AUDITOR-GENERAL'S OFFICE
PAPUA NEW GUINEA

Phone: (+675) 3012262 Fax: (+675) 325 2872 Email: jten@ago.gov.pg Website: www.ago.gov.pg

The Executive Chairman
NCD Water & Sewerage Limited
PO Box 1084
WAIGANI
National Capital District

Date: *30 June, 2021*
Our Reference: *31-47-4*
Action Officer: A. Doss
Designation: DOA
Your Reference:
Date:

Dear Sir,

AUDIT REPORT ON
NCD WATER AND SEWERAGE LIMITED
TRADING AS "EDA RANU" FOR THE YEAR ENDED 31 DECEMBER 2018

I attach a copy of the *Auditor-General's Report* together with a copy of the certified financial statements of the above named Company for the year ended **31 December, 2018**.

Please ensure that this Report is tabled by you at the Company's Annual General Meeting.

Yours faithfully,

Lila

LEMEKI ILA
Deputy Auditor-General
(Statutory Bodies Audits Division)
FOR: AUDITOR-GENERAL

AUDITOR-GENERAL'S OFFICE
PAPUA NEW GUINEA

Phone: (+675) 3012200 Fax: (+675) 325 2872 Email: agopng@ago.gov.pg Website: www.ago.gov.pg

Our Reference: 30-40-4

INDEPENDENT AUDIT REPORT
TO THE SHAREHOLDERS ON THE FINANCIAL STATEMENTS OF
NCD WATER AND SEWERAGE LIMITED (EDA RANU)
FOR THE YEAR ENDED 31 DECEMBER 2018

DISCLAIMER OF OPINION

I have audited the accompanying financial statements of **NCD Water and Sewerage Limited (Eda Ranu),** which comprise the Statement of Financial Position as at **31 December 2018**, Statement of Profit or Loss and other Comprehensive Income, Statement of Changes in Equity, Statement of Cash Flows and summary of significant accounting policies and other explanatory notes;

Because of the significance of the matters referred to in the Basis for Disclaimer of Opinion paragraphs below, I was not able to obtain sufficient appropriate audit evidence and accordingly, I am unable to and do not express an opinion on the financial statements of the NCD Water and Sewerage Limited, for the year ended 31 December 2018.

BASIS FOR DISCLAIMER OF OPINION

Opening Balances and Corresponding Amounts

My audit report for the year ended 31 December, 2017 was a disclaimer of opinion due to the limitation of scope on the opening balances as a result of my inability to obtain sufficient and appropriate audit evidence on the completeness, existence and accuracy of the balances in the financial statements of the Company for the year ended 31 December 2017, including trade and other receivables of K51.12 million, revenue of K113.43 million, consumable inventories of K6.27 million, property, plant and equipment of K83.82 million, deferred tax assets of K3.49 million, provision for income tax of K3.10 million, deferred tax liabilities of K0.70 million and income tax expense of K1.03 million. I was unable to perform alternative procedures over these opening balances due to a continued lack of appropriate supporting documentation. Since the opening balances enter into the determination of the financial position at 31 December 2018 and the results of operations, equity movements and cash flows of the Company for the year ended 31 December 2018, any adjustments necessary on such opening balances would have a consequential effect on the year end balance. Accordingly, I was unable to determine whether any such adjustments might be necessary for the year ended 31 December 2018, and corresponding figures for the year ended 31 December 2017.

Level 6
TISA Investment Haus
Kumul Avenue, NCD

PO Box 423
WAIGANI, NCD
Papua New Guinea

Revenue

Note 4 to the financial statements of the Company disclosed revenue amounting to K116.84 million for the year ended 31 December 2018 and K113.43 million for the year ended 31 December 2017. During the year to October 2018, the billing and collections of revenue was performed by a third-party contractor under a 'build-operate-transfer' arrangement. I was unable to obtain third party confirmation of the revenue billed, controls at service organisation reports from the third-party contractor or alternative documentary evidence to assess the revenue contracts or fulfilment of performance obligations by the Company. Accordingly, I was unable to determine what adjustments might be necessary to the statement of financial position at 31 December 2018, the statement of comprehensive income, statement of cash flows and statement of changes in equity for the year ended 31 December 2018 and for the corresponding period.

Trade Receivables and related Provisions for Impairment

Note 11 to the financial statements of the Company contains trade receivables and related provisions for impairment balances amounting to K58.03 million (2017: K49.17 million) and K8.84 million (2017: K6.84 million) respectively. During the year to October 2018, the billing and collections of revenue was performed by a third-party contractor under a 'build-operate-transfer' arrangement. I was unable to obtain third party confirmation of the revenue billed, controls at service organisation reports from the third-party contractor or alternative documentary evidence to assess the completeness, existence, accuracy and valuation of trade receivables. Accordingly, I was unable to determine what adjustments might be necessary to the statement of financial position at 31 December 2018, the statement of profit or loss and other comprehensive income, statement of cash flows and statement of changes in equity for the year ended 31 December 2018 and for the corresponding period.

Consumable Inventories

The Company disclosed K5.89 million (2017: K6.27 million) at 31 December 2018 as consumable inventories. I did not observe the counting of the physical consumable inventories at the beginning and end of the year nor was I able to satisfy myself by alternative means concerning consumable inventory quantities held at 31 December 2018. Accordingly, I was unable to determine what adjustments might be necessary to the statement of financial position at 31 December 2018, the statement of profit or loss and other comprehensive income, statement of cash flows and statement of changes in equity for the year ended 31 December 2018 and for the corresponding period.

Property, Plant and Equipment

As set out in *Note 13* to the financial statements, the Company disclosed property, plant and equipment of K86.93 million at 31 December 2018 and K83.82 million at 31 December 2017. Included in the property, plant and equipment is land and buildings stated as being at fair value of K33.84 million at 31 December 2018 and K34.22 million at 31 December 2017. The Company has an accounting policy of carrying land and buildings at fair value. As at 31 December 2018 and 31 December 2017 management had not undertaken an internal or external valuation process to assess the fair value of the land and buildings. The last full external valuation was performed by the Company in 2013. I was unable to satisfy myself by alternative means concerning the appropriateness of the land and buildings valuation at 31 December 2017 and 31 December 2018.

Accordingly, I was unable to determine what adjustments might be necessary to the statement of financial position at 31 December 2018, the statement of profit or loss and other comprehensive income, statement of cash flows and statement of changes in equity for the year ended 31 December 2018 and for the corresponding period.

Property, Plant and Equipment not Recognised in the Financial Statements

The Company took ownership of Mt Eriama treatment plant & other items of Property, Plant & Equipment transferred at the end of the build-operate-transfer ("BOT") agreement with Malaysian Consortium PNG Water Limited ("JCKRTA"). The assets transferred remained unrecorded in the Company's books as at 31 December 2018. The Company is still in the process of performing a full independent external valuation for the assets transferred and determining the appropriate accounting treatment of the assets.

As a result, the property, plant and equipment balance for the Company was incomplete in the 2018 financial statements with corresponding misstatements of equity, depreciation and tax balances, accumulating for several years. I was not provided with the appropriate supporting documentation nor was I able to perform alternative procedures to determine the value of unrecognised property, plant and equipment as at 31 December 2018. Accordingly, I was unable to determine what adjustments might be necessary to the statement of financial position at 31 December 2018 and 31 December 2017, and the statement of profit or loss and other comprehensive income, statement of cash flows and statement of changes in equity for the year ended 31 December 2018 and for the corresponding period.

