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REPORT

OF

THE AUDITOR-GENERAL

ON

**NGAGAKA WATER AND SANITATION
COMPANY LIMITED**

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



NGAGAKA WATER AND SANITATION COMPANY LIMITED

ANNUAL REPORTS AND FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDING

JUNE 30, 2021

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

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1) KEY ENTITY INFORMATION

Background information

Ngagaka water and sanitation company (NGAWASCO) is a water service provider (WSP) which was incorporated in March 2011 and falls under Tana Water Works Development Agency. NGAWASCO covers an area of over 80km² which has a population of about 79,739 as per Impact No. 13/2021. The head office is at Kianjokoma market, Embu County.

Principal Activities

The principal activity of NGAWASCO is provision of water and sanitation services within the designated Service Area.

Directors

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

1.	Cyrus Njoka Nyaga	Chairman	Appointed on 26 th July 2019
2.	Jacinta Gatavi Nyaga	Director	Appointed on 26 th July 2019
3.	Njagi Njue	Director	Appointed on 26 th July 2019
4.	Doras Muthoni Nyaga	Director	Appointed on 26 th July 2019
5.	Andrew Kinyua munyi	Director	Appointed on 26 th July 2019
6.	Josphine Marigu Nyaga	Director	Appointed on 26 th July 2019
7.	Justin J. Gatumuta	Director	Appointed on 26 th July 2019
8.	Sub-County WO-Embu North	Director	
9.	CEO-TWWDA	Director	
10.	Francis Mugendi Njoka	Director	(General manager)

Corporate Secretary

FCS Richard K. Gikuhi
P. O. Box 1271-10100
Nyeri, Kenya

Registered Office

Kianjokoma Market
P.O. Box 2507-60100
Embu, Kenya

Corporate Contacts

Telephone: (254) 2701 084 424/0738 360 306
E-mail: ngawasco@gmail.com

KEY ENTITY INFORMATION (continued)

Corporate Bankers

1. Family Bank of Kenya
P. O. box 789-60100
Embu, Kenya
2. Consolidated Bank of Kenya
P. O. Box 1377-60100
Embu, Kenya
3. Equity Bank of Kenya
P. O. Box
Embu Kenya

Independent Auditors

Auditor General
Office of the Auditor General
Anniversary Towers, University Way
P.O. Box 30084
GPO 00100
Nairobi, Kenya

Principal Legal Advisers








The Attorney General
State Law Office
Harambee Avenue
P.O. Box 40112
GPO 00100
Nairobi, Kenya

Ngagaka Water and Sanitation Company Limited

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

II) THE BOARD OF DIRECTORS

The Board of Directors

 <p>Chairman</p> <p>Name: Cyrus Njoka Nyaga</p> <p>Age: 75 Years</p> <p>Profession: Policeman</p> <p>Work Experience: 22 Years</p>	 <p>Director</p> <p>Name: Raymond Ngige</p> <p>Age: 58 years</p> <p>Profession: C.E.O Rep(T.W.W.D.A)</p> <p>Work Experience: 27 Years</p>
 <p>Director</p> <p>Name: Jaciata Gatavi</p> <p>Age: 58 years</p> <p>Profession: Church Elder</p> <p>Work Experience: 9 Years</p>	 <p>Director</p> <p>Name: Andrew Kinvua</p> <p>Age: 46 years</p> <p>Profession: Farmer</p> <p>Work Experience: 12 Years</p>
 <p>Director</p> <p>Name: Niagi Njue</p> <p>Age: 56 years</p> <p>Profession: Farmer/Church Elder</p> <p>Work Experience: 12 Years</p>	 <p>Director</p> <p>Name: Lydia Maina</p> <p>Age: 56 years</p> <p>Profession: Sub-County Water Office</p> <p>Work Experience: 27 Years</p>
 <p>Director</p> <p>Name: Justia Gatumuta</p> <p>Age: 66 years</p> <p>Profession: Businessman</p> <p>Work Experience: 32 Years</p>	 <p>Director</p> <p>Name: Francis Njoka</p> <p>Age: 52 years</p> <p>Profession: Water Engineer</p> <p>Work Experience: 22 Years</p>
 <p>Director</p> <p>Name: Josephine Marigu</p> <p>Age: 40 years</p> <p>Profession: Social Work</p> <p>Work Experience: 9 Years</p>	 <p>Director</p> <p>Name: Doras Muthoni</p> <p>Age: 57 years</p> <p>Profession: Business Lady</p> <p>Work Experience: 17 Years</p>

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

III) Management Team



Name: Francis Njoka
Age: 52
Position: General Manager
Profession: HRD-Water Engineering
Area of Responsibility: Water Engineer



Name: Francis Njagi
Age: 57
Position: Commercial Manager
Profession: CPA
Area of Responsibility: Finance



Name: Joseph Njogu
Age: 57
Position: Technical Manager
Profession: Ordinary Diploma -Water Engineering
Area of Responsibility: Water Engineer



Name: Alice Kariuki
Age: 52
Position: Human Resource Officer
Profession: Ordinary Diploma-HR
Area of Responsibility: Human Resource



Name: Agnes Muriugi
Age: 36
Position: Accountant
Profession: CPA(K)/BBA Icpak 11786
Area of Responsibility: Finance



Name: Peter Nyaga Njeru
Age: 48
Position: Internal Auditor
Profession: BBSA/CPA/BCOM
Area of Responsibility:

IV) CHAIRMAN'S STATEMENT

It is with great pride that I report yet another year of solid growth and stellar financial performance for our company, in line with our expectations. We have remained steadfast in our commitment to transforming the lives of the community we serve through continuous provision of the services that make a real difference to our customers.

The last twelve months have been characterised by several dynamic factors that have shaped the overall business environment. This factor includes but no limited to the COVID-19 Pandemic that re-defined some elements in our industry.


On the governance front, the impact of devolution has continued to take shape. We got involved in discussing with the county government in funding the implementation of some projects within the scheme area. The funding was however differed indefinitely due to COVID-19 pandemic.

Our dedication to our strategy has yielded a relatively fair set of financial results, despite the COVID-19 pandemic which has been witnessed in our country and across the border. This is a clear confirmation of our commitment to generating long term value for our stakeholders.

In conclusion, we continue to enjoy the support and goodwill inter alia of the Regulatory Authority, the Board, our clients, suppliers and service providers. I wish to record our appreciation to them all and note that we highly value this relationship.

I also wish to thank and congratulate the management team and staff of the company for the loyalty, dedication and tireless efforts that have made these results possible.

Finally, to my fellow directors, thank you for your commitment, support and considered advice that is so essential in this extremely noble service.


Cyrus N. Nyaga
Chairman

23rd September 2021

Ngagaka Water and Sanitation Company Limited

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

V) REPORT OF THE CHIEF EXECUTIVE OFFICER

I am pleased to announce yet another year of fairly performance in our duty of provision of water services. We have maintained our record of growth through superior commercial performance across our entire services. Our customers have rewarded us with loyalty as we have strived to over deliver on our promise of a superior customer experience.

Our fairly financial performance has enabled us to continue with substantial investment in our network and other services. Customer satisfaction levels have continued to improve as evidenced by higher usage of our services.

Despite the COVID-19 pandemic which has ravaged the whole world, our total revenue increased from Kshs 36.0 million to Kshs 39.6 million while our customer base increased from 12,088 to 12,688.

Our other miscellaneous services continue to increase. Application fees for new connections remain the key driver, having generated slightly above half of our total miscellaneous revenue. The growth was driven primarily by our number of customers who stood at 12,688 as at close of the accounting period.

Our staffs are the greatest resource and we have an exciting mix of skills in various disciplines blended with wealth of experiences. The average age of our employees is approximately thirty-five years. They are enthusiastic to make certain that we are always in the front. These employees are always ready to roll up their sleeves whenever required to perform specific tasks to ensure that customers' needs are met and our goals achieved.


Strategic priorities

Our goal is to continue transforming the lives of our fellow Kenyans and delighting our customers with great value and services. SMS billing is still going on well. That is a mile stone project given the value it has added to the company after it was fully automated. Further the company's migration to cash being paid directly to the bank has gone on well. During the year, we commence the process of Mpesa payment. This has given our customers the opportunity to choose their preferred mode of payment. Our priority this year is growing the number of active connections and making E- payment the preferred mode of payment. This will make a significant contribution to the lives of our customers and accelerate Kenya towards a cash-lite economy.

