Policy
- The Credit Policy
- The Remuneration Policy
- The Transport Policy
- Environment Policy
- New Connections Policy

2.2.3 The setting up of specialised committees of the Board has not been dealt with during the period as planned due to the delay in finalising the review of the Board's committees and their membership. The Board Charter has been drafted and is yet to be considered by the EXCO for submission to the Board. A planned Annual General Meeting which was scheduled for the reporting period could not be convened due to lack of quorum of shareholders.

2.3 Motivated and competent employees

2.3.1 All the activities under this objective were carried out and concluded during the period under review. The implementation of the OSR project reached the last phase (decision making framework) in its implementation. Staff road shows aimed at awareness on the criteria to be used during matching and placing of staff were held from 1st to 16th February 2016. 90% of staff received letters confirming them into the new structure. The remaining letters will be distributed in the 1st quarter of 2016-17 financial year following consultations and competition where necessary.

2.3.2 Divisional discussions on the draft Decision Making Framework took place during the month of March 2016. The Framework will be finalised during the month of April 2016. Phase 3a addressing the salary structure and new grading structure was approved by the Board.

2.3.3 Routine inspections were done in different workstations and where non-compliance to the health and safety standards was identified, the relevant Managers were notified. Members of staff were informed about the Health and Safety Representatives in all the workstations as well as the Health and Safety Committee. Drafts for the Checklists to be used by the Representatives on a daily basis as well as the Emergency Preparedness Plan have been developed.

2.4 High performance culture

2.4.1 Eighty percent (80%) of the training interventions were carried out in the first three quarters of the year and none were carried out during the last quarter of the year. A project management training intervention could not be undertaken due to pending completion of the project to develop the Project Management Framework which is still ongoing. There were delays in its commencement due to lengthy processes of the financier (the World Bank).

Inauguration of the Metolong Dam Project

2.4.2 There were challenges encountered for this activity in that communication to release employees identified for OHS training was issued out on time but 203 employees failed to attend training as scheduled. Training sessions were broken down into 12 days to avoid disrupting day to day operations but attendance was still poor. Improved planning and appreciation and cooperation from line managers on the softer issues of the business have been identified as mitigation measures for the future to guarantee success in this activity. The planned survey to assess compliance to the System during Mid-Year Assessment could not be undertaken as the Assessment was not done in the third quarter as planned. It would be difficult to gather information on the exercise that was not done.

2.5 Functional integrated management information system (MIS)

2.5.1 The Terms of Reference for the consultancy to develop the WASCO MIS were submitted to the office of the Commissioner of Water for onward submission to the World Bank for funding.

2.6 Clear and enforced policies and procedures

2.6.1 Activities carried out in the fourth quarter included the roll out of the Environment and Social Sustainability Policy and the New Connections Policy to various WASCO workstations, the development of the Procurement Regulation as part of the Procurement Policy as well as the finalisation of the Asses Management Policy. Whistle blowing Policy has been considered by the Board and a number of comments made on it for incorporation. What also occurred has been the roll out of some of the policies that were approved by the Board as well as development and approval of new connections, resettlement and stakeholder management procedures.

IMPROVE SERVICE AND SUPPLY

3.1 Performance overview

3.1.1 This chapter represents the internal processes perspective of the balanced scorecard. The theme Improved Service and Supply is supported by five objectives covering issues relating to improving project management, increased water and sewerage service coverage, improved water and sewerage infrastructure, operational efficiency and adherence to regulatory requirements.

3.1.2 Implementation has been slow for the objectives under this theme. Performance on the key indicator for coverage (i.e. number of connections) has fallen below set targets while water quality continues to be at acceptable levels but not reaching the required mark (98 percent). Challenges continue to exist in the area of effluent quality. A number of reticulation extensions were carried out under key WASCO projects to augment supply or reach out to areas that were previously without supply.

3.2 Good project management

3.2.1 After the combined Technical and Financial Evaluations of bids for the development of the WASCO Project Management Framework were completed, a "No Objection" to negotiate the successful bidder was granted by the financier, The World Bank. Negotiations were duly carried out in December, 2015 with the successful bidder and an engagement contract was signed. The consulting team arrived at WASCO and commenced its work with an initial meeting with WASCO management as well as individual consultations with relevant divisions and sections to establish the situation on the ground with the regard to project delivery. The development of an inception report which will be the road map for the project was then carried out. This report will be presented to WASCO early in the first quarter of 2016-17.

3.3 Improved water and sewerage infrastructure

3.3.1 Initiatives aimed at addressing NRW for the period indicate that up to 10 kilometres of old asbestos pipes have been replaced with UPVC pipes and 398 customers transferred to the new system in Maseru under the Urban and Peri-Urban Water Supply Project. Furthermore, about 396m out of 550m of 63mm diameter pipes, 824m out of 900m of 90mm diameter pipes, 2080m out of 2150m of 110mm diameter pipes and 2040m out of 2600m of 160mm diameter pipes were constructed under the Mafeteng Water Supply Project.

Metolong Information Centre

3.3.2 The first draft of maintenance and intervention procedure document has been drafted and is ready to be considered by management. Altogether there have been 1, 270 pipe leakages and 60 pipe bursts that occurred in the country during the period. All in all time taken to attend to these incidences has been on average 14.1 and 4.1 hours for major and minor bursts respectively throughout the country. The challenges that have been attributed to this state of affairs have been the fact that the infrastructure is very old and that road construction activities that occurred during the year continued to damage WASCO pipelines.

3.3.3 Non-Revenue Water

The target for Non-Revenue Water for 2015-16 financial year has been set at 26 percent. The average NRW figure for the period was estimated at 31.2 percent. This indicates a six point deviation from the set target and brings to the fore challenges pertaining to curbing pipe bursts and leakages as well as financial losses arising from the credibility of calculation of the NRW itself. Technical assistance has been sought to deal with the issue of NRW taking into consideration its correct calculation. At the beginning of the financial year (April 2015) NRW was recorded at 39.8 the highest recorded NRW figure for the entire year. The NRW figure has been behaving in an erratic manner for the financial year. The performance of WASCO with regard to NRW levels is seen to be improving in general based on the picture that the trend-line is presenting showing a reducing trend. This is largely due to targeted pipe replacements that occurred during the year.

The figure below highlights production and consumption data for the period under review which are used to determine NRW for the period under review.

Figure 1: Production against consumption data with NRW (%) for April 2015 to March 2016

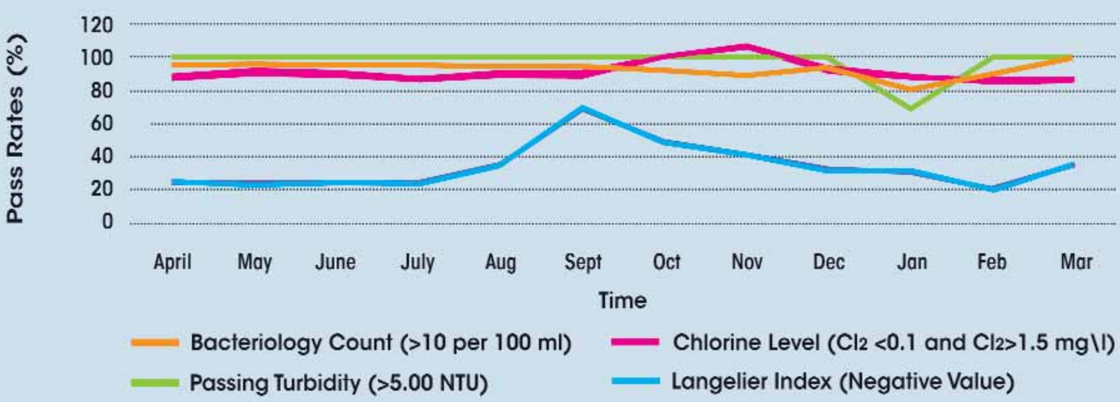
3.3.4 Water and Effluent Quality

All water treatment plants managed to maintain turbidity levels at 98 and 95 percent mark for the third and fourth quarters respectively. Samples passing microbiology count have been erratic over the 12 month period and largely below the 95 percent but above the 90 percent mark. In particular estimates for the third and fourth quarter are that 95 and 91 percent of the samples tested have passed respectively.

Compared to the second quarter performance of water quality for treated water was recorded at 97 percent for the microbiology parameter. Samples that passed the turbidity tests were at 66 percent for >1.00 NTU and 98 for >5.00 NTU while tests for residual chlorine revealed a pass rate of 97 percent and 91 percent for <0.1 mg/l and >1.5 mg/l. Performance for samples passing the Langelier index tests made a steady improvement during the second quarter reaching a peak of 69 percent in September 2015.

The figure below presents the performance of treated water infrastructure for the last twelve month to March 2016.