Taxation

Note 9 to the financial statements of the Company contained the following accounts and balances:

Account	2018	2017
Income tax expense	K0.26 million	K1.03 million
Provision for income tax	K5.1 million	K3.10 million
Deferred tax assets	K3.83 million	K3.49 million
Deferred tax liabilities	K0.34 million	K0.70 million

I was unable to obtain sufficient and appropriate audit evidence over the completeness, existence and accuracy of related tax impacts of the transactions and balances due to the absence of appropriate records or calculations of its income tax position.

Accordingly, I was unable to determine what adjustments might be necessary to the statement of financial position at 31 December 2018, the statement of profit or loss and other comprehensive income, statement of cash flows and statement of changes in equity for the year ended 31 December 2018 and for the corresponding period.

Implementation of IFRS 9 Financial Instruments

On 1 January 2018, *International Financial Reporting Standard (IFRS) 9 Financial Instruments* came into effect. The new standard brought in new reporting requirements for financial instruments which included the need to critically assess the business model for managing the respective financial instruments held by an entity in determining the most appropriate classification.

During my testing of the appropriateness of the Company's expected credit loss models, I noted that the Company did not have sufficient data to analyses the historical performance of the trade debtors as the information was unavailable prior to the end of the BOT arrangement. The Company determined the Expected Credit Losses based on the three-month data available. As such, there is a risk of inappropriate determination of the expected credit losses in the absence of historical performance of the trade debtors and any proxy.

EMPHASIS OF MATTER

Basis for preparation of the financial report other than as a going concern

Note 2.1 of the financial statements disclosed that the financial statements have not been prepared on a going concern basis because the *National Capital District Water and Sewerage Act 1996,* which govern the operation of the Company was repealed on 03 November 2020 through the *National Water Supply and Sanitation (Amendment) Act 2020.*

In accordance with the *National Water Supply and Sanitation (Amendment) Act 2020*, Eda Ranu ceased to exist from 02 November 2020 and its assets and liabilities were amalgamated with Water PNG Limited. Therefore, in preparing the financial statements on an alternative basis, the Directors have continued to apply the requirement of the *International Financial Reporting Standards* (IFRS) taking into account that the Company will not continue as a going concern from 02 November 2020.

No adjustment to assets or liabilities carrying values were considered necessary as a result of the change in presentation and no provision has been made at 31 December 2018 in respect of wind up and merger costs to be incurred.

My opinion is not modified in respect of this matter.

Responsibilities of the Management for the Financial Statements

The management of the Company are responsible for the preparation and fair presentation of the financial statements in accordance with the *International Financial Reporting Standards,* the *Companies Act 1997* and for such internal control as the Directors determines is necessary to enable the preparation of the financial statements that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

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

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

My responsibility is to conduct an audit in the accordance with the *International Standards* on *Auditing* and to issue an auditor's report that includes my opinion. However, because of the matters described in the basis for disclaimer of opinion section of my report, I was not able to obtain sufficient appropriate audit evidence to provide a basis for an opinion on the financial statements.

Independence

I am independent of the NCD Water and Sewerage Limited in accordance with the ethical requirements that are relevant to my audit of the financial statements in Papua New Guinea, and I have fulfilled my other ethical responsibilities in accordance with these requirements.

GORDON KEGA MBA, CPA
Auditor-General

30 June, 2021

NCD WATER AND SEWERAGE LIMITED
(TRADING AS EDA RANU)

FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018

NCD WATER AND SEWERAGE LIMITED
(TRADING AS EDA RANU)

FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018

Table of contents

NCD WATER AND SEWERAGE LIMITED
(TRADING AS EDA RANU)

REPORT OF THE DIRECTORS
FOR THE YEAR ENDED 31 DECEMBER 2018

The Directors of Water PNG Limited present the financial statements of NCD WATER & SEWERAGE LIMITED, trading as EDA RANU, for the year ended 31 December 2018.

PRINCIPAL ACTIVITY

The Company's principal activities during the financial year were the supply of water and the discharge of sewerage effluents in the National Capital District of Papua New Guinea. During the financial year there were no significant changes in the nature of the Company's activities.

RESULTS

The net result from operation of the Company for the financial year was a loss of K2,670,132 (2017: Profit of K 1,262,625).

DIVIDENDS

No Dividends declared.

DONATIONS

During the year the Company made donations amounting to K739,884. (2017: K445,830).

DIRECTORS

The following persons held office as Directors at the date of this report:

Role	Name	Appointment date	Resignation Date
As at date 31 December 2018			
Director (Chairperson)	William Sweet	14/06/2018	04/11/2020
Director (Dep Chairman)	Nelson Tengi	20/12/2016	04/11/2020
Director	Leslie Hoffman	16/12/2011	04/11/2020
Director	Tsaka Sandis	14/06/2018	04/11/2020
Director	Aiwa Olmi	14/06/2018	04/11/2020
Director	Ako Toua	14/06/2018	04/11/2020
Director	Raka Taviri Jnr	14/06/2018	04/11/2020
Director (Chairperson)	Mary Karo	15/01/2013	14/06/2018
Director	Peterson Pipi	20/12/2016	14/06/2018
Director	Frank Makanauey	20/12/2016	14/06/2018
Director	David Ericho	15/01/2013	14/06/2018
Director	Henry Mokono	20/12/2016	14/06/2018
As at date of Directors Report			
Director (Chairperson)	Hubert Namani	10/11/2020	Current
Director (Dep Chairman)	Aiwa Olmi	10/11/2020	Current
Director	John Cholai	10/11/2020	Current
Director	Tamzin Wardley	10/11/2020	Current
Director	Ako Toua	10/11/2020	Current

NCD WATER AND SEWERAGE LIMITED
(TRADING AS EDA RANU)

REPORT OF THE DIRECTORS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2018

GENERAL

In accordance with the requirements of the Companies Act (1997) the directors state, subject to Note 2.1, that, in their opinion:

a) The results of the Company's operations during the year were not materially affected by items of an abnormal character except as set out in the accounts.
b) No circumstances have arisen which render adherence to the existing method of valuation of assets or liabilities misleading or inappropriate.
c) No contingent liabilities have arisen in the year from 31 December 2018 to the date of this report.
d) No contingent liabilities have become enforceable or are likely to become enforceable within the year from the date of this report, which would materially affect the company in its ability to meet its obligations as and when they fall due.
e) During the year no transfers were made to/ (from) reserves.
f) The current assets will realise at least the value at which they are shown in the accounts and the value is an amount that these current assets might reasonably be expected to realise in the ordinary course of business.

Signed at PORT MORESBY this 9th day of June 2021 in accordance with a resolution of the Directors.

[Hubert Namani]
Director

[Tamzin Wardley]
Director

AUDIT OPINION PAGE

AUDIT OPINION PAGE

AUDIT OPINION PAGE

AUDIT OPINION PAGE

AUDIT OPINION PAGE

NCD WATER AND SEWERAGE LIMITED
(TRADING AS EDA RANU)

STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2018

	Note	2018 K	2017 K
Revenue	4	116,838,561	113,426,468
Direct cost	6	(65,241,785)	(64,270,279)
Gross profit		51,596,776	49,156,189
Other operating income	5	5,447,956	787,260
Operating expense	7	(26,237,423)	(19,510,411)
Impairment of receivables	11	(999,996)	(999,996)
Staff costs	8	(31,184,844)	(27,018,838)
Finance cost		(16,750)	(121,360)
Net profit before income tax		(1,394,281)	2,292,844
Income tax benefit / (expense)	9	(1,275,851)	(1,030,219)
Total comprehensive income		(2,670,132)	1,262,625

The above statement of comprehensive income should be read in conjunction with the accompanying notes to the financial statements.