To ensure our customers get value for their money, we engaged both the Regulator and the Board in Regular Tariff Adjustment (RTA) issue. The process was slowed down by the COVID-19 pandemic but towards the end of the year, the process was 90% complete.

Ngagaka water has continued to be the front runner and this can only be due to the commitment and diligence by the board, management and staff who have worked tirelessly to satisfy our clients, and all stakeholders. I register my appreciation to the support which has made once again a momentous year for all of us.

We hope to offer better services in.


Francis Njoka

General Manager
23rd September 2021

VI) STATEMENT OF PERFORMANCE AGAINST PREDETERMINED OBJECTIVES FOR THE FY 2020/2021

Section 81 Subsection 2 (f) of the Public Finance Management Act, 2012 requires the accounting officer to include in the financial statement, a statement of the national government entity's performance against predetermined objectives.

Ngagaka Water and Sanitation has 5 Strategic Pillars/ Themes/Issues and Objectives within the current Strategic Plan for the year 2019 – 2023. The Strategic pillars are as follows:

1. *Water and sanitation infrastructure development*

This thematic area includes hardware investments like water treatment plants, new pipelines, storage tanks and sanitation infrastructure.

2. *Operational efficiency and customer service*

This thematic area includes internal systems improvements that reduce operational costs and water losses, increase revenues, as well as activities to promote customer satisfaction like call centres, community outreach activities and customer satisfaction surveys.

3. *Financial sustainability*

This thematic area refers to activities that have an impact on the financial position of the WSP including billing and collections, new connections, strong accounting and financial management systems, and proper procurement procedures and controls.

4. *Institutional capacity/strengthening*

This thematic area refers to human resource policies, procedures, training and incentives as well as abiding by the Labour Laws of the country.

5. *Corporate governance*

This thematic area refers to the system of rules, practices and processes by which the WSP is directed and controlled. Corporate governance essentially involves balancing the interests of the many stakeholders - these include its stakeholders, Bod, management, customers, suppliers, financiers, government and the community.

We develop our annual work plans based on the above 5 pillars. Assessment of the Board's performance against its annual work plan is done on a quarterly basis. The Company achieved its performance targets set for the FY 2020/2021 period for its 5 strategic pillars, as indicated in the diagram below:

Nagাকা Water and Sanitation Company Limited
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Strategic Pillar/Theme/Issues	Objective	Key Performance Indicators	Activities	Achievements
1. Water and sanitation infrastructure development	Increase water supply coverage from 94% to towards 97% by the year 2023	Total production of 9,017 m ³ per day	New Customers Water Connections/E xtension of Service Area (SA)	Increased Water Supply at 96%
2. Operational efficiency and customer service	Optimize operational efficiencies and reduce costs	Improved efficiency and institutional performance	Digitizing Operations on Mobile Money & E-Payment & Billing	Digitizing Operations on Mobile Money & E-Payment & Billing Automation in Billing progress for both Billing & Accounting (35%) Non-Revenue Reduced to 40%
Reduce Non-Revenue Water from 55% to 35% by 2023	All utility operations are automated	Monthly maintenance & implementation reports	Automating Billing Accounting	4 Zonal Meters Installed
		Improved efficiency and institutional performance	Automating Billing Accounting	4 Zonal Meters Installed

Ngagaka Water and Sanitation Company Limited

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

<p><i>3. Financial Sustainability</i></p>	<p>Improve O&M cost coverage from 120% to towards 140%</p>	<p>Projected increase in annual revenue Procurement Procedures that are efficient and aligned to PFMA Increased collection efficiency by 0.5% per year</p>	<p>Increased Water sales E-Collections & E-Billings</p>	<p>Increase in Annual Revenue Efficient E-Collections</p>
<p><i>4. Institutional capacity/strengthening</i></p>	<p>Strengthen staff capacity, efficiency and satisfaction</p>	<p>Operational structure Number of staffs trained Compliance with OSH guidelines External Training Attendance</p>	<p>Staff Training E-Platform Implemented</p>	<p>There has been staff training Decision to have Structured Yearly Plan for Staff Training</p>
<p><i>5. Corporate governance</i></p>	<p>Clear and responsible corporate governance policies, procedures and practices</p>	<p>Board manual Periodic progress reports Succession management policy in place Risk management plan & risk register in place</p>	<p>Initiatives Started</p>	<p>Existence of a Formal Board Board Members eager to understand Principles of Good Corporate Governance</p>

Ngagaka Water and Sanitation Company Limited

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

VII) CORPORATE GOVERNANCE STATEMENT

Good corporate governance is key to the integrity of water sector institutions and markets and is central to the health of our economies and their stability. Corporate governance plays a leading role in making certain how corporations and their boards and management are directed, controlled and held to account. Corporate governance therefore encompasses the systems, practices and procedures by which the individual corporation regulates itself to remain competitive, ethical, sustainable and fair.

Appointed on July, 2019 The Board of NGAWASCO limited follows, principles of openness, integrity and accountability in its stewardship of the company's affairs. It recognizes the developing nature of corporate governance and assesses the company's' compliance with generally accepted corporate governance practice on a regular basis, directly and through its board committees and management. The role of the board is to ensure conformance by focusing on and providing the company's' overall strategic direction and policy –making as well as performance review through accountability and ensuring appropriate monitoring and supervision. The board is also responsible for the overall system of internal control and for the reviewing its effectiveness. The controls are designed to both safeguard the company's' assets and ensure the reliability of financial information.

A management team, comprising the general manager, heads of departments and senior staff meets regularly to consider issues of operational and strategic importance to the company. Here below are the key features of the existing corporate governance practices within Ngagaka Water and Sanitation Company Limited which are reviewed and improved on a regular basis: -

1. Board of Directors

The board of directors consists of one executive director and nine non-executive directors, who have been appointed in accordance with the Water Act 2016. The chairman of the board is a non-executive director and the board meets formally at least four times a year.

The board is responsible for setting the direction of the company through the establishment of strategic objectives, key policies and approval of budgets. It monitors the implementation of strategies and policies through a structured approach to reporting by management and consequent accountability.

The non-executive directors are actively involved in and bring strong independent judgment on board deliberations and discussions. These directors have a wide range of knowledge and experience of local markets that is applied to the formulation of strategic objectives and decision making.

The board meets regularly and retains full and effective control over the company in all strategic, financial, operational and compliance areas. In 2021, four board meetings were held and all directors attended the four meetings

To assist the board in the discharge of its responsibilities, board committees have been established. All the board committees meet at least twice a year. The committees are as follows: -

a) Audit Committee

The audit committee comprises of three non-executive directors and Internal Audit manager. The committee is responsible for inter alia, developing and advising an audit and financial controls and compliance issues of the company. It also defines the scope of the internal audit function and acts as a liaison between the external auditors and management. The current members of the committee are: - J Gatumuta (Chairman), CEO Tana representative, Josephine Marigu and Internal Auditor.

b) Finance And Technical Committee

The finance and technical committee comprises of five non-executive directors and the general manager. The committee provides guidance to the board on finance and technical requirements for the company. The current members are D. Muthoni, N. Njue, J. G.Nyaga, CEO Tana Representative, General Manager and A Kinyua (Chairman).

2. Internal Controls

The company has implemented and maintained internal controls designed to provide reasonable assurance as to the integrity and reliability of the financial statements and to adequately safeguard and maintain accountability of the company's' assets. Such controls are based on established policies and procedures and are implemented by trained personnel with appropriate segregation of duties. The effectiveness of the system of internal controls is monitored regularly through internal audit functions, operational meetings and the annual external audit.

3. Related Party Transactions and Directors Remuneration.

The related party transactions with the company during the year ending 30th June 2021 are detailed under note 18 on page 22 of these annual report and financial statements.

The remuneration for directors consists of sitting allowances for their services relating to the Board and committee meetings.

The aggregate amount of director's remuneration for services rendered during the year ending 30th June 2021 are contained under note 19 on page 17 of these annual report and financial statements.

4. Going Concern

The directors confirm that the company has adequate resources to continue in business for the feasible future and therefore the continued use of going concern as a basis of preparing the financial statements.



