

REPUBLIC OF KENYA



Enhancing Accountability

PAPERS LA		REPORT
DATE	24/4/2024	
TABLED BY	Mrs. Del. Khup	
COMMITTEE	←	
CLERK AT THE TABLE	Kavats	OF

PARLIAMENT
OF KENYA
LIBRARY

THE AUDITOR-GENERAL

ON

**KAKAMEGA COUNTY WATER AND
SANITATION COMPANY LIMITED**

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



"Maji Safi, Maisha Bora"
"Quality Water, Healthy Livelihoods"

**KAKAMEGA COUNTY WATER AND SANITATION
COMPANY LIMITED**

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDING

JUNE 30, 2023

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

Kakamega County Water and Sanitation Company Limited
Annual Report and Financial Statements for the year ended June 30, 2023

Table of Contents	Page
1. Acronyms and Glossary of Terms	ii
2. Key Entity Information	iii
3. The Board of Directors	v
4. Key Management Team	vii
5. Chairman’s Statement	ix
6. Report Of the Managing Director	xi
7. Statement Of Performance Against Predetermined Objectives for FY 2022/2023	xiii
8. Corporate Governance Statement	xvii
9. Management Discussion and Analysis	xix
10. Environmental And Sustainability Reporting	xx
11. Report Of the Directors	xxi
12. Statement Of Directors’ Responsibilities	xxii
13. Report Of the Auditor general on the financial statements of Kakamega County Water and Sanitation Company Ltd.	xxiii
14. Statement Of Profit or Loss & Other Comprehensive Income for the Year Ended 30 June 2023	1
15. Statement Of Financial Position As at 30 June 2023	2
16. Statement Of Changes in Equity for the Year Ended 30 June 2023	3
17. Statement Of Cash Flows for The Year Ended 30 June 2023	4
18. Statement Of Comparison of Budget & Actual Amounts for The Period Ended 30 June 2023	5
19. Notes To the Financial Statements	6
20. Appendices	29

Kakamega County Water and Sanitation Company Limited

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

1. Acronyms and Glossary of Terms

The following acronyms and glossary of terms that appear in this annual report and financial statements;

KACWASCO	Kakamega County Water and Sanitation Company
WASREB	Water Services Regulatory Board
MD	Managing Director
CPA	Certified Public Accountant
CISA	Certified Information Systems Auditor
NRW	Non-Revenue Water
SIBO	Siaya-Bondo
WSTF	Water Sector Trust Fund
MMUST	Masinde Muliro University of Science and Technology
ERP	Enterprise Resource Planning
CSR	Corporate Social Responsibility
UBSUP	Up-scaling Basic Sanitation for the Urban - Poor Project.
DTF	Decentralized Treatment Facility
LVNWSB	Lake Victoria North Water Services Board (Currently Lake Victoria North Water Works Development Agency)
KenHA	Kenya National Highways Authority
CLSG	Conditional Liquidity Support Grant

2. Key Entity Information

Background information

Kakamega County Water and Sanitation Company Limited (KACWASCO) was incorporated under the Kakamega County Water and Sanitation Services Act 2021. Kakamega County took over the operations from Lake Victoria North Water Services Board (LVNWSB) on July 1, 2016, following a separation of the joint operations for water supply between Busia and Kakamega counties. This was brought about by the new constitution that made water services provision a devolved function.

Principal Activities

The services to be provided by the company are as follows;

1. Provision of water and sanitation / sewerage services within Kakamega rural.
2. Operations and maintenance of water and sanitation facilities
3. Planning, design and development of water and sewerage infrastructure
4. Managing commercial operations (meter reading, billing, revenue collection, handling customer relations, efficient utilization of revenues)
5. Extending water distribution and sewer network, or sanitation services to increase coverage
6. Sourcing, treatment, storage, transmission and distribution of water
7. Collection, treatment and safe disposal of wastewater to regulatory standards
8. Conservation of water

Our Vision: To be an effective and efficient water and Sanitation service provider

Our Mission statement: Sustainably provide quality, affordable reliable water and sanitation services to our stakeholders in accordance with the statutory regulations.

Our values: The mission and vision of the company shall be accomplished and realized by embracing the following core values; Integrity, professionalism and commitment, accountability and transparency, customer focus, equity and teamwork

Kakamega County Water and Sanitation Company Limited
Annual Report and Financial Statements for the year ended June 30, 2023

(a) Company Headquarters

Kefinco Complex
Kakamega-Kisumu Road
P.O Box 1189 – 50100
Kakamega.
Email:Kacwasco@gmail.com
Website: www.Kakamega water.go.ke
Tel:056-2030355

(b) Bankers

Kenya Commercial Bank
Kakamega Branch
P.O. Box 152 - 50100
Kakamega

Co-operative Bank
Kakamega Branch
P.O Box 595 – 50100
Kakamega

Family Bank
Kakamega Branch
PO Box 1815 - 50100
Kakamega

National Bank of Kenya
Kakamega Branch
P.O Box
Kakamega

(c) Independent Auditors





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

(d) Principal Legal Advisor





The County Attorney
County Government of Kakamega
P.O. Box 36-50100
Kakamega, Kenya

Kakamega County Water and Sanitation Company Limited
Annual Report and Financial Statements for the year ended June 30, 2023

3. The Board of Directors




Ref	Directors	Details
1.	<p>Mr. Boaz Odemu Bulimo Chairman of the Board</p> 	<p>Bachelor of Education B.Ed. Sc (Kenyatta University)</p>
2.	<p>Eng. George Jacob Orony Odedeh</p> 	<p>MBA-Strategic Management (The University of Nairobi) Bachelor of Science in Civil Engineering (The University of Nairobi)</p>
3.	<p>Mr. Raphael Milikau Otaalo</p> 	<p>Bachelor of Management and leadership- Human Resource Management (Management University of Africa) Diploma in Horticulture</p>
4.	<p>Mrs. Mary Musula Kundu</p> 	<p>Masters in Business Administration (University of Nairobi) CPA II (Kenya Institute of Management)</p>

