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REPORT

OF

THE AUDITOR-GENERAL

ON

**ISIOLO WATER AND SEWERAGE
COMPANY LIMITED**

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

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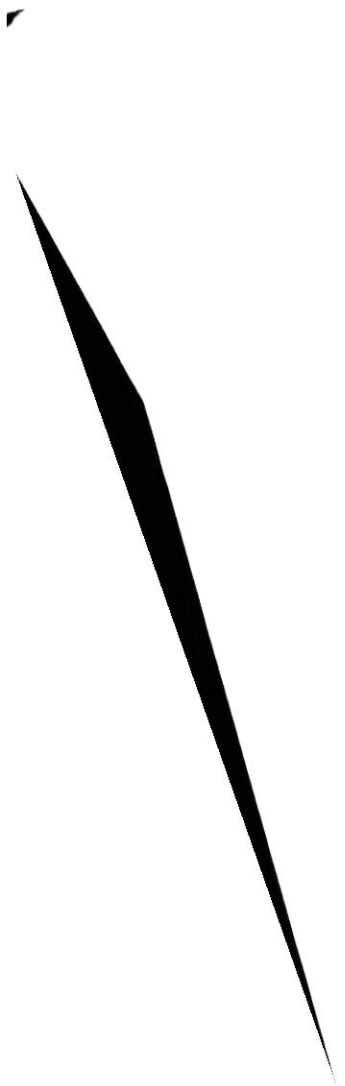




ISILO WATER & SEWERAGE COMPANY LIMITED
ANNUAL REPORTS AND FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED
JUNE 30, 2020

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

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ISIOLO WATER & SEWERAGE CO.LTD

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1. KEY ENTITY INFORMATION

Background information

The Company is incorporated in Kenya under Cap. 486 of the laws of Kenya.

The company has a valid signed service provision agreement with the Northern Water Services Board as a water service provider.

Principal Activities

The principal activity of Company is the provision of water and sewerage services within Isiolo Town and its environs.

Vision: To be the leading company in provision of water and sanitation services in Kenya.

Mission: To improve quality of life by providing safe, reliable, adequate and affordable water and sanitation services through commercially and environmentally sustainable approaches to the satisfaction of our customers and other stakeholders.

Directors

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

No	Name	Position	Date of Appointment
1	Mr. WachuAbdi	Chairman	13/8/2018
2	Ms. AsiliSode	Director	13/8/2018
3	Mr Wilson Lomilian	Director	13/8/2018
4	Mrs. RehemaAbdikadir	Director	13/8/2018
5	Mr. Hassan Diba	Director	13/8/2018
6	Mr. AgustinoLaibon	Director	13/8/2018
7	Mr. AbdullahiSora	Managing Director	15/8/2018
8	Mr.Hussein Ali	Director	13/8/2018
9	Mr. Peter Ngechu	Director	13/8/2018
10	Mr. Salad Kadubo	Director	1/3/2020

Corporate secretary

Mr. Kingori Muriithi
Muriithi Kingori & Associates
P. O Box 1494-10400
Nanyuki, Kenya

Registered Office

Airport Road
P.O. Box 491-60300
ISIOLO, KENYA

Corporate Headquarters

P.O. Box 491-60300
Near County Water Department
Airport Road
Isiolo, KENYA

ISIOLO WATER & SEWERAGE CO.LTD

Annual Reports and Financial Statements For the year ended June 30, 2020

KEY ENTITY INFORMATION (Continued)

Corporate Contacts

Telephone : (254) 064-52283
E-mail: isiolowater@yahoo.com
Website: www.iwasco.or.ke

Corporate Bankers

Equity Bank	Consolidated Bank	Co-operative Bank
Isiolo Branch	Isiolo Branch	Isiolo Branch
P.O Box 197-60300	P.O Box 30238-60300	P.O Box 30238-60300
Isiolo	Isiolo	Isiolo

Independent Auditors

Auditor General
Office of The Auditor General
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

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2. THE BOARD OF DIRECTORS

<p>1.  Abdikarim Wachu, Chairman</p>	<p>Mr.Wachu Abdi aged 36 years, joined the Board in 2018. He is a director representing faith based organizations. He holds certificate in IT from Mersburn Institute. He has led in Islamic preaching for over 15 years. He is a businessman too.</p>
<p>2.  Rahima Abdikadir, Director</p>	<p>Ms. Rahima Abdikadir aged 47 joined the Board in 2012. She is a Director representing Chamber of Commerce. Ms Rahima is currently working with Action Aid Kenya Isiolo office as a warehouse supervisor. She holds degree in development studies from Mt. Kenya University.</p>
<p>3.  Hussein Ali, Director</p>	<p>Mr Hussein aged 54, joined the board in2018. He is a director representing NGOs. He is a former councillor. He holds a certicate. He is an ardent agitator for social and human rights.</p>
<p>4.  Salad Kadubo, Director</p>	<p>Dr.Salad Kadubo Adano aged 47, joined the board in 2020. He is a director representing the Isiolo County government. He is currently the chief officer of water and Irrigation for Isiolo county government. He holds PHD in business administration, a CPA</p>
<p>5.  Agostino Mukucia Laibon, Director</p>	<p>Mr.Agostino Laibon 63, joined the board in 2018. He is a director representing professionals. He holds a bachelor degree in leadership and management from Strathmore University. He is currently a lecturer at Kenya school of revenue administration</p>

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<p>6.  Asli Sode, Director</p>	<p>Ms Asli aged 64, joined the board in 2018. She is a director representing women organisations. She is currently the chairperson maendeleo ya wanawake organisatio (MYWO), Isiolo county. She has extensive experience in mass media having worked with the voice of kenya for more than a decade.</p>
<p>7.  Wilson Lemillion, Director</p>	<p>Mr Wilson aged 36, joined the board in 2018. He is a director representing Non-governmental organisations. He holds certificate in tour guiding and administration. He has vast experience in conservation affairs having worked as conservancy manager for many years.</p>
<p>8.  Hassan Diba Kumpa, Director</p>	<p>Mr Hassan aged 44, joined the board in 2018. He is a director representing users/consumers. He holds a diploma in social studies. He is a former member of Isiolo county assembly. He is a successful businessman and renown social worker.</p>
<p>9.  Peter Ngechu, Director</p>	<p>Mr Ngechu aged 44, joined the board in 2018. He is a director representing the isiolo County government. He is currently the chief officer of finance and economic planning for Isiolo county government. He holds bachelor's degree in business administration/CPA. He has previously worked for many years in a government's regional development agency.</p>
<p>10.  Abdullahi Sora, Managing Director</p>	<p>Mr Abdullahi aged 47, is the current Managing Director. He has been the company's administrative manager for many years. He has vast knowledge of the company's operations. He holds Masters degree in purchase and supplies.</p>

