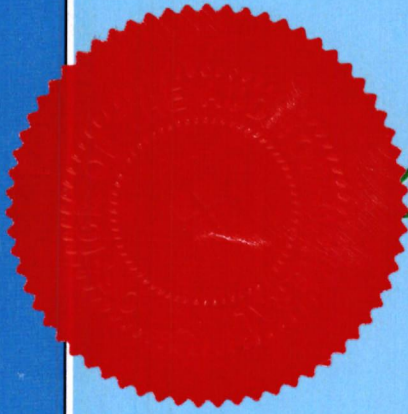


REPUBLIC OF KENYA

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OFFICE OF THE AUDITOR-GENERAL

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REPORT

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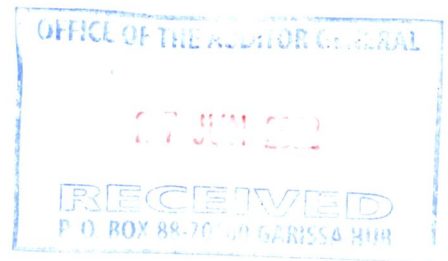
THE AUDITOR-GENERAL

ON

**ELWAK WATER AND SEWERAGE
COMPANY LIMITED**

**FOR THE YEAR ENDED
30 JUNE, 2021**





ELWAK WATER AND SEWERAGE COMPANY LIMITED

ANNUAL REPORTS AND FINANCIAL STATEMENTS

**FOR THE FINANCIAL YEAR ENDING
JUNE 30, 2021**

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

ELWAK WATER AND SEWERAGE COMPANY LIMITED

Annual Reports and Financial Statements

For the year ended June 30, 2021

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ELWAK WATER AND SEWERAGE COMPANY LIMITED

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KEY ENTITY INFORMATION

Background information

Elwak Water and Sewerage Company Limited (Elwasco) was established by the companies Act of Parliament on 23rd of April two thousand and twenty (2020). Elwasco is represented by the Board of Directors and the Chief Executive Officer who are responsible for the general policy and strategic direction of ELWASCO. Elwasco is domiciled in Kenya and is based in Elwak Municipality, Mandera County.

Principal Activities

To provide and distribute a continuous supply of water for commercial, industrial and domestic purposes within the jurisdiction of Elwak Municipality.

To be responsible for the provision and maintenance of water and sewerage services within the jurisdiction of Elwak Municipality.

Directors

The Directors who served ELWASCO during the year period were as follows:

- | | | |
|----|-----------------------------|---------------------------|
| 1. | Mr Abdirahman Nuraw | - Chairman |
| 2. | Mrs Miriam Maalim Issacovow | - Deputy Chairperson |
| 3. | Mrs Nasra Adan Maalim | - Board Member |
| 4. | Mr Mohamed Adan Maalim | - Board Member |
| 5. | Mr Mohamedrasheed Haji | - Board Member |
| 6. | Mr Alinoor Mohamed Ali | - Board Member |
| 7. | Mr Adan Abdirahman | - Board Member |
| 8. | Mr Kassim Haji Abdineer | - Chief Executive Officer |

Registered Officer

ELWASCO Buildings, Next to Elwak Municipality Head Quarter
EL Golicha Road
P.O. Box 61 - 70301
Elwak, Mandera County,
KENYA

Corporate Headquarters

ELWASCO Buildings, Next to Elwak Municipality Head Quarter
P.O. Box 61 - 70301
Elwak, Mandera County,
KENYA

ELWAK WATER AND SEWERAGE COMPANY LIMITED

Annual Reports and Financial Statements

For the year ended June 30, 2021

Corporate Contacts

Telephone: (+254) 729224090

E-mail: info@elwasec.co.ke

Website: www.elwasec.co.ke

Corporate Bankers

Equity Bank Limited

Mandera Branch

P.O. Box 60000

Mandera, Kenya

Independent Auditors

Auditor-General

Kenya National Audit Office

Anniversary Towers, University Way

P.O. Box 30084

GOP 00100

Nairobi, Kenya

Principal Legal Advisers

The Attorney General

State Law Office

Harambee Avenue

P.O. Box 40112

City Square 00200

Nairobi, Kenya

ELWAK WATER AND SEWERAGE COMPANY LIMITED

Annual Reports and Financial Statements

For the year ended June 30, 2021

1. THE BOARD OF DIRECTORS

1.	Mr Abdiranman Nurow	Chairman
2.	Mrs Miriam Maahim Issackow	Deputy Chairperson
3.	Mrs Nasra Adan Maahim	Board Member
4.	Mr Mohamed Adan Issack	Board Member
5.	Mr Mohamedtasad Haji	Board Member
6.	Mr Alinoor Mohamed Ali	Board Member
7.	Mr Adan Abdirahman	Board Member
8.	Mr Kassim Haji Abdinoor	Ex-official Member and CEO Elwasco

ELWAK WATER AND SEWERAGE COMPANY LIMITED

Annual Reports and Financial Statements For the year ended June 30, 2021

2. MANAGEMENT TEAM

1. Mr. Issack Adam	Deputy Chief Executive Officer
2. Issa Ahmed Ali	Head of Financial Services
3. Alinoor Yussuf	Technical Manager
4. Mohamednoor Issack	Procurement Manager
5. Alinoor Mohamed	Human Resource Manager
6. Adan Abdullatif	Head of Administration

ELWAK WATER AND SEWERAGE COMPANY LIMITED

Annual Reports and Financial Statements

For the year ended June 30, 2021

3. CHAIRMAN'S STATEMENT

Elwak water and Sewerage Company Limited faced extreme difficulties in its operation. This is due to largely faulty water systems that were handed over to us at start of operations. The company, during the year achieved a goal of staff establishment. The county Government of Mandera seconded some of their staffs to help start the operations of the company.

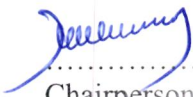
ELWASCO also recruited some casuals to effectively deliver services to the community. The casuals were initially contracted on short term contracts of one year. The board will however, debate on whether to extend the length of the contracts.

During the same period, the company initiated the process of Licensing to enable the Company function within the wala of the law. The company achieved a milestone within months of operations, when it received its License. ELWASCO became the first to ever receive Licensing while less than a year old.

The company faced many chalenges during the first year of operation. We experienced security threat to our staffs and assets from the criminals operating near the border to Somalia. They have on many occasion, stalled our operation by making roads impassable.

The company also experienced large scale breakdown of old Generators and countless pipe bursts which contributed to a major setback in terms of providing water to the community.

ELWASCO's main challenge has been lack of funds. The company inherited an old water system which needed complete overhaul. The team had to do with a faulty water system with no funds to rectify or put in place a new one.