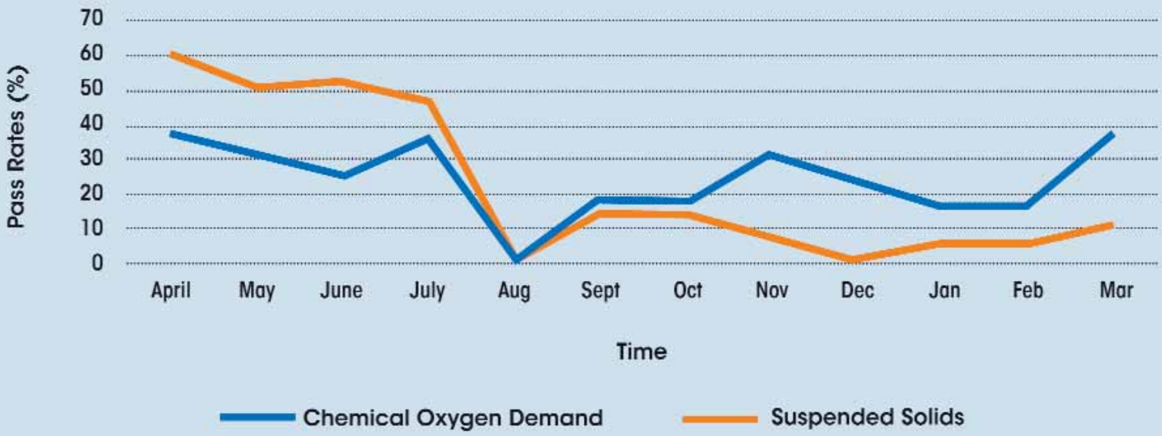
Figure 2: Quality of Water Produced (April 2015 to March 2016)



With regard to effluent, samples passing COD testing were recorded at 8 and 10 percent for the third and fourth quarters respectively. Samples passing the suspended solids testing for the third and fourth quarters were at 22 and 36 percent respectively while the same parameters registered similar pass rates of 25 percent in the second quarter. This performance is still reflecting challenges in this area due to inadequate infrastructure for waste water treatment emanating from increased discharge. The drop in quality of effluent is attributed to bad quality of discharge which is high in Suspended Solids and COD from Pre-treatment Plants of wet industries connected to the WASCO system in particular garments factories (to a lesser extend) and Maloti Mountain Brewery which is consistently failing.

A clearer picture is laid out in the figure below.

Figure 3: Quality of treated effluent (April 2015 to March 2016)



3.4 Increased water and sewerage service coverage

3.4.1 The target for water and sewer connections for the year has been set at 6, 000 and 400 respectively. The performance of WASCO with regard to water and sewer connections for the fourth quarter ending in March 2016 was registered at 925 water connections and 52 sewer connections. This is a drop in the number of connections for the quarter and far below the set quarterly target. Comparatively, the first quarter realised the achievement of 1,699 water connections undertaken and 142 sewer connections for the quarter while the second quarter registered 1, 499 and 92 water and sewer connections respectively. The rate of water and sewer connections has dropped for the second and third quarters and is below the set quarterly target of 1, 500 (based on the number of paid up applications received during the period) and 100 for water and sewer respectively. Cumulatively the total connections carried out to the end of the period under review has been recorded at 5, 386 water connections and 359 sewer connections. Shortage of materials in most cases has hampered work in this area in the earlier months of the year.

3.4.2 The table below presents the distribution of water and sewerage connections for the financial year categorised according to those in Maseru, the north and south regions.

Operator operating control panel and VSD

Water Connections													
Region	April	May	June	July	Aug	Sept	Oct	Nov	Dec	Jan	Feb	Mar	Total
Maseru	354	221	302	90	423	218	215	279	135	124	107	205	2, 726
North	192	118	202	72	152	218	163	97	76	48	80	162	1, 560
South	79	97	134	86	102	107	130	105	59	101	59	39	1, 099
Total	625	436	638	208	707	543	508	481	274	273	246	405	5, 386
Sewer Connections													
Region	April	May	June	July	Aug	Sept	Oct	Nov	Dec	Jan	Feb	Mar	Total
Maseru	36	66	34	16	22	43	36	8	25	29	1	17	333
North	2	0	0	0	1	1	3	1	0	0	1	0	9
South	4	0	0	1	6	2	0	0	0	0	0	4	17
Total	42	66	16	17	27	46	39	9	25	29	2	21	359

3.4.3 Activities carried out under this objective included the construction of in-fill reticulation in selected areas across the country, namely the construction of about 2.16km out of 3km of 63mm diameter pipelines and 1.27km out of 1.1km of 110mm diameter pipelines under the Maseru In-fill Project; the Mapoteng In-fill Water Project in which about 312m of 32mm diameter pipelines, 2.5km out of 2.3km of 110mm diameter pipelines and 1.88km out of 0.5km of 63mm diameter pipelines were constructed; and 2.2km of 3.5 kilometers of 63mm diameter pipeline constructed under the Morija In-fill water Project.

3.4.4 On sewerage coverage, the completion of the Maseru Waste Water Master Plan in December 2015 and the completion and commissioning of Lot 2 of Works Contract 4 was completed while Lot 1 is in progress. Challenges in this regard include depletion of the funds granted by the Government of Lesotho for this project. This necessitated sourcing of funds internally. The implementation of the Maputsoe in-fill was initiated.

3.5 Improve adherence to regulatory requirements

3.5.1 There were no inspection tours carried out during the fourth quarter. The only inspection tours to assist the centres of Thaba Tseka, Mokhotlong and Quthing were carried out during the third quarter. These were aimed at finding out issues that needed correction before the formal LEWA inspections as well as to provide assistance and awareness on the recording of data for monitoring key indicators assessed by LEWA.

3.5.2 The development of codes of practice continued during the review period with the finalisation of the draft water and sewerage billing code of practice. This will be submitted to management for consideration, approval and submission to LEWA. Routine completion of reporting templates for the monthly and quarterly reporting was carried out and submission made to LEWA. There have been challenges carrying out this activity on time as per requirement due to lengthy verification exercise due to inadequate reporting in some instances.

OPTIMISING CUSTOMER AND PARTNER COLLABORATION

4.1 Overview

4.1.1 This theme represents the customer perspective of the balanced score card (BSC). The objectives under this theme include creating good customer relationships and stakeholder participation as well as improved partner collaboration and integration

4.1.2 Performance has been limited under this theme due to a number of challenges that beset this area.

4.2 Good customer relations and participation

4.2.1 The strategy of enhancing customer management was taken a step further during the review period with the acquisition of the toll-free system for the envisaged call centre. The establishment of the call centre was delayed due to the fact that the Customer Relationship Manager was only recruited late into the year. The update of customer details is 75 percent complete and is done as and when customers come to WASCO offices to make payments or enquiries. A number of key business processes including key customer facing processes have been reviewed in order to reduce the turnaround time for customer service.

Stakeholder conference participants from all WASCO service centres

4.2.2 A successful stakeholder conference was convened during the fourth quarter following an outreach programme to improve the knowledge of WASCO's stakeholders on its activities as well as to get feedback on service delivery and expectations thereof.

4.3 Partner collaboration and Integration

4.3.1 Engagement with key WASCO suppliers continued to be done during the review period. This has been to create a conducive environment for a working relationship so as to improve service to operational divisions. Requisite service level agreements have been developed and agreed upon by the parties to guarantee availability of key materials for WASCOs operations.

4.4 Partner collaboration and integration

4.4.1 There have been a number of interventions by way of public gatherings in various areas to engage with village committees on a number of issues including vandalism, water supply and others. These engagements culminated into the national stakeholders' conference in March where feedback was made and an agreement on the way forward in terms of WASCO working relationship with its stakeholders was reached.

4.4.2 The WASCO Corporate Communication Strategy as well as the communication strategy pertaining to WASCO projects were developed during the review period. These documents were interrogated through an engagement among Management. The Project Communication Strategy was considered by Management and comments made whereas the Communication Strategy is still to be presented after it was returned to the drawing board for further consultations.

4.5 Customer and partner satisfaction

4.5.1 Service level agreements have been entered into with suppliers of key and regularly used WASCO materials. There are still however challenges faced on both sides regarding timely delivery of the materials by the suppliers which is largely attributed to delays in payments by WASCO to the same suppliers for deliveries made in previous months due to cash flow problems in some instances.

Metolong Chemical Room

ENSURING FINANCIAL SUSTAINABILITY

5.1 Overview of Performance

5.1.1 The Financial Sustainability theme represents the financial perspective of the balanced scorecard. This is the supporting theme for the implementation of the other three themes and provides the necessary financial resources for the sustainability of the organisation. Objectives being pursued under this theme include improving sustainability, profitability and cash-flow management.

5.1.2 The company experienced a growth in the profit margin coupled with improved revenue during the period under review. There are still challenges in the area of government debts and collection as was the case in the past. WASCO will be employing drastic measures to disconnect customers who default on making payments on their monthly bills preceded by warning campaigns.

5.2 Improving profitability

5.2.1 Following the development and submission of the Tariff proposal in December 2015, the fourth quarter saw the carrying out of public presentations to the public by WASCO hosted by LEWA whereby new WASCO tariffs aimed at improved sustainability were discussed with the public. The end of the quarter LEWA made a determination in which tariffs were adjusted by 8.7 percent against a WASCO proposal of 13 percent. A Revenue Requirement of M201 million was determined by LEWA.

5.2.2 Expenditure

Total expenditure for the year up to the end of March 2016 totalled M218, 639, 466. This expenditure falls short of the budgeted expenditure for the period by 3.03 percent. Up to the third quarter, total expenditure totalled M180, 671, 397, falling short of the budgeted expenditure for the period by 26 percent. The second quarter expenditure was recorded at M86, 786, 483 which fell short of its budgeted amount by 23 percent. This has been largely attributed to, among other things, the effects of Metolong operations which are under assisted operations and the savings on power on some pump stations which have been shut down due to supply from Metolong. The reduced operation of the Maseru Water Supply plant also had an impact. Further reduction in expenditure was as a result of reduced production due to some plants shutting down due to drought situation that occurred during the year.