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3. MANAGEMENT TEAM

<p>1.</p>  <p>Name: Abdullahi Sora Qualifications: Master Degree in purchase and supplies, undergraduate degree in purchase and supplies, Diploma in business administration, registered member KISM</p>	<p>Managing Director</p>
<p>2.</p>  <p>Name: Nura Bonaya Qualifications: Undergraduate Degree in Finance, Masters Degree in Finance (on-going), CPA.</p>	<p>Finance and Commercial Manager</p>
<p>3.</p>  <p>Name: Joseph Waciuri Qualification: Undergraduate Degree in Business Administration, Diploma in Civil Engineering</p>	<p>Technical Manager</p>

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<p>4. </p> <p>Name: Mariam Dida Qualifications: Undergraduate Degree in Human Resource(ongoing), Diploma in IT</p>	<p>Human Resource and Administrative Manager</p>
<p>5. </p> <p>Name: Cathrine Mwendwa Qualifications: Master Degree in project Management, Bachelor degree in business administration, CPA</p>	<p>Internal Auditor</p>

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4. CHAIRMAN'S STATEMENT

Once more, I am honoured to present the 2019/2020 annual report and accounts ending June 2020, for Isiolo Water and Sewerage Company Ltd in line with the company's Act and the service provision Agreement(SPA).

Isiolo Water and Sewerage Company Ltd has grown from strength to strength over the years and is now reference institution for the whole county in terms of efficient and effective water services provision.

This company faces many challenges including the scarcity of water sources, stiff competition with farmers upstream the river, especially so during dry periods of the year and repetitive droughts.

During the year under review, the company faced a prolonged drought spell that affected the first quart and the covid-19 pandemic that affected the last quarter. The company performance was negatively affected

The demand for water surpasses the production i.e the current demand for water in Isiolo town and its environs stand at 10,000m³/day against the daily production of about 5000m³/day.

However, the company has reached out to the county government, national government through the Northern water works Agency and Development partners to realize increase in supply to mitigate on the shortages.

The company enjoys an over whelming support from the stakeholders, customers and other bilateral organizations. The Board of Directors is trained on corporate governance, their roles and responsibilities hence adding value to the operations of the company.

Finally, may I thank the Managing Director, the Board of Directors of IWASCO for the good work, the have done over the years. It is my hope that sooner or later we shall avail more water to the residents of Isiolo. It is my hope and believe that this report reflects the financial status of the company



Wachu Abdi

Chairman Board of Directors

Isiolo Water And Sewerage Company

ISIOLO WATER & SEWERAGE CO.LTD

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5. REPORT OF THE MANAGING DIRECTOR

It is with great pride that I once again present the Annual report and financial statement for the year ending 30th June 2020.

According to the Water services Regulatory Board reports, this company is among the few, that are well managed, progressive and result oriented. Over the years we have maintained high standard of integrity, efficiency and effectiveness in managing our resources.

The company has done well financially during the year under review.

We have involved the community we are serving and all our stakeholders in the decision making process of the company, hence effective communication with all those concerned.

The management team is mainly concerned with daily service delivery, which they do with outmost dedication, professionalism and efficiency.

Finally, I would like to thank the Board of Director's through the chairman for their strong support, understanding and guidance in all our operations, the staff of IWASCO for their courage, effectiveness and creativity.


Abdullahi Sora
Managing Director

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6. REVIEW OF ISIOLO WATER & SEWERAGE COMPANY LTD'S PERFORMANCE FOR FY 2019/2020

Isiolo water & Sewerage Company Ltd (IWASCO) has five strategic objectives within its strategic plan for the FY 2018-2019-2022-2023. These strategic objectives are;

- Increase access to clean and safe drinking water and sanitation services
- Grow financial and commercial position and viability
- Provide timely, quality and reliable services.
- Strengthen organizational structures and operational processes.
- Strengthen people and communication systems

IWASCO develops its annual work plan based on the above five strategic objectives. Assessment of the Board's performance against its annual work plan is done on quarterly basis. IWASCO achieved its performance targets set for the FY 2019-2020 period for its five strategic objectives, as indicated in the diagram below;

Strategic Objective	Key performance indicator(s)	Activities	Achievements
Increase access to clean and safe drinking water and sanitation services	-Increase in water connections -Increase in sewer connections -Increase in coverage	-Extension of water services -Extension of sewer services	-Extended water services by 16km -Extended sewer services by 12km -Increased coverage from 79% to 81%
Grow financial and commercial position and viability	-Increase in o & m cost coverage -Increase in net income	-Increase in production to increase sales -Checking on operating expenses	-increase in production by 380m ³ -Reduction in the operating expenses
Provide timely, quality and reliable services.	Enhanced services hours	Injecting more water into the system	Increased service hours from 15hrs/day to 18hrs/day
Strengthen organizational structures and operational processes.	-Improved company performance -Improved services quality	-Undertake change management training for all staffs and BoD -Develop workplace policies that are flexible and friendly to the staff -Institute the culture of continuous improvement in all departments and promote health competition	-BoD were trained -Staffs were trained on performance management -Human resource, data management and performance management policies under review and development

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Strengthen people and communication systems	<ul style="list-style-type: none"> -Good staff performance -Motivated staff -Low staff turn over 	<ul style="list-style-type: none"> -Develop robust performance management systems that reward and celebrate good performance -Conduct periodic staff satisfaction survey and undertake remedial measure as informed by the survey -Develop framework for staff development and retention. 	<ul style="list-style-type: none"> -Performance management policy under development -
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ISILO WATER & SEWERAGE CO.LTD

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7. CORPORATE GOVERNANCE STATEMENT

Isiolo Water and Sewerage Company is committed to the standard of world class corporate governance practice as set by Regulatory Authority and in accordance with international best practice.

The Board of Directors is responsible for the long-term strategic direction that will ensure the profitable growth of the company whilst being accountable to the stakeholders for legal compliance and maintenance of the highest corporate governance standards and business ethics. The Board formulates policies and strategies that enhance transparency and accountability and seek to conform to set guidelines on Corporate Governance practices provided by the Regulator. The company operates under a wide regulatory and legal control and supervisory framework.

The Board of Directors, duly cognizant of its role in safeguarding stakeholders' interests and ensuring a clean, safe and affordable drinking water for Isiolo residents and it's environ, reaffirms its commitment to upholding policies and strategies that enhance transparency and accountability as part of the company's continuing and operations.

BOARD OF DIRECTORS.

