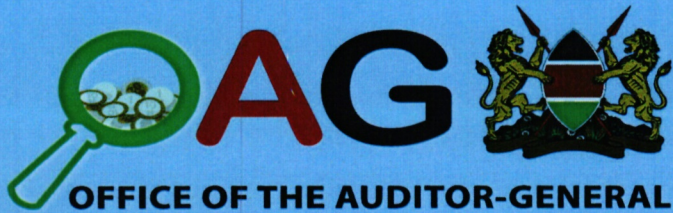


REPUBLIC OF KENYA



*Enhancing Accountability*

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# REPORT

OF

THE AUDITOR-GENERAL

ON

ELWAK WATER AND SEWERAGE  
COMPANY LIMITED

FOR THE YEAR ENDED  
30 JUNE, 2022



OFFICE OF THE AUDITOR GENERAL  
NORTH EASTERN REGIONAL OFFICE

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**ELWAK WATER AND SEWERAGE COMPANY LIMITED**

**ANNUAL REPORT AND FINANCIAL STATEMENTS**

**FOR THE FINANCIAL YEAR ENDED**

**JUNE 30, 2022**

---

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

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## **I. Key Entity Information**

### **Background information**

Elwak Water and Sewerage Company Limited (Elwasco) was established by the companies Act of Parliament on 23<sup>rd</sup> 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.

To provide and distribute a constant 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 Nurow        | - Chairman                |
| 2. Mrs Miriam Maalim Issackow | - Deputy Chairperson      |
| 3. Mrs Nasra Adan Maalim      | - Board Member            |
| 4. Mr Mohamed Adan Issack     | - Board Member            |
| 5. Mr Mohamedrashid Haji      | - Board Member            |
| 6. Mr Alinoor Mohamed Ali     | - Board Member            |
| 7. Mr Adan Abdirahman         | - Board Member            |
| 8. Mr Kassim Haji Abdinoor    | - 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

### **Corporate Contacts**

Telephone: (+254) 729224090

E-mail: [info@elwasco.co.ke](mailto:info@elwasco.co.ke)

Website: [www.elwasco.co.ke](http://www.elwasco.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

## 1. THE BOARD OF DIRECTORS

1.	Mr Abdirahman Nurow	Chairman
2.	Mrs Miriam Maalim Issacckow	Deputy Chairperson
3.	Mrs Nasra Adan Maalim	Board Member
4.	Mr Mohamed Adan Issack	Board Member
5.	Mr Mohamedrashid 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

## II. Management Team

1. Mr. Issack Adan	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 Abdullahi	Head of Administration

### III. 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.

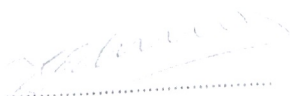
ELWASCO also recruited some casuals to effectively deliver services to the community. The casuals were initially contracted on short term contracts of one year. The board will however, debate on whether to extend the length of the contracts.

During the same period, the company initiated the process of Licensing to enable the Company function within the walls 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 challenges 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 incapacitation 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

30/06/2022

Date

#### **IV. Report Of the Managing Director**

ELWASCO faced extreme difficulties in its operation during the year. This is due to prolonged severe draught which caused frequent system break down and reducing water levels in our boreholes. largely faulty water systems that were handed over to us at start of operations.

The ELWASCO also recruited some casuals to effectively deliver services to the community. The casuals were handed renewable short term contracts of one year.

The company faced many challenges 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 incapacitation 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.

## V. Statement Of Performance Against Predetermined Objectives for FY 2021/2022

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 WSTF and other such entities. The County Government Grant is solely not enough. The Company is looking to improve its revenues gradually.

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

Total revenue for the year (all source)	93,925,300
Total expenditure expenses	<u>97,327,827</u>
Net profit/loss	<b>(3,402,527)</b>

The company also made losses of **Kshs (3,402,527)** due to high cost of operation and deficit in revenue collection.



CEO

30/06/2022

Date

## **VI. 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 Chief 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 Mwongozo 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 law

### ***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 for itself a Charter. According to the Charter, apart from the statutory duties the main tasks of Board are:

- i. Approval of the strategic 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 Authorities 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.
- 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. Appointments to the Board Committees and review of the reports of the Board Committees

## **COMMITTEES OF THE BOARD**

The Board constituted Committee which comprises of

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

## **VII. Management Discussion and Analysis**

### **ELWASCO's financials are as summarised below**

Total revenue for the year (all source)	93,925,300
Total expenditure expenses	<u>97,337,827</u>
Net profit/loss	<b>(3,412,527)</b>

### **Difference**

The Company experienced a Net Loss of **Kshs. (3,412,527)** as at **30<sup>th</sup> June 2022**. This was due to high operation cost and deficit revenue target and collections.

The company undertook repair and maintenance of pipes, procurement of water pumps, meters among others to highlight a key investment.

The Company faced real threats in terms of security from the boarder 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 Municipality 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 obligated to contribute an amount towards NHIF as contribution from deduction of casual payroll.

## **2. 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 achievements in each pillar

### **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 1000L of Diesel daily to pump and provide water to our clients. This is not sustainable in the long run.

The company has put in place a plan to solarize all our boreholes. There is a plan to phase out use of Generators at our pump station within the first five years of operation so as to cut cost on fuel.

### **ii. Environmental performance**

The company subsidized water for 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 does not currently employ highly skilled 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 casual employees attached to the technical department or those involved in hard and physically 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 casual payroll.

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

**iv. Market place practices-**

The organisation should outline its efforts to:

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

**v. Community Engagements-**

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

## VIII. Report Of the Directors

The Directors submit their report together with the audited financial statements for the year ended June 30, 2022 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 Municipality.

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, 2022 are set out on page 1. Below is summary of the profit or loss made during the year.

Total revenue for the year (all source)	93,925,300
---	------------

Total expenditure expenses	<u>97,337,827</u>
----------------------------	-------------------

Net profit/loss	<b>(3,412,527)</b>
-----------------	--------------------

### Dividends

The shareholders agreed that there is so dividends 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 Kenya and the Public Audit Act 2015

### Principal activities

To provide and distribute a constant supply of safe and sufficient 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.

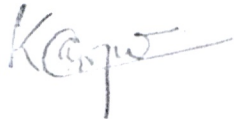
**i) Auditors**

The Auditor General is responsible for the statutory audit of the Company in accordance with Article 229 of the Constitution of Kenya and the Public Audit Act 2015 were nominated by the Auditor General to carry out the audit of the Company for the year/period ended June 30, 2021, in accordance to section 23 of the Public Audit Act, 2015 which empowers the Auditor General to appoint an auditor to audit on his behalf.

By Order of the Board

Name: Kassim Haji Abdinoor

Signature



Date: 30/06/2022

Corporate Secretary/Secretary to the Board

## IX. 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 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 safeguarding the assets of ELWASCO.