AUDITOR-GENERAL'S OFFICE ★

NCD WATER AND SEWERAGE LIMITED
(TRADING AS EDA RANU)

STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2018

	Note	2018 K	2017 K
ASSETS			
Current assets			
Cash on hand and in banks	10	17,822,296	25,659,861
Interest bearing deposits		1,408,536	1,408,332
Trade and other receivables	11	60,993,058	51,119,301
Consumable inventories		5,891,099	6,269,839
Prepayment and other current assets	12	575,201	1,067,376
Total current assets		86,690,190	85,524,709
Non-current assets			
Property, plant and equipment	13	86,925,572	83,821,115
Deferred tax assets	9	3,831,757	3,491,503
Total non-current assets		90,757,329	87,312,618
Total assets		177,447,519	172,837,327
LIABILITIES			
Current liabilities			
Trade and other payables	14	29,318,713	25,249,164
Provision for income tax	16	5,071,293	3,096,311
Provision for annual leave		592,554	537,247
Lease liability	15	-	415,576
Total current liabilities		34,982,560	29,298,298
Non-current liabilities			
Provision for long service leave		2,715,266	2,632,592
Deferred tax liabilities	9	337,506	696,383
Total non-current liabilities		3,052,772	3,328,975
Total liabilities		38,035,331	32,627,273
Net assets		**139,412,187**	**140,210,054**
OWNER'S EQUITY			
Issued capital	17(a)	2	2
Capital Grants	17(b)	73,933,392	72,061,127
Revaluation reserve	17(c)	32,900,000	32,900,000
Retained earnings		32,578,793	35,248,925
Total owner's equity		**139,412,187**	**140,210,054**

The above statement of financial position should be read in conjunction with the accompanying notes to the financial statements.

AUDITOR-GENERAL'S OFFICE

NCD WATER AND SEWERAGE LIMITED
(TRADING AS EDA RANU)

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2018

	Note	Issued capital K	Capital grant K	Revaluation reserve K	Retained earnings K	Total K
Balance as at 31 December 2016		2	70,410,369	32,900,000	33,344,107	136,654,478
Net comprehensive income		-	-	-	1,262,625	1,262,625
Movement during the year		-	1,650,758	-	1,145,097	2,795,855
Dividends declared		-	-	-	(500,000)	(500,000)
Balance as at 31 December 2017		**2**	**72,061,127**	**32,900,000**	**35,248,925**	**140,210,054**
Balance as at 31 December 2017		2	72,061,127	32,900,000	35,248,925	140,210,054
Adjustment on initial application of IFRS 9		-	-	-	-	-
Adjustment on initial application of IFRS 15		-	-	-	-	-
Adjusted balance as at 1 January 2018		**2**	**72,061,127**	**32,900,000**	**35,248,925**	**140,210,054**
Net comprehensive income		-	-	-	(2,670,132)	(2,670,132)
Movement during the year		-	1,872,265	-	-	1,872,265
Dividends declared		-	-	-	-	-
Balance as at 31 December 2018		**2**	**73,933,392**	**32,900,000**	**32,578,793**	**139,412,187**

The above statement of changes in equity should be read in conjunction with the accompanying notes to the financial statements.

AUDITOR-GENERAL'S OFFICE

NCD WATER AND SEWERAGE LIMITED
(TRADING AS EDA RANU)

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2018

	Note	2018 K	2017 K
Cash flow from operating activities			
Profit before tax		(1,394,281)	2,292,844
Non-cash items adjustments			
Depreciation	13	4,008,175	4,349,871
(Gains) loss on assets disposal		(45,342)	55,446
Provision for bad debts expense	11	999,996	999,996
Cash flows before working capital		3,568,548	7,698,157
(Increase) decrease in:			
Trade and other receivables		(10,873,751)	1,721,707
Consumables inventories		378,740	(444,352)
Prepayments and other current assets		492,175	(144,972)
Trade and other payables		4,069,344	2,826,642
Provision for annual leave		55,306	(149,484)
Provision for long service leave		82,674	42,376
Cash flow after working capital		(2,226,964)	11,550,074
Payment of income tax		-	-
Payment of dividends		-	(500,000)
Net cash flow from operating activities		(2,226,964)	11,050,074
Cash flow from investing activities			
Purchase of fixed assets	13	(7,171,340)	(9,088,441)
Proceed from sale of fixed assets		104,050	99,222
Net cash flow from investing activities		(7,067,290)	(8,989,219)
Cash flow from financing activities			
Capital grants received	17	1,872,265	1,650,759
Payment of finance lease liability	15	(415,576)	(935,086)
Net cash flow used from financing activities		1,456,689	715,673
Net increase (decrease) in cash on hand and in bank		(7,837,565)	2,776,528
Cash on hand and in banks as at			
01-Jan	10	25,659,861	22,883,333
31-Dec	10	**17,822,296**	**25,659,861**

Cash and cash equivalents at 31 December consist of:

	Note	2018 K	2017 K
Cash on hand and in banks	10	17,822,296	25,659,861
		17,822,296	**25,659,861**

The above statement of cash flows should be read in conjunction with the accompanying notes to the financial statements.

AUDITOR-GENERAL'S OFFICE ★

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018**

1. Corporate information

NCD Water and Sewerage Limited (t/a Eda Ranu) ("the Company") operated as a commercial entity under the *Companies Act 1997*, to provide water supply and the discharge of sewerage effluents in the National Capital District of PNG. The Company was incorporated in Papua New Guinea and its registered office was located at Corporate Head Office, Level 1, Twin Merlion Business Centre, Section 122, Allotment 10, Cobon Street, Geauta Drive, Gordons, Port Moresby, National Capital District, 131, Papua New Guinea

2. Summary of significant accounting policies

2.1 Basis of preparation and accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to both years presented, unless otherwise stated.

The financial statements were authorised for issue by the Company's Board of Directors on _________

Statement of compliance
The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the Accounting Standards Board of Papua New Guinea (ASB) and the requirements of the Papua New Guinea Companies Act 1997. The accounting policies have been consistently applied by the Company.

Basis of preparation of financial report other than as a going concern
The financial statements have not been prepared on a going concern basis because the National Capital District Water and Sewerage Act 1996, which governs the operations of the Company, was repealed on the 4th November 2020 through the National Water Supply and Sanitation (Amendment) Act 2020. In accordance with the National Water Supply and Sanitation (Amendment) Act 2020, Eda Ranu ceased to exist from the 4th November 2020 and its assets and liabilities were amalgamated with Water PNG Limited. In preparing the financial statements on an alternative basis, the Directors have continued to apply the requirements of the International Financial Reporting Standards ("IFRSs") taking into account that the Company will not continue as a going concern from the 4th November 2020.

No adjustments to asset or liability carrying values were considered necessary as a result of the change in presentation, and no provision has been made at 31 December 2018 in respect of wind up and merger costs to be incurred.

Basis of measurement
The financial statements have been prepared on a historical cost basis, unless otherwise stated.

Functional and presentation currency
The financial statements are prepared in the Papua New Guinea Currency, Kina (K), which is the Company's functional and presentation currency. All values are rounded off to the nearest Kina, unless otherwise indicated.

Use of judgments and estimates
The preparation of financial statements in compliance with IFRS requires the use of certain critical accounting estimates. It also requires the Company's management to exercise judgment in applying the Company's accounting policies.

The estimates and associated assumptions are based on historical experiences and other various factors that are believed to be reasonable under the circumstances including expectations of related future events, the results of which form the basis of making the judgments about carrying values of assets and

AUDITOR-GENERAL'S OFFICE

2. Summary of significant accounting policies (continued)

2.1 Basis of preparation and accounting policies (continued)

Use of judgements and estimates (continued)

liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates, assumptions and judgments are reviewed and evaluated on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Significant estimates and judgements are included in the following notes:

- Note 11 – Trade and other receivables – provision for impairment based on expected credit loss
- Note 13 – Property, plant and equipment – fair value of land and buildings

2.2 Changes in accounting policies and disclosures

The Company initially applied IFRS 15 (see 4a) and IFRS 9 (See 4b) from 1 January 2018. A number of other new interpretations and amendments are also effective 1 January 2018 but they do not have a material effect on the Company's financial statements.

a) IFRS 9 *Financial instruments*

IFRS 9 sets out requirements for recognising and measuring financial assets and financial liabilities. The standard replaces IAS 39 Financial Instruments: Recognition and Measurement.