The current Board consists of nine directors elected from the Profession Bodies, Women group and Non-Governmental Organization. The Board composition draws on a good mix of skills, experience and competencies in various fields. The Directors are appointed by the stakeholders for a three year term and are bound by the Company's code of Conduct.

The Management maintains effective overall control over strategic, financial, operational, policy and compliance issues. Accurate, appropriate and timely information is provided to the Board to enable it to fulfill this role. The Chairman is responsible for managing the Board and providing leadership to the company, while the Company Chief Executive Officer is responsible to the Board for running the Company in accordance with instructions given by the Regulator and Board. Nonetheless, the management team retains responsibility for establishing and maintaining the company's comprehensive internal control of financial, operational, and compliance issues so that its objectives of increased growth in coverage and customers value are realized.

The company maintains a policy of open communication between the Board and management ensuring the Board is fully informed about all major matters concerning the company. The Board and management interact on a regular basis allowing the directors to contribute their knowledge particularly in relating the company's target market to the company operations.

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BOARD MEETINGS

The Board meets regularly at least four times a year to, amongst other things, agree on the company's objectives and strategies to realize the objectives, review performance against agreed targets and consider and approve the annual and interim financial statements. The Board in achieving its mandate is guided by the Board Manual.

BOARD COMMITTEES

The Board has created three committees which meet regularly under clearly defined and materially delegated terms of reference set out by the Board. The committees operate under clearly defined mandates which spell out their responsibilities, scope of authority and procedures for reporting to the Board. The Committees have access to company information and are to obtain independent professional advice on matters within their scope.

AUDIT AND RISK COMMITTEE

The Committee's main purpose is to assist the Board in discharging its duties regarding the safeguarding of assets, the operation of adequate systems, control processes, and the preparation of accurate financial statements and reporting in compliance with all applicable legal requirements and accounting standards. The scope of this committee includes risk management as well as compliance with the regulatory requirements. The committee is guided in its functions by a comprehensive Audit Committee Charter and Internal Audit Department Charter. These are designed to provide a comprehensive framework for the audit function within the company.

ISIOLO WATER & SEWERAGE CO.LTD

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8. MANAGEMENT DISCUSSION AND ANALYSIS

The management is pleased to report that the company's operational efficiency has improved significantly during the period under review. The non-revenue water has not increased from 30%. There were over 500 additional clients that were connected for the services. The company has employed latest technologies like extending services using HDPE pipes which are better than UPVC pipes.

The company met its financial obligations without defaulting. The budgetary expectations were met.

There was no staff turnover during the year. The company took section heads for refresher training during the period under review. This has really improved staff morale and performance levels.

The company fully complied with statutory requirements, both financial and legal. This excites as the company faces no risk of invalid business operations.

The year was generally a success despite the prolonged drought and Covid-19 pandemic.

9. CORPORATE SOCIAL RESPONSIBILITY STATEMENT/SUSTAINABILITY REPORTING

Isiolo water & sewerage Company Ltd (IWASCO) exists to transform lives. This is our purpose; the driving force behind everything we do. It's what guides us deliver our strategy, which is found on five strategic objectives; Increasing access to clean and safe drinking water and sanitation services, growing financial and commercial position and viability, providing timely, quality and reliable services, strengthening organizational structures and operational processes and Strengthening people and communication systems. Below is brief highlight of our achievement in each objective;

1. Sustainability strategy and profile

The company has made deliberate efforts to increase production, reduce non-revenue water, increase sewer service lines, extend water services and employ latest technologies in service delivery to better its performance and sustain delivery of reliable services. Despite adverse climatic changes and exploding population, IWASCO has served its clients to satisfaction.

2. Environmental performance

IWASCO employs environmentally sustainable approaches in its service delivery. The company has responded to all bursts, be it sewer or water in the shortest time possible to check on the degradation of its business environment. The discharges from its waste water treatment plant meets the required standards. The company has participated in tree planting activities to protect the catchment areas. Environmental management and coordination act, 1999, world health organization standards and water services regulatory Board (WASREB) standards guide the company in its environmental performance.

3. Employee welfare

Company employees are its greatest asset. IWASCO has a good human resource management policy. The policy clearly guides the company on hiring, training, developing, disciplining and rewarding of staffs. It advocates for gender parity in engagement of employees. The policy has best flexibility where, all stakeholders have equal stake in its reviews and improvements.

4. Market place practices

IWASCO handles its clients, suppliers and competitors with utmost care. The clients enjoy best of services and products of highest quality at the most affordable prices. The company meets its obligations as they fall due without fail. The company suppliers enjoy prompt payments for goods delivered.

5. Community engagements

The company has elaborate mechanisms of engaging the host community. As per the WASREB customer engagement guidelines, the company is required to hold annual public clinics to educate and create awareness among members of the public. The company uses local radio stations to educate the community on the importance of taking quality water and sanitation services to prevent them from getting water borne diseases which are deadly.

ISIOLO WATER & SEWERAGE CO.LTD

Annual Reports and Financial Statements For the year ended June 30, 2020

10. REPORT OF THE DIRECTORS

The Directors submit their report together with the audited financial statements for the year ended June 30, 2020 which show the state of the Isiolo water and sewerage co. Ltd's affairs.

Principal activities

The principal activity of the Company is provision of water and sewerage services within Isiolo Town and its environs.

Results

The results of the entity for the year ended June 30, 2020 are set out on page 9. Below is summary of the profit or loss made during the year.

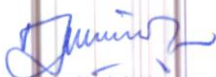
Directors

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

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

By Order of the Board



Abdullahi Sora
BOD Secretary

ISIOLO WATER & SEWERAGE CO.LTD

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11. STATEMENT OF DIRECTORS' RESPONSIBILITIES

Section 81 of the public finance management act, 2012 and section 164 of the water act 2016, require the directors to prepare financial statements in respect of isiolo water and sewerage co.ltd, 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 company for the period. The directors are also required to ensure that Isiolo water and sewerage co.ltd keeps proper accounting records which disclose with reasonable accuracy the financial position of the company. The directors are also responsible for safe guarding the assets of the company. The directors are responsible for the preparation and presentation of the entity's financial statements, which give a true and fair view of the state of affairs of the company for and as at the end of the financial year (period) ended on 30th June 2020. These responsibilities include:

1. Maintaining adequate financial management arrangements and ensuring that these continue to be effective throughout the reporting period.
2. Maintaining proper accounting records, which disclose with reasonable accuracy at any time the financial position of the entity.
3. 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.
4. Safeguarding the assets of the company.
5. Selecting and applying appropriate accounting policies
6. Making accounting estimates that are reasonable in the circumstances.

