

REPUBLIC OF KENYA



Enhancing Accountability

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REPORT

OF

THE AUDITOR-GENERAL

ON

NYAHURURU WATER AND SANITATION
COMPANY LIMITED

FOR THE YEAR ENDED
30 JUNE, 2020



NYAHURURU WATER AND SANITATION
COMPANY LIMITED
P.O. BOX 952-20300 NYAHURURU



NYAHUWASCO ANNUAL REPORTS AND FINANCIAL STATEMENTS FOR THE YEAR 2019/2020



NYAHUWASCO
Safe, Accessible & Affordable water & Sanitation Services

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



SEPTEMBER 28, 2020



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KEY ENTITY INFORMATION AND MANAGEMENT

1.1 BACKGROUND INFORMATION

Nyahururu Water and Sanitation Company Ltd (Nyahuwasco) was incorporated on 18th February 2002 under the Companies Act Cap 486 of the Laws of Kenya. The Company is governed through the Board of Directors and is wholly owned by the County Government of Laikipia.

1.2 PRINCIPAL ACTIVITY.

The principal activity of Nyahuwasco is to provide Water and Sanitation Services to residents of Nyahururu (Town and Environs), Igwamiti, Marmanet, Rumuruti, Salama and Kinamba in compliance with the Service Provision Agreement (SPA).

1.3 REGISTERED OFFICES

- Nyahururu Office (Main); Hekima Building- Kenyatta Avenue
- Marmanet Office (Subsidiary); Ol-jabet Chief's Camp Compound
- Rumuruti Office (Subsidiary); Behind County Headquarters Building.
- Igwamiti Office (Subsidiary); Karuga Center.

1.4 CORPORATE CONTACTS

Telephone: 065-2032774

Email: info@nyahuwasco.co.ke

Website: www.nyahuwasco.co.ke

P.O. Box 952-20300; Nyahururu.

1.5 CORPORATE BANKERS

- Cooperative Bank of Kenya Ltd (Nyahururu Branch)
- Equity Bank Ltd (Nyahururu Branch)
- Family Bank Ltd (Nyahururu Branch)
- Post Bank Kenya Ltd (Nyahururu Branch)

1.6 INDEPENDENT AUDITORS

Office of the Auditor General

Anniversary Towers, University Way

P.O. Box 30084-GPO 00100; Nairobi.

1.7 CORPORATE SECRETARY

Richard Gikuhi Kiana (**Member ICPSK**)

P.O. Box 1271-10100; Nyeri.

1.8 PRINCIPAL LEGAL ADVISOR

The Attorney General,

State Law Office, Harambee Avenue

P.O. Box 40112- City Square 00200; Nairobi.

1.9 BOARD OF DIRECTORS

#	DIRECTOR'S NAME	DATE OF APPOINTMENT	QUALIFICATIONS / EXPERIENCE	REPRESENTS
1.	John Muthee Gathima (Chairman)	Oct. 2017	Retired High School Principal	Business Community
2.	Wilfred Kimotho	Aug. 2016	Higher Diploma Theology	Business Community
3.	Rev. Elijah N. Kirika	Nov.2018	BSC Theology	Resident Organizations
4.	Eunice W. Kamau	Nov. 2018	BSC Finance	Resident Organizations
5.	Dr. James N. Kung'u	Nov. 2018	PHD Business Admin- Finance	Professional Organizations
6.	Margaret Njeri Kanja	Nov. 2018	Dip. Community Development	Women Organizations
7.	Eng. Dorcas C. Korir	Nov. 2018	MSC Engineering	Youth and PLWD
8.	Doris Kamawera	Oct. 2017	BSC Community Development	Rural Schemes
9.	Njeri Wamithi	Oct. 2017	BSC Law	County Government
10	Alexander Muchemi	Dec. 2018	BSC Law	County Government

1.10 CORPORATE MANAGEMENT TEAM

	NAME	POSITION
1.	Peter K. Mwangi	Ag M.D.
2.	David M. Karuri	Ag F.A.M
3.	Joseph M. Gitau	Ag T.S.M
4.	Catherine M. Kariuki	Ag H.R.O.

CHAIRMAN'S STATEMENT

On behalf of the NYAHUWASCO Board of Directors, it is with great honor that I present to you an overview of the annual report and financial statements of the Company for the year ended 30th June 2020.

Operating Environment:

During the period under review, the Kenyan economy recorded minimal growth up to February 2020 when the Covid 19 pandemic struck and destabilized the economy. Electricity, chemicals, other operating costs remained relatively stable partly due to fiscal measures (tax reliefs) instituted by the National Government.

Business Development:

The Company grew its revenue base during the year by connecting new customers, promptly attending to leaks and bursts and regularizing discovered illegal connections. The company through its development partners; Water Sector Trust fund (WSTF) and the County Government of Laikipia implemented water and sanitation projects aimed at increasing coverage and promotion of hygiene.

Corporate Social Responsibility:

The Company at corporate level ensured that all its activities were carried out ethically, sustainably and for public benefit. The company, through its CSR policy participated in various initiatives aimed at giving back to the local community.

Staff Welfare:

The Company being one of the major employers within the County ensured that its employees were; fully supported in their work, fairly rewarded, and maintained a good work-life balance. Employees participated in WASCO games held at Embu and had an opportunity to interact with staff from other companies. During this period of Covid 19 pandemic, some of the employees were working from home and all the employees have been provided with face masks and sanitizers

Customer Focus:

NYAHUWASCO recognizes that our customers form the key pillar of the Company's existence. Customer satisfaction surveys are conducted periodically to ascertain whether programs and activities meet customer needs and issues raised are addressed promptly. The company ensures quality standards are maintained through regular quality tests while also outsourcing services from ISO certified Labs.

Future Outlook:

The Company continues to implement its business and strategic plans whose objective is to ensure that the company provides high quality services. It continues to enjoy confidence with its development partners, customers and the County Government due to its good corporate image. Therefore, NYAHUWASCO's immediate and long-term future looks bright.

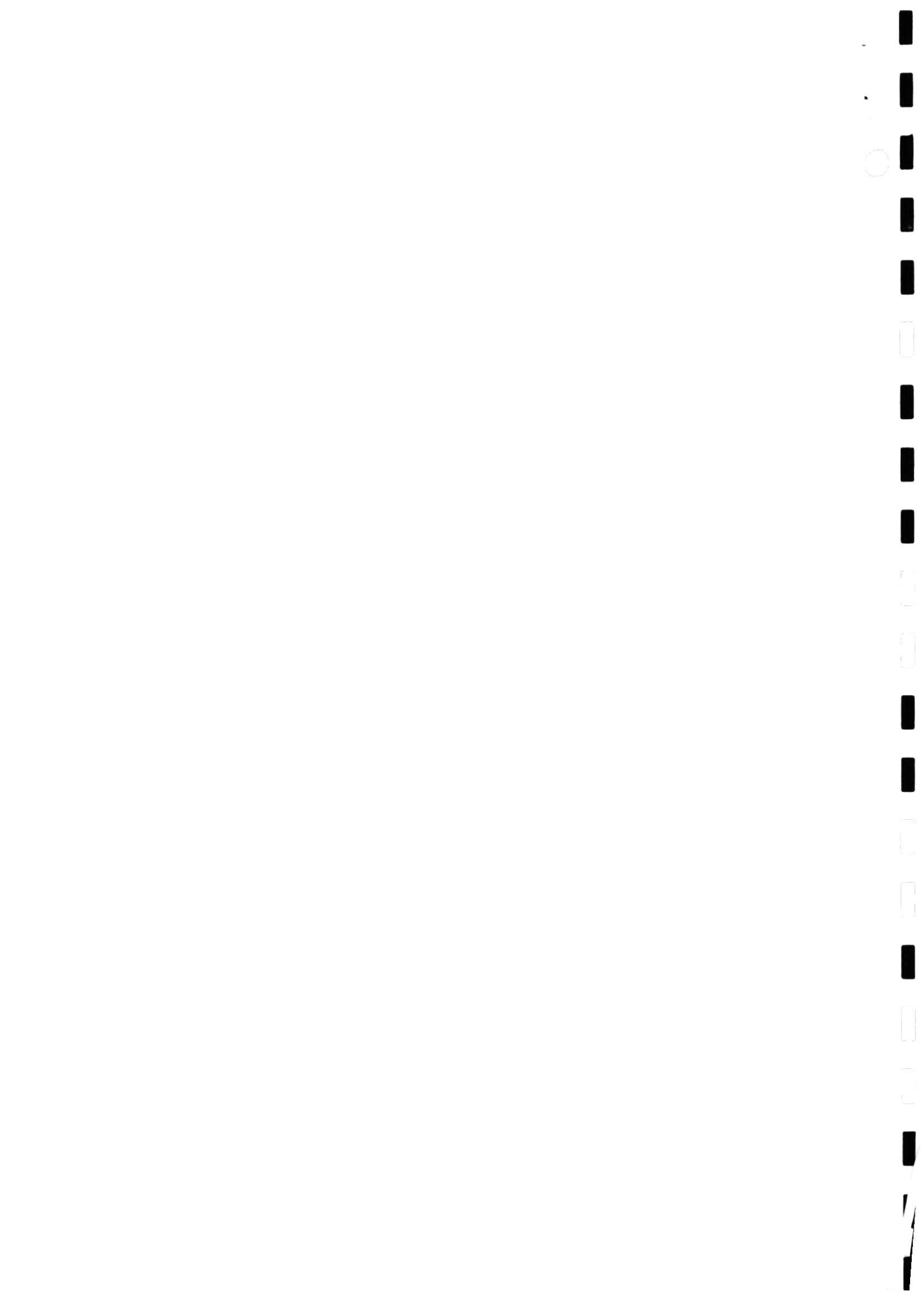
Appreciation:

I most sincerely wish to appreciate all our stakeholders; the County Government of Laikipia (CGL)/ Development partners for your solid commitment and support during the year, our esteemed customers, for your loyalty and support and finally to the Board of Directors, Management for hard work and dedicated effort to make 2019/2020 financial year a success.

We look forward to continued cooperation from all the stakeholders in the coming years.



JOHN G. MUTHEE
CHAIRMAN, NYAHUWASCO BOARD OF DIRECTORS



REPORT OF THE MANAGING DIRECTOR

I am pleased to present the company's financial performance for the period July 2019 to June 2020.

During the period the company performed fairly well despite challenges occasioned partly by the Covid 19 pandemic.

The company continues living its purpose of providing high quality water and sanitation services to all its customers in an efficient and cost- effective manner.

Financial Overview

The company recorded an improved performance during the period 2019-2020 by posting a pre-tax deficit of **Kshs (5.6M)** compared to a pre-tax deficit of **Kshs (24.0M)** previously realized. Total turnover generated during the year 2019-2020 of **Kshs 235,640,251** is a **6%** increase compared to **Kshs 223,043,843** posted in 2018/2019. This increase, despite the adverse effect of Covid 19, is attributed to implementation of the new full cost recovery tariff and improved efficiency in operations.

The total operating expenses decreased by **(3%)** from **Ksh.247,775,672**, in 2018/2019 to **Ksh.241,319,320** in 2019/2020. The decrease is attributed to prudent utilization of resources as well as austerity measures instituted in all operational areas to protect the company from effects of COVID 19 pandemic.

Future Outlook

The company continues to implement its business and strategic plans to ensure an improved performance especially in generation of revenue.

The company is in the process of increasing its revenue base by extending areas of services provision to Kinamba, Salama and operationalizing Chui water project and Muthengera borehole water project that have recently been handed over to the Company by the County Government of Laikipia.

In addition, many projects have been lined up in the coming financial year, all geared towards expansion of coverage and improved efficiency.

For this reason, coupled with prudent management of resources, the company foresees an improved performance and a bright future ahead.

Thank you.

PETER K. MWANGI
MANAGING DIRECTOR

STATEMENT OF MANAGEMENT RESPONSIBILITY

The management of Nyahururu Water and Sanitation Company Ltd is responsible for the preparation and approval of consolidated financial statements that present fairly in all material aspects;

- Statement of Financial Position of the Company
- Consolidated Statement of Comprehensive Income,
- Statement of Cash Flows
- Statement of Changes in Equity.

The financial statements were prepared in accordance with the International Financial Reporting Standards (IFRS), the State Corporations Act, the PFM Act 2012 and other relevant Legislation.

In preparing the consolidated financial statements, management is responsible for:

- Selecting suitable accounting principles and applying them consistently;
- Making judgements and estimates that are reasonable and prudent;
- Stating whether IFRS have been followed, subject to any material departures disclosed and explained in the consolidated financial statements; and
- Preparing the consolidated financial statements on a going concern basis, unless it is inappropriate to presume that the Company will continue in business for the foreseeable future.

Management, within its competencies, is also responsible for:

- ❖ Designing, implementing and maintaining an effective system of internal controls throughout the Company;
- ❖ Maintaining proper books of accounts and other records
- ❖ Taking steps to safeguard the assets of the Company; and
- ❖ Detecting and preventing fraud and other irregularities.

REVIEW OF COMPANY’S PERFORMANCE FOR F/Y 2019/2020

In conformity with Section 81 Subsection 2 (f) of the Public Finance Management Act, 2012 the following is the statement of the Company’s performance against the Predetermined objectives.

Nyahururu Water and Sanitation Company Limited has 5 strategic pillars and objectives within its Strategic Plan for the period 2019-2024.

These Strategic Pillars are as follows:

Pillar I: Access to Clean/Safe Portable Water

Pillar II: Sanitation

Pillar III: Institution Capacity

Pillar IV: Financial Sustainability

Pillar V: Corporate Governance

The Company develops its annual work plans based on the above pillars and assessment of the Board’s performance against its annual work plan is done on a quarterly basis.