As a result of the adoption of IFRS 9 Financial Instruments, the Company adopted consequential amendments to IAS 1 Presentation of Financial Statements, which require impairment of financial assets to be presented in a separate line item in the statement of profit or loss and OCI. Previously, the Company's approach was to include the impairment of trade receivables in expenses. Consequently, the Company reclassified impairment losses amounting to K0 recognised under IAS 39 from "expenses" to provision for impairment losses on trade receivables in the statement of comprehensive income for the year ended 31 December 2018.

Additionally, the Company adopted consequential amendments to IFRS 7 Financial Instruments: Disclosures that are applied to disclosures about 2018 but generally have not been applied to comparative.

The following table summarises the impact, net of tax, of transition to IFRS 9 on opening retained earnings at 1 January 2018.

Provision for impairment	K
Closing balance under IAS 39 (31 December 2017)	7,840,601
Initial recognition of expected credit losses under IFRS 9 in Retained Earnings	-
Related tax	-
Opening balance under IFRS 9 (1 January 2018)	7,840,601

2. Summary of significant accounting policies (continued)

2.2 Changes in accounting policies and disclosures (continued)

a) IFRS 9 *Financial Instruments* (Continued)

(i) Classification and measurement of financial assets and financial liabilities

Trade receivables are initially recognised when they are originated. All other financial assets and financial liabilities are initially recognised when the Company becomes a party to the contractual provisions of the instrument.

A financial asset (unless it is a trade receivable without a significant financing component) or financial liability is initially measured at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition or issue. A trade receivable without a significant financing component is initially measured at the transaction price.

IFRS 9 contains three principal classification categories for financial assets: measured at amortised cost, FVOCI (fair value through other comprehensive income) and FVTPL (fair value through profit or loss). The classification of financial assets under IFRS 9 is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. IFRS 9 eliminates the previous IAS 39 categories of held to maturity, loans and receivables and available for sale.

IFRS 9 largely retains the existing requirements in IAS 39 for the classification and measurement of financial liabilities.

The adoption of IFRS 9 has not had a significant effect on the Company's accounting policies for financial liabilities.

The following table and associating notes below explain the original measurement categories under IAS 39 and the new measurement categories under IFRS 9 for each class of the Company's financial assets and financial liabilities as at 1 January 2018.

	Original classification under IAS 39	New classification under IFRS 9	Original carrying amount	New carrying amount under IFRS 9
			PGK	PGK
Financial Assets				
Cash and cash equivalents	*Loans and receivables*	*Amortised cost*	25,659,861	25,659,861
Term deposits	*Loans and receivables*	*Amortised cost*	1,408,332	1,408,332
Trade and other receivables	*Loans and receivables*	*Amortised cost*	57,119,301	51,119,301
Financial liabilities				
Trade and other payables	*Loans and receivables*	*Amortised cost*	25,249,164	25,249,164

Trade and other receivables that were classified as loans and receivables under IAS 39 are now classified at amortised cost. No significant impact is noted in the allowance for impairment over these receivables at 1 January 2018 on transition to IFRS 9.

The effect of adopting IFRS 9 on the carrying amounts of financial assets at 1 January 2018 relates to solely the new impairment requirements.

2. Summary of significant accounting policies (continued)

2.2 Changes in accounting policies and disclosures (continued)

a. IFRS 9 *Financial instruments* (continued)

(i) Classification and measurement of financial assets and financial liabilities (continued)

Financial assets – policy applicable from 1 January 2018

On initial recognition, a financial asset is classified as measured at amortised cost, FVOCI or FVTPL.

Financial assets are not reclassified subsequent to their initial recognition unless the Company changes its business model for managing financial assets, in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All financial assets not classified as measured at amortised cost as described above are measured at FVTPL. On initial recognition, the Company may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

(ii) Transition

The Company has used the exemption not to restate prior period information with respect to classification and measurement (including impairment) requirements. The comparative information is therefore not comparable to the information presented for 2018. Additionally, the determination of the business model within which a financial asset is held is an assessment that has been made on the basis of the facts and circumstances that existed at the date of initial application.

(iii) Impairment of financial assets

IFRS 9 replaces the 'incurred loss' model in IAS 39 with an 'expected credit loss' (ECL) model. The new impairment model applies to financial assets measured at amortised cost, contract assets and debt investments at FVOCI, but not to investments in equity instruments.

The Company recognises loss allowances for ECLs on financial assets measured at amortised cost. The Company measures loss allowances at an amount equal to lifetime ECL, except cash and cash equivalents which are measured as 12 month ECL as credit risk (i.e. the risk of default occurring over the expected life of the financial instrument) has not increased significantly since initial recognition.

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flow due to the entity in accordance with the contract and the cash flows that the Company expects to receive).

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECL, the Company considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Company's historical experience and informed credit assessment and including forward-looking information. The Company assumes that the credit risk on a financial asset has increased significantly if it is more than 30 days past due.

AUDITOR-GENERAL'S OFFICE

2. Summary of significant accounting policies (continued)

2.2 Changes in accounting policies and disclosures (continued)

a. IFRS 9 *Financial instruments* (continued)

(iii) Impairment of financial assets (continued)

The Company considers a financial asset to be in default when:

- the borrower is unlikely to pay its credit obligations to the Company in full, without recourse by the Company to actions such as realising security (if any is held); or
- the financial asset is more than 90 days past due.

The gross carrying amount of a financial asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. This is generally the case when the Company determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Company's procedures for recovery of amounts due.

For assets in the scope of IFRS 9 impairment model, impairment losses are generally expected to increase and become more volatile. The Company has determined that the application of IFRS 9's impairment requirements at 1 January 2018 results in no significant impact to the financial statements.

	K
Provision for impairment at 31 December 2017 under IAS 39	7,840,601
Additional impairment recognised at 1 January 2018 on:	
Trade and other receivables	-
Provision for impairment at 1 January 2018 under IFRS 9	7,840,601

(iv) Derecognition

Financial assets

The Company derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Company neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

The Company enters into transactions whereby it transfers assets recognised in its statement of financial position, but retains either all or substantially all of the risks and rewards of the transferred assets. In these cases, the transferred assets are not derecognised.

Financial liabilities

The Company derecognises a financial liability when its contractual obligations are discharged or cancelled, or expire. The Company also derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different, in which case a new financial liability based on the modified terms is recognised at fair value.

On derecognition of a financial liability, the difference between the carrying amount extinguished and the consideration paid (including any non-cash assets transferred or liabilities assumed) is recognised in profit or loss.

2. Summary of significant accounting policies (continued)

2.2 Changes in accounting policies and disclosures (continued)

a. IFRS 9 *Financial instruments* (continued)

(v) Offsetting

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Company currently has a legally enforceable right to set off the amounts and it intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously

b) IFRS 15 *Revenue from Contracts with Customers*

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaced IAS 18 Revenue, IAS 11 Construction Contracts and related interpretations. Under IFRS 15, revenue is recognised when a customer obtains control of the goods or services. Determining the timing of the transfer of control – a point in time or over point in time – requirements judgement.