C. N. Nyaga
Chairman



F. M. Njoka
Director.

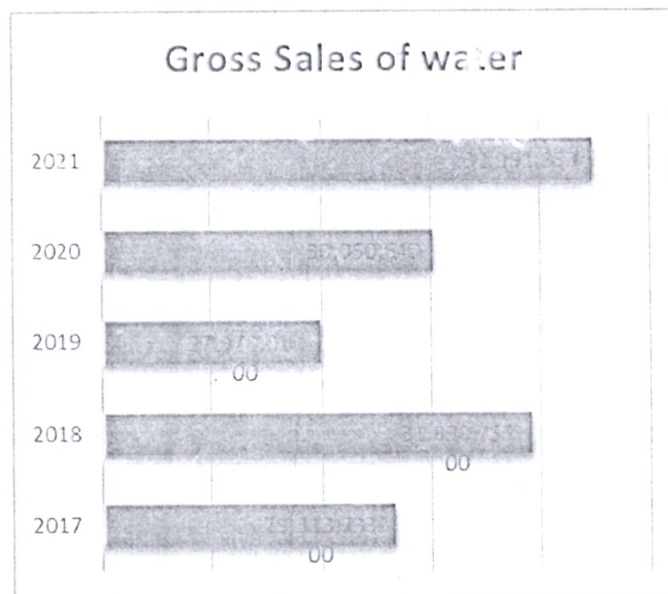
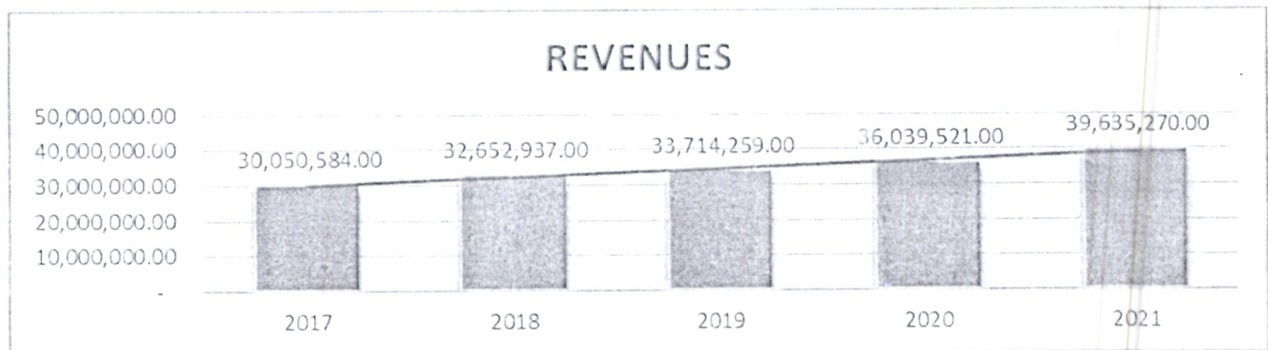
Ngagaka Water and Sanitation Company Limited

Annual Reports and Financial Statements

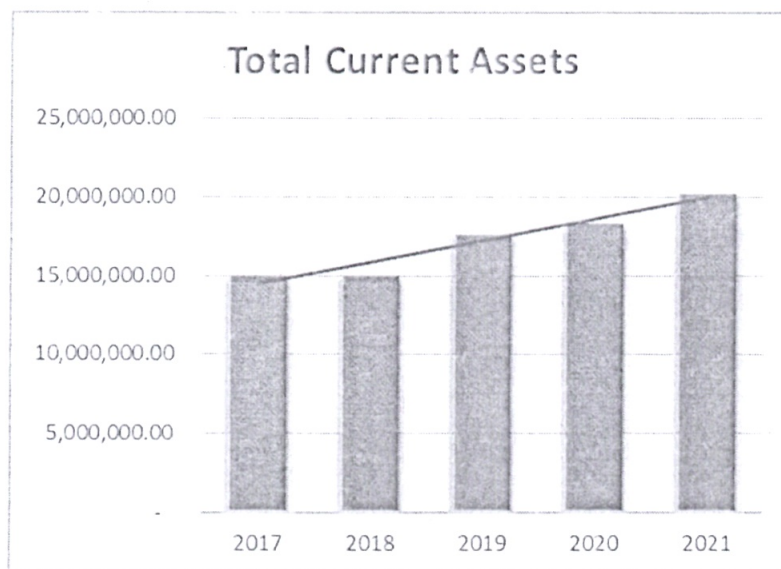
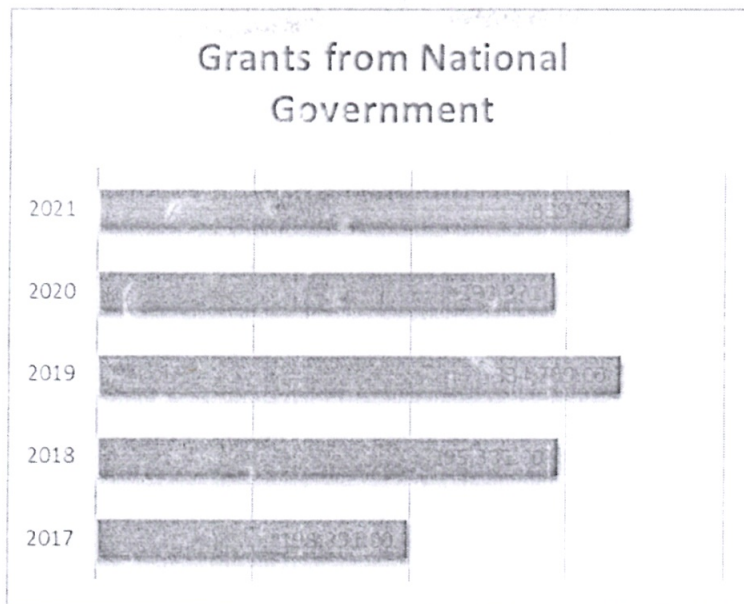
For the year ended June 30, 2021

VIII) MANAGEMENT DISCUSSION AND ANALYSIS

Operational Review through Key Performance Data Analytics



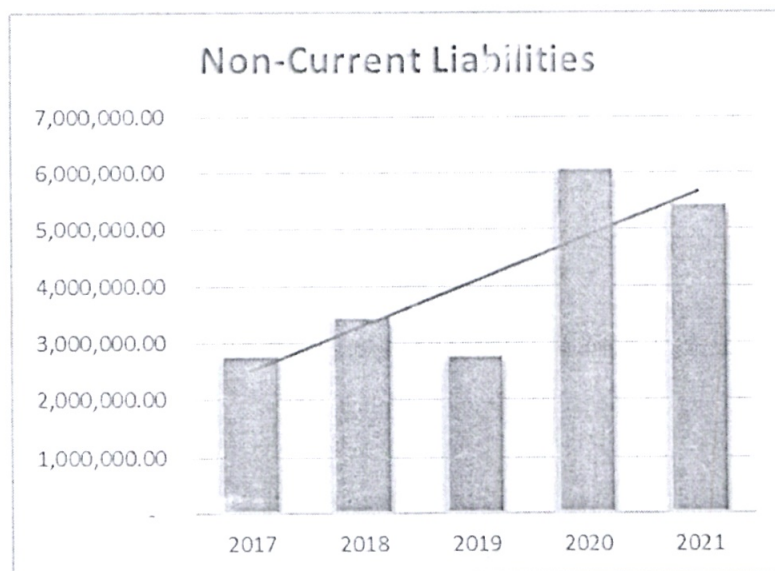
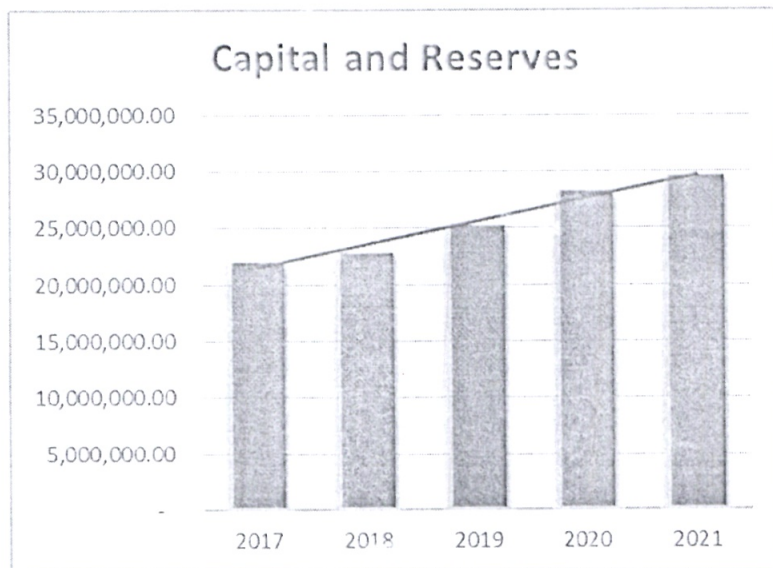
MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)



Ngagaka Water and Sanitation Company Limited

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

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)



IX) ENVIRONMENTAL AND SUSTAINABILITY REPORTING

We, *Ngagaka Water and Sanitation Company*, exist to transform lives. This is our purpose; the driving force behind everything we do. It's what guides us to deliver our strategy, putting the customer/citizen first, delivering relevant goods and services, and improving operational excellence. Below is an outline of the organisation's policies and activities that promote sustainability

a) The sustainability of the company is dependent, among others, on the following key factors

- i) Water Sources
- ii) Collection and Distribution Infrastructure
- iii) Water Production Levels
- iv) Water Distribution Efficiency
- v) Value of Non-Revenue Water (Water Loss)
- vi) Political Support/Goodwill from Government of Kenya

b) Environmental Performance

The company acknowledges the critical role of climatic environment (weather and weather patterns) as a foundation for our existence as a corporate.