The directors accept responsibility for the entity's financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgement and estimates, in conformity with international financial reporting standards (IFRS),and in the manner required by the PFM act and the state corporations act.

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

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

Approval of the financial statements

The company's financial statements where approved by the board on2019/2020 and signed on its behalf by;


.....
Chairman

2019/2020

.....
Managing Director

REPUBLIC OF KENYA



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Website: www.oagkenya.go.ke

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

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

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of Isiolo Water and Sewerage Company Limited set out on pages 1 to 26, which comprise the statement of financial position as at 30 June, 2020, and the statement of profit or loss and other comprehensive income, statement of changes in equity, statement of cash flows and the 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 2010 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 matters described in the Basis for Qualified Opinion section of my report, the financial statements present fairly, in all material respects, the financial position of the Isiolo Water and Sewerage Company Limited as at 30 June, 2020 and of its financial performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards (IFRS) and comply with the Water Act, 2016, the Companies Act, 2015 and the Public Finance Management Act, 2012.

Basis for Qualified Opinion

1.0 Inconsistencies in Financial Statements

1.1 Surplus for the year

The statement of changes in equity and the statement of comparison of budget and actual amounts reflect total surplus for the year of Kshs.1,801,049 which differs with the surplus for the year balance of Kshs.1,379,037 reflected in the statement of profit or loss and other comprehensive income resulting into an unexplained variance of Kshs.422,012.

1.2 Decrease in Creditors and Accruals

The statement of cash flows reflects a decrease of Kshs.470,705 in creditors and accruals. However, the statement of financial position reflects creditors and accruals of

and Kshs.1,112,861 (2019 - Kshs.1,111,164) translating into an increase of Kshs.1,697. The resultant variance of Kshs.469,008 was not explained.

In the circumstances, the accuracy of the decrease of Kshs.470,705 in creditors and accruals reflected in the statement of cash flows for the year ended 30 June, 2020 could not be confirmed.

1.3 Provision for Audit Fees

Note 8(e) to the financial statements reflects a nil comparative balance with respect to provision for audit fees. However, the audited 2018/2019 financial statements reflect audit fees of Kshs.417,152 under administration cost resulting into an unexplained variance of Kshs.417,152.

2.0 Presentation of the Financial Statements

The Company's Head of Finance's Institute of Certified Public Accountants of Kenya (ICPAK) membership number is not indicated below the signature on page 2 of the financial statements as required.

In the circumstances, Management did not comply with the financial reporting guidelines issued by the Public Sector Accounting Standards Board pursuant to the requirements of Section 194(1) of the Public Finance Management Act, 2012.

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

Key Audit Matters

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

Other Information

The Directors are responsible for the other information. The other information comprises the Report of Directors as required by the Companies Act, 2015, and the Statement of the Directors' Responsibilities which are obtained prior to the date of this report, and the annual report which is expected to be made available after that date.

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

In connection with the audit of the financial statements, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or the knowledge obtained in the audit, or otherwise appears to be materially misstated. Based on the work I have performed on the other information obtained prior to the date of this auditor's report, if I conclude that there is material misstatement of this other information, I am required to report that fact. I have nothing to report in this regard.

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 of Conclusion

1.0 Non-Revenue Water (NRW)

Note 6 to the financial statements reflects Kshs.76,512,929 in respect of water revenue for the year under review. Documents provided for audit revealed that the Company produced a total of 1,741,107 cubic meters (M³) of water during the year under review at a production cost of Kshs.5.77 per cubic meter. However, only 1,217,742 M³ was billed to customers while the balance of 523,365M³ or approximately 30% of the total volume produced was not billed and was therefore unaccounted for. The volume of 523,365M³ exceeds the set maximum allowable water loss of 25% (435,277M³) as per Schedule E of the Service Provision Agreement (SPA) with Northern Water Services Board. The loss of 88,088M³ (5%) of water produced at a cost of Kshs.508,268 was therefore non-allowable loss.

The non-revenue water negatively impacted on the Company's profitability and its long-term sustainability. In addition, the Company was in breach of the Law.

2.0 Failure to Insure the Property, Plant and Equipment

The statement of financial position reflects Kshs.16,118,677 being the net book value for property, plant and equipment as at 30 June, 2020. However, only motor vehicles with a net book value Kshs.617,236 were insured leaving assets with a net book value of Kshs.15,501,441 uninsured. This is contrary to Section 160(1) of the Public Procurement and Asset Disposal Act, 2015 which requires an accounting officer of a procuring entity to manage the entity's inventory, assets and stores for the purpose of preventing wastage and loss, and continuing utilization of supplies.

In the circumstances, the Company's assets had not been properly safeguarded.

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, I confirm that, nothing has come to my attention to cause me to believe that internal controls, risk management and governance were not effective.

Basis for Conclusion

The audit was conducted in accordance with ISSAI 2315 and ISSAI 2330. The standards require that I plan and perform the audit to obtain assurance about whether effective processes and systems of internal control, risk management and overall governance were operating effectively, in all material respects. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

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

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

Responsibilities of Management and the Board of Directors

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards (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 going concern 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 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 Company's policies and procedures may deteriorate.

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

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

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

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


CPA Nancy Gathungu, CBS

AUDITOR-GENERAL

Nairobi

08 February, 2022

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**13. STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE
INCOME FOR ENDED 30 JUNE 2020**

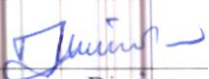
<u>REVENUES</u>	Notes	2019-2020	2018-2019
		Kshs	Kshs
Turnover	6	76,512,929	81,865,064
Other Income	7(a)	6,471,451	5,050,239
Gain /Loss in investment	10	27,625	(63,750)
Grant from County Government	7(b)	-	-
Total operating Income		<u>83,012,005</u>	<u>86,851,553</u>
<u>OPERATING EXPENSES</u>			
Administration costs	8(a),(c)&(d)	51,985,538	53,151,114
Operation, Maintenance & distribution	8(b)	29,230,278	32,581,786
Audit Fees	8(e)	417,152	-
		<u>81,632,968</u>	<u>85,732,900</u>
Surplus/ (Deficit) After Taxation		<u>1,379,037</u>	<u>1,118,653</u>


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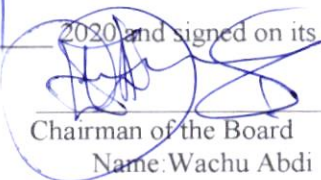
14. STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2020

