

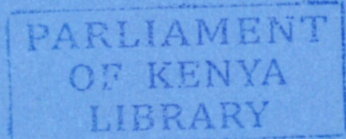
REPUBLIC OF KENYA



Enhancing Accountability

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REPORT



OF

THE AUDITOR-GENERAL

ON

**KARURI WATER AND SANITATION
COMPANY LIMITED**

**FOR THE YEAR ENDED
30 JUNE, 2023**

OFFICE OF THE AUDITOR GENERAL
P. O. Box 30084 - 00100, NAIROBI
REGISTRY

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KARURI WATER & SANITATION COMPANY LTD

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED

JUNE 30, 2023

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

Karuri Water & Sanitation Company Ltd
Annual Report and Financial Statements for the year ended June 30, 2023

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1. Acronyms and Glossary of Terms

| | |
|---------------|---|
| <i>ICPAK</i> | <i>Institute of Certified Public Accountants of Kenya</i> |
| <i>IFRS</i> | <i>International Financial Reporting Standards</i> |
| <i>MD</i> | <i>Managing Director</i> |
| <i>PFM</i> | <i>Public Financial Management</i> |
| <i>PSASB</i> | <i>Public Sector Accounting Standards Board</i> |
| <i>WASREB</i> | <i>Water Services Regulatory Board</i> |
| <i>KAWSCO</i> | <i>Karuri Water & Sanitation Company Ltd</i> |

Karuri Water & Sanitation Company Ltd
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2. Key Entity Information

Background information

Karuri Water and Sanitation Company Limited is a public company (herein referred to as KAWSCO) which was registered under the Companies Act on 24th April 2007 and in accordance with the Water Act 2002. The Company started its operations on 1st June 2008 and had its first board meeting on 4th November 2008. The company has five non-executive directors and its core function is water and sanitation services delivery within Kiambaa Sub-County's area of jurisdiction which covers five administrative wards namely Kiambaa, Muchatha, Ndenderu, Cianda and Kihara. The County Government of Kiambu is the sole shareholder of the company.

During the period under review, the company had fifteen (15) permanent staff and forty-four (44) staff under contract and four (4) staff on internship.

Principal Activities

The principal activity of the company is to distribute water from our sources to individual and commercial consumers within our jurisdiction.

Vision

To excel in the provision of reliable quality and affordable water and sewerage services and be the pride WSP in the region.

Mission

Ensure provision of good quality water and sewerage services within our area effectively and efficiently

Directors

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

- | | | |
|----------------------------|---------------------|---|
| 1. Eng. Andrew Muigai | - Chairman | - Appointed on 14 th February 2022 |
| 2. John P. Karioki | - Managing director | |
| 3. Jennifer Kanini Musyoki | | - Appointed on 14 th February 2022 |
| 4. Joram Kamau | | -Appointed on 14 th February 2022 |
| 5. William Kimani | | -Appointed on 14 th February 2022 |
| 6. Charles Gikonyo | | -Appointed on 14 th February 2022 |

Corporate Secretary

Josphine Muritu
P.O. Box 2344-00900
Kiambu

Registered Office

Davekon Palace
Banana-Limuru Road
P.O Box 818-00219,
Karuri, KENYA

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Corporate Headquarters

P.O Box 818-00219
Davekon Palace
Banana-Limuru Road
Karuri, KENYA

Corporate Contacts

Telephone: (254) 0727484139
Email: info@karuriwater.co.ke
Website: www.karuriwater.co.ke

Corporate Bankers

Post Bank- Karuri branch
Head Office
P.O. Box 30311-0100
Nairobi, Kenya

Family Bank- Banana branch
Head Office
P.O. Box 74145-00200
Nairobi, Kenya

Co-operative bank-Ruaka Branch
Head Office
P.O. Box 48231 - 00100,
NAIROBI

Equity Bank-Ruaka Branch
Head Office
P.O. Box 75104-00200
Nairobi, Kenya

Safaricom M-Pesa money transfer service
Paybill No. 544500

Independent Auditors

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

Principal Legal Advisers



The Attorney General
State Law Office, Harambee Avenue
P.o Box 40112
City Square 0200
Nairobi, Kenya

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Kiambu County Government
 Legal Department

3. The Board of Directors

The core functions of the Board of Directors are to formulate policies to ensure sustainability of the company, effective and efficient management of the company's resources geared towards equitable supply of water within the company's area of jurisdiction.

| | |
|--|--|
| <p>Eng. Andrew Muigai Chairman</p>  | <p>DoA: 14th February 2022</p> <p>DoB: 10/01/1964</p> <p>Qualification: Bsc Civil Engineering UON</p> <p>Work Experience: Director Kenya Industrial Research and Development Institute</p> <p>Entrepreneur, Engineer and Management Consultant</p> |
| <p>Jennifer Kanini Musyoki Chief Officer-Dept of Water, Environment, Energy and Natural Resources</p>  | <p>DoA: 14th February 2022</p> <p>DoB: 29/07/1984</p> <p>Qualification: MBA (Strategic Management); BSc Civil Engineering</p> <p>Previously worked as a Water & Sanitation Engineer in planning and design of urban and rural water and sanitation infrastructure; formulating national and county government water and sanitation policies, strategies and plans; conducting out technical assessments, socio-economic studies and surveys with H.P. Gauff Ingenieure, GIZ International Water Stewardship programme and Authentic Living Int. Co. Ltd.</p> |
| <p>Mr. Joram Kamau Nyongo Director</p> | <p>DoA: 14th February 2022</p> <p>DoB: 1st April 1986</p> <p>Qualification: MBA (Strategic Management), Post Graduate Diploma (Management of Development Projects). B.com (Management Option)</p> <p>Work Experience: Has over 7 years' experience in the</p> |

Karuri Water & Sanitation Company Ltd
Annual Report and Financial Statements for the year ended June 30, 2023

| | |
|---|---|
|  | <p>marketing field helping company's he has worked for to improve their brand visibility and quality while managing their social media channels.</p> |
| <p>Mr. Charles Gikonyo Director</p>  | <p>DoA: 14th February 2022</p> <p>DoB: 10th July 1977</p> <p>Qualification: Bachelor of Arts (Government & Public Administration) Certified Public Secretaries of Kenya (CPS-K) Chartered Institute of Purchasing and Supply (CIPS-UK)</p> <p>Work Experience: Previously worked in private practice as a company secretary and is currently the Chief Officer in charge of administration and public service at Kiambu County Government.</p> |
| <p>Mr. William Kimani Director</p>  | <p>DoA: 14th February 2022</p> <p>DoB:</p> <p>Qualification: MBA (Finance), Bachelors of Administration (Accounting and Finance), CPA(K). Currently pursuing PHD in Business Administration (Finance)</p> <p>Work Experience: He is currently working with the County Government of Kiambu as the Chief Officer, Finance and Economic Planning. He has 20+ years of experience in establishing, supporting and strengthening public finance and fiscal processes as well as streamlining private sector finance operations and offering sound fiscal budgeting, business planning and financial management in high level public sector agencies and private companies including The County Government of Kiambu, Limuru Milk Processors, New Baron and Leveque International and Kenana Distributors’.</p> |

Karuri Water & Sanitation Company Ltd
Annual Report and Financial Statements for the year ended June 30, 2023

Mr. John P. Karioki
Managing Director



DoA: 2008

DoB: 31/07/1967




Qualification: Diploma in Ground Water Technology

Work Experience: He was instrumental in setting of the Company in 2008 after secondment from Ministry of Water and took over operations of one borehole which was operated by the defunct Karuri Town Council. Has over 23years working experience in the water sector with his last assignment being divisional water officer – Kiambaa constituency before being seconded to start the Company.

Karuri Water & Sanitation Company Ltd
Annual Report and Financial Statements for the year ended June 30, 2023



4. Key Management Team

The management staff during the year was as follows:

| | | |
|----------|--|---|
| <p>1</p> | <p>Mr John P. Kariuki- Managing Director</p>  <p>Dip. Ground Water Technology</p> | <p>He is responsible for: Coordinating the day to day management of the Company</p> <p>Monitoring and assessing management’s performance</p> <p>Ensuring that the company complies with the legal and governance framework of the company</p> <p>Ensuring institutional transformation in accordance with corporate strategy</p> |
| <p>2</p> | <p>Eng. George Nyutu - Technical Manager</p>  <p>BSC. Civil Engineering</p> | <p>He is responsible for all the technical aspects of water production and distribution. He is also tasked with overseeing field operations and ensuring that the Company progressively increases coverage to the underserved areas.</p> <p>He is also responsible for ensuring that the company keeps the non-revenue water (NRW) within acceptable standards.</p> |
| <p>3</p> | <p>Mr. George Wanjohi- Commercial Manager</p>  <p>B. Com (Finance) CPA iv</p> | <p>He is responsible for all the commercial activities and tasks of the company.</p> <p>This includes meter reading, billing and new connections so as to ensure that the company maximises its produced volumes.</p> <p>She also ensures that the metering ratio of the company remains at 100%.</p> |

Karuri Water & Sanitation Company Ltd

Annual Report and Financial Statements for the year ended June 30, 2023

| | | |
|---|---|---|
| 4 | <p>Ms Monica Kimani – Procurement Officer</p>  <p>BBA Supplies & Purchasing</p> | <p>She is responsible for making all purchases for the company in line with the Public Procurement and Asset Disposal Act, 2015 as well as the regulations thereof.</p> <p>She also supervises the issuing and accounting of store items.</p> |
| 5 | <p>Mr Cyrus M. Maina – Senior Accountant</p>  <p>BED Arts & CPA1</p> | <p>He is in charge of the finance department that is entrusted with accounting and finance functions of the company.</p> <p>He oversees the preparation of financial statements according the Public Finance Management Act 2012 as well as International Financial Reporting Standards (IFRS).</p> <p>He is also in charge of Revenue collection which entails disconnections and reconnections.</p> |

Karuri Water & Sanitation Company Ltd
Annual Report and Financial Statements for the year ended June 30, 2023

5. Chairman's Statement

Karuri Water and Sanitation Co. Ltd has had a relatively challenging financial year, our main challenge continues to be the lack of high yielding and cost-effective gravity sources of water.

