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REPORT

OF

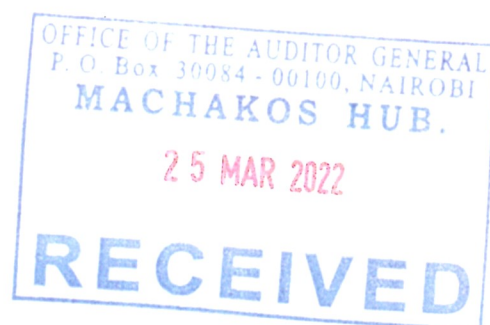
THE AUDITOR-GENERAL

PAPERS LAID	
DATE	15/11/2022
TABLED BY	Senate Majority Whip
COMMITTEE	
CLERK AT THE TABLE	I. Mbaya

ON

YATTA WATER SERVICES COMPANY
LIMITED

FOR THE YEAR ENDED
30 JUNE, 2021



YATTA WATER SERVICES COMPANY LIMITED

ANNUAL REPORTS AND FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED

JUNE 30, 2021

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

Yatta Water Services Company Limited
Annual Reports and Financial Statements
For the year ended June 30, 2021

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I. KEY ENTITY INFORMATION

Background information

Yatta Water Services Company Limited (YAWASCO) was established by the Act of Parliament on 27 July 2006. At County level, the Company is represented by the County Executive Committee Member for Water of the County Government of Machakos, who is responsible for the general policy and strategic direction of the Company. The Company is domiciled in Kenya and the head office is located in Matuu, Yatta Sub-County.

Principal Activities

The principal activity of the company is that of provision of quality water services within Matuu town and its environs.

Our Vision:

To be a world class provider for reliable, sustainable and affordable water and sewerage services.

Our mission:

To provide sufficient, quality affordable and sustainable water and sewerage services within YAWASCO area of jurisdiction in an efficient and environmentally friendly manner.

The Company core objectives are customer service delivery, teamwork and efficiency and continual improvement.

Directors

The Directors who served the entity during the year were as follows:

1.	Mr Albanus Muthama	- Chairman	- Appointed on August 2018
2.	Mr Augustus Mboya	- Managing director	- Appointed on 1st July 2016
3.	Mr Stephen Mbondo	- Member	- Appointed on August 2018
4.	Mr Albanus Muthama	- Member	- Appointed on August 2018
5.	Mr Joeeph Muli	- Member	- Appointed on August 2018
6.	Mrs Margaret Mwamisi	- Member	- Appointed on August 2018
7.	Mrs Antonillar Wambua	- Member	- Appointed on August 2018
8.	Mrs Beth Kioko	- Member	- Appointed on August 2018
9.	Mr Stephen Ndwiki	- Member	- Appointed on August 2018

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I. KEY ENTITY INFORMATION (CONTINUED)

Corporate Secretary

Mulekyo & Mulekyo Co. Advocates
P.O. Box 73554 – 0200
Nairobi, Kenya.

Registered Office

Matuu Town,
Along katangi/ikombe Rd, Off Garissa Road
P.O. Box 185 – 90119
Matuu, Kenya.

Corporate Headquarters

Tanathi Water Services Board
Private Bag
Kitui, Kenya.

Corporate Contacts

Telephone: 020-2357-535
Email: yattawaco@yahoo.com

Corporate Banker

Equity Bank Limited
Matuu Branch
P.O. Box 58 – 90119
Matuu, Kenya.

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1. KEY ENTITY INFORMATION (CONTINUED)

Independent Auditors

Auditor General

The Office of the Auditor General

Anniversary Towers, University Way

P.O. Box 30084 – 00100

Nairobi, Kenya.

Principal Legal Advisers

The Attorney General

State Law Office

Harambee Avenue

P.O. Box 40112

City Square 00200

Nairobi, Kenya.

Mulekyo & Mulekyo Co. Advocates

P.O. Box 73554 – 0200

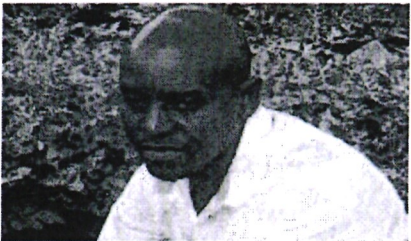
Nairobi, Kenya.

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II. THE BOARD OF DIRECTORS

Ref	Directors	Details
1.	Albanus Muthama  Profession/Academic qualifications — Degree in Engineering from Kenyatta university	BOD Chairperson D.O.B: 1966 Work experience — Businessman
2.	Mr. Augustus Mboya  Profession/Academic qualifications — Master of Arts in Economics — Bachelor of Economics and Finance — CPA(K)	Managing Director D.O.B: 1988 Work experience — Internship KCB Machakos — Internship-Kitui water and sanitation — Managing Director-YAWASCO
3.	Stephen Mbondo  Profession/Academic qualifications — Degree in Public Administration from University of Nairobi	D.O.B: 1957 Work Experience — Former Clerk at Machakos Municipal Council — Farmer and Businessman

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4.	Micheal Muthama  Profession/Academic qualifications: — Degree in bachelor of commerce	D.O.B: 1980 Work Experience — Businessman
5.	Joseph Muli  Profession/Academic qualifications: — Degree in Business Leadership from Scott Christian University	D.O.B: 1972 Work Experience — Former MCA, Ndithini Ward — Businessman

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II. THE BOARD OF DIRECTORS (CONTINUED)

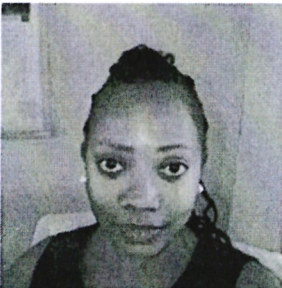
Ref	Directors	Details
6.	Margaret Mwamisi  Profession/Academic qualifications: Diploma in Education	D.O.B: 1957 Work Experience — Retired teacher — Businesswoman
7.	Antonillar Wambua Profession/Academic qualifications: — Diploma in Education	D.O.B: 1966 Work Experience — Retired teacher — Businesswoman
8.	Stephen Ndwiki  Profession/Academic qualifications: — Water Engineer from the University of Nairobi	D.O.B 1966 Work Experience — Water Engineer at Machakos County Government
9.	Beth Kioko  Profession/Academic qualifications: — Diploma in Education	D.O.B: 1968 Work Experience — Retired Cabin Crew at JKIA — Farmer

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10.	Mulekyo & Mulekyo Co Advocates Company Secretary Professional/Academic qualification — LLB — Diploma in law KSL	— Member ICPSK
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III. MANAGEMENT TEAM

Ref	Management	Details
1.	Mr. Augustus Mboya Managing Director  Profession/Academic qualifications: — Master of Arts in Economics — Bachelor of Economics and Finance — CPA(K)	— Controlling resources and expenditure. — Assuming full accountability for the board for all company operations
2.	Ms. Beatrice Kimeu HR & Administration Manager  Profession/Academic qualifications: — Bachelor of Commerce with a specialisation in HRM — Higher Diploma in Human Resource Management	— Employment, training and development of staff. — Preparation and implementation of Codes of practice.

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III. MANAGEMENT TEAM (CONTINUED)

Ref	Management	Details
3.	Ms. Damaris Mbiu Commercial Manager  Profession/Academic qualification: — Degree in Business Management (Procurement Option)	— Definition and establishment of commercial procedures. — Management of consumer files, consumer disconnections and disputes
4.	Ms. Peninah Kivindyo Technical Manager-  Profession/Academic qualification: — Diploma in Water Engineering	— Management of the implementation of major works and the supervision of design and construction. — Routine maintenance of civil works, mechanical and electrical equipment. — Procurement of operating equipment, including the installation of revenue meters.
5.	Monica Mutunga Accountant  Profession/Academic qualification: - Degree in Bachelor of Commerce(Finance Option) — CPAK	— Expenditure monitoring and reporting. — Prepare monthly financial reports and statements of YWSC. — Advise on budget and expenditure
		—

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III. MANAGEMENT TEAM (CONTINUED)

Ref	Management	Details
6.	Mulekyo & Mulekyo Co Advocates Company Secretary Professional/Academic qualification — LLB — Diploma in law KSL	— Member ICPSK

IV. CHAIRMAN'S STATEMENT

On behalf of the Board of the Directors, it is with great honour I present to you an overview of the annual report and financial statements of the company for the year ended 30th June 2021. The strong foundation that we have laid over time embracing our vision to be leading water utility in Kenya, supported by robust governance structure, continue to drive growth in YAWASCO, providing momentum for secure future.

In the water industry, the cost of electricity which is the most common input was maintained due to intervention by the County Government of Machakos to lower the electricity consumption. The cost of chemicals went slightly lower because of donation received from trust fund and the water levels not consistent through the period since we experienced some shortages.

Financial Overview: The performance during the period was average compared to the previous year. The performance is mainly attributed to the effective control of un-accounted for water (UFW) reduction measures which have been put in place. The company continued to partner with donors in funding of various projects. We submitted an application to Trust fund for the rehabilitation of the Ikombe water scheme for support in the promotion of water connection at Ikombe and its environs.

The company grew its revenue base by connecting new customers, attending to leaks and bursts and removing of illegal connections. For the corporate responsibility the company is more than a business that has served the community since 2007. Our policy brings together the ways in which the company ensures, at corporate level, that its activities are carried out ethnically, sustainably and for the public benefit.

During the period, the company was involved in a number of initiatives which have benefited the surrounding community. The initiatives are in line with the right to water and sanitation as enshrined in Chapter 4(41&43) Kenya Constitution-The Bill of Rights. Our initiatives are focussed on the environment, good business and ethical labour practices. The company is committed to being a good employer and contributes positively to the creation of employment in the country and Machakos County. As an employer the company is committed to ensuring 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 has in place two retirement benefits schemes (NSSF and Lup-fund) for its staff which will provide earning during the retirement period. In addition the company has a medical cover (NHIF) for its staff. The company also carries out employee's satisfaction survey every year with a

Yatta Water Services Company Limited
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view of improving the conditions and working environment of its employees and keep in touch with emerging employee issues

To the customers who are the pillar of the company's existence great concern is put to ensure their satisfaction. Annually the company conducts a customer satisfaction survey to ascertain whether the efforts put by the company are felt by the customers and issues raised are addressed properly. The company also in an effort to improve service delivery to customers hold meeting with water Action Groups, a team appointed by the regulator, WASREB to voice the complains to customers. The company recognizes environmental sustainability as the greatest challenge of the 21st century and commits to ensuring that all of its major strategies and operations consider their environmental and ecological aspects and impacts

Finally, the future of YAWASCO looks brighter. The company has positioned itself to expand water coverage to underserved arrears and prepared to stretch water production to maximum capacity of existing facilities. I would like to appreciate all our stakeholders, and more so the County Government of Machakos and Development partners for the solid commitment and support during the year ended on 30th June 2021. To our esteemed customer thank you for your loyalty and support. It is through the hard work and dedicated effort of the Board of the Director and Management that we are now able to celebrate together our achievement for 2020/2021 financial year. Therefore the Management and the staff of YAWASCO, let us practice our core values of customer focus, professionalism, teamwork, integrity, innovation and creativity to the delight of our customers so as to make a difference in our country. We hope for continued cooperation from all stakeholders in the coming year.

Thank you and May God bless you all

CHAIRMAN..... Abans Muthama

SIGN: 

V. REPORT OF THE CHIEF EXECUTIVE OFFICER

Generally, the year was good for the company despite the many challenges here and there but majorly the main challenge was inadequate rainfall. The Company relies on the Yatta Water Canal as its main source of water and for the better part of the year the canal did not have enough water due to lack of rains. Despite the challenge, our sales during the year significantly increased as compared to the prior year.