Chairperson of the Board



Date

ELWAK WATER AND SEWERAGE COMPANY LIMITED

Annual Reports and Financial Statements For the year ended June 30, 2021

4. REPORT OF THE CHIEF EXECUTIVE OFFICER

ELWASCO faced extreme difficulties in its operation during the year. This is due to largely faulty water systems that were handed over to us at start of operations. The company, during the year achieved a goal of staff establishment. The county Government of Mandera seconded some of their staffs to help start the operations of the company.

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ELWASCO's main challenge has been lack of funds. The company inherited an old water system which needed complete overhaul. The team had to do with a faulty water system with no funds to rectify or put in place a new one.

Financial Summary

The company's expenditure has mainly been on Repair, Maintenance and operation costs. The Company is running on deficit as our Revenue systems are not yet at its peak. ELWASCO is sorting out Grants from the W.S.A and other such entities. The County Government Grant is solely not enough. The Company is looking to improve its revenues gradually.

However, the company faced big loss considering the magnitude of challenges faced throughout the year. This is depicted below.

Revenue Collected for the year (audited)	78,000,000	
Grants from County Government	<u>24,100,000</u>	<u>77,100,000</u>
Operation costs (Exc. Depreciation)	14,740,656	
Liability	<u>11,371,911</u>	<u>96,112,967</u>
Difference		<u>(19,012,567)</u>

ELWAK WATER AND SEWERAGE COMPANY LIMITED

Annual Reports and Financial Statements

For the year ended June 30, 2021

The company also made losses of Kshs. 5,311,250 due to high cost of operation and a deficit in revenue collection.


.....
CEO

30/06/2021
.....
Date

ELWAK WATER AND SEWERAGE COMPANY LIMITED

Annual Reports and Financial Statements

For the year ended June 30, 2021

5. REVIEW OF ELWASCO'S PERFORMANCE FOR FY 2020/2021

The company made a loss of KShS. 5,311,250 for the financial year in question. The operating expenditure is high while revenue collection for the period is less than expected.

6. CORPORATE GOVERNANCE STATEMENT

INTRODUCTION

The responsibility for the control and management of the Company is divided between the Board of Directors (supported by its Committees) and the Executive Officer.

GENERAL MEETING OF THE BOARD OF DIRECTORS

The Board of Directors of ELWASCO exercise their decision-making power at the Company's Board meetings. The rights and the duties of the Board meeting are defined in the Ongozi code and in the Public Finance Acts. The Board had four sittings throughout the year.

An Extraordinary General Meeting ("EGM") may be convened by the Board when they consider it necessary or when required by a

BOARD OF DIRECTORS

Composition of the Board consists of a minimum of eight (8) members.

OPERATIONS OF THE BOARD

The duties of the Board are those specified in the Companies Act, according to which the Board is responsible for overseeing that the management and operations, and the supervision of accounting and financial matters of the Company are appropriately organised. The Articles of the Company do not define other duties for the Board. The Board has authority to act in all matters not reserved by law. The Board meets as often as necessary to properly fulfil its duties. The Board decides well in advance on its meeting schedule and additional meetings are arranged when necessary. The Board evaluates its performance and working methods annually.

BOARD CHARTER

The Board has adopted the Board Charter according to the Charter, apart from the statutory duties the main tasks of Board are:

- i. Approval of the strategy, goals and direction
- ii. Approval of strategically important or major acquisitions and divestments
- iii. Business control including, among others, approvals of control policies, and business matters in accordance with the company's Activities Policy & Approval Matrix
- iv. Approval of the business organisation structure
- v. Appointment of the CEO
- vi. Approval of the appointments of the top management
- vii. Financial control

ELWAK WATER AND SEWERAGE COMPANY LIMITED

Annual Reports and Financial Statements

For the year ended June 30, 2021

- viii. Budgets
- ix. Approval of principles of risk management and internal control
- x. Appointment of the Chief Audit Executive and approval of the Internal Audit Charter
- xi. Appointment to the Board Committees and review of the reports of the Board Committees

COMMITTEES OF THE BOARD

The Board constituted the committees with comprises of

- i. Finance Committee
- ii. Human Resource Committee
- iii. Audit Committee
- iv. Others

MANAGEMENT DISCUSSION AND ANALYSIS

ELWASCO's financials are as summarised below

Revenue Collected for the year ended	77,100,000	
Grants from County Government	<u>19,350,000</u>	
		77,100,000
Operation costs (Excl. Depreciation)	96,112,656	
Liability	<u>1,371,911</u>	
		96,112,967
Difference		<u>(19,012,567)</u>

The Company experienced a net loss of Kshs. (5,311,250) as at 30th June 2021. This was due to high operation cost and deficit revenue target and collection.

The company undertook several maintenance of boreholes, procurement of water pumps, meters among others to highlight a key investment.

The Company faced real threats in terms of security from the border with Somalia. Most of ELWASCO's assets including six boreholes are at the border. This has sometimes paralysed the operations of the company. There are bandits around the border who vandalise our pipes consistently. The security officers have not been helpful in curbing these issues.

ELWASCO has casual employees. The Company contributes Kshs.200 as NSSF on behalf of the casuals. The company is also obliged to contribute an amount towards NHIF as contribution from deduction of casual payroll.

7. CORPORATE SOCIAL RESPONSIBILITY STATEMENT/SUSTAINABILITY REPORTING

ELWASCO exists to transform lives. This is our purpose; the driving force behind everything we do. It's what guides us to deliver our strategy, which is founded on ELWASCO'S pillars: putting the customer first, delivering relevant goods and services, and improving operational excellence. Below is a brief highlight of our interventions in each pillar:

ELWAK WATER AND SEWERAGE COMPANY LIMITED

Annual Reports and Financial Statements

For the year ended June 30, 2021

i. Sustainability strategy and profile -

The company is experiencing high operation cost as a result of high Fuel usage at our pump stations. The company pumps water from a village more than 35KM from Elwak Municipality. We are currently using around 20kl of Diesel daily to pump and provide water to our clients. This is not sustainable in the long run.

The company has plan to phase out and size all our boreholes. There is a plan to phase out use of Generator at our pump station within the first five years of operation so as to cut cost on fuel.

ii. Environmental performance:

The company has collaborated with Elwak Municipality who have undertaken tree planting projects. This is a contribution from ELWASCO in ensuring greener, cleaner and attractive environment.

The company has also planted over two thousand trees in its first eight month of operation. The company is also planning to set up waste disposal and treatment site to abate in avoiding environmental degradation. The site identification process will be initiated in the Financial Year 2021/2022.

iii. Employee welfare:

The Company employ mostly unskilled employees. The recruitment process mainly involves casuals who are given short term contract. However, the company has seconded staff from Mandera County Government. ELWASCO has prioritised capacity building of staff in the financial year.