	<u>Notes</u>	<u>2019-2020</u>	<u>2018-2019</u>
Non-Current Assets			
Property, plant & equipment	9	16,118,677	15,142,146
Investments	10	1,217,625	1,190,000
		17,336,302	16,332,146
<u>CURRENT ASSETS</u>			
Inventory	11	1,925,071	1,902,760
Receivables & prepayments	12	1,431,985	1,059,421
Cash & cash equivalents	13	10,601,659	9,783,990
TOTAL CURRENT ASSETS		13,958,715	12,746,171
<u>CURRENT LIABILITIES</u>			
Consumer deposits	14	8,532,751	7,665,451
Payables and accruals	15	1,112,861	1,111,164
Overdrawn Cash balance	16	1,337,410	1,368,744
TOTAL CURRENT LIABILITIES		10,983,022	10,145,359
NET CURRENT ASSETS		2,975,694	2,600,812
		20,311,995	18,932,958
<u>REPRESENTED BY:</u>			
<u>EQUITY & RESERVES</u>			
Grants Reserve Fund	17	36,354,563	36,354,563
Revenue Reserve Fund		(16,142,568)	(17,521,605)
Share Capital	18	100,000	100,000
TOTAL EQUITY RESERVES		20,311,995	18,932,958

Financial statements were approved by the Board on 20/9/2020 and signed on its behalf by:


 Managing Director
 Name: Abdullahi Sora


 Head of Finance
 Name: Nura Bonaya


 Chairman of the Board
 Name: Wachu Abdi

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

<u>Note</u>	<u>Grants</u>	<u>Share Capital</u>	<u>Revenue Reserves</u>	<u>Total</u>
As at 1/7/2016	35,354,563	100,000	(13,186,049)	22,268,514
Grants during the year	-	-	-	
Grants issued in the year	-	-	-	
Surplus/Deficit for the year	-	-	(3,546,890)	(3,546,890)
As at 30.6.2017	<u>35,354,563</u>	<u>100,000</u>	<u>(16,732,939)</u>	<u>18,721,624</u>
As at 1/7/2017	35,354,563	100,000	(16,732,939)	18,721,624
Grants during the year	1,000,000	-	-	1,000,000
Grants issued in the year	-	-	-	
Prior Year adjustment (Audit Fees)			(208,576)	(208,576)
Surplus/Deficit for the year	-		(1,907,319)	(1,907,319)
As at 30.6.2018	<u>36,354,563</u>	<u>100,000</u>	<u>(18,848,834)</u>	<u>17,605,729</u>
As at 1/7/2018	36,354,563	100,000	(18,848,834)	17,605,729
Grants during the year	-	-	-	
Grants issued in the year	-	-	-	
Prior year adjustment	-	-	208,576	208,576
Surplus/Deficit for the year	-	-	1,118,653	1,118,653
As at 30/6/2019	36,354,563	100,000	(17,521,605)	18,932,958
As at 1/7/2019	36,354,563	100,000	(17,521,605)	18,932,958
Grants during the year	-	-	-	
Grants issued in the year	-	-	-	
Prior year adjustment	-	-		
Surplus/Deficit for the year	-	-	1,379,037	1,801,049
As at 30/6/2020	36,354,563	100,000	(16,142,568)	20,311,995

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**16. STATEMENT OF CASH FLOWS FOR THE
YEAR ENDED 30 JUNE 2020**

	<u>Notes</u>	<u>2019-2020</u> <u>Kshs</u>	<u>2018-2019</u> <u>Kshs</u>
Cash flows from Operating Activities			
Net profit after tax		1,379,037	1,535,805
Adjusted for:-			
Provision for Audit Fees		417,152	625,728
Depreciation	9	1,751,048	1,725,738
Gain/Loss in investment	10	27,625	(63,750)
Surplus before changes in working capital		3,574,862	3,823,521
Cash from Operating Activities			
Increase/decrease in inventory	11	(22,311)	(707,346)
Increase/Decrease in receivables	12	(372,565)	(157,688)
Increase in deposits	14	867,300	745,500
Increase /(decrease) creditors &accruals	15	(470,705)	269,022
Net cash from Operations		1,719	149,488
<u>Cash flows from Investing Activities</u>			
Purchases of fixed assets	9	(2,727,578)	(2,150,328)
Net Cash from Investing Activities		(2,727,578)	(2,150,328)
Cashflow From Financing Activities			
Increase Overdrawn Cashbook Balance		(31,334)	31,328
Cashflow from Financing Activities		(31,334)	31,328
Net increase in cash and cash equivalent		817,669	1,564,357
Cash and cash equivalents at the beginning of the year		9,783,990	8,219,633
Cash and cash equivalents at the end of the year	13	10,601,659	9,783,990

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17. STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS FOR THE YEAR ENDED 30 JUNE 2020

	Original Budget 2019-2020	Adjustments 2019-2020	Final Budget 2019-2020	Actual 2019-2020	Performance difference 2019-2020
Revenue	Kshs	Kshs	Kshs	Kshs	Kshs
Sale of water	59,980,000	-	59,980,000	59,955,253	24,747
Sewer sales	16,500,000	-	16,500,000	16,557,676	(57,676)
Sub Total	76,480,000		76,480,000	76,512,929	(32,929)
Other Income					
Meter Rent	2,500,000	-	2,500,000	2,475,600	24,400
Exhauster Hire	1,100,000	-	1,100,000	1,149,000	(49,000)
Investment income	80,000	-	80,000	75,501	4,499
Water boozer	100,000	-	100,000	102,500	(2,500)
Owner's request	5,000	-	5,000	-	5,000
Meter testing	10,000	-	10,000	12,000	(2,000)
Sewer connection fees	100,000	-	100,000	107,500	(7,500)
Compressor hire	25,000	-	25,000	20,000	5,000
Unblocking sewer	5,000	-	5,000	5,000	-
Other miscellaneous income	2,500,000	-	2,500,000	2,524,350	(24,350)
Gain on investment	20,000	-	20,000	27,625	(7,625)
Grant from County Government	-	-	-	-	-
Sub Total	6,445,000		6,445,000	6,499,076	(54,076)
Total income	<u>82,925,000</u>		<u>82,925,000</u>	<u>83,012,005</u>	<u>(87,005)</u>
Expenses					
Administration					
Salaries, wages and allowances	30,000,000	-	30,000,000	30,089,022	(89,022)
Staff welfare	1,380,000	-	1,380,000	1,346,460	33,540
Office supplies	1,600,000	-	1,600,000	1,511,472	88,528
Training	50,000	-	50,000	29,700	20,300
Telephone and Email	600,000	-	600,000	589,500	10,500
Professional fees	450,000	-	450,000	456,000	(6,000)
Travelling and subsistence	1,400,000	-	1,400,000	1,352,480	47,520
Board expenses	910,000	-	910,000	903,910	6,090
Other Expenses	-	-	-	-	-
Casual wages	3,000,000	-	3,000,000	2,904,250	95,750
Postage and delivery	75,000	-	75,000	75,730	(730)
Leave allowances	600,000	-	600,000	613,500	(13,500)