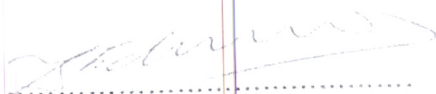
The Directors are responsible for the preparation and presentation of the company's financial statements, which give a true and fair view of the state of affairs of ELWASCO for and as at the end of the financial year (period) ended on June 30, 2022. This responsibility includes: (i) maintaining adequate 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 misstatements, whether due to error or fraud; (iv) safeguarding the assets of the company; (v) selecting and applying appropriate accounting policies; and (vi) making accounting estimates that are reasonable in the circumstances.

The Directors responsibility for 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 (the State Corporations Act). The Directors are of the opinion that ELWASCO's financial statements give a true and fair view of the state of company's transactions during the financial year ended June 30, 2022, and of the company's financial position as at that date. The Directors further confirm the completeness of the accounting records maintained for ELWASCO, 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.

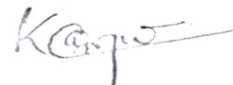
Nothing has come to the attention of the Directors to indicate that ELWASCO will not remain a going concern for at least the next twelve months from the date of this statement.

### Approval of the financial statements

Elwak Water and Sewerage Company Limited's financial statements were approved by the Board on **30<sup>th</sup> June** 2022 and signed on its behalf by:



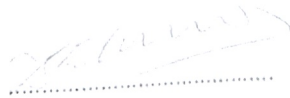
Chairperson of the Board.



Chief Executive Officer

**Approval of the financial statements**

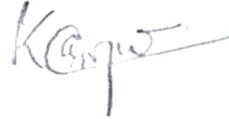
The company financial statements were approved by the Board on **30<sup>th</sup> June 2022** and signed on its behalf by:



**Signature**

**Name**      **Abdirahman Nurow**

**Chairperson of the Board**

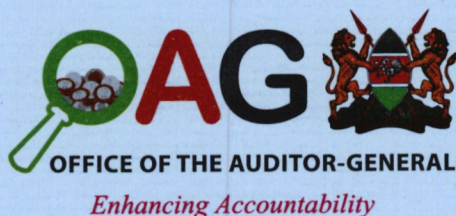


**Signature .....**

**Name**      **Kassim Haji Abdinoor**

**Managing Director**

# REPUBLIC OF KENYA



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Email: 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 SEWERAGE COMPANY LIMITED FOR THE YEAR ENDED 30 JUNE, 2022

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### 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 the intended purpose.
- C. Report on Effectiveness of Internal Controls, Risk Management and Governance which considers how the Company 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 Company.

An unmodified opinion does not necessarily mean that a Company 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 40, which comprise of the statement of financial position as at 30 June, 2022 and the statement of profit and loss and other comprehensive

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

In my opinion, except for the effect of the matters described in the Basis for Qualified Opinion section of my report, the financial statements present fairly, in all material respects, the financial position of Elwak Water and Sewerage Company Limited as at 30 June, 2022 and of its financial performance and its cash flows for the year then ended, in accordance with the International Financial Reporting Standards (IFRS) and comply with the Public Finance Management Act, 2012, Companies Act, 2015 and Water Act, 2016.

## **Basis for Qualified Opinion**

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

Review of the financial statements prepared and submitted for audit revealed the following errors and inaccuracies:-

- i. The statement of changes in net assets reflects capital grants balance of Kshs.47,766,496. However, the movement of the balance from the prior year certified balance of Kshs.45,215,291 was not analysed leading to unreconciled variance of Kshs.2,551,205.
- ii. The statement of changes in net assets reflects retained earnings balance of Kshs.3,412,527 which did not incorporate the prior year certificate balance of Kshs.5,311,250 to report a cumulative balance of Kshs.8,723,777.
- iii. The statement of cash flows reflects purchase of property, plant and equipment of Kshs.21,980,914 while Note 15 to the financial statements reflects additions to property, plant and equipment of Kshs.27,980,012 resulting to unexplained variance of Kshs.5,999,098.
- iv. The statement of profit or loss and other comprehensive income reflects total expenditure of Kshs.89,290,303 net of depreciation of Kshs.8,047,524. However, the statement of comparison of budget and actual amounts reflects total expenditure of Kshs.93,924,300 resulting to an unexplained variance of Kshs.4,633,997.

In the circumstances, the accuracy of the balances reflected in the financial statements could not be confirmed.

### **2. Unaccounted for Water Sales**

The statement of profit or loss and other comprehensive income reflects an operating revenue amount of Kshs.6,925,300 for water sales as disclosed in Note 6 to the financial statements. However, review of records revealed the following anomalies:

- i. The water charges billing report for the year under review was not provided for audit review.
- ii. Out of the total of two thousand four hundred and thirty four (2,434) active water connections recorded in the revenue system, only four hundred and fifty-eight (458), or 19% of the customers were metered;
- iii. The water tariff of Kshs.70 per cubic meter, was not low and was not approved by the Water Services Regulatory Board as required;
- iv. The master/bulky water meter readings report indicating the volume of water produced during the year under review was not supported;
- v. The revenue income from sewer exhaustion done by two (2) contracted companies was not disclosed; and
- vi. The policies and regulations regarding water tariffs, management of bad debts and receivables had not been established.

In the circumstances, the accuracy and completeness of the sales revenue balance of Kshs.6,925,300 for the year 30 June, 2022 could not be confirmed.

### **3. Unsupported Board Sitting Allowances**

The statement of profit or loss and other comprehensive income reflects board expenses of Kshs.4,156,451 for board expenses which includes sitting allowance of Kshs.372,800 as disclosed in Note 12 to the financial statements. However, the expenditure was not supported with attendance registers.

In the circumstances, the validity and completeness of the sitting allowances amounting to Kshs.372,800 as at 30 June, 2022 could not be confirmed.

### **4. Unsupported Trade and Other Receivables**

The statement of financial position reflects a balance of Kshs.2,762,785 for trade and other receivables as disclosed in Note 16 to the financial statements. However, review of records revealed that the balance was not supported by invoices and demand letters.

In the circumstances, the accuracy and completeness of trade and receivables balance of Kshs.2,762,785 as at 30 June, 2022 could not be confirmed.

### **5. Unsupported Trade and Other payables**

The statement of financial position reflects trade and other payables balance of Kshs.18,590,380 as disclosed in Note 20 to the financial statements and which was not supported by a detailed schedule including the aging analysis, invoices and other related documents.

In the circumstances, the accuracy and completeness of trade and other payables balance of Kshs.18,590,380 as at 30 June, 2022 could not be confirmed and the ability of the Company to settle them appears doubtful.

## **6. Non-Disclosure of Material Uncertainty Relating to Going Concern**

The statement of profit or loss and other comprehensive income reflects a loss of Kshs.3,412,527 (in 2021 loss of Kshs.5,311,250), decreasing the revenue reserves to negative Kshs.8,723,777. In addition, the statement of financial position reflects current assets of Kshs.2,966,664 against total current liabilities of Kshs.18,590,380, resulting to a negative working capital of Kshs.15,623,716. This condition indicates existence of a material uncertainty, which may cast significant doubt on the Company's ability to continue as a going concern. The material uncertainty relating to going concern and the measures put in place to improve the Company's financial performance have not been disclosed in these financial statements.

