

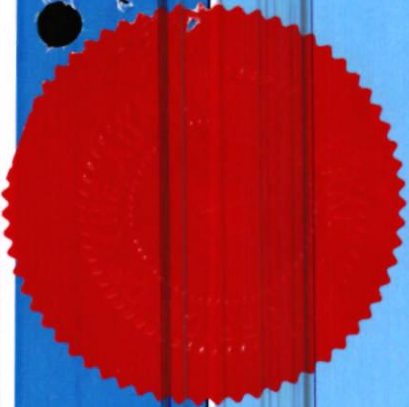
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**REPORT**

**OF**

**THE AUDITOR-GENERAL**

**ON**

**MANDERA WATER AND SEWERAGE  
COMPANY LIMITED**

**FOR THE YEAR  
ENDED 30 JUNE, 2020**





OFFICE OF THE AUDITOR GENERAL

21 JUN 2021

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**MANDERA WATER AND SEWERAGE COMPANY LIMITED**

**ANNUAL REPORT AND FINANCIAL STATEMENTS**

**FOR THE YEAR ENDING**

**JUNE 30, 2020**

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

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## KEY ENTITY INFORMATION AND MANAGEMENT

### Background information

Mandera Water and Sewerage Company limited (Mandwasco) was established by the companies Act of Parliament on 11th day of April two thousand and seven(2007). Mandwasco is represented by the Board of Directors and the Chief Executive Officer who are responsible for the general policy and strategic direction of the entity. Madwasco is domiciled in Kenya and is based in Mandera Municipality.

### Principal Activities

To provide and distribute a constant supply of water for commercial, industrial and domestic purposes within the jurisdiction of County Government of Mandera.

To be responsible for the provision and maintenance of water and sewerage services within the jurisdiction of County Government of Mandera.

### Our vision

To be the best water and sewerage services Company in Kenya

### Our Mission

To provide adequate, quality and sustainable water and sewerage services through best innovative practices .

### Company Headquarters

MANDWASCO House ,New County Head Quarter  
P.O. Box 341 -70300,  
Mandera,  
Kenya.

### Entity Contacts

Telephone :( 254) 0207859573  
E-mail: mandawasco@gmail.com  
Website: www.manderawater.co.ke

### Corporate Bankers

Equity Bank Limited  
Mandera Branch  
P.O.Box 75104  
Mandera

### 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





## THE BOARD OF DIRECTORS


	<p><b>Mr. Bare Ali Adan</b> Chairman <b>Appointed :August 2018</b> <b>Qualification:</b> Bachelors in Education- Secondary Option (Busoga University, Uganda, 2009) Occupation: Educationist Year of Experience: over 20 Years</p>
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	<p><b>Mrs Amina Osman Muslim</b> Vice chair <b>Appointed :August 2018</b> <b>Qualification:</b> Bachelor in Special Need Education(2017) Diploma in Special Needs Education(1992) <b>Occupation:</b> Teacher <b>Years of Experience:</b> Over 20 years</p>
---	--

	<p><b>Mr. Abdirahim Gulia Omar</b> Member <b>Appointed :August 2018</b> <b>Qualification:</b> Management Development Course (MDC)-Kenya Institute of Administration (2006). Retired Senior Superintendent Administration Police <b>Awards:</b> HSC 2004 <b>Years of Experience:</b> Over 30 years</p>
--	---

	<p><b>Mr. Ahmed Mahamed Dube</b> Member <b>Appointed :August 2018</b> <b>Qualification:</b> Diploma in Procurement and Supply Management. Youth Representative in the Board Occupation: Teacher Years of Experience: 3 Years</p>
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	<p><b>Mr. Suleiman Mohamed Odo</b> Member <b>Appointed :August 2018</b> <b>Qualification:</b> Bachelor of Business Management (2015) <b>Occupation:</b> Programme Officer- Ngo <b>Years of Experience:</b> 10 years</p>
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	<p><b>Mr. Suleiman Mohamud Issak.</b> Member <b>Appointed :August 2018</b> <b>Qualification:</b> Local Government Management Course (1993) Kenya Certificate of Education (KCE 1985) peace-making and management Occupation: Former Civic leader and County peace chairman <b>Years of Experience:</b> Over 30 years</p>
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**THE BOARD OF DIRECTORS (continued)**



**Mrs. Kheira Ali Hassan**

Member

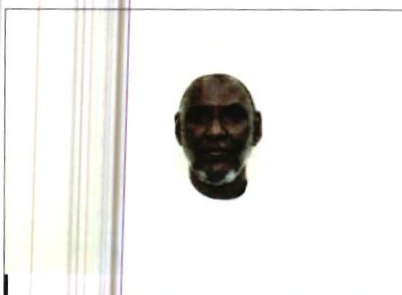
**Appointed :August 2018**

**Qualification:**

Diploma in Education- Early Childhood Studies (Mount Kenya University 2013)

**Occupation:** Teacher

**Years of Experience:** 10 Years



**Mr Mohamed Ali Shurie**

Member

**Appointed :August 2018**

**Qualification:**

Post Graduate Diploma in Health Promotion (Europe)-University of Brighton 2004.

Diploma in Public Health Education-KMTC-Nairobi (1987)

Registered Nurse, Diploma-KMTC-Nairobi (1979)

**Occupation:** Public Health worker

**Years of Experience:** 20 years



**Mrs. Saadia Mohamed Kullow- Member**

Member

**Appointed :August 2018**

**Qualification:**

Degree in Office Administration (Mount Kenya University 2018)

**Occupation:** Civil Servant

**Years of Experience:** 10 years

**MANAGEMENT TEAM**



**MR. ABDIKADIR TACHE**

Designation: The Chief Executive Officer

**Appointed :August 2018**

**Qualification:**

Global Executive Masters Business Administration (GeMBA)-USIU- Africa 2016, BSC International Business Administration (IBA)-Accounting USIU-Africa (2008), Member of ACCA-UK and Institute of Economic Affairs, Kenya.