The Company has adopted IFRS 15 using the cumulative effective method with the effect of initially applying this standard recognised at the date of initial application (i.e. 1 January 2018). Accordingly, the information presented for 2018 has not been restated – i.e. it is presented, as previously reported, under IAS 18 and related interpretations. Additionally, the disclosure requirements of IFRS 15 have not generally been applied to comparative information.

The adoption of this standard did not have a significant or material quantitative impact as at 1 January 2018. Due to the simplified transition method chosen in applying IFRS 15, comparative information has not been restated to reflect the new requirements.

The Company generates revenue primarily from water and sewer rates. Other sources of revenue include fees and charges, and interest income.

Revenue is measured based on the consideration specified in a contract with a customer. The Company recognises revenue when it transfers control over a good or service to a customer.

The following table provides information about the nature and timing of the satisfaction of performance obligations in contracts with customers, including significant payment terms, and the related recognition policies.

Revenue Stream	Nature and timing of satisfaction of performance obligations, including significant payment terms	Revenue recognition under IFRS 15 from 1 January 2018	Revenue recognition under IAS 18 before 1 January 2018
Water rates and sewerage rates	Customers obtain control when: • water and sanitation services access is provided. • Invoices are billed on a monthly basis over time. • Invoices are usually payable within 30 days.	Revenue is recognised over time when: • water and sanitation services access is provided to customers. • when water is supplied to customers.	Revenue was recognised over time when: • water and sanitation access was provided to customers. • when water was supplied to customers.
Other revenue • Headwork & other charges • Property connection fees • Other income	Customers obtain control when the Company provides professional and other services to residential and commercial customers.	Revenue is recognised at a point in time upon delivery of the service.	Revenue was recognised at a point in time upon delivery of the service.

AUDITOR-GENERAL'S OFFICE

2. Summary of significant accounting policies (continued)

2.2 Changes in accounting policies and disclosures (continued)

b. IFRS 15 Revenue from Contracts with Customers (continued)

The Company measures financial instruments and non-financial assets at fair value at each reporting date. Also, fair values of financial instruments measured at amortized cost are disclosed in Note 4.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

When measuring the fair value of an asset or liability, the Company uses observable market data as far as possible. Fair values are categorised into different levels in fair value hierarchy based on the inputs used in the valuation technique as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

If the inputs used to measure the fair value of an asset or liability fall into different levels of the fair value hierarchy, then the fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

The Company recognises transfers between the levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

Further information about the assumptions made in measuring fair values is included in the following notes:

- Note 14 – property, plant and equipment

2.3 Expense recognition

Expenses are recognised in the statement of comprehensive income when decrease in future economic benefit related to a decrease in an asset or an increase in a liability has arisen that can be measured reliably. Expenses are recognised in the statements of comprehensive income: on the basis of a direct association between the costs incurred and the earning of specific items of income; on the basis of systematic and rational allocation procedures when economic benefits are expected to arise over several accounting periods and the association with income can only be broadly or indirectly determined; or immediately when an expenditure produces no future economic benefits or when, and to the extent that, future economic benefits do not qualify, or cease to qualify, for recognition in the statements of financial position as an asset.

Expenses in the statement of comprehensive income are presented using the nature of expense method.

2.4 Income taxes

i. Current income tax

The income tax expense or revenue for the period is tax payable on the current period's taxable income based on the applicable income tax rate adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

ii. Deferred income tax

Deferred tax is provided in full, using the liability method, on temporary difference arising between tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted

2. Summary of significant accounting policies (continued)

2.4 Income Taxes (continued)

ii. Deferred income tax (continued)

by the reporting date are expected to apply when the deferred income tax asset is realized or deferred income tax liability is settled.

Deferred tax relating to items recognised outside profit or loss is recognised outside profit or loss. Deferred tax items are recognised in correlation to the underlying transaction either in other comprehensive income or directly in equity.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred taxes relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend to either settle the liabilities simultaneously.

2.5 Goods and services tax (GST)

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the taxation authority. In this case it is recognised as part of the cost of acquisition of the asset or as part of the expense. GST is set at 10% and is added to the cost of goods and services purchased by a business and 10% is added to the goods and services sold.

2.6 Cash and cash equivalent

Cash includes cash on hand and in bank. Cash equivalent are short-term, highly liquid investments with original maturities of three months or less from the date of acquisition and are subject to an insignificant risk of change in value. Cash in banks earns interest at respective bank deposit rates. For the purpose of reporting cash flows, cash in hand and in banks are unrestricted and available for use in current operations.

2.7 Trade and other receivables

Trade and other receivables are amounts due from customers for services performed in the ordinary course of business. If collection is expected in one year or less (or within the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as noncurrent assets. Trade and other receivables are recognised initially at the transaction price and subsequently measured sat amortized cost using the EIR method, less provision for impairment.

2.8 Supplies Inventory

Supplies inventory are initially recognised at cost, and subsequently at the lower of cost and net realizable value (NRV). Cost comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. Cost is determined using the first-in, first-out method. NRV represents the estimated selling price less all estimated costs to be incurred in marketing, selling and distributing the goods.

2.9 Prepayment and other current assets

Prepayments represent expenses not yet incurred but already paid in cash. Prepayments are initially recorded as assets and measured at the amount of cash paid. Subsequently, these are charged to the statement of income as they are consumed in operations or expire with the passage of time.

2. Summary of significant accounting policies (continued)

2.10 Property, plant and equipment

Property, plant and equipment are initially measured at cost. At the end of each reporting period, items of property, plant, equipment, motor vehicle, are measured at cost and land and buildings are measured at fair value less any accumulated depreciation and impairment losses. The revaluation of the property is credited to the asset revaluation reserve. Cost includes expenditure that is directly attributable to the acquisition of the asset and the estimated present value of any future unavoidable costs of dismantling and removing items at the discount rate. The corresponding liability is recognised within provisions.

Depreciation is calculated on the diminishing value method on fixed assets so as to write off the cost of the assets over their effective working lives. Additions are depreciated from the month of acquisition. The principal annual rates in used are:

	Rate
Buildings	4 – 5%
Office equipment	15 – 25%
Plant and equipment	15%
Furniture and fittings	11.25%
Motor vehicles	30%

Land is not depreciated, Depreciation of these assets, on the same basis as other property assets, commences at the time the assets are ready for their intended use.

2.11 Impairment of non-financial assets

The carrying amounts of the Company's non-financial assets such as property, plant and equipment is reviewed at each reporting date to determine whether there is any indication of impairment or an impairment loss previously recognised no longer exists or may have decreased. If any such indication exists, the Company makes a formal estimate of the assets' recoverable amount.

An asset's recoverable amount is the higher of an asset's or its CGU's fair value less costs of disposal and its value in use. Recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate cash flows independent of those from other assets, the recoverable amount is determined for the CGU to which the asset belongs. In determining fair value less costs of disposal, recent market transactions are taken into account. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded companies or other available fair value indicators.

An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation, if no impairment loss had been recognised. Reversals of impairment are recognised in the statement of income.

AUDITOR-GENERAL'S OFFICE

2. Summary of significant accounting policies (continued)

2.12 Trade and other payables

Trade and other payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. They are classified as current liabilities if payment is due within one year or less (or within the normal operating cycle of the business if longer); otherwise, they are presented as noncurrent liabilities.

Accruals are liabilities to pay for goods or services that have been received or supplied but have not been paid, invoiced or formally agreed with supplier, including amounts due to employees. It is necessary to estimate the amount or timing of accruals, however, the uncertainty is generally much less than for provision.

Trade payables are recognised initially at fair value and subsequently measured at amortized cost using the EIR method.

2.13 Employee provisions

Employee provisions are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave, leave fares and other employee entitlement as a result of services rendered by employees up to the end of the financial year.