Kakamega County Water and Sanitation Company Limited
Annual Report and Financial Statements for the year ended June 30, 2023



5.	<p>Mrs. Jane Chebet Mitei</p> 	<p>-Masters In Curriculum And Instruction, Bachelor's Degree In Early Childhood And Primary Education And Religion.(Kampala International University)</p>
6.	<p>Mr. Enock Andanje Musambai</p> 	<p>Masters in Education-M.E.D (Egerton University) Bachelors in Education (Moi University)</p>
7.	<p>Mrs. Mariam Claris Nyongesa</p> 	<p>Masters in Crop Protection (Masinde Muliro University of Science and Technology) Bachelor of Education Science (MMUST)</p>
8.	<p>Dr. Jeophita June Mwajuma</p> 	<p>Doctor of Philosophy in Environmental Microbiology Master of Science in Microbiology Post graduate Diploma in Education Bachelor of Science (Botany /Zoology)</p>

Kakamega County Water and Sanitation Company Limited
Annual Report and Financial Statements for the year ended June 30, 2023

4. Key Management Team

Ref	Management	Details
1.	 Eng. Michael Omondi Ogol Managing Director	BSc. (Water and Environmental Engineering)
2.	 CPA Erick Wabuyabo Commercial & Finance Manager	M.A (Economics) University of Nairobi, Certified Public Accountant of Kenya, CISA
3.	 Eng. Celsus Shilehwa Technical Manager	MSC. (Water Resources Engineering) Master of Arts (Project Planning and Management), BSc. (Water and Environmental Engineering),

Kakamega County Water and Sanitation Company Limited
Annual Report and Financial Statements for the year ended June 30, 2023

4.	 Ms. Anne Linda Ongadi HR & Administration Manager	MSC HRM, Bachelors Degree in Business Management (HRM Option) Diploma in Business Administration
5.	 Ms. Christabell Ashiono (Adv.) Principal Legal Officer & Board Secretary	MBA – Strategic Management, PGD in Law Bachelors in Laws

Kakamega County Water and Sanitation Company Limited

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

5. Chairman's Statement

I am greatly honoured to present the statement for the financial year ending 30th June 2023 as the Chairman of Kakamega County Water & Sanitation Company. Despite the micro-economic uncertainty brought about by the Covid-19 pandemic and the political environment (campaigns) the business remained resilient during the year. Of concern was the creeping inflation that has significantly increased our average production costs, in that; general increase in prices of our key operating supplies that in turn lead to high cost of sales, operating and maintenance costs. The other key concern is the high non-revenue water percentage despite the relentless efforts and strategies put in place to reduce it to sector standards. I'm however happy to report that despite these challenges we are confident that we are better placed to manage the shifting economic landscape.

Corporate Governance

There has been a renewed focus on corporate governance and the Board has spent a significant proportion of its time examining and strengthening structures and processes throughout the organization. Having a solid governance framework is key to rebuilding trust and transparency.

The Board now has the right balance of skills, experience and background to support and oversight Management team. The Board has also approved various policies to provide a legal framework for internal processes and controls.

Profit before tax

In the year under review, the Board enforced the implementation of a turn-around strategy to guide the Company's return to sustainable profitability and growth. The strategy is premised on improving customer experience, enhancing sales growth, stepping up revenue collection, prudent cost management, and reducing system losses.

Appreciations

I wish to acknowledge and appreciate the immense and unequivocal goodwill and leadership that has been demonstrated by His Excellency the Governor as we undertake these important and transcendental reforms.

Kakamega County Water and Sanitation Company Limited
Annual Report and Financial Statements for the year ended June 30, 2023

I would also like to appreciate the support offered by the able and committed Board members, our shareholders, customers, partners and staff. We are committed to building on the recent achievements to continuously improve our operations and products, ensure efficiency, financial stability and viability, and offer world class services to our esteemed customers.



Chairman, Board of Directors

Boaz Bulimu

Kakamega County Water and Sanitation Company Limited
Annual Report and Financial Statements for the year ended June 30, 2023

6. Report of the Managing Director

It is my obligation to present to you the business performance highlights for the year ended 30th June 2023 and give insights to key areas of our operations that underlies the reported financial performance. Some of the key highlights during the financial year 2022/2023 include;

Performance Indicator	Management Intervention	Impact
Enhanced Partnership with the County Government and other stakeholders	The management has created an environment that has enhanced partnership with the County Government of Kakamega, WASREB, WSTF and other stakeholders	This has led to financial support and goodwill from the County government, WSTF for water infrastructure development
Enhanced Corporate Governance	The Board is committed to ensure that there is increased transparency and accountability	Improved transparency and accountability
Enhanced Internal Controls	The management has enhanced internal controls in all departments by implementing a robust enterprise resource Planning system (ERP)	This has led to operational efficiency and adherence to various statutory regulations and guidelines
Tariff review	Implementation of the approved tariff in January 2022	Improved billing amount
Creditors management	The management has come up with a payment plan for all long outstanding creditors and the current ones	Restored suppliers confidence in the Company and reduced creditors
Risk Management	The management has ensured approval of Risk Management Framework and necessitated risk based audits.	This has led to compliance with the Public Financial Management Act, 2012 and other regulations

Conclusion


On behalf of management, I wish to thank the Board of Directors of Kakamega County Water Sanitation Company for its prudence, guidance and direction to the business and employees.

Kakamega County Water and Sanitation Company Limited
Annual Report and Financial Statements for the year ended June 30, 2023

I wish to express my appreciation to the entire staff for their dedication and support to the Company and its processes.

I also appreciate our trade customers and suppliers for the unwavering support to the business. Let's continue working as a team to ensure that KACWASCO achieves its goals as envisaged in our Mission and Vision.