In the circumstances, the Company is technically insolvent and its continued operations is dependent on the continued support from the creditors and County Government of Mandera.

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 on in the year under review.

### **Other Matter**

#### **1. Budgetary Control and Performance**

The statement of comparison of budget and actual amounts for the year ended 30 June, 2022 reflects revenue budget and actual revenue on comparable basis of Kshs.95,124,300 and Kshs.93,925,300 respectively, resulting to budget under-funding of Kshs.1,199,000(or 1%) of the budget.

The underfunding may have negatively impacted on implementation of budgeted projects and service delivery to the residents of Elwak town.

#### **2. Unresolved Prior Year Matters**

In the audit of the previous year, several issues were raised under the report of financial statements and report on Lawfulness and Effectiveness in Use of Public Resources. However, Management has not resolved the issues as provided by the Public Sector Accounting Standards Board templates and firmed by The National Treasury's Circular Ref: PSASB/1/12 Vol.1 (44) of 25 June, 2019.

## 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. Failure to Implement Electronic Procurement Method**

Review of records revealed that the Management did not use electronic procurement method while procuring the goods, services and works during the year under review. This was contrary to the Presidential directive No.2 of 2018 that required all the Government entities to use e-procurement system in the procurement of goods and services.

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

#### **2. Indefinite Hire of Equipment and Vehicles**

The statement of profit or loss and other comprehensive income reflects a balance of Kshs.67,858,390 for general and operations expenses which includes hire of equipment and vehicles of Kshs.1,800,000 as disclosed in Note 11 to the financial statements. Review of records revealed that Management hired a motor vehicle at a cost of Kshs.1,200,000 during the year under review. However, the contract agreement signed on 30 December, 2020 and did not have a date of expiry contrary to Regulation 131 (2) of the Public Procurement and Asset Disposal Regulations, 2020 which requires the Authority to issue a reporting format for contract awards requiring accounting officers to submit information that is not limited to date of contract expiry or completion.

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

#### **3. Failure to Deduct and Late Submission of Statutory Deductions**

##### **3.1. National Hospital Insurance Fund (NHIF) Deductions**

The statement of profit or loss and other comprehensive income reflects staff costs balance of Kshs.16,775,462 which includes casual workers wages of Kshs.4,775,462 as disclosed in Note 10 to the financial statements. Review of records revealed that Management made N.H.I.F deductions amounting to Kshs.87,900 from the casual workers during the year under review. However, the deductions were not remitted within the statutory timelines and the acknowledgement receipts were not provided for audit review. In addition, statutory deductions for the period from January to June, 2022 were not remitted. Further, NHIF deductions were not effected in the payrolls of the months of November and December, 2021.

This is contrary to the provisions of Section 16(3a) of the NHIF Act, 2012 which provides that an employer shall deduct from the salary or other remuneration of any person employed by him, notwithstanding anything to the contrary in any other law, the amount of any standard contribution paid by him or to be paid by him within one month of such deduction, on behalf of that person.

In the circumstances, Management was in breach of the law and the Company risks losing public funds through penalties and also employees may be denied medical attention when they fall sick.

### **3.2 National Social Security Fund (NSSF) Deductions**

The statement of profit or loss and other comprehensive income reflects staff costs balance of Kshs.16,775,462 which includes casual workers wages of Kshs.4,775,462 as disclosed in Note 10 to the financial statements. Review of records revealed that Management made N.S.S.F deductions totalling to Kshs.79,600 during the year under review. However, the deductions were not remitted within the statutory timelines and the acknowledgment receipts/slips were not provided for audit review. In addition, Management did not deduct and remit N.S.S.F contributions for temporary employees for the period covering November, 2021 and June, 2022.

This is contrary to Section 27(1) of the National Social Security Fund Act, 2013 which provides that if any contribution for which a contributing employer is required to pay to the Fund is not paid within one month after the end of the month in which the last day of the contribution period to which it falls, a sum equal to five per cent of the amount of that contribution shall be added to the contribution for each month or part of a month that the amount due remains unpaid, and any such additional amount shall be recoverable at the same time and in the same manner as the contribution to which it is added.

In the circumstances, Management was in breach of the law and the Company is exposed to fines and penalties.

### **4. Lack of a License from Water Services Regulatory Board (WASREB)**

During the year under review, the Company was operating without a license from the WASREB contrary to Section 72(c) of the Water Act, 2016 which gives WASREB the mandate of setting license conditions and accrediting water service providers.

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

### **5. Lack of a Fixed Asset Register**

During the year under review, the Company did not maintain a fixed asset register contrary to Regulation 136 (1) of the Public Finance Management (County Governments) Regulations, 2015 which provides 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.

In the circumstances, Management was in breach of the law and the Company might not be able to track all the assets which could have resulted to loss or misuse of the assets.

## **6. Failure to Establish an Internal Audit Unit and Audit Committee**

During the year under review, the Company had not established an audit committee contrary to Regulation 167(1) of the Public Finance Management (County Governments) Regulations, 2015 which requires County Government entities to establish audit committees in accordance with prescribed regulations.

In addition, the Company had no functioning internal audit unit. This is contrary to Section 155(5) of the Public Finance Management Act, 2012 which provides that a County Government entity shall ensure that it has appropriate arrangements for conducting internal audit according to the guidelines issued by the Accounting Standards Board.

In the circumstances, the Management was in breach of the law and the Company may have lacked oversight authority during the year under review.

## **4. Lack of Risk Management Policy and Framework**

During the year under review, the Company did not have a risk management policy in place. Further, Management did not carry out risk assessment during the year under review. This was contrary to Regulation 158(1) of the Public Finance Management (County Governments) Regulations, 2015 which states that the accounting officer shall ensure that the County Government entity develops risk management strategies, which include fraud prevention mechanisms and develop a system of risk management and internal control that builds robust business operations.

In the circumstances, Management was in breach of the law and could not be able to identify, assess and control threats that may affect achievement of the Company objectives.

## **REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE**

### **Conclusion**

As required by Section 7(1)(a) of the Public Audit Act, 2015, based on the audit procedures performed, except for the matters described in the Basis for Conclusion on 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, except for the effect of the matters described in the report on effectiveness of internal controls, risk management and governance, were not effective.

### **Basis for Conclusion**

#### **1. Excessive Non-Revenue Water**

During the year under review, the Company produced a total of 4,199,040 cubic meters of water. However, a total of 1,697,112 cubic meters was billed to customers resulting to Non-Revenue Water (NRW) of 2,501,928 cubic meters (or 60%) , which is 35% over and above the allowable limit of 25% in accordance with the Water Services Regulatory Board(WASREB) guidelines. The Non-Revenue Water represents a loss of

Kshs.175,134,960 in earnings for the Company at the average rate of Kshs.70 per m3. In addition, the master/bulky water meter readings report were not provided for audit review.

In the circumstances, the effectiveness of controls on water production and billing could not be confirmed.

