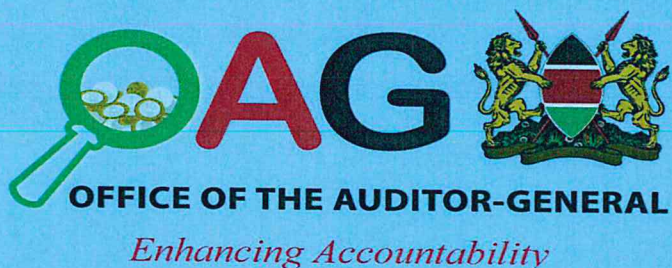


REPUBLIC OF KENYA



REPORT

OF

PAPERS LAID	
DATE	08/09/2021.
TABLED BY	Sen. Kibira.
COMMITTEE	
CLERK AT THE TABLE	Deputy

THE AUDITOR-GENERAL

ON

**NGAGAKA WATER AND SANITATION
COMPANY LIMITED**

**FOR THE YEAR ENDED
30 JUNE, 2019**



NGAGAKA WATER AND SANITATION COMPANY LIMITED

ANNUAL REPORTS AND FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDING

JUNE 30, 2019

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

Annual Reports and Financial Statements
For the year ended June 30, 2019

TABLE OF CONTENTS	PAGE
Key Entity Information	2-3
Board of Directors	4
Management Team	5
Chairman's Statement	6
Report of the Chief Executive Officer	7-8
Corporate Governance Statement	9-10
Corporate Social Responsibility Statement	11
Report of the Directors	12
Statement of Directors' Responsibilities	13
Report of the Independent Auditor/Auditor General	14
Statement of Profit or Loss and Other Comprehensive Income	15
Statement of Financial Position	16
Statement of Changes in Equity	17
Statement of Cash Flows	18
Statement of Comparison of Budget and Actual amount	19-20
Summary of Significant Accounting Policies	21-24
Notes to the Financial Statements	25-36
Progress on follow up of Auditors Recommendations	37

Ngagaka Water and Sanitation Company Limited

Annual Reports and Financial Statements

For the year ended June 30, 2019

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 75,741. 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 9 th October 2015
2.	Jacinta Gatavi Nyaga	Director	Appointed on 9 th October 2015
3.	Njagi Njue	Director	Appointed on 9 th October 2015
4.	Doras Muthoni Nyaga	Director	Appointed on 9 th October 2015
5.	Andrew Kinyua munyi	Director	Appointed on 9 th October 2015
6.	Josphine Marigu Nyaga	Director	Appointed on 9 th October 2015
7.	Justin J. Gatumuta	Director	Appointed on 9 th October 2015
8.	Sub-County WO-Embu North	Director	
9.	CEO-TWSB	Director	
10.	Francis Mugendi Njoka	Director	(General manager)

Corporate Secretary

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

Ngagaka Water and Sanitation Company Limited

Annual Reports and Financial Statements

For the year ended June 30, 2019

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

1. 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, 2019

THE BOARD OF DIRECTORS

The Board of Directors



Chairman

Name: Cyrus Njoka Nyaga

Age: 73 Years

Profession: Policeman

Work Experience: 22 Years



Director

Name: Raymond Ngige

Age: 56 years

Profession: C.E.O Rep(T.W.S.B)

Work Experience: 27 Years



Director

Name: Jacinta Gatavi

Age: 56 years

Profession: Church Elder

Work Experience: 9 Years



Director

Name: Andrew Kinyua

Age: 44 years

Profession: Farmer

Work Experience: 12 Years



Director

Name: Njagi Njue

Age: 54 years

Profession: Farmer/Church Elder

Work Experience: 12 Years



Director

Name: Lydia Maina

Age: 54 years

Profession: Sub-County Water Office

Work Experience: 27 Years



Director

Name: Justin Gatumuta

Age: 64 years

Profession: Businessman

Work Experience: 32 Years



Director

Name: Fracis Njoka

Age: 50 years

Profession: Water Engineer

Work Experience: 22 Years



Director

Name: Josphine Marigu

Age: 38 years

Profession: Social Work

Work Experience: 9 Years



Director

Name: Doras Muthoni

Age: 55 years

Profession: Business Lady

Work Experience: 17 Years

Ngagaka Water and Sanitation Company Limited

Annual Reports and Financial Statements For the year ended June 30, 2019

Management Team



Name: Francis Njoka
Age: 50
Position: General Manager
Profession: HRD-Water Engineering
Area of Responsibility Water Engineer



Name: Francis Njagi
Age: 55
Position: Commercial Manager
Profession: CPA
Area of Responsibility Finance



Name: Josphat Njogu
Age: 55
Position: Technical Manager
Profession: Ordinary Diploma -Water Engineering
Area of Responsibility Water Engineer



Name: Alice Kariuki
Age: 50
Position: Human Resource Officer
Profession: Ordinary Diploma-HR
Area of Responsibility Human Resource



Name: Agnes Murugi
Age: 34
Position: Accountant
Profession: CPA(K)/BBA Icpak 11786
Area of Responsibility Finance

Ngagaka Water and Sanitation Company Limited

Annual Reports and Financial Statements

For the year ended June 30, 2019

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 prolonged dry spell 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 lines within the scheme area.