In this regard management has formulated an environmental policy and regularly commits resources to fund environmental conservation initiatives

In the coming years the management endeavours to commit more resources on environmental promotion and conservation activities

c) Employee Welfare

Staffs are a critical resource for the attainment of our corporate objectives and personal development of the staff themselves. The company therefore, prioritizes employee welfare, among other employee management initiatives, the following are emphasized:

- i) Policies guiding the hiring process
- ii) Capacity Building
- iii) Performance management – appraisal system
- iv) Safe work environmental practices

d) Market Place Practices

The company aspires to be a responsible open and trustworthy market player. In this regard, the company ensures that all its commercial transactions are undertaken openly, fairly and to the best interest of the parties involved

e) Responsible Competition Practice

While we are a commercial company and accordingly seek to be more competitive than our competitors, including Bottled Water, we consciously don't engage in deriding the competition. Indeed we capitalise on any collaboration opportunities in the market, even when they involve water companies

f) Responsible Supply Chain and Supplier Relations

The company acknowledges the importance of managing suppliers through prompt payment.

Ngagaka Water and Sanitation Company Limited

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

ENVIRONMENTAL AND SUSTAINABILITY REPORTING (Continued)

We endeavour to pay supplier invoices within the credit period. Where the company is unable to meet these obligations on due dates, we pro-act by notifying suppliers of the intended delays and communicate in writing alternative payment plans. A policy on Pending bills and their management is in place

g) Responsible Marketing and Advertisement

The company, while publicizing its products, ensures that our marketing and advertisements campaigns are conducted using fair language are morally upright and adhere to other fair advertising and marketing practices.

The company is in the process of formalizing a policy on marketing and advertisement

h) Product Stewardship

The Production and Distribution Process of Water holds Safety Sacred. This includes Anti-Contamination Safeguards. An internal Quality Assurance System ensures that all our product sanitization processes uphold industry regulator standards

i) Corporate Social Responsibility Statement (CSR)

The company upholds its core values which enshrine ethical business practices, compliance with regulatory and other legal requirements and respect for humanity, communities and the environment. The company's' corporate social responsibility (CSR) hinges on two key pillars, employees and welfare programmes.

During the year, our employees have become an important part of this noble objective. The employees are the backbone of our success.

Therefore, we have unrelentingly ensured that they have a favourable work environment. Training and development of staff has continued to be an important part of our business. All staffs are encouraged to attend internal and external training sessions to upgrade themselves technically and professionally. The internship placement programmes have continued with several students working as interns in various departments. Those students are drawn from various colleges.

Ngagaka Water and Sanitation Company Limited

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For the year ended June 30, 2021

X) REPORT OF THE DIRECTORS

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

Principal activity

The principal activity of the entity is provision of water and sanitation services within the Service Area.

Results

The results of the entity for the year ended June 30, 2021 are set out on page 1

Directors

The members of the Board of Directors who served during the year are shown on page v In accordance with Regulation of the company's Articles of Association.

Auditors

The Auditor General is responsible for the statutory audit of the company in accordance with the Public Finance Management (PFM) Act, 2012, which empowers the Auditor General to nominate other auditors to carry out the audit on his behalf.

By Order of the Board



Director

23rd September 2021

Ngagaka Water and Sanitation Company Limited

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

XI) STATEMENT OF DIRECTORS' RESPONSIBILITIES

Section 164 of the Public Finance Management Act, 2012 and the County Corporations, require the Directors to prepare financial statements in respect of the company, which give a true and fair view of the state of affairs of the company at the end of the financial year and the operating results of the company for that year. The Directors are also required to ensure that the company keeps proper accounting records which disclose with reasonable accuracy the financial position of the company. The Directors are also responsible for safeguarding the assets of the company.


The Directors are responsible for the preparation and presentation of the company's financial statements, which give a true and fair view of the state of affairs of the company for and as at the end of the financial year ended on June 30, 2021. This responsibility includes: (i) maintaining adequate financial management arrangements and ensuring that these continue to be effective throughout the reporting period; (ii) maintaining proper accounting records, which disclose with reasonable accuracy at any time the financial position of the entity; (iii) designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of the financial statements, and ensuring that they are free from material misstatements, whether due to error or fraud; (iv) safeguarding the assets of the company; (v) selecting and applying appropriate accounting policies; and (vi) making accounting estimates that are reasonable in the circumstances.


The Directors accept responsibility for the company's financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity with International Financial Reporting Standards (IFRS), and in the manner required by the section 164 of the Public Finance Management Act, 2012 and the County Corporations. The Directors are of the opinion that the company's financial statements give a true and fair view of the state of company's transactions during the financial year ended June 30, 2021, and of the company's financial position as at that date. The Directors further confirm the completeness of the accounting records maintained for the company, which have been relied upon in the preparation of the company's financial statements as well as the adequacy of the systems of internal financial control.

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

Approval of the financial statements:

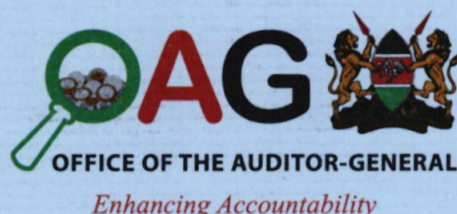
The company's financial statements were approved by the Board on 23/09/2021 and signed on its behalf by:


Chairman - BOD


General Manager

REPUBLIC OF KENYA

Telephone: +254-(20) 3214000
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 NGAGAKA WATER AND SANITATION COMPANY LIMITED FOR THE YEAR ENDED 30 JUNE, 2021

PREAMBLE

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

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

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

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

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of Ngagaka Water and Sanitation Company Limited set out on pages 1 to 22, which comprise the statement of financial position as at 30 June, 2021, and the statement of profit or loss and other comprehensive income, statement of changes in equity, statement of cash flows and statement of

Report of the Auditor General on Ngagaka Water and Sanitation Company Limited for the year ended 30 June, 2021

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 effects of the matter described in the Basis for Qualified Opinion section of my report, the financial statements present fairly, in all material respects, the financial position of the Ngagaka Water and Sanitation Company Limited as at 30 June, 2021, and of its financial performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards (IFRS) and comply with the Public Financial Management Act, 2012, Water Act, 2016 and the Companies Act, 2015.

Basis for Qualified Opinion

Unauthorized Payment of Allowances

The statement of profit or loss and other comprehensive income reflects administration expenditure of Kshs.31,130,289, which includes an amount Kshs.405,848 spent on staff year party & tour, cleaning and corporate social responsibilities activities as disclosed in Note 8 to the financial statements. Included in the expenditure are payments of Kshs.310,000 as allowances to forty (40) staff and seven (7) Board Members who attended the end of year party without approval by Salaries and Remuneration Commission (SRC) as required by Section 11(b) and (f) of the Salaries and Remuneration Commission Act, 2011.

In the circumstances, the validity and value for money for the expenditure amounting to Kshs.310,000 could not be confirmed.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the Ngagaka Water and Sanitation Company Limited Management in accordance with ISSAI 130 on Code of Ethics. I have fulfilled other ethical responsibilities in accordance with the ISSAI and in accordance with other ethical requirements applicable to performing audits of financial statements in Kenya. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

Key Audit Matters

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

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. Incomplete Presentation and Disclosure of the Financial Statements

The financial statements presented for audit contained anomalies as highlighted below:-

- i. The list of the Board of Directors does not include their date of birth, key qualifications and details of work experience.
- ii. The details relating to the Company Secretary including whether he is a member of ICPSK among others are not included.