## **2. Lack of Staff Establishment and Scheme of Service**

During the year under review, the Company did not have in place an approved staff establishment and scheme of service. It was therefore not possible to confirm whether the Company was operating within optimal staff levels. This was contrary to Paragraph 3.9 of the Corporate Governance Guidelines for the Water services Sector, 2018 which requires that the Board of Directors shall ensure that it has a staff establishment showing in-post and vacancies based on sector standard competencies.

In the circumstances, it was not possible to confirm the existence of internal controls on staff recruitment and promotions in the Company.

## **3. Lack of Debt Management and Bad Debt Policies**

During the year under review it was noted that the Company did not have a debt management policy as well as a policy on provision for bad and doubtful debts.

In the circumstances, the effectiveness in the monitoring and recovery of the trade and other receivables could not be confirmed.

## **4. Lack of Approved Information Technology Security Policy**

Review of the Company's information technology systems revealed it did not have an approved IT policy for governance and management of its ICT resources. In addition, there is no ICT steering committee in place to assist in the development of ICT policy framework to enable the company to realize long-term ICT strategic goals. Lack of an approved IT policy may result in an unclear direction regarding maintenance of information security across the organization and safeguarding the Company's ICT assets. Further, without a sound and approved framework, users do not have any rules and procedures to follow in order to minimize risk of errors, fraud and the loss of data confidentiality, integrity and availability.

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 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; and
- iii. The Company's statement 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 Company monitors compliance with relevant legislative and regulatory requirements, ensuring that effective processes and systems are in place to address key roles and responsibilities in relation to governance and risk management and ensuring the adequacy and effectiveness of the control environment.

### **Auditor-General's Responsibilities for the Audit**

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

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

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

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Management.
- Conclude on the appropriateness of the Management's use of the applicable basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in the auditor's report to the related disclosures in the financial statements or if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my audit report. However, future events or conditions may cause the Company to cease 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 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

06 June, 2023

**Elwak Water and Sewerage Company Ltd**  
**Annual Report and Financial Statements for the year ended June 30, 2022**

**X.Statement Of Profit or Loss & Other Comprehensive Income For The Year Ended 30 June 2022.**


	Note	2021-2022	2020-2021
		Kshs	Kshs
<b>Revenue</b>			
Operating Revenue	6	6,925,300	9,900,000
Grants Income	7	75,000,000	74,100,000
In-kind contribution	8	12,000,000	-
Other Income	9	-	500,000
<b>Total Revenue</b>		<b>93,925,300</b>	<b>84,500,000</b>
<b>Expenses</b>			
Staff Costs	10	16,775,462	15,156,510
General and Operations expenses	11	67,858,390	68,590,146
Board Expenses	12	4,156,451	994,000
Maintenance Expenses	13	500,000	-
Depreciation and Amortization expenses	14	8,047,524	5,070,594
<b>Total Expenses</b>		<b>97,337,827</b>	<b>89,811,250</b>
<b>Profit/(Loss) Before Taxation</b>		<b>(3,412,527)</b>	<b>(5,311,250)</b>
<b>Profit/(Loss) After Taxation</b>		<b>(3,412,527)</b>	<b>(5,311,250)</b>
<b>Total Comprehensive Income For The Year</b>		<b>(3,412,527)</b>	<b>(5,311,250)</b>

Elwak Water and Sewerage Company Ltd.  
Annual Report and Financial Statements for the year ended June 30, 2022

XI. Statement Of Financial Position As at 30 June 2022

	Note	2021-2022	2020-2021
		Kshs	Kshs
<b>ASSETS</b>			
<b>Non-Current Assets</b>			
Property, plant and equipment	15	60,077,685	40,145,197
<b>Total Non-Current Assets</b>		<b>60,077,685</b>	<b>40,145,197</b>
<b>Current Assets</b>			
Trade and receivable	16	2,762,785	6,900,000
Bank and cash balances	17	203,879	4,330,755
<b>Total Non-Current Assets</b>		<b>2,966,664</b>	<b>11,230,755</b>
<b>TOTAL ASSET</b>		<b><u>63,044,349</u></b>	<b><u>51,375,952</u></b>
<b>EQUITY AND LIABILITIES</b>			
<b>Capital and Reserves</b>			
Ordinary share capital	18	100,000	100,000
Capital grant		47,766,496	45,215,291
Retained earnings		(3,412,527)	(5,311,250)
<b>Capital and Reserves</b>		<b><u>44,453,969</u></b>	<b><u>40,004,041</u></b>
<b>Non-Current Liabilities</b>			
<b>Current Liabilities</b>			
Trade and other payables	20	18,590,380	11,371,911
<b>Total Current Liabilities</b>		<b><u>18,590,380</u></b>	<b><u>11,371,911</u></b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b><u>63,044,349</u></b>	<b><u>51,375,952</u></b>

The financial statements were approved by the Board on 30<sup>th</sup> June 2022 and signed on its behalf by:

Chairman

Head of Finance

Chief Executive Officer

Name *Abdirahman Nurow*

Name *Issa Ahmed Ali*

Name *Kassim Haji Abdinoor*

**Elwak Water and Sewerage Company Ltd.**  
**Annual Report and Financial Statements for the year ended June 30, 2022**

**XII. Statement Of Changes In Equity For The Year Ended 30 June 2022**

	Ordinary share capital	Capital Grants	Retained earnings	Proposed dividends	Total
<b>At June 30, 2021</b>	100,000	45,215,291	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	(5,311,250)	0	0
Transfer of depreciation/amortisation from capital fund to retained earnings	0	0	0	0	0
Dividends paid – 2021	0	0	0	0	0
Interim dividends paid – 2021	0	0	0	0	0
Proposed final dividends	0	0	0	0	0
<b>At June 30, 2021</b>	<b>100,000</b>	<b>45,215,291</b>	<b>(5,311,250)</b>	<b>0</b>	<b>100,000</b>
<b>At July 1, 2021</b>	100,000	0	0	0	100,000
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	-	-	-	-	-
Capital/Development grants received during the year	0	47,766,496	(3,412,527)	0	<b>44,353,969</b>
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
<b>At June 30, 2022</b>	<b>100,000</b>	<b>47,766,496</b>	<b>(3,412,527)</b>	<b>0</b>	<b>44,353,969</b>

**XIII. Statement Of Cash Flows for The Year Ended 30 June 2022**

	Note	2021-2022	2020-2021
		Kshs	Kshs
<b>Cash Flows From Operating Activities</b>			
<b>Receipts</b>			
Operating Revenue	21(a)	4,162,515	2,598,990
Non-Operating Revenue	21(b)	-	500,000
Grants	21(c)	75,000,000	74,100,000
<b>Total Receipts</b>		<b>79,162,515</b>	<b>77,198,900</b>
<b>Payments</b>			
Staff Costs	21(d)	4,775,462	3,156,510
Board Expenses	21(f)	4,156,451	994,000
General And Operation Expenses	21(e)	51,876,564	37,703,280
Maintenance Expense	21(g)	500,000	-
<b>Net Cash From/(Used In) Operating Activities</b>		<b>(61,308,477)</b>	<b>(41,853,720)</b>
<b>Cash Flows from Investing Activities</b>			
Purchase Of Property, Plant And Equipment (PPE)	15	(21,980,914)	(31,014,425)
<b>Net Cash From/(Used In) Investing Activities</b>		<b>(21,980,914)</b>	<b>(31,014,425)</b>
<b>Increase/(Decrease) In Cash And Cash Equivalents</b>		<b>(4,126,876)</b>	<b>4,330,755</b>
<b>Cash And Cash Equivalents At Beginning Of Year</b>		<b>4,330,755</b>	<b>0</b>
<b>Cash And Cash Equivalents At End Of The Year</b>		<b>203,879</b>	<b>4,330,755</b>