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Printing and reproduction	350,000	-	350,000	389,520	(39,520)
Social responsibility stationery	50,000	-	50,000	-	50,000
Sewer line maintenance	240,000	-	240,000	250,280	(10,280)
NSSF	1,500,000	-	1,500,000	1,647,810	(147,810)
Pension	820,000	-	820,000	815,475	4,525
Gratuity	7,850,000	-	7,850,000	7,833,633	16,367
Audit Fees Provision	1,000,000	-	1,000,000	1,076,560	(76,560)
Total	51,875,000	-	51,875,000	51,885,302	(10,302)
Net Finance cost					
Bank Charges	100,000	-	100,000	100,236	(236)
Total Administration Costs	51,975,000	-	51,975,000	51,985,538	(10,538)
Operation, Maintenance and Distribution					
Capacity building	800,000	-	800,000	880,908	(80,908)
Chemicals	4,700,000	-	4,700,000	4,651,352	48,648
Laboratory Chemicals	20,000	-	20,000	-	20,000
License and permits	130,000	-	130,000	127,500	2,500
Regulatory fees	2,000,000	-	2,000,000	1,951,272	48,728
Water abstraction levy	700,000	-	700,000	692,004	7,996
Subscriptions	50,000	-	50,000	-	50,000
Motor vehicle running expenses	5,500,000	-	5,500,000	5,562,609	(62,609)
Motor vehicle insurance	300,000	-	300,000	275,769	24,231
Pipes and fittings	6,600,000	-	6,600,000	6,603,087	(3,087)
Production cost	100,000	-	100,000	90,000	10,000
Repairs	1,600,000	-	1,600,000	1,688,120	(88,120)
Electricity	4,800,000	-	4,800,000	4,765,749	34,251
Depreciation	1,800,000	-	1,800,000	1,751,048	48,952
Billing	200,000	-	200,000	186,000	14,000
Total	29,300,000	-	29,300,000	29,225,417	74,583
TOTAL EXPENDITURE	81,275,000	-	81,275,000	81,210,956	64,044
Surplus	1,650,000		1,650,000	1,801,049	151,049

18. NOTES TO THE FINANCIAL STATEMENTS

1. GENERAL INFORMATION

Isiolo water & sewerage Co.Ltd is established by and derives its authority and accountability from Company's Act cap 486. The entity is wholly owned by the Isiolo County Government and is domiciled in Kenya.

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 entity's accounting policies. The areas involving a higher degree of judgement or complexity, or where assumptions and estimates are significant to the financial statements, are disclosed in Note xx.

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

The financial statements have been prepared in accordance with the PFM Act, the water act 2016, 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)

iii) Early adoption of standards

The entity did not early – adopt any new or amended standards in year 2018.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

a) Revenue recognition

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

- i) **Revenue from the sale of goods and services** is recognised in the year in which the *entity* 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 *entity* 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.

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- iii) **Finance income** comprises interest receivable from bank deposits and investment in securities, and is recognised in profit or loss on a time proportion basis using the effective interest rate method.
- iv) **Dividend income** is recognised in the income statement in the year in which the right to receive the payment is established.
- v) **Rental income** is recognised in the income statement as it accrues using the effective lease agreements.
- vi) **Other income** is recognised as it accrues.

b) In-kind contributions

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

c) Property, plant and equipment

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

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 straight-line basis to write down the cost of each asset or the re-valued amount to its residual value over its estimated useful life. The annual rates in use are:

Buildings	2.5%
Plant and machinery	12.5%
Motor vehicles, including motor cycles	25%
Computers and printers	30%
Office furniture and fittings	12.5%
Sewer Extension	12.5%
Water Extension	12.5%
Tools and equipment	12.5%
Water meters and equipment	12.5%

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

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

e) 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.

f) Inventories

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

g) Trade and other receivables

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

h) Taxation

Current income tax

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

i) Taxation (Continued)

Current income tax (Continued)

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

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

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.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

Taxation (Continued)

Deferred tax (Continued)

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

j) Cash and cash equivalents

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

k) Borrowings

Interest bearing loans and overdrafts are initially recorded at fair value being received, net of issue costs associated with the borrowing. Subsequently, these are measured at amortised cost using the effective interest rate method. Amortised cost is calculated by taking into account any issue cost and any discount or premium on settlement. Finance charges, including premiums payable of settlement or redemption are accounted for on accrual basis and are added to the carrying amount of the

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

instrument to the extent that they are not settled in the period in which they arise. Loan interest accruing during the construction of a project is capitalised as part of the cost of the project.

l) Trade and other payables

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

m) Retirement benefit obligations

The entity operates a defined contribution scheme for all full-time employees from July 1, 2017. The scheme is administered by an in-house team and is funded by contributions from both the company and its employees. The company also contributes to the statutory National Social Security Fund (NSSF). This is a defined contribution scheme registered under the National Social Security Act.

n) 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.

o) Budget information

The entity's budget is prepared on a different basis to the actual income and expenditure disclosed in the financial statements. The financial statements are prepared on accrual basis using a classification based on the nature of expenses in the statement of financial performance, whereas the budget is prepared on a cash basis. The amounts in the financial statements were recast from the accrual basis to the cash basis and reclassified by presentation to be on the same basis as the approved budget. A comparison of budget and actual amounts, prepared on a comparable basis to the approved budget, is then presented in the statement of comparison of budget and actual amounts. In addition to the Basis difference, adjustments to amounts in the financial statements are also made for differences in the formats and classification schemes adopted for the presentation of the financial statements and the approved budget.

p) Comparative figures

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

q) Subsequent events

There have been no events subsequent to the financial year end with a significant impact on the financial statements for the year ended June 30, 2020.