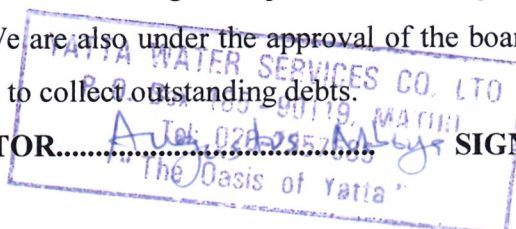
Secondly, there was COVID-19 challenge which resulted in increase in water usage as part of the disease containment measures that has been enforced by the Government of Kenya through the Ministry of Health. We educated our staff members on ways to protect themselves and their families as well as the community around us. We were able to install hand washing machines within our areas of jurisdiction. We emphasised on the need of observing the laid down health protocols to curb the spread of the virus. There were also cases of water pipes being destroyed especially when roads are being repaired which made our repair costs to rise hence wastage of water raising our Non-Revenue Water (NRW). There was also an issue of de-silting of our intake which was causing low flow of water to the canal.

We have huge outstanding debts which have proved futile for the company to collect. This due to failure of our customers to pay on timely basis hence slowing down our operations

We have a project funded by the National government and AFDB which intends to collect water from the source (Thika river) which assures us of yearly supply of water to our customers without worrying of drought. This will ensure we continue supplying clean and treated water and increase water coverage hence increased sales

In future we also intend to expound our water harvesting activities and have more sources of water like drilling of boreholes and constructing more earth dams. We plan to clean the canal intake once a year to solve the issue of de-silting. We plan to have regular inspection of our pipes to curb unnecessary spillage. We are also under the approval of the board going to involve the services of a debt collector to be able to collect outstanding debts.

MANAGING DIRECTOR..... **SIGN:**



Yatta Water Services Company Limited
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**VI. STATEMENT OF PERFORMANCE AGAINST PREDETERMINED OBJECTIVES FOR
FY 2020/2021**

Yatta Water Services Company Limited (YAWASCO) has 4 strategic pillars and objectives within its Strategic Plan for the FY 2018/2019 - 2022/2023. These strategic pillars are as follows:

Pillar 1: Increase revenue

Pillar 2: Increase customer satisfaction

Pillar 3: Management of non-revenue water

Pillar 4: Enhance institutional capacity

YAWASCO develops its annual work plans based on the above 4 pillars. 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 FY 2020/2021 period for its 4 strategic pillars, as indicated in the diagram below:

Strategic Pillar	Objective	Key Performance Indicators	Activities	Achievements
Pillar 1: Increase revenue	To increase our sales	— Timely collection of revenue and billing of customers — Increased water customers — Increased water production	— Increased Water sales	— Improvement in collection efficiency
Pillar 2: Increase customer satisfaction	Good customer relations	— Less customer complaints and positive feedback — Prompt handling of customer issues — Increased customer/ stakeholder participation	— Good customer care service — Implement an effective feedback mechanism for customers — Enhance collaborations between customers and stakeholders	— Good customer relations
Pillar 3: Management of Non-Revenue Water (NRW)	To reduce NRW	— Reduced NRW — Block maps — Reduction in response time to bursts — Increased stakeholder involvement in management of NRW — Reduced water bursts and leakages — Effective NRW unit	— Implementation of GIS — Use of technology-based meters — Continuous maintenance of water infrastructure	— Current at 34%

**VI.STATEMENT OF PERFORMANCE AGAINST PREDETERMINED OBJECTIVES FOR
FY 2020/2021 (CONTINUED)**

Strategic Pillar	Objective	Key Performance Indicators	Activities	Achievements
Pillar 3: Management of Non-revenue water (continued)			— Staff, customer and community sensitization — Strengthen NRW unit to enhance enforcement — Benchmarking with industry standards	
Pillar 4: Enhance institutional capacity	To attract and retain qualified staff	— High productivity — Improved performance — Increased staff motivation and productivity	— Ensure optimal staff complement — Enhance staff training — Performance management and reward	— Job Evaluation being done
	To increase funding to YAWASCO	— Timely collection of revenue — Adequate financial planning	— Improve revenue collection efficiency — Enhance effective and efficient financial management	— Collection efficiency is much enhanced

VII. CORPORATE GOVERNANCE STATEMENT

Yatta Water Services Company Limited (YAWASCO) Board is committed to the values and principles of good corporate governance. Good corporate governance requires that the Board of Directors must govern the Company with integrity and enterprise in a manner which entrenches and enhances the mandate it has under section 77-83 of the Water Act 2016 to operate. This embraces the Company's interaction with customers, Machakos County Government, National Government, Water Services Regulatory Board, Water Resources Management Authority and other stakeholders.

The Board retains effective control aimed at promoting and protecting stakeholder interests/value and overseeing the Company objectives are met by delegating its authority to the Managing Director who oversees the business operations of the Company on a daily basis.

The Directors and Management of YAWASCO regard corporate governance as vital to the successes of the company and are committed to ensuring that good corporate governance is practiced so that YAWASCO remains a sustainable and viable institution for providing water services in Yatta Sub-County.

As a Public Service Organization, YAWASCO decisions are guided by the core tenets prescribed in the Public Officers Ethics Act and internal codes of conduct. We continually strive to strengthen and sustain the trust that the government, the water sector and the public have placed on us.

The Company has held board meetings in every quarter of the year which have been well attended by the members. During this financial year there were six board meetings held. The company has a succession plan mechanism in place and is well stipulated in the appointment letters of the Board of Directors. The board remuneration is well stipulated in their appointment letters from the appointing authority. There is no conflict of interest in the existing board members.

VIII. MANAGEMENT DISCUSSION AND ANALYSIS

Yatta Water Services Company Limited (YAWASCO) is a limited liability company which was incorporated in line with reforms in the water sector as enshrined in the Water Act 2016. The Company is owned fully by Machakos County Government and is mandated to provide water services within Yatta Sub-County in Machakos County.

Financial Performance

The Company's performance declined during the year ended from a loss before tax of Kshs. 454,884 to a loss before tax of Kshs. 13,913,719.

The turnover increased from Kshs. 21,347,420 to Kshs. 31,266,287 during the financial year 2020/2021 representing an increase of 46%. The Company's operating loss before tax for the year ended 2020/2021 was Kshs. 13,913,719 compared to loss before tax of 454,884 as a result of inclusion of depreciation charge of KShs 2,266,946 and audit fees of KShs 232,000 in the current year. The operating expenses for the year ended was KShs 43,867,671 (2019/2020 – Kshs. 21,264,463).

The collection of trade receivables has been difficult as a result of COVID-19 which has continuously impacted our customers and during the year ended trade receivables increased from Kshs. 11,564,869 to KShs 15,719,147 in the current year.

Compliance with Statutory Requirements

YAWASCO has strived to meet its statutory obligations. These include providing regular operational and financial reports, monitoring and evaluation reports and regulatory fee submission to the Water Services Regulator Board (WASREB). YAWASCO also reports to the Water Resource Management Authority (WARMA) and pays abstraction fees. YAWASCO also reports to the County Government of Machakos (the owner).

YAWASCO also pays taxes regularly to KRA including VAT and PAYE and also pays other statutory bodies including NHIF and NSSF not forgetting pension service providers as directed by employees.

The company has also continuously met its financial obligations as and when they fall due.

Major risks facing the company includes

- Lack of constant water supply contributed by poor and inadequate rains. The current water supply from the Yatta Canal cannot meet the demand from the customers.

VIII. MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Compliance with Statutory Requirements (continued)

- The COVID-19 pandemic has negatively impacted the company and the customers economically. Further, the government directive on providing free water to hand washing stations spread across high density areas and water kiosks so that we could help the government mitigate the effects of COVID-19 through hygiene and sanitation posed a big financial challenge due to the costs involved.
- UFW (Unaccounted for Water) commonly known as Non-Revenue Water (NRW) currently stands at 34%. However, upgrade of water main lines and reduced response time to pipe bursts will bring it down to industry standards of 25%

The Company is putting in place the right mechanisms to counter the challenges it's facing at the moment and in the foreseeable future.

IX. ENVIRONMENTAL AND SUSTAINABILITY REPORTING

i) Sustainability strategy and profile

The Company ensures increased service provision as the population increases. In addition, the Company has an on-going water project which will increase water productivity thus increasing supply as demand arises due to population increase.

There is also a treatment works component which will supplement the current treatment works to ensure sustainability of the water infrastructure.

The company also intends to be up to date with technological changes and change old distribution lines with new pipelines which will also ensure sustainability.

ii) Environmental performance

The Company currently has a Decentralized Treatment Facility (DTF) for waste, whose design does not contribute to pollution of the environment and has no smell thus ensuring that the environment is clean.

iii) Employee welfare

YAWASCO enforces equal employment to all irrespective of race, gender, tribe, religion etc. Therefore, transparency in recruitment and selection process is key, we ensure that the recruitment processes are competitive and that affirmative action in respect to gender ratio is observed.

Our recruitment policies are always reviewed to ensure relevance and compliance with the employment laws.

The management also provides flexible working hours to employees who wish to study part time to upgrade their skills, in addition, the Company supports employees in various trainings to sharpen employee skills. The Company ensures employees' salaries are commensurate to skills, qualifications, experience and performance.

YAWASCO cares about the health, safety and well-being of its employees, therefore ensuring compliance with Occupation, Safety and Health Act (OSHA) and Work Injuries Benefits Act (WIBA).

iv) Market place practices

YAWASCO is a corruption free zone and has cultivated a culture of integrity within its employee complement.

The Company ensures high levels of water quality supplied by conducting monthly water quality tests to ensure consumers are supplied with clean water to safeguard their health.

The management ensures there is prompt communication to our consumers whenever there are disruptions in our services.

v) Community Engagements

YAWASCO advocates for community wellbeing. Therefore, the Company has been in the forefront to provide free clean and adequate water to the community through the kiosk outlets managed by the community in Masewani, Kivandini, Kasarani, Kwa Usau and Sofia areas.

Whenever there are outbreaks like cholera, the company supplies free water through water bowser to schools and community tanks.

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X. REPORT OF THE DIRECTORS

The Directors submit their report together with the audited financial statements for the year ended June 30, 2021 which show the state of Company's affairs.

i) Principal activities

The principal activity of the Company is provision of quality water services and in an affordable manner to the residents of Yatta Sub-County and its environs.

ii) Results

The results of the Company for the year ended June 30, 2021 are set out on page 1. Below is summary of the loss made during the year.

	2020/2021	2019/2021
	Kshs	Kshs
Loss for the year	<u>13,913,719</u>	<u>454,884</u>

iii) Dividends

There shall be no dividends declared as per Company's Articles of Association where it states that all profits shall be ploughed back to the Company for provision of water services.

iv) Directors

The members of the Board of Directors who served during the year are shown on page VII and VIII.

v) Auditors

The Auditor General is responsible for the statutory audit of Yatta Water Services Limited in accordance with Article 229 of the Constitution of Kenya and the Public Audit Act 2015.

By Order of the Board

Mulekyo & Mulekyo Co. Advocates
Corporate Secretary
Nairobi

Date: 29th Sept 21

XI. STATEMENT OF DIRECTORS' RESPONSIBILITIES

Section 164 of the Public Finance Management Act, 2012 and Kenyan Companies Act, 2015 require the Directors to prepare financial statements in respect of Yatta Water Services Limited (the "Company"), which give a true and fair view of the state of affairs of the Company at the end of the financial year and the operating results of the Company for that year. The Directors are also required to ensure that the Company keeps proper accounting records which disclose with reasonable accuracy the financial position of the Company. The Directors are also responsible for safeguarding the assets of the Company.