The table below presents how expenditure has been distributed among key items for the financial year ending March 2016.

Table 2: Distribution of Expenditure

Item	Total (Period ending March 2016)
Manpower	94,518,057
Chemicals	5,955,091
Power	17,986,021
New connections materials	12,410,924
Reticulation and meter maintenance	5,064,800
Local and international travel	1,795,799
Protective clothing	1,481,289
Training and development	875,861
Vehicle and plant hire	9,217,026
Office equipment	895,258
Communications and office supplies	4,524,358
Licence Fees	3,850,000
Insurance (Non vehicle)	1,480,549
Building maintenance	1,748,021
Write offs	18, 045, 241
Other expenditure	6,726,848
Depreciation	18,920,366
Total expenditure	218,639,466

5.2.3 Revenue Generation

The target set for revenue for the 2015-16 period is M236 million. Revenue for the entire financial year ending March 2016 was recorded at 221, 667, 309. At M170, 995, 633, the main driver of revenue, Water Billing fell below its set target of M185.33 million. This represents a below expected consumption patterns by WASCO customers during the period. The main contributor to this has been the drought situation which resulted in reduced production.

Here below is a tabular presentation of the contribution of the main items of revenue for WASCO for the financial year ending March 2016.

Lab Technicians at Metolong Laboratory

Here below is a tabular presentation of the contribution of the main items of revenue for WASCO for the financial year ending March 2016.

Table 2: Distribution of expenditure

Revenue Item	Amounts				
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total
Water billing	26,195,070	53,654,203	62,504,839	28,641,521	170,995,633
Sewerage billing	5,982,843	12,559,148	9,632,005	136,366	28,310,362
New connections (water)	2,406,906	4,460,685	5,940,774	742,415	13,550,780
New connections (sewer)	86,940	79,830	969,038	325,461	1,461,269
Other revenue	408,885	1,614,492	1,778,629	3,557,258	7,359,264
Total revenue	**35,080,644**	**72,368,358**	**80,825,285**	**33,403,021**	**221,677,309**

From the above figures it can be realised that an overall operating profit of M18 329 575 for the entire financial year. This profit is higher than the budgeted profit of M15 822 087 for the period. The operating margin for the financial year ending March 2016 is 1.37 percent. Preliminary indications are that WASCO has managed to generate the Required Revenue (RR) of M199 3 million against the LEWA determined Required Revenue of M215.47 million. This is a shortfall in the attainment of the Required Revenue and warrants an adjustment of projected revenues during reconciliations for the determination of the RR for the next financial year.

5.3 Improving cash-flow and debt management

5.3.1 The fourth quarter saw the finalisation of the Standard operating procedures (reading process) for meter readers. These SOPs will go a long way to improve meter reading and its accuracy. The report on the investigation of the introduction of smart meters is yet to be presented to management.

5.3.2 Collection performance

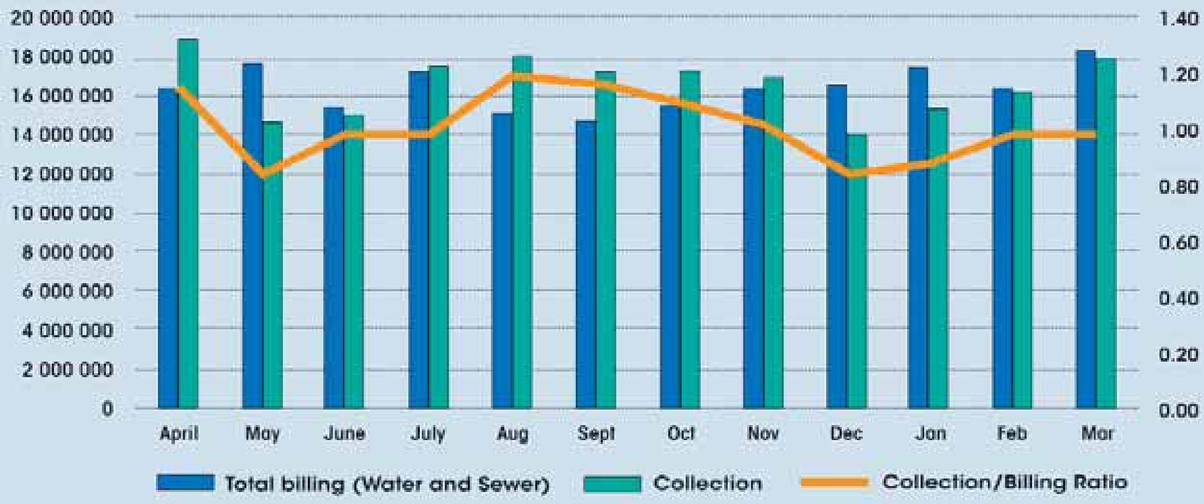
Actual collection (i.e receipts from customers) for the period to the end of March 2016 reached an average that is above the 16 million Maloti mark. Collection however dipped during December 2015 and started picking up momentum during the fourth quarter reaching a peak of M17.95 million in March 2016. This is a good sign that customers have improved their payment of bills following efforts by WASCO for them to do so. One notable occurrence is the sending of warning text messages to customers during the month of September 2015 which realised an unprecedented M22 067 813.

As a result of the introduction of Vodacomm's Mpesa and Econet's Ecocash facility for WASCO's customers to make payments using these facilities, 6 679 payments were made through the ETL (Ecocash) amounting to M1 071 711 and 12, 184 amounting to M1 655 907 through VCL (Mpesa) during the fourth quarter. For the third quarter 11 172 payments amounting to M1 454 314 were made through the Vodacom-Mpesa facility and 6 229 payments amounting to M975 623 through Econet's Ecocash facility. These facilities went a long way to ease the burden to customers to pay the bills and on time. Disconnection campaigns were carried out during the nine month period ending in March 2016 and they generated a collective amount of M3 024 078 of which M1 251 456 was collected during the fourth quarter, while M1 296 197 was collected during the third quarter.

Plant operator operating chemical dosing pump

Here below is a pictorial presentation of collection against expenditure for the period under review.

Figure 4: Cash collection against billing (April to March 2016)



It can be seen from the above graph that on a few occasions collection has been above overall billing and that the collection/billing ratio has been on average at the 1:1 ratio. Average collection for the financial year is estimated at M16.63 million. This is a positive sign which clearly shows that the efforts to make customers pay their bills are bearing fruit and that this financial year customers have made improvements in payments hence collection reaching higher levels than the previous years

5.3.3 Debt Management

The fourth quarter period ending March 2016 saw the number of debt days dropping down to 180 days. This is an improvement from the third quarter period where 201 debt days were recorded. The magnitude of debt breached the 100 million Maloti mark in the months June and August and has also been maintained during the quarter under review. This magnitude reached an amount of 119 million at the end of the fourth quarter. What is promising is that customers have started to improve their payment of bills as shown in figure 4 above. However there are still some customers who have defaulted in making payments on the bills and this has been for some lengthy period. This has necessitated WASCO to approach the courts for remedy. In this regard, during the fourth quarter, a total of 31 summons were issued during the period and as a result M47, 000 was collected from customers who approached WASCO to make payments while in the third quarter 40 summons were issued and 29 debtors approached WASCO to make payments. There are challenges in this regard emanating from delays in serving the debtors with summons due to messengers of court not being able to locate the plots of defaulting customers.

At the end of March 2016 GoL ministries still owed WASCO an amount of M17 098 440, an increase of approximately three million Maloti for the closing balance of the third quarter in December 2015 of M14 690 047.

There is an average of about M13 million Maloti that GoL ministries keep owing to WASCO per month. Most ministries do not pay the outstanding amount for the preceding month and also fall short of paying their monthly bills resulting in a growth in their debt. WASCO envisages to carry out a disconnection campaign to government ministries that continue to default in their payment of bills in the first quarter of the next financial year.

Lifter pumps used for backwashing filters

General Information

for the year ended 31 March 2016

Nature of business

To provide adequate potable water and safe disposal of waste water to every stakeholder in the urban centres of Lesotho

Board of Directors

Name	Capacity	Date appointed	Date left Company
Mr Malefetsane Mohafa	Chairman (up to May 2016)	1st June 2015	
Ms Nthati Moorosi	Member	1st June 2015	1st June 2016
Mr Retselisitsoe Lechesa	Member	1st June 2015	1st June 2016
Ms Mothepane kotele	Member	1st June 2015	1st June 2016
Mrs Masemela Elias	Member	1st June 2015	
Mrs Lebohang Ramohlanka	Member	1st June 2015	29th September 2015
Mr Motlatsi Ramafole	Member	1st June 2015	1st June 2016
Mr Mohau Kobile	Member	1st June 2015	
Mr Letsatsi Mabona	Member	1st March 2016	10th October 2016
Mr Makomoreng Fanana	Member	1st June 2016	
Mr. Mathealira Lerotholi	Chief Executive	1st March 2013	29th February 2016
Mr Khomoatsana Tau	New Chairman	1st June 2016	
Mr Lehlohonolo Manamolela	New Chief Executive	1st August 2016	

Secretary

Mr. Pheello Masoabi

Business Address

Water and Sewerage Company
Off Moshoeshoe Road
Industrial Area
Hoohlo Maseru

Postal Address

P.O. Box 426 Maseru 100

Bankers

Standard Lesotho Bank
NedBank Lesotho

Auditors

The Company's auditors were JEO and Associates
on behalf of the Auditor General of Lesotho
Private Bag A150 Maseru 100

Statement of Board of Directors

for the year ended 31 March 2016

DIRECTORS STATEMENT OF RESPONSIBILITY AND APPROVAL

The Board of Directors is required to maintain adequate accounting records and is responsible for the content and integrity of the financial statements and related financial information included in this report. It is its responsibility to ensure that the financial statements fairly present the state of affairs of the company at the end of the financial year and the results of its operations and cash flows for the year ended and in conformity with International Financial Reporting Standards. The external auditors are engaged to express an independent opinion on the financial statements.