**Occupation:** Accountant/Risk Analyst

**Years of Experience:** 20 years



**Mr. Abdihakim Ibrahim**

Designation: Human Resource/ Admin Manager

**Responsibility:**

Manages human resources operations by recruiting, selecting, orienting, training, coaching, counseling, and disciplining staff; planning, monitoring, appraising, and reviewing staff job contributions; maintaining compensation; determining production, productivity, quality, and customer- service strategies; designing systems; accumulating resources; resolving problems; implementing change.

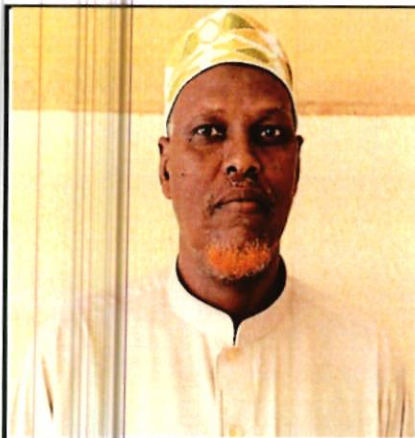
**Qualification:**

Bachelor in Human Resource Management (Moi University, 2013)

Member of : Institute of Human Resource Management

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**THE BOARD OF DIRECTORS (continued)**



**MR. Derrow Hillow**

Designation: Ag. Acting Technical Manager

**Responsibility:**

To provide high quality water to domestic, commercial and industrial customers.  
To prepare comprehensive departmental reports, including engineering budgets, technical audit reports etc.

**Qualification:**

Bachelor, Business Administration, Kampala University  
Diploma in Electrical Engineering, Mombasa Polytechnic.  
Certificate in Water Technology Construction, Kenya Water institute- 1983



**CPA. Mohamed Maalim Issackow**

Designation: Finance Manager

**Responsibility:**

Providing financial reports and interpreting financial information to managerial staff while recommending further courses of action.  
Advising on accountability activities and provide strategies that the company should take.

**Qualification:**

Bachelor in Actuarial Science (Jomo Kenyatta University of Agriculture and Technology 2017)  
Certified Public Accountant of Kenya (CPA K)-2016.  
Master in Finance (Kenya Methodist University, Ongoing)



**Mr. Osman Issack**

Designation: Head of ICT

**Responsibility:**

To oversee all IT (Information Technology) functions in our company. He is in charge of the management of the company's technology operations and the implementation of new IT systems and policies.

**Qualification:**

Bachelor of Computer Science (Umma University, 2017),  
Certificate in Leadership and Integrity (Umma University, 2017).

## **CHAIRMAN'S STATEMENT**

On behalf of the Board of Directors, the Management and Employees, I present the Annual Financial Reports for the Year ended 30<sup>th</sup> June 2020.

The Board of Directors was responsible to oversee the overall management of MANDWASCO and during under review the board adopted a new strategic plan to run for 5 years (Year 2019-2023).

The Company's outlook is promising however challenges of the COVID-19 has affected the performance of the company for the last Quarter of the financial year.

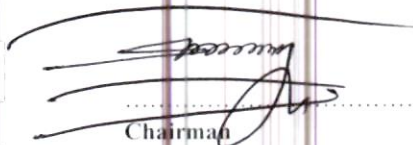
Service provision has fairly improved considering the challenges the company previously faced including suspension of operations due to technical and management challenges, hence the building of systems from a scratch. The dilapidated water infrastructure at the Intakes, distribution lines and lack of customer confidence were some of the challenges experienced during the period.

The Company improvement has seen us attract investment from Donors including European union and Danish Government through the Water Fund.

The challenges of water quantity input are currently been handled through the Water infrastructure project financed by African Development Bank which is 30% complete.

We are building on the gains made in this financial year with the committed Board, Management and staff. We expect to grow the customer base, revenue and use technology to improve our services.

Finally, I would like to express my appreciation to the Board, CECM Water, Energy, environment & Natural resources, Chief Officer water services, The Management, staff, our customers, suppliers, donors and all other stakeholders for the support to the company.



Chairman



## REPORT OF THE CHIEF EXECUTIVE OFFICER

MANDWASCO has generally continued to improve water production and supply to the residents of Mandera. Total Number of wet connections has increased by 262(Two hundred sixty two) in the period between June 2019 and June 2020, representing a 14% increase in wet connections during the financial year. Total volume of water produced also increased during the Year.

Total Sales revenue for the year is **Ksh 8,424,726** representing a 15.5% increase from a 7,293,510 sale of water during last financial year ended **30th June 2019**, This is largely attributed to a continuous support from the county government of Mandera giving the company a grant amounting to **Ksh 226,550,000 (Two hundred and twenty six million five hundred and fifty thousand shillings)** during financial year. **Kshs 196,500,000 ( One hundred hundred ninety six million and five hundred thousand)** to support the company operations and **Kshs 30,050,000( Thirty million and fifty thousand)** as the county 13% contribution to EU-CIPRA Programme

The company also received **Kshs 69,011,690 ( Sixty nine million, eleven thousand six hundred and ninety shillings)** in capital grants to undertake developmental projects within the county.

The slow growth in the sales revenue was largely attributed to COVID-19 pandemic that hit the country during the second half of the financial year. Our sales revenue receivable has grown by Kshs 12,782,471 representing 671% this was attributed to the directive of the ministry water not disconnect any customer during this period of COVID-19 Pandemic.

The water production also increased substantively through the purchase of a high capacity water pumping sets, servicing and repairing of the old water pumping sets.

The company had taken steps in improving the condition of the environment in which the company facilities are are by planting more trees and cleaning. The company had undertaken bushclearing on the roads where our water distribution pipelines pass to improve the environmental condition in the town and as a social corporate responsibility.



.....  
Chief executive officer

## REPORT OF THE DIRECTORS

The Directors submit their report together with the audited financial statements for the year ended June 30, 2020 which show the state of the Company's affairs.

### Principal activities

The principal activities of the company continue to be provision of water and sanitation services to Mandera municipality residents.

### Results

The results of the company for the year ended June 30, 2020 are set out on page 1. Below is summary of the profit or loss made during the year.

RESULTS	2020 Shs
Profit before tax	(145,420,692.65)
Tax	(43,626,207.80)
Profit for the year	<u>(189,046,900.45)</u>

### Dividends

The Directors do not recommend the payment of dividend for the year.