In the circumstance, presentation and disclosure of the financial statements do not comply with the prescribed format by PSASB and the International Financial Reporting Standards.

2. Non-Compliance with Fiscal Responsibility on Wage Bill

The Company spent Kshs.20,908,872 in respect to staff costs which translates to fifty-three percent (53%) of the total revenue of Kshs.39,635,270 contrary to Regulations 25(1)(a) and (b) of the Public Finance Management (County Governments) Regulations, 2015 which provides that a County Government entities' expenditure on wages and benefits for its public officers, shall not exceed thirty-five (35) percent of the total revenue.

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

3. Non-Compliance with Law on Ethnic Composition

Analysis of the payroll provided for audit revealed that Ngagaka Water and Sanitation Company has employed 37 employees out of which 36 or 97% were from the same ethnic community contrary to Section 7(2) of the National Cohesion and Integration Act, 2008 which provides that no public establishment shall have more than one third of its staff from the same ethnic community.

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

4. Non-Revenue Water

During the year, the Company produced a total of 1,157,580 cubic meters (m³) of water. However, only 721,694 cubic meters were billed to customers. The balance of 435,886 cubic meters (approximately 38%) of the total water produced with a sale price of Kshs.20,050,756 (at Kshs.46 per cubic meter which is the average sale price for the year under review) represents the Non-Revenue Water (NRW) and as reported in the previous years, this is over and above the allowable loss of 25% as provided by Schedule E of Water Service Regulatory Board (WASREB) Guidelines.

In the circumstances, Management was in breach of the WASREB guidelines, which if not addressed will negatively impact on the Company's profitability and its long-term sustainability.

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

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

Basis for Conclusion

Lack of Information and Communication Technology (ICT) Policy

As reported in the previous year, the Company did not have an approved ICT Policy in place which should have included Data Security Policy and Disaster Recovery Plan. Further, it was noted that the ICT Officer who acts as the Billing Clerk has access to the source code of the system which could compromise the integrity of the system since the source code should only be accessed by the system developer.

In the circumstances, the security and reliability of the Company's data including its Management Information System could not be ascertained.

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

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

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

- i. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit;
- ii. In my opinion, adequate accounting records have been kept by the Company, so far as appears from the examination of those records; and

- iii. The Company's financial statements are in agreement with the accounting records and returns.

Responsibilities of Management and Board of Directors

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 overall 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 applicable basis of accounting unless Management is aware of the intention to liquidate the Company or to cease operations.

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

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

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

Auditor-General's Responsibilities for the Audit

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

In addition to the audit of the financial statements, a compliance audit is planned and performed to express a conclusion about whether, in all material respects, the activities, financial transactions and information reflected in the financial statements are in

compliance with the authorities that govern them and that public resources are applied in an effective way, in accordance with the provisions of Article 229(6) of the Constitution and submit the audit report in compliance with Article 229(7) of the Constitution.

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

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

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

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

- Obtain sufficient appropriate audit evidence regarding the financial information and business activities of the Company to express an opinion on the financial statements.
- Perform such other procedures as I consider necessary in the circumstances.

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

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


CPA Nancy Gathungu, CBS
AUDITOR-GENERAL

Nairobi

25 July, 2022

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

	Date	2020-2021	2019-2020
REVENUES		Kshs	Kshs
Sales	5	32,951,853	30,050,640
Grant from National Govt.	6	339,732	292,871
Other Income	7	6,343,635	5,695,010
TOTAL REVENUES		39,635,210	36,039,521
OPERATING EXPENSES			
Administration Costs	8	31,130,289	25,784,116
Production costs	9	3,796,598	3,526,703
Depreciation of PPE	11	3,413,353	3,637,436
TOTAL OPERATING EXPENSES		38,340,240	32,948,255
OPERATING PROFIT	10	1,295,030	3,091,266
PROFIT BEFORE TAXATION		1,295,030	3,091,266

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XIV) STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2021

	Note	2020-2021	2019-2020
		Kshs	Kshs
ASSETS			
Non-Current Assets			
Property, plant and equipment	11	20,017,730	20,547,393
Total Non-Current Assets		20,017,730	20,547,393
Current Assets			
Inventories	12	571,672	902,210
Trade and other receivables	13	15,857,802	13,892,225
Bank and cash balances	14	3,736,986	3,555,304
Prepayments	15	2,500	2,500
Total Current Assets		20,168,960	18,352,239
Total Assets		40,186,690	38,899,632
EQUITY AND LIABILITIES			
Capital and Reserves			
Capital fund / reserves	16	9,965,875	9,965,875
Revenue reserve	17	19,601,994	18,306,964
Capital and Reserves		29,567,869	28,272,839
Non-Current Liabilities			
Borrowings	18	3,313,723	3,693,723
Deferred income	19	2,102,263	2,358,525
Total Non-Current Liabilities		5,415,986	6,052,248
Current Liabilities			
Borrowings	18	360,000	360,000
Trade and other payables	20	4,842,835	4,214,545
Total Current Liabilities		5,202,835	4,574,545
TOTAL EQUITY AND LIABILITIES		40,186,690	38,899,632

The financial statements were approved by the Board on 23/09/2021 and signed on its behalf by:


Cyrus N. Njoka
Chairman - BOD


Francis Njoka
General Manager


A. Murugi
Accountant Icpak 11786

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

	Capital fund/ reserves	Revenue reserve	Total
At July 1, 2019	9,965,875	15,215,698	25,181,573
Total financial performance	-	3,091,266	3,091,866
At June 30, 2020	9,965,875	18,306,964	28,272,839
AS July 1, 2020	9,965,875	18,306,964	28,272,839
Total financial performance	-	1,295,030	<u>1,295,930</u>
At June 30, 2021	9,965,875	19,601,994	29,568,769

XVII STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2021

	2020-2021	2019-2020
	Kshs	Kshs
CASH FLOWS FROM OPERATING ACTIVITIES		
Net surplus/(deficit) before taxation	1,295,030	3,091,266
Adjustment for depreciation	3,413,353	3,637,436
Adjustment for Provision for bad debts	180,111	344,583
Amortization	(256,262)	(292,871)
	4,632,232	6,780,414
CHANGES IN WORKING CAPITAL		
(Increase)/decrease in trade receivables	(2,145,688)	(3,575,322)
Increase/(decrease) in trade payables and accruals	(365,710)	782,197
(Increase)/decrease in inventories	330,538	2,929
Increase/(decrease) in customer deposits	994,000	(2,813,000)
Cash generated from operating activities	(1,186,860)	(5,603,196)
Net cash generated from/(used in) operating activities	3,445,372	1,177,218
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property, plant and equipment	(2,883,690)	(7,011,200)
Grant of non-current assets	-	-
Net cash generated from/(used in) investing activities	(2,883,690)	(7,011,200)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from borrowing	-	3,682,000
Repayment of borrowing	(380,000)	(350,000)
Net cash generated from/(used in) financing activities	380,000	3,332,000
INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENT	(181,682)	(2,501,982)
CASH AND CASH EQUIVALENT AT THE BEGINNING OF YEAR	3,555,304	6,057,286
CASH AND CASH EQUIVALENT AT THE END OF THE YEAR	3,736,986	3,555,304

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XVII) STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS FOR THE
YEAR ENDED 30 JUNE 2021