**Elwak Water and Sewerage Company Ltd.**  
**Annual Report and Financial Statements for the year ended June 30, 2022**

**XIV. Statement Of Comparison of Budget & Actual Amounts for The Period Ended 30 June 2022**

	Original budget	Adjustments	Final budget	Actual on comparable basis	Performance difference
	2021-2022	2021-2022	2021-2022	2021-2022	2021-2022
Revenue	Kshs	Kshs	Kshs	Kshs	Kshs
Sales	6,500,000	1,500,000	8,000,000	6,925,300	1,074,700
Grants from the County Government	175,000,000	(99,875,700)	75,124,300	75,000,000	124,300
Inkind contribution	12,000,000	0	12,000,000	12,000,000	0
<b>Total income</b>	<b>193,500,000</b>	<b>0</b>	<b>95,124,300</b>	<b>93,925,300</b>	<b>1,199,000</b>
<b>Expenses</b>		<b>0</b>			<b>0</b>
Cost of sales( Fuel &Power)	28,839,970	20,000,000	8,839,970	8,839,970	0
Permanent staff salaries	12,000,000	0	12,000,000	12,000,000	0
Casual Salaries and wages	4,775,461	0	4,775,461	4,775,461	0
Board expense	14,156,451	10,000,000	4,156,451	4,156,451	0
Communication service	5,500,000	0	500,000	500,000	0
Security service	1,500,000	0	1,500,000	1,500,000	0
Motor vehicle hire and fuel	2,300,000	0	2,300,000	2,300,000	0
Staff expense	13,742,800	10,000,000	3,742,800	3,742,800	0
Catering services	5,875,000	5,000,000	875,000	875,000	0
Office supplies	24,899,088	18,000,000	6,899,088	6,899,088	0
Operation and Maintenance cost	53,556,614	31,575,700	21,980,914	21,980,914	0
Selling and distribute/on	26,354,616	0	26,354,616	26,354,616	0
<b>Total expenditure</b>	<b>193,500,000</b>	<b>0</b>	<b>93,124,300</b>	<b>93,924,300</b>	<b>0</b>

## **XV. Notes To the Financial Statements**

### **1. General Information**

Elwak Water and Sewerage Company Ltd is established by companies act and derives its authority and accountability from water Act and other relevant acts. The Company is wholly owned by the Mandera County Government and is domiciled in Kenya. The Company's principal activity is provision of safe and sufficient water to the residents within Elwak Municipality and its environs.

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

### **2. Statement of Compliance and Basis of Preparation**

The financial statements have been prepared on a historical cost basis except 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 financial statements have been prepared and presented in Kenya Shillings, which is the functional and reporting currency of the Company. The figures are rounded to the nearest Kenyan shilling.

The financial statements have been prepared in accordance with the PFM Act, the State Corporations Act, Water Act 2016 and the Company's Act, and International Financial Reporting Standards (IFRS). The accounting policies adopted have been consistently applied to all the years presented.

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

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

- i. *New and amended standards and interpretations in issue effective in the year ended 30 June 2022*

Title	Description	Effective Date
Amendments to IAS 16 titled Property, Plant and Equipment: Proceeds before Intended Use (issued in May 2020)	The amendments, applicable to annual periods beginning on or after 1 January 2022, prohibit a company from deducting from the cost of property, plant and equipment amounts received from selling items produced while the company is preparing an asset for its intended use. Instead, a company will recognise such sales proceeds and related cost in profit or loss	The amendments are effective for annual periods beginning on or after January 1, 2022. Early application is permitted.
Amendments to IAS 37 titled Onerous Contracts - Cost of Fulfilling a Contract (issued in May 2020)	The amendments clarify that for the purpose of assessing whether a contract is onerous, the cost of fulfilling the contract includes both the incremental costs of fulfilling that contract and an allocation of other costs that relate directly to fulfilling contracts. They are effective for contracts for which an entity has not yet fulfilled all its obligations on or after 1 January 2022.	The amendments are effective for annual periods beginning on or after January 1, 2022. Early application is permitted
Amendment to IFRS 1 titled Subsidiary as a First-time Adopter	The amendment, applicable to annual periods beginning on or after 1 January 2022, provides a subsidiary that becomes a first-time adopter later than its parent with an exemption relating to the measurement of its assets and liabilities. The exemption does not apply to components of equity.	The amendments are effective for annual periods beginning on or after January 1, 2022. Early application is permitted.
Amendment to IFRS 9 titled Fees in the '10 per	The amendment, applicable to annual periods beginning on or after 1 January 2022, to IFRS 9 clarifies the fees that a company includes when	The amendments are effective for annual periods beginning on or after

Title	Description	Effective Date
cent' Test for Derecognition of Financial Liabilities	assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability.	January 1, 2022. Early application is permitted
Amendment to IAS 41 titled Taxation in Fair Value Measurements (issued in May 2020 as part of the Annual Improvements to IFRS Standards 2018-2020)	The amendment, applicable to annual periods beginning on or after 1 January 2022, to IAS 41 removed the requirement to exclude taxation cash flows when measuring fair value. This amendment aligned the requirements in IAS 41 on fair value measurement with those in other IFRS	The amendments are effective for annual periods beginning on or after January 1, 2022. Early application is permitted.

*The Directors have assessed the applicable standards and amendments. Based on their assessment of impact of application of the above, they do not expect that there will be a significant impact on the company's financial statements. Or the following has been assessed to be significant for the company and has been addressed as follows....*

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

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

- ii. *New and amended standards and interpretations in issue but not yet effective in the year ended 30 June 2022.*

Title	Description	Effective Date
IAS 1 — Presentation of Financial Statements	IAS 1 "Presentation of Financial Statements" sets out the overall requirements for financial statements, including how they should be structured, the minimum requirements for their content and overriding concepts such as going concern, the accrual basis of accounting and the current/non-current distinction. The standard requires a complete set of financial statements to comprise a statement of financial position, a statement of profit or loss and other comprehensive income, a statement of changes in equity and a statement of cash flows.	The amendments are effective for annual periods beginning on or after January 1, 2023. Earlier application is permitted.
Amendments to IAS 1 titled Classification of Liabilities as Current or Non-current (issued in January 2020)	The amendments, clarify a criterion in IAS 1 for classifying a liability as non-current: the requirement for an entity to have the right to defer settlement of the liability for at least 12 months after the reporting period.	The amendments are effective for annual periods beginning on or after January 1, 2023. Earlier application is permitted.
Amendments to IAS 1 titled Disclosure of Accounting Policies (issued in	The amendments, applicable to annual periods beginning on or after 1st January 2023, require entities to disclose their <b>material</b> accounting policy information rather than their <b>significant</b> accounting policies	The amendments are effective for annual periods beginning on or after January 1, 2023. Earlier application is permitted.