The financial statements are prepared in accordance with International Financial Reporting Standards and are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgments and estimates.

The Board of Directors acknowledges that it is ultimately responsible for the system of internal financial control established by the Lesotho Water and Sewerage Company (Pty) Ltd (WASCO) and places considerable importance on maintaining a strong control environment. To enable it to meet these responsibilities the Board of Directors sets standards for internal control aimed at reducing the risk of error or loss in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout WASCO and all employees are required to maintain the highest ethical standards in ensuring WASCO's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in WASCO is on identifying assessing managing and monitoring all known forms of risk across WASCO. While operating risk cannot be fully eliminated WASCO endeavours to minimise it by ensuring that appropriate infrastructure controls systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The Board of Directors is of the opinion that the system of internal control provides reasonable assurance that the financial records may be relied on for the presentation of the financial statements. However any system of internal financial control can provide only reasonable assurance and not absolute assurance against material misstatement or loss.

The Board of Directors has reviewed WASCO's cash flow forecast and budgets for the year to 31 March 2016 and is satisfied that WASCO has or has access to adequate resources to continue in operational existence for the foreseeable future.

The external auditors are responsible for independently reviewing and reporting on WASCO's financial statements.
The financial statements set out on pages 26 to 45 were approved by the Board of Directors in Maseru and are signed on its behalf by:-

Chairman

Chief Executive Officer

Report of the Directors

for the year ended 31 March 2016

The Board of Directors presents its report which forms part of the audited financial statements for the year ended 31 March 2016. Water and Sewerage Authority was reincorporated as Water and Sewerage Company (Proprietary) Limited (WASCO) in terms of the WASCO Act 13 of 2011. This act provides for the vesting of the assets liabilities rights and obligations of Water and Sewerage Authority in the company.

Nature of Business

To provide adequate potable water and safe disposal of waste water to every stakeholder in the urban centres of Lesotho. The nature of the company's business has not changed during the year under review.

Shareholders

The authorised and issued share capitals remain unchanged. Lesotho Government holds 1 000 ordinary shares of M1 each and is the sole shareholder.

Operating Results

The profit on ordinary activities for the year amounted to **M6.04** million (2015: (**M3.16** million loss). Full details of the financial results are set out on pages 26 to 45.

Subsequent Events

The Board of Directors is not aware of any matters or circumstances arising since the end of the year or otherwise dealt with in this report or annual financial statements that would have a significant effect on the operations of WASCO or the results of its operations.

Going Concern

We draw attention to the fact that at 31 March 2016 the Company had an accumulated loss of **M58.96** million. The financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities contingent obligations and commitments will occur in the ordinary course of business. The Board of Directors is satisfied that WASCO has or has access to adequate resources to continue in operational existence for the foreseeable future.

Office of the Auditor General
P.O. Box 502, Maseru 100, Lesotho

REPORT OF THE AUDITOR GENERAL ON THE FINANCIAL STATEMENTS OF LESOTHO WATER AND SEWERAGE COMPANY FOR THE YEAR ENDED 31 MARCH 2016

JEO and Associates Chartered Accountants, under Section 15(1) of the Audit Act 1973, have audited the accompanying financial statements of Lesotho Water and Sewerage Company which comprise the statement of financial position as at 31 March 2016 and the statement of comprehensive income, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes as set out on pages 27 to 45.

Director's responsibility for the financial statements

Directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of 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 in the circumstances.

Auditor's responsibility

My responsibility is to express an opinion on these financial statements based on my audit. The audit has been conducted in accordance with International Standards on Auditing. Those standards require auditors to comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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. An audit also includes evaluating the appropriateness of accounting policies used and reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence obtained is sufficient and appropriate to provide a basis for my adverse audit opinion.

Basis for adverse opinion

1. Property, plant and equipment

Projects completed between 2010 and 2011 at a cost of M171 million and commissioned for use five years ago have not depreciated over the years as they were only capitalised in the books in the financial year 2015/2016. After unsupported adjustments in the fixed asset suspense account, the balance decreased from M5.6 million in financial year 2014/2015 to M2.3 million in the current year. This new balance is now represented by any physical fixed asset.

2. Accounts receivable

(a) There is a difference of M48.35 million between EDAMS age analysis and the debtors control account generated from the Opera system while the age analysis totalled M75.25 million the control account posted a balance of M123.6 million.

b) Material credit balances amounting to M5,24 million were not reclassified as a liability just as unsupported debit balances in the accounts payable totalling M924,128 were not reclassified as receivable in accordance with the International Accounting Standard 39 – Financial instruments recognition and measurement.

2. **Accounts receivable (continued)**

(c) The high incidence of bad debts in the company is not adequately reflected in a general provision for doubtful debts of M18.9 million, for total trade debts amounting to M107 million, M47 million of which are between two and five years old.

(d) Included in the trade receivables are unsupported debts of M3.14 million described as rescheduled new connections as well as other account balances namely; Reserved accounts of M4.3 million credit and Trade debtors query of M4.7 million which have no supporting documents.

3. **Inventory**

No adjustment was made in the ledger records to equalise physical inventory count valued at M9.8 million with ledger balance of M12.37 million. As a result, the inventory value was overstated by M2.57 million in the financial statements.

4. **Cash and cash equivalent**

I was unable to confirm the completeness and accuracy of the cash and cash equivalent balances included in the financial statements as confirmation requests from Nedbank, Standard Lesotho Bank, lenders and grantors have not been received at the time of this report.ent of Cash Flows.

5. **Cash and cash equivalent**

Due to inadequate tracking of completed projects financed with Government Grants (which had a balance of M860 million at year end). I could not ascertain whether the related grants were comprehensively and accurately amortised during the year in accordance with IAS 20 – Accounting for Government Grants and relevant disclosure requirement.

6. **Cash and cash equivalent**

The sum of M1.95 million relating to the current year liabilities was not included in the financial statements as they were not accrued at year-end.

Accounts payable includes the sum of M3.32 million described as goods received, not invoiced, some of which have been outstanding for five years and for which there was evidence that some of the reported liabilities had been settled. There is also another accrued amount of M6.81 million which includes invoices already settled before year-end as well as unsupported M928,000 included in the financial statements as amount due to contractors.

Contrary to the requirement of the IAS 37 – Provisions, Contingents liabilities and Contingent assets - the company failed to disclose contingent liabilities in respect of on-going litigations involving over M25 million claims by third parties and employees of the company.

As a result of the issues highlighted above, I am unable to ascertain whether any adjustments would have been necessary in respect of recorded and unrecorded items of property, plant and equipment, trade receivables, inventory, cash and cash equivalent, government grants and contributions, trade payables, manpower costs and other expenses as well as the impact on the statements of changes in equity and cash flows.

Adverse opinion

Because of the significance of the matters described in the Basis for Adverse Opinion paragraphs, the financial statements do not fairly present in all material respects the financial position of the company at 31 March 2016 and the results of its operations and cash flows for the year then ended in accordance with International Financial Reporting Standards and in the manner required by the Lesotho Water & Sewerage Company Act 2011.

Liphafa

OFFICE OF THE AUDITOR-GENERAL
AUDITOR GENERAL
2017 -01- 06
P.O. BOX 502
MASERU 100 LESOTHO

LUCY L. LIPHAFA (Mrs)
Auditor-General

6 January 2017

Statement of Financial Position

as at 31 March 2016

	Notes	2016 M'000	2015 M'000
ASSETS			
Non-current assets			
Property, plant and equipment	3	**1 310 509**	**1 216 241**
Current assets		**148 193**	**134 979**
Inventory	4	12 192	9 575
Trade and other receivables	5	88 517	84 946
Short-term investments	6	38 361	29 789
Bank and cash	7	9 123	10 669
TOTAL ASSETS		**1 458 702**	**1 351 220**
CAPITAL AND LIABILITIES			
Capital and reserves		**1 184 507**	**1 148 513**
Share Capital	8	1	1
GOL funding	9	391 047	400 160
GOL grant	10	860 709	821 656
Accumulated funds	11	(58 961)	(65 016)
Reserves	12	(8 289)	(8 289)
Non-current liabilities		**203 852**	**136 656**
Provisions for severance pay	13	19 823	18 241
Long-term loans	14	184 030	118 415
Current Liabilities			
Accounts payable	15	70 343	66 050
TOTAL CAPITAL AND LIABILITIES		**1 458 702**	**1 351 220**