Safety gears have been provided to all employees attached to the technical department or those involved in border community demanding work.

ELWASCO has casual employees. The Company contributes Kshs.200 as NSSF on behalf of the casuals. The company is also obligated to contribute an amount towards NHIF as contribution from deduction of cost of work.

The company has developed a policy on safety in line with occupational safety and health act of 2007.

iv. Market place practice:-

The organisation should outline its efforts to:

- The company being the sole provider of water in the region, has little competition in the area. ELWASCO is a corruption free zone, with signs displaying the same stationed at the office.
- The company has been exemplary in settling contracts with suppliers, often paying them in good time.
- Marketing and sales activities involve physical meeting with the residents in what the company refers to as Public Participation programs. The
- ELWASCO has set up an office to handle customer complaints. There is also a complaint and compliment box which is checked daily and reviewed for action.

ELWAK WATER AND SEWERAGE COMPANY LIMITED

Annual Reports and Financial Statements

For the year ended June 30, 2021

v. Community Engagements-

The Company set up a committee to provide first aid care for stray animals such as Donkeys during this draught season. The company plans to engage with the community more in the coming years.

8. REPORT OF THE DIRECTORS

The Directors submit to you, together herewith, the audited financial statements for the year ended June 30, 2021 which show the state of ELWASCO's affairs.

Principal activities

To provide and distribute a constant supply of water for commercial, industrial and domestic purposes within the jurisdiction of Elwak with integrity.

To be responsible for the provision and maintenance of water and sewerage services within the jurisdiction of Elwak Municipality.

Results

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

Income for the year 2,530,000

Total Operating Expenses 2,620,000

Loss for the year (90,000)

Dividends

The shareholders agreed that there is no dividend to be shared for the Financial year.

Directors

The members of the Board of Directors who served during the year are shown on page III.

Auditors

The Auditor-General is responsible for the statutory audit of ELWASCO in accordance with Article 229 of the Constitution of S.C.G. and the Public Audit Act 2015.

ELWAK WATER AND SEWERAGE COMPANY LIMITED

Annual Reports and Financial Statements

For the year ended June 30, 2021

9. STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

The Directors are responsible for the preparation and presentation of the company's financial statements, which give a true and fair view of the state of affairs of ELWASCO for and as at the end of the financial year (period) 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 ELWASCO; (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 misstatement due to error or fraud; (iv) safeguarding the assets of the company; (v) selecting and applying appropriate accounting policies; and (vi) making accounting estimates and assessments in the circumstances.

The Directors responsible for ELWASCO's financial statements, which have been prepared using appropriate accounting policies, supported by reasonable and prudent judgements and estimates, in conformity with International Financial Reporting Standards (IFRS), and in the manner required by the PFM Act, 2012 and applicable legislation under which entities should quote applicable legislation as indicated under). The Directors are of the opinion that ELWASCO's financial statements give a true and fair view of the state of affairs of ELWASCO during the financial year ended June 30, 2021, and of the company's financial position at that date. The Directors further confirm the completeness of the accounting records and the accuracy of the information which have been relied upon in the preparation of the company's financial statements and the accuracy of the systems of internal financial control.

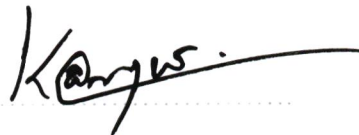
Nothing has come to the attention of the Directors to indicate that ELWASCO will not remain a going concern for at least the next twelve months from the date of this statement.

Approval of the financial statements

Elwak Water and Sewerage Company Limited's financial statements were approved by the Board on 30 -06- 2021 and signed by its Chairperson:



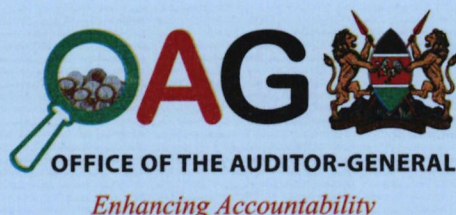
Chairperson of the Board



Chief Executive Officer

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 ELWAK WATER AND SEWAGE 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 controls, 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 Elwak Water and Sewerage Company Limited set out on pages 1 to 26, which comprise of the statement of financial position as at 30 June, 2021, the statement of profit or loss and other comprehensive income, statement of changes in equity, statement of cash flows, statement of

comparison of budget and actual amounts for the year then ended, and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, 2015. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

In my opinion, except for the effect of the matters described in the Basis for Qualified Opinion section of my report, the financial statements present fairly, in all material respects, the financial position of the Elwak Water and Sewerage 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 Kenyan Companies Act, 2015, Water Act, 2016 and the Public Finance Management Act, 2012.

Basis for Qualified Opinion

1. Unsupported Revenue Balance

The statement of profit or loss and other comprehensive income reflects revenue balance of Kshs.9,900,000 as disclosed in Note 7 to the financial statements. However, details to confirm the amount of water produced, ledgers supporting water sales and customers billing data were not provided for audit review. Further, policies and regulations regarding water tariffs and management of bad debts to guide the Company operations had not been put in place at the time of the audit.

In the circumstances, the propriety of revenue balance of Kshs.9,900,000 could not be confirmed.

2. Inaccuracy of Trade and Other Receivables Balance

The statement of financial position reflects trade and other receivables balance of Kshs.6,900,000 as disclosed in Note 15 to the financial statements. However, at the time of the audit, the Management did not maintain up-to-date debtor's ledger and related financial management policies to guide the financial operations. Further, demand notes were not issued to customers with outstanding water bills. .

In the circumstances, the existence and completeness of trade and other receivables balance of Kshs.6,900,000 could not be confirmed.

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

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. Irregular Procurement of Property, Plant and Equipment

The statement of financial position reflects property, plant and equipment balance of Kshs.40,145,197 as disclosed in Note 14 to the financial statements. Included in the balance is additions to property, plant and equipment during the year of Kshs.45,215,291. Review of procurement records revealed that the Management did not maintain a list of registered suppliers, contractors and consultants in the category of goods, works or services as required by Section 57(1) and (2) of the Public Procurement and Asset Disposal Act, 2015. Although Management explained that the prequalification list of suppliers for Mandera County Government was used to identify suppliers, evidence in writing, seeking authority to use the prequalification list of Mandera County Government as required by Section 56(1) of the Public Procurement and Asset Disposal Act, 2015 was not provided for audit review.

Further, tenders valued at Kshs.3,699,980 for supply and delivery of water items and control panels were awarded to a supplier lacked supporting documents such as S13, S3 cards, S11 issue notes and goods inspection certificates.