The Company achieved its performance targets set for the financial year 2019/2020 on its 5 strategic pillars as indicated in the diagram below:

Strategic Pillar	Objectives	Key Performance Indicators	Activities	Achievements
Access to clean/safe portable water	<ul style="list-style-type: none"> Increase access to safe water. Rehabilitate the distrib. network. Safeguard quality of raw water. 	<ul style="list-style-type: none"> Increase in no. of customers. Reduction in physical losses. Reduction in chemical costs. 	<ul style="list-style-type: none"> ❖ Line extensions and 1 Borehole drilling ❖ Rehabilitate at least 6 km. ❖ Plant trees & fence abstraction points 	<ul style="list-style-type: none"> ✓ Muthengera borehole drilled. ✓ Extension at Chui Area completed. ✓ Raw water source at Rumuruti done.
Sanitation	Increase sewer coverage by 2% and onsite sanitation coverage by 4%	<ul style="list-style-type: none"> Increase in no of sewer connections. Increase in no of toilet blocks 	<ul style="list-style-type: none"> ❖ Sewer line extension. ❖ Rumuruti UBSUP project for toilet blocks upgrading 	<ul style="list-style-type: none"> ✓ Slaughter house line extension 400 M done ✓ Upgrading ongoing. ✓ Synthetic manhole covers installed.
Institution capacity	Strengthen institutional capacity.	<ul style="list-style-type: none"> Job placement criteria Digitized HR Compliance with OSHA regulations. 	<ul style="list-style-type: none"> ❖ Conduct HR audit ❖ Staff training & refresher courses ❖ Digital performance monitoring 	<ul style="list-style-type: none"> ✓ HR audit conducted. ✓ Inhouse training done ✓ HR automation at 80% ✓ OSHA compliance ongoing.
Financial sustainability	Strengthen Financial capability of the company.	<ul style="list-style-type: none"> New Tariff. Increase in revenue. Digital payment platforms. 	<ul style="list-style-type: none"> ❖ Approval of a 5 yrs. cost recovery tariff. ❖ Digitize billing and revenue collection. 	<ul style="list-style-type: none"> ✓ Tariff approved and gazetted. ✓ M-Pesa & other digital platforms in use.
Corporate Governance	Improve corporate governance.	<ul style="list-style-type: none"> Board charter Bod evaluation framework. 	<ul style="list-style-type: none"> ❖ Develop a charter. ❖ Develop evaluation criteria & template. 	<ul style="list-style-type: none"> ✓ Charter not achieved ✓ Criteria not completed ✓ Policy formulation in

• Corruption prevention plan.

❖ Approve anti-corruption policy.

progress.

CORPORATE GOVERNANCE STATEMENT

The Company is fully owned by the County Government of Laikipia and is registered with 5,000 shares of Kshs 20 each. According to the Company Memorandum and Articles of Association the shares are held in trust and they are as follows:

Shareholding	Number of Shares held:
• The County Government of Laikipia (CGL)	4,996
• His Excellency the Governor, CGL	1
• The CEC, Finance and Economic Planning, CGL	1
• The CEC, Environment, Water and Natural Resources, CGL	1
• The County Secretary, CGL	1
TOTAL	5,000

NYAHUWASCO is governed by a Board of Directors that oversees the overall management of the Company. It is tasked with ensuring that company business and operations are conducted with integrity, professionalism, and in compliance with the law, internationally accepted principles and best practices in corporate governance.

These include compliance with Corporate Governance Guidelines issued by WASREB as well as Mwongozo Guidelines.

The Board of Directors are responsible for the following:

- a) Making policies and approving strategies and development plans;
- b) Implementation of Memorandum and Articles of Association
- c) Approval of business plans, budgets and tariff adjustment.
- d) Approval of major projects and ensuring prudent investment of funds
- e) Appointment of CMT and provision of management guidelines
- f) Fiduciary duty of monitoring and overseeing the activities of management.

Board Composition:

NYAHUWASCO Board of Directors is composed of 10 Non-Executive Directors and one (1) Executive director (Managing Director). The Directors represent various stake holders and have varying skills and experiences.

On appointment, each Director is provided with a comprehensive and tailored induction process detailing their legal and regulatory obligations.

Board Meetings: The Board has a regulated formal schedule of meetings to conduct its business. The Board meets 5 times in one financial year.

Board Committees: The Board has constituted 3 sub-committees chaired by one director in each, namely; Finance and Administration, Technical, Audit, Risk and Governance. Each committee meets 4 times in one financial year. The Board may occasionally appoint Adhoc committees as and when necessary.

MANAGEMENT DISCUSSION AND ANALYSIS

The following is a management discussion and analysis of the company's overall performance. This analysis is based on a critical evaluation of the achievement of the following indicators:

a) Operational Performance:

During the period under review, the company managed to provide water and sanitation services equitably in all its areas of jurisdiction as provided for in the service provision license by WASREB. The Company ensured that the treated water supplied to the consumers and the sewer effluent discharged into the environment met all the necessary quality characteristics as guided by NEMA and KEBS guidelines.

b) Financial Performance:

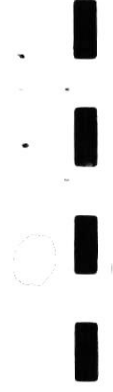
Nyahuwasco performed better during the period under review compared to the previous period in most of the key financial performance indicators. The following is a tabular presentation of the highlights:

Performance Indicator	2019-2020	2018-2019	Benchmark	Trend
New Water Connections	1,596	2,274		↓
New Sewer Connections	20	36		↓
Metering Ratio	98%	98%	100%	—
Billing (Kshs)	235,640,251	223,043,843		↑
Revenue Collection	229,039,422	230,238,087		↓
R. Collection Efficiency	97%	100%	100%	↓
Production(M ³)	3,206,262	3,254,878		
Billing (M ³)	1,976,276	2,065,110		
NRW (M ³)	1,229,986	1,189,768		
Non-Revenue Water (%)	38%	37%	≤ 2%	↑
Annual Income (Turnover)	235,640,251	223,043,843		
O&M Costs	241,319,320	247,142,680		
O+M Cost Coverage	98%	90%	≥ 150	↑
Personnel Expenditure	119,232,657	113,207,423		
Personnel Expenditure as a % of O+M Cost.	49.4%	46%	≤ 30%	↑

c) Key Projects/ Investment Decisions:

The Company managed to achieve the following during the year:

- ❖ Extended sewer network by 400 m in Nyahururu town
- ❖ Procured and installed one Intake water pump worth Ksh 500,000.



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- ❖ Extended water pipelines in Muthengera and Thiru areas by 3 km.
- ❖ Facilitated the construction of 85 toilet blocks in Rumuruti town under Upscaling Basic Sanitation for the Urban Poor (UBSUP) Project funded by Water Sector Trust Fund.

The Company was however not able to achieve some of its targeted projects due to the revenue strain occasioned by the negative impact of COVID 19. These projects Among the ear marked projects that have been carried forward to the next financial year include the following:

- Extend water pipelines by 17km in various schemes
- Extend sewer pipe network by 800m in Nyahururu town
- Procure one more water pump for the intake
- Fence off the Rumuruti water treatment plant compound

d) Compliance with Statutory/Other Financial Obligations:

The Company is cognizant of its statutory and other financial obligations. This is well reflected in the annual company budgets and other finance planning tools such as the cashflow projections. The Company commits to ensure that there is total compliance with these obligations as and when they fall due.

During the period under review, the Company was able to meet 95% of its statutory and financial obligations. Settlement plans have been put in place to clear these pending obligations.

e) Major Risks facing the Company: The Company faces a number of risks arising from: Its operations, the general economy, global factors among other contributors. Some of the critical risks facing the Company include:

- ✘ Deteriorating raw water quality at the source causing high usage of water treatment chemicals and thereby overstretching the Company's budget;
Vandalism of sewerage infrastructure causing open deep sewerage manholes and providing avenue for entry of foreign materials that clog the sewer network.
- ✘ Damage of pipelines by road, electricity and fiber optic contractors causing massive water and business losses to the Company.
- ✘ Some major raw water pipelines passing through areas prone to landslides
- ✘ Irregular revenue patterns due to low spending power of customers caused by macro-economic factors such as inflation
- ✘ Uncertainties caused by global pandemics such as COVID 19 and other global events such as economic recessions.

CORPORATE SOCIAL RESPONSIBILITY STATEMENT/ SUSTAINABILITY REPORT

Nyahururu Water & Sanitation company exists with the sole purpose of transforming lives. The company is cognizant of its responsibilities to all stakeholders i.e. customers, suppliers, employees and the community in terms of providing clean and safe portable water and improving operational efficiency.

Below is a brief highlight of the strategies pursued towards this end:

1. **Sustainability Strategy:** The company is built on a self-sustaining model as envisioned by the Water Act 2002 (*now repealed*) that sought to ringfence all revenues generated by water service providers. It is therefore imperative that all activities and operations to be geared towards ensuring the continued existence of the company as a going concern and to operate sustainably.

Sustainability is therefore one of the central tenets of who we are. In order to promote long term profitability, NYAHUWASCO aims to be a leader in sustainable business, aligning key business decisions with our sustainability strategy.

This strategy has five areas of focus: Stakeholders, Surrounding Communities, Environment, Customers and Governance.

In view of this strategy, all investment projects, development plans (Strategic and Business) and other guiding tools (Annual Budgets and Workplans) can only be implemented upon consensus and resounding approval by the various Key Stakeholders namely:

- The County Government of Laikipia
- The Board of Directors
- The Regulator (WASREB)
- The National Treasury where appropriate.

This approval ensures that the political climate is favorable at all times for the continued execution of the company's mandate. Through this, we hope to foster cohesion, good will and encouragement thus, promoting the benefits of a collective approach to achieving a sustainable future.

The Company is not exempted from the socio-economic and political issues impacting on sustainable supply of water and sanitation services. Particular attention is paid to the actual and potential role of economic instruments.

The Company is confronted with the problem of rapidly increasing water demand and the fact that the "easy" solution of increasing water supply has largely elapsed.

The Company is therefore concerned with water shortages that may hamper people's basic needs and industrial use in the future.

Other sustainable concerns relate to the Environment (pollution), Social factors (equity and affordability) and Economic considerations (cost recovery and efficiency). Trends in pricing, relationship with production costs and the resource value contribute towards a sustainable equilibrium. There is therefore a substantial scope to improve the performance of economic instruments such as price subsidies of inputs and tax reliefs.



In conclusion, to address the supply and demand gap there is need for greater emphasis on re-use of waste water and providing more incentives to large-scale consumers to increase water use efficiency and sustainability.

2. **Environmental Performance:** The company recognizes environmental sustainability as a great challenge of the 21st century and commits to ensuring that all of its major strategies and operations consider environmental and ecological aspects and impacts. In this regard, the company ensures that it complies with the following regulations:
 - a) Water Quality Regulations 2006 (NEMA)
 - b) Water Safety Planning Guidelines 2019 (WASREB)
 - c) Guidelines for provision of water and sanitation services in rural and underserved areas 2019 (WASREB)
 - d) Guidelines on Water Vending 2019 (WASREB)

Further on the company is always on the frontline of environment conservation and preservation. This it does through:

- ✧ **Environment Conservation Programs.** These are environment protection and conservation activities aimed at reducing pollution of water sources and abstraction points such as; Tree planting, Construction of gabions to prevent soil erosion, dead and live fencing of water abstraction points.
- ✧ **Waste Management Policy:** The company also ensures that effluent discharge to the environment meets the required standards by conducting regular tests (planned and random) through its laboratory as well as outsourcing testing services from other KEBS (ISO) certified laboratories.

Challenges: The main challenges encountered include:

- Fluctuating raw water quality due to weather changes
- Old pipe infrastructure causing spillage of water that affect the environment
- Vandalism of manhole covers resulting in entry of foreign materials that cause blockages in the sewer line resulting in spillage of raw sewage
- Lack of proper storm water drainage system in town that cause storm water to enter the sewerage system thereby overstressing its capacity

Way Forward: In light of the above challenges the company does the following:

- a) Replacing the vandalized sewer manhole covers with plastic covers that are less susceptible to vandalism
- b) Proper maintenance of sewerage systems to ensure they function optimally
- c) Ensuring preventive maintenance of infrastructure to minimize cases of large bursts that cause damage to the environment by eroding huge chunks of soil.
- d) Prompt repair of burst pipes to minimize damage to the environment

3. Employee Welfare:

The Company is committed to being a good employer, and is guided by Labor Laws, Regulations and Circulars issued from time to time. Staff recruitment is guided by the company's Human Resource Policy.

The company has always adhered to recruitment procedures as stipulated in the company's HR policy. The Company has also complied with the 1/3rd gender rule though competitive recruitment where there is always a rider "Special Interest Groups are encouraged to apply".

As an employer the Company ensures that all the employees are fully supported in their work, have a decent working environment, are fairly rewarded, and maintain a good work-life balance.

The Company recognizes staff trade unions that represent and protect their interests. The Company currently offers competitive terms and conditions of service to its employees.

The Company has in place a medical cover and allows interested employees to contribute to registered retirement benefit schemes.

Efforts have been put in place to ensure continuous improvement of employee skills and competences through structured inhouse and external training and development programs. This is well complemented with a performance monitoring and appraisal system where employee performance is evaluated bi-annually and records maintained in individual personal files. The Company is in the process of developing a reward policy.

The Company has complied with the requirements of Occupational Safety and Health Act of 2007 (OSHA) by marking entry, exit and fire assembly points, displaying emergencies toll free numbers on the face of the company, Installation of fire-fighting equipment in all the company installations, conducting refresher courses on occupational health and safety to employees. During the period under review the management team was trained on OSHA requirements.

4. Market place practices:

Nyahururu Water and Sanitation Company recognizes and commits to promoting fair trade practices in all its business activities. The Company makes efforts to ensure:

❖ **Responsible Competition Practice;** The company has continuously updated prequalification list of suppliers and ensured that the prices quoted on quotations are within the existing market range.

It has also endeavoured to distribute the quotations fairly and equally to the parties taking in to consideration the 30% threshold set aside by the government of Kenya for special groups.

The company while discharging its mandate have ensured that there is openness, accountability and transparency of the public procurement cycle, so as to achieve effectiveness in public procurement procedures leading to minimisation of corrupt practices.

The company have not been influenced by political involvement due to its adherence to strict procurement regulations and procedures.