The Directors are responsible for the preparation and presentation of the Company financial statements, which give a true and fair view of the state of affairs of the Company for and as at the end of the financial year ended on June 30, 2021. 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 *entity*; (v) selecting and applying appropriate accounting policies; and (vi) Making accounting estimates that are reasonable in the circumstances.

The Directors responsibility for the Company 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 Kenyan Companies Act, 2015.

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XI. STATEMENT OF DIRECTORS' RESPONSIBILITIES (Continued)

The Directors are of the opinion that the Company financial statements give a true and fair view of the state of Company transactions during the financial year ended June 30, 2021, and of the Company financial position as at that date. The Directors further confirm the completeness of the accounting records maintained for the Company, which have been relied upon in the preparation of the Company 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 financial statements were approved by the Board on 29th sept 2021 and signed on its behalf by:

Signature



Name

Augustus Mbaye

Chairperson of the Board

Signature

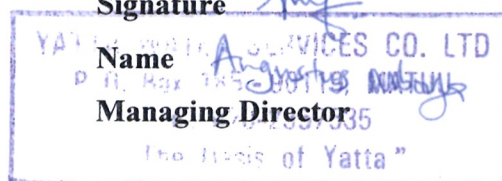


Name

Augustus Mbaye

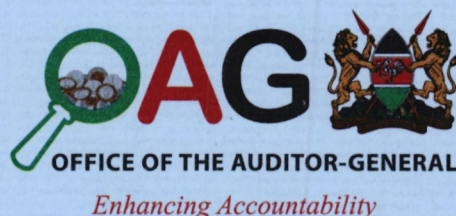
Managing Director

"The Basis of Yatta"



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 YATTA WATER SERVICES COMPANY LIMITED FOR THE YEAR ENDED 30 JUNE, 2021

PREAMBLE

I draw your attention to the contents of my report which is in three parts:

- A. Report on the Financial Statements that considers whether the financial statements are fairly presented in accordance with the applicable financial reporting framework, accounting standards and the relevant laws and regulations that have a direct effect on the financial statements.
- B. Report on Lawfulness and Effectiveness in Use of Public Resources which considers compliance with applicable laws, regulations, policies, gazette notices, circulars, guidelines and manuals and whether public resources are applied in a prudent, efficient, economic, transparent and accountable manner to ensure government achieves value for money and that such funds are applied for intended purpose.
- C. Report on Effectiveness of Internal Controls, Risk Management and Governance which considers how the entity has instituted checks and balances to guide internal operations. This responds to the effectiveness of the governance structure, the risk management environment, and the internal controls developed and implemented by those charged with governance for orderly, efficient and effective operations of the entity.

An unmodified opinion does not necessarily mean that an entity has complied with all relevant laws and regulations, and that its internal control, risk management and governance systems are properly designed and were working effectively in the financial year under review.

The three parts of the report are aimed at addressing the statutory roles and responsibilities of the Auditor-General as provided by Article 229 of the Constitution, the Public Finance Management Act, 2012 and the Public Audit Act, 2015. The three parts of the report, when read together constitute the report of the Auditor-General.

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of Yatta Water Services Company Limited set out on pages 1 to 57, which comprise the statement of financial position as at

30 June, 2021, and the statement of profit or loss and other comprehensive income statement of changes in equity, statement of cash flows and statement of comparison of budget and actual amounts for the year then ended, and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, 2015. I have obtained all the information and explanations, which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

In my opinion, except for the 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 Yatta Water Services Company Limited as at 30 June, 2021, and of its financial performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards (IFRS) and comply with the Water Act, 2016, Companies Act, 2015 and the Public Finance Management Act, 2012.

Basis for Qualified Opinion

1. Long Outstanding Trade and Other Receivables

The statement of financial position and Note 18 to the financial statements reflects trade and other receivables balance of Kshs.15,719,147 derived from netting off bad debts provision of Kshs.949,999 from the gross balance of Kshs.16,669,146. However, the schedule provided in support of the balance totalled to Kshs.12,214,855 leading to unexplained variance of Kshs.4,454,291. In addition, the provision of bad debts of Kshs.949,999 was computed as 10% of debts outstanding for more than 120 days of Kshs.9,499,989. It was however noted that the debtors' balance increased by Kshs.5,104,277 during the year under review which is an indicator of Management's inability to recover the outstanding debts. Therefore, the bad debts provision is not adequate to reflect the correct level of impairments on debts.

In the circumstances, the accuracy, completeness and validity of trade and other receivables balance of Kshs.15,719,147 as at 30 June, 2021 could not be confirmed.

2. Unsupported Expenditure on Staff Incentives

The statement of profit or loss and other comprehensive income and Note 9 to the financial statements reflect administration costs of Kshs.42,058,391 which includes the expenditure of Kshs.698,040 incurred on staff incentives. However, the ledger provided in support of the staff incentives reflected Kshs.470,250 resulting to unexplained variance of Kshs.227,790. In addition, the payment vouchers provided for the expenditure were not supported.

In the circumstances, the accuracy, completeness and validity of the expenditure of Kshs.698,040 incurred on staff incentives could not be confirmed.

3. Unsupported Inventories

The statement of financial position and Note 17 to the financial statements reflects inventories balance of Kshs.1,831,750 as at 30 June, 2021. However, the balance was not supported with a stock take report and inventories ledger.

In the circumstances, the accuracy, validity and existence of inventories of Kshs.1,831,750 as at 30 June, 2021 could not be confirmed.

4. Material Uncertainty Related to Going Concern

The statement of profit or loss and other comprehensive income reflects that the operations of the Company for the year ended 30 June, 2021 resulted in a net loss of Kshs.13,913,719 representing Kshs.13,458,835 increase in deficit of Kshs.454,884 reported in 2019/2020 financial year. In addition, the statement of financial position reflects current liabilities balance of Kshs.26,279,404 which exceeds the current assets of Kshs.17,554,264 by Kshs.8,725,140 implying that the Company is technically insolvent. Further, the statement of financial position reflects that trade and other receivables and trade and other payables increased from Kshs.10,228,582 in 2019/2020 to Kshs.25,631,863 in the year under review by Kshs.15,403,281 which means that the Company was having challenges in debts recovery and in settlements of its obligations as and when they fell due. Management did not include a disclosure on this fact and the measures in place to reverse the trend.

In the circumstances, the Company's going concern and continued operations is dependent on creditors and the Government.

5. Lack of an Updated Assets Register

The statement of financial position and Note 16 to the financial statements reflects Kshs.7,691,398 on property, plant and equipment (PPE). However, Management did not provide for audit review the updated assets register and thus the balances could not be validated. Further, the property, plant and equipment schedule under Note 16 reflects that assets under motor vehicles and computers and related equipment classes with cost values of Kshs.5,267,885 and Kshs.299,160 respectively were fully depreciated as at 30 June, 2021. However, no revaluation had been done to reflect their current economic values.

In the circumstances, the accuracy, completeness and validity of the plant, property and equipment balance of Kshs.7,691,398 as at 30 June, 2021 could not be confirmed.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the Yatta Water Services 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

Unresolved Prior Year Matters

Various prior year audit issues remained unresolved as at 30 June, 2020. Management has not provided reasons for the delay in resolving the prior year audit issues. Further, the unresolved prior year issues are not disclosed under the progress on follow up of auditor's recommendations section of the financial statements as required by the Public Sector Accounting Standards Board.

Other Information

The Directors are responsible for the other information, which comprises Key Company Information, Chairman's statement, Report of the Chief Executive Officer, Corporate Governance Statement, Management Discussions and Analysis, Environmental and Sustainability Reporting, Report of the Directors and the Statement of Directors' Responsibilities. The other information does not include the financial statements and my auditor's report thereon.

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

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 Conclusion 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-revenue water

During the year under review, the Company produced a total of 389,392 cubic meters (M^3) of water, of which only 251,929 M^3 was billed to customers leaving a balance of 137,463 M^3 (or 35%) of the production as unbilled or Non-Revenue Water (NRW). The NRW exceeded the set threshold of 25% as approved by the Water Services Regulatory (WASREB). No explanation was rendered for the high level of NRW totalling to

Kshs.17,045,412 at an average rate of Kshs.124 with the unbilled volume of 137,463 cubic meters and the measures put in place to resolve it.

In the circumstances, the Management was in breach of the law and the citizens of the Country failed to benefit from the lost water revenue.

2. Use of Expired Water Tariff

Review of the water tariff in use revealed that the water tariff was gazetted on 26 November, 2010 and was to be used for the period from 1 November, 2010 to 30 June, 2012. However, there were no documents provided for audit to confirm that extension was granted for the continued use of expired water tariff.

As a result, the water tariff in use by the Company is irregular.

3. Irregular Procurement of Security Services

The statement of profit or loss and other comprehensive income and Note 9 to the financial statements reflects administration costs of Kshs.42,058,391 as at 30 June, 2021 which includes the security expenses of Kshs.713,837. However, review of the supporting documents revealed that, security services were single sourced contrary to Regulation 129(1)(d) of the Public Procurement and Assets Disposal Regulations, 2020 which provides for competition in procurement process. Further, the contract for engagement of security services provider was not provided for audit.

In the circumstances, the validity and value for money from expenditure of Kshs.713,837 incurred on security services for the year ended 30 June, 2021 could not be confirmed.

4. Irregularities in Management of Board of Directors

The statement of profit or loss and other comprehensive income and Note 9 to the financial statements reflects the administration costs of Kshs.42,058,391 as at 30 June, 2021. The expenditure includes the amount of Kshs.2,243,000 which was incurred on board members comprising of Kshs.1,725,000 and Kshs.518,000 for Board allowances and directors' honoraria respectively. However, the following anomalies were noted during the audit:

- i. The Machakos County Governor appointed the board members of the Company through gazette notice No.9030 of 7 September, 2018. However, there were no documents provided for audit to confirm that a competitive process was followed as required under Section 2(2) of the First Schedule of Water Act of 2016.
- ii. Board Notices were not filed, hence it was difficult to determine if they had the required 14 days' notice period.
- iii. Board Minutes were not approved, signed and circulated.

In the circumstances, it has not been possible to confirm compliance with the law on appointment and expenditure of the board members.

5. Late Remittance and Non-Remittance of Statutory Deductions

The statement of profit or loss and other comprehensive income and Note 9 to the financial statements reflects administration costs of Kshs.42,058,391 as at 30 June, 2021. The expenditure includes an amount of Kshs.23,144,292 which was incurred on staff costs. It was however noted that the Management did not remit Pay As You Earn (PAYE) tax on time for some months. Further, a total of Kshs.929,284 was deducted from employees' salaries as contribution to their pension scheme but the same was not remitted to Local Authorities Provident Fund (LAPFUND).

In the circumstances, Management was in breach of the law and has acted against the welfare of its employees by failure to remit pension deductions.

6. Failure to File Returns with the Registrar of Companies

Review of company's background information reflects that the Company was established in 27 July, 2006 as a limited company under the Companies Act. However, no documents were provided to confirm that the Company has been filing annual returns with the Registrar of Companies as stipulated under Section 705(1) of the Companies Act, 2015.

In the circumstances, the Management was in breach of the law.

7. Expenditure in Excess of the Approved Budget

Comparison of expenditure incurred during the year with the approved budget revealed that Management exceeded the approved budgetary allocations against the budget-line items leading to unauthorized expenditure of Kshs.16,489,992 as detailed in Appendix I. Further, the total over expenditure amounted to Kshs.17,965,680 (68%) of total budget.

In the circumstances, the Management was in breach of the law and without necessary authority of the expenditure.

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 matters described in the Basis for Conclusion on 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

1. Weak Revenue Accountability

The statement of profit or loss and other comprehensive income reflects Kshs.31,266,287 as sales revenue for the year ended 30 June, 2021 and as disclosed in Note 6 to the financial statements. Included in water sales is an amount of Kshs.887,460 in respect to cash sales from water kiosks. However, it was noted that collections from kiosk water sales were not banked intact but instead payments were made from the same. In addition, the Company did not have a policy on revenue management.