CODE	VOTEHEAD	ORIGINAL BUDGET	ADJUST.	FINAL BUDGET	ACTUAL BUDGET	VAR	AT
	INCOME	KSH.	KSH	KSH.	KSH.	KSH.	%
1000>010	Water Sales	32,324,400	46000	32,370,400	32,951,853	581,453	102
	Sub- Total	<u>32,324,400</u>	<u>46,000</u>	<u>32,370,400</u>	<u>32,951,853</u>	<u>581,453</u>	
	OTHER INCOMES						
1000>020	Meter Rent	4,698,000	0	4,698,000	5,060,500.0 0	362,500.00	108
1050>010	Reconnections fees	350,000	0	350,000	366,000.00	16,000.00	105
1050>020	Application Fees	600,000	0	600,000	600,000.00	0.00	100
1050>030	Illegal conn. fees	185,000	0	185,000	210,000.00	25,000.00	114
1050>040	Termination Fees	20,000	0	20,000	24,600.00	4,600.00	123
1050>060	Transfer Fees	9,000	0	9,000	9,000.00	0.00	100
1050>090	Meter Replacement	28,000	10000	38,000	38,500.00	500.00	101
1050>100	Grant from GVT	339782	0	339,782	339782	0.00	100
1050>120	Miscellaneous Income	6,000	0	6,000	5,900.00	-100.00	98
1050>130	Bad Debts	28000	0	28,000	29135	1,135.00	104
	Sub-Total	<u>6,263,782</u>	<u>10,000</u>	<u>6,273,782</u>	<u>6,683,417</u>	<u>409,635</u>	
	Total Income	38,588,182	56,000	38,644,182	39,635,270	991,088	103
	EXPENDITURES						
	ADMIN. EXPENSES						
3000	Staff costs	20,940,000	0	20,940,000	20,908,872	31,128	100
3050	Directors' emoluments	673,500	-118000	555,500	556,000	-500	100
3210	Electricity and Water	83,000		83,000	74,919	8,081	90
3280	Tel, emails, postage and computer acc.	730,000	150000	880,000	873,591	6,409	99
3100	Transport, travel & sub.	1,800,000	0	1,800,000	1,613,600	186,400	90
3280	Advert., printing, stat.&n/p	289,000	0	289,000	259,288	29,712	90
3200	Rent expenses	60,000	0	60,000	60,000	0	100
3270	Staff training /seminars	380,000	0	380,000	362,800	17,200	95
3280	Staff uniforms ,welfare & team building	490,000	0	490,000	508,328	-18,328	104
3120>10	Insurance expense	177,840	24000	201,840	202,408	-568	100
3290>020	Bank charges &comm.	54,842	0	54,842	53,232	1,610	97
3430	Fees and levies	2,500,000	0	2,500,000	2,329,011	170,989	93
3300>20	Auditors remuneration	290,000	0	290,000	290,000	0	100
3100	M.v./cycle fuel & maint.	1,580,000	0	1,580,000	1,417,116	162,884	90
3460	Waspa expenses	420,000	0	420,000	430,800	-10,800	103
3280>015	Other repairs & maint.	130,000	0	130,000	119,335	10,665	92
3240	Staff year party and tour, cleaning and CSR	450,000	0	450,000	405,848	44,152	90
3490	Stakeholders Meeting	500000	0	500,000	485,030	14,970	97
	Sub-Total	<u>31,548,182</u>	<u>56,000</u>	<u>31,604,182</u>	<u>30,950,178</u>	<u>654,004</u>	

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STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS FOR THE YEAR
ENDED 30 JUNE 2021 (CONTINUED)

3450>010	Water maint & rehab.	3,650,000	0	3,650,000	3294238	355,762	90
3440>010	Water chemicals	540,000	0	540,000	502360	37,640	93
	Sub-Total	4,190,000	0	4,190,000	3,796,598	393,402	
	Total C & M expenses	35,738,182	56,000	35,794,182	34,746,776	1,047,406	
	INVESTMENTS						
6450>010	Meters – 700pcs	2,450,000	0	2,450,000	2509300	-59,800	102
6250>010	Motor cycles – 2NO.	400,000	0	400,000	373890	26,110	93
	Sub - Total	2,850,000	0	2,850,000	2,883,690	-33,690	
	Total expenditure	38,588,182	56,000	38,644,182	37,630,466	1,013,716	
	Surplus for the period	0	0	0	2,004,804	2,004,804	

Notes to the comparison of budget and actuals

NB: The total expenditure in the statement of profit or loss and other comprehensive income for the year ended 30 June 2021 is Kshs 38,340,240 and that of statement of comparison of budget and actual amounts Kshs 37,630,466. The difference is as a result inclusion of investments, depreciation and bad debts items as reconciled below.

30 June 2021	Kshs
Total expenditure in statement of financial performance	38,340,240
Depreciation	(3,413,353)
Bad debts w/off	(180,111)
Sub Total	34,746,776
Investments	2,883,690
Total expenditure in statement in the budget	37,630,466

1. Illegal connection fee was over absorbed because there were more illegal penalties during the year.
2. Meter replacement was over absorbed because more meters were tempered with by customers resulting to replacement.

XVIII) NOTES TO THE FINANCIAL STATEMENTS

1. General Information

Ngagaka Water and Sanitation Company (NGAWASCO) is incorporated under the Companies Act (Cap 486) and that the Company is limited by Guarantee. It's domiciled in Kenya, at Embu County and falls under Tana Water Works Development Agency. The principal activity is provision of water and sanitation services within the designated Service Area.

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

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

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

Title	Description	Effective Date
IAS 39-Financial Instruments: Recognition and Measurement	IAS 39 "Financial Instruments: Recognition and Measurement" outlines the requirements for the recognition and measurement of financial assets, financial liabilities, and some contracts to buy or sell non-financial items. Financial instruments are initially recognized when an entity becomes a party to the contractual provisions of the instrument and are classified into various categories depending upon the type of instrument, which then determines the subsequent measurement of the instrument (typically amortized cost or fair value). Special rules apply to embedded derivatives and hedging instruments	The amendments are effective for annual periods beginning on or after January 1, 2020. Earlier application is permitted.

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IFRS 4- Insurance Contracts (Superseded)	IFRS 4 "Insurance Contracts" applies, with limited exceptions, to all insurance contracts (including reinsurance contracts) that an entity issues and to reinsurance contracts that it holds. In light of the IASB's comprehensive project on insurance contracts, the standard provides a temporary exemption from the requirements of some other IFRSs, including the requirement to consider IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors" when selecting accounting policies for insurance contracts.	The amendments are effective for annual periods beginning on or after January 1, 2020. Earlier application is permitted.
IFRS 7- Financial Instrument Disclosures	Information about the significance of financial instruments to an entity, and the nature and extent of risks arising from those financial instruments, both in qualitative and quantitative terms. Specific disclosures are required in relation to transferred financial assets and a number of other matters.	Annual periods beginning on or after January 1, 2020. Earlier application is permitted.
IFRS 16- Leases	IFRS 16 specifies how to recognize, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring the recognition of assets and liabilities for all leases, unless the lease term is 12 months or less or the underlying asset has a low value. Lessor accounting however remains largely unchanged from IAS 17 and the distinction between operating and finance leases is retained.	The amendments are effective for annual periods beginning on or after January 1, 2020. Earlier application is permitted.

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

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

Title	Description	Effective Date
IAS 1- Presentation of Financial Statements	IAS 1 "Presentation of Financial Statements" sets out the overall requirements for financial statements, including how they should be structured, the minimum requirements for their content and overriding concepts such as going concern, the accrual basis of accounting and the current/non-current distinction. The standard requires a complete set of financial statements to comprise a statement of financial position, a statement of profit or loss and other comprehensive income, a statement of changes in equity and a statement of cash flows.	The amendments are effective for annual periods beginning on or after January 1, 2023. Earlier application is permitted.
IAS 12 — Income Taxes	IAS 12, "Income Taxes" implements a so-called 'comprehensive balance sheet method' of accounting for income taxes which recognizes both the current tax consequences of transactions and events and the future tax consequences of the future recovery or settlement of the carrying amount of an entity's assets and liabilities. Differences between the carrying amount and tax base of assets and liabilities, and carried forward tax losses and	Earlier application is permitted. The amendments are effective for annual reporting periods beginning on or after January 1, 2023. Early adoption is permitted.

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	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.	
IAS 16 — Property, Plant and Equipment	IAS 16 "Property, Plant and Equipment" outlines the accounting treatment for most types of property, plant and equipment. Property, plant and equipment is initially measured at its cost, subsequently measured either using a cost or revaluation model, and depreciated so that its depreciable amount is allocated on a systematic basis over its useful life.	The amendments are effective for annual periods beginning on or after January 1, 2022. Early application is permitted.
IAS 37 — Provisions, Contingent Liabilities and Contingent Assets	IAS 37 "Provisions, Contingent Liabilities and Contingent Assets" outlines the accounting for provisions (liabilities of uncertain timing or amount), together with contingent assets (possible assets) and contingent liabilities (possible obligations and present obligations that are not probable or not reliably measurable).	IAS 37 "Provisions, Contingent Liabilities and Contingent Assets" outlines the accounting for provisions (liabilities of uncertain timing or amount), together with contingent assets (possible assets) and contingent liabilities (possible obligations and present obligations that are not probable or not reliably measurable).