The company has at all times encouraged competitive bidding, ensured sourcing and procurement of quality goods and services.

Fair competition has been realised through compliance to Public Procurement and Asset Disposal Act 2015 (PPAD). The company have ensured use of best procurement methods and compliance to orders pertaining to the act. Suppliers have always been given equal opportunities without any discrimination.

❖ **Responsible Supply Chain and Supplier Relations:** The Company maintains good communication with its suppliers at all times. Negotiations are amicable and agreements/contracts are honoured. The Company maintains a creditor's ledger that assists in devising credit settlement plans. The Company has continuously strived to allocate adequate resources through budgeting and preparation of procurement plans which guide the organisation on its expenditure lines.

- ❖ **Responsible Marketing and Advertisement:** The Company is committed to maintaining good ethical marketing practises, such as always ensuring that all tender advertisements are communicated through the National Circulation Newspaper (s) and placed in the company’s website.
- ❖ **Product Stewardship:** Products marketing has been done on the company’s social media Platforms (*Facebook page, Twitter, Website*) and awareness has been created through public barazas, print and Audio media announcements targeting as guided by the intended groups, urgency of information being shared. The company has strived to acquire quality products, delivered timely and ensuring the company gets value for money at all times.

5. Community Support Programs: These are activities aimed at giving back to the community either routinely or during exceptional occurrences requiring urgent intervention measures. Such activities include either financial or other in-kind support for the following:

- ❖ Homes for the destitute, Elderly and Orphans
- ❖ Special schools and other institutions
- ❖ Donations to National disasters, Relief and Emergencies e.g. COVID 19
- ❖ Pro-Poor areas and informal settlements
- ❖ HIV/AIDS and other Terminal illnesses sensitization programs
- ❖ Special interest groups empowerment programs.

During the year ended 30 June 2020, the Company spent a sum of Kshs 110,110 on corporate social responsibility activities such as;

- Donation to Laikipia County COVID 19 Support Account
- Tree planting exercise on the catchment area
- Support of sponsored cancer screening (St Benedict Mission Hospital)
- Donation to St Martin CSA (home for the destitute)
- Provision of water (Bowser Services) to LIA namely: Maina Slums, Kang’a, African Location at Rumuruti and Remote Health centers e.g. Ndidika.
- Provision of Soap, detergents, masks and sanitizers to the community during the COVID 19 pandemic.
- Setting up fifteen (15) strategic handwashing points at Nyahururu Town, Rumuruti, Marmanet and Igwamiti complete with; Storage tanks (1500 Litres), hand washing amenities and water refilled on a daily basis.

REPORT OF THE DIRECTORS

The Board of Directors submit their Annual Report together with the Financial Statements for the year ended 30th June, 2020 which show the state of affairs and financial position of Nyahururu Water and Sanitation Company.

PRINCIPAL ACTIVITY:

The principal activity of the Company continues to be providing water and sanitation services within its area of jurisdiction.

RESULTS

The results of the Company for the year ended 30th June, 2020 are set out on page (18-21). The **Net Deficit** of Kshs 6.9M realized during the year has been added to retained earnings.

DIVIDENDS:

The directors do not recommend payment of any dividend.

DIRECTORS:

The members of the Board of Directors who served during the year and to the date of this report are shown on page 3. In accordance with the company's Articles of Association, directors retire by rotation upon serving for a term of 3 years and may offer themselves for re-election for an extra term where eligible.

AUDITORS:

The Auditor General is responsible for the statutory audit of the Company in accordance with the provisions of Article 229 of the Constitution of Kenya and the Public Audit Act, 2015 for the year ended June 30,2020.

By order of the Board

PETER K. MWANGI
CORPORATE SECRETARY
28TH SEPTEMBER, 2020

STATEMENT OF DIRECTORS' RESPONSIBILITIES

Section 81 of the Public Finance Management Act, 2012 and (section 14 of the State Corporations Act, - (entities should quote the applicable legislation under which they are regulated)) require the Directors to prepare financial statements in respect of that *entity*, which give a true and fair view of the state of affairs of the *entity* at the end of the financial year/period and the operating results of the *entity* for that year/period. The Directors are also required to ensure that the *entity* keeps proper accounting records which disclose with reasonable accuracy the financial position of the *entity*. The Directors are also responsible for safeguarding the assets of the *entity*.

The Directors are responsible for the preparation and presentation of the *entity's* financial statements, which give a true and fair view of the state of affairs of the *entity* for and as at the end of the financial year (period) ended on June 30, 2020. This responsibility includes:

- (i) Maintaining adequate financial management arrangements and ensuring that these continue to be effective throughout the reporting period;
- (ii) Maintaining proper accounting records, which disclose with reasonable accuracy at any time the financial position of the entity;
- (iii) Designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of the financial statements, and ensuring that they are free from material misstatements, whether due to error or fraud;
- (iv) Safeguarding the assets of the company;
- (v) Selecting and applying appropriate accounting policies; and
- (vi) making accounting estimates that are reasonable in the circumstances.

The Directors responsibility for the company's financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity with International Financial Reporting Standards (IFRS), and in the manner required by the PFM Act, 2012 and the State Corporations Act.

The Directors are of the opinion that the company's financial statements give a true and fair view of the state of company's transactions during the financial year ended June 30, 2020, and of the company's financial position as at that date. The Directors further confirm the completeness of the accounting records maintained for the *entity*, which have been relied upon in the preparation of the company's financial statements as well as the adequacy of the systems of internal financial control.

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

Approval of the financial statements

The company's financial statements were approved by the Board on 28TH SEPTEMBER 2020 and signed on its behalf by:



Board Chairman



Ag Managing Director

REPUBLIC OF KENYA

Telephone: +254-(20) 3214000
E-mail: info@oagkenya.go.ke
Website: www.oagkenya.go.ke



HEADQUARTERS
Anniversary Towers
Monrovia Street
P.O. Box 30084-00100
NAIROBI

REPORT OF THE AUDITOR-GENERAL ON NYAHURURU WATER AND SANITATION COMPANY LIMITED FOR THE YEAR ENDED 30 JUNE, 2020

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of Nyahururu Water and Sanitation Company Limited set out on pages 18 to 52, which comprise the statement of financial position as at 30 June, 2020, and the statement of profit or loss and other comprehensive income, statement of changes in equity, statement of cash flows and the statement of comparison of budget and actual amounts for the year then ended, and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, 2015. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

In my opinion, except for the effect of the matters described in the Basis for Qualified Opinion section of my report, the financial statements present fairly, in all material respects, the financial position of the Nyahururu Water and Sanitation Company Limited as at 30 June, 2020 and of its financial performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards, and comply with the Water Act, 2016, the Companies Act, 2015 and the Public Finance Management Act, 2012.

Basis for Qualified Opinion

1. Revenue

The statement of comprehensive income reflects total revenue of Kshs.235,640,251 which includes billing or sales revenue of Kshs.217,434,818. However, the billing or sales revenue includes Kshs.11,640,387 being over billing of water sales and sewerage charges for the period January to June, 2020 arising from wrong tariff structure in the billing software. The revenue also included overbilling of Kshs.8,048,642 for the period January and February, 2020 arising from implementation of new water tariffs before the effective date of 01 March, 2020.

In the circumstances, the accuracy of the reported revenue balance could not be confirmed.

2. Property, Plant and Equipment

The statement of financial position reflects a property, plant and equipment balance of Kshs.113,110,588 as at 30 June, 2020. However, ownership documents for four (4) motor vehicles granted by the Northern Water Services Board and the County Government of Laikipia had not been transferred and registered in name of the Water Company. Further, the fixed assets register was not updated.

Consequently, the accuracy and completeness of the property, plant and equipment balance of Kshs.113,110,588 as at 30 June, 2020 could not be confirmed.

3. Unauthorized Write off of Debts

The statement of profit or loss and other comprehensive income reflects operation and maintenance costs of Kshs.37,261,970 which as disclosed in Note 13 to the financial statements includes bad debts of Kshs.5,983,704 written off during the year. The debts related to Gatero Water Scheme. However, authority from the Company's Board of Directors and the County Government of Laikipia to write off the debt was not provided. In addition, the debts were excluded from the trade receivables balance of Kshs.48,808,265 reflected in the statement of financial position.

In the circumstances, the regularity of the bad debts write off and the accuracy of the reported trade receivables and operation and maintenance expenses, could not be confirmed.

4. Customer Deposits

The statement of financial position reflects water deposits of Ksh.27,404,146. However, the deposits bank statements provided for audit reflected a balance of Kshs.1,072,320 as at 30 June, 2020. The variance of Kshs.26,331,826 constitutes money spent by the Management without authority from the Company Board of Directors and which had not been refunded to the account as at 30 June, 2020. Further, as previously reported, the water Company had neither a documented policy nor written guidelines on borrowings from customers' deposits account.

In the circumstances, the ability of the Company to refund the water deposits to the consumers as and when the liabilities crystalize could not be confirmed.

5. Trade and Other Payables

The statement of financial position reflects trade and other payables amounting to Kshs.80,635,675. The following observations were made regarding the expenditure:

5.1 Non-Remittance of Statutory and Other Deductions

As disclosed in Note 19 to the financial statements, the balance included Kshs.17,329,977 and Kshs.4,478,375 owed to Local Authorities Provident Fund and other payroll deductions respectively, which had not been remitted as at 30 June, 2020.

In addition, as disclosed in Note 24 to the financial statements, the Company incurred directors' allowances amounting to Kshs.3,250,000. However, PAYE tax on the allowances was not deducted and remitted to Kenya Revenue Authority. Failure to deduct and remit statutory and other payroll related deductions may attract heavy penalties and interest leading to loss of public funds.

5.2 Long Outstanding Payables

As disclosed in Note 19 to the financial statements, the payables balance includes regulatory fees payable to Water Service Regulatory Board (WASREB) and Water Resource Authority (WRA), lease fees payable to Northern Water Works Development Agency and audit fees amounting to Kshs.9,344,155, Kshs.3,629,387, Kshs.8,480,983 and Kshs.3,766,000 respectively, that had been outstanding for a long period. No satisfactory explanation was provided for the failure to remit the outstanding amounts to the respective organizations.

6. Prior Year Adjustment

The statement of changes in equity reflects a prior year adjustment of Kshs.21,140,070 which as disclosed at Note 21 to the financial statements, comprised expenditure relating to prior years omitted from the financial statements. However, IAS 8 – Accounting Policies, Changes in Accounting Estimates and Errors provides that an entity must correct all material prior period errors retrospectively in the first set of financial statements authorized for issue after their discovery by restating the comparative amounts for the prior periods presented in which the error occurred. Disclosure requirements relating to prior period errors have also not been met.

In the circumstances, the accuracy of the negative balance of Kshs.52,946,261 for revenue reserves, could not be confirmed.

7. Contingent Liabilities

Note 26 to the financial statements reflects contingent liabilities of Kshs.15,740,387 which include credits to customers for a billing overcharge of Kshs.11,640,387. As disclosed at Note 29 to the financial statements, the Company implemented a new billing tariff in January, 2020 but was formally notified by the regulator in November, 2020 that the implementation had been done erroneously leading to the overcharge for the period January to June, 2020. It is not clear why the financial statements were not adjusted accordingly as required under IAS 10 – Events After the Reporting Period. In addition, the liability of Kshs.11,640,387 excludes over billing to customers on water charges totalling Kshs.8,048,642 in January and February, 2020 arising from implementation of new water tariff before the approved effective date of March, 2020.

Consequently, the accuracy of the reported balances for revenue and liabilities could not be confirmed.

8. Failure to Disclose Material Uncertainty in Relation to Going Concern

The Company recorded an operating loss of Kshs.5,679,069 during the financial year ended 30 June, 2020, which depleted further its revenue reserves from a negative balance of Kshs.26,127,122 as at 30 June, 2019 to negative balance of Kshs.52,946,261 as at 30 June, 2020. In addition, the current liabilities balance of Kshs.108,039,821 exceeded the current assets balance of Kshs.65,399,714 by Kshs.42,640,107, resulting in a negative working capital of Kshs.22,759,607 as at 30 June, 2020.

The above financial performance and position is an indication of the existence of a material uncertainty which may cast a significant doubt on the Company's ability to continue as a going concern and to meet its obligations as and when they fall due. The financial statements have been prepared on a going concern basis on the assumption that the Company will continue to receive financial support from the County Government of Laikipia and its creditors. However, this material uncertainty in relation to going concern and any mitigating measures put in place by the Company Management to reverse the undesirable financial situation have not been disclosed in the notes to the financial statements.

9. Non-Compliance with the Financial Reporting Guidelines

A review of the financial statements and the annual report for the year ended 30 June, 2020 presented for audit revealed the following anomalies:

- i. Management presented a statement of financial performance instead of a statement of profit or loss and other comprehensive income for the period contrary to IAS 1 on Presentation of Financial Statements.
- ii. Further, under Note 27 to the financial statements on risk management the impaired receivables have been shown to comprise the provision for bad and doubtful debts of Kshs.5,400,527 instead of the gross amount of debts considered irrecoverable.
- iii. On page 3 of the annual report under Key Entity Information is the list of the names of the directors and the members of the management team who held office during the year under review. However, pertinent details including dates of birth and passport-size photographs were not provided.

The financial statements did not, therefore, comply fully with the financial reporting guidelines issued by the Public Sector Accounting Standards Board (PSASB). Under the circumstances, the Management was in breach of Section 194(1)(d) of the Public Finance Management Act, 2012.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the Nyahururu Water and Sanitation Company Limited Management in accordance with ISSAI 130 on Code of Ethics. I have fulfilled other ethical responsibilities in accordance with the ISSAI and in accordance with other ethical requirements applicable to performing audits of financial statements in Kenya. I

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

Key Audit Matters

Key audit matters are those matters that, in my professional judgment, are of most significance in the audit of the financial statements. There were no key audit matters to report in the year under review.