<b>Title</b>	<b>Description</b>	<b>Effective Date</b>
February 2021)		
IAS 12 — Income Taxes	IAS 12, "Income Taxes" implements a so-called 'comprehensive balance sheet method' of accounting for income taxes which recognizes both the current tax consequences of transactions and events and the future tax consequences of the future recovery or settlement of the carrying amount of an entity's assets and liabilities. Differences between the carrying amount and tax base of assets and liabilities, and carried forward tax losses and credits, are recognized, with limited exceptions, as deferred tax liabilities or deferred tax assets, with the latter also being subject to a 'probable profits' test.	The amendments are effective for annual reporting periods beginning on or after January 1, 2023. Early adoption is permitted.
IAS 8- Accounting Policies, Errors and Estimates	The amendments, applicable to annual periods beginning on or after 1st January 2023, introduce a definition of 'accounting estimates' and include other amendments to IAS 8 to help entities distinguish changes in accounting policies from changes in accounting estimates.	The amendments are effective for annual reporting periods beginning on or after January 1, 2023. Early adoption is permitted.

**iii. Early adoption of standards**

The entity did not early – adopt any new or amended standards in year 2021/2022

**NOTES TO THE FINANCIAL STATEMENTS (Continues)**

**4. Summary of Significant Accounting Policies**

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

**a) Revenue recognition**

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

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

**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

**Summary of Significant Accounting Policies**

**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, utilities 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 but disclosed.

**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 TO THE FINANCIAL STATEMENTS (Continued)**

**Summary of Significant Accounting Policies**

**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/reducing balance 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:

<b>Item</b>	<b>Years</b>	<b>Rates</b>
Freehold Land	0	-
Leasehold Land	0	-
Buildings and civil works	20	-
Plant and machinery	12.5	8.4%
Motor vehicles, including motor cycles	10	-
Computers and related equipment	5	40%
Office equipment, furniture and fittings	5	20%

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.

**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

**Summary of Significant Accounting Policies**

**e) Intangible assets**

Intangible assets with finite useful lives that are acquired separately are carried at cost less accumulated amortization and accumulated impairment losses. Amortization is recognized on a straight-line basis over their estimated useful lives . The estimated useful life and amortization method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. Intangible assets with indefinite useful lives that are acquired separately are carried at cost less accumulated impairment losses.

**f) Amortisation and impairment of intangible assets**

Amortisation is calculated on the straight-line basis over the estimated useful life of the intangible asset. All intangible assets are reviewed annually for impairment. Where the carrying amount of an intangible asset is assessed as greater than its estimated recoverable amount, an impairment loss is recognised so that the asset is written down immediately to its estimated recoverable amount.

**g) Investment property**

Investment property, which is property held to earn rentals and/or for capital appreciation (including property under construction for such purposes), is measured initially at cost, including transaction costs. Subsequent to initial recognition, investment property is measured at fair value. Gains or losses arising from changes in the fair value of investment property are included in profit or loss in the period in which they arise. An investment property is derecognized upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from the disposal. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the period in which the property is derecognized.

**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

**Summary of Significant Accounting Policies**

**h) Right of Use Asset**

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

**i) Fixed interest investments (bonds)**

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 the bond's disposal or maturity. Fixed interest investments are freely traded at the Nairobi Securities Exchange. The bonds 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 stated at fair value.

**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

**Summary of Significant Accounting Policies**

**k) Unquoted investments**

Unquoted investments stated at cost under non-current assets, and comprise equity shares held in other Government owned or controlled entities that are not quoted in the Securities Exchange.

**l) Inventories**

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

**m) Trade and other receivables**

Trade and other receivables are recognized 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 and when the necessary approval to write off is granted.

**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

**Summary of Significant Accounting Policies**

**n) Taxation**

**i) Current income tax**

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

Current income tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting date in the area where the Entity operates and generates taxable income.

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

**o) 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.

**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

**Summary of Significant Accounting Policies**

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.

**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

**Summary of Significant Accounting Policies**

**p) Borrowing costs**

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

**q) 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 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.

**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

**Summary of Significant Accounting Policies**

**r) Borrowings**

Interest bearing loans and overdrafts are initially recorded at fair value being received, net of issue costs associated with the borrowing. Subsequently, these are measured at amortised cost using the effective interest rate method. Amortised cost is calculated by taking into account any issue cost and any discount or premium on settlement. Finance charges, including premiums payable of settlement or redemption are accounted for on accrual basis and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise. Loan interest accruing during the construction of a project is capitalised as part of the cost of the project.

**s) 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.

**t) Provision for staff leave pay**

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

**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

**Summary of Significant Accounting Policies**

**u) 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.

**v) Budget information**

The original budget for FY 2021-2022 was approved by the Board of Directors on 25/06/2021. 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 Company recorded an appropriation of Kshs.95,124,300 on the 2021-2022 budget following the governing body's approval. The Company's budget is prepared on a different basis to the actual income and expenditure disclosed in the financial statements. The financial statements are prepared on accrual basis using a classification based on the nature of expenses in the statement of financial performance, whereas the budget is prepared on a cash basis. The amounts in the financial statements were recast from the accrual basis to the cash basis and reclassified by presentation to be on the same basis as the approved budget. A comparison of budget and actual amounts, prepared on a comparable basis to the approved budget, is then presented in the statement of comparison of budget and actual amounts. In addition to the Basis difference, adjustments to amounts in the financial statements are also made for differences in the formats and classification schemes adopted for the presentation of the financial statements and the approved budget. A statement to reconcile the actual amounts on a comparable basis included in the statement of comparison of budget and actual amounts and the actuals as per the statement of Comprehensive income has been presented under section IX of these financial statements.

**NOTES TO THE FINANCIAL STATEMENTS (Continues)**

**w) Service concession arrangements**

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

**x) Comparative figures**

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

**y) 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, 2022.

**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.

**NOTES TO THE FINANCIAL STATEMENTS (Continues)**

**a) Estimates and assumptions**

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

**b) Useful lives and residual values**

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

- The condition of the asset based on the assessment of experts employed by the 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

**Elwak Water and Sewerage Company Ltd.****Annual Report and Financial Statements for the year ended June 30, 2022****NOTES TO THE FINANCIAL STATEMENTS (Continues)****6. Operating Revenue**

	2021-2022	2020-2021
	Kshs	Kshs
Revenue realized	4,162,515	3,000,000
Receivables	2,762,785	6,900,000
<b>Total Water sales</b>	<b>6,925,300</b>	<b>9,900,000</b>