Our dedication to our strategy has yielded a relatively fair set of financial results, despite the prolonged dry spell which has been witnessed in our country. 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

24th September 2019

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.

Due to favourable weather conditions experienced almost all the year round, our total revenue increased from Kshs 32.652 million to Kshs 33.714 million while our customer base increased from 11,143 to 11,657.

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 11,657 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 still ongoing 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 intend to commence the process of Mpesa payment. This will give 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 intend to engage both the Regulator and the Board in Regular Tariff Adjustment (RTA) issue.

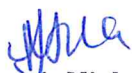
Ngagaka Water and Sanitation Company Limited

Annual Reports and Financial Statements

For the year ended June 30, 2019

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 2019 once again a momentous year for all of us.

We hope to offer better services in 2020.



Francis Njoka
General Manager.

24th September 2019

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 economics 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 December, 2012 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 2002. 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 2019, 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 once a year. The committees are as follows: -

Ngagaka Water and Sanitation Company Limited

Annual Reports and Financial Statements

For the year ended June 30, 2019

a) Audit Committee

The audit committee comprises of three non-executive directors and a senior 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 and Josephine Marigu.

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 2019 are detailed under note 19 on page 33 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 2019 are contained under note 19 on page 33 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.

CORPORATE SOCIAL RESPONSIBILITY STATEMENT

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

Annual Reports and Financial Statements

For the year ended June 30, 2019

REPORT OF THE DIRECTORS

The Directors submit their report together with the audited financial statements for the year ended June 30, 2019 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, 2019 are set out on page 15

Directors

The members of the Board of Directors who served during the year are shown on page 4 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

24th September 2019

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.

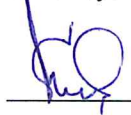
The Directors are responsible for the preparation and presentation of the company's financial statements, which give a true and fair view of the state of affairs of the company for and as at the end of the financial year ended on June 30, 2019. This responsibility includes: (i) maintaining adequate financial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

The Directors accept responsibility for the 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, 2019, 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

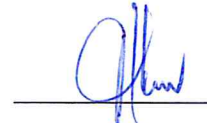
The company's financial statements were approved by the Board on 24th September 2019 and signed on its behalf by:



Chairman - BOD



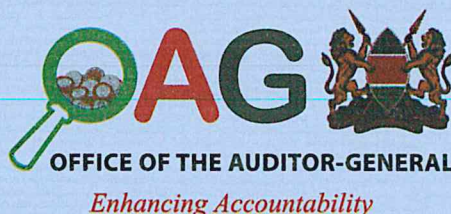
General Manager



Commercial Manager

REPUBLIC OF KENYA

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



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

REPORT OF THE AUDITOR-GENERAL ON NGAGAKA WATER AND SANITATION COMPANY LIMITED FOR THE YEAR ENDED 30 JUNE, 2019

REPORT ON THE FINANCIAL STATEMENTS

Opinion

I have audited the accompanying financial statements of Ngagaka Water and Sanitation Company Limited set out on pages 15 to 37, which comprise the statement of financial position as at 30 June, 2019, 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 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, the financial statements present fairly, in all material respects, the financial position of Ngagaka Water and Sanitation Company Limited as at 30 June, 2019, and of its financial performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards (Accrual Basis) and comply with the Water Act, 2016, the Companies Act, 2015 and the Public Finance Management Act, 2012.

Basis for Opinion

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 opinion.

Key Audit Matters

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

Other Matter

1.0 Unbalanced Budget

The Company's statement of comparison of budget and actual amounts for the year ended 30 June, 2019 reflects amounts of Kshs.32,988,509 and Kshs.31,658,000 in respect to approved revenue and expenditure budgets respectively resulting to a surplus of Kshs.1,330,509. The budget imbalance is contrary to Section 31(c) of the Public Finance Management (County Government) Regulations, 2015 which states that budget revenue and expenditure appropriations shall be balanced.

2.0 Unresolved Prior Year Matters

Various prior year audit issues remained unresolved as at 30 June, 2019. Management has not provided reasons for the delay in resolving the prior year audit issues.