### Directors

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

### Auditors


The Auditor General is responsible for the statutory audit of our entity in accordance with Article 229 of the Constitution of Kenya and the Public Audit Act 2015.

By Order of the Board

The Chief Executive Officer

Mandera

Date:...

  
Sept 2020

## STATEMENT OF DIRECTORS' RESPONSIBILITIES

Section 81 of the Public Finance Management Act, 2012 and section 14 of the State Corporations Act, require the Directors to prepare financial statements in respect of the company, 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 entity 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 entity's financial statements, which give a true and fair view of the state of affairs of the entity for and as at the end of the financial year (period) ended on June 30, 2019. This responsibility includes: (i) maintaining adequate financial management arrangements and ensuring that these continue to be effective throughout the reporting period; (ii) maintaining proper accounting records, which disclose with reasonable accuracy at any time the financial position of the entity; (iii) designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of the financial statements, and ensuring that they are free from material misstatements, whether due to error or fraud; (iv) safeguarding the assets of the company; (v) selecting and applying appropriate accounting policies; and (vi) making accounting estimates that are reasonable in the circumstances.

The Directors accept responsibility for the entity'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 Water Act 2016. The Directors are of the opinion that the entity's financial statements give a true and fair view of the state of company's transactions during the financial year ended June 30, 2020, and of the company's financial position as at that date. The Directors further confirm the completeness of the accounting records maintained for the company, which have been relied upon in the preparation of the company's financial statements as well as the adequacy of the systems of internal financial control.

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

### Approval of the financial statements

The financial statements were approved by the Board on 5<sup>th</sup> Sept 2020 and signed on its behalf by:



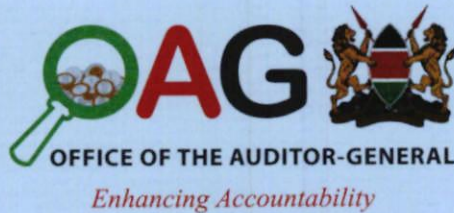
Director



Director

# REPUBLIC OF KENYA

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



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

## **REPORT OF THE AUDITOR-GENERAL ON MANDERA WATER AND SEWERAGE COMPANY LIMITED FOR THE YEAR ENDED 30 JUNE, 2020**

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### **REPORT ON THE FINANCIAL STATEMENTS**

#### **Qualified Opinion**

I have audited the accompanying financial statements of set out on pages 1, to 19, which comprise the statement of financial position as at 30 June, 2020, and the statement of profit or loss and other comprehensive income, statement of changes in equity, statement of cash flows and 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, the financial position of the Mandera Water and Sewerage Company Limited as at 30 June, 2020, and of its financial performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards, and comply with the Water Act, 2002, the Kenyan Companies Act, 2015 and the Public Finance Management Act, 2012.

#### **Basis for Qualified Opinion**

##### **1. Omissions in the Financial Statements**

The Financial Statements submitted did not conform to the requirements of the Public Sector Accounting Standards Board format for reporting on International Financial Reporting Standards. The financial statement lacked the following information.

Some of the important reports such as management discussion and analysis, reviews of Company's performance for the financial year under the review, corporate governance statement, corporate social responsibility/sustainability statement and other disclosures on projects implemented by the Company had not been included in the financial statements.

In view of the above anomalies, the financial statements did not conform to the requirement of the international financial reporting standards format.

## **2. Variances in Statement of Cash Flows**

The Statement of cash flow reflects a balance of Kshs. 214,686,968 relating to purchase of property, plant and equipment under investing activities. However, the corresponding Note 14 on property plant and equipment reflects an amount of Kshs.216,662,177 as additions to assets resulting to unexplained variance of Kshs.1,975,209.

Consequently, the accuracy and completeness of the statement of cash flows for the year ended 30 June, 2020 could not be confirmed.

## **3. Unsupported Balances**

The statement of financial position reflects Kshs.(57,924,483) and Kshs.351,635,986 being members equity and capital grants respectively as disclosed in Note 19 and 21 . However, the balances were not supported with detailed ledger analysis.

Consequently, the accuracy and completeness of balances for members equity and capital grants as at 30 June, 2020 could not be confirmed.

## **4. Lack of Ownership Documents**

The Company inherited intangible assets of Kshs.881,600 from Northern water services Board as reflected under financing activities. However, the same was not supported with a Note as a disclosure and ownership documents were not transferred to the Company. In addition, included in the property, plant and equipment balance of Kshs.285,717,957 is Kshs.9,500,000 in respect of land on which the Suftu water intake stands. However, the land had no title deed as evidence of ownership.

Further, the additions of Kshs.167,257,537 to buildings and civil works includes an amount of Kshs.62,989,234 for projects costs that should have been reported under project costs in the statement of profit and loss and comprehensive income since the projects will be owned by the community after completion.

In the circumstances, the completeness, accuracy and existence of the property plant and equipment balance of Kshs.285,717,957 as at 30 June, 2020 could not be confirmed

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

### **Budgetary Control and Performance**

The statement of comparison of budget and actual amount reflects final budget and actual on comparable basis of Kshs.401,526,440 and Kshs.335,893,675 respectively resulting to an under-funding of Kshs.65,632,765 or 16% of the budget. Similarly, the Company spent Kshs.286,335,913 against an approved budget of Kshs.375,832,111 resulting to an under-expenditure of Kshs.89,496,198 or 24% of the budget. Further, Statement of comparison of budget and actual amounts omits adjustments or supplementary passed and explanations on material variances made during the financial year under the review

The underfunding and underperformance affected the planned activities and may have impacted negatively on service delivery to the stakeholders.

## **REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES**

### **Conclusion**

As required by Article 229(6) of the Constitution, except for the matter described in the Conclusion on Lawfulness and Effectiveness in Use of Public Resources section of my report based on the audit procedures performed, 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**

#### **Unbalanced Budget**

A review of the statement of comparison of budget and actual amounts revealed that the Management prepared an unbalanced budget that reflects budgeted income of Kshs.401,526,440 and budgeted expenditure of Kshs.375,832,111 resulting to a unexplained variance of Kshs.25,694,329. This is contrary to Public Finance Management regulations of 2015 section 33(c) which states 'Unless provided otherwise in the Act, these Regulations or any other guidelines developed in furtherance of the Act or these Regulations, the following guidelines shall be observed at all times during budget formulation and approval—(c) budget shall be balanced'.