Statement of Comprehensive Income

for the year ended 31 March 2016

	Notes	2016 M'000	2015 M'000
Revenue (excluding intrertests receivable)		**218 609**	**195 208**
Manpower costs		88 458	81 976
Depreciation		18 416	17 955
Stock adjustment		19 995	14 574
Reticulation and plant maintenance		13 472	9 579
New connections		15 119	13 682
Other expenses		60 812	64 059
Total expenses (excluding interest charges)	18	**216 272**	**201 825**
Operating Profit/(Loss)		2 337	(6 617)
Net interest received/(charged)		4 228	3 457
Net profit before taxation		6 565	(3 160)
Provision for income tax	2.13	–	–
Profit/(Loss) for the year after taxation		6 565	(3 160)
Prior year adjustment	16	(529)	–
Profit/(Loss) at the year end		**6 036**	**(3 160)**

Statement of changes in Equity

for the year ended 31 March 2016

	GOL Funding	GOL Grant	Share Capital	Reserves	Accum-ulated Surplus/ (Deficit)	Total
	M'000	M'000	M'000	M'000	M'000	M'000
Balance at April 2014	387 378	794 722	1	(8 289)	(61 856)	1 111 956
Net loss for the year	–	–	–	–	(3 160)	(3 160)
Prior year adjustments	–	–	–	–	–	–
GOL funding	–	28 199	–	–	–	28 199
Grant amortisation	12 782	(1 265)	–	–	–	11 517
Balance at 31 March 2015	**400 160**	**821 656**	**1**	**(8 289)**	**(65 016)**	**1 148 512**
Balance at April 2015	**400 160**	**821 656**	**1**	**(8 289)**	**(64 998)**	**1 148 530**
Net profit for the year	–	–	–	–	6 565	6 565
Prior year adjustments	–	–	–	–	(529)	(529)
GOL funding	(9 113)	69 996	–	–	–	60 883
Grant amortisation/Adjustment	–	(30 944)	–	–	–	(30 944)
Balance at 31 March 2016	**391 047**	**860 708**	**1**	**(8 289)**	**(58 962)**	**1 184 505**

Statement of Cash Flow

for the year ended 31 March 2016

	2016 M'000	2015 M'000
CASH GENERATED FROM OPERATING ACTIVITIES		
Net profit before interest charges	**2 337**	**(3 160)**
Adjustment for:		
Depreciation	18 416	17 955
(Profit)/Loss on fixed assets disposal	(822)	–
Provision for severance pay	2 203	2 027
Write offs & adjustment	19 995	14 574
Interest paid	11 018	7 282
Interest income	(15 246)	(3 457)
	37 901	35 221
Changes in working capital:		
Decrease/(Increase) in inventory	(2 617)	(1 308)
Decrease/(Increase) in receivables	(3 571)	(13 132)
(Decrease)/Increase in payables	4 293	(4 121)
Cash generated from operations	**36 006**	**16 660**
CASH UTILISED IN INVESTING ACTIVITIES		
Purchased of tangible fixed assets	(209 014)	(44 137)
Transfer of assets/other adjustments	(89 027)	(17 627)
Proceed from sale of fixed assets	1 096	–
Interest received	15 246	3 457
	(281 699)	**(58 307)**
CASH FROM FINANCING ACTIVITIES		
Increase in GOL contribution/grant	126 374	40 981
Increase/(Decrease) in the long term liabilities	93 518	(11 696)
Interest paid	(11 018)	(7 282)
	208 874	**22 003**
Net cash movement for the year	(36 819)	(19 644)
Cash and cash equivalent at the beginning of the Year	40 485	60 102
Cash and cash equivalent at the end of the Year	**3 666**	**40 458**

Notes to the Financial Statements

for the year ended 31 March 2016

1. BACKGROUND

The Lesotho Water and Sewerage Company (Proprietary) Limited (WASCO) was established under the Lesotho Water and Sewerage Company Act No. 13 of 2011 (as amended). Under this act WASCO acquired all assets and liabilities, rights and obligations of Water and Sewerage Authority (WASA) established by Water and Sewerage Order No. 29 of 1991 with effect from 1 September 2011.

2. ACCOUNTING POLICIES

2.1 Basis of Preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS). The financial statements have been prepared on the historical cost basis as modified by the revaluation of land and buildings available-for-sale financial assets and liabilities (including derivatives instruments) at fair value through profit or loss.

The preparation of financial statements in conformity with the IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying WASCO's accounting policies. Although these estimates are based on management's best knowledge of current events and actions, actual results ultimately may differ from those estimates.

2.2 Standards and amendments effective in 2013

In the current year WASCO has adopted all relevant new and revised Standards and the Interpretations issued by the International Accounting Standards Board (the IASB) and the International Financial Reporting Interpretations Committee (IFRIC) of the IASB that are relevant to its operations and effective for accounting periods beginning on the 1 January 2013. The adoption of these new and revised Standards and Interpretations has not resulted in any changes to WASCO's accounting policies as the effect of first time adoption of International financial Reporting Standards did not have a material impact on WASCO's amounts for the current or prior years.

2.3 Property, plant and equipment

The cost of an item of property, plant and equipment is recognized as an asset when it is probable that future economic benefits associated with the item will flow to WASCO and the cost can be measured reliably. Costs include costs incurred subsequently to add or to replace part of or service it. If a replacement cost is recognized in the carrying amount of an item of property, plant and equipment the carrying amount of the replaced asset is derecognized. The initial estimate of the cost of dismantling and removing the item and restoring the site on which it is located is also included in the cost of property, plant and equipment. Expenditure on capital projects or acquisitions up to M10 000 is charged to the statement of comprehensive income as operating costs with the exception of printers. Expenditure values shown for works in the course of construction comprise materials, labor, transport and attributable overheads. On commissioning the total cost is capitalized and depreciated over the appropriate useful life.

Property, plant and equipment are carried at revalued amount, being the fair value at the date of revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluations are made with sufficient regularity such as the carrying amount does not differ materially from that which would be determined using fair value at the balance sheet date.

Any decrease in an asset's carrying amount, as a result of a revaluation, is recognized in profit or loss in the current period. The decrease is debited in other comprehensive income to the extent of any credit balance existing in the revaluation surplus in respect of that asset.

Depreciation is calculated by a charge to the statement of comprehensive income to write off the cost or amount of the valuation of property plant and equipment including capitalised leased assets over their expected useful lives. Each part of an item of property plant and equipment with a cost that is significant in relation to the total cost of the item shall be depreciated separately. Depreciation normally commences in the financial year following commissioning although vehicles and other assets with a short useful life are depreciated form the date of acquisition. The gain or loss arising from the depreciation of an item of property plant and equipment is included in profit or loss when the item is depreciated.

Summary of Significant Accounting Policies (continued)

Freehold land is not depreciated. For other assets depreciation is provided on a straight line basis over the estimated useful/economic life for each group of assets which are principally as follows:-

Buildings office houses	30 - 50 years
Specialized operational structures	15 – 40 years
Plant and machinery	8 – 15 years
Vehicles	5 years
Office equipment including computers	3 – 6 years

The residual value, useful life and the depreciation method of each asset are revised and adjusted if appropriate, at the end of each reporting period. If the expectations differ from previous estimates, the change is accounted for as a change in accounting estimate.

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

The gain or loss arising from the derecognition of an item of property, plant and equipment is included in profit or loss when the item is derecognized. The gain or loss arising from derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of an item.

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

Revaluation of fixed assets
The fixed assets comprising of Land and Buildings Structures, Plant and Machinery, other assets were revalued by Lesotho Lands and Property Consultants towards the financial year ended March 2008. The revaluations have been incorporated into the Company's accounts. Expenditure on maintaining the operating capacity of the network is charged as an operating cost.

Reticulation
The transfer value for reticulation assets shown in the fixed assets statement is the valuation determined on the basis of depreciation replacement cost by Quantum Consultants (Lesotho) (PTY) in August 1991.

Depreciation is provided on a straight line basis over the estimated useful/economic life of the reticulation assets which has been estimated at 50 years.

Other assets
Other assets which include buildings, operational structures, plant and equipment are shown at either the valuation determined on the basis of depreciated replacement cost by Quantum Consultants in August 1991 or at cost if acquired after August 1991.

2.4 Impairment of non-financial assets

The company assesses at the end of the reporting period whether there is any indication that an asset may be impaired. If any such indication exists, the company estimates the recoverable amount of the asset. Irrespective of whether there is any indication of impairment, the company also:

- Tests intangible assets with an indefinite useful life or intangible assets not yet available for use for impairment annually by comparing its carrying amount with its recoverable amount. This impairment test is performed during the annual period and at the same time every period.

Summary of Significant Accounting Policies (continued)

If there is any indication that an asset may be impaired, the recoverable amount is estimated for the individual asset. If it is not possible to estimate the recoverable amount of the individual asset, the recoverable amount of the cash-generating unit to which the asset belongs is determined. The recoverable amount of an asset or a cash-generating unit is the higher of its fair value less costs to sell and its value in use. If the recoverable amount of an asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. That reduction is an impairment loss. An impairment loss of assets carried at cost less any accumulated depreciation or amortization is recognized immediately in profit or loss.

Any impairment loss of a revalued asset is treated as a revaluation decrease. An entity assesses at each reporting date whether there is any indication that an impairment loss recognized in prior periods for assets that may no longer exist or may have decreased. If any such indication exists, the recoverable amounts of those assets are estimated. The increased carrying amount that would have determined had no impairment loss does not exceed the carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset in prior periods. A reversal of an impairment loss of assets carried at cost less any accumulated depreciation or amortization is recognized immediately in profit or loss. Any reversal of impairment loss of a revalued asset is treated as a revaluation increase.