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

1.0 Procurement of Water Meters

The statement of financial position reflects a balance of Kshs.6,245,348 under trade and other payables which, as disclosed in Note 18 of financial statements, includes an amount of Kshs.1,815,571 in respect to trade payables. The latter balance includes an amount of Kshs.1,090,000 owed to a Company that supplied four (400) hundred, half inch water meters - DS04 at a total cost of Kshs.1,220,000. However, the water meters were procured directly from the supplier without justification contrary to Section 91(1) of the Public Procurement and Asset Disposal Act, 2015, which provides that open tendering shall be the preferred procurement method for procurement of goods, works and services.

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

2.0 Procurement of Pipes

The statement of profit and loss and other comprehensive income reflects an expenditure of Kshs.4,975,828 in respect to production costs which, as disclosed in Note 5 to the financial statements, includes an amount Kshs.4,701,098 in respect to water maintenance and rehabilitation. The latter balance includes an amount of Kshs.1,223,630 in respect to purchase of water pipes through request for quotations method of procurement. However, the list of registered suppliers was not provided for audit review.

It could therefore not be confirmed whether the Company had complied with Section 57(1) of the Public Procurement and Asset Disposal Act, 2015 which requires the Head of the Procurement function of a procuring entity to maintain and update the list of registered suppliers, contractors and consultants in the categories of goods, works or services according to its procurement needs.

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

3.0 Non-Revenue Water

As disclosed in Note 1 to the financial statements, the statement of profit and loss and other comprehensive income reflects an amount of Kshs.27,970,010 in respect to sale of water. Records provided indicate that the Company produced a total of 1,107,404 cubic meters (m³) of water during the year under review. However, as reported in the previous year, only 654,205 cubic meters were billed to customers. The balance of 453,199 cubic meters (approximately 41%) of the total water produced with a sale price of Kshs.23,067,829 (at Kshs.50.90 per cubic meter which is the average sale price for the year under review) represents the Non-Revenue Water (NRW), which is over and above the allowable loss of 25% as provided under Schedule E of the Water Service Regulatory Board (WASREB) guidelines.

In the circumstances, the Company significantly exceeded the allowable NRW loss of 25% by 16% or approximately Kshs.8,976,113 which if not addressed will negatively impact on the Company's profitability and its long-term sustainability.

4.0 Ethnic Distribution

As reported in the previous financial year, the Company's staff establishment revealed a total of thirty one (31) staff members, out of which twenty – eight (28) (90%) were from one ethnic community contrary to the requirements of Section 7(2) of the National Cohesion and Integration Act, 2008 which prohibits a public establishment from having more than one third of its staff from the same ethnic community.

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

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS RISK MANAGEMENT AND GOVERNANCE

Conclusion

As required by Section 7(1)(a) of the Public Audit Act, 2015, based on the audit procedures performed, except for the matters described in the Basis for Conclusion on

Effectiveness of Internal Controls, Risk Management and Governance section of my report, I confirm that, nothing has come to my attention to cause me to believe that internal controls, risk management and overall governance were not effective.

Basis for Conclusion

1.0 Audit Committee

During the year under review, the Audit Committee held only one meeting on 23 August, 2019 contrary to Section 172(1) of the Public Finance Management (County Governments) Regulations, 2015 which provides that the Audit Committee of a County Government entity shall meet at least once in every three (3) months.

In the circumstances, effective oversight by the Board could not be confirmed.

2.0 Lack of Internal Audit Unit

As previously reported, the Company did not have an internal audit section to carry out internal audit functions contrary to Section 155 (1) (a) of the Public Finance Management Act, 2012 which requires a County Government entity to ensure that appropriate arrangements for conducting internal audit according to the guidelines issued by the Accounting Standards Board are in place. In absence of internal audit arrangements, review of the governance and internal controls mechanisms as well as verification of the existence of assets and measures in place to safeguard assets may not have been undertaken.

3.0 Information and Communication Technology (ICT) Environment

During the year under review, the Company did not have an approved ICT Policy, Data Security Policy and a Disaster Recovery Plan in place. Further, the ICT officer also acted as the Billing Clerk and had 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 those Charged with Governance

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards (Accrual Basis) and for maintaining effective internal control as Management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error and for its assessment of the effectiveness of internal control, risk management and governance.

In preparing the financial statements, Management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the applicable basis of accounting unless Management is aware of intention to liquidate the Company or to cease operations.

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

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

Those charged with governance are responsible for overseeing the Company's financial reporting process, reviewing the effectiveness of how the entity 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 or to sustain its services. 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 or to sustain its services.

- 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 Ngagaka Water and Sanitation Company Limited 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.