The Management is therefore in breach of the regulations.

The audit was conducted in accordance with ISSAI 4000. The standard requires that I comply with ethical requirements and plan and perform the audit so as 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, except for the matters described in the Basis for Conclusion on Effectiveness of Internal Controls, Risk Management and Governance section of my report, based on the audit procedures performed, I confirm that nothing has come to cause me to believe that internal controls, risk management and overall governance were not effective.

### **Basis for conclusion**

#### **1. Lack of an Asset Register**

The statement of financial position as at 30 June, 2020 reflects an amount of Kshs.285,717,957 in respect of property, plant and equipment (PPE) as disclosed in Note 14 to the financial statements. However, the Company did not maintain a fixed asset register to record details of the assets contrary to Section 136 (1) of the Public Finance Management Regulations, 2015 that states that the accounting officer shall be responsible for maintaining a register of assets under his or her control or possession as prescribed by the relevant laws.

#### **2. Lack of Human Resource Policy and Procedures**

Management had not put in place a human resource policy and procedures to assist in enhancing its internal controls regarding the management of its staff. The Company had only a draft human resource policy that had not been adopted and approved by the board this is contrary to section 159(1) of the Public Finance Management (County Government) Regulations, 2015

The audit was conducted in accordance with ISSAI 2315 and ISSAI 2330. The standards require that I plan and perform the audit to obtain assurance about whether 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 the Board of Directors**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International financial reporting standards 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, Management is responsible for assessing the Company's ability to continue as going concern, disclosing, as applicable, matters related to going concern and using the applicable basis of accounting unless Management is aware of intention to liquidate the Company or to 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 overall 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 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 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**

**11 February, 2022**

**STATEMENT OF PROFIT AND LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 30 JUNE 2020**

	Note	2019/2020 KSh	2018/2019 KSh
<b>REVENUES</b>			
Sales	6	21,024,500	7,346,510
Cost of sales	7	<u>(8,059,255)</u>	<u>(3,376,027)</u>
<b>Gross profit</b>		<b>12,965,245</b>	<b>3,970,483</b>
Other Income	9	<u>1,572,000</u>	<u>264,000</u>
<b>TOTAL REVENUES</b>		<b><u>14,537,245</u></b>	<b><u>4,234,483</u></b>
<b>OPERATING EXPENSES</b>			
Administration costs	10	47,839,523	22,717,020
Selling and Distribution Costs	11	99,638,604	21,563,030
Depreciation of property, plant and equipment	14	12,186,079	6,512,956
Amortisation of Intangible Assets	15	293,732	73,332
<b>TOTAL OPERATING EXPENSES</b>		<b><u>159,957,937.65</u></b>	<b><u>50,866,338.00</u></b>
<b>PROFIT/(LOSS) BEFORE TAXATION</b>		<b>(145,420,693)</b>	<b>(46,631,855)</b>
<b>INCOME TAX EXPENSE/(CREDIT)</b>	13	(43,626,208)	(13,989,557)
<b>PROFIT/(LOSS) AFTER TAXATION</b>		<b>(189,046,900)</b>	<b>(60,621,412)</b>
<b>OTHER INCOMES</b>			
Grants from County Government	8	141,146,077	37,010,483
Grants from Water Fund	8	3,846,950	1,141,314
Inkind Contribution	8	16,606,440	9,786,840
		<b>161,599,467</b>	<b>47,938,637</b>
<b>OTHER EXPENSES</b>			
Salaries paid by the county Govt	12	16,606,440	9,786,840
GGEP - Lanqura	12	1,003,120	539,037
GGEP - Sake	12	1,000,820	539,037
EU- Cpira Programme	12	886,535	-
UPC 7	12	2,400.00	63,240
Total Other Expenses		<b>19,499,315</b>	<b>10,928,154</b>
Net Other Income		142,100,152	37,010,483
<b>NET PROFIT/(LOSS) FOR THE YEAR</b>		<b>(46,946,749)</b>	<b>(23,610,929)</b>



STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2019

ASSETS	Note	2018/2019	2018/2019
		KSh	KSh
<b>Non-Current Assets</b>			
Property, plant and equipment	14	285,717,957	285,717,957
Intangible assets	15	1,101,596	1,101,596
<b>Total Non-Current Assets</b>		<b>286,819,553</b>	<b>286,819,553</b>
<b>Current Assets</b>			
Inventories	16	0	0
Trade and other receivables	17	14,751,771	14,751,771
Bank and cash balances	18	25,192,525	25,192,525
<b>Total Current Assets</b>		<b>39,944,296</b>	<b>39,944,296</b>
<b>TOTAL ASSETS</b>		<b>326,763,849</b>	<b>326,763,849</b>
<b>EQUITY AND LIABILITIES</b>			
<b>Capital and Reserves</b>			
Members Equity	19	(57,924,483)	(57,924,483)
Capital Grants		351,635,986	351,635,986
Retained earnings		(46,946,749)	(46,946,749)
<b>Capital and Reserves</b>		<b>246,764,755</b>	<b>246,764,755</b>
<b>Non-Current Liabilities</b>			
Deferred tax liability	20	57,615,765	57,615,765
<b>Total Non-Current Liabilities</b>		<b>57,615,765</b>	<b>57,615,765</b>
<b>Current Liabilities</b>			
Trade and other payables	21	22,383,329	22,383,329
<b>Total Current Liabilities</b>		<b>22,383,329</b>	<b>22,383,329</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>326,763,849</b>	<b>326,763,849</b>

5th Sept

The financial statements on pages 1 to 20 were approved for issue by the board of directors on 5th Sept 2020 and were signed on its behalf by:



Chief Executive Officer  
 Name: Abdikadir M. Tache



Head of Finance  
 Name: Mohamed Maalim Issackow  
 ICPAK M/NO: 24356



Chairman of the Board  
 Name: Bare Ali Adan

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

	Ordinary share capital KSh	Retained earnings KSh	Capital Grants KSh	Total KSh
<b>At July 1, 2019</b>	-	(23,610,929)	-	(23,610,929)
Total comprehensive income	-	-	117,106,002	117,106,002
Capital/Development grants received during the year	-	-	-	-
Transfer from Capital fund to Statement of comprehensive income	-	(28,952,748)	-	(28,952,748)
Transfer of depreciation/amortisation from capital fund to retained earning	-	-	-	-
<b>At June 30, 2020</b>	-	(52,563,677)	117,106,002	64,542,326
<b>At July 1, 2019</b>	-	(52,563,677)	117,106,002	64,542,326
Total comprehensive income	-	(46,946,749)	-	(46,946,749)
Capital/Development grants received during the year	-	-	234,529,984	234,529,984
Transfer from Capital fund to Statement of comprehensive income	-	(52,570,597)	-	(52,570,597)
Transfer of depreciation/amortisation from capital fund to retained earning	-	-	-	-
<b>At June 30, 2020</b>	-	(152,081,023)	351,635,986	199,554,963



## STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2020

	NOTES	2019-2020 KShs	2018-2019 KShs
<b>OPERATING ACTIVITIES</b>			
Profit for the Year		(46,946,748.50)	(23,610,929.00)
Adjustments to reconcile Net Income			
Accounts Receivable	17	(12,782,471.00)	(1,969,300.00)
Accounts Payable	21	9,205,606.00	4,189,354.00
Depreciation and Amortization	14	12,259,411.00	6,512,956.00
Payroll Liabilities			8,622,929.00
<b>Net cash provided by Operating Activities</b>		<b>(38,264,203)</b>	<b>(6,254,990.00)</b>
<b>INVESTING ACTIVITIES</b>			
Property Plant & Equipment	14	(214,686,968.12)	(57,783,290.00)
Deferred Tax Liabilities	20	43,626,208.00	13,989,557.00
Intangible Assets	14	(881,600.00)	(293,328.00)
<b>Net cash provided by Investing Activities</b>		<b>(171,942,360)</b>	<b>(44,087,061)</b>
<b>FINANCING ACTIVITIES</b>			
Capital Grants National Government (WSTF)		95,214,740	6,159,273
Capital Grants Manderia County Government		131,986,150	52,989,594
Northen Water Services Board			(843,427.00)
<b>Net cash provided by Financing Activities</b>		<b>227,200,890</b>	<b>58,305,440</b>
Net cash increase for period		16,994,327	7,963,389
Cash at beginning of period	18	8,198,198	234,809
<b>Cash at end of period</b>		<b>25,192,525</b>	<b>8,198,198</b>

**STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS  
 AS AT 30th JUNE 2020**

	Budget	Actual	Variance	Explanation of material variances
	2019-20	2019-20	2019-20	
	Shs	Shs	Shs	
<b>Revenue</b>				
Sales	22,800,000	21,024,500	1,775,500.00	
Grants from the County Government	243,606,440	243,606,440	-	
Grants from Water sector Trust Fund	135,120,000	71,262,735	63,857,265.00	
Proceeds from Domestic borrowings	-	-	-	
Finance Income	-	-	-	
Gains on disposal, rental income and agency fees	-	-	-	
<b>Total income</b>	<b>401,526,440</b>	<b>335,893,675</b>	<b>65,632,765</b>	
<b>Expenses</b>				
Compensation of employees	24,106,440	23,915,803	190,637.00	
Cost of Goods Sold( Power)	5,770,000	5,761,239	8,761.00	
Purchase of Goods	42,130,000	41,653,811	476,189.00	
Finance cost	-	-	-	
Administrative costs	35,840,000	20,615,226	15,224,774.18	
Selling and distribution costs	98,137,871	98,022,814	115,057.00	
Developmental costs	34,727,800	34,717,806	9,994.50	
Water fund project expenses	135,120,000	61,649,215	73,470,785.38	
<b>Total expenditure</b>	<b>375,832,111</b>	<b>286,335,913</b>	<b>89,496,198</b>	
<b>Surplus for the period</b>	<b>25,694,329</b>	<b>49,557,762</b>	<b>(23,863,433)</b>	



## NOTES TO THE FINANCIAL STATEMENTS

### 1. GENERAL INFORMATION

Mandera Water and Sewerage Company was established by and derives its authority and accountability from Company's Act. The Company is wholly owned by the Government of Kenya and is domiciled in Kenya. The principal activities of the entity continue to be provision of water and sanitation services to Mandera residents.

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 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 judgement in the process of applying the company'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 Notes four and five.

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 (IF

#### i) Relevant new standards and amendments to published standards effective for the year ended 30 June 2019

##### *IFRS 16: Leases*

The new standard, effective for annual periods 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, unless the underlying asset is of low value. A lessee is required to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments.



01 02 03 04 05 06 07 08 09 10 11 12 13 14 15 16 17 18 19 20 21 22 23 24 25 26 27 28 29 30 31 32 33 34 35 36 37 38 39 40 41 42 43 44 45 46 47 48 49 50 51 52 53 54 55 56 57 58 59 60 61 62 63 64 65 66 67 68 69 70 71 72 73 74 75 76 77 78 79 80 81 82 83 84 85 86 87 88 89 90 91 92 93 94 95 96 97 98 99 100

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 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)

Application of IFRS 16 requires right-of-use assets and lease liabilities to be recognised in respect of most operating leases where the Company is the lessee. Based on the Directors' assessment, right of use assets of KSh 285717,957 and a deferred tax asset of KSh 57,615,765 have been recognised with a corresponding decrease of the net amount in retained earnings in these financial statements.

#### **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, when there is uncertainty over income tax treatments under IAS 12. It specifically considers:

- 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 changes in facts and circumstances

#### **Amendments to IFRS 9 titled Prepayment Features with Negative Compensation (issued in October 2017)**

The amendments, applicable to annual periods beginning on or after 1 January 2019, allow entities to measure prepayable financial assets with negative compensation at amortised cost or fair value through other comprehensive income if a specified condition is met.