2.14 Dividends payable

Dividends are recognised when they become legally payable. Dividend distribution to equity shareholders is recognised as a liability in the Company's statement of financial position in the period in which the dividends are declared and approved by the Company's board of directors.

2.15 Lease liability

Lease assets classified as finance leases are capitalized as fixed assets. The amount initially brought to account is the present value of minimum lease payments. A finance lease is one which effectively transfers from the Lessor to the Lessee substantially all risks and benefits incident to ownership of the leased property. Capitalized leased assets are amortized on a diminishing value method over the estimated useful life of the asset.

Finance lease payments are allocated between interest payment and the reduction of lease liability over the term of the lease. The interest expense is determined by the applying the interest rate implicit in the lease payments period.

2.16 Government grants

Government grants are recognised where there is reasonable assurance that the grant will be received, and all attached conditions will be complied with. When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the related costs, for which it is intended to compensate, are expensed. When the grant relates to an asset, it is recognised in equity. The Company has adopted the capital approach to recognize the cost of completed project funded by Members of Parliament (MP) to the equity as Capital grants.

2.17 Provisions and contingencies

Provisions are recognised when: (a) the Company has a present obligation (legal or constructive) as a result of a past event; (b) it is probable that an outflow of resources embodying economic benefits will

AUDITOR-GENERAL'S OFFICE

2. Summary of significant accounting policies (continued)

2.17 Provisions and Contingencies (continued)

be required to settle the obligation; and (c) a reliable estimate can be made of the amount of the obligation. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as finance cost. When the Company expects a provision or loss to be reimbursed, the reimbursement is recognised as a separate asset only when the reimbursement is virtually certain and its amount is estimable. The expense relating to any provision is presented in the statement of income, net of any reimbursement.

Contingent liabilities are not recognised in the financial statements. They are disclosed in the notes unless the possibility of an outflow of resources embodying economic benefits is remote.

Contingent assets are not recognised in the financial statements but disclosed in the notes to financial statements when an inflow of economic benefits is probable.

2.18 Retained earnings

Retained earnings represents the cumulative balance of periodic net income or loss, dividend distribution, prior period adjustments, effect of changes in accounting policy and other capital adjustments. When retained earnings account has a debit balance, it is called "deficit", and presented as deduction from equity.

2.19 Related parties

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals or corporate entities. The key management personnel of the Company are also considered to be related parties.

2.20 Events after the financial reporting date

Post year-end events up to the date when the financial statements were authorized for issue by the Board of Directors (BOD) that provide additional information about the Company's position at financial reporting date (adjusting events) are reflected in the financial statements. Post year-end events that are not adjusting events are disclosed in the notes to the financial statements when material.

3 Standards issued but not yet effective

A number of new standards and amendments to standards are effective for annual periods beginning after 1 January 2018 and earlier application is permitted; however, the Company has not early adopted the following new or amended standards in preparing these financial statements.

IFRS 16 Leases
IFRS 16 replaces existing leases guidance including IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases — Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease.

The standard is effective for annual periods beginning on or after 1 January 2019. Early adoption is permitted for entities that apply IFRS 15 Revenue from Contracts with Customers at or before the date of initial application of IFRS 16. The Company is assessing the potential impact on its financial statements resulting from the application of IFRS 16.

4 Revenue

	2018	2017
	K	K
Water rates	90,740,400	90,783,658
Sewerage rate	23,256,436	21,014,055
Headwork and other charges	2,841,725	1,628,755
	116,838,561	113,426,468

Water and sewerage rates are recognised on an accrual basis based on water consumption and sewerage usage rates billed in the period to which they relate. The Company issues the rates account statements on a monthly basis Outstanding access rates are recorded as revenue while rates billed in advance are recognised as unearned revenue.

Headwork and other charges represent revenue from professional fees, property connection fees and other fees and charges is recognised upon the delivery of services to customers. Payment received prior to service delivery is unearned.

5 Other operating income

	2018	2017
	K	K
Interest income received	75,240	117,783
Other income	5,372,716	669,477
	5,447,956	787,260

6 Direct cost

	2018	2017
	K	K
Concessionaire fees	55,925,981	56,983,675
Minor works	618,448	628,303
Materials	2,706,263	1,412,051
Water reconnection and disconnection	672,534	639,627
Electricity and other pumps	1,181,503	461,914
Hire of Heavy Equipment	1,849,661	1,553,421
Repair and Maintenance (Water & Sewerage network)	1,417,206	1,708,169
Price Variance (2016)	410,523	296,116
Water usage charges	263,004	263,004
Off take agreement	196,662	323,999
	65,241,785	64,270,279

NCD WATER AND SEWERAGE LIMITED
(TRADING AS EDA RANU)

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018

7 Operating expense

	2018	2017
	K	K
Depreciation expense	4,008,175	4,350,051
Repairs and maintenance	1,887,949	2,851,663
Professional expense	1,552,211	799,119
Security cost	1,831,847	2,021,051
Rent expense	2,695,588	1,982,331
Travel and accommodation expense	1,018,296	2,440,846
Conference expense	68,065	153,656
Donation	739,884	445,830
Fuel and oil	729,464	486,482
Advertising	336,491	358,314
Entertainment	587,201	576,700
Directors fee and allowances	474,425	476,997
Telephone and internet expense	206,477	374,225
Insurance premium	339,152	303,524
Consumables	416,435	521,330
Surveying cost	187,727	160,367
Utilities	547,983	406,252
MIS cost	60,450	69,096
Printing and stationery and postages	288,328	239,814
Subscription	260,945	181,635
Bank charges	200,279	238,498
Communication expense	27,989	36,450
Custom cost	2,846	(997)
Software cost	98,970	58,370
Cleaning supplies	1,177	4,498
Gain on asset disposal	(45,342)	55,270
2018 APEC Cost	7,673,157	-
Miscellaneous	41,254	40,399
	26,237,423	19,631,771

AUDITOR-GENERAL'S OFFICE
ndh

8 Employee cost

	2018	2017
	K	K
Wages	9,440,753	7,886,418
Accommodation allowance	5,983,332	5,648,371
Salaries	4,774,759	4,015,909
Leave fares	1,121,433	825,564
Wages overtime	1,254,637	643,880
Staff rationalisation	976,868	917,444
Domestic market allowance	1,234,819	1,240,561
Education allowance	1,392,630	1,211,126
Gratuity	1,030,778	1,154,466
NASFUND	1,010,936	929,526
Motor vehicle allowance	1,239,391	1,193,276
Staff training cost	278,144	488,289
Medical Insurance	316,538	267,415
Staff clothing	44,653	(12,860)
Casual pay	49,508	13,910
Staff HOS Subsidy	485,125	173,113
Staff OHS	267,485	274,820
Risk shift allowance	137,878	93,220
Staff amenities	39,243	34,291
Other allowance	1,423	2,477
Recruitment and repatriation	104,511	17,622
	31,184,844	27,018,838

The number of employees at 31 December 2018 employed by the Company was 349 (2017: 310)

9 Income tax

The benefit from (provision for) income tax consists of the following:

	2018	2017
	K	K
Current income tax	438,811	716,824
Deferred income tax	(699,131)	313,395
Prior Year (Over)/Under Provision	1,536,171	-
	1,275,851	1,030,219

AUDITOR-GENERAL'S OFFICE

9 Income Tax (continued)

Reconciliation between the benefit from (provision for) income tax at the preferential income tax rate and the actual benefit from (provision for) income tax for the years ended 31 December follows:

	2018	2017
	K	K
Income before tax	(1,394,281)	2,292,844
Prima facie tax at 30%	(418,284)	687,853
Add/(less) permanent difference	194,036	322,669
Finance lease adjustment	(36,072)	19,697
Prior Year (Over)/Under Provision	1,536,171	-
	1,275,851	1,030,219