Other Matter

1. Progress on Follow Up of Previous Years' Audit Issues

In the audit report of the previous year, several matters were raised under the Report on Financial Statements and Report on Lawfulness and Effectiveness in Use of Public Resources. However, although the Management indicated that some of the issues had been resolved, the County Assembly was yet to deliberate on the audit report for the year ended 30 June, 2019.

2. Unauthorized Over Expenditure

During the year, the Company incurred a total expenditure of Kshs.235,918,793 or 96% of the final budget of Kshs.245,559,768. However, the Company incurred an over expenditure of Kshs.10,755,219 on seventeen (17) items without necessary approvals as follows:

No.	Items	Actual Amount as per Financial Statements (Kshs.)	Amount as per Approved Budget (Kshs.)	Over Expenditure (Kshs.)
1	Cleaning Materials and Services	1,283,544	900,000	383,544
	Mobile Phones and Cards	978,450	700,000	278,450
2	Telephone	40,727	20,000	20,727
3	Licences and Permits	1,468,439	460,000	1,008,439
4	Office Water and Lightning	1,094,058	321,000	773,058
5	Postage and Delivery	881,830	360,000	521,830
6	Printing and Stationery	1,979,743	920,000	1,059,743
7	Rent and Rates	2,909,100	2,381,640	527,460
8	Sports and Equivalentents	4,696,510	3,253,900	1,442,610
9	Staff Tea and Official Catering	1,281,820	1,046,500	235,320
10	Transport	259,630	120,000	139,630
11	Full Board Meetings	1,480,000	1,200,000	280,000
12	Automobile Fuel and Repairs	4,509,318	2,236,000	2,273,318
13	Computer Repairs	257,794	180,000	77,794
14	Equipment Repairs	932,343	300,000	632,343
15	Repairs of Pumps and Generators	1,136,192	960,000	176,192
16	Casual Wages	2,724,761	1,800,000	924,761
	Total	27,914,259	17,159,040	10,755,219

Further, the Company, incurred expenditure totalling Kshs.4,607,957 without budgetary allocation.

The Company Management was therefore in breach of the law.

Other Information

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

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

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

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

As required by Article 229(6) of the Constitution, based on the audit procedures performed, except for the matters described in the Basis for Conclusions on Lawfulness and Effectiveness in Use of Public Resources section of my report, I confirm that, nothing else has come to my attention to cause me to believe that public resources have not been applied lawfully and in an effective way.

Basis for Conclusion

1. Non-Compliance with Ethnic Diversity Requirement

During the year under review, the Company had a total of one-hundred and fifty-seven (157) employees out of which one-hundred and forty-five (145) or 92% of total staff were from one dominant ethnic community contrary to the requirements of Section 7(1) and (2) of the National Cohesion and Integration Commission Act, 2008 which requires all public establishments to represent the diversity of people of Kenya and no public establishment should have more than one-third of its staff from the same ethnic community.

Management was therefore, in breach of the law.

2. Non-Compliance with Industrial Benchmark on Personnel Costs

The statement of profit or loss and other comprehensive income reflects staff costs of Kshs.119,232,657 for the year ended 30 June, 2020 representing 59% of the total expenditure of Kshs.202,810,279, which is higher than the recommended threshold of 30% in accordance with the WASREB guidelines.

The excess personnel costs may negatively impact on the Company's profitability and sustainability of services if measures are not put in place to contain the cost within the acceptable level.

3. Non-Revenue Water

During the year under review, the Company produced a total of 3,206,263 cubic meters (m³) of water of which 1,976,276 cubic meters (m³) of water was sold (billed) to customers. The difference between the total volume of water produced and the total volume of water billed amounting to 1,229,987 cubic meters (m³) represents unaccounted for water of 38% which is 13% above the allowable loss of 25% set by the WASREB Guidelines.

The audit was conducted in accordance with ISSAI 4000. The standard requires that I comply with ethical requirements and plan and perform the audit to obtain assurance about whether the activities, financial transactions and information reflected in the financial statements are in compliance, in all material respects, with the authorities that govern them. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

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

Basis for Conclusion

Corporate Governance

Section 1.5 of Mwongozo - the Code of Governance for State Corporations provides that a tenure of a Board Member shall not exceed a cumulative term of six (6) years or two (2) terms of three (3) years each. However, records provided for audit indicated that one of the directors was appointed on 25 January, 2013 and had therefore, served the Company for a period of over seven (7) years as at 30 June, 2020.

The audit was conducted in accordance with ISSAI 2315 and ISSAI 2330. The standards require that I plan and perform the audit to obtain assurance about whether processes and systems of internal control, risk management and governance were operating

effectively, in all material respects. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

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

- (i) I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of my audit;
- (ii) In my opinion, proper books of account have been kept by the Company, so far as appears from the examination of those books;
- (iii) The Company's statement of financial position and statement of comprehensive income are in agreement with books of account; and

Responsibilities of Management and the Board of Directors

The Management are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and the requirements of the Companies Act, 2015 and for maintaining effective internal control as the Management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error and for assessment of the effectiveness of internal control, risk management and governance.

In preparing the financial statements, the Management are responsible for assessing the ability of the Company to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Management is aware of the intention to liquidate the Company or to cease operations.

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

In addition to the responsibility for the preparation and presentation of the financial statements described above, the Management are also responsible for ensuring that the activities, financial transactions and information reflected in the financial statements are in compliance with the authorities which govern them, and that public resources are applied in an effective way.

The Board of Directors is responsible for overseeing the Company's financial reporting process, reviewing the effectiveness of how the Company monitors compliance with relevant legislative and regulatory requirements, ensuring that effective processes and systems are in place to address key roles and responsibilities in relation to governance and risk management, and ensuring the adequacy and effectiveness of the control environment.

Auditor-General's Responsibilities for the Audit

The audit objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion in accordance with the provisions of Section 48 of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISSAIs will always detect a material misstatement and weakness when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

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

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from

fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Management .
- Conclude on the appropriateness of the Management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the ability of the Company to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in the auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my audit report. However, future events or conditions may cause the Company to cease as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information and business activities of the Company to express an opinion on the financial statements.
- Perform such other procedures as I consider necessary in the circumstances.

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

I also provide the Management with a statement that I have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on my independence, and where applicable, related safeguards.


CPA Nancy Gathungu, CBS
AUDITOR-GENERAL

Nairobi

10 February, 2022

**STATEMENT OF FINANCIAL PERFORMANCE FOR THE YEAR
ENDING 30 JUNE, 2020.**

Particulars	Notes	F/Y 2019/2020	F/Y 2018/2019
REVENUES		KSHS	KSHS
Sales (Billing)	6	217,434,818	197,361,103
Direct Cost of Sales	7	(38,509,041)	(40,489,894)
Gross Profit		178,925,777	156,871,209
In-Kind Donations (CGL)	8	1,243,202	-
Interest on Fixed Deposit	9	236,299	-
Other Income	10	16,725,932	25,682,740
TOTAL REVENUE		197,131,210	182,553,949
OPERATING EXPENSES			
Administrative expenses	11	45,854,077	52,451,575
Operation & maintenance	13	37,261,970	40,884,308
Personnel Costs	12	119,232,657	113,207,423
Finance Costs	14	461,575	109,480
TOTAL OPERATING EXPENSES		202,810,279	206,652,786
PROFIT/(LOSS) BEFORE TAXATION		(5,679,069)	(24,098,837)
INCOME TAX EXPENSE/(CREDIT)	25	0	0
PROFIT/(LOSS) AFTER TAXATION		(5,679,069)	(24,098,837)

STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE, 2020

		JUNE	JUNE
ASSETS	Note	2019/2020	2018/2019
Non- Current Assets		Kshs	Kshs
Property and Equipment	15	113,110,588	82,437,972
Total Non- Current Assets		113,110,588	82,437,972
Current Assets			
Inventory	16	9,712,692	8,547,899
Receivables	17	48,808,265	42,585,918
Cash and Cash Equivalents	18	6,878,757	6,866,065
Total Current Assets		65,399,714	57,999,882
TOTAL ASSETS		178,510,302	140,437,854
EQUITY AND LIABILITIES			
Capital and Reserves			
Share Capital	23	100,000	100,000
Revenue Reserves	21	(52,946,261)	(26,127,122)
Capital Reserves	22	123,316,742	96,956,890
Total Capital and Reserves		70,470,481	70,929,768
Current Liabilities			
Trade and Other Payables	19	80,635,675	44,438,103
Water Deposits	20	27,404,146	25,069,983
Total Current Liabilities		108,039,821	69,508,086
TOTAL EQUITY & LIABILITIES		178,510,302	140,437,854

The financial statements were approved by the Board on 28/09 2020 and signed on its behalf by:

Head of Finance



ICPAK M/NO:26194

Managing Director



Chairman of the Board



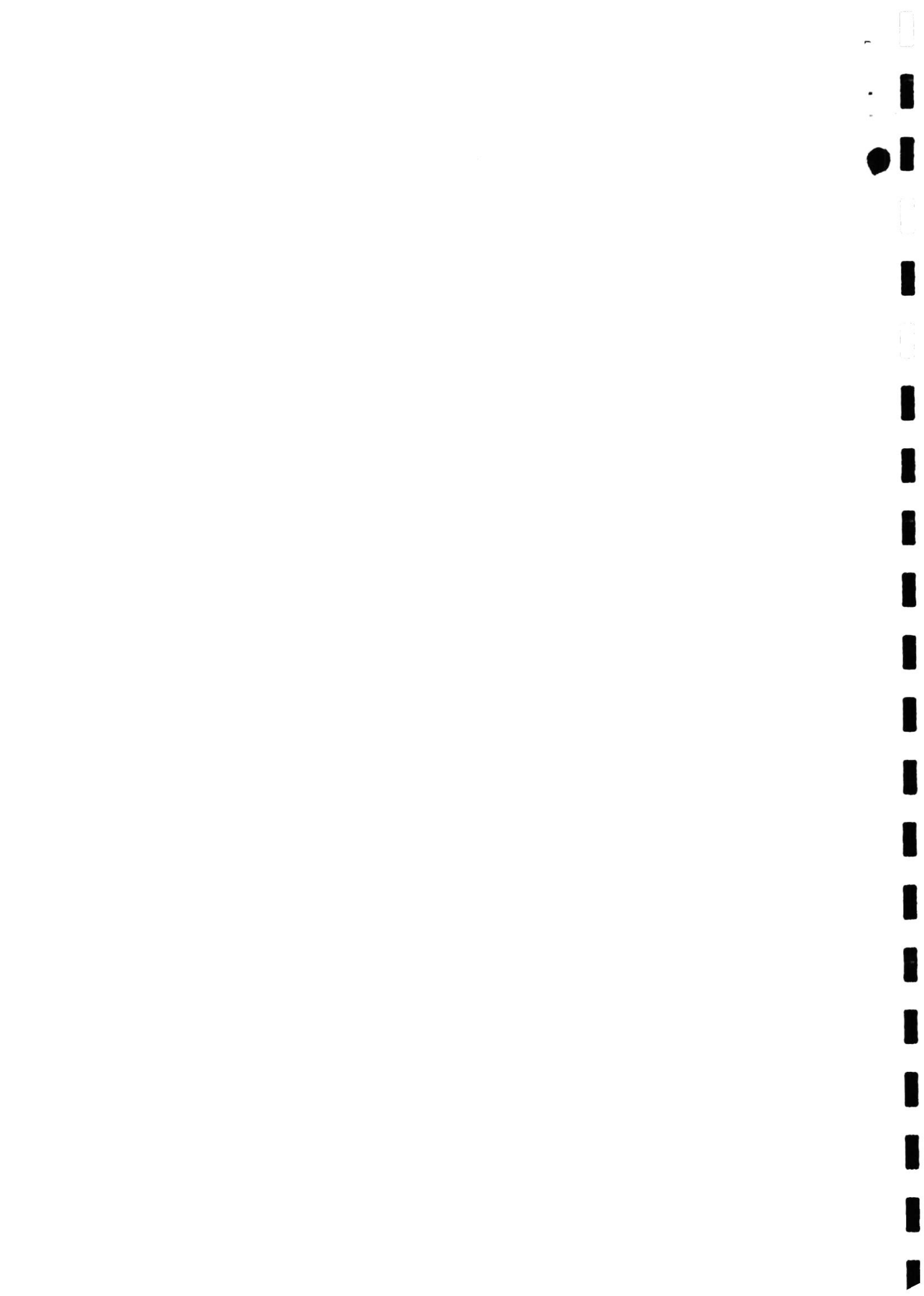
STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 JUNE 2020

	SHARE CAPITAL	CAPITAL RESERVES	RETAINED EARNINGS	TOTAL
Balance 1, July 2018	100,000	96,956,890	(1,395,294)	95,028,605
Net Profit/(Loss) after Tax	0	0	(24,731,828)	(24,098,837)
Balance 30, June 2019	100,000	96,956,890	(26,127,122)	70,929,768
Balance 1, July 2019	100,000	96,956,890	(26,127,122)	70,929,768
Changes to Capital Reserve	0	26,359,852	0	26,359,852
Prior Year Adjustment	0	0	(21,140,070)	(21,140,070)
Net Profit/ (Loss) after Tax	0	0	(5,679,069)	(5,679,069)
Balance 30, June 2020	100,000	123,316,742	(52,946,261)	70,470,481