#### **Amendments to IAS 28 titled Long-term Interests in Associates and Joint Ventures (issued in October 2017)**

The amendments, applicable to annual periods beginning on or after 1st January 2019, clarify that an entity applies IFRS 9, rather than IAS 28, in accounting for long-term interests in associates and joint ventures.

#### **Amendments to IFRS 3 - Annual Improvements to IFRSs 2015–2017 Cycle , issued in December 2017.**

The amendments, applicable to annual periods beginning on or after 1st January 2019, provide additional guidance on applying the acquisition method to particular types of business combination.

#### **Amendments to IFRS 11 - Annual Improvements to IFRSs 2015–2017 Cycle , issued in December 2017**

The amendments, applicable to annual periods beginning on or after 1st January 2019, clarify that when an entity obtains joint control of a business that is a joint operation, it does not re-measure its previously held interests.

#### **Amendments to IAS 12 - Annual Improvements to IFRSs 2015–2017 Cycle , issued in December 2017**

The amendments, applicable to annual periods beginning on or after 1st January 2019, 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 the entity originally recognised the transactions to which they are linked.

#### **Amendments to IAS 23 - Annual Improvements to IFRSs 2015–2017 Cycle , issued in December 2017**

The amendments, applicable to annual periods beginning on or after 1st January 2019, clarify that the costs of borrowings made specifically for the purpose of obtaining a qualifying asset that is substantially completed can be included in the determination of the weighted average of borrowing costs for other qualifying assets.



## NOTES TO THE FINANCIAL STATEMENTS (Continued)

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

#### *Amendments to IAS 19 titled Plan Amendment, Curtailment or Settlement (issued in February 2018)*

The amendments, applicable to plan amendments, curtailments or settlements occurring on or after the beginning of the first annual reporting period that begins on or after 1st January 2019, requires an entity to use updated actuarial assumptions to determine current service cost and net interest for the remainder of the annual reporting period after the plan amendment, curtailment or settlement when the entity re-measures its net defined benefit liability (asset) in the manner specified in the amended standard.

#### *i) New and amended standards and interpretations in issue but not yet effective in the year ended 30 June 2019*

##### *IFRS 17 Insurance Contracts (Issued 18 May 2017)*

IFRS 17 requires insurance liabilities to be measured at a current fulfillment value and provides a more uniform measurement and presentation approach for all insurance contracts. These requirements are designed to achieve the goal of a consistent, principle-based accounting for insurance contracts. IFRS 17 supersedes IFRS 4 Insurance Contracts as of 1 January 2021.

##### *Amendments to References to the Conceptual Framework in IFRS Standards (Issued 29 March 2018- Applicable for annual periods beginning 1 January 2020)*

Together with the revised Conceptual Framework published in March 2018, the IASB also issued Amendments to References to the Conceptual Framework in IFRS Standards. The document contains amendments to IFRS 2, IFRS 3, IFRS 6, IFRS 14, IAS 1, IAS 8, IAS 34, IAS 37, IAS 38, IFRIC 12, IFRIC 19, IFRIC 20, IFRIC 22, and SIC-32. Not all amendments, however update those pronouncements with regard to references to and quotes from the framework so that they refer to the revised Conceptual Framework. Some pronouncements are only updated to indicate which version of the framework they are referencing to (the IASC framework adopted by the IASB in 2001, the IASB framework of 2010, or the new revised framework of 2018) or to indicate that definitions in the standard have not been updated with the new definitions developed in the revised Conceptual Framework.

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 company did not early – adopt any new or amended standards in year 2019-20.



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

**i) Revenue from the sale of goods and services** is recognised in the year in which the company delivers products to the customer, the customer has accepted the products and collectability of the related receivables is reasonably assured.

**ii) Grants from 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

**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) Dividend income** is recognised in the income statement in the year in which the right to receive the payment is established.

**v) Rental income** is recognised in the income statement as it accrues using the effective lease agreements.

**vi) Other income** is recognised as it accrues.

#### b) In-kind contributions

In-kind contributions are donations that are made to the company in the form of actual goods and/or services rather than in money or cash terms. These donations may include vehicles, equipment or personnel services. Where the financial value received for in-kind contributions can be reliably determined, the company includes such value in the statement of comprehensive income both as revenue and as an expense in equal and opposite amounts; otherwise, the contribution is not recorded.

#### c) Property, plant and equipment

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

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

Increases in the carrying amounts of assets arising from re-valuation are credited to other comprehensive income. Decreases that offset previous increases in the carrying amount of the same asset are charged against the revaluation reserve account; all other decreases are charged to profit or loss in the income statement.

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



**NOTES (CONTINUED)**

**4) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**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 costs of ongoing but incomplete works on buildings and other civil works and installations.

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

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

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

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

**e) Intangible assets**

Intangible assets comprise purchased computer software licences, 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 four 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 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.

1 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21 22 23 24 25 26 27 28 29 30 31 32 33 34 35 36 37 38 39 40 41 42 43 44 45 46 47 48 49 50 51 52 53 54 55 56 57 58 59 60 61 62 63 64 65 66 67 68 69 70 71 72 73 74 75 76 77 78 79 80 81 82 83 84 85 86 87 88 89 90 91 92 93 94 95 96 97 98 99 100

4) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

g) **Investment property**

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

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

h) **Finance and operating leases**

Leases which confer substantially all the risks and rewards of ownership to the entity are classified as finance leases. Upon initial recognition, the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments, and the asset is subsequently accounted for in accordance with the accounting policy applicable to that asset.

All other leases are treated as operating leases and the leased assets are recognised in the statement of financial position to the extent of prepaid lease rentals at the end of the year. Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense over the term of the lease.

i) **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.

j) **Trade and other receivables**

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

k) **Taxation**

*Current income tax*

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

Current income tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting date in the area where the Entity operates and generates taxable income. Current income tax relating to items recognized directly in net assets is recognized in net assets and Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.



4) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

k) Taxation (Continued)

*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.