Nancy Gathungu
AUDITOR-GENERAL

Nairobi

27 August, 2021

Ngagaka Water and Sanitation Company Limited

Annual Reports and Financial Statements

For the year ended June 30, 2019

**STATEMENT OF PROFIT AND LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30 JUNE 2019**

	Note	2019 Kshs	2018 Kshs
REVENUES			
Gross Sales of water	1	27,970,010	31,830,755
Grants from National Government	2	334,709	295,382
Other Income	3	5,409,540	526,800
		<u>33,714,259</u>	<u>32,652,937</u>
TOTAL REVENUES			
OPERATING EXPENSES			
Administration Costs	4(a)	23,863,947	25,144,298
Production Costs	5	4,975,828	4,293,163
Depreciation of property, plant and equipment	9	2,618,216	2,535,820
		<u>31,457,991</u>	<u>31,973,281</u>
TOTAL OPERATING EXPENSES			
OPERATING PROFIT/ (LOSS)	6	2,256,991	679,656
Finance income	7	58,909	166,992
Finance costs	8	-	(44,307)
		<u>2,315,177</u>	<u>802,341</u>
PROFIT/ (LOSS)		<u><u>2,315,177</u></u>	<u><u>802,341</u></u>

Ngagaka Water and Sanitation Company Limited

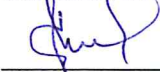
Annual Reports and Financial Statements

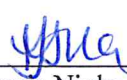
For the year ended June 30, 2019

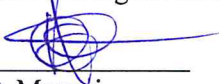
STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2019

	Note	2019 Kshs	2018 Kshs
ASSETS			
Non-Current Assets			
Property, plant and equipment	9	17,173,629	15,920,080
Total Non-Current Assets		<u>17,173,629</u>	<u>15,920,080</u>
Current Assets			
Inventories	10	905,139	386,464
Trade and other receivables	11	10,661,486	9,672,936
Prepayments	13	2,500	2,500
Cash and cash equivalents	12	6,057,286	4,929,694
Total Current Assets		<u>17,626,411</u>	<u>14,991,594</u>
TOTAL ASSETS		<u><u>34,800,040</u></u>	<u><u>30,911,674</u></u>
EQUITY AND LIABILITIES			
Capital and Reserves			
Capital fund/reserves	14	9,965,875	9,965,875
Revenue reserve	15	15,215,698	12,900,521
Capital and Reserves		<u>25,181,573</u>	<u>22,866,396</u>
Non-Current Liabilities			
Borrowings	16	121,723	1,070,000
Deferred income	17	2,651,396	2,376,105
Total Non-Current Liabilities		<u>2,773,119</u>	<u>3,446,105</u>
Current Liabilities			
Borrowings	16	600,000	-
Trade and other payables	18	6,245,348	4,599,173
Total Current Liabilities		<u>6,845,348</u>	<u>4,599,173</u>
TOTAL EQUITY AND LIABILITIES		<u><u>34,800,040</u></u>	<u><u>30,911,674</u></u>

The financial statements were approved by the Board on 24th September 2019 and signed on its behalf by:


Cyrus N. Njoka
Chairman - BOD


Francis Njoka
General Manager


A. Murugi
Accountant
Icpak 11786

Ngagaka Water and Sanitation Company Limited

Annual Reports and Financial Statements

For the year ended June 30, 2019

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 JUNE 2019

	Capital fund/ reserves	Revenue reserve	Total
At July 1, 2017	9,965,875	12,098,180	22,064,055
Total financial performance	-	802,341	802,341
At June 30, 2018	9,965,875	12,900,521	22,866,396
At July 1, 2018	9,965,875	12,900,521	22,866,396
Total financial performance	-	2,315,177	2,315,177
At June 30, 2019	9,965,875	15,215,698	25,181,573

Annual Reports and Financial Statements
For the year ended June 30, 2019
STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2019

	Note	2019 Kshs	2018 Kshs
CASH GENERATED FROM OPERATING ACTIVITIES			
Net surplus/ (deficit)		2,315,177	802,341
Adjustment for provision for depreciation		2,618,216	2,535,820
Adjustment for provision for bad debts		129,484	2,326,733
Adjustment for amortization		(334,709)	(295,382)
		<u>4,728,168</u>	<u>5,369,512</u>
CHANGES IN WORKING CAPITAL			
(Increase) in trade receivables		(1,118,034)	(872,331)
Decrease/ (increase) in staff advances		-	3,600
Increase/ (decrease) in trade payables		764,898	(1,151,102)
Increase/ (decrease) in inventory		(518,675)	190,432
Increase in customer deposits		881,277	568,000
Net cash generated from/ (used in) operating activities		<u>9,466</u>	<u>(1,261,401)</u>
INVESTING ACTIVITIES			
Purchase of property, plant and equipment	9	(3,871,765)	(2,736,438)
Grant of non-current assets		610,000	971,100
Net cash generated from/ (used in) investing activities		<u>(3,261,765)</u>	<u>(1,765,338)</u>
FINANCING ACTIVITIES			
Proceeds from borrowings		-	-
Repayment of borrowings	15	(348,277)	(750,813)
Net cash generated from/ (used in) financing activities		<u>(348,277)</u>	<u>(750,813)</u>
INCREASE/ (DECREASE) IN CASH AND CASH EQUIVALENTS		1,127,592	1,591,960
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	12	4,929,694	3,337,734
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	12	<u>6,057,286</u>	<u>4,929,694</u>