In addition, procurements valued at Kshs.30,618,256 were not supported by notification letters in writing to the persons submitting the successful tenders and acceptance of award by the successful bidders as required by Section 87(1) and (2) of Public Procurement and Asset Disposal Act, 2015.

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

2. Procurement of Repair and Maintenance Services

The statement of profit or loss and other comprehensive income reflects selling and distribution costs of Kshs.7,248,950 as disclosed in Note 12 to the financial statements. Included in the balance is an amount of Kshs.3,348,950 for repair and maintenance of pipes which further includes an amount of Kshs.2,998,950 for supply and delivery of assorted water items. Review of procurement records that the Management did not maintain a list of registered suppliers, contractors and consultants in the category of goods, works or services as required by Section 57(1) and (2) of Public Procurement and Asset Disposal Act, 2015. Further, the procurement was not supported by notification letters in writing to the person submitting the successful tender by the Accounting Officer as well as acceptance of award by the successful bidder as required by Section 87(1) and (2) of Public Procurement and Asset Disposal Act, 2015.

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

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

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

Basis for Conclusion

Lack of a Risk Management Framework

During the year under review, the Management did not put in place Risk Management Policy, strategies, and risk register to mitigate against risks. It was, therefore, not clear how the Management manages risk exposures. This is in contravention of Regulation 158 (1) (a) and (b) of the Public Finance Management (County Governments) Regulations, 2015 which require entities to develop risk management strategies that include fraud prevention mechanism and a system of risk management and internal controls that build a robust business operation.

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

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

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

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

Responsibilities of Management and the Board of Directors

Management is 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 governance.

In preparing the financial statements, 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 going concern basis of accounting unless Management is aware of the intention to liquidate the Company or cease operations.

Management is 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 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 going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the 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

31 August, 2022

ELWAK WATER AND SEWERAGE COMPANY LIMITED

Annual Reports and Financial Statements

For the year ended June 30, 2021

10. STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 30 JUNE 2021

	Note	2020-2021 Kshs	2019-2020 Kshs
REVENUES			
Revenue	7	9,900,000	0
Cost of sales	8	(8,178,700)	0
Gross profit		<u>1,721,300</u>	0
Grants from the National Government	9	74,100,000	0
Other Income	10	500,000	0
TOTAL REVENUES		76,321,300	0
OPERATING EXPENSES			
Administration Costs	11	38,298,581	0
Selling and Distribution Costs	12	7,248,950	0
Production costs	13	31,074,425	0
Depreciation of property, plant and equipment	14	5,070,594	0
		<u>81,632,550</u>	<u>0</u>
TOTAL OPERATING EXPENSES		81,632,550	0
PROFIT/(LOSS) BEFORE TAXATION		(5,311,250)	0
INCOME TAX EXPENSE/(CREDIT)		0	0
PROFIT/(LOSS) AFTER TAXATION		(5,311,250)	0

Chief Executive Officer

Name: *Kassim Haji Kangw.*

Chief Financial Officer

Name: *Issa Ahmed Ali*
CPAK M NO. *[Signature]*

Chairman of the Board

Name: *Abraham Nara*
[Signature]

ELWAK WATER AND SEWERAGE COMPANY LIMITED

Annual Reports and Financial Statements

For the year ended June 30, 2021

11. STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE, 2021

	Note	2021 Kshs	2020 Kshs
ASSETS			
Non-Current Assets			
Property, plant and equipment	14	40,145,197	0
Total Non-Current Assets			0
Current Assets			
Trade and other receivables	15	6,900,000	0
Bank and cash balances	19(b)	4,330,755	0
Total Non-Current Assets		51,375,952	0
EQUITY AND LIABILITIES			
Capital and Reserves			
Ordinary share capital	17	100,000	0
Capital Grant	21	45,215,390	0
Retained earnings		(5,311,238)	0
Capital and Reserve		40,004,042	0
Current Liabilities			
Trade and other payables	18	11,371,910	0
Total Current Liabilities		11,371,910	0
TOTAL EQUITY AND LIABILITIES		51,375,952	0

The financial statements were approved by the Board on 30-06- 2021 and signed on its behalf by:

Chief Executive Officer

Head of Finance

Chairman of the Board

Name:

Kassim Haji

Name:

Issa Ahmed Ali

Name:

Abdulkarim Nour

Kassim

Issa

Abdulkarim

ELWAK WATER AND SEWERAGE COMPANY LIMITED

Annual Reports and Financial Statements

For the year ended June 30, 2021

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

	Ordinary share capital	Capital Grants	Retained earnings	Proposed dividends	Total
At April 23, 2020	100,000	0	0	0	100,000
Revaluation gain	0	0	0	0	0
Transfer of excess depreciation on revaluation	0	0	0	0	0
Deferred tax on excess depreciation	0	0	0	0	0
Fair value adjustment on quoted investments	0	0	0	0	0
Total comprehensive income	0	0	0	0	0
Capital/Development grants received during the year	0	0	0	0	0
Transfer of depreciation/amortisation from capital fund to retained earnings	0	0	0	0	0
Dividends paid – 2020	0	0	0	0	0
Interim dividends paid – 2021	0	0	0	0	0
Proposed final dividends	0	0	0	0	0
At June 30, 2019	100,000	0	0	0	100,000
At July 1, 2020	1,000,000	0	0	0	0
Issue of new share capital	0	0	0	0	0
Revaluation gain	0	0	0	0	0
Transfer of excess depreciation on revaluation	0	0	0	0	0
Deferred tax on excess depreciation	0	0	0	0	0
Fair value adjustment on quoted investments	0	0	0	0	0
Total comprehensive income	0	0	(5,311,250)	-	(5,311,250)
Capital/Development grants received during the year	0	0	0	0	0
Transfer of depreciation/amortisation from capital fund to retained earnings	0	0	0	0	0
Dividends paid – 2020	0	0	0	0	0
Interim dividends paid – 2021	0	0	0	0	0
Proposed final dividends	0	0	0	0	0
At June 30, 2021	100,000	45,215,291	(5,311,250)	0	39,904,041

ELWAK WATER AND SEWERAGE COMPANY LIMITED

**Annual Reports and Financial Statements
For the year ended June 30, 2021**

The financial statements were prepared by the Board on 30-06- 2021 and signed on its behalf by:

Chief Executive Officer

Head of Finance

Chairman of the Board

Name: Kessim Heji

Name: Issa Ahmad Ali

Name: Abdolzaman Nour

Kangas

K PAK MENO:

[Signature]

[Signature]