Yours faithfully,



Eng. Michael Ogol
Managing Director

Kakamega County Water and Sanitation Company Limited
Annual Report and Financial Statements for the year ended June 30, 2023

7. Statement of Performance against Predetermined Objectives for FY 2022/2023

Through information gathering and analysis, key strategic issues / themes for KACWASCO were identified. The following table presents the themes derived from the analysis of both the internal and external environments of KACWASCO. The themes provide a direction to formulation of KACWASCO's Strategic Objectives for the period 2021-2026.

1. Non- Revenue water Management
2. Operational efficiency, customer service and pro poor
3. Financial stewardship and sustainability
4. Institutional strengthening and capacity building
5. Water and sanitation infrastructure
6. Monitoring and evaluation

Strategic Theme 1: Non- revenue water management

As KACWASCO endeavors to continuously invest and improve water supply infrastructure, a focus on significantly reducing the levels of NRW will be prioritized the high levels of NRW is majorly contributed by both physical and commercial losses like regular leaks and bursts, illegal connections, meter tampering and meter reading inaccuracies. The company is cognizant of impact of NRW on its financial sustainability /viability and endeavors to reduce NRW levels from 44% to 36% by 2026.

Theme	Objective	Strategy
Non -revenue water management	Reduced Non-Revenue water from 44% to 36% by 2026	Establish NRW management policy
		Quick detection of leaks and bursts
		Enhance meter accuracy
		Ensure 100% metering ratio
		Reduce illegal connections
		Develop accurate customer data base
		Strengthen capacity of NRW unit

Kakamega County Water and Sanitation Company Limited
Annual Report and Financial Statements for the year ended June 30, 2023

Strategic Theme 2: Operational Efficiency, Customer Service and Pro-poor

Improved operational efficiency and customer service is paramount for KACWASCO in maintaining and enhancing customer relationship and retention. The company purposes to increase its customer base by putting in place strategies that targets to enhance customer experience and efficiency in all its operations. As a way of increasing customer performance and meeting customers need the company plans to streamline its operations, processes and policies I way that will improve effectiveness and efficiency in service delivery, such interventions include: repairs, maintenance, replacements of equipment, automation and customer experience.

Theme	Objective	Strategy
Operational efficiency customer service and Pro-poor	Provide uninterrupted water and sanitation services	Ensure constant maintenance and replacement of faulty equipment
	To achieve 100% automation and integration of all business operations	Automation of all business operations
	To increase customer satisfaction level and ratings From 71% to 95% by 2026	Strengthen engagement with customers
	To improve quality of life in identified low income areas through pro poor interventions	Monitor the impact of pro-poor initiatives

Strategic Theme 3: Financial Stewardship and Sustainability

Financial stewardship is about careful planning and management of financial resources. It requires a good system that ensures strong financial management, internal controls of company resources and promote the principal of prudence.to achieve financial sustainability, KACWASCO shall develop strategies that can enhance generation of funds locally and externally to finance its activities. This can be achieved through enhancing revenues, improving billing and collection efficiency, implementing cost reduction measures, reducing debts and automating business processes.

Theme	Objective	Strategy
Financial stewardship and sustainability	To increase annual revenue from Kshs.223M To Kshs.431 by 2026	Review water and sewerage tariff structure
	To increase revenue streams	Diversify revenue sources
	To reduce accounts receivables from ksh	Enhance debt management

Kakamega County Water and Sanitation Company Limited
Annual Report and Financial Statements for the year ended June 30, 2023

	223m in 2021 to 431m by 2026	
	To improve collection efficiency from 87% in 2021 to 95% by 2026	Enhance efficiency in revenue collection
	To strengthen financial management process	Institute a financial management system
	To increase billing efficiency from 68% in 2021 to 95% in 2026	Enhance billing efficiency

Strategic Theme 4: Institutional Strengthening and Capacity Building

Strengthening and capacity building is essential for effective delivery of services to stakeholders. It helps organizations to strengthen, create, adapt and maintain capacity over time. This objective will help KACWASCO construct approaches of re-engineering to smartly and effectively deliver its mandate to stakeholders. It's also concerned with strengthening of human resources, finance, management, governance, business processes, structure, ethics and culture of the organization.

Theme	Objective	Strategy
Institutional Capacity Strengthening	Improve cooperate governance practice	Strengthen board capacity
	Improve employee satisfaction level from 45% in 2021 to 95% by 2026	Build a qualified and motivated staff
	Improve company image and visibility	Strengthen engagement with stakeholders and improve company image.

Strategic Theme 5: Water and Sanitation Infrastructure

Water and sanitation infrastructure are a key priority area for KACWASCO in the 2021-2026 strategic plan. The current water and sanitation infrastructure are inadequate in meeting customer demands. There is need in expanding water and sewerage services in the county. To achieve this, there is need to increase water production and supply to meet high demands. KACWASCO will focus on improving water and sanitation infrastructure from 50% in 2021 to 90% in 2026. The company plans to construct storage reservoirs, redesign distribution networks, replace old dilapidated networks and expand distribution networks among other activities.

Kakamega County Water and Sanitation Company Limited
Annual Report and Financial Statements for the year ended June 30, 2023

Theme	Objective	Strategy
Water and sanitation infrastructure	Increase water production from 5,000,000m ³ per day to 8,000,000m ³ by 2026	Rehabilitation of existing treatment plants and boreholes
	Increase water supply coverage from 58% to 68%	Expand water distribution networks
	Increase sanitation coverage from 14% to 68%	Expand sewer network coverage

Strategic Theme 6: Monitoring and evaluation

Monitoring and evaluation is critical for successful implementation of the strategic plan. KACWASCO purposes to develop a robust M&E framework that ensures reliable measures of performance are available over the entire planning period. It is intended that these measures of performance will be embedded in the organization's performance management system.