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.

l) 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.

m) Borrowings

Interest bearing loans and overdrafts are initially recorded at fair value being received, net of issue costs associated with the borrowing. Subsequently, these are measured at 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 on 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.



**4) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**n) 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.

**o) Provision for staff leave pay**

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

**p) Exchange rate differences**

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

**q) Budget information**

The original budget for FY 2019-2020 was approved by the Board Members on 23rd August 2019. Subsequent revisions or additional appropriations were made to the approved budget in accordance with specific approvals from the appropriate authorities. The additional appropriations are added to the original budget by the entity upon receiving the respective approvals in order to conclude the final budget. Accordingly, the entity recorded additional appropriations on 31st January 2020 on the 2019-2020 budget following the board of director's approval.

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 on page four of these financial statements.

**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, 2020.



NOTES (CONTINUED)

5) SIGNIFICANT JUDGMENTS AND SOURCES OF ESTIMATION UNCERTAINTY

The preparation of the company's financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of the reporting period. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods.

State all judgements, estimates and assumptions made: e.g

**Estimates and assumptions**

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. The company based its assumptions and estimates on parameters available when the financial statements were prepared. However, existing circumstances and assumptions about future developments may change due to market changes or circumstances arising beyond the control of the company. Such changes are reflected in the assumptions when they occur.

**Useful lives and residual values**

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

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

**Provisions**

Provisions 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.

6. Revenue	2019/2020 Ksh	2018/2019 Ksh
sales of water	<u>21,024,500</u>	<u>7,346,510</u>
<b>7. Cost of sales</b>		
Electricity	<u>8,059,255</u>	<u>3,376,027</u>
<b>8. Grant and donations</b>		
Grants from County Government	141,146,077	37,010,483
Grants from Water Fund	3,846,950	1,141,314
Inkind Contribution	<u>16,606,440</u>	<u>9,786,840</u>
Total	<u>161,599,467</u>	<u>47,938,637.00</u>
<b>8(b) Analysis of grants</b>		
<b>1. Mandera County Grants</b>		
Grants Recognized in the P&L	141,146,077	37,010,483
Grants Recognized in the Balance sheet	55,353,923	52,989,517
<b>Total Grants received from Mandera county</b>	<u>196,500,000</u>	<u>90,000,000</u>
<b>2. Water Fund Grants</b>		
Grants Recognized in the P&L	3,846,950	1,141,314
Grants Recognized in the Balance sheet	65,164,740	6,159,273
<b>Total Grants received from Water Fund</b>	<u>69,011,690</u>	<u>7,300,587</u>



NOTES (CONTINUED)

9. Other income

New connections	1,572,000.00	264,000.00
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10. Administration costs

	2019/2020 Ksh	2018/2019 Ksh
Staff costs (note 6a)	7,277,427	4,284,061
Directors' emoluments	963,400	1,547,100
Communication services and supplies	603,675	45,698
Travelling and subsistence	5,777,250	2,684,558
Transport and fuel expense	6,741,115	4,082,315
Advertising, printing, stationery and photocopying	5,252,682	2,345,260
Rent expenses	4,960,000	1,590,000
Dues and Subscriptions	76,200	0
Staff and Board training expenses	1,282,650	2,009,820
Hospitality supplies and services	261,200	123,300
Insurance costs	29,250	7,500
Hygiene and Fumigation	6,407,300	
Bank charges and commissions	75,130	37,500
Office and general supplies and services	3,100,515	1,414,850
Consultancy fees	478,285	1,413,118
Electricity Expenses(Office)	382,674	-
Repairs and maintenance	3,581,480	-
Other general expenses	589,290	1,131,940
	<b>47,839,523</b>	<b>22,717,020</b>

10 (a) Staff costs

Salaries and allowances of permanent employees	6,833,177	4,014,211
Compulsory national health insurance schemes	267,450	156,250
Compulsory national social security schemes	176,800	113,600
	<b>7,277,427</b>	<b>4,284,061</b>

11. Selling and distribution costs

Repair and Maintenance	98,708,642	20,976,222
Other selling and distribution costs	459,900	350,000
Levies	470,062	236,808
	<b>99,638,604</b>	<b>21,563,030</b>



NOTES (CONTINUED)

12. Other expenses

	2019/2020	2018/2019
	Ksh	Ksh
Salaries paid by County Govt	16,606,440	7,655,760
	<b>16,606,440</b>	<b>7,655,760</b>
<b>GGEF- Lanqura Soft Components</b>		
Bank Charges	4,380.00	3,010
Advertisement	-	86,768
Community Awareness	-	50,000
Environmental Impact Assessment	-	150,000
Project Survey & Design	-	200,000
Admin, Supervision and Transport	998,740	49,259
<b>Total Soft Components</b>	<b>1,003,120</b>	<b>539,037</b>
<b>GGEF- Sake Soft components</b>		
Bank Charges	4,440.00	3,010
Advertisement	-	86,768
Community Awareness	-	50,000
Environmental Impact Assessment	-	150,000
Project Survey and Design	-	200,000
Admin, Supervision and Transport	996,380	49,259
	<b>1,000,820</b>	<b>539,037</b>
<b>UPC-7 Soft components</b>		
Bank Charges	2,400.00	3,240
Admin Expenses	-	60,000
	<b>2,400</b>	<b>63,240</b>
<b>Total Soft components</b>		
<b>EU- CIPRA PROGRAMME</b>		
Admin Expenses		
Bank Charges- CLTS	Bokolow CLTS	932.50
Advertisement	Bokolow PSF	174,420.00
Bank Charges	Bokolow PSF	1,412.50
Bank Charges	Bokolow Water Project	6,970.00
Admin Expenses	Bokolow Water Project	30,000.00
Community Awareness	Bokolow Water Project	150,000.00
Design and survey	Bokolow Water Project	422,800.00
Geological testing excavations	Bokolow Water Project	100,000.00
Total for EU- CIPRA		<b>886,535</b>

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NOTES (CONTINUED)