However, as far as water sources are concerned, AWWDA has embarked on exploitation of Gathiri springs which is at an advanced level of development and though they have pumping components, the cost is not as high as in the case of boreholes.

AWWDA has also drilled and equipped 3 boreholes; two in Gachie and one in Kawaida which are yet to be operationalized due to electricity connectivity and quality issues though they have been addressed. We also expect the County Government to handover a borehole drilled during the construction of Kihara Market. The management of the borehole is currently under the department of trade.

The Kiambu-Ruaka Sewer project is another project expected to increase revenue for the company once operationalized. It involves installation of DN450, 21.388 Km Trunk sewer lines, DN300, 18.8 Km Lateral sewers lines and connection of 1000 households as well as laying of DN90, 2.4 Km pipes and DN50, 6.5 Km. We are pleased that as the year came to a close, the contractor was at almost 70% of the works.

On 13th April 2023, we held a Stake Holders' forum on the proposed tariff review, which is the culmination of a process of negotiation which aims to ensure the company operates on a cost recovery tariff. The regulator has also recently Gazetted the New Tariff on 11th August 2023 and is expected to be applied in the September 2023 billing.

Customer Satisfaction and creating stakeholder value remain our cherished goals. As we look into the future, our resolve is to remain focused to achieve these goals through securing adequate water supply, distribution capacity, reducing losses, increase in coverage and expansion of our customer base. We are also expanding our social responsibility by providing our services to the low income areas through maintenance of water kiosks where water is affordable to residents who don't have individual household connections in those areas.

The single biggest challenge in the year under review, like in past years, has been the rising cost of water operations. Our highest expenditure remains electricity and the purchase of Bulk Water from Nairobi Water Co. Ltd accounting for 20% and 27% of our total expenditure respectively. These and other operating costs have led to a deficit in the year which we hope to reverse with an upward tariff adjustment as well as cheaper sources of water



Chairman of the Board

6. Report Of the Managing Director

The financial year ending 30th June 2023 has had both challenges and achievements, it has seen us continue to implement our core mandate of water distribution in Kiambaa Sub-County and hopefully in the near future we shall also begin providing sewer services with the almost complete, Kiambu-Ruaka Sewer Project being implemented by AWWDA.

Achievements

As at 30th June 2023, the company had 11,106 registered connections, of these 9,167 were active while 1,941 were inactive. During the year, 429 new customers were connected against a target of 996 new connections. We missed the target largely due to Nairobi Water reduced supply days from the initial two days a week to one day as well areas served by boreholes have also been experiencing prolonged rationing with some zones getting supply as little as twice in a month, consequently the company has stopped receiving new connections applications in such areas until we get new water sources.

The average annual meter reading efficiency for the year was 74% while the annual billing efficiency was 78%.

The collection efficiency was 92% against a target of 97%, this was due to the massive road constructions which had a negative effect on the collections of the fourth quarter. The average number of paying customers for the year stood at 67%.

Challenges

The company has reported a deficit of Kshs. 27,402,818 this performance can largely be attributed to the rising cost of doing business, the cost of electricity increased from Kshs. 17,779,942 last year to Kshs. 22,267,882 in the year under review. The cost of fuel and lubricants increased from Kshs. 2,008,324 to Kshs. 2,875,917 in the year under review.

However, the company has made a huge stride towards turning around this situation by getting a new tariff in place beginning September 2023. This is expected to help the company to begin the journey towards cost recovery coupled with brining on-board cheaper sources of water. Also to address the cost of production from the current sources, we conducted a feasibility study on solarization of our pumping stations. The recommendations of the study have been sent to the County Government and AWWDA for possible funding.

Another game changer will be the Kiambu-Ruaka Sewer project which is expected to be handed over by the second half of the year. This will be the first time we having sewer in our area of jurisdiction and we expect the revenues from the project to also boost our financial situation towards full cost recovery. The Company has also done proposal for funding of new boreholes to address the increasing demand for water.

Despite the tough financial times and the spiralling of the cost of doing business, we continue to be optimistic and focused on delivery of services to our esteemed customers in partnership with the County Government of Kiambu and agencies of the National Government like AWWDA.

Managing Director,



John P. Karioki

Karuri Water & Sanitation Company Ltd
Annual Report and Financial Statements for the year ended June 30, 2023

7.Statement Of Performance Against Predetermined Objectives for FY 2022/2023

Section 164 Subsection 2 (f) of the Public Finance Management Act, 2012 requires the accounting officer to include in the financial statement, a statement of the County government entity’s performance against predetermined objectives.

KAWSCO has seven (7) strategic goals and objectives within the current Strategic Plan. These strategic goals are as follows:

Objective 1: To Enhance Revenue Collection

Objective 2: To Supply Reliable, Adequate, Sustainable, Quality & Affordable Water.

Objective 3: To Enhance Customer Satisfaction.

Objective 4: To Attract, Develop and Retain Highly Skilled and Motivated Staff.

Objective 5: To Establish Management Information Systems.

Objective 6: To Establish a Reliable & Sustainable Sewerage Services

Objective 7: To Mainstream Cross Cutting Issues

KAWSCO develops its annual work plans based on the above 7 strategic Goals. Assessment of the Board’s performance against its annual work plan is done on a annual basis. KAWSCO achieved its performance targets set for the FY 2022-2023 period for its 7 strategic Goals to the levels indicated in the diagram below:

| Strategic Objective | Objective | Key Performance Indicators | Activities | Achievements |
|---------------------|---|---|--|------------------------------|
| Objective 1: | Enhance Revenue Collection | 96% Collection Efficiency | Set daily Targets for Officers | 93% Collection Efficiency |
| Objective 2: | Supply Reliable, Adequate, Sustainable, Quality & Affordable Water. | Increase area of coverage to 60% | Develop New Water Sources Increase Abstraction from off-takes | 54% coverage achieved. |
| Objective 3: | To Enhance Customer Satisfaction. | Achieve 80% Customer Satisfaction Index | Reduce response time to queries. Better informed customers. | Customer satisfaction at 65% |

Karuri Water & Sanitation Company Ltd
Annual Report and Financial Statements for the year ended June 30, 2023

| | | | | |
|--------------|--|--|--|---|
| Objective 4: | To Attract, Develop and Retain Highly Skilled and Motivated Staff. | Achieve 80% employee Satisfaction level. | Fill in vacant positions & introduce Commuter Allowance | Employee Satisfaction at 72%. |
| Objective 5: | Establish Management Information Systems. | Reduce Response time for resolving Customer Queries. | Upgrade the billing system to a web-based one. Introduce customer bill querying. | Response time reduced by 5 minutes. |
| Objective 6: | Establish a Reliable & Sustainable Sewerage Services | Establish a Sewer System by the year 2023 | Supervise implementation of the Kiambu-Ruaka project. | The Sewer System expected to be running by January 2024 |
| Objective 7: | Mainstream Cross Cutting Issues | 30% Tenders Given to AGPO | Prioritise AGPO when advertising for goods & services. | We achieved 24% of Tenders to AGPO. |

All the above strategic objectives have been tied to individual performance targets issued by the Managing Director to the Heads of Department and the same have been cascaded down to the staff of each department.

On a quarterly basis, these targets are also reported to the County Government through the Chief Officer Water, Environment and Natural Resources who through the CEC in-charge also reports to the Kiambu County Governor.

The management also directly report on these parameters on a quarterly basis to the Board of Directors through the Managing Director. This is done through the various Board Committees in form of a board report which if adopted goes to the full Board for ratification.

Staff who fail to meet the minimum requirement set by the Board of 70% are put under performance monitoring and if improvement is not achieved in, the staff is dismissed.

8. Corporate Governance Statement

The Company regards good corporate governance as crucial to the success of the business and is committed to practice it so that it remains a sustainable and viable business. This Statement sets out the main corporate governance practices and structures in the Company.

The following Corporate governance guidelines and principles are applied in the Company to govern the Board and the staff. WASREB guidelines on Corporate Governance for Water companies specify best corporate governance principles and others like the Code of Ethics for directors and the Public Officer Ethics Act, 2003 that applies to public officers.

Directors exercise independent judgment and professional competencies for effective governance of the Company as set out in their terms of reference which clearly spells out important governance arrangements covering appointment of directors.

The Directors' Code of Conduct sets out rules that govern the conduct of individual directors in order to enable the Board to operate effectively and in the best interests of the Company. The Code of Conduct sets out rules for directors to among others: act honestly, in good faith and for the best interest of the Company, exercise duty with care and diligence, avoidance and management of conflict of interest, maintain confidentiality of information about the Company, showing commitment to and attend to Company's business and respect to fellow directors.

Conflict of Interest

Directors are required to make a written disclosure of any transaction in which they have interest and which would constitute a conflict of interest and to abstain from voting when such matters are being considered. Business transactions with all parties, directors or their related parties are carried out at arms' length.

Role and Responsibilities of the Board

The Board provides leadership and strategic direction to the Company. Their main responsibilities are:

- Establishing the short and long-term goals of the Company and strategic plans to achieve those goals.
- Ensuring preparation of the annual, half-year and quarterly financial statements.
- Approval and review of the annual budgets.
- Setting and periodically reviewing key performance indicators and management performance.