4. Summary of Significant Accounting Policies

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

a) Revenue recognition

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

- i) Revenue from the sale of water is recognised in the year in which the company delivers products to the customer, the customer has accepted the products and collectability of the related receivables is reasonably assured.
- ii) Grants from National Government are recognised in the year in which the company receives such grants.
- iii) 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 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 financial performance both as revenue and as an expense in equal and opposite amounts; otherwise, the contribution is not recorded.

c) Property, plant and equipment

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

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

d) Depreciation and impairment of property, plant and equipment

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

Buildings and civil works	2%
Plant and machinery	12.5%
Motor vehicles, including motor cycles	25%
Computers and related equipment	30%
Office equipment, furniture and fittings	12.5%

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 amounts.

e) Finance leases

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

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

Summary of Significant Accounting Policies

f) Inventories

Inventories are stated at the lower of cost and net realisable value.

g) Trade and other receivables

Trade and other receivables are recognised at fair values less allowances for any uncollectible amounts. These are assessed for impairment on a continuing basis. An estimate is made of doubtful receivables based on a review of all outstanding amounts at the year end using rate of 10%. Bad debts are written off after all efforts at recovery have been exhausted.

h) 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 financial year. For the purposes of these financial statements, cash and cash equivalents also include short term cash imprests and advances to authorised public officers and which were not surrendered or accounted for at the end of the financial year.

i) 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.

j) 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 company or not, less any payments made to the suppliers.

k) Retirement benefit obligations

The entity operates a defined contribution scheme for all full-time employees from July 1, 2020. The scheme is administered by Co-trust Investment Retirement Benefits Scheme and is

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Summary of Significant Accounting Policies

funded by contributions from both the company and its employees. The company also contributes to the statutory National Social Security Fund (NSSF). This is a defined contribution scheme registered under the National Social Security Act. The company's obligation under the scheme is limited to specific contributions legislated from time to time and is currently at Kshs.200 per employee per month.

l) Provision for staff leave pay

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

m) Comparative figures

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

n) Subsequent events

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

5. SALES

	2020-2021	2019-2020
	Kshs	Kshs
Gross sales of water	32,951,853	30,050,640
Total	32,951,853	30,050,640

6. GRANT FROM NATIONAL GOVERNMENT

Capital grant realized	256,262	292,871
Recurrent grant received	83,520	-
Total	339,782	292,871

[Grant of water meters received from TWWDA/Chlorine from WSTF]

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

7. OTHER INCOME

	2020-2021	2019-2020
	Kshs	Kshs
Meter Rent	5,060,500.00	4,658,350.00
Application fees	500,000.00	517,000.00
Reconnections	366,000.00	332,000.00
Illegal Connections	210,000.00	130,000.00
Termination Fee	24,600.00	13,600.00
Transfer Fee	9,000.00	3,000.00
Meter Replacement	38,500.00	24,500.00
Bad debts	29,135.00	7,810.00
Miscellaneous income	5,900.00	9,750.00
Total	6,343,635	5,696,010

[Being incomes other than water sales]

8. ADMINISTRATION COSTS

	2020-2021	2019-2020
	Kshs	Kshs
Staff costs (note 8(a))	20,908,872	15,495,984
Directors' emoluments	556,000	967,400
Electricity and water	74,919	79,121
Tel., emails, postage and computer acc.	873,591	612,697
Transportation, travelling and subsistence	1,613,600	1,795,600
Advertising, printing, stationery n/papers	259,288	257,633
Rent expenses	60,000	60,000
Staff training expenses	362,800	1,122,000
Staff uniforms and welfare/Wasco sports	508,328	451,176
Insurance costs	202,408	234,304
Bank charges and commissions	53,232	61,450
Fees, levies & commitments	2,329,011	2,135,472
Auditors' remuneration	290,000	290,000
Motor vehicle fuels, oil and maintenance	1,417,116	1,248,552
Waspa expenses	430,800	165,010
Repairs and maintenance	119,335	53,655
Provision for bad and doubtful debts	180,111	344,583
Staff year end party & tour, cleaning & CSR	405,848	409,479
Stakeholders	485,030	-
Total	31,130,289	25,784,116

Ngagaka Water and Sanitation Company Limited

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

8(a) STAFF COSTS

	2020-2021	2019-2020
	Kshs	Kshs
Salaries and allowances of permanent employees	20,339,712	15,495,984
Other Staff payments (retirement benefits)	569,160	-
Total	20,908,872	15,495,984
The average number of employees at the end of the year was:		
Permanent employees – Management	5	5
Permanent employees – Unionisable	32	25
Total	37	30

[Being number of staff throughout the year]

9. PRODUCTION COSTS

	2019-2021	2019-2020
	Kshs	Kshs
Water maintenance and rehabilitation	3,294,238	3,344,364
Water chemicals	502,360	182,339
Total	3,796,598	3,526,703

[Being costs of maintaining and treating water]

10. OPERATING PROFIT/ (LOSS)

	2020-2021	2019-2020
	Kshs	Kshs
Operating profit/(loss)	1,295,030	3,091,266
The net profit/(loss) is arrived after charging/crediting):-		
Staff costs (note6(a))	20,908,872	15,495,984
Depreciation of PPE	3,413,353	3,637,436
Provision for bad and doubtful debts	180,111	344,583
Directors' emoluments - fees	556,000	967,400
Auditors remuneration - fees	290,000	290,000

NOTES TO THE FINANCIAL STATEMENTS (Continued)

11. PROPERTY, PLANT AND EQUIPMENT

	Buildings	Plant and machinery	Water meters	Motor vehicles	Computers & related equipment	M. Cycle	Office equipment, furniture & fittings	Tools and equipment	Total
COST									
At July 1, 2019	854,816	3,255,510	22,797,995	3,614,692	2,204,522	-	386,190	231,890	33,345,615
Additions	-	-	2,794,700	3,682,000	72,000	462,500	-	-	7,011,200
At June 30, 2020	854,816	3,255,510	25,592,695	7,296,692	2,276,522	462,500	386,190	231,890	40,356,815
At July 1, 2020	854,816	3,255,510	25,592,695	7,296,692	2,276,522	462,500	386,190	231,890	40,356,815
Additions	-	-	2,509,800	-	-	373,890	-	-	2,838,690
At June 30, 2021	854,816	3,255,510	28,102,495	7,296,692	2,276,522	836,390	386,190	231,890	43,240,505
DEPRECIATION									
At July 1, 2019	96,579	1,471,935	9,501,990	2,960,676	1,738,622	-	247,129	155,055	16,171,986
Charge for the year	15,165	222,947	2,011,338	1,084,004	161,370	115,625	17,383	9,604	3,637,436
At June 30, 2020	111,744	1,694,882	11,513,328	4,044,680	1,899,992	115,625	264,512	164,659	19,809,422
At July 1, 2020	111,744	1,694,882	11,513,328	4,044,680	1,899,992	115,625	264,512	164,659	19,809,422
Charge for the year	14,861	195,079	2,073,646	813,003	112,959	180,191	15,210	8,404	3,413,353
At June 30, 2021	126,605	1,889,961	13,586,974	4,857,683	2,012,951	295,816	279,722	173,063	23,222,775
NBV									
At June 30, 2020	743,072	1,560,628	14,079,367	3,252,012	376,530	346,875	121,678	67,231	20,547,393
At June 30, 2021	728,211	1,365,550	14,515,521	2,439,009	263,571	540,574	106,468	58,827	20,017,730

No item of property, plant and equipment was fully depreciated as at the end of the financial year

NOTES TO THE FINANCIAL STATEMENTS (Continued)

12. INVENTORIES

	2020-2021	2019-2020
	Kshs	Kshs
Water maintenances	232,272	465,610
Water meters	339,400	409,200
Stationeries	-	21,300
General stores	-	6,100
Total	571,672	902,210

13. TRADE RECEIVABLES

	2020-2021	2019-2020
	Kshs	Kshs
Trade receivables	27,688,081	25,542,393
Gross trade and other receivables	27,688,081	25,542,393
Provision for bad and doubtful receivables	(11,830,279)	(11,650,168)
Net trade receivables	15,857,802	13,892,225

[Being water sales]

14. CASH AND CASH EQUIVALENT

	2020-2021	2019-2020
	Kshs	Kshs
Family Bank – A/c No. 075000019139	118,494	700,233
Family Bank – A/C No 075000019873	2,709,590	1,304,330
Consolidated Bank – A/c No 1041202000049	119,378	145,221
Equity Bank – A/c No 0190261966763	789,424	1,405,520
Family Bank – A/c No 075000047664	100	-
Total	3,736,986	3,555,304

15. PREPAYMENTS

	2020-2021	2019-2020
	Kshs	Kshs
KPLC	2,500	2,500
Total	2,500	2,500

[Being accounts deposit]