Theme	Objective	Strategy
Monitoring and Evaluation	To achieve at least 95% of strategic plan	Set up and strengthen monitoring and evaluation system

Kakamega County Water and Sanitation Company Limited
Annual Report and Financial Statements for the year ended June 30, 2023

8. Corporate Governance Statement

Corporate governance is the process and structure by which Companies are directed, controlled and held accountable in order to achieve long term value to stakeholders

For effective governance the Board recognizes that even though it has delegated the daily running of the business to the management team, the Board is ultimately and fully responsible for the way the Company is managed. The Board is therefore actively engaged in leading the Company and is confident that there is an effective system of Corporate Governance in place. The Board of Directors of Kakamega County Water Sanitation Company (hereinafter KACWASCO) is responsible for the governance of the Company and is accountable to the shareholders and stakeholders in ensuring that the Company complies with the laws and the highest standards of business ethics and corporate governance. Accordingly, the Board attaches high importance to generally accepted corporate governance practices and has embraced the internationally developed principles and code of best practice of good corporate governance.

Board of Directors

The roles and functions of the Chairman and the Chief Executive Officer are distinct and their respective responsibilities clearly defined. The Board comprises of eight (8) Directors six (6) of whom are non-executive directors including the Chairman. Alternate Directors from the parent ministry and County Treasury also sit in the Board. The Board defines the Company's strategies, objectives and values and ensures that procedures and practices are set in place to ensure effective control over strategic, financial, operational and compliance issues. The Directors bring a wealth of experience and knowledge in various fields of expertise.

Except for direction and guidance on general policy, the Board delegates authority of its day-to-day business to Management through the Chief Executive Officer. The Board nonetheless is responsible for the stewardship of the Company and assumes responsibilities for effective control over the Company.

The Company's Principal Legal Officer who is also the Board's Secretary attends all meetings of the Board and advises the Board on all corporate governance matters as well as prevailing statutory requirements. The Principal Legal Officer offers secretarial services at all Board meetings/functions.

Kakamega County Water and Sanitation Company Limited
Annual Report and Financial Statements for the year ended June 30, 2023

Board Meetings

The Board holds meetings on a quarterly basis while special meetings are called when it is deemed necessary to do so in order to handle a back log or an urgent matter that cannot otherwise await a normal Board meeting. The meetings that were held by the Board are as per the table below:

During the year, the Board held fewer meetings than mandated due to Covid-19 related challenges.

Committees of the Board

The Board has set up the following Board Committees which meet under well-defined terms of reference set by the Board. This is intended to facilitate efficient decision making of the Board in the discharge of its mandate and obligations;

(i) Audit and Risk Committee

The Board Audit Committee by extension is mandated to ensure the fulfilment of corporate governance practices as outlined in the Mwongozo code of governance for Companies.

(ii) Finance Committee

The committee assists the Board in fulfilling its oversight responsibilities relating to the Company's finance, procurement, investment strategies, monitor project implementation and related activities.

(iii) Technical Committee

The Committee assists the Board in fulfilling its oversight activities such as Non-Revenue Water, Water quality, monitor production, network expansion and maintenance and related activities.

Kakamega County Water and Sanitation Company Limited
Annual Report and Financial Statements for the year ended June 30, 2023

9. Management Discussion and Analysis

Budget Absorption for FY 2022/2023

Description	Budgets 2022-23	Actual 2022-23
Sales (Kshs)	456,645,787	336,493,614

Operating Cost for FY 2022/2023

Description	2023 (Kshs)	2022 (Kshs)
Operating Costs	350,822,859	324,564,739

The increase in operating cost went up because of the increased inflation rates and the company didn't receive grant from the county government to boost its operation

Net Profit /(Loss) for FY 2022/2023

Description	2023 (Kshs)	2022 (Kshs)
Net Profit/(Loss)	(6,354,903.)	105,021

The loss in the FY 2022/23 is Kshs (6,354,903) majorly attributed to increase in operating cost of the company. This is also as a result of new Mwongozo guideline which stipulates that some capital expenditures like purchase of computer, Motor Vehicle, Furniture and Office Equipment, water meters be put under operation and maintenance, thus being treated as revenue expenses

Sales

Description	2023 (Kshs)	2022 (Kshs)
Sales	336,493,614	287,034,862

The increase in sales during the year was contributed to by favorable change of tariff which saw the company increase its billing.

Cost of Sales

Description	2023 (Kshs)	2022 (Kshs)
Cost of Sales	31,566,833	38,858,702

Stock level at the start of the year was low to run the operations especially in the first quarter. In the previous financial year the company received a donation of chemicals

Kakamega County Water and Sanitation Company Limited
Annual Report and Financial Statements for the year ended June 30, 2023

10. Environmental and Sustainability Reporting

Kakamega County Water Sanitation Company recognizes its obligations to act responsibly, ethically and with integrity in its dealings with staff, customers, neighbors and the environment as a whole. We remain firmly committed to courses that positively impact our society and influence sustainability of our business. In the year, we supported a number of CSR activities e.g. supporting the less fortunate and vulnerable members of society, Tree planting and rewarding the best engineering student at MMUST, offering internships and attachments to students.

To this end: -

The Company has a separate environmental policy statement clarifying its commitment to delivering a net positive impact on the environment.

The Company has established a Corporate Social Responsibility budget line within its annual budget through which it supports its social responsibility objectives.

The company undertakes annual health and safety workplace audits

Ethically the Company is committed to doing the right things, conducting ourselves in a legal, ethical and trust worthy manner.

The company is committed to upholding our regulatory obligations and complying with both the letter and spirit of our business policies.

Kakamega County Water and Sanitation Company Limited

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 as at June 30th, 2023 which shows the state of Kakamega County Water Sanitation Company (KACWASCO) affairs.