5 SIGNIFICANT JUDGMENTS AND SOURCES OF ESTIMATION UNCERTAINTY

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

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

Estimates and assumptions

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

Useful lives and residual values

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

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

Notes to the financial statements (continued)

6 SALES/TURNOVER

Turnover	2019- 2020	2018-2019
	Kshs	Kshs
Water revenue		
Water charges for July	4,578,734	5,486,635
Water charges for August	4,489,900	5,514,990
Water charges for September	4,032,396	5,521,160
Water charges for October	4,615,171	5,424,005
Water charges for November	4,414,469	5,594,530
Water charges for December	4,037,680	5,482,265
Water charges for January	5,870,015	5,691,245
Water charges for February	5,668,715	5,522,273
Water charges for March	5,353,102	5,372,395
Water charges for April	5,608,476	5,041,700
Water charges for May	5,656,004	5,442,915
Water charges for June	5,630,591	5,598,768
Sub-Total	59,955,253	65,692,881
Sewer revenue		
Sewer revenue for July	1,272,933	1,292,491
Sewer revenue for August	1,407,781	1,349,440
Sewer revenue for September	1,171,128	1,368,560
Sewer revenue for October	1,317,410	1,462,727
Sewer revenue for November	1,292,123	1,254,739
Sewer revenue for December	1,278,120	1,387,308
Sewer revenue for January	1,781,215	1,240,702
Sewer revenue for February	1,428,738	1,479,653
Sewer revenue for March	1,415,791	1,142,291
Sewer revenue for April	1,454,447	1,408,689
Sewer revenue for May	1,430,993	1,322,639
Sewer revenue for June	1,306,997	1,462,945
Sub-Total	16,557,676	16,172,183
Total Sales/Turnover	76,512,929	81,865,064

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NOTES TO THE FINANCIAL STATEMENTS(Continued)

7 (a) OTHER INCOME

	2019-2020	2018- 2019
	Kshs	Kshs
Miscellaneous income	2,524,350	1,915,920
Meter rent	2,475,600	2,294,750
Investment income	75,501	44,413
water boozer	102,500	36,556
Owners request	-	3,600
meter testing	12,000	12,500
sewer deposit	107,500	60,500
Exhauster hire	1,149,000	682,000
Compressor hire	20,000	-
Sewer Unblocking	5,000	-
TOTAL	<u>6,471,451</u>	<u>5,050,239</u>

7 (b) Grants from County Government

- -

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8(a) ADMINISTRATION COSTS

	2019-2020	2018-2019
	Kshs	Kshs
Staff Costs (8d)	44,678,900	-
Salaries, wages and allowances	-	28,761,124
Staff welfare	-	1,356,074
Office supplies	1,511,472	1,884,271
Training	29,700	227,960
Telephone & email	589,500	694,460
Professional fees	456,000	121,200
Travelling & Subsistence's	1,352,480	2,488,400
Board expenses	903,910	1,039,200
Casual wages	-	2,938,800
Postage & delivery	75,730	101,740
Leave allowances	-	495,500
Printing & reproduction	389,520	492,818
Social responsibility	-	60,000
Stationery	250,280	225,955
Sewer line maintenance	1,647,810	1,806,052
NSSF	-	834,165
Pension	-	8,284,805
Gratuity	-	812,117
Audit Fees Provision	-	417,152
TOTAL	<u>51,885,302</u>	<u>53,041,793</u>

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8 (b) OPERATION AND MAINTENANCE AND DISTRIBUTION

	2019- 2020	2018-2019
	Kshs	Kshs
Capacity building	880,908	1,034,300
Chemicals	4,651,352	5,401,495
Lab chemicals	-	38,974
Licenses & permits	127,500	118,000
Regulatory fees	1,951,272	2,421,442
Water abstraction levy	692,004	767,607
Subscriptions	-	175,000
Motor vehicle running expenses	5,562,609	6,567,494
Motor vehicle insurance	275,769	164,214
Pipes & fittings	6,603,087	8,070,859
Production cost	90,000	20,000
Repairs	1,688,120	1,404,420
Electricity	4,770,609	4,468,728
Depreciation(sch 1)	1,751,048	1,725,738
Billing	186,000	203,516
Total	<u>29,230,278</u>	<u>32,581,786</u>
8 (c) Bank Charges	2019-2020	2018-2019
	100,236	109,321
8 (d) Staff Costs	2019-2020	2018-2019
Salaries, wages and allowances	30,089,022	28,761,124
Staff Welfare	1,346,460	1,356,074
Casual wages	2,904,250	2,938,800
NSSF	815,475	834,165
Pension	7,833,633	8,284,805
Leave allowances	613,500	495,500
Gratuity	1,076,560	812,117
TOTAL	44,678,900	43,482,585
8(e) Provision for Audit fees	2019-2020	2018-2019
	417,152	-

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Notes to the Financial statements (
continued)

9 PROPERTY, PLANT AND EQUIPMENT

2019-2020	Computers & Printers	Plant Improvement	Motor Vehicle	Sewer Extensions	Water Extensions	Water Meters & Equipments	Building	Tools & Equipments	Office Furniture & Fittings	Total
	Kshs.	Kshs.	Kshs.	Kshs.	Kshs.	Kshs.	Kshs.	Kshs.	Kshs.	Kshs.
At 1 July 2019	4,224,565	1,733,972	7,445,642	7,122,736	1,991,503	8,233,996	7,489,292	1,860,699	1,145,668	41,248,073
Additions	-	-	-	-	-	1,875,000	692,180	40,000	120,398	2,727,578
On Disposal	-	-	-	-	-	-	-	-	-	-
As At 30 June 2020	4,224,565	1,733,972	7,445,642	7,122,736	1,991,503	10,108,996	8,181,472	1,900,699	1,266,066	43,975,651
DEPRECIATION										
At 1 July 2019	3,799,362	1,360,677	6,622,660	5,480,767	661,594	4,639,955	1,383,728	1,397,131	760,053	26,105,926
On disposal	-	-	-	-	-	-	-	-	-	-
Charge for the year	127,561	46,662	205,745	205,246	166,239	683,630	189,767	62,946.03	63,252	1,751,048
At 30 June 2019	3,926,923	1,407,339	6,828,406	5,686,014	827,832	5,323,585	1,573,495	1,460,077	823,304	27,856,974
NET BOOK VALUE										
At 30 June 2020	297,642	326,633	617,236	1,436,722	1,163,671	4,785,411	6,607,977	440,622	442,762	16,118,677

PROPERTY, PLANT AND EQUIPMENT

2018-2019	Computers & Printers	Plant Improvement	Motor Vehicle	Sewer Extensions	Water Extensions	Water Meters & Equipments	Building	Tools & Equipments	Office Furniture & Fittings	Total
COST/VALUATION	Kshs.	Kshs.	Kshs.	Kshs.	Kshs.	Kshs.	Kshs.	Kshs.	Kshs.	Kshs.
At 1 July 2018	4,148,565	1,733,972	7,445,642	7,122,736	1,991,503	6,421,496	7,227,464	1,860,699	1,145,668	39,097,745
Additions	76,000	-	-	-	-	1,812,500	261,828	-	-	2,150,328
On Disposal	-	-	-	-	-	-	-	-	-	-
As At 30 June 2019	4,224,565	1,733,972	7,445,642	7,122,736	1,991,503	8,233,996	7,489,292	1,860,699	1,145,668	41,248,073
DEPRECIATION										
At 1 July 2018	3,617,133	1,307,349	6,348,334	5,246,200	471,607	4,126,521	1,227,175	1,330,907	704,965	24,380,191
On disposal	-	-	-	-	-	-	-	-	-	-
Charge for the year	182,229	53,328	274,326	234,567	189,987	513,434	156,553	66,223.77	55,088	1,725,735
At 30 June 2019	3,799,362	1,360,677	6,622,660	5,480,767	661,594	4,639,955	1,383,728	1,397,131	760,053	26,105,926
NET BOOK VALUE										
At 30 June 2019	425,203	373,295	822,982	1,641,969	1,329,909	3,594,041	6,105,564	463,568	385,615	15,142,147