ELWAK WATER AND SEWERAGE COMPANY LIMITED

Annual Reports and Financial Statements

For the year ended June 30, 2021

13. STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE, 2021

	Note	2020-2021 Kshs	2019-2020 Kshs
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash generated from (used in) operations	18	4,231,255	0
Grants from County Government	19	74,100,000	0
Revenue collection for the year	20(a)	3,000,000	
Other Income- Penalties	20(b)	500,000	
Expenditure incurred in operations	19(c)	(32,285,209)	
Net cash generated from (used in) operating activities		45,546,046	0
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property, plant and equipment	13	(45,215,291)	0
Net cash generated from (used in) investing activities		(45,215,291)	0
INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		4,330,755	0
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		0	0
CASH AND CASH EQUIVALENTS AT END OF THE YEAR		4,330,755	0

Chief Executive Officer:

Name: *Kassim Haji*

Head of Finance:

Name: *Issa Ahmed Ali*

Chairman of the Board:

Name: *Abdishman Njoro*

Kassim Haji

Issa Ahmed Ali

Abdishman Njoro

ELWAK WATER AND SEWERAGE COMPANY LIMITED

**Annual Reports and Financial Statements
For the year ended June 30, 2021**

14. 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
	Kshs	Kshs	Kshs	Kshs	Kshs
Revenue					
Sales	10,000,000	0	10,000,000	9,900,000	100,000
Grants from the County Government	74,100,000	-	74,100,000	74,100,000	0
Total income	84,100,000	0	84,100,000	84,000,000	100,000
Expenses					
Compensation of employees	3,279,795	(361,384.84)	2,877,910	2,877,910	0
Cost of Goods Sold(Fuel & Parts)	8,178,700	-	8,178,700	8,178,700	0
Production cost	31,014,425	-	31,014,425	31,014,425	0
Purchase of Goods	6,250,896	-	6,250,896	6,250,896	0
Administrative costs	26,548,581	(250,000.00)	26,548,581	26,548,581	0
Selling and distribution costs	6,384,950	-	6,384,950	6,384,950	0
Developmental costs	1,500,000	-	1,500,000	1,500,000	0
Total expenditure	82,755,462	(613,884.84)	82,755,462	82,755,462	0
Surplus for the period	1,344,538	0	1,344,538	1,244,538	100,000

Chief Executive Officer

Financial Director

Chairman of the Board

Name: *Kassim Hezi*

Name: *Issa Ahmed Ali*

Name: *Abraham Nuron*

Kassim Hezi

Issa Ahmed Ali

Abraham Nuron

ELWAK WATER AND SEWERAGE COMPANY LIMITED

Annual Reports and Financial Statements

For the year ended June 30, 2021

15. NOTES TO THE FINANCIAL STATEMENTS

1. GENERAL INFORMATION

Elwak water and sewerage company Ltd is established by and derives its authority and accountability from Company PFM and other relevant Acts. ELWASCO is wholly owned by The Mandera County Government and is domiciled in Kenya. ELWASCO's principal activity is providing safe and sufficient water and Sewerage services to residents of Elwak Municipality.

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 and the financial statements

2. STATEMENT OF COMPLIANCE AND BASIS OF PREPARATION

The financial statements have been prepared on a historical cost basis except for the measurement at re-valued amounts of certain items of property, plant and equipment, marketable securities and financial instruments at fair value, impaired assets at their estimated recoverable amounts and actuarially determined liabilities at their present value. 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 judgment in the process of applying the ELWASCO's accounting policies.

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

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

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

- i) **Relevant new standards adopted and relevant published standards effective for the year ended 30 June 2021**

IFRS 16: Lease

The new standard on lease accounting, which is beginning on or after 1st January 2019, introduces a new lessee accounting model which requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months and the underlying asset is of low value. A lessee is required to recognise a right-of-use asset, which represents its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

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

- i) Relevant new standards and amendments to published standards effective for the year ended 30 June 2023, (continued):

Application of IFRS 16 requires right-of-use assets and lease liabilities to be recognised in respect of most operating leases when the Company is the lessee.

IFRIC 23: Uncertainty over income tax treatments

The interpretation addresses the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates, where there is uncertainty over income tax treatments under IAS 12. It specifically addresses:

- Whether tax treatments should be considered collectively
- Assumptions for taxation authorities' examinations
- The determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates
- The effect of change in facts and circumstances

Amendments to IFRS 9: Financial Prepayment Features with Negative Compensation (issued in October 2017)

The amendments, applicable to annual periods beginning on or after 1 January 2020, allow entities to measure prepayment features with negative compensation at amortised cost or fair value through other comprehensive income if the specified condition is met.

Amendments to IFRS 9: Long-term interests in Associates and Joint Ventures (issued in October 2017)

The amendments, applicable to annual periods beginning on or after 1st January 2020, clarify that an entity applies IFRS 9 (not IAS 28) in accounting for long-term interests in associates and joint ventures.

Amendments to IFRS 3: Business combinations to IFRS's 2015–2017 Cycle, issued in December 2017.

The amendments, applicable to annual periods beginning on or after 1st January 2020, provide additional guidance on applying the residual gain method to particular types of business combination.

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

- i) **Relevant new standards and amendments to published standards effective for the year ended 30 June 2019 (continued)**

Amendments to IFRS 11 – Joint Arrangements – Amendments to IFRSs 2015–2017 Cycle, issued in December 2017

The amendments to IFRS 11 – Joint Arrangements, beginning on or after 1st January 2020, clarify that when an entity obtains joint control of a business that is a joint operation, it does not re-measure its previously held interest.

Amendments to IAS 12 – Income Tax Improvements to IFRSs 2015–2017 Cycle, issued in December 2017

The amendments to IAS 12 – Income Tax, beginning on or after 1st January 2020, clarify that all income tax consequences of dividends should be recognised when a liability to pay a dividend is recognised, and that these income tax consequences should be recognised in profit or loss, other comprehensive income or equity according to where ELWASCO originally recognised the transactions to which the dividends relate.

Amendments to IFRS 9 – Financial Instruments – Amendments to IFRSs 2015–2017 Cycle, issued in December 2017

The amendments to IFRS 9 – Financial Instruments, beginning on or after 1st January 2020, clarify that the costs of borrowings are specifically for the purpose of obtaining a qualifying asset that is substantially completed or ready for sale at the determination of the weighted average of borrowing costs for other qualifying assets.

Amendments to IAS 19 – Employee Benefits – Amendment, Curtailment or Settlement (issued in February 2019)

The amendment to IAS 19 – Employee Benefits, beginning on or after 1st January 2020, requires an entity to use the best estimate assumption to determine current service cost and net interest for the remainder of the plan period that begins on or after the plan amendment, curtailment or settlement when ELWASCO has a defined benefit liability (asset) in the manner specified in the amended standard.