Principal activities of KACWASCO

The principal activity of the company is to provide equitable access to safe and affordable drinking water, adequate and equitable sanitation and hygiene and end open defecation, paying special attention to the needs of women and girls and those in vulnerable situations.

Results	2023	2022
	<u>Kshs</u>	<u>Kshs</u>
Net profit/ (Loss) for the year	(6,354,903)	105,021

Dividend

The company realized a net loss of **Kshs (6,354,903)**. The board does not recommend the payment of dividend to shareholders in order to strengthen the Company's financial position and improve our growth prospects.

Directors

The directors who held office during the year and to the date of this report are shown on pages iv and v.

Auditors

The Auditor General is responsible for the statutory audit of KACWASCO in accordance with article 229 of the Constitution of Kenya and the Public Audit Act 2015 for the period ended June 30, 2023.

By Order of the Board



Ms. Christabell Ashiono
Secretary to the Board

Kakamega County Water and Sanitation Company Limited
Annual Report and Financial Statements for the year ended June 30, 2023

12. Statement Of Directors' Responsibilities

The Board recognizes its responsibility to present a balanced assessment of the Company's financial position and prospects. Financial information is prepared using appropriate accounting policies which are consistently applied. The Financial statements are prepared in accordance with International Financial Reporting Standards (IFRS) and the requirements of the Companies Act, and audited in accordance with the recognized auditing standards.

This responsibility includes: (i) maintaining adequate financial management arrangements and ensuring that these continue to be effective throughout the reporting period; (ii) maintaining proper accounting records, which disclose with reasonable accuracy at any time the financial position of the company; (iii) designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of the financial statements, and ensuring that they are free from material misstatements, whether due to error or fraud; (iv) safeguarding the assets of the company; (v) selecting and applying appropriate accounting policies; and (vi) making accounting estimates that are reasonable in the circumstances.

The Directors accept responsibility for the Company's financial statements and are of the opinion that the Company's financial statements give a true and fair view of the state of Company's transactions during the financial year ended 30th June 2023, and of the Company's financial position as at that date. The Directors further confirm the completeness of the accounting records maintained for the Company, which have been relied upon in the preparation of the Company's financial statements as well as the adequacy of the systems of internal financial control.

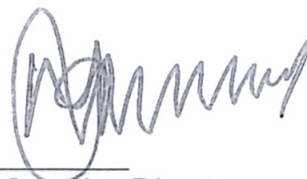
Nothing has come to the attention of the Directors to indicate that the Company will not remain a going concern for at least the next twelve months from the date of this statement.

Approval of the financial statements

The company's financial statements were approved by the Board on 29/09/2023 and signed on its behalf by:



Chairman
Board of Directors



Managing Director

REPUBLIC OF KENYA

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



Enhancing Accountability

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

REPORT OF THE AUDITOR-GENERAL ON KAKAMEGA COUNTY 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 Kakamega County Water and Sanitation Company Limited set out on pages 1 to 40, 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

Report of the Auditor-General on Kakamega County Water and Sanitation Company Limited for the year ended 30 June, 2023

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

In my opinion, except for the effect of the matters described in the Basis for Qualified Opinion section of my report, the financial statements present fairly, in all material respects, the financial position of Kakamega County 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 Public Finance Management Act, 2012 and Companies Act, 2015.

Basis for Qualified Opinion

1. Presentation and Disclosures in the Financial Statements

Review of the financial statements presented for audit revealed that the statement of financial position reflects balances of Kshs.100,000, Kshs.(320,282,905), Kshs.215,000,000 in respect of ordinary share capital, revenue reserves and Capital Development Fund respectively. However, the balances did not have explanatory notes in the financial statements. Further, the statement of progress on follow up on Prior Year Auditor's recommendations was incomplete as it did not include two more columns: status (resolved/not resolved and timeframe).

In the circumstances, the financial statements were not presented in accordance with the requirements of the Public Sector Accounting Standards Board templates.

2. Unsupported Expenditure on Casual Workers

The statement of profit or loss and other comprehensive income and Note 10 to the financial statements reflects Kshs.158,561,295 in respect of staff costs. Included in the balance is an amount of Kshs.6,349,139 being expenditure on casual wages. However, the expenditure was not supported with muster rolls.

In the circumstances, the accuracy and regularity of expenditure on casual workers amounting to Kshs.6,349,139 could not be confirmed.

The audit was conducted in accordance with the International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the Kakamega County Water and Sanitation Company Limited Management in accordance with ISSAI 130 on the 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. Budgetary Control and Performance

The statement of comparison of budget and actual amounts reflects receipts budget and actual on comparable basis amounts of Kshs.771,172,988 and Kshs.376,034,789

respectively, resulting to under-funding of Kshs.395,138,199 or 51% of the budget. Similarly, the statement reflects actual expenditure of Kshs.468,545,506 against approved budget of Kshs.775,972,988 resulting to under-performance of Kshs.307,427,482 or 40% of the budget.

In the circumstances, the under-funding and under expenditure affected the planned activities and may have affected service delivery to the public.

2. Non-Revenue Water

Records maintained by the Company indicate that, during the year under review, the Company produced 4,084,260 cubic metres of water valued at Kshs.459,846,833. However, the statement of profit or loss and other comprehensive income indicates, under Note 6 to the financial statements, that the Company sold 2,263,996 cubic metres of water valued at Kshs.255,831,579. The difference of 1,820,260 cubic meters or 45% of the total water produced constitutes non-revenue water. The loss of 45% of water was above the 25% loss allowed by the Water Services Regulatory Board (WASREB). No justifiable explanation was provided for the 20% excess loss through unaccounted for water.

In the circumstances, the Company was not able to achieve its objective of providing sufficient water to the public.

My opinion is not modified in respect of these matters.