Ngagaka Water and Sanitation Company Limited

Annual Reports and Financial Statements

For the year ended June 30, 2019

STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS FOR THE PERIOD
ENDED 30 JUNE 2019

CODE	PARTICULARS	BUDGET	ACTUAL	VARIANCE	REMARKS
		KSH.	KSH.	KSH.	ABSORB %
1000>010	Water Sales	27,600,000	27,970,010	370,010	101%
	Sub- Total	<u>27,600,000</u>	<u>27,970,010</u>	<u>370,010</u>	101%
	OTHER INCOMES				
1000>020	Meter Rent	4,080,000	4,394,400	314,400	108%
1050>020	Application Fees	480,000	482,000	2,000	100%
1050>010	Reconnection fees	264,000	284,500	20,500	108%
1050>030	Illegal connection fees	120,000	143,000	23,000	119%
1050>040	Termination Fees	7,200	8,600	1,400	119%
1050>060	Transfer fee	4,200	3,000	-1,200	71%
1050>090	Meter replacement	26,400	28,000	1,600	106%
1050>100	Grant from National Gvt	334,709	334,709	-	100%
1050>130	Bad Debts	60,000	55,170	-4,830	92%
1050>120	Miscellaneous Income	12,000	10,870	-1,130	91%
	Sub-Total	<u>5,388,509</u>	<u>5,744,249</u>	<u>355,740</u>	<u>107%</u>
	Total Income	<u>32,988,509</u>	<u>33,714,259</u>	<u>725,750</u>	<u>102%</u>
	<u>EXPENDITURES</u>				
	<u>ADMINISTRATIONS</u>				
	<u>EXPENSES</u>				
3000	Staff costs	14,449,200	14,445,528	3,672	100%
3050	Directors' emoluments	700,000	703,000	-3,000	100%
3210	Electricity and Water	84,000	79,795	4,205	95%
3280	Tel, emails, postage & comp. acc.	621,600	659,074	-37,474	106%
3100	Transportation, travelling & sub.	960,000	930,740	29,260	97%
3280	Advertising, printing & n/papers	256,800	252,255	4,545	98%
3200	Rent expenses	60,000	47,000	13,000	78%
3270>020	Staff training expenses	1,080,000	1,061,700	18,300	98%
3280>010	Staff uniforms and welfare	400,000	365,975	34,025	91%
3120>010	Insurance expense	30,000	24,229	5,771	81%
3290>020	Bank charges and commissions	60,000	59,439	561	99%
3430	Fees and levies	3,384,000	3,385,257	-1,257	100%
3300>020	Auditors remuneration	290,000	290,000	-	100%
3100	Motor vehicle/cycle fuel & maintenance	888,000	953,178	-65,178	107%
3280>015	Other repairs and maintenance	12,000	1,520	10,480	13%
3240	Staff year party, cleaning & CSR	362,400	365,788	-3,388	101%
3460	Consultancy/subscription	110,000	110,000	-	100%
	TOTAL ADM. COST	<u>23,748,000</u>	<u>23,734,478</u>	<u>13,522</u>	<u>100%</u>

Ngagaka Water and Sanitation Company Limited

Annual Reports and Financial Statements

For the year ended June 30, 2019

STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS FOR THE YEAR ENDED 30 JUNE 2019 (Continued)

PRODUCTION COSTS					
3450>010	Water maint. & rehabilitation	4,560,000	4,701,098	-141,098	103%
3440>010	Water chemicals and treatment	300,000	274,730	25,270	92%
	TOTAL PRODUCTION COSTS	4,860,000	4,975,828	-115,828	102%
INVESTMENTS					
6450>010	Procurement of water meters	3,050,000	3,871,764	-821,764	127%
	TOTAL INVESTMENT COSTS	3,050,000	3,871,764	-821,764	127%
	TOTAL EXPENDITURE	31,658,000	32,582,070	-924,070	103%

Notes to the comparison of budget and actuals

NB: The difference between the total actual expenditure of ksh 32,582,070 and that of **profit and loss** of ksh 31,457,991 is the inclusion of depreciation and bad debts items.

1. Illegal connection fees – there were more illegal connections thus resulting to over absorption of 19%.
2. Termination fee – some customers terminated water supply due to relocation away from our service area thus resulting to over absorption of 19%.
3. Transfer fee – some customers sold out their parcels thus resulting to over absorption of 19%.
4. Rent expenses – the company's landlord had hinted of reviewing the rent for Kevote office but the management negotiated with her resulting to under absorption of 22%.
5. Insurance expenses – the company outsourced for a cheaper insurance company thus resulting to under absorption of 18%.
6. Other repairs and maintenance – the company had no major repairs and maintenance resulting to under absorption of 87%.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

1. 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.