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- Ensuring that the Company has adequate systems of internal controls.
- Ensuring that the Company has adequate risk management plans to ensure business continuity.

Role of Chairman of the Board of Directors

The Chairman is primarily responsible for providing leadership to the Board, Chairing Board meetings and general meetings of members. The chairman also ensures that the Board is supplied with timely and sufficient information to enable it to discharge its duties effectively.

Managing Director

The Managing Director is the Chief Executive Officer of the company responsible for the day to day management of the Company. He is also the secretary of the board.

Directors Training and Development

The Company recognizes the importance of having a well informed and fully empowered Board of Directors. In this regard, relevant training and capacity development opportunities are organized to equip directors with skills and knowledge necessary to effectively perform their responsibilities when funds are available.

Board Work plan and Meetings

A work plan and schedule of meetings is prepared annually in advance. The Board meets at least once in a quarter or more depending on the requirements of the business. Directors receive adequate notice for meetings and detailed papers on issues to be discussed

9. Management Discussion and Analysis

The following is an analysis of the key highlights in the financial year under review in the following categories:

1. Key implemented, ongoing and proposed projects
2. Compliance with statutory requirements
3. The company's operational and financial performance
4. Major risks facing the company
5. The company's financial probity and serious governance issues

1) Key Implemented, Ongoing and Proposed Projects

a. Implemented Projects

Drilling of Boreholes

The Athi Water Works Development Agency (AWWDA) drilled and equipped two boreholes at Gachie Primary and Gachie kwa Chief under the Kenya Urban Support Programme (KUSP).

b. Ongoing Projects

Kiambu-Ruaka Sewer project

-This project involves the following components:

Installation of DN450, 21.388km Trunk sewers, DN300, 18.8km Lateral sewers and connection of 1000 households.

-Laying of DN90, 2.4km pipes and DN50, 6.5km.

By the close of the year, pegging of the Kanda Komu line had been completed as well as taking of inventory along the same line. This is for purposes of reinstating any structures that may be damaged to pave way for the project.

Gathiri-Kambara Project

The above-named project include the following components:

-Operationalization of Gathiri and Kambara springs

-Laying 9.6km pipeline of assorted sizes ranging from DN110 to DN40

This is being implemented by Athi Water Works Development Agency and the Gathiri spring is substantially completed and only needs the power connection from Kenya Power.

c. Proposed Projects to Increase Water Supply

Karuri-Rwaka Water Supply Proposal

The project with an estimated project cost of Kshs. 508,319,416 is earmarked to serve Karuri and Rwaka Sub-locations with a production capacity of 4,600m³/day. The funding proposal request was submitted to the County Government and AWWDA for possible funding.

2) Compliance with Statutory Requirements

The company was in compliance with most of the statutory requirements except a few as detailed below

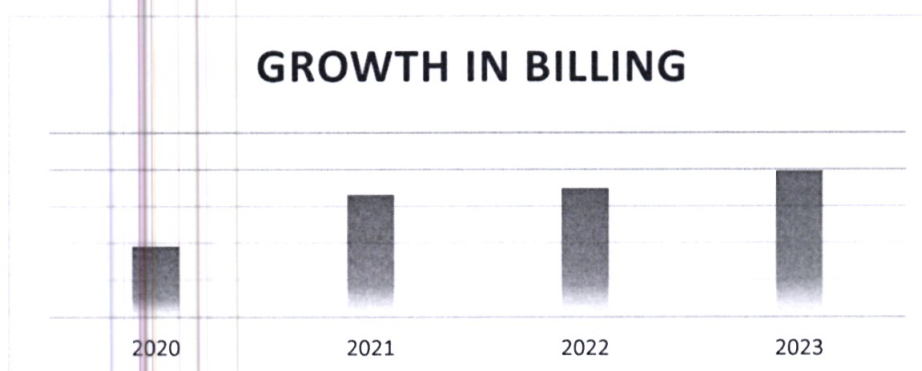
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| | Statutory Requirement | Status |
|---|---|--|
| 1 | Licence Fees and Administration Fees | As at the end of the year we owed WASREB and AWWDA Kshs. 17,230,131 and Kshs. 27,092,744 respectively. |
| 2 | Pay As You Earn (PAYE) | The company was up to date with the said payments and filing of returns. |
| 3 | National Hospital Insurance Fund (NHIF) | The company was up to date with these payments. |
| 4 | National Social Security Fund (NSSF) | |
| 5 | CPF (Lap Trust)-Pension Provider | |
| 6 | Water Resources Authority | The outstanding amount with WRA was Kshs. 998.228 |

3) The company's operational and financial performance

During the financial year the company made a loss of Ksh 27,402,818 compared to a profit Kshs 10,833,651 during the previous financial year.

The company's total billing from water sales grew from Kshs 77,373,860 in the previous year to Kshs 79,785,655 in the under review. This increase is attributed to greater efficiency in operations and reduction in the NRW figure. Below is the trend in billing for the last four years.



4) Major risks facing the company

The major risk facing the company is the ability to continue as a going concern largely due the high cost of production and inflationary tendencies within the country. The high dependence on boreholes and bulk supply from Nairobi City Water & Sewerage Company Ltd also poses a certain level of risk but this is mitigated by the fact that both of these are related parties.

5) The company's financial probity and serious governance issues

The company does not have any financial probity or any governance issues, since the company has risk management policy in place and adequate internal controls.

6) Material arrears in statutory/financial obligations

We have the following as the material balances in the year under review are as follow:

- Lease Fee to AWSB Kshs. 27,092,744
- Nairobi Water Co. Ltd Kshs. 58,989,110
- Regulatory Levy Kshs. 17,229,292

10. Environmental and Sustainability Reporting

KAWSCO exists to transform lives which is our purpose; the driving force behind everything we do. It's what guides us to deliver our strategy, which is founded on three pillars: putting the customer first, delivering relevant goods and services, and improving operational excellence.

Below is a brief highlight of our achievements in each pillar:

1. Sustainability strategy and profile

To ensure sustainability of water sources in our area and in collaboration with the County partnered in planting trees in areas of Kinale and Kame forests which are considered recharge catchments for our boreholes. The Company also has a watershed committee in place to champion conservation measures.

2. Environmental performance

To improve our environment, the company plans to continue in tree planting exercises in identified forests and also partnering with schools within our localities to adoption of trees by the pupils which encourages the younger generation in taking up the habit.

3. Employee welfare

The company is an equal opportunity employer and encourages women and the disabled to apply for vacant positions.
The company has an OSH committee in place which is operational.

4. Market place practices:

a) Responsible competition practice:

The organization ensures responsible competition practices and upholds the principles of anti-corruption, responsible political involvement, fair competition and respect for competitors in its procurement practices in line with the PPDA ACT and set out guidelines.

b) Responsible Supply chain and supplier relations:

The organization maintains good business practices, treats its own suppliers responsibly by honoring contracts and respecting payment practices.

c) Responsible marketing and advertisement:

We ensure that our marketing and customer awareness efforts are ethical and true as well as timely.

d) Product stewardship:

Karuri Water & Sanitation Company Ltd

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Our main product which is water is sampled and tested for safety at source and random consumer points to ensure it is safe for consumption and in line with WASREB guidelines.

5. Community Engagements-

- The company in collaboration with its stakeholders bought tree seedlings which were given out to surrounding schools and churches for planting during the rainy season. The seedlings also include fruit trees for value addition. The company is also partnering with the County Government in cleanups once every month.
- The company also has water connections that are under the pro-poor program. These are connections being used by vulnerable members of society in our area of jurisdiction. These customers are exempted from paying water bills as long as they restrict consumption to below 6 units per month.

Karuri Water & Sanitation Company Ltd
Annual Report and Financial Statements for the year ended June 30, 2023

11. Report Of the Directors

The Directors submit their report together with the audited financial statements for the year ended June 30, 2023 which show the state of KAWSCO 's affairs.

Principal activities

The principal activities of KAWSCO are to distribute water from our sources to individual and commercial consumers within our jurisdiction.

Results

The results of KAWSCO for the year ended June 30, 2023 are set out on pages 1-6

Dividends

Subject to the approval of the shareholders, the Directors do not recommend the payment any dividend since the company is still making losses.

Directors

The members of the Board of Directors who served during the year are shown on pages' vi-viii.

Auditors

The Auditor General is responsible for the statutory audit of KAWSCO in accordance with the Section 5 of 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,



Managing Director

Date: 4/3/24



12. Statement Of Directors' Responsibilities

Section 81 of the Public Finance Management Act, 2012, Section 14 of state corporation Act, Water Act 2016 and the Companies Act 2015, require the Directors to prepare financial statements in respect of Karuri Water & Sanitation Company, which give a true and fair view of the state of affairs of KAWSCO at the end of the financial year/period and the operating results of KAWSCO for that year/period. The Directors are also required to ensure that KAWSCO keeps proper accounting records which disclose with reasonable accuracy the financial position of KAWSCO. The Directors are also responsible for safeguarding the assets of KAWSCO.

The Directors are responsible for the preparation and presentation of KAWSCO's financial statements, which give a true and fair view of the state of affairs of KAWSCO for and as at the end of the financial year (period) ended on June 30, 2023. This responsibility includes:

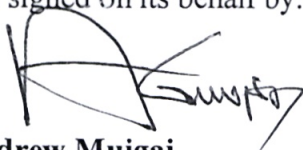
- (i) Maintaining adequate financial management arrangements and ensuring that these continue to be effective throughout the reporting period;
- (ii) Maintaining proper accounting records, which disclose with reasonable accuracy at any time the financial position of KAWSCO;
- (iii) Designing, implementing 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 KAWSCO;
- (v) Selecting and applying appropriate accounting policies; and
- (vi) Making accounting estimates that are reasonable in the circumstances.