In the circumstances, the Management did not comply with the law on accountability of cash sales which may expose the Company to revenue loss.

2. Lack of Human Resource Policy Documents

The statement of profit or loss and other comprehensive income and Note 9 to the financial statements reflects administration costs of Kshs.42,058,391 as at 30 June, 2021 which include staff costs of Kshs.23,144,292. However, the Company did not have an approved Scheme of Service, Human Resource Policy Manual and Staff Establishment Structure as stipulated in Part II - Section B2 (1 & 2) of Human Resource Policies and Procedures Manual for Public Service of 2016.

In the absence of Human Resource Policy documents, there was no basis for assessing the criteria for staff recruitment, placement and retention, promotion, career progression and compensation.

3. Lack of Risk Management Policy and a Disaster Recovery Plan

Review of the Company's risk management framework revealed that there was no Risk Management Policy framework to guide in identification, assessment and mitigation of risks. This is a contravention of the provisions of Section 158(b)(1) of the Public Finance Management (County Governments) Regulations, 2015 which outlines the role and responsibilities of Accounting Officers in respect to risk management. In addition, the Company did not have in place a Disaster Recovery and Business Continuity Plan.

In the absence of Risk Management Policy and, a Disaster Recovery and Business Continuity Plan, the Company lacks a blue print for identifying, preventing and mitigating against risks and disasters to ensure that its operations are not interrupted in case of unforeseen events.

4. Failure to Automate Key Functions

Review of the Company's systems revealed that most of the processes are manual except the water billing function. The other functions including accounting and finance, human resource management, project management, assets management and cash management are not automated. Further, the Company lacks a comprehensive Information Communication Technology (ICT) Policy to ensure efficient and effective operations including investment and management of ICT assets.

Failure to automate key functions and lack of ICT Policy, exposes the Company to risk of errors in the records which may not be detected when they occur and denies the Company the associated benefits such as speedy and accuracy in processing and data protection.

The audit was conducted in accordance with ISSAI 2315 and ISSAI 2330. The standard requires that I plan and perform the audit to obtain assurance about whether effective processes and systems of internal control, risk management and overall 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 my 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 the audit;
- ii. In my opinion, adequate accounting records have been kept by the Company, so far as appears from the examination of those records; and
- iii. The Company's financial statements are in agreement with the accounting records and returns.

Responsibilities of Management and Board of Directors

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

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

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, Management is 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 Management 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 overall 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 Company's 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 applicable 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 Company's ability 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 to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- 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 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

14 July, 2022

Yatta Water Services Company Limited
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**XIII. STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR
THE YEAR ENDED 30 JUNE 2021**

			Restated*
	Note	2020-2021	2019-2020
		Kshs	Kshs
REVENUES			
Revenue	6	31,266,287	21,347,420
Cost of sales	7	(3,891,996)	(2,408,341)
Gross profit		27,374,291	18,939,079
Other Income			
Grants from the National Government	8	2,579,661	1,870,500
TOTAL REVENUES		29,953,952	20,809,579
OPERATING EXPENSES			
Administration Costs	9	42,058,391	14,801,059
Maintenance Costs	11	1,809,280	6,463,404
TOTAL OPERATING EXPENSES		43,867,671	21,264,463
LOSS BEFORE TAXATION		(13,913,719)	(454,884)
INCOME TAX EXPENSE	13	-	-
LOSS AFTER TAXATION		(13,913,719)	(454,884)
OTHER COMPREHENSIVE INCOME		-	-
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		(13,913,719)	(454,884)

* See Note 28

Yatta Water Services Company Limited
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XIV. STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2021

			Restated*
	Note	2020-2021	2019-2020
		Kshs	Kshs
ASSETS			
Non-Current Assets			
Property, plant and equipment	16	7,691,398	9,881,344
Total Non-Current Assets		7,691,398	9,881,344
Current Assets			
Inventories	17	1,831,750	2,250,175
Trade and other receivables	18	15,719,147	11,564,869
Bank and cash balances	19	3,367	8,621
Total Current Assets		17,554,264	13,823,665
TOTAL ASSETS		25,245,662	23,705,009
EQUITY AND LIABILITIES			
Capital and Reserves			
Ordinary share capital	20	100,000	100,000
Retained earnings	21	(1,133,742)	12,779,977
Capital and Reserves		(1,033,742)	12,879,977
Non-Current Liabilities			
Deferred tax liability	23	-	-
Total Non-Current Liabilities		-	-
Current Liabilities			
Borrowing	22	51,091	-
Trade and other payables	24	25,631,863	10,228,582
Provisions	25	596,450	596,450
Total Current Liabilities		26,279,404	10,825,032
TOTAL EQUITY AND LIABILITIES		25,245,662	23,705,009

The financial statements were approved by the Board on 29th sept 2021 and signed on its behalf by:

Managing Director

Head of Finance

Chairman of the Board

Name: Angela Mbaye

Name: Monica Mubya

Name: Albanus Muthema

ICPAK M/NO: 15643

* See Note 28

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XV. STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 JUNE 2021

	Notes	Ordinary share capital	Retained earnings	Total
As at July 1, 2019 as previously reported		100,000	-	100,000
Impact of correction of errors	28		13,234,861	13,234,861
As at July 1, 2019 as restated*		100,000	13,234,861	13,334,861
Loss for the year			(454,884)	(454,884)
As at June 30, 2020		100,000	12,779,977	12,879,977
As at July 1, 2020		100,000	12,779,977	12,879,977
As at July 1, 2021 as restated				
Loss for the year			(13,913,719)	(13,913,719)
At June 30, 2021		100,000	(1,133,742)	(1,033,742)

* See Note 28

Yatta Water Services Company Limited
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XVI. STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2021

			Restated*
	Note	2020- 2021	2019-2020
		Kshs	Kshs
CASH FLOWS FROM OPERATING ACTIVITIES			
CASH FROM OPERATIONS	26	20,655	861,996
NET CASH FROM OPERATING ACTIVITIES		20,655	861,996
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property, plant and equipment	16	(77,000)	-
NET CASH GENERATED (USED IN)/ FROM INVESTING ACTIVITIES		(77,000)	-
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from borrowings	22	51,091	1,345,021
Repayment of borrowings	22	-	(1,345,021)
NET CASH GENERATED FROM FINANCING ACTIVITIES		51,091	-
(DECREASE)/ INCREASE IN CASH AND CASH EQUIVALENTS		(5,254)	861,996
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		8,621	(853,375)
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	19	3,367	8,621

* See Note 28

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XVII. STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS FOR THE PERIOD ENDED 30 JUNE 2021

	Original budget 2020-2021	Adjustments 2020-2021	Final budget 2020-2021	Actual on comparable basis 2020-2021	Performance difference 2020-2021	% of utilisation 2020-2021
Revenue	Kshs	Kshs	Kshs	Kshs	Kshs	
Sale of goods	27,600,000	-	27,600,000	31,266,287	3,666,287	13%
Transfers from the County Government of Machakos	2,500,000	-	2,500,000	2,579,661	79,661	3%
Total income	30,100,000	-	30,100,000	33,845,948	3,745,948	12%
Expenses						
Compensation of employees	10,505,870	-	10,505,870	23,144,292	12,638,422	120%
Use of goods and services	16,071,172	-	16,071,172	21,398,430	5,327,258	33%
Total expenditure	26,577,042	-	26,577,042	44,542,722	17,965,680	68%
Profit for the year	3,522,958	-	3,522,958	(10,696,774)	(14,219,732)	-404%

Reconciliation between loss for the year and statement of financial performance

Loss for year	(10,696,774)
Less: Non-cash items	
Provision for bad and doubtful debts	(949,999)
Depreciation of property, plant and equipment	(2,266,946)
Loss before tax as per the financial performance	(13,913,719)

XVII. STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS FOR THE PERIOD ENDED 30 JUNE 2021

(CONTINUED)

Budget notes

Sales of goods for the year ended increased by 13% from a budgeted amount of KShs 27,600,000 to an actual amount of KShs 31,266,287 attributed to more customer connected to the canal, metered connection, water sale from bowser and water kiosks.

Compensation of employees for the year ended increased by 120% from a budgeted amount of KShs 10,505,870 to an actual amount of KShs 23,144,292 attributed to an increase number of staff employed as a result of the increase in sale of water due to more customers who were connected during the year, engaging casual workers, unpaid salaries of KShs 10,395,685 for the prior years which had erroneously been omitted from the financial statements

Use of goods for the year ended increased by 33% from a budgeted amount of KShs 16,071,172 to an actual amount of KShs 21,398,430 attributed to canal maintenance incurred during the year, numerous canal patrol, audit fees for the prior years, frequent reminder messages sent to customers, door to door debt collection by our staff, unpaid trade payables of KShs 3,241,000 for the prior years which had erroneously been omitted from the financial statements.

XVIII. NOTES TO THE FINANCIAL STATEMENTS

1. General Information

YAWASCO is established by and derives its authority and accountability from Water Act 2016. The Company is wholly owned by the County Government of Machakos and is domiciled in Kenya. The Company's principal activity is provision of water to the residents of Matuu 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 profit or loss and other comprehensive income in these financial statements

2. Statement of Compliance and Basis of Preparation

The financial statements have been prepared on a historical cost basis except where otherwise stated in the accounting policies below. 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 5.

The financial statements have been prepared and presented in Kenya Shillings (Kshs), 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, Kenyan Companies Act, 2015 and International Financial Reporting Standards (IFRS). The accounting policies adopted have been consistently applied to all the years presented.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

3. Application of New and Revised International Financial Reporting Standards (IFRS)

i. New and amended standards and interpretations in issue effective in the year ended 30 June 2021.

Title	Description	Effective Date
IAS 39-Financial Instruments: Recognition and Measurement	IAS 39 "Financial Instruments: Recognition and Measurement" outlines the requirements for the recognition and measurement of financial assets, financial liabilities, and some contracts to buy or sell non-financial items. Financial instruments are initially recognized when an entity becomes a party to the contractual provisions of the instrument and are classified into various categories depending upon the type of instrument, which then determines the subsequent measurement of the instrument (typically amortized cost or fair value). Special rules apply to embedded derivatives and hedging instruments.	The amendments are effective for annual periods beginning on or after January 1, 2020. Earlier application is permitted.
IFRS 4- Insurance Contracts (Superseded)	IFRS 4 "Insurance Contracts" applies, with limited exceptions, to all insurance contracts (including reinsurance contracts) that an entity issues and to reinsurance contracts that it holds. In light of the IASB's comprehensive project on insurance contracts, the standard provides a temporary exemption from the requirements of some other IFRSs, including the requirement to consider IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors" when selecting accounting policies for insurance contracts.	The amendments are effective for annual periods beginning on or after January 1, 2020. Earlier application is permitted.
IFRS 7- Financial Instrument Disclosures	IFRS 7 "Financial Instruments: Disclosures" requires disclosure of information about the significance of financial instruments to an entity, and the nature and extent of risks arising from those financial instruments, both in qualitative and quantitative terms. Specific disclosures are required in relation to transferred financial assets and a number of other matters.	The amendments are effective for annual periods beginning on or after January 1, 2020. Earlier application is permitted.
IFRS 16- Leases	IFRS 16 specifies how to recognize, measure, present and disclose leases. The standard	The amendments are

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Title	Description	Effective Date
	provides a single lessee accounting model, requiring the recognition of assets and liabilities for all leases, unless the lease term is 12 months or less or the underlying asset has a low value. Lessor accounting however remains largely unchanged from IAS 17 and the distinction between operating and finance leases is retained.	effective for annual periods beginning on or after January 1, 2020. Earlier application is permitted.