2.5 Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the provision of services in the ordinary course of WASCO' activities.

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

Income
Revenue comprises the billed value of water and sewerage services rendered and collection for water and sewer connections. The revenue is recognized upon performance of services.

Revenue from rendering of services is recognized by reference to the completion of the specific transaction assessed as a basis of the actual service provided as a proportion of the total services provided when it is probable that the economic benefits associated with a transaction will flow to WASCO and amount of revenue and associated costs incurred or to be incurred can be measured reliably.

Interest income
Interest income is recognized on a time-proportion basis using the effective interest method. When a receivable is impaired WASCO reduces the carrying amount to its recoverable amount being the estimated future cash flow discounted at original effective interest rate of the instrument and continues unwinding the discount as interest income. Interest on impaired loans is recognized either as cash is collected or on a cost-recovery basis as conditions warrant.

Dividend income
Dividend income is recognized when the right to receive payment is established.

2.6 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the First-in-first-out method. Costs comprises direct materials and where applicable overheads that have been incurred in bringing the inventories to their present location and condition excluding borrowing costs.Net realisable value is the estimated selling price in the ordinary course of business less the costs of completion and selling expenses. Where necessary provision is made for obsolete slow moving and defective inventories.

Summary of Significant Accounting Policies (continued)

2.7 Financial assets

2.7.1 Classification

The company classifies financial assets and financial liabilities into the following categories:
- Loans and receivables
- Financial liabilities measured at amortized cost

Classification depends on the purpose for which the financial instruments were obtained/incurred and takes place at the initial recognition. For financial instruments which are not at fair value through profit and loss, classification is re-assessed on an annual basis.

2.7.2 Initial recognition and measurement

Financial instruments are recognized initially when the company becomes a party to the contractual provisions of the instruments.

The company classifies financial instruments, or their component parts, on initial recognition as a financial asset, a financial liability or an equity instrument in accordance with the substance of the contractual arrangement.

Financial instruments are measured initially at fair value, except for equity investments for which a fair value is not determinable, which are measured at cost and are classified as available-for-sale financial assets.

For financial instruments which are not at fair value through profit or loss, transaction costs are included in the initial measurement of the instrument.

2.7.3 Subsequent measurement

Loans and receivables are subsequently measured at amortized cost, using the effective interest method, less accumulated impairment losses.

Financial liabilities at amortized cost are subsequently measured at amortised cost, using the effective interest method.

2.7.4 Impairment of financial assets

At each reporting date the company assesses all financial assets, other than those at fair value through profit or loss, to determine whether there is objective evidence that a financial asset or group of financial assets has been impaired.

For amounts due to the company, significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy and default of payments are all considered indicators of impairment.

2.7.5 Impairment losses are recognized in profit or loss

Impairment losses are reversed when an increase in the financial asset's recoverable amount can be related objectively to an event occurring after the impairment was recognized, subject to the restriction that the carrying amount of the financial asset at the date that the impairment is reversed shall not exceed what the carrying amount would have been had the impairment not been recognized.

2.7.6 Reversals of impairment losses are recognized in profit or loss

Where financial assets are impaired through use of an allowance account, the amount of the loss is recognized in the profit or loss within operating expenses. When such assets are written off, the write off is made against the relevant allowance account. Subsequent recoveries of amounts previously written off are credited against operating expenses.

2.7.7 Trade and other receivables

Trade receivables are measured at initial recognition at fair value, and are subsequently measured at amortized cost using the effective interest rate method. Appropriate allowances for estimated irrecoverable amounts are recognized in the profit or loss when there is objective evidence that the asset is impaired.

Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganization, and default or delinquency in payments are considered indicators that the trade receivable is impaired. The allowance recognized is measured as the difference between the asset's carrying amount and the present value of estimated future cash flow discounted at the effective interest rate computed at initial recognition.

Summary of Significant Accounting Policies (continued)

The carrying amount of the reduced through the use of an allowance account, and the amount of the loss is recognized in profit or loss within operating expenses. When a trade receivable is uncollectable, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against the operating expenses in profit or loss.

2.8 Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and in hand deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities in the statement of financial position.

2.9 Trade and other receivables

Trade receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method less provision for impairment. A provision for impairment of trade is established when there is objective evidence that WASCO will not be able to collect all amounts due according to the original terms of the receivables. Significant reorganization and default or delinquencies in payments are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the original effective interest rate.

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in the statement of comprehensive income. When a trade is uncollectible it is written off against the allowance account for the trade receivables. Subsequent recoveries of amounts previously written-off in the statement of comprehensive income.

2.10 Accounts payable

Accounts payable comprise trade accounts payable and accruals. These are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method.

2.11 Liabilities and provisions

WASCO recognizes liabilities including provisions when it has a present legal or constructive obligation as a result of past events; and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made. Where WASCO expects a provision to be reimbursed for example under an insurance contract the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain.

WASCO recognizes a provision for onerous contracts when the expected benefits to be derived from a contract are less than the unavoidable costs of meeting the obligations under the contract.

Restructuring provisions comprise lease termination penalties and employee termination payments and are recognized in the period in which WASCO becomes legally or constructively committed to payment. Cost related to the ongoing activities of WASCO is not provided in advance.

2.12 Borrowings

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

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

2.13 Current tax assets and liabilities

Current tax for current and prior periods is to the extent unpaid recognized as liability. If the amount already paid in the respect of current and prior periods exceeds the amount due for those periods the excess is recognized as an asset.

Current tax liabilities (assets) for the current and prior periods are measured at the amount expected to be paid to (recovered from) the tax authorities using the tax rates (and tax laws) that have been enacted or substantially enacted by the financial position date.

Summary of Significant Accounting Policies (continued)

WASCO was granted autonomous status on 1st April 1992 and as such is liable for Corporation Tax at the applicable rate on its assessed taxable profit. It is expected that no liability to taxation will arise for the year based on the reported results of the previous years.

2.14 Government grants

Capital based government grant are included within deferred income in the statement of financial position and credited to profit over the estimated useful economic lives of the assets to which they relate. Revenue based government grants are credited to profit in the period in which the expenditure to which they relate is incurred.

2.15 Dividend distribution

Dividend distribution to WASCO's shareholder is recognized as a liability in the financial statements in the period.

2.16 Leases

Lease of property, plant and equipment where WASCO has substantially all the risks and rewards of ownership are classified as finance lease. Finance leases are capitalized at the inception of the lease at the lower of the fair value of the leased property or the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations net of finance charges are included in other long-term payables. The interest element of the finance cost is charged to the statement of comprehensive income over the lease period so as to produce a constant periodic rate of the interest on the remaining balance of the liability for each period.

The property plant and equipment acquired under finance leases are depreciated over the shorter of the useful life of the asset or the lease term.

Leases where a significant portion of the risks and rewards of the ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the statement of comprehensive income on the straight-line basis over the period of the lease.

2.17 Financial risk management

Financial risk factors

WASCO's activities expose it to a variety of financial risks: market risk (including currency risk fair value interest risk cash flow interest-rate risk and price risk) credit risk and liquidity risk. WASCO's overall risk management programme focuses on the unpredictability of the financial markets and seeks to minimise potential adverse effect on its financial performance. WASCO currently does not use derivative financial instruments to hedge certain risk exposures.

Market Risk

From time to time WASCO is exposed to foreign exchange risk arising from various currency exposures primarily with respect to the US dollar. Foreign exchange risk arises from future commercial transactions recognized assets and liabilities. Foreign exchange risk arises when future commercial transactions recognized assets and liabilities are denominated in a currency that is not WASCO's functional currency.

Price Risk

WASCO is exposed to equity securities price risk because of an investment held by it and classified in the Statement of financial position at fair value and profit or loss transferred to the statement of comprehensive income. This asset is an investment in Standard Bank Money Market.

Cash flow and fair value rate risk

As WASCO has no significant interest-bearing assets its income and operating cash flows are substantially independent of changes in market interest rates. WASCO's interest-rate risk arises from long-term borrowings. Borrowings issued at variable rates expose WASCO to cash flow interest-rate risk. Borrowings issued at fixed rates expose WASCO to fair value interest-rate risk. WASCO is not exposed to fair value interest-rate risk because all its borrowings (Note 13) are at variable rates. WASCO does not consider the exposure to cash flow interest-rate risk as significant; therefore it currently does not have formal mechanism to mitigate risk.

Summary of Significant Accounting Policies (continued)

Credit Risk

Credit risk arises from cash and cash equivalents deposits with bank and financial institutions as well as credit exposures to commercial and residential customers including outstanding receivables and committed transactions. For banks and commercial institutions only high credit quality parties are accepted. If Commercial customers are independently rated these ratings are used. If there is no independent rating risk control assesses the credit quality of the customer taking into account its financial position past experience and other factors. Sales to customers are settled in cash. See note 5 for further disclosure on credit risk. Management does not expect any loses from non-performance by these counterparties.

WASCO does not do credit vetting for new customers since it is an essential service. Overdue accounts are disconnected for non-payment after 60 days from the statement due date as per the policies and procedures.

Liquidity Risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities the availability of funding from an adequate amount of committed credit facilities and the ability to close our market positions. Due to the dynamic nature of the underlying business WASCO's management aims to maintain flexibility in funding by keeping committed credit lines available.