The Directors accept responsibility for KAWSCO's financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity with International Financial Reporting Standards (IFRS), and in the manner required by the PFM Act 2012 and the State Corporations Act, Water Act 2016 and Companies Act 2015.

The Directors are of the opinion that KAWSCO's financial statements give a true and fair view of the state of the Company's transactions during the financial year ended June 30, 2023, and of KAWSCO's financial position as at that date. The Directors further confirm the completeness of the accounting records maintained for KAWSCO, which have been relied upon in the preparation of KAWSCO'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 KAWSCO will not remain a going concern for at least the next twelve months from the date of this statement.

Approval of the financial statements

Karuri Water and Sanitation Company financial statements were approved by the Board on 27th Sept 2023 and signed on its behalf by:



Eng. Andrew Muigai
Chairman of the Board



John P. Karioki
Managing Director

REPUBLIC OF KENYA

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

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NAIROBI

REPORT OF THE AUDITOR-GENERAL ON KARURI WATER AND SANITATION COMPANY LIMITED FOR THE YEAR ENDED 30 JUNE, 2023

PREAMBLE

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

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

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

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

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of Karuri Water and Sanitation Company Limited, set out on pages 1 to 30, which comprise of the statement of financial

position as at 30 June, 2023 and the statement of profit or loss and other comprehensive income, statement of changes in equity, statement of cash flows and statement of comparison of budget and actual amounts for the year then ended and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, 2015. I have obtained all the information and explanations which to the best of my knowledge and belief, were necessary for the purpose of the audit.

In my opinion, except for the effects of the matter described in the Basis for Qualified Opinion section of my report, the financial statements present fairly, in all material respects, the financial position of Karuri Water and Sanitation Company Limited as at 30 June, 2023 and of its financial performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards and comply with the Water Act, 2016, the Companies Act, 2015 and the Public Finance Management Act, 2012.

Basis for Qualified Opinion

Lack of Ownership Documents for Motorcycles

The statement of financial position reflects property, plant and equipment totalling Kshs.57,791,861. The amount includes motor vehicles and cycles amounting to Kshs.756,002 as disclosed in Note 16 to the financial statements. However, log books for two (2) motor cycles were registered in the name of the supplier.

In the circumstances, the ownership and completeness of two motorcycles could not be confirmed.

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

Emphasis of Matter

1. Material Uncertainty in Relation to Going Concern

The statement of financial position reflects total current assets and total current liabilities totalling Kshs.45,989,256 and Kshs.159,936,530, respectively, resulting in a negative working capital of Kshs.113,947,274. This casts significant doubts on the Company's ability to continue as a going concern.

In the circumstances, the Company is technically insolvent and may not be able to meet its current obligations as and when they fall due.

2. Under-Collection of Revenue

The statement of comparison of budget and actual amounts reflects total final revenue budget amounting to Kshs.142,795,000. However, revenue totalling Kshs.84,584,547 was collected resulting in a shortfall of Kshs.58,210,453 or 41% of the budget.

The under collection of revenue may have affected implementation of planned activities, which may have impacted negatively on service delivery to the Public.

3. Long Outstanding Trade and Other Payables

The statement of financial position reflects trade and other payables totalling Kshs.133,879,340. The amount includes payables amounting to Kshs.82,505,200 as disclosed in Note 24 to the financial statements which have remained outstanding for over one year. No explanation has been provided for non-payment of these debts.

My opinion is not modified in respect of these matters.

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

Unresolved Prior Year Matters

In the audit report of the previous year, several issues were raised under the Report on Financial Statements, Report on Lawfulness and Effectiveness in Use of Public Resources, and Report on Effectiveness of Internal Controls, Risk Management and Governance which have remained unresolved.

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. Non-Revenue Water

Review of revenue records revealed that 1,377,973 cubic meters (m³) of water was produced out of which 991,285 m³ was billed to customers while the balance of 386,688

m³ or approximately 28% of the total volume of water produced represents non-revenue water. The non-revenue water of 28% was over and above the allowable loss of 25% set by the Water Services Regulatory Board (WASREB) guidelines by 3%.

The non-revenue water may have resulted in loss of revenue estimated at Kshs.31,128,384.

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

2. Non-Compliance with Minimum Requirement on Employee Ethnic Balance

Review of employee records revealed that the Company has sixty-four (64) employees out of which fifty-four (54) or 84% were from the dominant ethnic community. This was contrary to Section 7(2) of the National Cohesion and Integration Act, 2008 which provides that no public establishment shall have more than one third of its staff from the same ethnic community.

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

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 overall 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 and for maintaining effective internal controls 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 controls, risk management and governance.

In preparing the financial statements, Management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless Management is aware of the intention to liquidate the Company or 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 Management monitors compliance with relevant legislative and regulatory requirements, ensuring that effective processes and systems are in place to address key roles and responsibilities in relation to 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 controls in order to give an assurance on the effectiveness of internal controls, risk management and overall governance processes and systems in accordance with the provisions of Section 7(1)(a) of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution. My consideration of the internal controls would not necessarily disclose all matters in the internal controls 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 controls may not prevent or detect misstatements and instances of noncompliance. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies and procedures may deteriorate.

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.
- 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 controls that are identified during the audit.

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


FCPA Nancy Gathungu, CBS
AUDITOR-GENERAL

Nairobi

26 March, 2024

Karuri Water & Sanitation Company Ltd**Annual Report and Financial Statements for the year ended June 30, 2023****14. Statement Of Profit or Loss & Other Comprehensive Income for the Year Ended 30 June 2023.**

| | Note | 2022-2023 | 2021-2022 |
|--------------------------------------|------|---------------------|--------------------|
| | | Kshs | Kshs |
| REVENUES | | | |
| Operating Revenue | 5 | 79,785,655 | 77,373,860 |
| Grants Income | 6 | 3,114,920 | 34,632,359 |
| Other Income | 7a | 1,593,004 | 1,233,680 |
| Finance Income | 8 | 90,968 | 4,097 |
| TOTAL REVENUES | | 84,584,547 | 113,243,996 |
| EXPENSES | | | |
| Staff Costs | 9 | 36,441,155 | 28,422,216 |
| General & Operations Cost | 10 | 63,542,354 | 63,879,978 |
| Board Expenses | 11 | 2,788,049 | 2,046,137 |
| Maintenance Expenses | 12 | 4,268,819 | 3,009,286 |
| Depreciation Expenses | 13 | 4,946,988 | 5,052,728 |
| Finance Cost | 14 | - | - |
| TOTAL OPERATING EXPENSES | | 111,987,365 | 102,410,345 |
| OPERATING PROFIT/(LOSS) | | (27,402,818) | 10,833,651 |
| Extra Ordinary Profit | 7b | | - |
| PROFIT/(LOSS) BEFORE TAXATION | | (27,402,818) | 10,833,651 |
| INCOME TAX EXPENSE/(CREDIT) | 15 | | |
| PROFIT/(LOSS) AFTER TAXATION | | (27,402,818) | 10,833,651 |

Karuri Water & Sanitation Company Ltd
Annual Report and Financial Statements for the year ended June 30, 2023

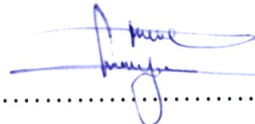
15. Statement of Financial Position as at 30th June 2023

| | Note | 2022-2023 | 2021-2022 |
|--|------|---------------------|---------------------|
| | | Kshs | Kshs |
| ASSETS | | | |
| Non-Current Assets | | | |
| Property, plant and equipment | 16 | 57,791,861 | 59,563,486 |
| Total Non-Current Assets | | 57,791,861 | 59,563,486 |
| Current Assets | | | |
| Inventories | 17 | 2,517,117 | 1,655,033 |
| Trade and other receivables | 18 | 30,785,757 | 32,039,804 |
| Bank and cash balances | 20 | 12,686,382 | 8,267,299 |
| Total Current Assets | | 45,989,256 | 41,962,136 |
| TOTAL ASSETS | | 103,781,117 | 101,525,622 |
| EQUITY AND LIABILITIES | | | |
| Capital and Reserves | | | |
| Ordinary share capital | 21 | 40 | 40 |
| Retained earnings | 22 | (82,052,277) | (54,771,947) |
| Capital Reserve | 23 | 977,464 | 977,464 |
| Capital and Reserves | | (81,074,773) | (53,794,443) |
| Non-Current Liabilities | | | |
| Deffered Income | 26 | 24,919,360 | 27,688,176 |
| Total Non-Current Liabilities | | 24,919,360 | 27,688,176 |
| Current Liabilities | | | |
| Trade and other payables | 24 | 133,879,340 | 101,835,521 |
| Customer Refundable Deposits & Prepayments | 25 | 22,942,270 | 22,335,344 |
| Deferred Grant Income | 26 | 3,114,920 | 3,461,024 |
| Total Current Liabilities | | 159,936,530 | 127,631,889 |
| TOTAL EQUITY AND LIABILITIES | | 103,781,117 | 101,525,622 |

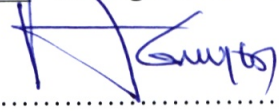
The financial statements were approved by the Board on 27/09/23 and signed on its behalf by:



John Karioki
Managing Director



Cyrus Maina
Head of Finance



Eng. Andrew Muigai
Chairman of the Board

Karuri Water & Sanitation Company Ltd
Annual Report and Financial Statements for the year ended June 30, 2023