**7. Grants Income**

Name of the Entity sending the grant	Amount recognized in the Statement of Comprehensive Income KShs	Amount deferred under deferred income KShs	Amount recognised in capital fund. KShs	Total grant income during the year KShs	2021-2022 KShs
Mandera County Government	75,000,000	0	47,766,496	75,000,000	75,000,000
<b>Total</b>	<b>75,000,000</b>	<b>0</b>	<b>47,766,496</b>	<b>75,000,000</b>	<b>75,000,000</b>

**8. In Kind Contribution**

	2021-2022	2020-2021
	Kshs	Kshs
In Kind contribution/donations from Mandera County Government	12,000,000	-
<b>Total</b>	<b>12,000,000</b>	<b>-</b>

**Elwak Water and Sewerage Company Ltd.**  
**Annual Report and Financial Statements for the year ended June 30, 2022**

**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

**9. Other Income**

	2021-2022	2020-2021
	Kshs	Kshs
Sale of Tender	0	0
Fine and penalties	0	500,000
<b>Total</b>	<b>0</b>	<b>500,000</b>

**10. Staff Costs**

Description	2021-2022	2020-2021
	Kshs	Kshs
Gross Salary and Allowances	12,000,000	12,000,000
Casual workers' Wages	4,775,462	2,877,910
Medical insurance schemes	0	28,600
Other allowances		
<b>Total</b>	<b>16,775,462</b>	<b>15,156,510</b>

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

## 11. General and Operations Expenses

	2021-2022	2020-2021
Description	Kshs	Kshs
Electricity	399,970	0
Fuel, oil, lubricants, and gases	8,440,000	8,178,700
Production supplies	21,980,914	31,014,425
Selling and distribution cost	26,354,616	7,248,950
Office supplies	900,000	11,236,214
Office operations	850,000	0
Telecommunication	500,000	728,590
Hire of Equipment and vehicles	1,800,000	2,596,000
Fuel for Motor vehicle	500,000	1,204,000
Staff training and development	3,742,800	4,625,296
Bank Charges	15,090	13,411
Security services	1,500,000	714,560
Hospitality expenses	875,000	1,030,000
Research and Development	0	0
Conservation expenses	0	0
Provision for doubtful debts	0	0
Others (Specify)	0	0
<b>Total</b>	<b>67,858,390</b>	<b>68,590,146</b>

## 12. Board Expenses

	2021-2022	2020-2021
Description	KShs	KShs
Chairman Honoraria	0	0
Sitting allowances	372,800	194,000
Medical Insurance	0	0
Induction and Training	240,600	117,000
Travel and accommodation	3,543,051	683,000
<b>Total Board Expenses</b>	<b>4,156,451</b>	<b>994,000</b>

NOTES TO THE FINANCIAL STATEMENTS (Continued)

13. Maintenance Expenses

	2021-2022	2020-2021
Description	Kshs	Kshs
Office rails	500,000	0
<b>Total Maintenance Expenses</b>	<b>500,000</b>	<b>0</b>

14. Depreciation and Amortization Expenses

	2021-2022	2020-2021
Description	KShs	KShs
Property, plant, and equipment	8,047,524	5,070,594
<b>Total Depreciation and Amortization</b>	<b>8,047,524</b>	<b>5,070,594</b>

15. Property, Plant and Equipment

	Free hold land	Buildings & civil works	Plant and machinery	Motor vehicles, including, motor cycles	Computers & related equipment	Office equipment, furniture & fittings	Capital work in progress	Total
<b>COST OR VALUATION</b>	0	0	0	0	0	0	0	0
At July 1, 2021		1,200,000	30,156,346	-	2,945,851	5,843,000		40,145,197
Additions	0	0	21,980,914	-	0	5,999,098	-	27,980,012
<b>At June 30, 2022</b>	<b>0</b>	<b>1,200,000</b>	<b>52,137,260</b>	<b>-</b>	<b>2,945,851</b>	<b>11,842,098</b>	<b>-</b>	<b>68,125,209</b>
<b>DEPRECIATION</b>	0	(120,000)	(4,380,764)	0	(1,178,340)	(2,368,420)		(8,047,524)
<b>NET BOOK VALUE</b>	<b>0</b>	<b>1,080,000</b>	<b>47,756,496</b>	<b>-</b>	<b>1,767,511</b>	<b>9,473,678</b>	<b>-</b>	<b>60,077,685</b>

NOTES TO THE FINANCIAL STATEMENTS (Continued)

**16 Trade and Other Receivables**

	2021-2022	2020-2021
	KShs	KShs
Trade receivables	2,762,785	6,900,000
<b>Net trade and other receivables</b>	<b>2,762,785</b>	<b>6,900,000</b>

**16 (a) Trade Receivables**

	2021-2022	2020-2021
	Kshs	Kshs
Gross trade receivables	2,762,785	6,900,000
Provision for doubtful receivables	(0)	(0)
<b>Net trade receivables</b>	<b>2,762,785</b>	<b>6,900,000</b>
<b>at June 30, the ageing analysis of the gross trade receivables was as follows:</b>		
Over 120 days	2,762,785	6,900,000
<b>Total</b>	<b>2,762,785</b>	<b>6,900,000</b>

**Elwak Water and Sewerage Company Ltd.**  
**Annual Report and Financial Statements for the year ended June 30, 2022**

**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

**17 Bank and Cash balances**

	<b>2021-2022</b>	<b>2020-2021</b>
	<b>Kshs</b>	<b>Kshs</b>
Cash at bank	203,879	4,330,755
Cash in hand	0	0
Mobile money account	0	0
	<b>203,879</b>	<b>4,330,755</b>

**Detailed analysis of the cash and cash equivalents**

		<b>2021-2022</b>	<b>2020-2021</b>
<b>Financial institution</b>	<b>Account number</b>	<b>KShs</b>	<b>KShs</b>
<b>a) Current account</b>			
Equity bank ltd- Operation a/c	1000280260468	16,159	1,731,765
Equity bank ltd- Revenue a/c	1000280260417	186,720	2,598,990
<b>Grand total</b>		<b>203,879</b>	<b>4,330, 775</b>

**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

**18. Ordinary Share Capital**

	2021-2022	2020-2021
	Kshs	Kshs
<b>Authorized:</b>		
100 ordinary shares of Kshs par 100 value each	<b>100,000</b>	<b>100,000</b>
<b>Issued and fully paid:</b>		
100 ordinary shares of Kshs 1000 par value each	<b>100,000</b>	<b>100,000</b>

**19. Capital and Reserves**

**(a) Revaluation Reserve**

The revaluation reserve relates to the revaluation of certain items of property, plant and equipment. As indicated in the Statement of Changes in Equity, this is stated after transfer of excess depreciation net of related deferred tax to retained earnings. Revaluation surpluses are not distributable.

**(b) Fair Value Adjustment Reserve**

The fair value adjustment reserve arises on the revaluation of available-for-sale financial assets, principally the marketable securities. When a financial asset is sold, the portion of the reserve that relates to that asset is reduced from the fair value adjustment reserve and is recognised in profit or loss. Where a financial asset is impaired, the portion of the reserve that relates to that asset is recognised in profit or loss.