Ngagaka Water and Sanitation Company Limited

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

16. CAPITAL FUND/RESERVES

	2020-2021	2019-2020
	Kshs	Kshs
As at June	9,965,875	9,965,875
Total	9,965,875	9,965,875

17. REVENUE RESERVES

As at 1 st July	18,306,964	15,215,698
Surplus/ (deficit) for the year	1,295,030	3,091,266
Total	19,601,994	18,306,964

18. BORROWINGS

Total balance at the beginning of the year	4,053,723	721,723
Borrowings during the year	-	3,682,000
Repayments of domestic borrowings during the year	(380,000)	(350,000)
Balance at end of the year	3,673,723	4,053,723
Less: Amounts due within one year (current portion)	(360,000)	(360,000)
Amounts due after one year (non-current portion)	3,313,723	3,693,723
The analyses of domestic borrowings are as follows		
Domestic Borrowings		
Kenya Shilling lease finance from Family bank	-	-
Kenya Shilling loan from customer deposits	3,673,723	4,053,723
Total balance at end of year	3,673,723	4,053,723
<i>[Being domestic borrowing for purchase of motor vehicle KCV 349R]</i>		

19. DEFERRED INCOME

	2020-2021	2019-2020
	Kshs	Kshs
At 1 July	2,358,525	2,651,396
Amortization	(256,262)	(292,871)
Total	2,102,263	2,358,525

[Deferred income relates to water meters donated by Tana Water Works Development Agency. Deferred income is recognised as income in the statement of financial performance over the expected useful lives of the assets.]

20. TRADE AND OTHER PAYABLES

	2020-2021	2019-2020
	Kshs	Kshs
Trade payables	2,232,058	2,597,768
Other payables (customer deposit)	2,610,777	1,616,777
Total	4,842,835	4,214,545

[Being trade creditors and customer deposits]

NOTES TO THE FINANCIAL STATEMENTS (Continued)

21. RETIREMENT BENEFIT OBLIGATIONS

Retirement Benefit Liability

As per IAS 19(2011).63] the Company recognised the net defined benefit liability for the staff up to June 2020 amounting to Ksh 12,108,345. The determination of the net defined benefit liability was carried out with sufficient regularity such that the amounts recognised in the financial statements do not differ materially with those that would be determined at the end of the reporting period. [IAS 19 (2011). 58]

22. RELATED PARTY DISCLOSURES

Parties related to the organisation include those parties who have the ability or where the organisation has the ability to exercise control or exercise significant control over the operating and financial decisions. Related parties include the management personnel, their principals and close family members.

The organisation is related to:

- i) Water services regulatory board
- ii) Tana Water Works Development Agency
- iii) Directors and key management personnel of the organisation

a) Due to related parties

	2020-2021	2019-2020
Total	783,940	639,732
Water Services Regulatory Board	783,940	639,732
	Kshs	Kshs

Water Services Regulatory Board is paid 4% of the total billed revenue. The above refers to outstanding balances as at the end of the year.

b) Transactions

During the year, the following transactions were entered into with related parties:

i) Directors Emoluments

	2020-2021	2019-2020
Total	556,000	967,400
Directors fees and allowances	556,000	967,400
	Kshs	Kshs

ii) Key management compensation

	2020-2021	2019-2020
Total	8,323,260	6,715,980
Salaries and other benefits	8,323,260	6,715,980
	Kshs	Kshs

NOTES TO THE FINANCIAL STATEMENTS (Continued)

23. FINANCIAL RISK MANAGEMENT POLICIES

Financial risk management objectives

The organisation's overall risk management programme focuses on unpredictability of changes in the operating environment and seeks to minimise the potential adverse effect of such risks on its performance by setting acceptable levels of risk.

The major types of financial risks faced by the organisation are:

- Market risk
- Credit risk
- Liquidity risk

Market risk management

(i) Foreign exchange risk

The organisation is not exposed to foreign exchange risk since it does not have foreign currency transactions.

(ii) Interest rate risk

The organisation is not exposed to interest rate risk since it has no external borrowing

(ii) Price risk

The organisation does not hold investments that would be subject to price risk hence there is no exposure to price risk.

Credit risk management

Credit risk refers to the risk that a counter party will default on its contractual obligations resulting in financial loss to the organisation. The organisation measures, monitors and manages credit risk for each receivable. The organisation's credit risk is primarily attributable to bank balances, trade and other receivables. The amounts presented in the statement of financial position are net of allowances for doubtful receivables, estimated by the organisation's management based on prior experience and their assessment of the current economic environment.

The credit risk on liquid funds with financial institutions is also low, because the counter parties are banks with high credit-ratings.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

FINANCIAL RISK MANAGEMENT POLICIES (Continued)

The amount that best represents the organisation's maximum exposure to credit risk is made up as follows:

	Total amount Kshs	Fully performing Kshs	Past due Kshs	Impaired Kshs
30 June 2021				
Bank balances	3,736,986	3,736,986	-	-
Staff advances	-	-	-	-
Trade receivables	15,857,802	-	27,688,081	(11,830,279)
Total	19,594,788	3,736,986	27,688,081	(11,830,279)

	Total amount Kshs	Fully performing Kshs	Past due Kshs	Impaired Kshs
30 June 2020				
Bank balances	3,555,904	3,555,904	-	-
Staff advances	-	-	-	-
Trade receivables	13,892,255	-	25,542,393	(11,650,585)
Total	17,448,159	3,555,904	25,542,393	(11,650,585)

The debtors under the fully performing category are paying their debts.

The receivables that are past due relate to receivables overdue by over 30 days. The finance department is actively following these receivables. No collateral is held with respect to the debt. The debt that is impaired has been fully provided for.

Liquidity risk management

Prudent liquidity risk management includes maintaining sufficient cash to meet organisation obligations.

The organisation manages liquidity risk through continuous monitoring of forecast and actual cash flows.

The liquidity risk is also managed through the continuous receipts from water revenue.

The table below analyses the organisation's financial liabilities that will be settled on a net basis into relevant maturity groupings based on the remaining period at the statement of financial position date to the contractual maturity date. The amounts disclosed in the table below are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances, since the impact of discounting is not significant.

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

25. INCORPORATION

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

24. CURRENCY

The company did not have capital commitments as at 30 June 2021.

23. CAPITAL COMMITMENTS

The organization is exposed to various contingent liabilities in the normal course of operations. Management evaluates the status of these exposures on a regular basis to assess the probability of the organization incurring related liabilities. However, provisions are only made in the financial statements where, based on the management's evaluation, a present obligation has been established.

22. CONTINGENT LIABILITIES

	2020-2021	2019-2020
Capital fund / reserves	9,965,875	9,965,875
	Kshs	Kshs

The capital structure of the organisation consists of:

The organization is not exposed to capital risk since it has no borrowings.

The return to stakeholders.

Capital risk management
The organization manages its capital to ensure that it is able to continue as a going concern while maximizing

	within 1 year	2-3 years	Over 3 years	Total amount
30 June 2021	1,942,058	290,000	-	2,232,058
Payables				
	Kshs	Kshs	Kshs	Kshs
30 June 2020	2,597,768	-	-	2,597,768
Payables				

Liquidity risk management (Continued)

FINANCIAL RISK MANAGEMENT POLICIES (Continued)

NOTES TO THE FINANCIAL STATEMENTS (Continued)

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APPENDIX I: PROGRESS ON FOLLOW UP OF AUDITOR RECOMMENDATIONS

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

Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Focal Point person to resolve the issue (Name and designation)	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
1.	Irregular water maintenance and rehabilitation expenditure	The supporting documents are in place.	Francis Njagi CM	Not Resolved	Waiting for appearance at County Assembly PAIC
2.	Interest of fixed deposit	The difference of the amount of interest was of no material value.	Francis Njagi CM	Not Resolved	Waiting for appearance at County Assembly PAIC
3.	Internal borrowing from customer deposits.	The internal borrowing had BOD authority.	Francis Njagi CM	Not Resolved	Waiting for appearance at County Assembly PAIC
4.	NRW at 48% way above the set bench mark of 25%	Non-revenue team is working on the same to ensure the set bench mark is attained.	Josphat Njogu TM and Francis Njagi CM	Not resolved	2 -3 years
5.	Lack of internal audit	The Company has internal audit in place.	Francis Njoka GM	Not Resolved	Waiting for appearance at County Assembly PAIC


Francis Njoka

General Manager
Ngagaka Water and Sanitation Ltd

Date: 23rd September 2021