16. Statement Of Changes in Equity for the Year Ended 30 June 2023

| | Ordinary Share Capital | Retained Earnings | Capital Reserve | Total |
|---|---------------------------------------|------------------------------|----------------------------|---------------------|
| | Kshs | Kshs | Kshs | Kshs |
| Balance Brought Forward as at July 1, 2022 | 40 | (65,605,598) | 977,464 | (64,628,094) |
| Total comprehensive income | - | 10,833,651 | - | 10,833,651 |
| Balance Carried down at June 30, 2022 | 40 | (54,771,947) | 977,464 | (53,794,443) |
| Balance Brought Forward as at July 1, 2022 | 40 | (54,771,947) | 977,464 | (53,794,443) |
| Total comprehensive income | - | (27,402,818) | - | (27,402,818) |
| Refund of New connection fees | | (6,840) | - | (6,840) |
| Balance Carried down as at June 30, 2023 | 40 | (82,181,605) | 977,464 | (81,204,101) |

Karuri Water & Sanitation Company Ltd
Annual Report and Financial Statements for the year ended June 30, 2023

17. Statement Of Cash Flows for The Year Ended 30 June 2023

| | Note | 2022-2023 | 2021-2022 |
|---|------|---------------------------|---------------------------|
| | | Kshs | Kshs |
| OPERATING ACTIVITIES | | | |
| Cash generated from/(used in) operations | 26 | 7,594,446 | 2,923,318 |
| Net cash generated from/(used in) operating activities | | <u>7,589,692</u> | <u>2,923,318</u> |
| INVESTING ACTIVITIES | | | |
| Purchase of property, plant and equipment | 16 | (3,179,828) | (3,153,176) |
| Proceeds from Lost Meter Reading Phones | | 4,465 | 32,669 |
| Net cash generated from/(used in) investing activities | | <u>(3,175,363)</u> | <u>(3,120,507)</u> |
| INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS | | 4,419,083 | (197,189) |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR | 20 | 8,267,299 | 8,464,488 |
| CASH AND CASH EQUIVALENTS AT END OF THE YEAR | 20 | <u>12,686,382</u> | <u>8,267,299</u> |

Karuri Water & Sanitation Company Ltd
Annual Report and Financial Statements for the year ended June 30, 2023

18. Statement Of Comparison of Budget & Actual Amounts for The Period Ended 30th June 2023

| | <i>Original Budget</i> | <i>Adjustments</i> | <i>Final Budget</i> | Actual on Comparable Basis | Performance Difference | % of Utilisation |
|------------------------------------|------------------------|--------------------|---------------------|----------------------------|------------------------|------------------|
| Revenue | Kshs | Kshs | Kshs | Kshs | Kshs | % |
| Operating Revenue | 130,400,000 | - | 130,400,000 | 79,785,655 | 50,614,345 | 61% |
| Grants | 10,000,000 | - | 10,000,000 | 3,114,920 | 6,885,080 | 31% |
| Other Income | 2,395,000 | - | 2,395,000 | 1,683,972 | 711,028 | 70% |
| Finance Income | - | - | - | - | - | 0% |
| Total Revenue | 142,795,000 | - | 142,795,000 | 84,584,547 | 58,210,453 | 59% |
| EXPENSES | | | | | | |
| Staff Costs | 38,636,800 | 1,163,200 | 39,800,000 | 36,441,155 | 3,358,845 | 92% |
| General & Operations Expenses | 84,698,700 | 1,784,900 | 86,483,600 | 63,542,354 | 22,941,246 | 73% |
| Board Expenses | 1,915,000 | 1,435,000 | 3,350,000 | 2,788,049 | 561,951 | 83% |
| Maintenance Expense | 7,586,500 | (1,700,000) | 5,886,500 | 4,268,819 | 1,617,681 | 73% |
| Depreciation Expenses | 5,500,000 | (500,000) | 5,000,000 | 4,946,988 | 53,012 | 99% |
| Finance Costs | - | - | - | - | - | 0% |
| Total Recurrent Expenditure | 138,337,000 | 2,183,100 | 140,520,100 | 111,987,365 | 28,532,735 | |
| Surplus / (Deficit) | 4,458,000 | (2,183,100) | 2,274,900 | (27,402,818) | 29,677,718 | |
| Capital Expenditure | 1,450,000 | - | 1,450,000 | 3,179,828 | (1,729,828) | 219% |
| Surplus / (Deficit) | 3,008,000 | (2,183,100) | 824,900 | (30,582,646) | 31,407,546 | |

Karuri Water & Sanitation Company Ltd
Annual Report and Financial Statements for the year ended June 30, 2023

Note: PFM Act section 164(2) ii and iv requires a County Government entity to present appropriation accounts showing the status of each vote compared with the appropriation for the vote and a statement explaining any variations between actual expenditure and the sums voted. IFRS does not require entities complying with IFRS standards to prepare budgetary information because most of the entities that apply IFRS are private entities that do not make their budgets publicly available.

However, for public sector entities, the PSASB (PUBLIC SECTOR ACCOUNTING STANDARDS BOARD) has considered the requirements of the PFM Act, 2012 which these statements comply with, the importance that the budgetary information would provide to the users of the statements and the fact that the public entities make their budgets publicly available and decided to include this statement under the IFRS compliant financial statements.

The company prepares its budget by the end of February in the previous year according the Finance Management Systems Manual. In the same approval the management presents any amendments of the current year's budget based on the half year report. This is how the year under review was amended and the approved by the full board.

19. Notes To the Financial Statements

1. General Information

Karuri Water and Sanitation Co. Ltd is established by and derives its authority and accountability from the Water Act 2016. The entity is wholly owned by the County Government of Kiambu and is domiciled in Kenya. The entity's principal activity is distribution of water from our sources to individual and commercial consumers within our jurisdiction.

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

2. Statement of Compliance and Basis of Preparation

The financial statements have been prepared on a historical cost basis except for the measurement at re-valued amounts of certain items of property, plant and equipment, marketable securities and financial instruments at fair value, impaired assets at their estimated recoverable amounts and actuarially determined liabilities at their present value. The preparation of financial statements in conformity with International Financial Reporting Standards (IFRS) allows the use of estimates and assumptions. It also requires management to exercise judgement in the process of applying the Company's accounting policies.

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

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

Karuri Water & Sanitation Company Ltd
Annual Report and Financial Statements for the year ended June 30, 2023

Notes to the financial statements (continued)

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

- i. *New and amended standards and interpretations in issue and effective in the year ended 30 June 2023.*

| Title | Description | Effective Date |
|---|--|--|
| IFRS 17 Insurance Contracts (issued in May 2017) | The new standard establishes principles for the recognition, measurement, presentation and disclosure of insurance contracts issued. It also requires similar principles to be applied to reinsurance contracts held and investment contracts with discretionary participation features issued. The objective is to ensure that entities provide relevant information in a way that faithfully represents those contracts. | Effective for annual periods beginning on or after 1 st January 2023. |
| IAS (International Accounting Standards) 8- Accounting Policies, Errors, and Estimates | The amendments, applicable to annual periods beginning on or after 1st January 2023, introduce a definition of 'accounting estimates' and include other amendments to IAS 8 to help entities distinguish changes in accounting policies from changes in accounting estimates. | The amendments are effective for annual reporting periods beginning on or after January 1, 2023. |
| Amendments to IAS 1 titled Disclosure of Accounting Policies (issued in February 2021) | The amendments, applicable to annual periods beginning on or after 1st January 2023, require entities to disclose their material accounting policy information rather than their significant accounting policies. | The amendments are effective for annual periods beginning on or after January 1, 2023. |
| Amendments to IAS 12 titled Deferred Tax Related to Assets and Liabilities arising from a Single Transaction (issued in May 2021) | The amendments, applicable to annual periods beginning on or after 1st January 2023, narrowed the scope of the recognition exemption in paragraphs 15 and 24 of IAS 12 (recognition exemption) so that it no longer applies to transactions that, on initial recognition, give rise to equal taxable and deductible temporary differences. | The amendments are effective for annual periods beginning on or after January 1, 2023. |

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

Karuri Water & Sanitation Company Ltd
Annual Report and Financial Statements for the year ended June 30, 2023

Notes to the Financial Statements (Continued)

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

ii. *New and amended standards and interpretations in issue but not yet effective in the year ended 30 June 2023.*

| Title | Description | Effective Date |
|--|---|--|
| Amendments to IAS 1 titled Classification of Liabilities as Current or Non-current (issued in January 2020, amended in October 2022) | The amendments, applicable to annual periods beginning on or after 1st January 2024, clarify a criterion in IAS 1 for classifying a liability as non-current: the requirement for an entity to have the right to defer settlement of the liability for at least 12 months after the reporting period | The amendments are effective for annual periods beginning on or after January 1, 2024. Earlier application is permitted. |
| Amendment to IFRS 16 titled Lease Liability in a Sale and Leaseback (issued in September 2022) | The amendment, applicable to annual periods beginning on or after 1st January 2024, requires a seller-lessee to subsequently measure lease liabilities arising from a leaseback in a way that it does not recognise any amount of the gain or loss. | The amendments are effective for annual periods beginning on or after January 1, 2024. Earlier application is permitted. |
| Amendments to IAS 1 titled Non-current Liabilities with Covenants (issued in October 2022) | The amendments, applicable to annual periods beginning on or after 1st January 2024, improve the information an entity provides about liabilities arising from loan arrangements for which an entity's right to defer settlement of those liabilities for at least twelve months after the reporting period is subject to the entity complying with conditions specified in the loan arrangement. | The amendments are effective for annual periods beginning on or after January 1, 2024. Earlier application is permitted. |

The Directors do not plan to apply any of the above until they become effective. Based on their assessment of the potential impact of application of the above, they do not expect that there will be a significant impact on the company's financial statements.

iii. *Early adoption of standards*

Karuri Water Co. did not early – adopt any new or amended standards in year under review.