Key Audit Matters

Key audit matters are those matters that, in my professional judgement, 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 of the previous year, several issues were raised under the Report on the Financial Statements and Report on Lawfulness and Effectiveness in Use of Public Resources. However, Management has not resolved the issues or given explanation on the failure to resolve them in adherence to the requirements of the Public Sector Accounting Standards Board templates.

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 matter 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

Lack of Ethnic Diversity in Staff Establishment

Review of staff bio data provided for audit review revealed that during the year under review, the Company had one hundred and sixty-nine (169) staff members. However, out of this number, one hundred and thirty-two (132) or 78% were from the same ethnic community. This is contrary to Section 65(1)(e) of the County Governments Act, 2012 which requires that a public entity shall ensure that at least thirty percent (30%) of vacant posts at entry level are filled by candidates who are not from the dominant ethnic community.

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

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (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 comply, 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 THE EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

As required by Section 7(1)(a) of the Public Audit Act, 2015, based on the audit procedures performed, I confirm that, nothing has come to my attention to cause me to believe that internal controls, risk management and governance were not effective.

Basis for Conclusion

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs) 2315 and 2330. The standards require that I plan and perform the audit to obtain assurance about whether effective processes and systems of internal controls, 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 overall governance.

In preparing the financial statements, Management is responsible for assessing the Company's ability to continue as a going concern disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless Management is aware of the intention to liquidate the Company or to cease its 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 governance processes and systems in accordance with the provisions of Section 7(1)(a) of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution. My consideration of the internal control would not necessarily disclose all matters in the internal control that might be material weaknesses under the ISSAIs. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by 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 Management regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that are identified during the audit.

I also provide Management with a statement that I have complied with relevant ethical requirements regarding independence and 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

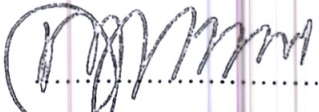
12 March, 2024

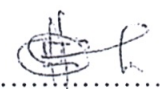
Kakamega County Water and Sanitation Company Limited
Annual Report and Financial Statements for the year ended June 30, 2023

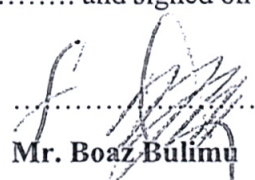
14. Statement of Profit or Loss & Other Comprehensive Income for the Year Ended 30 June 2023

	Note	2023	2022
		Kshs	Kshs
Revenue			
Operating Revenue	6	318,638,109	287,034,863
Grants income	7	39,541,175	65,225,187
Other income	8	15,106,192	11,163,392
Finance income	9	2,749,314	
Cost of sales		-	(38,858,702)
Gross profit		-	
Total Revenue		376,034,789	324,564,740
Expenditure			
Staff cost	10	158,561,295	175,088,384
General and Operation Expenses	11	151,398,245	96,172,277
Board Expenses	12	6,177,550	4,143,100
Maintenance Expenses	13	37,156,560	49,055,957
Depreciation	14	4,433,209	-
Finance Cost	15	24,662,833	-
Operating Cost		382,389,692	324,459,718
Profit before tax		(6,354,903)	105,021
Tax		-	-
Profit/ (loss) after tax		(6,354,903)	105,021

The financial statements were approved by the Board on 29/09/2023 and signed on its behalf by:


 Eng. Michael Ogol
 Managing Director


 CPA Eric Wabuyabo
 Head of Finance
 ICPAK M/No.....

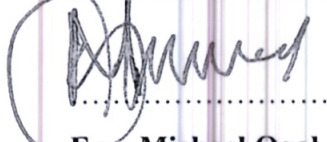

 Mr. Boaz Bulimu
 Chairman of the Board

Kakamega County Water and Sanitation Company Limited
Annual Report and Financial Statements for the year ended June 30, 2023

15. Statement of Financial Position as at 30 June 2023

	Note	2023	2022
		Kshs	Kshs
Assets			
Non-current assets			
Property, plant and equipment	16	164,305,482	84,433,331
Total non-current assets		164,305,482	84,433,331
Current assets			
Inventory	17	25,773,962	20,391,069
Trade and receivable	18	272,568,396	239,204,865
Bank and cash balances	19	138,504,454	141,334,242
Prepayments-Medical cover	20	2,648,291	2,955,824
Total non-current assets		439,495,103	403,886,000
Total Assets		603,800,585	488,319,331
Equity and liabilities			
Capital and Reserves			
Ordinary share capital	16	100,000	100,000
Revenue reserve	16	(320,282,905)	(461,970,646)
Capital Development Fund	16	215,000,000	215,000,000
Capitalized inventory		-	148,042,643
Total Capital and Reserves		(105,182,905)	(98,828,003)
Non-current liabilities			
Long term payables	21	414,381,413	386,968,670
Total non-current liabilities		414,381,413	386,968,670
Current liabilities			
Trade payables and other payables	22	294,602,077	200,178,663
Total current liabilities		294,602,077	200,178,663
Total equity and liabilities		603,800,585	488,319,331

The financial statements were approved by the Board on 29/09/2023 and signed on its behalf by:


 Eng. Michael Ogol

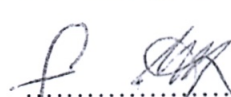
Managing Director



CPA Eric Wabuyabo

Head of Finance

ICPAK M/No.....