Component of deferred tax assets are as follow:

	2018	2017
	K	K
Provision and accruals	3,831,757	3,366,830
Finance lease	-	124,673
	3,831,757	3,491,503

Component of deferred tax liabilities are as follow:

	2018	2017
	K	K
Excess of Tax depreciation over accounting depreciation	312,284	673,090
Prepaid insurance	25,222	23,293
	337,506	696,383

10 Cash and Cash Equivalents

	2018	2017
	K	K
Cash on hand	5,300	5,000
Cash in bank	17,816,996	25,654,861
	17,822,296	25,659,861

AUDITOR-GENERAL'S OFFICE

11 Trade and other receivables

	2018	2017
	K	K
Trade receivables	58,030,779	47,113,428
Provision for impairment	(8,840,597)	(7,840,601)
Net trade receivables	49,190,182	39,272,827
Advances	3,402,830	3,585,199
Accrued income	7,903,238	6,884,352
Other receivables	496,808	1,376,923
	60,993,058	51,119,301

Trade receivables are non-interest bearing and are generally on a 30-day term. The Company provides allowance for receivables that are past due based on estimated unrecoverable amounts, as determined by the management.

Movements in the provision for impairment

	2018	2017
	K	K
Balance at the beginning of the year	(7,840,601)	(6,840,605)
IFRS 9 transition adjustment	-	-
Adjusted balance at the beginning of the year	(7,840,601)	(6,840,605)
Amounts written off during the year	-	-
Decrease/(Increase) in provision	(999,996)	(999,996)
Balance at the end of the year	(8,840,597)	(7,840,601)

Collectability of receivables is reviewed and assessed periodically for the impairment provision. All known bad debts are written off periodically and/or as at 30 June. Subsequent recoveries of amounts previously written off are credited against other expenses in the Statement of Comprehensive Income.

The provision for impairment of receivables was previously estimated based on an 'incurred loss' model under IAS 39 *Financial Instruments: Recognition and Measurement*. In applying IFRS 9 (refer to Note 2.1), the provision for impairment of receivables is now estimated based on the 'expected credit loss' (ECL) model.
The ECL is calculated using a provision matrix, which incorporates both historical and forward-looking information to determine the accounts' default rates by category.

The gross carrying amount of a financial asset is written off when the Company has no reasonable expectations of recovering a financial asset in its entirety or a portion thereof. The Company individually makes an assessment with respect to the timing and amount of write-off based on whether there is a reasonable expectation of recovery.

12 Prepayment and other current assets

	2018	2017
	K	K
Prepaid expense	256,462	513,665
Security bond deposits	318,739	408,739
	575,201	922,404

AUDITOR-GENERAL'S OFFICE
ndh

13 Property, plant and equipment

	Land and building	Office equipment	Plant and equipment	Furniture and fittings	Motor vehicles	Water and sewerage assets	Capital work in progress	Total
	K	K	K	K	K	K	K	K
2018								
Cost or fair value								
At 1 January	35,263,318	4,346,219	6,819,005	1,807,224	8,574,110	66,561,172	23,872,036	147,243,084
Additions	-	219,506	36,355	10,186	42,667	-	6,862,625	7,171,340
Disposals	-	-	-	-	(477,151)	-	-	(477,151)
Transfer from WIP	-	-	-	-	-	-	-	-
At 31 December	35,263,318	4,565,725	6,855,360	1,817,410	8,139,626	66,561,172	30,734,661	153,937,272
Accumulated depreciation								
At 1 January	1,043,711	2,677,431	4,886,732	1,143,293	6,732,882	46,937,918	-	63,421,967
Depreciation charges	378,560	357,297	375,120	86,125	552,369	2,258,705	-	4,008,176
Disposals	-	-	-	-	(418,443)	-	-	(418,443)
At 31 December	1,422,271	3,034,728	5,261,853	1,229,418	6,866,807	49,196,623	-	67,011,700
Net book value	**33,841,047**	**1,530,997**	**1,593,508**	**587,992**	**1,272,818**	**17,364,549**	**30,734,661**	**86,925,572**
2017								
Cost or fair value								
At 1 January	34,185,054	3,990,296	6,746,588	1,803,134	9,093,698	64,541,010	18,437,257	138,797,037
Additions	57,740	355,923	14,211	4,090	122,805	-	8,533,672	9,088,441
Disposals	-	-	-	-	(642,394)	-	-	(642,394)
Transfer from WIP	1,020,524	-	58,206	-	-	2,020,163	(3,098,893)	-
At 31 December	35,263,318	4,346,219	6,819,005	1,807,224	8,574,109	66,561,173	23,872,036	147,243,084
Accumulated depreciation								
At 1 January	901,935	2,293,681	4,412,176	1,043,798	6,455,097	44,453,133	-	59,559,820
Depreciation charges	141,777	383,750	474,557	99,495	765,507	2,484,785	-	4,349,871
Disposals	-	-	-	-	(487,722)	-	-	(487,722)
At 31 December	1,043,712	2,677,431	4,886,733	1,143,293	6,732,882	46,937,918	-	63,421,969
Net book value	**34,219,606**	**1,668,788**	**1,932,272**	**663,931**	**1,841,227**	**19,623,255**	**23,872,036**	**83,821,115**

AUDITOR-GENERAL'S OFFICE

13. Property, plant and equipment (continued)

The Company leases motor vehicles under a number of finance leases (Note15).

Land and buildings carried at fair value

The fair values of land and building carried at fair value were determined by external, independent property valuers, having appropriate recognised professional qualifications and recent experience in location and category being valued. The independent valuers provide the fair value of the Bank's properties on a triennial basis. The most recent valuation was done in 2013.

14 Trade and other payables

	2018 K	2017 K
Trade creditors	5,643,711	4,596,310
Accrued expense	8,282,867	5,457,109
GST payable	10,367,925	8,866,532
PAYG payables	5,316,723	5,018,775
Other payables	(292,513)	1,310,438
	29,318,713	25,249,164

15 Lease liability

	2018 K	2017 K
As at 1 January	415,576	1,350,662
Additional lease		
Payment of lease	(415,576)	(935,086)
	-	415,576
Current portion	-	415,576
Noncurrent portion		
	-	415,576

16 Provision for income tax

	2018 K	2017 K
As at 1 January	3,096,311	2,408,458
Provision during the year	1,974,982	687,853
	5,071,293	3,096,311

AUDITOR-GENERAL'S OFFICE ★

17 Owner's Equity

17(a) Share Capital

As at 31st December 2018 the authorised and issued capital was K2 (2017: K2). The capital is fully owned by Independent State of Papua New Guinea through Kumul Consolidated Holdings as its sole shareholder.

	2018	2017
	K	K
Issued Capital	2	2

17(b) Capital Contribution

Capital Contribution represent money given by the National Government and various MP to finance water and sewerage project in the National Capital District.

	2018	2017
	K	K
National Government -PSSUP	1,000,000	1,000,000
Moresby North West Water Supply	675,000	675,000
MP's Funded Project	9,892,714	9,231,800
National Government - Grant for PSSUP	1,058,250	1,058,250
Water and Sewerage assets from NCDC	58,595,803	58,595,803
Gerehu Stage 3B - Water Project	1,500,275	1,500,275
APEC Capital Fund	1,211,350	-
	73,933,392	**72,061,128**

Jan 1 2017	72,061,127	70,410,369
Dec 31 2017	73,933,392	72,061,128
Movement During the Year	**1,872,265**	**1,650,759**

17(c) Revaluation Reserve

	2018	2017
	K	K
Revaluation Reserve	32,900,000	32,900,00

18 Related party transaction

Related party relationships exist when one party has the ability to control, directly or indirectly through one or more intermediaries, the other party or exercise significant influence over the other party in making financial and operating decisions. Such relationships also exist between and/or among entities which are under common control with the reporting enterprise, or between and/or among the reporting enterprises and their key management personnel, directors or its shareholders.