The Directors have assessed the applicable standards and amendments. Based on their assessment of impact of application of the above, they do not expect that there will be a significant impact on the company's financial statements.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Application of New and Revised International Financial Reporting Standards (IFRS)

ii. New and amended standards and interpretations in issue but not yet effective in the year ended 30 June 2021.

Title	Description	Effective Date
IAS 1 — Presentation of Financial Statements	IAS 1 "Presentation of Financial Statements" sets out the overall requirements for financial statements, including how they should be structured, the minimum requirements for their content and overriding concepts such as going concern, the accrual basis of accounting and the current/non-current distinction. The standard requires a complete set of financial statements to comprise a statement of financial position, a statement of profit or loss and other comprehensive income, a statement of changes in equity and a statement of cash flows.	The amendments are effective for annual periods beginning on or after January 1, 2023. Earlier application is permitted.
IAS 12 — Income Taxes	IAS 12, "Income Taxes" implements a so-called 'comprehensive balance sheet method' of accounting for income taxes which recognizes both the current tax consequences of transactions and events and the future tax consequences of the future recovery or settlement of the carrying amount of an entity's assets and liabilities. Differences between the carrying amount and tax base of assets and liabilities, and carried forward tax losses and credits, are recognized, with limited exceptions, as deferred tax liabilities or deferred tax assets, with the latter also being subject to a 'probable profits' test.	Earlier application is permitted. The amendments are effective for annual reporting periods beginning on or after January 1, 2023. Early adoption is permitted.
IAS 16 — Property, Plant and Equipment	IAS 16 "Property, Plant and Equipment" outlines the accounting treatment for most types of property, plant and equipment. Property, plant and equipment is initially measured at its cost, subsequently measured either using a cost or revaluation model, and depreciated so that its depreciable amount is allocated on a systematic basis over	The amendments are effective for annual periods beginning on or after January 1, 2022. Early application is permitted.

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Title	Description	Effective Date
IAS 37 — Provisions, Contingent Liabilities and Contingent Assets	IAS 37 "Provisions, Contingent Liabilities and Contingent Assets" outlines the accounting for provisions (liabilities of uncertain timing or amount), together with contingent assets (possible assets) and contingent liabilities (possible obligations and present obligations that are not probable or not reliably measurable).	The amendments are effective for annual periods beginning on or after January 1, 2022. Early application is permitted.
IAS 41 — Agriculture	IAS 41 "Agriculture" sets out the accounting for agricultural activity – the transformation of biological assets (living plants and animals) into agricultural produce (harvested product of the entity's biological assets). The standard generally requires biological assets to be measured at fair value less costs to sell.	The amendments are effective for annual periods beginning on or after January 1, 2022. Early application is permitted.
IFRS 1 — First-time Adoption of International Financial Reporting Standards	IFRS 1 "First-time Adoption of International Financial Reporting Standards" sets out the procedures that an entity must follow when it adopts IFRS for the first time as the basis for preparing its general purpose financial statements. The IFRS grants limited exemptions from the general requirement to comply with each IFRS effective at the end of its first IFRS reporting period.	The amendments are effective for annual periods beginning on or after January 1, 2022. Early application is permitted.
IFRS 3 — Business Combinations	IFRS 3 "Business Combinations" outlines the accounting when an acquirer obtains control of a business (e.g. an acquisition or merger). Such business combinations are accounted for using the 'acquisition method', which generally requires assets acquired and liabilities assumed to be measured at their fair values at the acquisition date.	The amendments are effective for annual periods beginning on or after January 1, 2022. Early application is permitted if an entity also applies all other updated references (published together with the

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Title	Description	Effective Date
IFRS 17 Insurance Contracts	IFRS 17 establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts within the scope of the standard. The objective of IFRS 17 is to ensure that an entity provides relevant information that faithfully represents those contracts. This information gives a basis for users of financial statements to assess the effect that insurance contracts have on the entity's financial position, financial performance and cash flows.	updated Conceptual Framework) at the same time or earlier. The IASB tentatively decided to defer the effective date of IFRS 17, Insurance Contracts to annual periods beginning on or after January 1, 2022. [The IASB has also published 'Extension of the Temporary Exemption from Applying IFRS 9 (Amendments to IFRS 4)' to defer the fixed expiry date of the amendment also to annual periods beginning on or after January 1, 2023.]

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.

iii. Early adoption of standards

The entity did not early – adopt any new or amended standards in year 2020/2021.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

4. Summary of Significant Accounting Policies

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

a) Revenue recognition

Revenue is measured based on the consideration to which the entity expects to be entitled in a contract with a customer and excludes amounts collected on behalf of third parties. The entity recognizes revenue when it transfers control of a product or service to a customer.

- 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 National Government** 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) Other income** is recognised as it accrues.

b) In-kind contributions

In-kind contributions are donations that are made to the *entity* in the form of actual goods and/or services rather than in money or cash terms. These donations may include vehicles, equipment or personnel services. Where the financial value received for in-kind contributions can be reliably determined, the *entity* 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.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Summary of Significant Accounting Policies (Continued)

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:

	Rate
Buildings and civil works	12.5 %
Plant and machinery	12.5 %
Motor vehicles, including motor cycles	25%
Computers and related equipment	30%
Office equipment, furniture and fittings	12.5 %

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Summary of Significant Accounting Policies (Continued)

d) Depreciation and impairment of property, plant and equipment (continued)

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) Right of Use Asset

The right-of-use assets comprise the initial measurement of the corresponding lease liability, lease payments made at or before the commencement day, less any lease incentives received and any initial direct costs. They are subsequently measured at cost less accumulated depreciation and impairment losses. Whenever the entity incurs an obligation for costs to dismantle and remove a leased asset, restore the site on which it is located or restore the underlying asset to the condition required by the terms and conditions of the lease, a provision is recognized and measured under IAS 37. To the extent that the costs relate to a right-of-use asset, the costs are included in the related right-of-use asset, unless those costs are incurred to produce inventories. Right-of-use assets are depreciated over the shorter period of lease term and useful life of the underlying asset. If a lease transfers ownership of the underlying asset or the cost of the right-of-use asset reflects that the entity expects to exercise a purchase option, the related right-of-use asset is depreciated over the useful life of the underlying asset. The depreciation starts at the commencement date of the lease. The right-of-use assets are presented as a separate line in the consolidated statement of financial position.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Summary of Significant Accounting Policies (Continued)

f) Inventories

Inventories are stated at the lower of cost and net realizable value. Cost comprises direct materials and, where applicable, direct labour costs and those overheads that have been incurred in bringing the inventories to their present location and condition. Cost is calculated using the weighted average cost method. Net realizable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution.

g) 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.

h) Taxation

i) 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 Entity operates and generates taxable income.

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.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Summary of Significant Accounting Policies (Continued)

h) Taxation (continued)

ii) Deferred tax

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

Deferred tax liabilities are recognized for all taxable temporary differences, except in respect of taxable temporary differences associated with investments in controlled entities, associates and interests in joint ventures, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future. Deferred tax assets are recognized for all deductible temporary differences, the carry forward of unused tax credits and any unused tax losses.

Deferred tax assets are recognized to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilized, except in respect of deductible temporary differences associated with investments in controlled entities, associates and interests in joint ventures, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Unrecognized deferred tax assets are re-assessed at each reporting date and are recognized to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered. Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Summary of Significant Accounting Policies (Continued)

ii) Deferred tax (continued)

Deferred tax relating to items recognized outside surplus or deficit is recognized outside surplus or deficit. Deferred tax items are recognized in correlation to the underlying transaction in net assets. Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

i) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. To the extent that variable rate borrowings are used to finance a qualifying asset and are hedged in an effective cash flow hedge of interest rate risk, the effective portion of the derivative is recognized in other comprehensive income and reclassified to profit or loss when the qualifying asset impacts profit or loss. To the extent that fixed rate borrowings are used to finance a qualifying asset and are hedged in an effective fair value hedge of interest rate risk, the capitalized borrowing costs reflect the hedged interest rate. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization. All other borrowing costs are recognized in profit or loss in the period in which they are incurred.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Summary of Significant Accounting Policies (Continued)

j) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and cash at bank, short-term deposits on call and highly liquid investments with an original maturity of three months or less, which are readily convertible to known amounts of cash and are subject to insignificant risk of changes in value. Bank account balances include amounts held at the Central Bank of Kenya and at various Commercial Banks at the end of the reporting period. For the purposes of these financial statements, cash and cash equivalents also include short term cash imprests and advances to authorised public officers and/or institutions which were not surrendered or accounted for at the end of the financial year.

k) 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 amortised cost using the effective interest rate method. Amortised 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 capitalised as part of the cost of the project.

l) Trade and other payables

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Summary of Significant Accounting Policies (Continued)

m) Retirement benefit obligations

The entity operates a defined contribution scheme for all full-time employees from July 1, 2017. The scheme is administered by an in-house team and is funded by contributions from both the company and its employees. The company also 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 ranging between Kshs. 360 to Kshs. 1080 per employee per month.

n) Provision for staff leave pay

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

o) 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 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.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Summary of Significant Accounting Policies (Continued)

p) Budget information

The original budget for FY 2020-2021 was approved by the Board of Directors on 4th June 2020.

The entity'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 XVII of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Summary of Significant Accounting Policies (Continued)

q) Service concession arrangements

The Entity analyses all aspects of service concession arrangements that it enters into in determining the appropriate accounting treatment and disclosure requirements. In particular, where a private party contributes an asset to the arrangement, the Entity recognizes that asset when, and only when, it controls or regulates the services the operator must provide together with the asset, to whom it must provide them, and at what price. In the case of assets other than 'whole-of-life' assets, it controls, through ownership, beneficial entitlement or otherwise – any significant residual interest in the asset at the end of the arrangement. Any assets so recognized are measured at their fair value. To the extent that an asset has been recognized, the Entity also recognizes a corresponding liability, adjusted by a cash consideration paid or received.

r) Comparative figures

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

s) Subsequent events

There have been no events subsequent to the financial year end with a significant impact on the financial statements for the year ended June 30, 2021.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Summary of Significant Accounting Policies (Continued)

5. Significant Judgments and Sources of Estimation Uncertainty

The preparation of the Entity'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.

a) 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 Entity 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.

b) 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.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Summary of Significant Accounting Policies (Continued)

c) Provisions

Provisions were raised and management determined an estimate based on the information available.

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

Provision for doubtful debts is disclosed in Note 18(a) and is based on 10% of all overdue trade receivables as at year end.