Mr. Boaz Bulimu

Chairman of the Board

Kakamega County Water and Sanitation Company Limited
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

	Notes	Ordinary share capital	Retained earnings	Capitalized Inventory	Capital/ Development Fund	Total
As at July 1, 2022		100,000	(462,075,666)	148,042,643	87,000,000	(226,933,023)
Loss for the year		-	105,021	-	128,000,000	128,105,022
As at June 30, 2022		100,000	(461,970,645)	148,042,643	215,000,000	(98,828,002)
As at July 1, 2022		100,000	(461,970,645)	148,042,643	215,000,000	(98,828,002)
Capitalized inventory W/O		-	148,042,643	(148,042,643)	-	-
Loss for the year		-	(6,354,903)	-	-	(6,757,428)
At June 30, 2023		100,000	(320,282,905)	-	215,000,000	(105,585,430)

Capitalised Inventory of Kshs, 148,042,643 which has been running as an explained reserve has been written off against retained earnings After Boards approval awaiting final approval by the county treasury

Kshs. 215,000,000 in Equity for Capital Development Fund comprises of Kshs. 128,000,000 from County Government of Kakamega for 2 containerized water treatment plant, of which Kshs. 100,000,000 has been fixed in National Bank and Ksh.87, 000,000 from County Government of Kakamega

Kakamega County Water and Sanitation Company Limited
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	2023	2022
		Kshs	Kshs
Cash Flows from Operating Activities			
Receipts			
Operating Receipts	6	318,638,109	287,034,863
Grants Income	7	39,541,175	65,225,187
Other income	8	15,106,192	11,163,392
Finance Income	9	2,749,314	-
Customer Deposits		3,242,000	-
Total Receipts		379,276,790	363,423,442
Payments			
Staff Costs	10	158,561,295	175,088,384
General And Operation Expenses	11	151,398,245	96,172,277
Board Expenses	12	6,177,550	4,143,100
Maintenance Expenses	13	37,156,560	49,055,957
Finance Costs	15	24,662,833	-
Total Payments		377,956,483	324,459,718
Net Cash From/ (Used In) Operating Activities		1,320,307	38,963,724
Cash Flows from Investing Activities			
Purchase Of Property, Plant And Equipment (PPE)		(85,753,289)	(24,606,521)
Investment to Fixed Account		100,000,000	100,000,000-
Net Cash From/ (Used In) Investing Activities		14,246,711	75,393,479
Cash Flows from Financing Activities			
Repayment from borrowings		(17,076,499)	(55,905,071)
Net Cash From/(Used In) Financing Activities		(17,076,499)	(55,905,071)
Increase/(Decrease) In Cash and Cash Equivalents		2,829,788	80,299,883
Cash And Cash Equivalents At Beginning Of Year	19	141,334,242	221,634,128
Cash And Cash Equivalents At End of the Year		138,504,454	141,334,245

Kakamega County Water and Sanitation Company Limited
Annual Report and Financial Statements for the year ended June 30, 2023

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

	Original budget	Adjustments	Final budget	Actual on comparable basis	Performance difference	% of utilization
Revenue	Kshs	Kshs	Kshs	Kshs	Kshs	%
Operating Revenue	553,912,012	(12,739,024)	541,172,988	336,493,614	(204,679,374)	62
Grant income	294,000,000	(64,000,000)	230,000,000	39,541,175	(190,458,825)	17
Total Revenue	847,912,012	(76,739,024)	771,172,988	376,034,789	(395,138,199)	49
Expenses						
Staff Costs	158,119,200	41,123,981	181,243,181	158,561,295	(13,616,844)	92
Board Expenses	9,200,000	-	9,200,000	6,177,550	(3,022,450)	67
General and operations Expenses	274,042,812	(50,863,005)	223,179,807	151,398,245	(76,348,329)	66
Maintenance expense	42,750,000	3,000,000	45,750,000	37,156,560	(12,689,190)	72
Finance cost	-	-	-	24,662,833	-	-
Depreciation	-	-	-	4,433,209	-	-
Total Recurrent Expenditure	484,112,012	(6,739,024)	477,372,988	382,792,217	(94,580,771)	80
Profit or Loss	363,800,000	(70,000,000)	293,800,000	(6,354,903)	(300,557,428)	
Capital Expenditure	361,800,000	(63,200,000)	298,600,000	85,753,289	212,846,711	29
Total Expenditure	845,912,012	(69,939,024)	775,972,988	461,788,078	(118,265,940)	60

Kakamega County Water and Sanitation Company Limited
Annual Report and Financial Statements for the year ended June 30, 2023

19. Notes To the Financial Statements

1. General Information

Kakamega County Water Sanitation Company (KACWASCO) is a County entity incorporated under the Company Act (Cap 486). Kakamega County took over provision of water and sanitation services from Lake Victoria North Water Services Board (LVNWSB) from 1st July 2016, following the separation of the joint operations of the water supplies between Kakamega and Busia Counties; in line with the Constitution of Kenya 2010 that mandates provision of water and sanitation services to County Governments. The population served with clean, quality and enough water in Kakamega is about 253,983 against current population of 319,266 in the service area. This population is mainly in the urban areas as per Service Provision Agreement (SPA), but the total population of Kakamega County is approximately 2 million.

Kenya's Vision 2030 for Water and Sanitation is to ensure that improved water and sanitation are available and accessible to all by 2030. Kenya's Constitution entrenches water as a constitutional right by establishing a right to reasonable standards of sanitation and clean and safe water in adequate quantities. The Water Act 2016 aligns the water sector with the constitution. The Act defines roles and responsibilities in the delivery of water and sanitation services within the devolution framework.

2. Statement of compliance and basis of preparation

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

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

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

Kakamega County Water and Sanitation Company Limited
Annual Report and Financial Statements for the year ended June 30, 2023

Going Concern

The financial performance of the company is set out in the Director's report and in the statement of comprehensive income. The financial position of the company is set out in the statement of financial position. Disclosures in respect of risk management are set out in note 20.

Based on the financial performance and position of the company and its risk management policies, the directors are of the opinion that the company is well placed to continue in business for the foreseeable future and as a result the financial statements are prepared on a going concern basis.

The financial statements comply with the requirements of the Kenyan Companies Act. The statement of comprehensive income represent the profit and loss account referred to in the Act while the statement of financial position represents the balance sheet referred to in the Act.

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

Relevant new standards and amendments to published standards effective for the year ended 30 June 2021.