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

Amendments to IAS 1 and IAS 8 Definition of material

The amendments are intended to make the definition of material in IAS 1 easier to understand and are not intended to change the underlying concept of materiality in IFRS Standards. The concept of 'obscuring' material information is included as part of the new definition. The objective of financial reporting to users has been changed from 'could influence' to 'could reasonably be expected to influence'. The definition of material in IAS 8 has been replaced by a reference to the IASB's definition in IAS 1. In addition, the IASB amended other Standards and the Conceptual Framework to conform to the definition of material or refer to the term 'material' to ensure consistency. The amendments are applied prospectively for annual periods beginning on or after 1 January 2020, except for those that are prescribed.

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

IFRS 17 Insurance Contracts (Issued 18 January 2017)

IFRS 17 requires insurance liabilities to be measured at a current fulfillment value and provides a more uniform measurement and recognition approach for all insurance contracts. These requirements are designed to achieve the goal of consistent measurement and accounting for insurance contracts. IFRS 17 supersedes IFRS 4 *Insurance Contracts* effective 1 January 2017.

Amendments to Reference to the Conceptual Framework in IFRS Standards (Issued 29 March 2019-Applicable for annual periods beginning on or after 1 January 2020)

Together with the *Amendments to IFRS Standards* published in March 2019, the IASB also issued *Amendments to Reference to the Conceptual Framework in IFRS Standards*. The document contains amendments to IAS 1, IAS 8, IAS 34, IAS 37, IAS 38, IFRIC 12, IFRIC 19, IFRIC 20, IFRIC 22 and IFRIC 23. The amendments, however, update those pronouncements with regard to reference to the IASB's *Conceptual Framework* so that they refer to the revised *Conceptual Framework*. Some new standards are not required to indicate which version of the framework they are referencing to (the IASB framework as issued in 2001, the IASB framework of 2010, or the new revised framework of 2018). Where the definitions in the standard have not been updated with the new definitions, the IASB framework of 2018 *Conceptual Framework*.

ELWAK WATER AND SEWERAGE COMPANY LIMITED

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For the year ended June 30, 2022

NOTES TO THE FINANCIAL STATEMENTS (Continued)

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

iii) Early adoption of standards

ELWASCO did not early adopt any revised or amended standards in the year.

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

- i) **Revenue** from sales of goods and services is recognised in the year in which the company delivers products or services, 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 ELWASCO actually receives such grants. Current grants are recognized in the statement of comprehensive income. Grants receivable and grants to be received are recognized in the statement of financial position and realised over the period of the grant or over income over the useful life of the assets that has been accepted by the Government.
- iii) **Finance** (arising from) is interest receivable from bank deposits and investment in securities, and interest expense, is recognised on a time proportion basis using the effective interest method.
- iv) **Dividend** income is recognised in the income statement in the year in which the right to receive the dividend is established.
- v) **Rental** income is recognised in the income statement, as it accrues using the effective lease agreement.
- vi) **Other** income is recognised as follows:

b) In-kind contributions

In-kind contributions are recognised when they come to the company in the form of actual goods and/or services rather than cash or other assets. These donations may include vehicles, equipment or personnel services. If the fair value of the contributions can be reliably determined, the contributions are included in the statement of comprehensive income both as revenue and as an expense in equal and opposite amounts; otherwise, the contribution is not recorded.

ELWAK WATER AND SEWERAGE COMPANY LIMITED

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For the year ended June 30, 2017

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 a re-valuation of re-valued amounts is desired, all items in an asset category are re-valued. Re-valuations are carried out by independent external valuers.

Increases in the carrying amount 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 surplus account; all other decreases are charged to profit or loss in the income statement.

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

d) Depreciation and impairment of property, plant and equipment

Freehold land and land held for future use are not depreciated. Capital work in progress relates mainly to the construction of major infrastructure 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 the extent that the carrying amount of the re-valued amount to its residual value over its estimated useful life.

Buildings and civil works	20 years or the unexpired lease period
Plant and machinery	12.5 years
Motor vehicles	4 years
Computers and software	5 years
Office equipment, furniture and fittings	5 years

A full year's depreciation is provided for 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 or cash-generating unit is greater than its estimated recoverable amount, an impairment loss is recognised in the income statement and immediately to its estimated recoverable amount.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

e) Intangible assets

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

f) Amortisation and impairment of intangible assets

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

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

g) Investment property

Buildings, or part thereof (or freehold or held under a finance lease) and land (freehold or held under an operating lease) held to earn rental yields and/or capital appreciation, and which are not occupied by ELWAK, are classified as investment property under non-current assets.

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

h) Leases

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

i) Fixed interest investments

Fixed interest investments refer to investment funds placed under Central Bank of Kenya (CBK) long-term infrastructure bonds and other corporate bonds with the intention of earning interest income upon maturity of the investments. Fixed interest investments are freely traded at the Nairobi Securities Exchange and are measured at fair value through profit or loss.

j) Quoted investments

Quoted investments are classified as non-current assets and comprise marketable securities traded freely at the Nairobi Securities Exchange or other regional and international securities exchanges. Quoted investments are measured at fair value.

ELWAK WATER AND SEWERAGE COMPANY LIMITED

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For the year ended June 30, 2017

k) Unquoted investments

Unquoted investments stated at cost under non-current assets, and comprise equity shares held in other Government-owned or controlled utilities.

l) Inventories

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

m) 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 at the end of the year if recovery has been exhausted.

n) Taxation

Current income tax

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

n) Taxation (Continued)

Current income tax (Continued)

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 taxpayer operates and generates taxable income. Current income tax relating to items recognised in other net assets is recognised in net assets and

Management judgement estimates periods taken in the tax returns with respect to situations in which applicable tax provisions are subject to interpretation and establishes provisions where appropriate.

Deferred tax

Deferred tax is measured 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.

ELWAK WATER AND SEWERAGE COMPANY LIMITED

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For the year ended June 30, 2011

Deferred tax liabilities are recognized for all taxable temporary differences, except in respect of taxable temporary differences arising from 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 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 is 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 assets 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 recovery of the assets to be recovered.