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

6. Revenue

	2020/2021	2019/2020
	Kshs	Kshs
Sales of goods	31,266,287	21,347,420
Total	31,266,287	21,347,420

7. Cost of Sales

	2020/2021	2019/2020
	Kshs	Kshs
Cost of sales on goods	3,891,996	2,408,341
Total	3,891,996	2,408,341

8. Grants from County Government

	2020/2021	2019/2020
	Kshs	Kshs
Recurrent grants received	2,579,661	1,870,500
Total	2,579,661	1,870,500

The details of the grant received from County Government of Machakos is provided in the table below:

Name of the Entity sending the grant	Amount recognized in the Statement of Comprehensive Income KShs	Amount deferred under deferred income KShs	Amount recognised in capital fund. KShs	Total grant income during the year KShs	2019/2020 KShs
County Government of Machakos	2,579,661	-	-	2,579,661	1,870,500
Total	2,579,661	-	-	2,579,661	1,870,500

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

9. Administration Costs

		Restated*
	2020/2021	2019/2020
Description	Kshs	Kshs
Staff costs (Note 10)	23,144,292	8,829,329
Directors' emoluments (BOD administration expenses)	1,725,000	1,494,500
Directors' honoraria	518,000	254,000
Staff incentives	698,040	75,900
Staff training expenses	350,333	20,000
Electricity	3,992,284	1,870,500
Transportation, travelling and subsistence	1,585,750	210,200
Advertising, printing, stationery and photocopying	404,440	208,971
Hospitality supplies and services	9,000	48,690
Insurance costs	138,952	47,304
Bank charges and commissions	92,245	179,540
Office and general supplies and services	616,947	338,240
Auditors' remuneration	232,000	-
Consultancy fees	184,000	70,000
Provision for bad and doubtful debts	949,999	150,000
Depreciation of property, plant and equipment	2,266,946	-
Accountancy expenses	303,000	142,000
Telephone, postage & courier	259,652	49,320
Subscription and levies	2,688,899	-
Office and Stores repairs	104,470	-
Entertainment	773,705	149,965
Security	713,837	662,600
Canal maintenance	306,600	-
Total	42,058,391	14,801,059

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

10. Staff Costs

Description	2020/2021	2019/2020
	Kshs	Kshs
Salaries and allowances of permanent employees	22,624,052	8,612,444
Compulsory national health insurance schemes	336,000	105,905
Compulsory national social security schemes	156,240	110,980
Staff welfare	28,000	-
Total	23,144,292	8,829,329
The average number of employees at the end of the year was:		
Permanent employees – Management	5	5
Permanent employees – Unionisable	24	24
Total	29	29

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

11. Maintenance costs

	2020/2021	2019/2020
Description	Kshs	Kshs
Billing system repairs	395,500	-
Water system repairs	-	1,976,813
Fuel and lubricants	-	2,288,246
Purchases of chemicals	-	656,698
Motor vehicle running expenses	830,580	1,394,147
Other maintenance costs	583,200	147,500
Total	1,809,280	6,463,404

12. Operating loss

	2020/2021	2019/2020
	Kshs	Kshs
The operating loss is arrived at after charging:		
Staff costs (Note 10)	23,144,292	8,829,329
Depreciation of property, plant and equipment	2,266,946	-
Provision for bad and doubtful debts	949,999	150,000
Directors' emoluments (BOD administration expenses)	1,725,000	1,494,500
Directors' honoraria	518,000	254,000
Auditors' remuneration - current year fees	232,000	-

NOTES TO THE FINANCIAL STATEMENTS (Continued)

13. Taxation

As earlier reported in the previous years, the Directors in terms of IAS 1 declare that the financial statements present a fair view of the Company's financial position; financial performance and cash flows and that they have complied with applicable International Accounting Standards and interpretations. However, the Company has in terms of IAS 1 paragraphs 13 to 22 departed from the requirements of IAS 12 in order to have a fair representation of its tax liability status for the following reasons:

- The Company is wholly owned by County Government of Machakos. The Company operations are under the County Government and as per the provision of the Constitution FOURTH SCHEDULE (Article 185 (2), 186 (1) and 187 (2)). It is principally owned by County Government of Machakos to deliver services as per the County Government Act. According to the 1st schedule paragraph 8 of the Income Tax Act (ITA), the income of a County Government is exempted from the provisions of ITA. The income thus generated by the Company in pursuit of its mandate and as its agent, is tax exempt. Any surplus arising thereon is re-invested in the water services infrastructure for development and enhancing sustainability.

14. Earnings Per Share

There was no earning per share for the financial years 2020/2021 and 2019/2020 as the company reported a loss after tax in the both the financial years.

15. Dividend Per Share

The company incurred a loss for the year ended and as per the Articles of Association all profits shall be ploughed back to the company for provision of water services and hence no dividend is declared by the company.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

16. Property, Plant and Equipment

2020/2021	Plant and machinery	Motor vehicles, including, motor cycles	Computers & related equipment	Office equipment, furniture & fittings	Total
COST					
At July 1, 2020	18,122,101	5,267,885	299,160	1,144,112	24,833,258
Additions	-	-	-	77,000	77,000
At June 30, 2021	18,122,101	5,267,885	299,160	1,221,112	24,910,258
DEPRECIATION					
At July 1, 2020	8,892,397	4,852,610	865,391	341,516	14,951,914
Charge for the year	2,265,263	415,275	(566,231)	152,639	2,266,946
At June 30, 2021	11,157,660	5,267,885	299,160	494,155	17,218,860
NET BOOK VALUE At June 30, 2021	6,964,441	-	-	726,957	7,691,398

2019/2020	Plant and machinery	Motor vehicles, including, motor cycles	Computers & related equipment	Office equipment, furniture & fittings	Total
COST					
At July 1, 2019 and June 30, 2020	18,122,101	5,267,885	299,160	1,144,112	24,833,258
DEPRECIATION					
At July 1, 2019	6,627,134	3,535,639	775,643	198,502	11,136,918
Charge for the year	2,265,263	1,316,971	89,748	143,014	3,814,996
At June 30, 2020	8,892,397	4,852,610	865,391	341,516	14,951,914
NET BOOK VALUE At June 30, 2020	9,229,704	415,275	(566,231)	802,596	9,881,344

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

16. Property, Plant and Equipment (continued)

Property plant and equipment includes the following assets that are fully depreciated:

	Cost or valuation	Normal annual depreciation charge
Motor vehicles, including motor cycles	5,267,885	1,316,971
Computers and related equipment	299,160	89,748
Total	5,567,045	1,406,719

17. Inventories

	2020/2021	Restated*
	Kshs	Kshs
Engineering stores (pipes, meter boxes & wheelbarrows)	1,831,750	1,831,750
Alluminium sulphate	-	100,000
Calcium hypochlorite	-	318,425
Total	1,831,750	2,250,175

18. Trade and Other Receivables

	2020/2021	Restated*
	Kshs	Kshs
Trade receivables (Note 18 (a))	16,669,146	11,564,869
Gross trade and other receivables	16,669,146	11,564,869
Provision for bad and doubtful receivable	(949,999)	-
Net trade and other receivables	15,719,147	11,564,869

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

18 (a) Trade Receivables (continued)

	2020/2021	2019/2020
	Kshs	Kshs
Gross trade receivables	16,669,146	11,564,869
Provision for doubtful receivables	(949,999)	-
Net trade receivables	15,719,147	11,564,869
At June 30, the ageing analysis of the gross trade receivables was as follows:		
Less than 30 days	569,182	150,000
Between 30 and 60 days	1,393,841	50,041
Between 61 and 90 days	2,227,588	249,999
Between 91 and 120 days	2,978,546	94,000
Over 120 days	9,499,989	11,020,829
Total	16,669,146	11,564,869

18 (b) Reconciliation of Impairment Allowance for Trade Receivables

Description	2020-2021	2019-2020
	KShs	KShs
At the beginning of the year	-	-
Additional provisions during the year	949,999	-
At the end of the year	949,999	-

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

19. Bank and Cash Balances

		Restated*
	2020/2021	2019/2020
	Kshs	Kshs
Cash at bank	2,640	8,621
Cash in hand	727	-
	3,367	8,621

Detailed analysis of the cash and cash equivalents

			Restated*
		2020/2021	2019/2020
Financial institution	Account number	KShs	KShs
a) Current account			
Equity Bank - Expense a/c	0390290558130	1,275	292
Equity Bank - Revenue a/c	0390290557216	-	(5,387)
Equity Bank - Deposit a/c	0390290558218	1,365	13,716
Sub- total		2,640	8,621
b) Others (specify)			
Cash in hand		727	-
Sub- total		727	-
Grand total		3,367	8,621

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

20. Ordinary Share Capital

	2020/2021	2019/2020
	Kshs	Kshs
Authorized:		
10,000 ordinary shares of KShs 10 par value each	100,000	100,000
Issued and fully paid:		
10,000 ordinary shares of KShs 10 par value each	100,000	100,000

21. Retained Earnings

The retained earnings represent amounts available for distribution to the Company's shareholders. Undistributed retained earnings are utilised to finance the Company's business activities.

22. Borrowings

Description	2020-2021	2019-2020
	KShs	KShs
Domestic Borrowings		
Balance at beginning of the year	-	-
Domestic borrowings during the year	51,091	1,345,021
Repayments during the year	-	(1,345,021)
Balance at end of the year	51,091	-

The domestic borrowing of KShs 51,091 is a book balance overdraft. The analysis of domestic borrowings is as follows:

	2020-2021	2019-2020
	KShs	KShs
Domestic Borrowings		
Kenya Shilling loan from Equity Bank Limited	51,091	-
Total balance at end of the year	51,091	-

Description	2020-2021	2019-2020
	KShs	KShs
Short term borrowings (current portion)	51,091	-
Total	51,091	-

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

23. Deferred Tax Liability

Deferred tax is calculated on all temporary differences under the liability method using the enacted tax rate, currently 30%. The net deferred tax liability at year end is attributable to the following items:

		Restated*
	2020/2021	2019/2020
	Kshs	Kshs
Tax losses carried forward	-	-
Net deferred tax liability	-	-

The movement on the deferred tax account is as follows:

		Restated*
	2020/2021	2019/2020
	Kshs	Kshs
Balance at beginning of the year	-	-
Income statement charge/(credit)	-	-
Balance at end of the year	-	-

24. Trade and Other Payables

		Restated*
	2020-2021	2019-2020
	Kshs	Kshs
Trade payables	921,585	-
Accrued expenses	5,103,403	5,429,894
Customer deposits	3,847,688	3,398,688
Other payables	15,759,187	1,400,000
Total	25,631,863	10,228,582

25. Provisions

	2020-2021	2019-2020
	Kshs	Kshs
Balance at the beginning of the year	596,450	-
Additional Provisions	-	596,450
Balance at the end of the year	596,450	596,450

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

26. Notes to the Statement of Cash Flows

		Restated*
	2020-2021	2019-2020
	Kshs	Kshs
(a) Reconciliation of operating loss to cash generated from operations		
Loss before tax	(13,913,719)	(454,884)
Depreciation on property, plant and equipment	2,266,946	
Prior year adjustment through retained earnings		14,576,585
Operating (loss)/profit before working capital changes	(11,646,773)	14,121,701
Increase/(decrease) in inventories	418,425	(2,030,788)
Decrease in trade and other receivables	(4,154,278)	(9,620,828)
Increase/(decrease) in trade and other payables	15,403,281	(2,204,539)
Increase in provision for staff leave pay	-	596,450
Cash generated from operations	20,655	861,996
(b) Analysis of changes in loans		
Balance at beginning of the year	-	856,266
Receipts during the year	51,091	1,345,021
Repayments during the year	-	(2,201,287)
Balance at end of the year	51,091	-
(c) Analysis of cash and cash equivalents		
Cash at bank	2,640	8,621
Cash in hand	727	-
Balance at end of the year	3,367	8,621

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

27. Related Party Disclosures

The County Government of Machakos is the principal shareholder of the Company, holding 100% of the Company's equity interest. The County Government of Machakos has provided full guarantees to all long-term lenders of the entity, both domestic and external.

Other related parties include:

- i) The Parent Ministry
- ii) Key management
- iii) Board of directors

Transactions with related parties

	2020-2021	2019-2020
	Kshs	Kshs
a) Grants from the Government		
Grants from County Government	2,579,661	1,870,500
Total	2,579,661	1,870,500
b) Key management compensation		
Directors' emoluments	1,725,000	1,494,500
Total	1,725,000	1,494,500

28. Correction of errors

During the year the ended 30 June 2021, the Company noted that a number of accounts had been classified and measured incorrectly in the previous years. The affected accounts were misstated due to the following:

- Revenue from canal billing which had been paid by the customer in the prior years was only recognized in the financial statements but the unpaid amount had erroneously been omitted;
- Property, plant and equipment was not tallying to the fixed asset register;
- Finished goods (Water) and Untreated Water (WIP) were erroneously recognized as inventories;
- Bank and cash balances opening balances were not tallying to prior year reported amount;
- Trade and other payables included amounts that were erroneously recognized as customer deposits; and
- Deferred tax liability was erroneously reported.