STATEMENT OF CASHFLOWS FOR THE YEAR ENDED 30 JUNE 2020

	Notes	2019/2020	2018/2019
CASHFLOWS FROM OPERATING ACTIVITIES			
Net Profit (Loss) for the year before Tax		(5,679,069)	(24,731,828)
<i>Adjustments to Reconcile Net Income to Net Cash</i>			
Depreciation	15	5,811,125	5,356,568
Prior Year Adjustment	21	(21,140,070)	-
Net Cash from Operating Activities (A)		(21,008,014)	(19,375,260)
WORKING CAPITAL CHANGES			
<i>Movement in current assets:</i>			
(Increase) / Decrease in inventory	16	(1,164,793)	(2,706,185)
(Increase)/ Decrease in trade receivables	17	(6,222,347)	5,384,332
<i>Movement in current liabilities:</i>			
Increase / (Decrease) in trade payables	19	9,053,025	11,367,849
Increase / (Decrease) in Fees and Levies	19	11,106,101	2,323,592
Increase / (Decrease) in Payroll Liabilities	19	16,038,446	-
Increase / (Decrease) in Customer Deposits	20	2,334,163	2,681,861
Changes in Working Capital (B)		31,144,595	19,051,449
CASHFLOWS FROM INVESTING ACTIVITIES			
Purchase of Property, Plant and Equipment	15	(10,123,889)	(8,037,954)
Net Cash from Investing Activities (C)		(10,123,889)	(8,037,954)
Movement of Cash & Cash Equivalents			
Net Cash Inflow (Outflow) (A+B+C)		12,692	(8,361,765)
<i>Cash and Cash Equivalents at the Beginning of the Year (July 1, 2019)</i>		6,866,065	15,227,830
CASH & CASH EQUIVALENTS AT THE		6,878,757	6,866,065



END OF THE YEAR (30 JUNE, 2020)
STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS FOR THE PERIOD ENDED 30 JUNE 2020

	Original budget	Adjustments/ Revisions	Final budget	Actual on comparable basis	Performance difference
	2019-2020	2019-2020	2019-2020	2019-2020	2019-2020
	Kshs	Kshs	Kshs	Kshs	Kshs
Revenue					
Sales (Billing for Services)	265,011,955	-	265,011,955	217,434,818	(47,577,137)
Interest on Fixed Deposit	0	-	0	236,299	236,299
Other income	21,580,800	-	21,580,800	17,969,134	(3,611,666)
Total income	286,592,755	-	286,592,755	235,640,251	(50,952,504)
Expenses					
Administrative Expenses		-			
Advertising & Publicity	310,000	-	310,000	198,900	(111,100)
AGM Expenses	560,000	-	560,000	494,410	(65,590)
Audit Fee	464,000	-	464,000	580,000	116,000
Cleaning Materials & Services	900,000	-	900,000	1,283,544	383,544
Mobile Phone Cards	700,000	-	700,000	978,450	278,450
Telephone	20,000	-	20,000	40,727	20,727
Functions, workshops & seminars	1,000,000	-	1,000,000	532,200	(467,800)
Internet charges	461,300	-	461,300	478,513	17,213
Licenses & permits	460,000	-	460,000	1,468,439	1,008,439
Membership & Subscriptions	260,000	-	260,000	57,690	(202,310)
Newspapers & Periodicals	69,600	-	69,600	40,500	(29,100)
Office Water & Lighting	321,000	-	321,000	1,094,058	773,058
Other Expenses	0	-	0	47,046	47,046
Postage and Delivery	360,000	-	360,000	881,830	521,830
Printing & Stationery	920,000	-	920,000	1,979,743	1,059,743

NYAHUWASCO ANNUAL REPORTS AND FINANCIAL STATEMENTS FOR THE YEAR 2019/2020

Consultancy Fees	3,250,000	-	3,250,000	1,288,787	(1,961,213)
Legal Fees	2,000,000	-	2,000,000	1,571,276	(428,724)
Rent & Rates	2,381,640	-	2,381,640	2,909,100	527,460
Security Costs	6,120,000	-	6,120,000	5,534,680	(585,320)
Sports & Equivalent	3,253,900	-	3,253,900	4,696,510	1,442,610
Staff Tea & Official Catering	1,046,500	-	1,046,500	1,281,820	235,320
Training	1,920,000	-	1,920,000	65,000	(1,855,000)
Transport	120,000	-	120,000	259,630	139,630
Total Admin. Expenses	26,897,940	-	26,897,940	27,762,853	864,913
Board Expenses		-			
Full Board meetings	1,200,000	-	1,200,000	1,480,000	280,000
Committee Meetings	1,200,000	-	1,200,000	1,010,000	(190,000)
Other Board Functions	2,000,000	-	2,000,000	700,000	(1,300,000)
Total Board Expenditure	4,400,000	-	4,400,000	3,190,000	(1,210,000)
C.S.R. Activities:		-			
Catchment Conservation	500,000	-	500,000	15,000	(485,000)
Donations	500,000	-	500,000	95,110	(404,890)
Total C.S.R.	1,000,000	-	1,000,000	110,110	(889,890)
Direct Cost of Sales:		-			
Water Treatment Chemicals	19,105,850	-	19,105,850	17,078,028	(2,027,822)
Sewer Treatment Chemicals	960,000	-	960,000	450,056	(509,944)
Electricity (intake, T/works)	22,650,000	-	22,650,000	20,980,957	(1,669,043)
Total Direct Cost of Sales	42,715,850	-	42,715,850	38,509,041	(4,206,809)
Fees and Levies:		-			
Abstraction fees	1,644,750	-	1,644,750	1,676,830	32,080
Effluent Discharge fees	100,000	-	100,000	88,289	(11,711)
Regulatory Levy (4%)	11,463,710	-	11,463,710	9,368,490	(2,095,220)
Total Fees and Levies	13,208,460	-	13,208,460	11,133,609	(2,074,851)
Operations & Maintenance:		-			
Automobile Fuel & Oils	2,236,000	-	2,236,000	4,509,318	2,273,318



NYAHUWASCO ANNUAL REPORTS AND FINANCIAL STATEMENTS FOR THE YEAR 2019/2020

Automobile Repairs	2,300,000	-	2,300,000	2,008,014	(291,986)
Depreciation	6,000,000	-	6,000,000	5,811,126	(188,874)
Disconnection Costs	0	-	0	190,874	190,874
Bad Receivables Written off	0	-	0	5,983,704	5,983,704
Buildings & Stations Repairs	500,000	-	500,000	221,960	(278,040)
Computer Repairs	180,000	-	180,000	257,794	77,794
Electric Repairs	0	-	0	674,010	674,010
Equipment Repairs	300,000	-	300,000	932,343	632,343
Repair of Pumps & Generators	960,000	-	960,000	1,136,192	176,192
Sewer Pipeline Repair	2,000,000	-	2,000,000	215,593	(1,784,407)
Water Pipelines Repair	10,000,000	-	10,000,000	7,491,670	(2,508,330)
Insurance	7,488,500	-	7,488,500	660,550	(6,827,950)
Uniforms/Protective gear	2,000,000	-	2,000,000	1,768,295	(231,705)
Total O&M Costs	33,964,500	-	33,964,500	31,861,443	(2,103,057)
Personnel Costs:		-			
Casual Wages	1,800,000	-	1,800,000	2,724,761	924,761
NSSF (Employers)	360,000-	-	360,000-	379,000	19,000
Marmanet Pension (Employers)	480,000	-	480,000	427,293	(52,707)
LAP Fund (Employers)	4,450,610	-	4,450,610	4,540,850	90,240
Salaries	111,547,297	-	111,547,297	106,555,141	(4,992,156)
Leave Allowance	4,000,000	-	4,000,000	3,798,612	(201,388)
Lunch Allowance	2,337,800	-	2,337,800	1,410,479	(927,321)
Night out Allowance	3,000,000	-	3,000,000	2,247,025	(752,975)
Retirement/Baggage Allowance	300,000	-	300,000	300,000	0
Christmas Bonus	1,230,000	-	1,230,000	507,000	(723,000)
Total Personnel Costs	129,505,707	-	129,505,707	122,890,161	(6,615,546)
Finance Costs		-			
Bank Service Charges	120,000	-	120,000	461,575	341,575
Total Expenditure	245,559,768	-	245,559,768	235,918,793	(9,640,975)



Surplus for The Period	41,032,987	-	41,032,987	(278,542)	(41,311,529)
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EXPLANATORY NOTES ON BUDGET OVER/UNDER RUNS

The following is an explanation on the differences between the actual and budgeted amounts of over or under 10% from the statement of comparison of budget and actual above;

- a) **Revenue under run;** the revenue estimates from internal sources were **Kshs 286,592,750**. However, the company managed to generate own revenue of **Kshs 235,640,251** resulting in an under run of **Kshs 50,952,504**. This under run was caused by the late approval of the tariff as well as the effect of COVID 19 on schools and institutions that contribute immensely to the company's revenue.
- b) **Budget over expenditure;** the company overspent a total of **Kshs 10,804,512** on the following budget items as explained below;
 - **Cleaning Materials and services;** the company overspent by **Kshs 383,544** on this vote as a result of additional purchases of soap, detergents and hand sanitizers to mitigate the effects of COVID 19.
 - **Communication costs;** the company overspent on telephone, mobile phone cards and internet in response to the MOH guideline requiring facilitation of staff working from home to guard against compromising on service delivery.
 - **Office Water & lighting;** the company overspent on office water by **Kshs 773,058** as a result of setting up of hand washing stations in the low-income areas and public points such as markets and bus terminus to assist in mitigation of the COVID 19.
 - **Postage and delivery;** the company over spent on delivery by **Kshs 521,830** resulting from increased use of text messages to customers in line with MOH guidelines to limit the number of customers visiting the company offices.
 - **Rent and Rates;** the company overspent on rent by **Kshs 521,830** resulting from an upward review of the rent for the office block premises beginning October 2019.
 - **Sports and Equivalents;** the company overspent on sporting activities by **Kshs 1,442,610** resulting from additional preparatory meetings and participating teams.
 - **Staff Tea and Official catering;** the company overspent on official catering by **Kshs 235,320** resulting from additional board meetings and official visitors to the company.
 - **Transport and Automobile expenses;** the company overspent on transport by **Kshs 139,630** and on automobile fuel by **Kshs 2,273,318** resulting from facilitation activities of staff working in the schemes and other critical departments such as intake and water treatment plants in order to ensure that services were not interrupted during the first phase of the COVID 19 pandemic.
 - **Full board Allowances;** the company overspent on this item by **Kshs 280,000** resulting from an additional special board meeting handling change of the management team.
 - **Equipment Repairs;** the company overspent on repairs of an electric hoist used to lift chemicals at the treatment plant and rehabilitation of the filter media by **Kshs 632,343** to ensure that production was unaffected and quality of water produced not compromised.

- **Repairs of pumps and generators;** the company overspent on pump repairs by **Kshs 176,192** caused by repairs to pumps at the intake and treatment plant that was necessary to ensure non interruption of services at the height of COVID 19 pandemic.
- **Casual wages;** the company overspent on wages by **Kshs 924,761** in order to deal with major bursts causing physical losses and leading a 1% increase in NRW.

NOTES TO THE FINANCIAL STATEMENTS:

1. GENERAL INFORMATION

Nyahururu Water and Sanitation Company is established by and derives its authority and accountability from the Companies Act. The entity is wholly owned by the County Government of Laikipia and is domiciled in Kenya. The entity's principal activity is providing water and sanitation services to Nyahururu town and its environs.

For Kenyan Companies Act reporting purposes, the balance sheet is represented by the statement of financial position and the profit and loss account by the statement of performance in these financial statements

2. Statement of Compliance and Basis for Preparation.

The financial statements have been prepared on a historical cost basis. The preparation of financial statements in conformity with International Financial Reporting Standards (IFRS) allows the use of estimates and assumptions. It also requires management to exercise judgement in the process of applying the entity's accounting policies. The areas involving a higher degree of judgement or complexity, or where assumptions and estimates are significant to the financial statements, are disclosed in Note xx.

The financial statements have been prepared and presented in Kenya Shillings, which is the functional and reporting currency of the company.

The financial statements have been prepared in accordance with the PFM Act, the State Corporations Act and International Financial Reporting Standards (IFRS). The accounting policies adopted have been consistently applied to all the years presented.

3. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

- The Directors considered the adoption of the new accounting policies and amendments to the IFRS during the year. Based on their assessment, the revisions had no effect on the financial statements of the company.
- The Directors do not plan to apply any of the above until they become effective. Based on their assessment of the potential impact of application of the above, they do not expect that there will be a significant impact on the company's financial statements.
- Early Adoption of Standards;** The company did not early – adopt any new or amended standards in year 2019/2020

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

a) Revenue recognition

Revenue is recognised to the extent that it is probable that future economic benefits will flow to the company and the revenue can be reliably measured. Revenue is recognised at the fair value of consideration received or expected to be received in the ordinary course of the company's activities, net of value-added tax (VAT), where applicable, and when specific criteria have been met for each of the company's activities as described below.

- i) **Revenue from the sale of goods and services** is recognised in the year in which the company delivers products to the customer, the customer has accepted the products and collectability of the related receivables is reasonably assured.
- ii) **Grants from Government Agencies** are recognised in the year in which the company actually receives such grants. Recurrent grants are recognized in the statement of comprehensive income. Development/capital grants are recognized in the statement of financial position and realised in the statement of comprehensive income over the useful life of the assets that has been acquired using such funds.
- iii) **Finance income** comprises interest receivable from bank deposits and investment in securities, and is recognised in profit or loss on a time proportion basis using the effective interest rate method.
- iv) **Rental income** is recognised in the income statement as it accrues using the effective lease agreements.
- v) **Other income** is recognised as it accrues.

b) In-kind contributions

In-kind contributions are donations that are made to the company in the form of actual goods and/or services rather than in money or cash terms. These donations may include vehicles, pipes /fittings, equipment or personnel services.

Where the financial value received for in-kind contributions can be reliably determined, the company includes such value in the statement of comprehensive income both as revenue and as an expense in equal and opposite amounts; otherwise, the contribution is not recorded.

c) Property, plant and equipment

All categories of property, plant and equipment are initially recorded at cost less accumulated depreciation and impairment losses.

Certain categories of property, plant and equipment are subsequently carried at re-valued amounts, being their fair value at the date of re-valuation less any subsequent accumulated depreciation and impairment losses. Where re-measurement at re-valued amounts is desired, all items in an asset category are re-valued through periodic valuations carried out by independent external valuers.

Increases in the carrying amounts of assets arising from re-valuation are credited to other comprehensive income. Decreases that offset previous increases in the carrying amount of the same

asset are charged against the revaluation reserve account; all other decreases are charged to profit or loss in the income statement.