Notes to the financial statements (continued)

4. Summary of 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 KAWSCO 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 KAWSCO's activities, and when specific criteria have been met for each of KAWSCO's activities as described below.

- i) Revenue from the sale of goods and services** is recognized in the year in which the Company delivers products/services to the customer, the customer has accepted the products/services and collectability of the related receivables is reasonably assured.
- ii) Grants from Government Entities** are recognized in the year in which the Company actually receives such grants. Recurrent grants are recognized in the statement of comprehensive income. Development/capital grants are recognized in the statement of financial position and realised in the statement of comprehensive income over the useful life of the assets that has been acquired using such funds.
- iii) Finance income** comprises interest receivable from bank deposits and investment in securities, and is recognized in profit or loss on a time proportion basis using the effective interest rate method.
- iv) Other income** is recognized 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, utilities or personnel services. Where the financial value received for in-kind contributions can be reliably determined, the Company includes such value in the statement of comprehensive income both as revenue and as an expense in equal and opposite amounts; otherwise, the contribution is not recorded but disclosed.

c) Property, plant and equipment

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

d) Depreciation and impairment of property, plant and equipment

Freehold land and capital work in progress are not depreciated. Capital work in progress relates mainly to the cost of ongoing but incomplete works on buildings and other civil works and installations.

Depreciation on property, plant and equipment is recognized in the income statement on a reducing balance on a pro-rata 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:

| | |
|-------------------------------|------|
| Office equipment-computers | 33% |
| Motor Vehicles & Motor Cycles | 25% |
| Plant Equipment | 10% |
| Furniture and fittings | 10% |
| Water meters | 10% |
| Computer Software | 30% |
| Buildings | 2.5% |
| Pipeline | 2.5% |
| Amortization | 10% |

e) Inventories

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

f) Trade and other receivables

Trade and other receivables are recognized at amortized cost less allowances for any uncollectible amounts. These are assessed for impairment on a continuing basis. An estimate is made of doubtful receivables based on a review of all outstanding amounts at the year end. Bad debts are written off after all efforts at recovery have been exhausted and when the necessary approval to write off is granted.

Notes to the financial statements (continued)

Summary of Accounting Policies

g) Taxation

i) Current income tax

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

h) Deferred tax

Deferred tax is provided using the liability method on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date.

Deferred tax liabilities are recognized for all taxable temporary differences, except in respect of taxable temporary differences associated with investments in controlled entities, associates and interests in joint ventures, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future. Deferred tax assets are recognized for all deductible temporary differences, the carry forward of unused tax credits and any unused tax losses. Deferred tax assets are recognized to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilized, except in respect of deductible temporary differences associated with investments in controlled entities, associates and interests in joint ventures, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

Notes to the financial statements (continued)

Summary of Accounting Policies

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Unrecognized deferred tax assets are re-assessed at each reporting date and are recognized to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered. Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

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

i) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and cash at bank, short-term deposits on call and highly liquid investments with an original maturity of three months or less, which are readily convertible to known amounts of cash and are subject to insignificant risk of changes in value. Bank account balances include amounts held at various Commercial Banks at the end of the reporting period.

j) Trade and other payables

Trade and other payables are non-interest bearing and are carried at amortized 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.

Notes to the financial statements (continued)

Summary of Accounting Policies

k) Retirement benefit obligations

Employees on both permanent employment as well as contract basis contribute to a defined contribution scheme (Laptrust Retirement Fund) at the rate of 7.5% of Gross Salary while the company contributes 10% of Gross Salary per person per month.

The company also contributes to the statutory National Social Security Fund (NSSF) for all employees. 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 12%, 6% is deducted on the employee salary and the employee matches it at 6% per employee per month calculated on a graduated scale.

l) Budget information

The original budget for FY 2022-2023 was approved by the Board of Directors on xxx. Subsequent revisions or additional appropriations were made to the approved budget in accordance with specific approvals from the appropriate authorities. The additional appropriations are added to the original budget by the entity upon receiving the respective approvals in order to conclude the final budget. Accordingly, the Company recorded additional appropriations of Ksh. 1,482,900 on the 2022-2023 budget following the governing body's approval. The Company's budget is prepared on accrual 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 profit or loss. 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. A statement to reconcile the actual amounts on a comparable basis included in the statement of comparison of budget and actual amounts and the actuals as per the statement of Comprehensive income has been presented under note 18 of these financial statements.

m) Comparative figures

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

Notes to the financial statements (continued)

Summary of Accounting Policies

n) Customer Deposits

Customer deposits are recognized as the amount paid by the consumer before service can begin less any refunds made to the customer. Water deposits are refunded when water service is disconnected on customer request and all outstanding bills are paid or when a construction work is completed. The amount required as deposit in respect of existing service agreements may from time to time be reviewed by WASREB as they review the water tariffs. As at the close of the reporting period the following are the categories of deposits made by customers:

- Kshs 1,500 for domestic connections
- Kshs 10,000 for connections that have more than one single dwelling
- Kshs. 10,000 for minor construction connections
- Kshs. 10,000 for connections made to an Institution
- Kshs. 50,000 for major construction connections

The deposits amounts are held in a separate account in one of the commercial banks as required by the regulator.

o) Provisions

Provisions are recognized when a company has a legal or constructive obligation as a result of past events and it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate of the amount can be made. Provision for bad and doubtful debts is provided at 5% of the trade debtors.

p) Capital Reserve

Capital reserve comprises of the amounts inherited from the municipal council during the transition when the company was incorporated

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, 2023.

Notes to the financial statements (continued)
Summary of Accounting Policies

5. Significant Judgments and Sources of Estimation Uncertainty

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

In the process of applying the Company's accounting policies, management has made the following judgments, apart from those involving estimations, which have the most significant effect on the amounts recognized in the financial statements

Revenue recognition

Water revenue includes an assessment of water supplied to customers between the date of the last meter reading and the year end. The water sales is estimated using historical consumption patterns taking into account the total water usage by the customer.

Water deposits

Money received from water customers as deposit is held as a non-current liability because the Company will continue to offer services to the customers for the foreseeable future and the customers are not expected to discontinue their use of water in the short run

a) Estimates and assumptions

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

Notes to the financial statements (continued)
Summary of Accounting Policies

Property Plant & Equipment

Critical estimates are made by the Directors in determining depreciation rates of property plant & equipment. Property and equipment is depreciated over its useful life taking into account residual values, where appropriate.

b) Useful lives and residual values

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

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

c) Provisions

Provisions were raised and management determined an estimate based on the information available. Provisions are measured at the management's best estimate of the expenditure required to settle the obligation at the reporting date and are discounted to present value where the effect is material. The following are provisions made during preparations of this report,

Provision for doubtful debts

The estimated provision for doubtful debts is based on the period for which the debt was outstanding. General provisions are established where full recovery of the principal is considered doubtful which is made against finalized customer accounts net of deposits.

Karuri Water & Sanitation Company Ltd
Annual Report and Financial Statements for the year ended June 30, 2023

Notes to the financial statements (continues)

| | | 2022-2023 | 2021-2022 |
|-----------|---|-------------------|-------------------|
| | | Kshs | Kshs |
| 6 | Operating Revenue | | |
| | Water Sales | 79,785,655 | 77,373,860 |
| | | 79,785,655 | 77,373,860 |
| | | 2022-2023 | 2021-2022 |
| 7 | Grants Income | Kshs | Kshs |
| | Operations grants from WSTF | | 10,128,310 |
| | Operations grants from County Government | | 21,043,025 |
| | Capital Grants Amortized | 3,114,920 | 3,461,024 |
| | Total Grant Income | 3,114,920 | 34,632,359 |
| 8a | Other Income | 2022-2023 | 2021-2022 |
| | | Kshs | Kshs |
| | New Connection | 1,187,260 | 842,080 |
| | Reconnection | 3,500 | 20,000 |
| | Fine | 143,350 | 106,600 |
| | Change of Tapping Point & disc on request | 27,300 | 265,000 |
| | Meter | 166,108 | |
| | Decrease in Provision for Bad Debts | 65,486 | - |
| | | 1,593,004 | 1,233,680 |
| 8b | Extra Ordinary Income | | |
| | Compensation for Pipeline Relocation Due to Road Construction | | - |
| | Total Other Income | 1,593,004 | 1,233,680 |
| | | 2022-2023 | 2021-2022 |
| 9 | Finance Income | Kshs | Kshs |
| | Interest from Commercial Banks | 90,968 | 4,097 |
| | Total Finance Income | 90,968 | 4,097 |
| | EXPENSES | 2022-2023 | 2021-2022 |
| 10 | Staff costs | Kshs | Kshs |
| | Salaries | 28,026,600 | 22,703,421 |
| | Wages | 1,046,910 | 906,272 |
| | Gratuity | 531,192 | 231,231 |
| | Pension- Employer's Contribution | 1,822,563 | 1,720,696 |
| | N.S.S.F Employer's Contribution | 348,200 | 33,200 |
| | Staff Welfare | 422,574 | 327,396 |
| | Staff Medical Cover | 4,243,116 | 2,500,000 |
| | Total Staff Costs | 36,441,155 | 28,422,216 |
| | | 2022-2023 | 2021-2022 |
| 11 | General & Operational expenses | Kshs | Kshs |
| | Electricity -Operations | 22,267,882 | 17,779,942 |