2. 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.

3. 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.

Ngagaka Water and Sanitation Company Limited

Annual Reports and Financial Statements

For the year ended June 30, 2019

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

4. 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.

5. 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.

6. 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.

7. Inventories

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

Ngagaka Water and Sanitation Company Limited

Annual Reports and Financial Statements

For the year ended June 30, 2019

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

8. 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.

9. 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.

10. 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.

11. 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.

12. Retirement benefit obligations

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. 1,080 per employee per month.

13. 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.

Ngagaka Water and Sanitation Company Limited

Annual Reports and Financial Statements

For the year ended June 30, 2019

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

14. Comparative figures

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

15. 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, 2019.

Ngagaka Water and Sanitation Company Limited

Annual Reports and Financial Statements

For the year ended June 30, 2019

NOTES TO THE FINANCIAL STATEMENTS

	2019	2018
	Kshs	Kshs
1 SALES		
Gross sales of water	27,970,010	31,830,755
	<u>27,970,010</u>	<u>31,830,755</u>
<i>[Being billed revenue from water sales]</i>		
2 GRANTS FROM NATIONAL GOVERNMENT		
Capital grants received	334,709	295,382
	<u>334,709</u>	<u>295,382</u>
<i>[Grant of water meters received from TWSB]</i>		
3 OTHER INCOME		
Meter Rent	4,394,400	-
New Application fees	482,000	517,000
Reconnection fees	284,500	-
Illegal connection fees	143,000	-
Termination fees	8,600	-
Transfer fees	3,000	-
Meter replacement	28,000	-
Bad debts	55,170	-
Miscellaneous	<u>10,870</u>	<u>9,800</u>
	<u>5,409,540</u>	<u>526,800</u>
<i>[Being incomes other than water sales]</i>		
4(a) ADMINISTRATION COSTS		
Staff costs (note 4(b))	14,445,528	14,609,476
Directors' emoluments	703,000	354,000
Electricity and water	79,795	89,019
Telephone, E-mails, postage and computer accessories	659,059	651,758
Transportation, travelling and subsistence	930,740	1,121,050
Advertising, printing, stationery and newspapers	252,255	218,274
Rent expenses	47,000	47,000
Staff training, seminars and workshops	1,061,700	1,065,300
Staff uniforms and welfare	365,975	422,097
Insurance costs	24,229	27,164

Ngagaka Water and Sanitation Company Limited

Annual Reports and Financial Statements

For the year ended June 30, 2019

NOTES TO THE FINANCIAL STATEMENTS (Continued)

2019

2018

Kshs

Kshs

Bank charges and commissions	59,439	54,005
Fees, levies, commitment and honoraria	3,385,257	2,451,455
Auditors' remuneration	290,000	290,000
Motor vehicle fuels, oil and maintenance	953,178	1,007,888
Consultancy fees/Subscription	110,000	55,000
Repairs and maintenance	1,520	-
Provision for bad and doubtful debts	129,484	2,326,733
Staff year party & tour, cleaning and C	365,788	354,079
	<u>23,863,947</u>	<u>25,144,298</u>

4(b) STAFF COSTS

Salaries and allowances of permanent employees	14,389,928	13,782,456
Others (Gratuity)	55,600	827,020
	<u>14,445,528</u>	<u>14,609,476</u>

The average number of employees at the end of the year was:

Permanent employees – Management	5	5
Permanent employees – Unionisable	24	26
	<u>29</u>	<u>31</u>

[Being number of staff throughout the year]

5 PRODUCTION COSTS

Water maintenance and rehabilitation	4,701,098	4,007,433
Water chemicals	274,730	285,730
	<u>4,975,828</u>	<u>4,293,163</u>

[Being costs of maintaining and treating water]

Ngagaka Water and Sanitation Company Limited

Annual Reports and Financial Statements

For the year ended June 30, 2019

NOTES TO THE FINANCIAL STATEMENTS (Continued)		2019	2018
		Kshs	Kshs
6	OPERATING PROFIT/ (LOSS)	2,256,991	679,656
	The operating profit/ (loss) is arrived at after charging/ (crediting):		
	Staff costs (note 4(b))	14,445,528	14,609,476
	Depreciation of property, plant and equipment	2,618,216	2,535,820
	Provision for bad and doubtful debts	129,484	2,326,733
	Directors' emoluments - fees	703,000	354,000
	Auditors' remuneration - current year fees	290,000	290,000
	Interest payable	-	44,307
7	Finance Income		
	Interest on fixed deposit	58,909	166,992
8	Finance cost		
	Interest on loan	-	44,307