Gains and losses on disposal of items of property, plant and equipment are determined by comparing the proceeds from the disposal with the net carrying amount of the items, and are recognised in profit or loss in the income statement.

d) Depreciation and impairment of property, plant and equipment

Freehold land and capital work in progress are not depreciated. Capital work in progress relates mainly to the cost of ongoing but incomplete works on buildings and other civil works and installations.

Depreciation on property, plant and equipment is recognised in the income statement on a straight-line basis to write down the cost of each asset or the re-valued amount to its residual value over its estimated useful life. The annual rates in use are:

Buildings and civil works	25 years or the unexpired lease period
Plant and machinery	12.5 years
Motor vehicles, including motor cycles	4 years
Computers and related equipment	3 years
Office equipment, furniture and fittings	12.5 years

A full year's depreciation charge is recognised both in the year of asset purchase and in the year of asset disposal.

Items of property, plant and equipment are reviewed annually for impairment. Where the carrying amount of an asset is assessed as greater than its estimated recoverable amount, an impairment loss is recognised so that the asset is written down immediately to its estimated recoverable amount.

e) Intangible assets

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

f) Amortization and impairment of intangible assets

Amortization is calculated on the straight-line basis over the estimated useful life of computer software of three years.

All computer software is reviewed annually for impairment. Where the carrying amount of an intangible asset is assessed as greater than its estimated recoverable amount, an impairment loss is recognised so that the asset is written down immediately to its estimated recoverable amount.

g) Investment property

Buildings, or part of a building (freehold or held under a finance lease) and land (freehold or held under an operating lease) held for long term rental yields and/or capital appreciation, and which are not occupied by the entity, are classified as investment property under non-current assets.

Investment property is carried at fair value, representing open market value determined periodically by independent external values. Changes in fair values are included in profit or loss in the income statement.



h) Leases

IFRS 16 introduces new or amended requirements with respect to lease accounting. It introduces significant changes to lessee accounting by removing the distinction between operating and finance lease and requiring the recognition of a right-of-use asset and a lease liability at commencement for all leases, except for short-term leases and leases of low value assets. In contrast to lessee accounting, the requirements for lessor accounting have remained largely unchanged.

i) Inventories

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

j) Trade and other receivables

Trade and other receivables are recognised at fair values less allowances for any uncollectible amounts. These are assessed for impairment on a continuing basis. An estimate is made of doubtful receivables based on a review of all outstanding amounts at the year end. Bad debts are written off after all efforts at recovery have been exhausted.

k) Taxation (*Current income tax*)

Current income tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting date in the area where the Entity operates and generates taxable income. Current income tax relating to items recognized directly in net assets is recognized in net assets and not in the statement of financial performance.

Current income tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities.

The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting date in the area where the Company operates and generates taxable income. Current income tax relating to items recognized directly in net assets is recognized in net assets and

Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

l) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and cash at bank and short-term deposits on call. Bank account balances include amounts held at various Commercial Banks at the end of the reporting period.

For the purposes of these financial statements, cash on hand refers to short term cash imprests and advances to authorized public officers which were not surrendered or accounted for at the end of the financial year.

The Company has not experienced any losses in such accounts and does not believe it is exposed to any significant risk on cash and cash equivalents.

m) Borrowings

Interest bearing loans and overdrafts are initially recorded at fair value being received, net of issue costs associated with the borrowing. Subsequently, these are measured at amortized cost using the effective interest rate method.

Amortized cost is calculated by taking into account any issue cost and any discount or premium on settlement. Finance charges, including premiums payable of settlement or redemption are accounted for on accrual basis and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

Loan interest accruing during the construction of a project is capitalized as part of the cost of the project.

n) Trade and other payables

Trade and other payables are non-interest bearing and are carried at amortized cost, which is measured at the fair value of contractual value of the consideration to be paid in future in respect of goods and services supplied, whether billed to the entity or not, less any payments made to the suppliers.

o) Retirement benefit obligations

The company contributes to the statutory National Social Security Fund (NSSF). This is a defined contribution scheme registered under the National Social Security Act. The company's obligation under the scheme is limited to specific contributions legislated from time to time and is currently at Kshs 200 per employee per month for all full-time employees. Additionally, the company and its employees contribute to the Local Authority Provident Fund and National Water Pension Scheme.

p) Provision for staff leave pay

Employees' entitlements to annual leave are recognised as they accrue at the employees. A provision is made for the estimated liability for annual leave at the reporting date.

q) Exchange rate differences

The accounting records are maintained in the functional currency of the primary economic environment in which the entity operates, Kenya Shillings. Transactions in foreign currencies during the year/period are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Any foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

r) Budget information

The original budget for FY 2019-2020 was approved by the Board of Directors on 28th June 2019. There were no subsequent revisions or additional appropriations made to the approved budget.

The company's budget is prepared on a different basis to the actual income and expenditure disclosed in the financial statements. The financial statements are prepared on accrual basis using a classification based on the nature of expenses in the statement of financial performance, whereas the budget is prepared on a cash basis.

The amounts in the financial statements were recast from the accrual basis to the cash basis and reclassified by presentation to be on the same basis as the approved budget. A comparison of budget and actual amounts, prepared on a comparable basis to the approved budget, is then presented in the statement of comparison of budget and actual amounts.

In addition to the Basis difference, adjustments to amounts in the financial statements are also made for differences in the formats and classification schemes adopted for the presentation of the financial statements and the approved budget.

A statement to reconcile the actual amounts on a comparable basis included in the statement of comparison of budget and actual amounts and the actuals as per the statement of financial performance has been presented under section xxx of these financial statements.

s) Comparative figures

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

t) Subsequent events

Any events subsequent to the financial year are recognized based on the significance (materiality) of their impact on the financial statements of current period. Subsequent events to the year ended 30 June 2020 are explained in Note 29.

5. SIGNIFICANT JUDGMENTS AND SOURCES OF ESTIMATION UNCERTAINTY

The preparation of the Company's financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of the reporting period.

However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods.

Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below.

The Company based its assumptions and estimates on parameters available when the financial statements were prepared. However, existing circumstances and assumptions about future developments may change due to market changes or circumstances arising beyond the control of the Entity. Such changes are reflected in the assumptions when they occur.

Useful lives and residual values

The useful lives and residual values of assets are assessed using the following indicators to inform potential future use and value from disposal:

- The condition of the asset based on the assessment of experts employed by the Entity
- The nature of the asset, its susceptibility and adaptability to changes in technology and processes
- The nature of the processes in which the asset is deployed
- Availability of funding to replace the assets
- Changes in the market in relation to the asset

Provisions

Provisions are recognised when the company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Provisions are measured at the management's best estimate of the expenditure required to settle the obligation at the reporting date, and are discounted to present value where the effect is material.

The applicable provision for the company is the provision for bad debts. Management estimates this provision as the higher of outstanding debts over 3 years or 10% of the gross receivables and the provision is recognized in the statement of financial performance.

6. REVENUE

SALES (BILLING FOR SERVICES)	2019/2020	2018/2019
	Kshs	Kshs
Water Charges	152,141,452	137,309,819
Sewer Charges	57,841,951	54,554,289
Meter Charges	7,451,415	5,496,995
Total	217,434,818	197,361,103

7. COST OF SALES

	2019/2020	2018/2019
	Kshs	Kshs
Water Treatment Chemicals	17,078,028	17,972,416
Sewer Treatment Chemicals	450,056	0
Electricity (intake, T/works)	20,980,957	22,517,478
Total	38,509,041	40,489,894

8. GRANTS FROM NATIONAL GOVERNMENT/AGENCIES

	2019/2020	2018/2019
	Kshs	Kshs
Recurrent grants received	-	-
Capital grants realized	-	-
In Kind contributions/ donations (CGL)	1,243,202	-
Total	1,243,202	-

9. INTEREST INCOME

	2019- 2020	2018-2019
Description	Kshs	Kshs
Interest from commercial banks and financial institutions	236,299	-
Interest on staff loans	-	-
Total	236,299	-

[Interest income for the year was derived from a Fixed deposit account held at Cooperative Bank]

10. OTHER INCOME

	2019/2020	2018/2019
Description	Kshs	Kshs
Exhauster charges	2,071,700	2,506,600
Late payment charges	6,313,900	9,827,400
Mileage charges	1,330,943	1,903,368
Penalties (Illegal Water Use)	418,297	296,287

Rental Income	530,500	292,000
Sewer connection fees	177,600	222,300
Sewer inspection fees	33,000	
Unblocking fees	27,600	0
Miscellaneous income	1,330,028	2,233,624
Commission on conservancy	148,354	147,597
Water connection fees	2,856,000	3,648,708
Tanker services (water sale)	747,150	2,150,390
Toilet Income (Blocks C&D)	710,360	632,990
Water and exhausting - county	-	1,786,726
Private Exhauster Emptying	30,500	0
Total	16,725,932	25,682,740

Other Incomes tabulated above are generated in the ordinary course of conducting the principal activity of the company

11. ADMINISTRATION COSTS

	2019/2020	2018/2019
Description	Kshs	Kshs
Advertising & Publicity	198,900	469,598
Abstraction fees	1,676,830	4,060,378
Audit Fee	580,000	464,000
Effluent Discharge fees	88,289	0
WASREB Levy (4%)	9,368,490	6,884,624
AGM Expenses	494,410	703,850
Full Board Allowances	1,480,000	2,010,000
Sub-Committee Allowances	1,010,000	400,000
Directors' functions & workshops	700,000	2,402,600
Cleaning Materials & Services	1,283,545	1,570,911
Catchment Conservation	15,000	30,000
Donations	95,110	106,500
Mobile Phone Cards	978,450	1,048,650
Telephone	40,727	76,185
Functions, workshops & seminars	532,200	2,708,550
Internet charges	478,513	384,712
Licenses & permits	1,468,439	1,020,875
Membership & Subscriptions	57,690	203,630
Newspapers & Periodicals	40,500	17,200
Office Water & Lighting	1,094,058	244,848
Other Expenses	47,046	0
Postage and Delivery	881,830	136,590
Printing & Stationery	1,979,743	1,746,000
Consultancy Fees	1,288,787	1,767,222
Legal Fees	1,571,276	0
Rent & Rates	2,909,100	2,386,680

Security Costs	5,534,680	4,159,975
Sports & Equivalent	4,696,510	2,242,100
Staff Tea & Official Catering	1,281,820	2,917,710
Training	65,000	2,263,700
Transport	259,630	380,600
Lunch Allowance	1,410,479	3,946,090
Night out Allowance	2,247,025	5,697,800
Total	45,854,077	52,451,578

12. PERSONNEL COSTS

	2019/2020	2018/2019
Description	Kshs	Kshs
Salaries and allowances of permanent/contract employees	106,555,141	101,785,717
Wages of temporary employees	2,724,761	782,818
National Social Security Fund (Employers)	379,000	233,600
National Water Pension Scheme (Employers)	427,293	397,688
Local Authorities Provident Fund (Employers)	4,540,850	6,104,165
Leave pay and gratuity provisions	3,798,612	2,923,435
Staff welfare – Retirees Payout	300,000	0
Staff welfare – Christmas Bonus	507,000	980,000
Total	119,232,657	113,207,423
The average number of employees at the end of the year was:		
Permanent employees – Management	18	18
Permanent employees – Unionisable	84	84
Temporary and contracted employees	60	55
Total	162	157

13. OPERATION AND MAINTENANCE COSTS

	2019-2020	2018-2019
Description	Kshs	Kshs
Automobile Fuel & Oils	4,509,318	5,617,092
Automobile Repairs	2,008,014	2,438,032
Bad Receivables Written off	5,983,704	0
Buildings & Stations Repairs	221,960	1,730,690
Casual Wages (Tech)	0	626,394
Computer Repairs	257,794	223,000
Depreciation Charge	5,811,126	5,356,568
Disconnection Costs	190,874	0
Electric Repairs	674,010	402,531
Equipment Repairs	932,343	1,700,584

Repair of Pumps & Generators	1,136,192	1,137,656
Sewer Pipeline Repair	215,593	360,190
Water Pipelines Repair	7,491,670	8,872,479
Insurance	660,550	7,322,475
Staff Uniforms & Protective gear	1,768,295	1,710,650
Provision for Bad Receivables	5,400,527	3,385,967
Total	37,261,970	40,884,308

[Provide short appropriate explanations as necessary]

14. FINANCE COSTS

	2019-2020	2018-2019
Description	Kshs	Kshs
Interest expense on Water Bowser loan	256,046	-
Interest expense on bank overdrafts	-	-
Bank service charges	205,529	109,480
Total	461,575	109,480

15. Property, Plant and Equipment Movement Schedule

Particulars	Sewer & Water System	Motor Vehicles	Furniture & Fixtures	Computer Equipment	Tools	Office Design	Generator & Pumps	Totals
ANNUAL RATES	2.5%	25%	12.5%	30%	33.3%	0	25%	
COST/ VALUATION								
At 1 July 2019	102,615,877	7,684,720	5,501,498	19,777,340	4,344,694	20,000	1,689,756	141,633,885
Additions	34,146,047	104,000	214,330	539,650	534,932	0	944,782	36,483,741
At 30 June 2020	136,761,924	7,788,720	5,648,078	20,316,990	4,879,626	20,000	2,634,538	178,117,626
DEPRECIATION								
At 1 July 2019	29,996,502	6,779,047	3,299,872	13,616,501	3,977,372	0	1,526,619	59,195,913
Charge for the period	2,669,136	252,418	301,995	2,010,147	300,451	0	276,980	5,811,127
At 30 June 2020	32,665,638	7,031,465	3,593,398	15,626,648	4,277,823	0	1,803,599	65,007,040
NET BOOK VALUE								
At 1 st July 2019	72,619,375	905,673	2,201,626	6,160,839	367,322	20,000	163,137	82,437,972
At 30 June 2020	104,096,286	757,255	2,113,962	4,690,342	601,803	20,000	830,939	113,110,588

15 (b). Asset Additions:

Additions to Sewer and Water System for the year include;

- Assets purchased through internally generated funds worth **Kshs 10,123,889**
- Muthengera borehole developed and handed over by the County Govt of Laikipia to the Company on 30th September 2019 at a cost of **Kshs 7 Million**.