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

28. Correction of errors (continued)

The errors from the above have been corrected by restating each of the affected financial statement lines items for the prior periods. The following table summarizes the impact on the financial statements.

a) Statement of financial position 2019/2020

	As previously reported	Adjustment	As restated
	Kshs	Kshs	Kshs
ASSETS			
Non-Current Assets			
Property, plant and equipment	9,931,343	(49,999)	9,881,344
Total Non-Current Assets	9,931,343	(49,999)	9,881,344
Current Assets			
Inventories	3,284,426	(1,034,251)	2,250,175
Trade and other receivables	2,044,040	9,520,829	11,564,869
Bank and cash balances	55,381	(46,760)	8,621
Total Current Assets	5,383,847	8,439,818	13,823,665
TOTAL ASSETS	15,315,190	8,389,819	23,705,009
EQUITY AND LIABILITIES			
Capital and Reserves			
Ordinary share capital	100,000	-	100,000
Retained earnings	(454,883)	13,234,860	12,779,977
Capital and Reserves	(354,883)	13,234,860	12,879,977
Non-Current Liabilities			
Deferred tax liability	136,464	(136,464)	-
Total Non-Current Liabilities	136,464	(136,464)	-
Current Liabilities			
Borrowings	-		-
Trade and other payables	14,937,159	(4,708,577)	10,228,582
Provisions	596,450	-	596,450
Total Current Liabilities	15,533,609	(4,708,577)	10,825,032
TOTAL EQUITY AND LIABILITIES	15,315,190	8,389,819	23,705,009

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b) Statement of profit or loss and other comprehensive income 2019 - 2020

	As previously reported	Adjustment	As restated
	2019-2020	2019-2020	2019-2020
	Kshs	Kshs	Kshs
REVENUES			
Revenue	21,347,420		21,347,420
Cost of sales	(2,408,341)	-	(2,408,341)
Gross profit	18,939,079	-	18,939,079
Other Income			
Grants from the National Government	1,870,500	-	1,870,500
TOTAL REVENUES	20,809,579		20,809,579
OPERATING EXPENSES			
Administration Costs	14,711,289	89,769	14,801,058
Finance cost	89,769	(89,769)	-
Maintenance Costs	6,463,404	-	6,463,404
TOTAL OPERATING EXPENSES	21,264,462	-	21,264,462
LOSS BEFORE TAXATION	(454,883)	-	(454,883)
INCOME TAX EXPENSE/(CREDIT)	-	-	-
LOSS AFTER TAXATION	(454,883)	-	(454,883)
OTHER COMPREHENSIVE INCOME			
Profit/ (Loss) after taxation	(454,883)	-	(454,883)
Surplus or deficit on revaluation of PPE	-	-	-
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	(454,883)	-	(454,883)

29. Capital Commitments

The Company had no capital commitments as at 30 June 2021 (2019/2020 – Nil).

30. Contingent Assets and Liabilities

The Company had no contingent assets and liabilities as at 30 June 2021 (2019/2020 – Nil).

NOTES TO THE FINANCIAL STATEMENTS (Continued)

31. Financial Risk Management

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

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

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

(i) Credit risk

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

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

The carrying amount of financial assets recorded in the financial statements representing the Company'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 2021				
Receivables from non-exchange transactions	16,669,146	569,182	6,599,975	9,499,989
Bank balances	2,640	2,640	-	-
Total	16,671,786	571,822	6,599,975	9,499,989
At 30 June 2020				
Receivables from non-exchange transactions	11,564,869	394,041	149,999	11,020,829
Bank balances	8,621	8,621	-	-
Total	11,573,490	402,662	149,999	11,020,829

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

(i) Credit risk (continued)

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 Company has no significant concentration of credit risk.

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

(ii) Liquidity risk management

Ultimate responsibility for liquidity risk management rests with the Company directors, who have built an appropriate liquidity risk management framework for the management of the Company's short, medium and long-term funding and liquidity management requirements. The 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.

	Less than 1 month	Between 1-3 months	Over 5 months	Total
	Kshs	Kshs	Kshs	Kshs
At 30 June 2021				
Borrowing	51,091	-	-	51,091
Trade and other payables	921,585	-	24,710,278	25,631,863
Provisions	-	-	596,450	596,450
Total	921,585	-	25,306,728	26,228,313
At 30 June 2020				
Trade and other payables	2,937,159	4,000,000	3,291,423	10,228,582
Provisions	25,000	25,000	546,450	596,450
Total	2,962,159	4,025,000	3,837,873	10,825,032

NOTES TO THE FINANCIAL STATEMENTS (Continued)

(iii) Market risk

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

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

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

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

i) 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 Company's market assumptions. These two types of inputs have created the following fair value hierarchy:

- i)** Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities. This level includes listed equity securities and debt instruments on exchanges.
- ii)** 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).
- iii)** 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 Company considers relevant and observable market prices in its valuations where possible.

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.

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

(iv) Capital Risk Management

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

	2020-2021	2019-2020
	Kshs	Kshs
Capital reserve	(1,033,742)	12,879,977
Total borrowings	51,091	-
Less: cash and bank balances	(3,367)	(8,621)
Net debt/(excess cash and cash equivalents)	47,724	(8,621)
Gearing	(5%)	0%

32. Incorporation

The Company is incorporated in Kenya under the Kenyan Companies Act, 2015 and is domiciled in Kenya.

33. Events After The Reporting Period

There were no material adjusting and non- adjusting events after the reporting period.

34. Currency

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

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APPENDICES

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.

Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Focal Point person to resolve the issue (Name and designation)	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
1.0	Errors of Presentation and Misstatements in the Financial Statements				
1.1	Presentation and Disclosure Errors in the Financial Statements				
	Review of the Water Company's financial statements for the year ended 30 June, 2020 showed several errors of presentation and disclosure as follows: 1.1.1 Director's passport-size photo and a concise description of each director's date of birth and work experience was not included under the Board of Directors' information. 1.1.2 The management discussion analysis report did not include descriptive tools such as tables, graphs and pie charts. Consequently, the financial statements as prepared and presented do not comply with the reporting format prescribed by the Public Sector Accounting Standards Board (PSASB).				
1.2	Misstatements in the Financial Statements				
1.2.1.	Inaccurate Comparative Balances				
	The statement of financial position shows trade and other payables of				

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Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Focal Point person to resolve the issue (Name and designation)	Status (Resolved / Not Resolved)	Timeframe (Put a date when you expect the issue to be resolved)
	Kshs. 12,433,121 for 2018/2019 which differs with the amount of Kshs.11,947,663 shown in the prior year audited financial statement resulting to a variance of Kshs.485,458. In addition, the statement of profit or loss and other comprehensive income reflects comparative amount for administration costs of Kshs.13,739,150 while note 12(a) shows a balance of Kshs.12,469,711 resulting to a variance of Kshs.1,269,439. It was further noted that the statement of financial position reflects Kshs. 435,458 (negative) as the retained earnings for 2018/2019 which is at variance with amount of negative Kshs. 436,265 shown in the prior year audited financial statement resulting to a variance of Kshs. 807. In view of the foregoing, the accuracy of the financial statements as presented cannot be confirmed.				
1.2.2	Inaccurate Statement of Cash Flows The statement of cash flows reflects net increase in cash and cash equivalents of Kshs. 908,755.57. However, a casting error of Kshs. 1,428,190.89 was noted and the correct balance should be negative Kshs.519,435.32. The same error is repeated in cash and cash equivalents at the end of the year which should have been indicated as negative Kshs. 1,372,810.32 instead of the Kshs. 55,380.57 now shown. Further, the corrected cash and cash equivalents balance at the end of the year is at variance with cash and bank balance of Kshs.				

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Reference No. on the external audit Report	Issue/ Observations from Auditor	Management comments	Focal Point person to resolve the issue (Name and designation)	Status: (Resolved/ Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
	55,380.57 reflected in the statement of financial position as at 30 June, 2020. In the circumstances, the statement of cash flows does not reflect the correct position on cash movements for the year and the closing balance.				
1.2.3	Inaccurate Statement of Profit and Loss and Other Comprehensive Income The statement of profit and loss and other comprehensive income shows nil balance for income tax expense (credit). However, note 16 to the financial statements shows income tax expense of negative Kshs. 136,464. Further, the depreciation charge of Kshs. 3,814,996 shown under note 19 to the financial statements has not been included in the statement of profit or loss and other comprehensive income thus overstating the operating results. In the circumstances, the accuracy and completeness of the statement of profit and loss and other comprehensive income cannot be confirmed.				
1.2.4	Understatement of Revenue				

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Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Focal Point person to resolve the issue (Name and designation)	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
	The statement of profit or loss and other comprehensive income reflects sales revenue of Kshs. 21,347,420. However, casting errors of Kshs. 7,460 and Kshs. 125,000 were noted under total revenue collection and billings for the year respectively. In addition, the recognized revenue of Kshs. 16,697,313 was found to differ from the Kshs. 19,448,720 total billings to the customers for the year leading to a Kshs. 2,751,407 understatement. In addition, analysis done from the bank statements showed total revenue collected of Kshs. 19,426,838.96 which was more than the Kshs. 16,697,313 reported resulting to a Kshs. 2,729,526 variance. Further, billings and non-revenue reports reflect water billing for the year of Kshs. 16,721,770 which was at variance with the Kshs. 17,896,007 verified from customer billings summary resulting to a Kshs. 1,174,237 difference. In addition, the billing schedules, invoices and receipts for canal customers, water kiosks and water boozers were not provided for audit thus it was not possible to ascertain how the customers were billed. In the circumstances, the accuracy and completeness of sales revenue of Kshs. 21,347,420 for the year ended 30 June, 2020 could not be confirmed.				
1.2.5	Differences between Financial Statement and Ledger Balances				
	The statement of profit or loss and other comprehensive income and note 12 to the financial statements reflects administration costs				

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Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Focal Point person to resolve the issue (Name and designation)	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)																											
	amounting to Kshs. 14,711,288. Review of the general ledger and the schedules provided in support revealed variances of Kshs. 1,841,317 affecting four (4) components as shown below: <table><tr><th>Item</th><th>Financial Statements (Kshs)</th><th>General Ledger (Kshs)</th><th>Variance (Kshs)</th></tr><tr><td>Staff costs</td><td>8,829,329</td><td>11,500,495</td><td>(2,671,165)</td></tr><tr><td>Advertising, printing, stationery and photocopying</td><td>208,971</td><td>171,721</td><td>37,250</td></tr><tr><td>Subscriptions</td><td>0</td><td>100,000</td><td>(100,000)</td></tr><tr><td>Motor vehicle expenses</td><td>1,394,147</td><td>755,549</td><td>638,598</td></tr><tr><td>Honoraria</td><td>254,000</td><td>0</td><td>254,000</td></tr><tr><td>Total</td><td>10,686,447</td><td>12,527,765</td><td>(1,841,317)</td></tr></table> No explanation or reconciliation was provided for the variances. Consequently, the accuracy of the administrative costs balance of Kshs. 14,711,288 reflected in the statement of profit or loss and other comprehensive income could not be ascertained.	Item	Financial Statements (Kshs)	General Ledger (Kshs)	Variance (Kshs)	Staff costs	8,829,329	11,500,495	(2,671,165)	Advertising, printing, stationery and photocopying	208,971	171,721	37,250	Subscriptions	0	100,000	(100,000)	Motor vehicle expenses	1,394,147	755,549	638,598	Honoraria	254,000	0	254,000	Total	10,686,447	12,527,765	(1,841,317)			
Item	Financial Statements (Kshs)	General Ledger (Kshs)	Variance (Kshs)																													
Staff costs	8,829,329	11,500,495	(2,671,165)																													
Advertising, printing, stationery and photocopying	208,971	171,721	37,250																													
Subscriptions	0	100,000	(100,000)																													
Motor vehicle expenses	1,394,147	755,549	638,598																													
Honoraria	254,000	0	254,000																													
Total	10,686,447	12,527,765	(1,841,317)																													

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Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Focal Point person to resolve the issue (Name and designation)	Status: (Resolved/ Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
2.0	Property, Plant and Equipment The statement of financial position reflects Property, Plant & Equipment balance of Kshs. 9,931,343 and as disclosed under note 19. However, this amount differed from amounts confirmed from the summary of the fixed asset register. In addition, management did not provide for audit a fixed asset register showing details such as; the date of acquisition, cost, location and condition of the assets. Further, it was noted that most assets had been depreciated to negative balances which is incorrect and revaluation should have been done on fully depreciated assets still in use. In addition, the depreciation charge of Kshs. 3,814,996 shown under note 15 was not included in the statement of profit and loss and other comprehensive income. In view of the above, the accuracy, fair statement and validity of the Property, Plant & Equipment balance of Kshs. 9,963,045 could not be confirmed.				
3.0	Staff Costs Note 12(a) on administration costs reflects Kshs. 8,829,329 in respect to staff costs. However, analysis of the payroll for the twelve months gave a total of Kshs. 9,429,012 resulting to unexplained difference of Kshs. 599,683. In the circumstances, the accuracy of staff costs reflected in the financial statements of Kshs. 8,829,329 could not be confirmed.				