Annual Reports and Financial Statements
For the year ended June 30, 2019

NOTES TO THE FINANCIAL STATEMENTS (Continued)

9 PROPERTY, PLANT AND EQUIPMENT

	Buildings	Plant and machinery	Water meters	Motor vehicles, including, motor cycles	Computers & related equipment	Office equipment, furniture & fittings	Tools and equipment	Total
COST								
At June 30, 2017	854,816	3,255,510	16,420,792	3,614,692	1,973,522	386,190	231,890	26,737,412
Additions	-	-	2,505,438	-	231,000	-	-	2,736,438
At June 30, 2018	854,816	3,255,510	18,926,230	3,614,692	2,204,522	386,190	231,890	29,473,850
At July 1, 2018	854,816	3,255,510	18,926,230	3,614,692	2,204,522	386,190	231,890	29,473,850
Additions	-	-	3,871,765	-	-	-	-	3,871,765
At June 30, 2019	854,816	3,255,510	22,797,995	3,614,692	2,204,522	386,190	231,890	33,345,615
DEPRECIATION								
At July 1, 2017	65,315	925,942	5,984,896	2,451,997	1,253,706	204,559	131,535	11,017,950
Charge for the year	15,790	291,196	1,617,667	290,674	285,245	22,704	12,544	2,535,820
At June 30, 2018	81,105	1,217,138	7,602,563	2,742,671	1,538,951	227,263	144,079	13,553,770
At July 1, 2018	81,105	1,217,138	7,602,563	2,742,671	1,538,951	227,263	144,079	13,553,770
Charge for the year	15,474	254,797	1,899,427	218,005	199,671	19,866	10,976	2,618,216
At June 30, 2019	96,579	1,471,935	9,501,990	2,960,676	1,738,622	247,129	155,055	16,171,986
NBV								
At June 30, 2018	773,711	2,038,372	11,323,667	872,021	665,571	158,927	87,811	15,920,080
At June 30, 2019	758,237	1,783,575	13,296,005	654,016	465,900	139,061	76,835	17,173,629

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

Annual Reports and Financial Statements
For the year ended June 30, 2019

NOTES TO THE FINANCIAL STATEMENTS (Continued)

	2019 Kshs	2018 Kshs
10 INVENTORIES		
Water maintenance stores	203,389	68,307
Water meters	693,900	295,665
Stationery	7,850	22,492
	<u>905,139</u>	<u>386,464</u>
	=====	=====
<i>[Being cost of inventory balance]</i>		
11 TRADE AND OTHER RECEIVABLES		
Trade receivables	21,967,071	20,849,037
Gross trade and other receivables	<u>21,967,071</u>	<u>20,849,037</u>
Provision for bad and doubtful receivables	<u>(11,305,585)</u>	<u>(11,176,101)</u>
Net trade and other receivables	<u>10,661,486</u>	<u>9,672,936</u>
	=====	=====
<i>[Being water sales]</i>		

Ngagaka Water and Sanitation Company Limited

Annual Reports and Financial Statements

For the year ended June 30, 2019

NOTES TO THE FINANCIAL STATEMENTS (Continued)

12 CASH AND CASH EQUIVALENTS	2019	2018
	Kshs	Kshs
Cash at bank-Family current A/c 075000019139	270,872	148,317
Cash at bank-Family savings A/c 075000013872	4,695,801	306,868
Cash at bank-Consolidated A/c 0041202000049	48,543	98,066
Cash at bank-Equity A/c 0190261966763	1,042,070	976,443
Cash in bank – Fixed deposit	-	3,400,000
	-----	-----
	6,057,286	4,929,694
	-----	-----
 13 PREPAYMENTS	 2,500	 2,500
Cash Deposit – KPLC		

Ngagaka Water and Sanitation Company Limited

Annual Reports and Financial Statements

For the year ended June 30, 2019

NOTES TO THE FINANCIAL STATEMENTS (Continued)

	2019 Kshs	2018 Kshs
14 CAPITAL FUND/RESERVES		
As at June	9,965,875	9,965,875
	<u>9,965,875</u>	<u>9,965,875</u>
15 REVENUE RESERVES		
As at 1 st July 2018	12,900,521	12,098,180
Surplus/ (deficit) for the year	2,315,177	802,341
	<u>15,215,698</u>	<u>12,900,521</u>
16 BORROWINGS		
Domestic borrowings during the year	1,070,000	1,820,813
Repayments of domestic borrowings during the year	(348,277)	(750,813)
Balance at end of the year	721,723	1,070,000
Less: Amounts due within one year (current portion)	(600,000)	-
Amounts due after one year (non-current portion)	121,723	1,070,000
The analyses of domestic borrowings are as follows		
Domestic Borrowings		
Kenya Shilling lease finance from Family bank	-	-
Kenya Shilling loan from customer deposits	721,723	1,070,000
Total balance at end of year	<u>721,723</u>	<u>1,070,000</u>