Karuri Water & Sanitation Company Ltd
Annual Report and Financial Statements for the year ended June 30, 2023

| | | | |
|-----------|--|--------------------|-------------------|
| | Water Use Charges (WARMA) | | 722,011 |
| | Water Quality Testing | 236,000 | 228,000 |
| | Water Sources Management | 116,459 | 79,191 |
| | Chemicals | 30,630 | - |
| | Planning & Design | - | 3,000 |
| | Fuels & Lubricants | 2,875,917 | 2,008,324 |
| | Vehicle Maintenance | 922,846 | 926,987 |
| | Bulk Water Expenditure | 22,562,020 | 28,103,760 |
| | Billing & Other Support Services | 818,225 | 786,753 |
| | Compensation for Way leave | - | - |
| | Rent and Rates | 1,997,244 | 1,869,484 |
| | Electricity - office | - | - |
| | Telephone Expenses | 1,492,401 | 1,149,836 |
| | Postage | 9,450 | 9,750 |
| | Stationery, Printing and Photocopies | 113,564 | 338,765 |
| | Travelling, Accommodation & Subsistence | 1,963,862 | 1,578,190 |
| | Staff Training and Workshops | 901,865 | 1,065,911 |
| | Security | 350,700 | 336,000 |
| | Staff Protective Gear & Uniforms | 41,120 | 346,675 |
| | Insurance | 373,523 | 178,519 |
| | Membership to Professional Association | 353,300 | 239,370 |
| | General Office Running Expenses | 937,717 | 696,223 |
| | Office Repairs & Maintenance | 10,000 | 38,450 |
| | AGM Expenses | 162,270 | - |
| | Advertising Expenses | 427,080 | 23,023 |
| | Audit expenses & Professional Fees | 116,000 | 116,000 |
| | First Aid Kit | - | - |
| | Sports - WASCO | 46,500 | 422,500 |
| | Increase(decrease) in provision of bad debts | - | 263,678 |
| | Contribution to Merger Fund | 124,500 | 335,214 |
| | Performance Reward Systems | - | - |
| | Corporate Social Responsibility | 6,000 | - |
| | Legal fees, compensation & fines | 22,000 | 8,000 |
| | Stakeholder's Forum | 26,091 | |
| | Water & Sewer | 4,000 | 126,430 |
| | Covid-19 Interventions | 32,500 | 209,560 |
| | Bank Charges | 327,212 | 389,623 |
| | Mpesa Charges | 329,855 | 356,507 |
| | Regulatory Fee to WASREB | 3,252,527 | 3,144,302 |
| | Tariff Review | 291,094 | |
| | Total General & Operations Cost | 63,542,354h | 63,879,978 |
| | | | |
| | | 2022-2023 | 2021-2022 |
| 12 | Board Expenses | Kshs | Kshs |
| | Capacity Building | 120,800 | 81,310 |
| | Travel & Accommodation | 60,490 | 490,180 |

Karuri Water & Sanitation Company Ltd
Annual Report and Financial Statements for the year ended June 30, 2023

| | | | |
|-----------|---|--------------------|--------------------|
| | Board Honorarium | 229,290 | 30,000 |
| | Board Allowances | 2,377,469 | 1,444,647 |
| | | 2,788,049 | 2,046,137 |
| | | 2022-2023 | 2021-2022 |
| 13 | Maintenance Expenses | Kshs | Kshs |
| | Maintenance of Water System | 3,507,723 | 2,278,833 |
| | Maintenance of Building | - | - |
| | IT Costs(maintenance of computers,Internet costs) | 761,096 | 730,453 |
| | Total Maintenance Expenses | 4,268,819 | 3,009,286 |
| | | 2022-2023 | 2021-2022 |
| 14 | Depreciation Expenses | Kshs | Kshs |
| | Depreciation | 4,946,988 | 5,052,728 |
| | | 4,946,988 | 5,052,728 |
| | | 2022-2023 | 2021-2022 |
| 15 | Finance Cost | Kshs | Kshs |
| | Interest on Loans | - | - |
| | Total | - | - |
| | | | |
| | TOTAL EXPENSES | 111,987,365 | 102,410,345 |
| | | | |
| | | | |

Karuri Water & Sanitation Company Ltd
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For the year ended June 30, 2023

Notes to the financial statements (continued)

16. Property, Plant and Equipment

| 2022 | Plant and Equipment | Motor Vehicles & Cycles | Computers & Office Equipment | Furniture & Fittings | Meters | Computer Software | Buildings | Pipe Line | Total |
|--------------------------|---------------------|-------------------------|------------------------------|----------------------|-------------------|-------------------|------------------|-------------------|-------------------|
| COST OR VALUATION | | | | | | | | | |
| At July 1, 2021 | 16,861,903 | 1,095,032 | 4,627,771 | 1,773,880 | 27,534,042 | 1,694,000 | 1,826,770 | 23,219,902 | 78,633,300 |
| Additions | 2,194,516 | 366,300 | 592,360 | - | - | - | - | - | 3,153,176 |
| Transfers | | | | | | | | | - |
| Disposals | - | - | 69,000 | - | - | - | - | - | 69,000 |
| At June 30, 2022 | 19,056,419 | 1,461,332 | 5,151,131 | 1,773,880 | 27,534,042 | 1,694,000 | 1,826,770 | 23,219,902 | 81,717,476 |
| DEPRECIATION | | | | | | | | | |
| At July 1, 2021 | 6,899,674 | 544,906 | 2,942,704 | 874,079 | 4,153,049 | 1,043,987 | 185,474 | 493,721 | 17,137,593 |
| Charge for the year | 1,060,516 | 160,425 | 599,516 | 89,980 | 2,338,099 | 195,004 | 41,032 | 568,155 | 5,052,728 |
| Impairment loss | | | | | | | | | - |
| Eliminated on disposal | - | - | 36,331 | - | - | - | - | - | 36,331 |
| At June 30, 2022 | 7,960,190 | 705,331 | 3,505,890 | 964,059 | 6,491,148 | 1,238,991 | 226,506 | 1,061,876 | 22,153,990 |
| NET BOOK VALUE | | | | | | | | | |
| At June 30, 2022 | 11,096,229 | 756,002 | 1,645,241 | 809,821 | 21,042,894 | 455,009 | 1,600,264 | 22,158,026 | 59,563,486 |

Notes to the financial statements (continued)

Property, Plant and Equipment (Continued)

| 16 | 2023 | Plant and Equipment | Motor Vehicles & Cycles | Computers & Office Equipment | Furniture & Fittings | Meters | Computer Software | Buildings | Pipe Line | Total |
|----|--------------------------|---------------------|-------------------------|------------------------------|----------------------|-------------------|-------------------|------------------|-------------------|-------------------|
| | COST OR VALUATION | | | | | | | | | |
| | At July 1, 2022 | 19,056,419 | 1,461,332 | 5,151,131 | 1,773,880 | 27,534,042 | 1,694,000 | 1,826,770 | 23,219,902 | 81,717,476 |
| | Additions | 2,031,170 | - | 50,000 | 47,000 | 499,000 | 451,008 | 101,650 | - | 3,179,828 |
| | Transfers | | | | | | | | | - |
| | Disposals | - | - | (13,800) | - | - | - | - | - | (13,800) |
| | At June 30, 2023 | 21,087,589 | 1,461,332 | 5,187,331 | 1,820,880 | 28,033,042 | 2,145,008 | 1,928,420 | 23,219,902 | 84,883,504 |
| | DEPRECIATION | | | | | | | | | |
| | At July 1, 2022 | 7,960,190 | 705,331 | 3,505,890 | 964,059 | 6,491,148 | 1,238,991 | 226,506 | 1,061,876 | 22,153,990 |
| | Charge for the year | 1,211,481 | 189,000 | 543,167 | 83,332 | 2,108,448 | 216,793 | 42,548 | 552,220 | 4,948,126 |
| | Impairment loss | | | | | | | | | - |
| | Eliminated on disposal | - | - | (9,335) | - | - | - | - | - | (9,335) |
| | At June 30, 2023 | 9,171,670 | 894,330 | 4,039,721 | 1,047,391 | 8,599,596 | 1,455,785 | 269,054 | 1,614,095 | 27,091,643 |
| | NET BOOK VALUE | | | | | | | | | |
| | At June 30, 2023 | 11,915,919 | 567,002 | 1,147,610 | 773,489 | 19,433,446 | 689,223 | 1,659,366 | 21,605,807 | 57,791,861 |

Karuri Water & Sanitation Company Ltd
Annual Reports and Financial Statements
For the year ended June 30, 2023