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Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Focal Point person to resolve the issue (Name and designation)	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
4.0	Cash and Bank Balances The statement of financial position reflects bank and cash balances of Kshs. 55,380 and as disclosed in note 30 to the financial statements which comprised of Kshs.111, Kshs.41,553 and Kshs.13,715 for expenditure, revenue and deposit bank account balances respectively. However, it was noted that the company did not maintain separate cashbooks for each of the three bank accounts and no separate bank reconciliations were prepared. In addition, certificates of bank balances and board of survey report were not provided for audit verifications. Further, it was noted that the customers make payments through the Mpesa platform but Mpesa statements were not provided for audit and the balances in Mpesa accounts were not disclosed in the financial statements. In the circumstances, it has not been possible to confirm, the accuracy and completeness of the cash and bank balance of Kshs. 55,380 as at 30 June, 2020.				

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5.0	Trade and Other Receivables The statement of financial position reflects a balance of Kshs. 1,894,041 in respect to trade and other receivables and as disclosed under note 27(a) to the financial statements. This amount is net of Kshs. 150,000 provision for bad debts computed on the basis of 10% of debts outstanding for more than 120 days. However, included in this amount are trade receivables totalling Kshs. 1,500,000 or about 73% of the balance which had been outstanding for over 180 days. Consequently, the adequacy of the Kshs. 150,000 provision for bad and doubtful debts could not be determined. In addition, management did not demonstrate any tangible efforts towards recovery of the long outstanding debts. Further, it was noted that the ageing analysis disclosed under note 27 (b) has gross receivables totalling Kshs.2,094,041 which exceeds the Kshs.2,044,041 reflected in note 27(a) by Kshs.50,000. The variance was neither reconciled nor explained. The statement of financial position reflects trade and other receivables of Kshs. 2,044,041 and Kshs. 1,944,041 for 2019/2020 and 2018/2019 respectively. However, note 27(a) reflects balances of Kshs. 894,041 and Kshs. 1,794,041 respectively on the same account. In the circumstances, the accuracy, fair statement and recoverability				

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	of trade and other receivables valued at Kshs. 1,894,041 could not be confirmed.				
6.0	Unaccounted for Customers' Deposits				
	The statement of financial position reflects a balance of Kshs. 15,533,608 in respect to current liabilities which includes customers' deposits balance of Kshs.8,107,265 as disclosed under note 37 to the financial statements. However, the respective bank account for customer deposits A/c No.0390290558218 maintained with Equity Bank had a Kshs. 13,715 balance as at 30 June, 2020 which implies that customers' deposits totaling Kshs. 8,093,549 could not be accounted for. In addition, ledgers and schedules in support of customers' deposit balance were not provided for audit. Consequently, it has not been possible to confirm the fair statement and accountability of the customers' deposits and the ability of the company to make refunds to the customers as and when they are demanded.				
7.0	Un-Disclosed Material Uncertainty Related to Going Concern				
	The statement of profit or loss and other comprehensive income shows total realized revenue for the year of Kshs. 20,809,579 which was a decline from the Kshs. 24,204,959 reported in the prior year. Further, the operations of the company for the year resulted to a net				

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	loss of Kshs. 454,883. In addition, the financial position reflects current liabilities of Kshs. 15,533,608 which exceeds current assets totalling Kshs. 5,383,847 by Kshs. 10,149,761 implying that the company is technically insolvent. These factors are indicative that the Company is facing financial difficulties which may negatively impact on the its continued operations and casts significant doubt on its ability to continue as a going concern. This matter has not been disclosed in the financial statements and the measures in place to reverse the negative trend. Consequently, it has not been possible to ascertain the company's ability to sustain its operations in the foreseeable future and the appropriateness of use of the going concern basis of reporting.				
8.0	Budget and Budgetary Performance				
	The statement of comparison of budget and actual amounts reflects budgeted revenue and actual amount on comparable basis of Kshs. 22,800,000 and Ksh. 23,217,920 respectively. However, actual revenue reflected in the statement has not been netted off against the cost of sales of Kshs. 2,408,341 and the correct amount for actual amount on comparable basis is Kshs. 20,809,579. This implies that there was a Kshs. 1,990,421 shortfall in revenue realization during the year equivalent to 9% of the budget.				

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	Similarly, the statement reflects budgeted expenditure and actual amount on comparable basis of Kshs. 19,222,315 and Kshs. 18,953,579 respectively with a resultant under-expenditure of Kshs. 268,735. However, the statement of profit or loss and other comprehensive income reflects actual expenditure for the year of Kshs. 21,264,462 which implies that the expenditure for the year is understated in the statement of comparison of budget and actual amounts. Actual under expenditure for the year was Kshs. 2,042,147 or about 11% of the budget. Failure to realize the budgeted revenue and the related under-expenditure implies that some of the planned activities and programmes for the company were not undertaken thus denying the associated benefits to the targeted community.				
9.0	Non - Revenue Water				
	A review of available records revealed that the Company produced 278,463 cubic meters (M³) of water out of which only 182,735 M³ was billed to customers leaving the balance of 95,728 M³ or approximately 34% of total production as unaccounted for water (UFW) valued at Kshs. 10,242,896. The level of un-accounted for water for the year is over and above the allowable limit of 25% as provided under schedule E of the Water Services Regulatory (WASREB) guidelines. Further, the high level of NRW negatively affects the company's financial soundness and its continued				

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	operations. To this extent, the Company is in breach of the law.				
10.0	Irregular Procurement of Security Services Note 12(a) on administration costs shows a figure of Kshs. 662,600 in respect to security expenses. However, management did not provide evidence on how security services were procured. Further, review of a contract between the Company and the security services provided show that the contract period has no limit and can be renewed indefinitely. In addition, although the signed contract agreement provided for four (4) security guards daily (1 security guard during the day and three during the night), no evidence was provided for audit verification to confirm that the four security guards were deployed to the Company throughout the year. Further, management did not provide documents in support of the security services expenditure such as the payment vouchers and invoices for audit.				
	Consequently, it has not been possible to confirm the regularity of procurement of security services and the validity and value for money from the Kshs. 662,600 paid.				
11.0	Un-clear Ownership of the Company The background information to financial statements indicate that the Company is fully owned by County Government of Machakos. According to the Memorandum and Articles of Association reviewed, the Company was initially owned by Town Council of Matuu, but				

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	this changed upon enactment of Water Act, 2016 which placed ownership of the Company under the County Government of Machakos. Further, unconfirmed minutes of an Annual General Meeting (AGM) held on 26 June, 2015 indicates that board members resolved that the shares formerly held by the Town Council of Matuu be transferred to the County Government of Machakos, but there was no evidence to show that this has been done.				
	In the circumstances, it has not been possible to confirm the ownership status of the Company and it is in compliance with Section 154 of Water Act 2016.				
12.0	Failure to Appoint Board Members Through a Competitive Process				
	The Board members the water Company were appointed by the Governor of County Government of Machakos on 7 September, 2018 through gazette notice No.9030. However, there is no evidence to show that a competitive process was followed as required under section 2(2) of schedule 1 of water Act of 2016. Further, it was not possible to ascertain if the members appointed had attained the required level of education and experience. To this extent, the Company was in breach of the law.				

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13.0	Lack of Approved HR Policy Documents Audit revealed that the Water Company was operating with and implementing key human resource policy documents which had not been approved by the Board as follows: • Scheme of service • Staff establishment • Organogram • Grading structure • Human Resource Manual Consequently, it has not been possible to ascertain the lawfulness of the human resource decisions made over the years such as, recruitment, remuneration, staff disciplinary actions and progression.				
14.0	Lack of Internal Audit Function and Committee Audit revealed that the Company does not have in place an internal audit function nor committee contrary to the requirements of Section 155 of the Public Finance Management Act, 2012 which requires every county government entity to have arrangement in place for internal audit function for the purpose of carrying out in depth reviews of management operations and internal controls.				
15.0	Lack of Information Communication Technology Policy To this extent, the Company is in breach of the law. Review of the Company's ICT environment revealed that there the				

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	only one IT system deployed for water billing while all other key areas such as; assets management, human resource, procurement and finance were in form of manual records. Further, it was noted that the water company did not have in place an approved ICT policy to guide on management of IT assets in matters such as; data, ownership, confidentiality, integrity, backup and access and control over IT assets. Consequently, the company is exposed to errors in processing and loss of data due to failure to automate key operational areas and for lack of an ICT policy.				
16.0	Lack of Risk Management Policy and Disaster Recovery Plan				
	The Company does not have an approved risk management policy and a disaster recovery plan. This is contrary to the provisions of Section 655(3)(a)(ii) of the Company's Act, 2015 which requires companies to give a description of principal risks and uncertainties facing their operations and Section 158(1)(a) and (b) of the Public Finance Management (County Government) Regulations 2015, which requires the Accounting Officer to ensure that the entity develops risk management strategies which include fraud prevention mechanisms and develop a system of risk management and internal control that builds robust business operations. Consequently, the Company lacks a blue print for identifying, and				

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	mitigating against risks and is exposed to interruption of services in case of disasters.				

Managing Director
Yatta Water Services Company Limited

Chairman of the Board
Yatta Water Services Company Limited



Date.....

Yatta Water Services Company Limited
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APPENDIX II: PROJECTS IMPLEMENTED BY THE ENTITY

Projects

Projects implemented by Yatta Water Services Company Limited funded by development partners.

Project title	Project Number	Donor	Period/ duration	Donor commitment	Separate donor reporting required as per the donor agreement (Yes/No)	Consolidated financial statements in these (Yes/No)	1
							N/A

Status of Projects completion

Project	Total project Cost	Total expended to date	Completion % to date	Budget	Actual	Sources of funds	1
							N/A

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APPENDIX IV: RECORDING OF TRANSFERS FROM OTHER GOVERNMENT ENTITIES

Name of the MDA/Donor Transferring the funds	Date received as per bank statement	Nature: Recurrent/Development/Others	Total Amount - KShs	Where Recorded/recognized					Total Transfers during the Year
				Statement of Financial Performance	Capital Fund	Deferred Income	Receivables	Others - must be specific	
None	Not applicable	None	-	-	-	-	-	-	-
Total			-	-	-	-	-	-	-