Deferred tax assets

Deferred tax assets and liabilities are recognized outside surplus or deficit. Deferred tax assets 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 tax authority. No separate recognition authority.

o) 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 accounts and finance amounts held at the Central Bank of Kenya and at various Commercial banks throughout the reporting period. For the purposes of these financial statements, cash and cash equivalents also include short-term cash imprests and advances to authorised personnel for petty cash, which were not surrendered or accounted for at the end of the reporting period.

p) Borrowings

Interest bearing borrowings are initially recorded at fair value being received, net of issue costs associated with the borrowings. If any borrowings are readily transferable, these are measured at amortised cost using the effective interest method. Amortised cost is calculated by taking into account any issue cost and any discount or premium on settlement. Finance charges, including premiums payable on settlement, are accrued on an accrual basis and are added to the carrying amount of the instrument. Interest on borrowings not settled in the period in which they arise. Loan interest accrued on borrowings for the project is capitalised as part of the cost of the project.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

q) 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 the consideration to be paid in future in respect of goods and services received, whether billed to ELWASCO or not, less any payments made to the suppliers.

r) Retirement benefits provision

The company participates in the National Social Security Fund (NSSF). This is a defined contribution scheme regulated under the National Social Security Act. The company's obligation under the scheme is limited to specific contributions legislated from time to time and is currently at Kshs.263,400,000 as at 30th June 2021.

s) Provision for employee leave

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

t) Exchange rate fluctuations

The accounts are prepared in Kshs, the functional currency of the primary economic environment of ELWASCO, Kenya Shillings. Transactions in foreign currencies during the year are translated into the functional currency using the exchange rates prevailing at the date of the transaction 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 the reporting date of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

u) Budget information

The original budget for the 2020-2021 was approved by the Board of Directors on 30th October 2020. Subsequent to the approval, amendments and appropriations were made to the approved budget in accordance with the provisions of the Public Finance Management Act. The additional appropriations are added to the approved budget of ELWASCO upon receiving the respective approvals in order to conclude the 2020/2021.

The budget is prepared on the same basis as the actual income and expenditure disclosed in the financial statements. The budget and actual figures are prepared on accrual basis using a classification based on the nature of the expenditure for the assessment of financial performance, whereas the budget is prepared on the basis of the expenditure items in the financial statements were recast from the accrual basis to the cash basis. The actual 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 provided in the financial statements for the purpose of comparison of budget and actual amounts. In addition, a comparison of budget and actual amounts in the financial statements are also made for a different classification of expenditure schemes adopted for the presentation of the financial statements in the approved budget.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

v) Budget information (continued)

A statement to reconcile the actual amounts on a comparable basis included in the statement of comparison of budgeted financial results and the actuals as per the statement of financial performance has been reflected under section 17 of these financial statements.

w) Service concession arrangements

ELWASCO evaluates the nature 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, ELWASCO 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, ELWASCO also takes account of 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 at the time that an asset has been recognized. ELWASCO also recognizes a corresponding liability when a net consideration is paid or received.

x) Subsequent events

There have been no subsequent events to the financial year end with a significant impact on the financial statements for the period ended June 30, 2019.

5. SIGNIFICANT ESTIMATES AND SOURCES OF ESTIMATION UNCERTAINTY

The preparation of ELWASCO's financial statements in conformity with IFRS requires management to make judgments and 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 judgments and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods.

6. SIGNIFICANT ESTIMATES AND SOURCES OF ESTIMATION UNCERTAINTY (Continued)

Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that are considered to be significant, and using a material adjustment to the carrying amounts of assets and liabilities, are disclosed in the financial year, are described below. ELWASCO based its assumptions and estimates on information available when the financial statements were prepared. However, existing conditions could change due to market changes or other factors beyond the control of ELWASCO. Such changes are reflected in the carrying amounts of assets and liabilities.

ELWAK WATER AND SEWERAGE COMPANY LIMITED

**Annual Reports and Financial Statements
For the year ended June 30, 2021**

Useful lives and depreciation

The useful lives and depreciation of assets are assessed using the following indicators to inform potential future use, obsolescence and disposal:

- The condition of assets as assessed by the assessment of experts employed by ELWASCO
- The nature of the asset, its obsolescence and adaptability to changes in technology and processes
- The nature of the process at which the asset is deployed
- Availability of alternative replacement assets
- Changes in the expected demand for the asset

7. REVENUE- RECEIPTS CONSOLIDATION OF NOTE 15 AND NOTE 20(a) for break down

	2020-2021	2019-2020
	Kshs	Kshs
Gross sales of goods	9,900,000	0
Total	9,900,000	0

8. COST OF SALES

	2020-2021	2019-2020
	Kshs	Kshs
Cost of sales of goods	8,178,700	0
Total	8,178,700	0

9. GRANTS FROM WAJIR COUNTY GOVERNMENT

	November 20	February 21	April 21	June 21	Total
					Kshs
Grants received from Waajir County Government		5,400,000	15,100,000	23,000,000	74,100,000
Total					74,100,000

10. OTHER INCOME

	2020-2021	2019-2020
Description	Kshs	Kshs
Fines and penalties	500,000	0
Total	500,000	0

Analysis of Fines and Penalties
Penalties for Breach of Law

1	December 2020	150,000
2	January 2021	350,000

TOTAL = 500,000

ELWAK WATER AND SEWERAGE COMPANY LIMITED

Annual Reports and Financial Statements

For the year ended June 30, 2021

NOTES TO THE FINANCIAL STATEMENTS (Continued)

11. (a).ADMINISTRATIVE COSTS

Description	2021 Kshs	2020 Kshs
Staff costs (note 12)	15,156,510	0
Directors' emoluments	194,000	0
Communication charges (air) supplies	728,590	0
Security Service	711,550	0
Transport and fuel expense	3,754,000	0
Stationary	2,000,809	0
Dues and subscription	36,000	0
Staff and Board of Directors' meals	4,678,296	0
Hospitality expenditure	1,000,000	0
Bank charges (interest) charges	1,511	0
Office general expenses (air) charges	9,340,005	0
Office repairs and maintenance	500,000	0
Total	38,280,581	0

(b). STAFF COSTS

Wages of temporary employees	2,870,910	0
Office Operatives	2,000,000	0
In kind Contributions	12,000,000	0
Compulsory Retirement Savings Scheme	2,680,000	0
Total	15,156,510	0
The average number of employees in the year of the year was:		
Permanent employees (including casuals)	6	0
Permanent employees (including casuals)	23	0
Temporary employees (including casuals)	54	0
Total	83	0

ELWAK WATER AND POWER SUPPLY COMPANY LIMITED

Annual Reports and Financial Statements

For the year ended June 30, 2021

NOTES TO THE FINANCIAL STATEMENTS (Continued)

12. SELLING AND DISTRIBUTION COSTS

Description	2020-2021 Kshs	2019-2020 Kshs
Marketing and promotional expenses	9,000,000	0
Repair and Maintenance	3,348,950	0
Other selling and distribution costs	3,000,000	0
Total	7,248,950	0