- iii) Chui Muhotetu Water Supply Project developed by Northern Water Works Development Agency at a cost of Kshs 19,359,852 and handed over on 30th September 2020.

16. INVENTORY:

	2019-2020	2018-2019
INVENTORY ITEM	Kshs	Kshs
Stationery	918,631	1,032,779
Cleaning Materials	108,606	282,913
Water Treatment Chemicals	660,024	1,878,390
Staff Tea Items	35,022	62,223
Pipes and Fittings	7,990,409	5,291,594
CLOSING INVENTORY	9,712,692	8,547,899

Inventory comprises various stock items held for use during normal company operations and for repair/maintenance activities.

17. TRADE AND OTHER RECEIVABLES

Details	2019-2020	2018-2019
	Kshs	Kshs
Trade receivables (note 17 (b))	54,005,269	43,025,501
Deposits and prepayments (note 17 (c))	135,188	2,946,386
Staff receivables (note 17 (c))	68,335	0
	<u>0</u>	<u>0</u>
Gross trade and other receivables	54,208,792	45,971,887
Provision for bad and doubtful receivable	(5,400,527)	(3,385,969)
	<u>0</u>	<u>0</u>
Net trade and other receivables	48,808,265	42,585,918
	=====	=====

17 (b) TRADE RECEIVABLES

	2019-2020	2018-2019
Details	Kshs	Kshs
Gross trade receivables	54,005,269	43,025,501
Provision for doubtful receivables	(5,400,527)	(3,385,969)
Net Trade Receivables	48,604,742	39,639,532
	=====	=====
At June 30, the ageing analysis of the gross trade receivables was as follows:		
Less than 30 days	18,243,870	15,580,942
Between 30 and 60 days	5,495,565	2,121,431

Between 61 and 90 days	4,292,183	1,490,893
Between 91 and 120 days	3,578,627	1,828,032
Over 120 days	22,395,024	22,004,203
Gross Trade Receivables	54,005,269	43,025,501
	=====	=====

17 (c) STAFF AND OTHER RECEIVABLES

	2019-2020	2018-2019
Details	Kshs	Kshs
Staff loans and advances	68,335	0
Sub Total	68,335	0
Deposits and Prepayments		
Insurance	47,673	1,009,549
Office Rent	14,000	14,000
Others (Fuel Debit Card)	73,515	1,922,837
Sub Total	135,188	2,946,386
Grand Total	203,523	2,946,386
	=====	=====

18. CASH AND CASH EQUIVALENTS:

	2019-2020	2018-2019
Details	Kshs	Kshs
Cash at bank	6,816,853	6,811,793
Cash in hand	61,904	54,272
	0	0
	6,878,757	6,866,065
	=====	=====

The bulk of the cash at bank was held at Cooperative Bank of Kenya, the company's main banker while the cash in hand comprised of petty cash balances held by authorized officers at close of business.

Additionally, the company held a project account no 0160279425837 at Equity Bank Ltd holding funds from the Water Sector Trust fund for the Upscaling Basic Sanitation for the Urban Poor (UBSUP) project. The account had a balance of **Kshs 1,742,311** at close of business on 30 June, 2020.

The make – up of bank balances and cash-in-hand is as follows:

Detailed analysis of the cash and cash equivalents

		2019-2020	2018-2019
Financial institution	Account number	KShs	KShs
a) Current account			
Cooperative bank	01120037721500	2,828,931	64,913
Equity bank,	0160264259445	(79,657)	117,564
Family bank	023000028400	(52,068)	2,135,833
Post bank	0744130014862	152,811	0
Sub- total		2,850,017	2,318,310
b) On - call deposits			
Equity bank (Customer Deposits)	0160293799872	1,073,320	2,375,800
Sub- total		1,073,320	2,375,800
c) Fixed deposits account			
Cooperative bank	02003772150	2,236,299	2,117,682
Sub- total		2,236,299	2,117,682
d) Others(specify)			
Cash in hand (Petty Cash Float)		61,904	54,272
M-Pesa		657,217	0
Sub- total		719,121	54,272
Grand total		6,878,757	6,866,065

19. TRADE & OTHER PAYABLES

Details	2019-2020	2018-2019
	Kshs	Kshs
Trade payables	31,877,388	22,824,363
Sub Total	31,877,388	22,824,363
Fees and Levies		

Office of Auditor General	3,766,000	2,934,000
WASREB	9,344,155	0
Water Resource Authority (WRA)	3,629,387	1,235,750
County Government of Laikipia (Conservancy)	1,729,410	3,193,101
Northern Water Works Agency (Lease Fees)	8,480,983	8,480,983
Sub Total	26,949,935	15,843,834
Payroll Liabilities		
Local Authorities Provident Fund	17,329,977	3,728,476
Other payroll payables	4,478,375	2,041,430
Sub Total	21,808,352	5,769,906
Total Trade and Other Payables	80,635,675	44,438,103
	=====	=====

20. CUSTOMER DEPOSITS

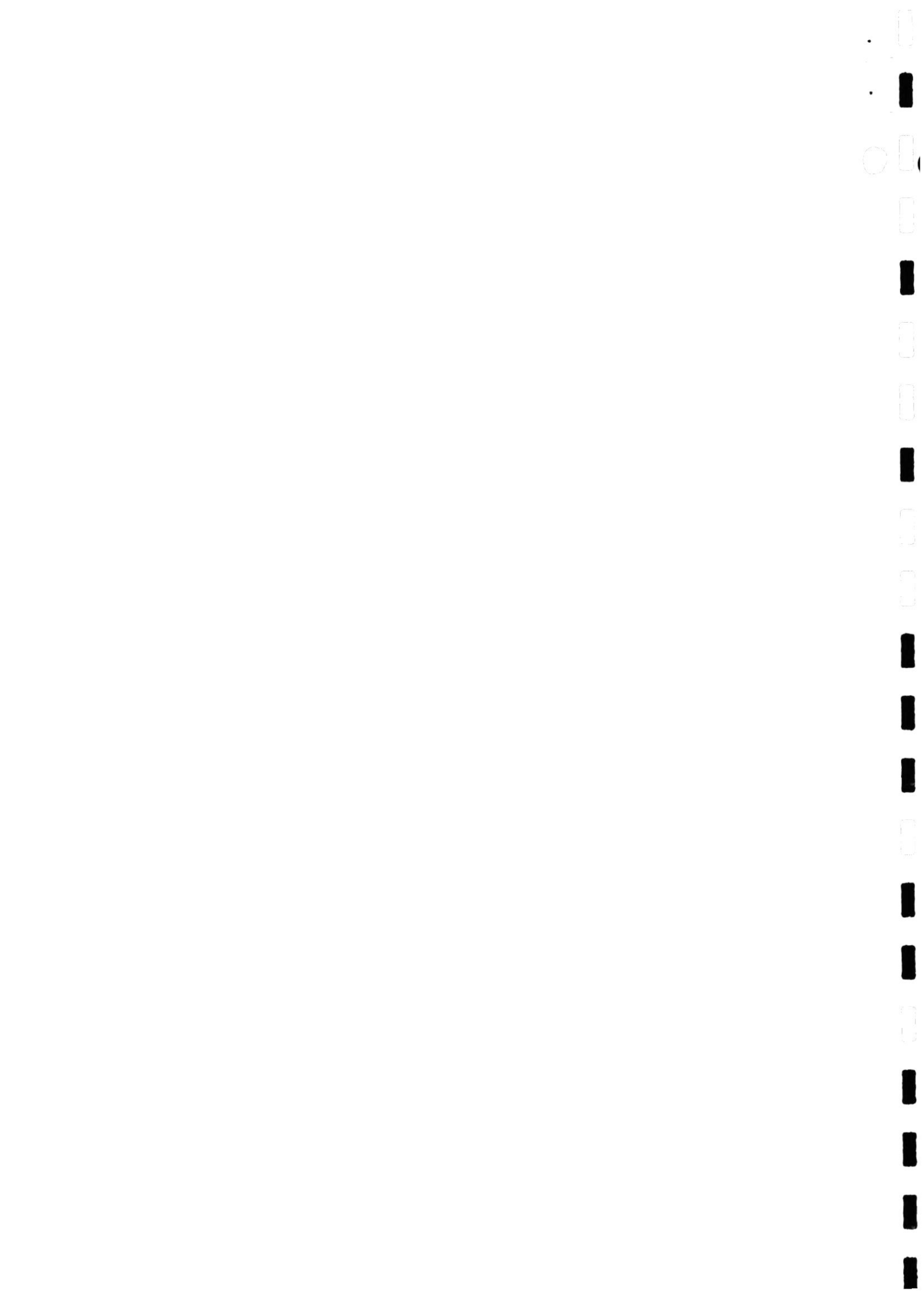
	2019-2020	2018-2019
Details	Kshs	Kshs
Balance b/f	25,069,983	22,388,122
Deposit Collections	4,002,700	4,429,855
Less: Deposit Refunds	(1,668,537)	(1,747,994)
	<u>0</u>	<u>0</u>
Balance c/f	27,404,146	25,069,983
	=====	=====

Customer deposits constitute monies paid by customers to cushion the company in the event of non-payment of outstanding bills. The deposit is refundable upon formal request of termination of services by the customers and upon clearance of any outstanding bills.

21. REVENUE RESERVES:

Details	2019-2020	2018-2019
	Kshs	Kshs
Balance b/f	(26,127,122)	(2,028,285)
Prior Year Adjustment	(21,140,070)	0
Net Profit for the period	(5,679,069)	(24,098,837)
Total Revenue Reserves	(52,946,262)	26,127,122

Revenue reserves (retained earnings) comprise of accumulated deficits and surpluses over the years.



Prior Year Adjustment comprises of omitted expenditure from the financial statements of prior years that has an effect of understatement of the accumulated Surpluses/Deficits from preceding years.

22. CAPITAL RESERVES

Details	2019-2020	2018-2019
	Kshs	Kshs
Net Assets at inception of the company	96,956,890	96,956,890
Assets handed over by shareholder (CGL)	26,359,852	0
Total Capital Reserves	123,316,742	96,956,890
	=====	=====

Capital Reserves comprise of the difference between assets/liabilities handed over at inception of the company by the municipal council. Additionally, it includes assets developed by the shareholder (County Government of Laikipia) but handed over to the company for use in service delivery.

23. ORDINARY SHARE CAPITAL

Details	2019-2020	2018-2019
	Kshs	Kshs
Authorized:		
5,000 ordinary shares of Kshs.20 par value each	100,000	100,000
	=====	=====
Issued and fully paid:		
5,000 ordinary shares of Kshs. 20 par value each	100,000	100,000
	=====	=====

24. RELATED PARTY DISCLOSURES

The company is wholly owned by the County Government of Laikipia (CGL). The Government of Kenya has provided full guarantees to all long-term lenders of the entity, both domestic and external. Other related parties include the Parent Ministry (Ministry of Water and Irrigation), County Government of Laikipia, Key management and the Board of directors; Transactions with CGL were carried out at arm's length and properly posted in their respective Revenue and Expenditure accounts. These are tabulated below:

<i>Transactions with Related Parties</i>		2019/2020	2018/2019
		Kshs	Kshs
a.	Sales to County Government		
	Water Tanker Services	360,000	255,820
	Exhauster Services	564,500	894,500

	Piped water at County Installations	2,151,265	914,851
	Total	3,075,765	2,065,171
b.	Grants from County Government		
	Donations in Kind (Pipes & fittings)	1,243,202	-
c.	Key Management Compensation		
	Directors Allowances	3,250,000	4,812,600
	Compensation to the CEO	4,268,725	4,290,720
	Compensation to key management	8,959,731	8,882,239
	Total	16,478,456	17,985,559

25. INCOME TAX EXPENSE/ (CURRENT TAXATION)

Details	2019-2020	2018-2019
	Kshs	Kshs
Profit or (Loss) as per Accounts	(16,155,417)	(24,731,828)
Add Back:		
Depreciation	5,811,125	5,356,568
Prior year Adjustment	(21,343,593)	-
Less:		
Capital Allowances (Wear & Tear)	(5,811,125)	(5,356,568)
Disallowable Expenses	-	-
Adjusted Taxable Profit/(Loss)	(37,499,010)	(24,098,837)
Profit or (Loss) B/F	(26,127,122)	(1,395,294)
Profit or (Loss) C/F	(63,626,132)	(26,127,122)
Corporation Tax Payable @ 25%	-	-

26. CONTINGENT LIABILITIES

	2019-2020	2018-2019
	Kshs	Kshs
Performance guarantee (WASREB)	3,500,000	3,500,000
Legal claims against the Company	600,000	0
Credits to customers for billing overcharge	11,640,387	0
Total	15,740,387	3,500,000
	=====	=====

The performance guarantee payment is a pre-condition for renewal of the operating license by the regulator (WASREB).



The legal claim against the company relates to a probable claim of payment for accrued leave days totaling to 62 days for the former Managing Director.

Credits to customers is a refund for amounts overbilled as explained in note 29.

In the opinion of the directors, no provision is required in these financial statements as the liabilities are not expected to crystallize.

27. FINANCIAL RISK MANAGEMENT

The entity's activities expose it to a variety of financial risks including credit and liquidity risks and effects of changes in foreign currency. The company's overall risk management programme focuses on unpredictability of changes in the business environment and seeks to minimise the potential adverse effect of such risks on its performance by setting acceptable levels of risk. The company does not hedge any risks and has in place policies to ensure that credit is only extended to customers with an established credit history.

The company's financial risk management objectives and policies are detailed below:

(i) Credit risk

The entity has exposure to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when due. Credit risk arises from cash and cash equivalents, and deposits with banks, as well as trade and other receivables and available-for-sale financial investments.

Management assesses the credit quality of each customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external assessment in accordance with limits set by the directors. The amounts presented in the statement of financial position are net of allowances for doubtful receivables, estimated by the company's management based on prior experience and their assessment of the current economic environment.