[Being domestic borrowing for purchase of motor vehicle]

Ngagaka Water and Sanitation Company Limited

Annual Reports and Financial Statements

For the year ended June 30, 2019

NOTES TO THE FINANCIAL STATEMENTS (Continued)

	2019	2018
	Kshs	Kshs
17 DEFERRED INCOME		
As at 1 st July	2,376,105	1,700,387
Additions	610,000	971,100
Amortization	(334,709)	(295,382)
	<u>2,651,396</u>	<u>2,376,105</u>

Deferred income relates to water meters donated by Tana water services board. Deferred income is recognised as income in the statement of financial performance over the expected useful lives of the assets.

18 TRADE AND OTHER PAYABLES

Trade payables	1,815,571	1,050,673
Other payables (customer deposits)	4,429,777	3,548,500
	<u>6,245,348</u>	<u>4,599,173</u>

[Being trade creditors and customer deposits]

19 RETIREMENT BENEFIT OBLIGATIONS

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.1,080 per employee per month.

20 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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

20 RELATED PARTY BALANCES AND TRANSACTIONS (Continued)

	2019 Kshs	2018 Kshs
(a) Due to related parties		
Tana Water Works Development Agency	-	228,330
Water services regulatory board	114,636	24,977
	<u>114,636</u>	<u>253,307</u>

Until March 2019, Tana Water Services Board being the principal used to be paid 6% of the revenue collections while 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:

Directors fees and allowances	703,000	354,000
	<u> </u>	<u> </u>

(c) Key management compensation

Salaries and other benefits	5,989,740	5,133,180
	<u> </u>	<u> </u>

21 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

Ngagaka Water and Sanitation Company Limited

Annual Reports and Financial Statements

For the year ended June 30, 2019

NOTES TO THE FINANCIAL STATEMENTS (Continued)

21 FINANCIAL RISK MANAGEMENT POLICIES (Continued)

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.

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 2019				
Bank balances	6,057,286	6,057,286	-	-
staff advances	-	-	-	-
Trade receivables	10,661,486	-	21,967,071	(11,305,585)
	<u>16,718,772</u>	<u>6,057,286</u>	<u>21,967,071</u>	<u>(11,305,585)</u>

NOTES TO THE FINANCIAL STATEMENTS (Continued)

21 FINANCIAL RISK MANAGEMENT POLICIES (Continued)

Credit risk management (Continued)

	Total amount Kshs	Fully performing Kshs	Past due Kshs	Impaired Kshs
30 June 2018				
Bank balances	4,932,194	4,932,194	-	-
Staff advances	-	-	-	-
Trade receivables	9,672,936	-	20,849,037	(11,176,10)
	<u>14,605,130</u>	<u>4,932,194</u>	<u>20,849,037</u>	<u>(11,176,10)</u>

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.

Ngagaka Water and Sanitation Company Limited

Annual Reports and Financial Statements

For the year ended June 30, 2019

NOTES TO THE FINANCIAL STATEMENTS (Continued)

21 FINANCIAL RISK MANAGEMENT POLICIES (Continued)

Liquidity risk management (Continued)

	within 1 year Kshs	2-3 years Kshs	Over 3 years Kshs	Total amount Kshs
30 June 2019				
Payables	1,815,571	-	-	1,815,571
	=====	=====	=====	=====

Liquidity risk management (Continued)

	within 1 year Kshs	2-3 years Kshs	Over 3 years Kshs	Total amount Kshs
30 June 2018				
Payables	1,050,673	-	-	1,050,673
	=====	=====	=====	=====

Capital risk management

The organization manages its capital to ensure that it is able to continue as a going concern while maximizing the return to stakeholders.

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

The capital structure of the organisation consists of:

	2019 Kshs	2018 Kshs
Capital fund/Reserves	9,965,875	9,965,875
	=====	=====

22 CONTINGENT LIABILITIES

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.

23 CAPITAL COMMITMENTS

The company did not have capital commitments as at 30 June 2019.

24 CURRENCY

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

25 INCORPORATION

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

Ngagaka Water and Sanitation Company Limited

Annual Reports and Financial Statements

For the year ended June 30, 2019

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	
2.	Interest of fixed deposit	The difference of the amount of interest was of no material value.	Francis Njagi CM	Not Resolved	
3.	Internal borrowing from customer deposits.	The internal borrowing had BOD authority.	Francis Njagi CM	Not Resolved	
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 Njagi CM	Not Resolved	


General Manager

24th September 2019


Chairman of the Board of Directors

24th September 2019