13. PRODUCTION COST

Rashegs Enterprise Ltd	Pumps	3,596,000.00
Rashegs Enterprise Ltd	Pumps	3,420,000.00
Goda Investment Ltd	Motors	2,998,552.40
Yamaha Investment Ltd	Pumps	3,000,000.00
Gagaba Investment Ltd	Pumps	1,800,000.00
Gagaba Investment Ltd	Pumps	1,999,921.00
Al fowzan Construction Ltd	Pumps	2,900,000.00
Rashegs Enterprise Ltd	Pumps	2,800,000.00
Goda Investment Ltd	Pumps	1,999,980.00
Goda Investment Ltd	Pumps	1,999,974.00
Nurow Hardware Ltd	Pumps	2,500,000.00
Yowma Investment Ltd	Pumps	1,999,998.00
	Total	31,014,425.00

ELWAK WATER AND SEWERAGE COMPANY LIMITED

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For the year ended 30th June 2021

3	ELWAK POLICE STATION	150 UNIT	420,000
4	ELWAK ADMINISTRATION POLICE	1020 UNIT	510,000
5	ELWAK POLYTECHNIC	400 UNIT	200,000
6	COCOP-NGO	240 UNIT	120,000
7	ELWAK REGIONAL OFFICE	1800 UNIT	900,000
8	ELWAK DEPARTMENTAL OFFICE	400 UNIT	200,000
9	CDF MANDERES OFFICE	800 UNIT	250,770
10	ELWAK MUNICIPALITY	1170 UNIT	585,000
11	PALMS LODGE	400 UNIT	200,010
Total			<u>6,900,000</u>

At June 30, the ageing analysis of the gross trade receivables was as follows:	
Over 120 days	6,900,000

16. BANK AND CASH BALANCES

	2020-2021	2019-2020
	Kshs	Kshs
Cash at bank	4,330,755	0
Cash in hand	0	0
	<u>4,330,755</u>	<u>0</u>

17. ORDINARY SHARES IN ISSUE

	2020-2021	2019-2021
	Kshs	Kshs
Authorised:		
100 ordinary shares of Kshs 100 each	100,000	0

ELWAK WATER AND SEWERAGE COMPANY LIMITED

Annual Reports and Financial Statements

For the year ended 31st March 2021

NOTES TO THE FINANCIAL STATEMENTS (Continued)

18. PAYABLES

<i>NO</i>	<i>PAYEE</i>	<i>Description</i>	<i>Credit</i>
1	Staff	Allowances	1,234,900
2	Kenya Power Ltd	Elwak/Wargadud/BHII Salt Water Supply Station	1,500,000.00
3	Efficient Company Ltd	Supply of Drinking Water	275,000.00
4	Group of Suppliers	Operated liabilities	4,862,011.00
5	Mairer General Supplier Company Ltd	Supply of Office Furniture	3,500,000.00
TOTAL PAYABLES			11,371,911.00

19. NOTES TO THE STATEMENT OF CASH FLOWS

	2020-2021	2019-2020
	Kshs	Kshs
(a) Reconciliation of operating profit/loss to cash generated from operations		
Operating profit/loss	(5,311,250)	0
Depreciation	5,070,894	0
Operating profit/loss after adjusting capital changes	(240,656)	0
(Increase)/decrease in trade and other receivables	(6,900,500)	0
Increase/(decrease) in trade and other payables	11,371,911	0
Cash generated from operating activities	4,231,235	0

ELWAK WATER AND SEWERAGE BOARD COMPANY LIMITED

Annual Reports and Financial Statements

For the year ended June 30, 2021

(b) Analysis of Cash and Cash Equivalents

Detailed analysis of cash and cash equivalents

Financial institution	Account number	2020-2021	2019-2020
		KShs	KShs
Equity bank Kenya Ltd	0054730200117	1,731,765	0
Equity Bank Kenya Limited	100018026046	2,598,990	0
Grand total		4,330,755	0

(c) Operating Expenses

EXPENDITURE	A/E NO.	AMOUNT
Salaries of permanent employees	155021	12,000,000
Casual salary and wages	155011	2,877,910
Casual NHIF contribution	155021	28,600
Office operating expenses	155051	250,000
Directors allowances	155000	194,000
Internet services	155000	728,591
Security Services	155000	714,550
Car hire and fuel expenses	155000	3,754,000
Stationary expenses	155000	2,002,509
Catering expenses	155000	1,030,000
Office supplies and consumables	155000	1,735,508
Office repair expenses	155000	565,000
Training and development	155000	3,132,000
Fuel expense (vehicles)	155000	1,057,000
Bank Charges	155000	73,411
Total	155000	52,295,139

20 (a). Revenue Collection by Month

NO.	Month	Collection
1	December 2020	161,050.00
2	January 2021	538,850.00
3	February 2021	592,100.00
4	March 2021	159,100.00
5	April 2021	478,900.00
6	May 2021	352,400.00
7	June 2021	614,600.00
	TOTAL	3,000,000.00

ELWAK WATER AND SEWERAGE COMPANY LIMITED

Annual Reports and Financial Statements

For the year ended 31st December 2021

20 (b). Penalties for late payment

1	December 2020	150,000
2	January 2021	350,000
TOTAL		500,000

21. Capital Grants

Analysis of Capital Grants

		2020-2021	2019-2020
		Kshs.	Kshs.
Capital Grant	Government of Mandera County	45,215,291	0

RELATED PARTY DISCLOSURES

Mandera County Government

The County Government of Mandera is the principal shareholder of the *ELWASCO*, holding 100% of *ELWASCO*'s equity interest.

Transactions with related parties

		2020-2021	2019-2020
		Kshs	Kshs
a) Grants from related parties			
Grants from Government		74,100,000	0
Total		74,100,000	0

22. INCORPORATION

entity is incorporated in accordance with the Companies Act and is domiciled in Kenya.

23. EVENTS AFTER THE REPORTING PERIOD

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

24. CURRENCY

The financial statements are presented in Kenya Shillings (Kshs)



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Name of the MDA/Donor	Transferring the funds	Date received as per bank statement	Nature: Recurrent/Development/ Others	Total Amount - KES
Ministry of Planning and Devolution		2015	Dev. Recurrent	21,000,000
Ministry of Planning and Devolution		2015	Dev. Recurrent	15,000,000
USAID		2015	Dev. Recurrent	15,100,000
Ministry of Planning and Devolution		2015	Dev. Recurrent	23,000,000
Total				74,100,000

Chief Executive Officer: *Kassim Hap.* Member, Finance: *Issa Khond Ali* Chairman of the Board: *Abdullahi Nour*

Name: *Kassim Hap.*

Name: *Issa Khond Ali*

Name: *Abdullahi Nour*