The carrying amount of financial assets recorded in the financial statements representing the entity's maximum exposure to credit risk without taking account of the value of any collateral obtained is made up as follows:

	Total amount Kshs	Fully performing Kshs	Past due Kshs	Impaired Kshs
At 30 June 2020				
Receivables from exchange transactions	0	0	0	0
Receivables from non-exchange transactions	54,005,269	28,031,618	20,573,124	5,400,527
Bank balances	6,816,853	6,816,853	0	0
Total	60,822,122	34,848,471	20,573,124	5,400,527

At 30 June 2019				
Receivables from exchange transactions	0	0	0	0
Receivables from non-exchange transactions	43,025,501	19,193,266	20,446,266	3,385,969
Bank balances	6,811,793	6,811,793	0	0
Total	49,837,294	26,005,059	20,446,266	3,385,969

The customers under the fully performing category are paying their debts as they continue trading. The credit risk associated with these receivables is minimal and the allowance for uncollectible amounts that the company has recognised in the financial statements is considered adequate to cover any potentially irrecoverable amounts.

The entity has significant concentration of credit risk on amounts due from Institutions and Government agencies.

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

ii) Liquidity risk management

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

The table below represents cash flows payable by the company under non-derivative financial liabilities by their remaining contractual maturities at the reporting date. 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.

(ii) Liquidity risk management

	Less than 1 month	Between 1-3 months	Over 5 months	Total
	Kshs	Kshs	Kshs	Kshs
At 30 June 2020				
Trade payables	5,258,365	433,235	26,185,788	31,877,388
Current portion of borrowings	0	0	0	0
Provisions	0	0	0	0

Fees and Levies payable	0	0	0	0
Employee benefit obligation	608,737	0	16,721,240	17,329,977
Total	5,867,102	433,235	42,907,028	49,207,365
At 30 June 2019				
Trade payables	3,765,015	525,000	18,534,348	22,824,363
Current portion of borrowings	0	0	0	0
Provisions	0	0	0	0
Deferred income	0	0	0	0
Employee benefit obligation	626,841	1,880,523	1,221,112	3,728,476
Total	4,391,856	2,405,523	19,755,460	26,552,839

(iii) Market risk

The board has put in place an internal audit function to assist it in assessing the risk faced by the entity on an ongoing basis, evaluate and test the design and effectiveness of its internal accounting and operational controls.

Market risk is the risk arising from changes in market prices, such as interest rate, equity prices and foreign exchange rates which will affect the entity's income or the value of its holding of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return. Overall responsibility for managing market risk rests with the Audit and Risk Management Committee.

The company's Finance Department is responsible for the development of detailed risk management policies (subject to review and approval by Audit and Risk Management Committee) and for the day-to-day implementation of those policies.

There has been no change to the company's exposure to market risks or the manner in which it manages and measures the risk.

(iii) Market risk

a) Foreign currency risk

The entity has transactional currency exposures. Such exposure arises through purchases of goods and services that are done in currencies other than the local currency.

Invoices denominated in foreign currencies are paid after 30 days from the date of the invoice and conversion at the time of payment is done using the prevailing exchange rate.

The carrying amount of the entity's foreign currency denominated monetary assets and monetary liabilities at the end of the reporting period are as follows:

	Ksh	Other currencies	Total
	Kshs	Kshs	Kshs
At 30 June 2020			
Financial assets			
Investments	0	0	0
Cash	0	0	0
Debtors	0	0	0
Financial Liabilities	0	0	0
Trade and other payables	0	0	0
Borrowings	0	0	0
Net foreign currency asset/(liability)	0	0	0

The entity manages foreign exchange risk from future commercial transactions and recognised assets and liabilities by projecting for expected sales proceeds and matching the same with expected payments.

	Ksh	Other currencies	Total
	Kshs	Kshs	Kshs
At 30 June 2019			
Financial assets			
Investments	0	0	0
Cash	0	0	0
Debtors	0	0	0
Financial Liabilities	0	0	0
Trade and other payables	0	0	0
Borrowings	0	0	0
Net foreign currency asset/(liability)	0	0	0

b) Foreign currency sensitivity analysis

The following table demonstrates the effect on the company’s statement of comprehensive income on applying the sensitivity for a reasonable possible change in the exchange rate of the three main transaction currencies, with all other variables held constant.

The reverse would also occur if the Kenya Shilling appreciated with all other variables held constant.

	Change in currency rate	Effect on Profit before tax	Effect on equity
	Kshs	Kshs	Kshs
2020			
Euro	10%	0	0
USD	10%	0	0
2019			
Euro	10%	0	0
USD	10%	0	0

c) Interest rate risk

Interest rate risk is the risk that the entity’s financial condition may be adversely affected as a result of changes in interest rate levels. The company’s interest rate risk arises from bank deposits. This exposes the company to cash flow interest rate risk. The interest rate risk exposure arises mainly from interest rate movements on the company’s deposits.

Management of interest rate risk

To manage the interest rate risk, management has endeavored to bank with institutions that offer favourable interest rates.

Sensitivity analysis

The entity analyses its interest rate exposure on a dynamic basis by conducting a sensitivity analysis. This involves determining the impact on profit or loss of defined rate shifts. The sensitivity analysis for interest rate risk assumes that all other variables, in particular foreign exchange rates, remain constant. The analysis has been performed on the same basis as the prior year.

Using the end of the year figures, the sensitivity analysis indicates the impact on the statement of comprehensive income if current floating interest rates increase/decrease by one percentage point, this would not have any effect on the profit before tax.

Fair value of financial assets and liabilities

a) Financial instruments measured at fair value

Determination of fair value and fair values hierarchy

IFRS 7 specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources; unobservable inputs reflect the *entity's* market assumptions. These two types of inputs have created the following fair value hierarchy:

- Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities. This level includes listed equity securities and debt instruments on exchanges.
- Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).
- Level 3 – inputs for the asset or liability that are not based on observable market data (unobservable inputs). This level includes equity investments and debt instruments with significant unobservable components. This hierarchy requires the use of observable market data when available. The *entity* considers relevant and observable market prices in its valuations where possible.

The following table shows an analysis of financial and non- financial instruments recorded at fair value by level of the fair value hierarchy:

At 30 June 2020	Level 1 Kshs	Level 2 Kshs	Level 3 Kshs	Total Kshs
Financial Assets				
Quoted equity investments	0	0	0	0
Non- financial Assets				
Investment property	0	0	0	0
Land and buildings	0	0	0	0
	_____	_____	_____	_____
	0	0	0	0
	=====	=====	=====	=====
At 30 June 2019				
Financial Assets				
Quoted equity investments	0	0	0	0
Non- financial Assets				

Investment property	0	0	0	0
Land and buildings	0	0	0	0
	_____	_____	_____	_____
	0	0	0	0
	=====	=====	=====	=====

Fair value of financial assets and liabilities (Continued)

a) Financial instruments measured at fair value (Continued)

	Level 1 Kshs	Level 2 Kshs	Level 3 Kshs	Total Kshs
At 30 June 2020				
Financial Assets				
Quoted equity investments	0	0	0	0
Non- financial Assets				
Investment property	0	0	0	0
Property, plant and equipment	0	0	0	0
	_____	_____	_____	_____
	0	0	0	0
	=====	=====	=====	=====
At 30 June 2019				
Financial Assets				
Quoted equity investments	0	0	0	0
Non- financial Assets				
Investment property	0	0	0	0
Land and buildings	0	0	0	0
	_____	_____	_____	_____
	0	0	0	0
	=====	=====	=====	=====



There were no transfers between levels 1, 2 and 3 during the year.

b) Financial instruments not measured at fair value

Disclosures of fair values of financial instruments not measured at fair value have not been made because the carrying amounts are a reasonable approximation of their fair values.

iv) Capital Risk Management

The objective of the entity's capital risk management is to safeguard the Board's ability to continue as a going concern. The company's capital structure comprises of the following funds:

Details	2019-2020	2018-2019
	Kshs	Kshs
Revaluation reserve	0	0
Retained earnings	(52,946,261)	(26,127,122)
Capital reserve	123,316,742	96,956,890
Total funds	70,570,481	70,929,768
Trade and other payables	80,635,675	44,438,103
Water deposits	27,404,146	25,069,983
Less: cash and bank balances	(6,878,757)	(6,866,065)
Net debt/ (excess cash and cash equivalents)	101,161,064	62,642,021
Gearing	143%	88%

28. INCORPORATION

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

29. EVENTS AFTER THE REPORTING PERIOD

The following material **adjusting** event and transactions occurred subsequent to the reporting period of June 30, 2020.

The company implemented a new billing tariff in January 2020 but was formally notified by the regulator in November 2020 that the implementation had been done erroneously leading to an overcharge of **Kshs 11,640,838** for the period January to June 2020.

Given this new information, the overcharge shows that the Revenue figure posted in the financial statements for the period was overstated. The company has recognised the overcharge as a contingent liability to be refunded to affected customers in the following period ending June 2021.

30. CURRENCY

The financial statements are presented in Kenya Shillings (Kshs).

APPENDIX 1: PROGRESS ON FOLLOW UP OF AUDITOR

RECOMMENDATIONS

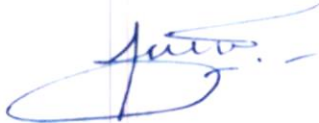
The following is the summary of issues raised by the external auditor, and management comments that were provided to the auditor. We have nominated focal persons to resolve the various issues as shown below with the associated time frame within which we expect the issues were to be resolved.

Ref No. on Audit Report	Issue / Observations from Auditor	Management comments	Focal person to resolve issue	Status	Timeframe
4.1	Unauthorized over expenditure on chemicals by Kshs 9,958,212	The over spending on was caused by a sudden change in the raw water quality characteristics at the source which resulted in higher use of water treatment chemicals quantities (<i>Records of chemical dosage attached</i>)	Technical Manager Finance Manager	Resolved. Management will ensure that all expenditure incurred is duly approved by the board.	Every Financial period
4.2	Late remittance of statutory deductions	Late remittance of PAYE in May 2019 was caused by low cash in-flows in May 2019.	Finance Manager	Resolved: Salary account set up to ensure the timely remittance of all deductions.	Every Financial period
4.3	Non- disclosure (omission) of expenses	Omission caused by a system error that has been fixed.	ICT Officer Finance Manager	Resolved: The General Ledger to be checked against the cashbooks to ensure completeness	Every Financial period
4.4	Irregular prepayment for goods and delayed delivery	Prepayment caused by supplier's terms of contract. Delay due to importation challenges by the supplier.	Procurement Officer Finance Manager	Resolved: Goods were delivered, inspected and duly used at a later date.	Every Financial period

Ref No. on Audit Report	Issue / Observations from Auditor	Management comments	Focal person to resolve issue	Status	Timeframe
4.5	Irregular procurement of goods.	Procurement procedure had been adhered to and missing support documents were provided.	Procurement Officer	Resolved: Management has ensured compliance with procurement laws	Every Financial period
4.6	Overdrawn cash book for Cooperative main account	Cash book overdraw was caused by drawn cheques that had not been presented	Finance Manager	Resolved: Timely release of drawn cheques.	Every Financial Period
4.7	Inaccuracies in personnel expenses.	Inaccuracies caused by transposition errors during posting of payment vouchers into the general ledger (GL).	ICT Officer Accountant	Resolved: payroll analysis to be the source document for personnel costs in the GL.	Every Financial period
4.8	Failure to maintain a Trial Balance.	Trial balance and statement of comparison of budget and Actual had been omitted in the audit file.	ICT Officer Accountant	Resolved: All statements required by authorities will be prepared.	Every Financial period
4.9	Spending of Customer Deposits without Board Approval	Spending was to address emergencies that required urgent intervention at a time when cash in-flows were very low.	Internal Auditor	Resolved: Customer deposits to remain intact and not be used for operations.	Every financial period
4.10	Unauthorized over expenditure on personnel costs.	Over spending on personnel costs caused by hiring of extra casuals to assist in major repairs at Marmanet rural scheme.	HR Officer Finance Manager	Resolved: Supplementary budgets on unforeseen expenditure to be prepared in future	Every Financial period
4.11	Late submission of Financial Statements.	Caused by a change in management just before the statutory submission deadline	Finance Manager	Resolved: Management to ensure timely submission of all reports.	Every Financial period
4.12	Irregular procurement of pipes and fittings.	Procurement procedures had been adhered to save for	Procurement Officer	Resolved: Management to	Every Financial



Ref No. on Audit Report	Issue / Observations from Auditor	Management comments	Focal person to resolve issue	Status	Timeframe
4.13	Inaccurate inventory balance.	The inaccuracy had been caused by a transposition error during posting.	Accountant FM	Resolved: Inventory balance corrected as recommended.	N/A
4.14	Errors in trade receivables	Errors caused by omission of provision for bad debts.	Accountant FM	Resolved: Error corrected as recommended.	N/A
4.15	Irregular expenditure on administrative expenses	Expenditures had no explicit budgetary allocation.	Finance Manager	Resolved: Strict adherence to budget provisions in future.	Every Financial period
4.16	Non-compliance with approved Budget.	Budget overruns and failure to seek approval to incur extra expenditure noted.	Accountant Finance Manager	Resolved: Approved budgets to be the basis of expenditure and supplementary budgets to be prepared when necessary.	Every Financial period
4.17	Unaccounted for water.	NRW level being at 37% due to losses from leaks & bursts	TSM NRW Team	The company is striving to continually minimise the non-revenue water	Ongoing



Sign.....

Date.....

Board Chairman



Sign.....

Date.....

Managing Director



APPENDIX II: PROJECTS IMPLEMENTED BY THE ENTITY

Status of Projects completion

During the period under review, the following projects were implemented by NYAHUWASCO. This has been a joint effort through funding by our development partners as summarized in the table below:

	Project	Total project Cost	Total Expended to date	Completion % to date	Budget	Actual	Sources of funds
1	Upscaling Basic Sanitation for the Urban Poor (UBSUP)	17,214,223	1,405,484	83 out of 200 toilets constructed	17,214,223	3,896,725	Water Sector Trust Fund (WSTF)