**(c) Retained Earnings**

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

**Elwak Water and Sewerage Company Ltd.**  
**Annual Report and Financial Statements for the year ended June 30, 2022**

**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

**20. Trade and Other Payables**

	2021-2022	2020-2021
	Kshs	Kshs
Trade payables	18,590,380	11,371,911
<b>Total</b>	<b>18,590,380</b>	<b>11,371,911</b>

**21. NOTES TO THE STATEMENT OF CASHFLOWS**

**21(a) Operating Revenue**

	2021-2022	2020-2021
	Kshs	Kshs
Revenue realized	4,162,515	3,000,000
<b>Total</b>	<b>4,162,515</b>	<b>3,000,000</b>

**21 (b) Other Income**

	2021-2022	2020-2021
	Kshs	Kshs
Sale of Tender	0	0
Fine and penalties	0	500,000
<b>Total</b>	<b>0</b>	<b>500,000</b>

**21(c) Grants Income**

Name of the Entity sending the grant	Amount recognized in the Statement of Comprehensive Income KShs	Amount deferred under deferred income KShs	Amount recognised in capital fund. KShs	Total grant income during the year KShs	2021-2022 KShs
Mandera County Government	75,000,000	0	47,766,496	75,000,000	75,000,000
<b>Total</b>	<b>75,000,000</b>	<b>0</b>	<b>47,766,496</b>	<b>75,000,000</b>	<b>75,000,000</b>

**Elwak Water and Sewerage Company Ltd.**

**Annual Report and Financial Statements for the year ended June 30, 2022**

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**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

**21(d) Staff Costs**

Description	2021-2022	2020-2021
	Kshs	Kshs
Casual workers' Wages	4,775,462	2,877,910
Medical insurance schemes	0	28,600
Other allowances	0	0
<b>Total</b>	<b>4,775,462</b>	<b>3,156,510</b>

**Elwak Water and Sewerage Company Ltd.****Annual Report and Financial Statements for the year ended June 30, 2022****NOTES TO THE FINANCIAL STATEMENTS (Continued)****21(e). General and Operations Expenses**

	2021-2022	2020-2021
Description	Kshs	Kshs
Electricity	399,970	0
Fuel, oil, lubricants, and gases	8,440,000	8,178,700
Selling and distribution cost	26,354,616	7,249,020
Office supplies	6,899,088	11,363,703
Office operations	850,000	0
Telecommunication	500,000	728,590
Hire of Equipment and vehicles	1,800,000	2,596,000
Fuel for Motor vehicle	500,000	1,204,000
Staff training and development	3,742,800	4,625,296
Bank Charges	15,090	13,411
Security services	1,500,000	714,560
Hospitality expenses	875,000	1,030,000
Research and Development	0	0
Conservation expenses	0	0
Provision for doubtful debts	0	0
Others (Specify)	0	0
<b>Total</b>	<b>51,876,564</b>	<b>37,703,280</b>

**21(f) Board Expenses**

Description	2021-2022	2020-2021
	KShs	KShs
Chairman Honoraria	0	0
Sitting allowances	372,800	194,000
Medical Insurance	0	0
Induction and Training	240,600	117,000
Travel and accommodation	3,543,051	683,000
<b>Total Board Expenses</b>	<b>4,156,451</b>	<b>994,000</b>

**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

**21(g). Maintenance Expenses**

	2021-2022	2020-2021
Description	Kshs	Kshs
Office rails	500,000	0
<b>Total Maintenance Expenses</b>	<b>500,000</b>	<b>0</b>

**Other Disclosures**

**22. Related Party Disclosures**

**County Government of Mandera**

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

Other related parties include:

- The County Department in charge of Water
- County Government of Mandera
- Water works Agencies
- WASREB
- WARMA
- Water Sector Trust Fund
- Key management
- Board of directors
- Others (specify)

**23. Financial Risk Management**

The Company's activities expose it to a variety of financial risks including credit and liquidity risks and effects of changes in foreign currency. The company's overall risk management programme focuses on unpredictability of changes in the business environment and seeks to minimise the potential adverse effect of such risks on its performance by setting acceptable levels of risk. The

company does not hedge any risks and has in place policies to ensure that credit is only extended to customers with an established credit history.

**(i) Market risk**

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

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

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

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

**a) Foreign currency risk**

The Company has transactional currency exposures. Such exposure arises through purchases of goods and services that are done in currencies other than the local currency. Invoices denominated in foreign currencies are paid after 30 days from the date of the invoice and conversion at the time of payment is done using the prevailing exchange rate.

**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

**b) Foreign currency sensitivity analysis**

The following table demonstrates the effect on the company's statement of comprehensive income on applying the sensitivity for a reasonable possible change in the exchange rate of the three main transaction currencies, with all other variables held constant. The reverse would also occur if the Kenya Shilling appreciated with all other variables held constant.

	<b>Change in currency rate</b>	<b>Effect on Profit before tax</b>	<b>Effect on equity</b>
	<b>Kshs</b>	<b>Kshs</b>	<b>Kshs</b>
<b>2022 Current FY</b>			
Euro	0	0	-
USD	0	0	-
<b>2021 Previous FY</b>			
Euro	0	0	-
USD	0	0	-

**c) Interest rate risk**

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

**d. Management of interest rate risk**

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

**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

**e). Fair value of financial assets and liabilities**

**a) *Financial instruments measured at fair value***

Determination of fair value and fair values hierarchy

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

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

**24. Incorporation**

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

**25. Events After the Reporting Period**

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

**26. Currency**

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

**I. Appendices**

**APPENDIX 1: PROGRESS ON FOLLOW UP OF AUDITOR RECOMMENDATIONS**


The following is the summary of issues raised by the external auditor, and management comments that were provided to the auditor.

<b>Reference No. on the external audit Report</b>	<b>Issue / Observations from Auditor</b>	<b>Management comments</b>	<b>Status: (Resolved / Not Resolved)</b>	<b>Timeframe: (Put a date when you expect the issue to be resolved)</b>
1	Prequalified list not availed	The prequalified list was availed	Resolved	-
2	Notification of award and regret letters not availed.	The file was availed at Garissa during the follow up.	Resolved	-

**Guidance Notes:**

- (i) Use the same reference numbers as contained in the external audit report.
- (ii) Obtain the “Issue/Observation” and “management comments”, required above, from final external audit report that is signed by Management.
- (iii) Indicate the status of “Resolved” or “Not Resolved” by the date of submitting this report.

Name Kassim Haji Abdinoor

Signature 

Managing Director

Date 30/06/2022

**Appendix II: Recording of Transfers from Other Government Entities**

Name of the MDA/Donor Transferring the funds	Date received as per bank statement	Nature: Recurrent/Development/Others	Total Amount - KES
MANDERA COUNTY GOVERNMENT	-	Recurrent	15,000,00
MANDERA COUNTY GOVERNMENT		Recurrent	10,000,00
MANDERA COUNTY GOVERNMENT	-	Recurrent	35,000,00
MANDERA COUNTY GOVERNMENT	-	Recurrent	10,000,00
MANDERA COUNTY GOVERNMENT	-	Recurrent	5,000,00
<b>Total</b>			<b>75,000,00</b>