The table below analyses WASCO's financial liabilities into relevant maturity rationing based on the remaining period at the financial position date to the contractual maturity date. The amounts disclosed in the table below are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant.

	Less than 1 year M'000	Between 1 and 5 years M'000	Over 5 years M'000
At 31 March 2015			
Borrowings	–	11 070	107 345
Trade and other payables	59 209	–	–
At 31 March 2014			
Borrowings	–	19 709	112 217
Trade and other payables	55 335	–	–

Capital risk management

WASCO's objectives when managing capital are to safeguard its ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

Consistent with others in the industry WASCO monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by the total capital. Net debt is calculated as the total borrowings (including 'current and non-current borrowings' as shown in the Statement of financial position) less cash and cash equivalents. Total capital is calculated as 'equity' as shown in the statement of financial position plus net debt.

During 2015 WASCO's strategy which was unchanged from2014 was to maintain a low gearing ratio of not more than 40%. The gearing ratio as at 31 March 2015 and 2014 were as follows:

	2015 M'000	2014 M'000
Total borrowings (note 14) includes bank overdraft	118 415	164 858
Total equity	1 148 513	1 111 955
Total capital (total borrowings plus equity)	1 266 928	1 276 813
Gearing ratio	**10,31%**	**12,91%**

Summary of Significant Accounting Policies (continued)

Fair Value estimation

The carrying value less impairment provision of trade receivables and payables are assumed to approximate their values. The value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market rate that is available to WASCO for similar financial instruments.

2.18 Employee benefits

Terminal benefits are payable whenever an employee's employment is terminated before the normal retirement date or whenever an employee accepts voluntary redundancy in exchange for these benefits. WASCO recognizes termination benefits when it is demonstrably committed either to terminate the employment of current employees according to a detailed formal plan without possibility of withdrawal or to provide termination benefits as a result of an offer made to encourage voluntary redundancy.

2.19 Critical accounting estimates and assumptions

WASCO makes estimates and assumptions concerning the future. The resulting accounting estimates will by definition seldom equal the related actual results. There were no critical accounting estimates that have a significant risk of causing material adjustments to the carrying amounts of assets and liabilities within the next financial year. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below:

Provision of impairment of trade receivables

WASCO considers all trade receivable balances that have been outstanding for over two years as impaired. WASCO applies this policy consistently and its management is of the view that even though this is an accounting estimate it is the best estimate of the amount that may not be recovered from its customers. Refer to note 5 for disclosure on the provision for impairment of trade receivables.

Review of useful lives

WASCO depreciates items of property plant and equipment based on the useful lives of those items. The useful lives of the items are management's best estimates. The useful are disclosed in the accounting policy 2.3 and they are reasonable in management's view. These useful lives determine the amount of depreciation recognized in the statement of comprehensive income each year.

Income taxes

Judgment is required in determining whether WASCO is liable for tax or not. There may be transactions and calculations for which the ultimate tax determination may be uncertain. WASCO recognizes liabilities for anticipated tax based on estimates of whether additional taxes will be due. Where final tax outcome of these matters is different from the amounts that were initially recorded such differences will impact the current and deferred income tax assets and liabilities in the period in which such determination is made.

2.20 Contingent liabilities

WASCO discloses a contingent liability where:

– it has a possible obligation arising from past events; the existence of which will be confirmed only by the occurrence or non occurrence of one or more uncertain future events not wholly within the control of WASCO, or

– it is not probable that an outflow or resources will be required to settle an obligation; or

– the amount of the obligation cannot be measured with sufficient reliability.

2.21 Functional and presentation currency

Items included in the financial statements are measured using the currency of the primary economic environment in which WASCO operates ('the functional currency"). The financial statements are presented in Maloti ("M"), which is the functional and presentation currency of WASCO.

2.22 Comparative figures

Where necessary comparative figures of WASCO have been restated to conform to the current reporting format.

2.23 Rounding

All items are shown to the nearest one thousand Maloti, therefore a - in the column indicates either no transaction or totals of less than five hundred Maloti.

3. Property, plant and equipment

Owned assets	2016 Cost M'000	2016 Accumulated depreciation M'000	2016 Carrying amount M'000	2015 Cost M'000	2015 Accumulated depreciation M'000	2015 Carrying amount M'000
Land & buildings	64 628	6 247	58 381	31 220	(5 483)	25 737
Specialised operational structures	298 940	50 272	248 668	194 996	(45 402)	149 594
Reticulation	322 202	105 608	216 594	288 124	(99 877)	188 247
Plant & machinery	56 741	20 446	36 295	33 045	(18 456)	14 589
Motor vehicles	21 623	13 517	8 106	17 439	(14 719)	2 720
Office equipment & furniture	20 704	12 860	7 844	19 519	(10 046)	9 473
Assets in construction	732 299	–	732 299	820 327	–	820 327
Suspense	2 322	–	2 322	5 554	–	5 554
	1 519 459	**208 950**	**1 310 509**	**1 410 224**	**(193 983)**	**1 216 241**

Carrying amount of property, plant and equipment can be reconciled as follows:

	Carrying amount at beginning of the year M'000	Transfer from CWIP-completed projects M'000	Additions M'000	Depreciation for the year M'000	Disposal during the year/ adjustment M'000	Carrying amount at end of the year M'000
Land & buildings	25 737		33 408	(764)	–	58 381
Specialised operational structures	149 594		103 944	(4 870)	–	248 668
Reticulation	188 247		34 078	(5 731)	–	216 594
Plant & machinery	14 589		26 466	(3 244)	(1 516)	36 295
Motor vehicles	2 720		8 576	(994)	(2 196)	8 106
Office equipment & furniture	9 472		1 543	(2 813)	(358)	7 844
Assets in construction	820 327	(89 027)	1 000			732 300
Suspense	5 554		–	–	(3 232)	2 322
	1 216 240	**(89 027)**	**209 014**	**(18 416)**	**(7 302)**	**1 310 509**

	2016 M'000	2015 M'000
4. Inventory		
Cost	12 369	9 666
Provision for obsolete stock	(176)	(91)
	12 193	**9 575**
5. Accounts receivable		
Trade receivables	105 069	96 726
Less: Provision for doubtful debts	(18 882)	(17 283)
Net trade accounts receivable	**86 187**	**79 443**
Miscellaneous debtors	37	4 674
Postal Services	2 777	106
Shoprite Services		579
Pick and Pay		197
Vodacom Mpesa services		229
Ecocash Services		213
Staff housing loan	(6)	2
Staff Travel imprest		(115)
Bloemwater Imprest Account	(390)	(410)
Prepaid Insurance	(4)	5
Debtors cash account	(80)	
Other debtors	–	23
	88 521	**84 946**

The fair values of trade and other receivables are as follows:

	2016 M'000	2015 M'000
Trade receivables	86 187	79 443
Sundry debtors	2 334	5 503
	88 521	**84 946**

The above values of trade and other receivables approximate fair value. There is no concentration of credit risk with respect to the trade receivables as the Company has a large number of customers regionally dispersed. The Company's historical experience in in collection of accounts receivable falls within the recorded allowances. Due to these factors, management believes that no additional credit risk beyond amounts provided for collection losses is inherent in the company trade receivables. The maximum exposure to credit risk at the reporting date is the fair value of each class of receivable mentioned above. The Company does not hold any collateral as security.

As of 31 March 2016 trade receivables of M105 069 000 (2014: M96 726 000) were impaired and provided for. The amount of the provision was M18 882 000 as of 31 March 2016 (2015: M17 283 000).

The individually impaired receivables mainly relate to Domestic and Non-domestic accounts mostly disconnected for non-payment.

	2016 M'000	2015 M'000
At 1 April	17 283	20 256
Provision for receivables impairment	1 599	(2 973)
At 31 March	**18 882**	**17 283**

The creation and release of provision for impaired receivables have been included in othere xpenses in the statement of comprehensive income. Amounts charged to the allowance account are generally written off when there is no expectation of recovering additional cash.

The other classes within trade and other receivables do not contain impaired assets.

	2016 M'000	2015 M'000
6. Short-term investments		
Standard Lesotho Bank Income Fund Accounts	30 544	1 279
Standard Lesotho Bank Money Markets	7 818	28 510
	38 362	**29 789**
7. Bank and cash		
Standard Lesotho Bank Call Accounts	4 365	5 985
Cashiers	3 275	4 212
Sub-total	7 640	10 197
Standard Lesotho Bank Current Account	1 483	247
Others	0	225
	9 123	**10 669**
8. Share capital		
Authorised 1 000 shares of M1 each	1	1
Issued and fully paid 1 000 shares of M1 each	1	1

9. Government of Lesotho funding

Government contribution to WASCO representing the valuation of net assets of the former Water and Sewerage Branch (as specified in the Second Schedule of the Lesotho Water and Sewerage Company Order of 1991) at 1st April 1992, plus projects under construction, funded by the Government of Lesotho on behalf of WASCO.