Notes to the financial statements (continued)

| | | 2022-2023 | 2021-2022 |
|-----------|---|---------------------|---------------------|
| 17 | Current taxation | Kshs | Kshs |
| | Profit/Loss before taxation | (27,402,818) | 10,833,651 |
| | Expenses not deductible for tax purposes | 5,062,988 | 5,432,406 |
| | Income not taxable | | |
| | Capital allowances | (5,387,837) | (6,838,467) |
| | | (27,727,667) | 9,427,590 |
| | Previous Year Losses b/f | (40,697,971) | (50,125,561) |
| | Adjusted Profit/Loss | (68,425,639) | (40,697,971) |
| | Current taxation based on the adjusted profit for the year at 30% | | |
| | | 2022-2023 | 2021-2022 |
| 18 | INVENTORIES | Kshs | Kshs |
| | Pipes & Fittings | 2,023,418 | 1,521,484 |
| | Stationery | 357,031 | 133,549 |
| | Motorbike Spares & Electricals | 7,339 | - |
| | Water Inventory | 129,328 | |
| | | 2,517,117 | 1,655,033 |
| 19 | TRADE AND OTHER RECEIVABLES | 2022-2023 | 2021-2022 |
| | | Kshs | Kshs |
| | Shareholders | 40 | 40 |
| | Prepayment :-Rent Deposit | 206,000 | 206,000 |
| | -Electricity Deposit | 30,000 | 30,000 |
| | -Bulk SMS Service Deposit | 10,000 | 10,000 |
| | -Internet Services Deposit(Fiber) | 20,000 | 20,000 |
| | Staff Receivable | 4,141 | 13,959 |
| | Trade Receivabe (19a) | 32,121,659 | 33,431,374 |
| | less provision for bad debts | (1,606,083) | (1,671,569) |
| | | 30,785,757 | 32,039,804 |
| | 19 a) TRADE RECEIVABLE | 2022-2023 | 2021-2022 |
| | Gross trade receivables | 32,121,659 | 33,431,374 |
| | Provision for doubtful receivables | (1,606,083) | (1,671,569) |
| | Net trade receivables | 30,515,576 | 31,759,805 |
| 20 | BANK AND CASH BALANCES | Kshs | Kshs |
| | Cash at Bank | | |
| | Post Bank 6116 | 756,844 | 97,242 |
| | Post Bank 108 | 16,565 | 23,210 |
| | Family Bank 232 Revenue | 262,904 | 367,276 |

Karuri Water & Sanitation Company Ltd
Annual Reports and Financial Statements
For the year ended June 30 2023

| | | | | | |
|-----------|--|--------------------|-----------------------|--------------------|-----------------------|
| | Between 3-12 Months | 32,959,409 | 144% | 10,054,173 | 10% |
| | Over 1 year | 82,505,200 | 360% | 75,471,386 | 74% |
| | Total | 133,507,265 | | 101,835,521 | |
| | | | | 2022-2023 | 2021-2022 |
| 25 | CUSTOMER REFUNDABLE DEPOSITS & PREPAYMENTS | | | Kshs | Kshs |
| | Customer deposits-Opening balance | | | 20,982,770 | 19,585,270 |
| | -Additions for the year | | | 2,091,000 | 1,507,500 |
| | -Refunds | | | <u>(131,500)</u> | <u>(110,000)</u> |
| | | | | 22,942,270 | 20,982,770 |
| | Prepayments by customers | | | | 1,352,574 |
| | | | | 22,942,270 | 22,335,344 |
| | Aging Analysis for Refundable Deposits and Prepayments | | | | |
| | | 2022-2023 | % of the total | 2021-2022 | % of the total |
| | Under one year | 2,091,000 | 20% | 2,727,700 | 12% |
| | 1-2 years | 1,638,803 | 6% | 2,556,874 | 11% |
| | 2-3 years | 2,424,500 | 9% | 610,000 | 3% |
| | Over 3 years | 16,787,967 | 65% | 16,440,770 | 74% |
| | Total | 22,942,270 | | 22,335,344 | |
| | | | | 2022-2023 | 2021-2022 |
| 26 | DEFERRED INCOME | | | Kshs | Kshs |
| | Current Liability | | | 3,114,920 | 3,461,024 |
| | Long -term Liability | | | 24,919,360 | 27,688,176 |
| | | | | 28,034,280 | 31,149,200 |
| | | | | 2022-2023 | 2021-2022 |
| 27 | NOTES TO THE STATEMENT OF CASH FLOW | | | Kshs | Kshs |
| | Reconciliation of operating profit/(loss) to cash generated from/(used in) operations | | | | |
| | Operating profit/(loss) | | | (27,402,818) | 10,833,651 |
| | Depreciation | | | 4,946,988 | 5,052,728 |
| | Refund of new connection Fee | | | (6,840) | |
| | Water Inventory | | | 129,328 | (3,461,024) |
| | Grant Income | | | (3,114,920) | 12,425,355 |
| | Operating profit/(loss) before working capital changes | | | (25,448,262) | |
| | (Increase)/decrease in inventories | | | (862,084) | 697,004 |
| | (Increase)/decrease in trade and other receivables | | | 1,254,047 | (5,055,397) |
| | Increase/(decrease) in trade and other payables | | | 32,043,819 | (6,541,144) |
| | Increase in refundable customer deposits | | | 606,926 | 1,397,500 |
| | Cash generated from/(used in) operations | | | 7,594,446 | 2,923,318 |

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Notes to the financial statements (continued)

Other Disclosures

28. Related Party Disclosures

County Government of Kiambu

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

Other related parties include:

- The County Department in charge of Water
- County Government of Kiambu
- Water works Agencies
- WASREB (Water Services Regulatory Board)
- WARMA
- Water Sector Trust Fund
- Key management
- Board of directors
- Nairobi City Water & Sewerage co. Ltd

| | 2022-2023 | 2021-2022 |
|--|-------------------|-------------------|
| | Kshs | Kshs |
| a) Sales to related parties | | |
| Water sales to Govt. agencies | 1,484,225 | 1,755,845 |
| Total | 1,484,225 | 1,755,845 |
| b) Purchases from related parties | | |
| Purchases of electricity from KPLC | 22,459,724 | 17,779,942 |
| Purchase of bulk water from Limuru water | 2,560,400 | 11,624,700 |
| Purchase of bulk water from Nairobi water | 19,083,115 | 16,479,060 |
| Training and conference fees paid to govt. agencies | 170,000 | 164,810 |
| Bank charges paid to Govt Commercial banks(Postbank) | 129,888 | 165,264 |
| Water Use Charges expense for WARMA | | 722,011 |
| Lease Fees expense for WASREB | 3,249,907 | 3,144,302 |
| Total | 47,653,034 | 50,080,089 |
| c) Grants from the Government | | |

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| | | |
|--------------------------------------|-------------------|-------------------|
| Grants from Kiambu County Government | - | 21,043,025 |
| Grants from WSTF | - | 10,128,310 |
| Total | 31,171,335 | 31,171,335 |

Notes to the financial statements (continued)

| | | |
|---------------------------------------|------------------|------------------|
| d) Key management compensation | | |
| Directors' emoluments | 2,794,478 | 1,444,647 |
| Compensation to key management | 5,744,483 | 5,241,242 |
| Total | 8,538,961 | 6,685,889 |

29. Financial Risk Management

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

(i) Credit risk

The Company 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:

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Notes to the financial statements (continued)

| | Fully Performing | Past Due | Impaired | Total |
|-----------------------------|-------------------------|-----------------|-----------------|-------------------|
| As At 30th June 2023 | | | | |
| Trade & Other Receivables | 31,414,376 | 977,464 | (1,606,083) | 30,785,757 |
| Cash & Bank Balances | 12,686,382 | | | 12,686,382 |
| As At 30th June 2022 | | | | |
| Trade & Other Receivables | 32,738,496 | 977,464 | (1,671,798) | 32,044,162 |
| Cash & Bank Balances | 8,262,712 | | | 8,262,712 |

The customers under the fully performing category are paying their debts as they continue trading. The credit risk associated with these receivables is minimal and the allowance for uncollectible amounts that the company has recognised in the financial statements is considered adequate to cover any potentially irrecoverable amounts. The company has significant concentration of credit risk on amounts due from xxxx.

The board of directors sets the company's credit policies and objectives and lays down parameters within which the various aspects of credit risk management are operated.

ii) Liquidity risk management

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

The table below represents cash flows payable by the company under non-derivative financial liabilities by their remaining contractual maturities at the reporting date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances, as the impact of discounting is not significant.

| | Less Than 1 Month | Between 1-3 Months | Over 5 Months | Total |
|-----------------------------|--------------------------|---------------------------|----------------------|--------------------|
| As At 30th June 2023 | | | | |
| Trade & Other Payables | 8,619,986 | 9,302,107 | 115,957,247 | 133,879,340 |
| As At 30th June 2022 | | | | |
| Trade & Other Payables | 11,250,513 | 12,270,547 | 79,667,035 | 103,188,095 |

Notes to the financial statements (continued)

iv) Capital Risk Management

The objective of the Company's capital risk management is to safeguard the Board's ability to continue as a going concern. The water business is currently in a major expansion phase driven by a rise in demand and Government policy. The funding of additional transmitting and other distribution capacity is to be obtained from cash generated by the business and Government support. The adequacy of water tariffs allowed by WASREB and the level of Government support are key factors in the sustainability of the Company.

30. Incorporation

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

31. Events After the Reporting Period

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

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20. Appendices

Appendix 1: progress on follow up of auditor recommendations.

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

| Reference No. on the external audit Report | Issue / Observations from Auditor | Management comments | Status: (Resolved / Not Resolved) | Timeframe: (Put a date when you expect the issue to be resolved) |
|--|---------------------------------------|--|-----------------------------------|--|
| 1 | Excessive Non-Revenue Water | A NRW team has been in place and it reports directly to the MD and with a mandate of looking into all areas of water losses. | Ongoing | Continuous |
| 2 | Inaccurate Bank and Cash Balance | The unreceipted payments could not be traced to their owners, however, efforts of tracing the owners are underway. | Ongoing | |
| 3 | Accuracy of Customer Deposits Balance | A reconciliation was provided | Resolved | |
| 4 | Non-Disclosure of Inventory of Water | | Resolved | |

John Karioki

Managing Director

Date... 4/3/24

**Appendix II: Projects Implemented by the Company
Projects**

There were no major projects under taken during the period

Appendix III- Inter-Entity Confirmation Letter

There were no inter-entity transfers during the period

Appendix IV: Reporting of Climate Relevant Expenditures

No expenditure during the period

Appendix V: Reporting Disaster Management Expenditure

No expenditure during the period

Appendix VI: Recording of Transfers from Other Government Entities

No expenditure during the period