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

10. QUOTED INVESTMENTS INVESTMENTS

	2019-2020	2018-2019
	Kshs	Kshs
Balance as at 1st July	1,190,000	1,253,750
Gain/Loss on investment	27,625	(63,750)
Balance as at 30th June	<u>1,217,625</u>	<u>1,190,000</u>

11. INVENTORY

	2019-2020	2018-2019
	Kshs	Kshs
Chemicals	1,249,030	936,422
pipes and fittings and stationeries	676,041	966,338
Total	<u>1,925,071</u>	<u>1,902,760</u>

**12. TRADE AND OTHER RECEIVABLES
RECEIVABLES & PREPAYMENTS**

	2019-2020	2018-2019
	Kshs	Kshs
Trade receivables	813,805	466,753
Employees advances	341,000	312,000
Other	177,937	177,937
Prepayments-Insurance	99,243	102,730
VAT Control		-
Total	<u>1,431,985</u>	<u>1,059,421</u>

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13. CASH AND CASH EQUIVALENTS

	2019-2020	2018-2019
	Kshs	Kshs
Cash at Bank-Equity	3,722,858	2,283,524
Co-operative bank-current	6,874,964	7,496,630
Cash in Hand	3,837	3,837
Total	<u>10,601,659</u>	<u>9,783,990</u>

14. CONSUMER DEPOSITS

	2019-2020	2018-2019
	Kshs	Kshs
Balance as at 1st July	7,665,451	6,919,951
Additions in the year	867,300	745,500
Balance as at 30th June	<u>8,532,751</u>	<u>7,665,451</u>

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

15. PAYABLES AND ACCRUALS

	2019-2020	2018-2019
	Kshs	Kshs
Trade payables	8,078	8,078
Other payables and accruals	83	73
Audit fee	837,900	625,728
Withholding tax control	368,619	579,104
VAT Control	(101,819)	(101,819)
Total	1,112,861	1,111,164

16. OVERDRAW CASH BALANCE

	2019-2020	2018-2019
	Kshs	Kshs
Consolidated bank-overdraft	1,337,410	1,368,744

The bank overdraft relates to overdrawn cashbook balances the company does not have an overdraft facility with consolidated bank.

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17. GRANTRESERVE FUND

	Balance 1 July 2019	Grants received in the Year	Transfer to SFP	Balance at 30th June 2020
	Kshs	Kshs	Kshs	Kshs
Year ended 30th June 2020				
Water		28,685,450	0	28,685,450
Sewer receivables		6,751,445	0	6,751,445
Chemicals		917,668	0	917,668
Total		36,354,563		36,354,563

18. ORDINARYSHARE CAPITAL

Share capital	NO. of ordinary Shares	Issued and Fully Shares
At 30th June 2019	5,000.00	100,000.00
At 30th June 2020	5,000.00	100,000.00

19. 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.

20. RELATED PARTY DISCLOSURES

(a) County government of Isiolo

The Isiolo county government is the principal shareholder of the company, holding 100% of the company's equity interest.

Other related parties include:

- i) Key management;
- ii) Board of directors;

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RELATED PARTY DISCLOSURES (Continued)

Transactions with related parties

	2019-2020	2018-2019
	Kshs	Kshs
a) Key management compensation		
i. Compensation to the CEO	2,016,000	1,890,000
ii. Compensation to key management	3,232,000	3,126,000
	5,248,000	5,016,000

21. FINANCIAL RISK MANAGEMENT

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

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

(i) Credit risk

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

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

The carrying amount of financial assets recorded in the financial statements representing the entity's maximum exposure to credit risk without taking account of the value of any collateral obtained is made up as follows:

ii) Liquidity risk management

Ultimate responsibility for liquidity risk management rests with the entity's directors, who have built an appropriate liquidity risk management framework for the management of the entity's short, medium and long-term funding and liquidity management requirements. The entity manages liquidity risk through continuous monitoring of forecasts and actual cash flows.

(iii) Market risk

The board has put in place an internal audit function to assist it in assessing the risk faced by the entity 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 Finance Department 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 entity's exposure to market risks or the manner in which it manages and measures the risk.

Iv Interest rate risk

Interest rate risk is the risk that the entity'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.

Management of interest rate risk

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

v) Capital Risk Management

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

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	2019-2020	2018-2019
		Kshs
Grant Reserve Fund	52,891,944	52,891,944
Revenue Reserve Fund	(35,823,442.8)	(36,942,096)
Share Capital	100,000	100,000
Total funds	17,168,501.63	16,049,848
Total borrowings	-	-
Less: cash and bank balances	10,601,659	9,783,990
Net debt/(excess cash and cash equivalents)	10,601,659	9,783,990

22. INCORPORATION

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

23. EVENTS AFTER THE REPORTING PERIOD

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

24. CURRENCY

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

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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. 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)
1.0	Non-conformity with the standard financial reporting template.	The statements will be adjusted to conform.	Finance Manager	Resolved	
2.0	Inaccurate payables and accruals	The figures will be confirmed and adjusted to accuracy	Finance Manager	Resolved	Continuous
3.0	High unaccounted for water	The company will work in reducing the lost volumes to the acceptable levels	Technical Manager	Resolved	Continuous
4.0	Unapproved expenditure in acquiring property, plant and equipment	The company will provide documents to show that the expenditures were sanctioned by the Northern water services board	Managing Director	Resolved	
7.0	Not conforming presentation of financial statements	The management will avail the missing information to conform.	Finance Manager	Resolved	Continuous improvement.

Chairman

Managing Director

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APPENDIX I1: PROJECTS IMPLEMENTED BY THE ENTITY

Projects

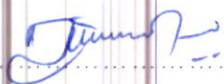
There was no project implemented by the company

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

Status of Projects completion

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


Managing Director



Date

20/9/2020

Chairman



Date

20/9/2020