	GOL Grant-opening as at 01/04/2015 M	Additional receipt during the year M	Adjustment during the year M	GOL funding as at 31/03/2016 M
BSCR01 - GOL	378 387 477	29 572 371	(34 463 395)	373 496 452
BSCR04-Capital Contribution	2 133 414	–	(676 582)	1 456 832
BSCR11 - GOL-WSIP Funds	19 638 989	–	(3 545 408)	16 093 580
	400 159 880	**29 572 371**	**(38 685 387)**	**391 046 864**

10. Government of Lesotho grant

Gol grant represents debt forgiveness by the GOL analysed as follows:

	GOL Grant-opening as at 01/04/2015 M	Additional receipt during the year M	Adjustment amortisation during the year M	GOL Grant as at 31/03/2016 M
BSCR06 - Industrialisation funding (GOL)	99 571 261	–	–	99 571 261
BSCR07 - GOL grant(BADEA)	53 929 334	2 377 698	–	56 307 032
BSCR08 - GOL grants	84 309 462	–	1 264 916	83 044 546
BSCR09 - BADEA grant(5 Towns)	2 308 818	–	2 308 818	–
BSCR10 - EU grant (6 Towns)	190 040 531	–	–	190 040 531
BSCR12 - IDA WSIP project	41 383 744	–	–	41 383 744
BSCR13 - Metolong	12 543 279	–	10 179 115	2 364 164
BSCR 16 - OPEC loan	24 263 343	–	24 263 342	–
BSCR 18 - EU grant immed. measures	25 748 753	–	24 263 343	12 423 313
BSCR 19 - Health sanitation PRO.	41 082 020	–	13 325 440	41 082 020
BSCR 20 - EU grant MWWP	3 501 159	–	3 501 159	–
BSCR21 - Maseru wastewater - GOL	149 758 535	29 130 349	–	178 888 884
BSCR22 - Maseru wastewater-EDF (EU)	92 659 707	–	–	92 659 707
BSCR27 - BADEA FIVE TOWNS	365 121	–	365 121	–
BSCR28 - SADC WATER WEEKS	190 964	29 339	2 058 267	–
BSCR30 - Greater Maseru water supply	–	2 227 280	–	2 227 280
BSCR31 - GOL Five Towns water supply	–	5 699 949	–	5 699 949
BSCR32 - GOL Urban and peri urban	–	8 719 477	–	8 719 477
BSCR3 - GOL EIB MWWP loan repayment	–	19 975 089	–	19 975 089
TOTAL as at 31/03/2015	**821 656 031**	**68 159 181**	**81 529 522**	**834 386 996**

The interest on Long-term loans cancelled by Government of Lesotho was capitalised at the time of cancellation with the intention of amortising it according to the useful life of the financed assets. Due to the difficulty of apportioning the accumulated interest to the various Projects which the loan financed, the interest was charged to the Statement of comprehensive income in total at the end of March 2007.

	2016 M'000	2015 M'000
11. Accumulated deficit		
Balance at 1st April	(64 870)	(61 856)
Net profit/(loss) for the year	7 366	(3 160)
Prior year adjustment (Note 16.)	(529)	–
	(58 033)	**(65 016)**
12. Reserves		
Revaluation reserve	(8 414)	(8 418)
General reserve	129	129
	(8 285)	**(8 289)**
13. Provision for severance pay		
An amount equal to 90% of the provision for severance pay has been classified as long term liabilities. The basis used is the annual staff turnover.	**19 823**	**18 241**

		2016 M'000	2015 M'000
14.	**Long term liabilities**		
14.1	**Maseru Waste Water-EIB**		
	A loan advanced by European Investment Bank to finance the Sewer reticulation system & construction of treatment plant the repayment of loan for each tranche shall be paid by 40 Semi-annual installments.	134 109	74 044
14.2	**IDA-WSIP LOAN**		
	A subsidiary agreement between Kingdom of Lesotho & WASCO for financing Lesotho Water sector improvement project. The loan is payable over the period of 25 years including grace period of seven years. The interest is charged at 2% p.a.	30 957	30 957
14.3	**NEDBANK LOAN**		
	A loan advanced by Nedbank Lesotho to enable WASCO to finance the supply of clean water to the Maseru North East Areas (Maseru Peri-Urban Project). The loan is payable over the period of ninety six (96) equal monthly installments and payable on the 15th day of each succeeding month. Interest rate is subject to fluctuations in prime.	11 009	13 414
14.4	**NEDBANK LOAN**		
	A loan advanced by Nedbank to finance the purchase of vehicles and JCBs. The loan is payable over a period of sixty months at an interest rate of 11.7% per annum.	7 700	–
14.5	**OPEC LOAN**		
	A loan advance by OPEC to finance the reticulation of Maseru Peri- Urban Project Phase II	24 263	–
14.6	**BADEA LOAN**		
	A loan advanced by BADEA.	2 058	–
		210 096	**118 415**
15.	**Accounts payable and accruals**		
	Accrued expenses	6 812	2 731
	Customers' deposits	8 133	7 627
	Due to contractors	928	1 006
	Interest payable to the government	23 597	22 978
	Interest payable to EIB	12	–
	Provision for severance pay	2 203	2 027
	Trade creditors	1 534	2 482
	Vat payable	878	1 043
	Gratuity provision	10 641	8 510
	Goods received not invoiced	3 245	9 423
	Income Tax deducted	1 002	1 018
	Other payables	10 993	293
	Medical aid Insurance	–	–
	Withholding Tax (Trade Creditors)	365	71
	WASCO Staff Welfare Fund	–	–
	Long-term loan due within a year	–	6 841
	Salaries and wages	–	–
		70 343	**66 050**

	2016 M'000	2015 M'000

16. Risk management

Capital risk management

The company's objectives when managing capital are to safeguard the company's ability to continue as a going concern in order to provide returns for shareholder and the benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the company may adjust the amount of dividends paid to the shareholder, return capital to shareholder, issue new shares or sell assets to reduce debt.

Consistent with others in the industry, the company monitors capital on the basis of the gearing ratio.
This ratio is calculated as the debt divided by total capital. Net debt is calculated as total borrowings (including 'current and non-current borrowings' as shown in the statement of financial position) less cash and cash equivalents. Total capital is calculated as 'equity' as shown in the statement of financial position plus net debt.

There are no externally imposed capital requirements.

There have been no changes to what the entity manages as capital, the strategy for capital maintenance or externally imposed capital requirements from the previous year.

Financial risk management

The company's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk.

Liquidity risk

Cash flow forecasting is performed by company finance. Company finance monitors rolling forecasts of the company's liquidity requirements to ensure it has sufficient cash to meet operational needs while maintaining sufficient headroom on its undrawn committed borrowing facilities at all times so that the company does not breach borrowing limits or covenants (where applicable) on any of its borrowing facilities.

Surplus cash held by the company over and above the balance required for working capital management are invested in interest bearing current accounts.

The table below analyses the company's financial liabilities into relevant maturity groupings based on the remaining period at the reporting date to the contractual maturity date. Derivative financial liabilities are included in the analysis if their contractual maturities are essential for an understanding of the timing of the cash flows. The amounts disclosed in the contractual in discounted cash flows. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant.

31 March 2014	**Total** M	Less than 1 year M	Between 1 and 2 years M	Between 2 and 5 years M	Over 5 years M
Trade and other payables	65 809	65 809	–	–	–

Cash flow and fair value interest

As the company has no significant interest-bearing assets, the company's income and operating cash flows are substantially independent of changes in market interest rates.

Credit risk

Credit risk is managed on a divisional basis.
Credit risk consists mainly of cash deposits, cash equivalents and trade debtors. The company only deposits cash with major banks with high quality credit standing and limits exposure to any one counter-party.

Price risk

The company does not hold any investments in listed securities, nor does it hold any commodities. The company is therefore not exposed to price risk.

Foreign exchange risk

The company does not have receivables or payables denominated in foreign currency and are therefore not exposed to foreign exchange risk of various currency exposures.

	2016 M'000	2015 M'000

17. Financial instruments

Credit risk

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit note of the reporting date was:

	Carrying amount 31 March 2015 M	Carrying amount 31 March 2014 M
Trade receivables	85 514	71 814
Cash and cash equivalents	39 752	60 102
	125 266	**131 916**

The maximum exposure to credit risk for trade receivables at the reporting date by geographic region was:

Categories of financial instruments	Carrying amount 31 March 2015 M	Fair value 31 March 2014 M
Financial assets		
Loans and receivables		
Trade and other receivables	85 514	71 814
Cash and cash equivalents	39 752	60 102
Total financial assets	**125 266**	**131 926**
Financial liabilities		
Trade and other payables	**65 809**	**69 969**

18. Detailed statement of profit or loss and other comprehensive income

INCOME	**2016 M'000**	**2015 M'000**
Water and Sewerage charges	190 539	175 628
New service connection	15 458	15 826
Gain on disposal	822	–
Other income	27 037	7 212
	233 856	**198 666**
EXPENSES		
Manpower costs	88 458	81 976
Electricity	17 172	18 460
Reticulation and plant maintenance	13 472	9 579
Chemicals	5 506	7 683
Transport	4 804	5 301
New connections	15 119	13 682
Telephone stationary & postage	5 391	3 829
Rents security & insurance	9 341	8 019
Training & travel expenses	2 784	1 587
Directors' fees	946	585
Audit fees	180	166
Office equipment	1 786	1 190
Other expenses (including write-offs)	22 178	19 724
Rates	144	488
Adjustment account	19 995	14 574
Depreciation	18 416	17 955
Bad debts	1 599	(2 973)
	227 291	**201 826**
Operating Profit/(Loss) for the year	**6 565**	**(3 160)**

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WASCO

SAVE EVERY DROP

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