AUDITOR-GENERAL'S OFFICE

18 Related party transaction (Continued)

No director beneficially owns shares in the Company. Fees and remuneration paid to the directors for holding of office are set out below.

i. Remuneration of Directors

List of Directors	2018	2017
William Sweet	72,230	-
Mary Karo	69,012	103,727
Leslie Hoffman	93,150	70,166
David Ericho	48,375	80,163
Peter Inara	-	5,125
Nelson Tangi	105,790	75,833
Peterson Pipi	35,775	57,667
Aiwa Olmi	36,450	-
Aka Toua	42,525	-
Sandis Tsaka	44,730	-
Frank Makanuey	53,662	48,833
	601,699	441,514

ii. Remuneration of employee

The following table shows the number of employees in different salary bands (excluding directors)

	No. of Employees	
Salary range	2018	2017
K50,000 – K99,999	78	63
K100,000 – K199,999	34	26
K200,000 – K399,999	14	15
K400,000 – K649,999	9	7
K650,000 – K800,000	0	1

iii. Kumul Consolidated Holdings Limited

The Company is wholly owned by the Independent State of Papua New Guinea through Kumul Consolidated Holdings Limited as its sole shareholder. Related parties include the Government of Papua New Guinea.

All related party transactions are conducted on normal commercial arms-length terms and conditions of trade.

19 Contractual obligation

The following agreements were signed on 23rd June 1997:

i. Concession Agreement

The Company signed a 22 - year concession agreement with PNG Water Ltd on 23rd June 1997. The agreement provides for:

- Development of certain infrastructure improvements to the Port Moresby water Supply;
- Provision of treated water by the Concessionaire to the Company;
- Obligation by the Company to purchase water from the Concessionaire

AUDITOR-GENERAL'S OFFICE

19 Contractual obligation (continued)

ii. Consumer Services Agreement

The Company has contracted with JC-KRTA Consulting Group (PNG) Ltd for the provision of billing and collection to related administration of Water and Sewerage charges. The Agreement commenced on 1st November 1996 and is for an initial term of 15 years which expired in October 2018.

iii. Fixed and Floating Charge

In conjunction with the signing of the concession agreement, the Company has executed a fixed a floating charge over treatment and distribution works, land, debts due to the Company and funds held in Escrow.

iv. Contingent Assets

The company has engaged a consulting firm to do revaluation of all assets which will be taken into the books when approved by Board of Directors.

20 Financial risk management

The Company is exposed to variety of financial risks (market risk, credit risk and liquidity risk), which result from its operating. These financial risks are covered mainly in its policies and guidelines. The objective of financial risk management is to contain, where appropriate, exposures in these financial risks to limit any negative impact on the Company's results and financial position. The policies for managing specific risks are summarized below:

a. Market risk

Market risk refers to the risk that changes in market prices, such as interest rates, foreign exchange rates and other market prices will affect the Company's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return.

The following table shows the classification, carrying values and fair values of the Company's financial assets and financial liabilities as at:

i. Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company is not exposed to interest rate risk as the cash advances made from its parent company to support the Company's capital requirements are non-interest bearing.

ii. *Foreign currency risk*

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Company's exposure to the risk of changes in foreign exchange rates relates primarily to the Company's cash in bank denominated in US Dollars.

b. Credit risk

Credit risk is the risk that a counter party will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Company is mainly exposed to credit risk from its operating activities (primarily trade receivables) and from its financing activities, including deposits with banks and foreign exchange transactions.

Customer credit risk is managed by managing and analyzing the credit risk for each new customer before standard payment and delivery terms and conditions are offered. Outstanding receivables are regularly monitored. The credit quality of the Company's financial assets that are neither past due nor impaired is considered to be good quality and expected to be collectible without incurring any credit losses.

AUDITOR-GENERAL'S OFFICE

20 Financial risk management (Continued)

b. Credit Risk (Continued)

The following table provides information regarding the maximum credit risk exposure of the Company arising from the principal financial assets as at 31 December 2018 and 2017:

	Neither past due nor impaired	Past due but not impaired	Impaired	Total
	K	K	K	K
2018				
Cash on hand and in banks	17,822,296	-	-	17,822,296
Interest bearing deposits	1,408,536	-	-	1,408,536
Trade receivables	-	49,190,182	8,840,597	58,030,779
	19,230,832	49,190,182	8,840,597	77,261,611
2017				
Cash on hand and in banks	25,659,861	-	-	25,659,861
Interest bearing deposits	1,408,332	-	-	1,408,332
Trade receivables	-	39,272,827	7,840,601	47,113,428
	27,068,193	39,272,827	7,840,601	74,181,621

c. Liquidity risk

This represents the risk or difficulty in raising funds to meet the Company's commitment associated with financial obligation and daily cash flow requirement. The Company is exposed to the possibility that adverse exchanges in the business environment and/or its operations would result to substantially higher working capital requirements and the subsequent difficulty in financing additional working capital.

The Company's approach to manage its liquidity profile are: (a) to ensure that adequate funding is available at all times; (b) to meet commitments as they arise without incurring unnecessary costs; and (c) to be able to access funding when needed. Also, the Company addresses liquidity concerns primarily through cash flows from operations and short-term borrowings, if necessary. The Company likewise regularly evaluates other financing instruments to broaden the Company's range of financing sources

The following table summarizes the maturity profile of the Company's financial liabilities as at 31 December 2018 and 2017, based on the contractual undiscounted payments:

	On demand	1-5 years	Over 5 years	Total
	K	K	K	K
Other financial liabilities				
2018				
Trade and other payables	29,318,713	-	-	29,318,713
Provision for annual leave	-	592,554	-	592,554
Provision for long service leave	-	-	2,715,266	2,715,266
	29,318,713	592,554	2,715,266	32,626,533
2017				
Trade and other payables	25,249,164	-	-	25,249,164
Provision for annual leave	-	537,248	-	537,248
Provision for long service leave	-	-	2,632,592	2,632,592
Finance lease liability	-	415,576	-	415,576
	25,249,164	952,824	2,632,592	28,834,580

AUDITOR-GENERAL'S OFFICE *

20 Financial risk management (Continued)

c. Liquidity Risk (Continued)

The following table shows the classification, carrying values and fair values of the Company's financial assets and financial liabilities as at:

	2018		2017	
	Carrying value	Fair value	Carrying value	Fair value
	K	K	K	K
Financial assets				
Loans and receivable				
Cash on hand and in banks	17,822,296	17,822,296	25,659,861	25,659,861
Interest bearing deposits	1,408,536	1,408,536	1,408,332	1,408,332
Trade and other receivables	58,030,779	58,030,779	47,113,428	47,113,428
	77,261,611	77,261,611	74,181,621	74,181,621
Financial liabilities				
Other financial liabilities				
Trade and other payables	29,318,713	29,318,713	25,249,164	25,249,164
Provision for annual leave	592,554	592,554	537,248	537,248
Provision for long service leave	2,715,266	2,715,266	2,632,592	2,632,592
Lease liability	-	-	415,576	415,576
	32,626,533	32,626,533	28,834,580	28,834,580

21 Events after the financial reporting date

Subsequent to year end, the National Parliament of Papua New Guinea repealed the governing National Capital District Water and Sewerage Act 1996 through the National Water Supply and Sanitation (Amendment) Act 2020. The Company ceases to exist from the 4th November 2020. As such, these financial statements have been prepared on a basis other than going concern. Refer to Note 2.1 for further details.

AUDITOR-GENERAL'S OFFICE