14. Property, plant and equipments

	Freehold land	Buildings and Civil works	Plant and machinery	Computers	Furniture & fittings	Motor Vehicles/cy cles	Total
	Shs	Shs 4.0%	Shs 8.0%	Shs 33.0%	Shs 8.0%	Shs 25.0%	Shs
<b>Cost</b>							
At July 1, 2019	4,500,000	54,797,113	44,064,119	1,893,882	2,137,000	-	107,392,114
Additions	5,000,000.0	167,257,537	39,388,184	1,791,440	2,018,120	1,206,896	216,662,177
At June 30, 2020	9,500,000	222,054,650	83,452,303	3,685,322	4,155,120	1,206,896	324,054,291
<b>Depreciation and impairment</b>							
At July 1, 2019	-	17,891,885	6,342,530	1,669,881	245,960	-	26,150,255
Depreciation	-	3,659,605	6,676,184	1,216,156	332,410	301,724	12,186,079
At June 30, 2020	-	21,551,489	13,018,714	2,886,037	578,370	301,724	38,336,334
<b>Net book values</b>							
At June 30, 2020	9,500,000	200,503,161	70,433,589	799,285	3,576,750	905,172	285,717,957
At June 30, 2019	4,500,000	36,905,229	37,721,589	224,001	1,891,040	-	81,241,859

15. Intangible assets

	2019-2020 Kshs 20%	2018-2019 Kshs
<b>Cost</b>		
At July 1 2019	366,660	366,660
Additions	1,102,000	-
At June 30	1,468,660	366,660
<b>Amortization</b>		
At July 1 2019	73,332	73,332.00
Charge for the year	293,732	-
At June 30 2020	367,064	73,332.00
<b>Net book value</b>		
At June 30 2020	1,101,596	293,328.00



NOTES (CONTINUED)

	2019-2020	2018-2019
17. Trade and other receivables	14,751,771	1,969,300
Trade receivables	14,751,771	1,969,300
Provision for bad and	-	-
Net trade and other receivables	14,751,771	1,969,300
18. Bank and cash balances	25,189,525	8,196,698
Cash at bank	25,189,525	8,196,698
Petty cash	0.00	1,500
Revenue Cash Office	3,000	0.00
Breakdown of cash and bank balances	25,192,525	8,198,198
Financial institution	1000294576543	3,777,843.00
Equity Bank Kenya	1000268735214	2,804,361
UPC7	1000277364497	807,022
Equity Bank Kenya	1000277364497	807,022
Lanqura	1000277364497	807,022
Equity Bank Kenya	1000277364497	807,022
Sake	1000277364497	807,022
Equity Bank Kenya	1000277364497	807,022
Operations	1000278529469	450
Equity Bank Kenya	1000278529469	450
Bokolow	1000279120156	-
Equity Bank Kenya	1000279120156	-
CT,TS	1000279515421	-
Equity Bank Kenya	1000279515421	-
PSF	1000279515437	-
Equity Bank Kenya	1000279515437	-
Sub- total	25,189,525	8,196,698
19. Ordinary share capital	100,000	100,000
18. Members Equity	57,924,483	28,859,668
1000 Authorized ordinary shares of Kshs.100 par value each	100,000	100,000
Government investors	57,824,483	28,859,668
20. Deferred tax liability	57,615,765	13,989,557
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:		
	2019-2020	2018-2019
	Kshs	Kshs
Current Years Deferred Tax	43,626,208	13,989,556.62
Tax losses carried forward	13,989,557	
Provisions for liabilities and charges		
Net deferred tax liability	57,615,765	13,989,557



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## NOTES (CONTINUED)

	2019-2020 Kshs	2018-2019 Kshs
<b>21. Trade and other payables</b>		
Trade payables	5,845,600	1,314,794
Accrued expenses	7,914,800	3,240,000
Other payables(acrued salaries)	8,622,929	8,622,929
	<u>22,383,329</u>	<u>13,177,723</u>
<b>20(b)</b>		
Trade payables B/d	13,177,723.20	365,440
Increase in trade and accrued payables	9,205,606.00	4,189,354
	<u>22,383,329</u>	<u>4,554,794</u>
<b>21. Capital Grants</b>		
Capital Grants:National Government	121,481,788	19,299,110
Capital Grants:Mandera County Government	184,975,694	52,989,544
Nothern Water Services Board	45,178,504	44,817,348
	<u>351,635,986</u>	<u>117,106,002</u>

**22. Related party transactions****(a) Government of Kenya**

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

Other related parties include:

- i) County Government of Mandera
- ii) Key management;
- iii) Board of directors;

**Transactions with related parties**

	2019-2020 Kshs	2018-2019 Kshs
<b>a) Grants from the Government</b>		
Grants from County Govt	141,146,076.82	37,010,483
Grants from National Government	4,474,186.00	1,141,314
Donations in kind	16,606,440.00	9,786,840
<b>Total</b>	<u>162,226,702.82</u>	<u>47,938,637</u>
<b>b) Key management compensation</b>		
Directors' emoluments	963,400	1,547,100
<b>Total</b>	<u>963,400.00</u>	<u>1,547,100</u>

**23. Events after the reporting period**

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

**24. Currency**

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



Appendix

**PAYABLES SCHEDULE 2019-2020**

Date	PAYEE	Description	Credit
01/07/2019	Asmi Investment Ltd	Vehicle hire	1,800,000.00
16/04/2020	Ali Abdi Ibrahim	Office Rent	3,200,000.00
30/04/2020	Angasu development	Surface Pumpset	500,000.00
30/04/2020	Kenya Power co.	Haji Kerrow Electricity Expense	201,078.00
12/05/2020	Udole Company	Submersible Pumps	1,686,720.00
12/05/2020	Bunay company limited	Rehabilitation of piping works	1,381,680.00
28/05/2020	Gari Ali Abdi Co. Ltd	Exhauster repair and servicing	1,500,000.00
08/06/2020	Media Mall Ltd	Website Hosting and development	777,200.00
30/06/2020	Kenya Power co.	Suftu Electricity Expense	1,805,543.00
30/06/2020	Kenya Power co.	Neboi Electricity Expense	565,575.00
30/06/2020	Kenya Power co.	Rental Office - Electricity	108,494.00
30/06/2020	WARMA	water usage charges	234,110.00
<b>TOTAL</b>			<b>13,760,400.00</b>