IFRS 16: Leases

The new standard, effective for annual periods beginning on or after 1st January 2019, introduces a new lessee accounting model, which requires a lessee to recognize assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognize a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments.

IFRIC 23: Uncertainty Over income tax treatments

The interpretation addresses the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates, when there is uncertainty over income tax treatments under IAS 12. It specifically considers:

- Whether tax treatments should be considered collectively
- Assumptions for taxation authorities' examinations
- The determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates

Kakamega County Water and Sanitation Company Limited
Annual Report and Financial Statements for the year ended June 30, 2023

- The effect of changes in facts and circumstances

Amendments to IFRS 9 titled Prepayment Features with Negative Compensation (issued in October 2017)

The amendments, applicable to annual periods beginning on or after 1 January 2019, allow entities to measure prepay able financial assets with negative compensation at amortized cost or fair value through other comprehensive income if a specified condition is met.

Amendments to IAS 28 titled Long-term Interests in Associates and Joint Ventures (issued in October 2017)

The amendments, applicable to annual periods beginning on or after 1st January 2019, clarify that an entity applies IFRS 9, rather than IAS 28, in accounting for long-term interests in associates and joint ventures.

Amendments to IFRS 3 - Annual Improvements to IFRSs 2015–2017 Cycle , issued in December 2017

The amendments, applicable to annual periods beginning on or after 1st January 2019, provide additional guidance on applying the acquisition method to particular types of business combination

Amendments to IFRS 11 - Annual Improvements to IFRSs 2015–2017 Cycle, issued in December 2017

The amendments, applicable to annual periods beginning on or after 1st January 2019, clarify that when an entity obtains joint control of a business that is a joint operation, it does not re-measure its previously held interests

Amendments to IAS 12 - Annual Improvements to IFRSs 2015–2017 Cycle, issued in December 2017

Kakamega County Water and Sanitation Company Limited
Annual Report and Financial Statements for the year ended June 30, 2023

- ii) **Grants from National Government** are recognized in the year in which the entity actually receives such grants. Recurrent grants are recognized in the statement of comprehensive income. Development/capital grants are recognized in the statement of financial position and realised in the statement of comprehensive income over the useful life of the assets that has been acquired using such funds.
- 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) **Dividend income** is recognized in the income statement in the year in which the right to receive the payment is established.
- v) **Other income** is recognized as it accrues.

b) Property, plant and equipment

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

Depreciation has been **stayed** on Assets which will push their Net Book Values to negative

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

Increases in the carrying amounts of assets arising from re-valuation are credited to other comprehensive income. Decreases that offset previous increases in the carrying amount of the same asset are charged against the revaluation reserve account; all other decreases are charged to profit or loss in the income statement.

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

Kakamega County Water and Sanitation Company Limited
Annual Report and Financial Statements for the year ended June 30, 2023

c) Depreciation and impairment of property, plant and equipment

Freehold land and capital work in progress are not depreciated. Capital work in progress relates mainly to the costs of ongoing but incomplete works on buildings and other civil works and installations. Depreciation on property, plant and equipment is recognized in the income statement on a straight-line basis to write down the cost of each asset or the re-valued amount to its residual value over its estimated useful life.

The annual rates in use are:

Buildings and civil works	25 %
Plant and machinery	12.5%
Motor vehicles, including motor cycles	4 %
Computers and related equipment	3 %
Office equipment, furniture and fittings	12.5 %

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

Items of property, plant and equipment are reviewed annually for impairment. Where the carrying amount of an asset is assessed as greater than its estimated recoverable amount, an impairment loss is recognized so that the asset is written down immediately to its estimated recoverable amount.

d) Intangible assets

Intangible assets comprise purchased computer software licenses, which are capitalized on the basis of costs incurred to acquire and bring to use the specific software. These costs are amortized over the estimated useful life of the intangible assets from the year that they are available for use, usually over three years.

The ERP software is still under implementation phase and shall be capitalized upon issuance of the final Job Completion Certificate

e) Amortization and impairment of intangible assets

Amortization is calculated on the straight-line basis over the estimated useful life of computer software of three years.

Kakamega County Water and Sanitation Company Limited
Annual Report and Financial Statements for the year ended June 30, 2023

All computer software is reviewed annually for impairment. Where the carrying amount of an intangible asset is assessed as greater than its estimated recoverable amount, an impairment loss is recognized so that the asset is written down immediately to its estimated recoverable amount.

f) Investment property

Buildings, or part of a building (freehold or held under a finance lease) and land (freehold or held under an operating lease) held for long term rental yields and/or capital appreciation, and which are not occupied by the entity, are classified as investment property under non-current assets.

Investment property is carried at fair value, representing open market value determined periodically by independent external values. Changes in fair values are included in profit or loss in the income statement.

g) Inventories

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

h) Trade and other receivables

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

i) Taxation

Current income tax

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

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.

Kakamega County Water and Sanitation Company Limited
Annual Report and Financial Statements for the year ended June 30, 2023

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.

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.

j) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and cash at bank, short-term deposits on call and highly liquid investments with an original maturity of three months or less, which are readily

Kakamega County Water and Sanitation Company Limited
Annual Report and Financial Statements for the year ended June 30, 2023

convertible to known amounts of cash and are subject to insignificant risk of changes in value. Bank account balances include amounts held at the Central Bank of Kenya and at various Commercial Banks at the end of the reporting period. For the purposes of these financial statements, cash and cash equivalents also include short term cash imprests and advances to authorized public officers and/or institutions which were not surrendered or accounted for at the end of the financial year.

k) Borrowings

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

l) Trade and other payables

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

m) Retirement benefit obligations

The Company operates a defined contribution scheme for all full-time employees from July 1, 2019. The scheme is administered by an in-house team and is funded by contributions from both the company and its employees. The company also contributes to the statutory National Social Security Fund (NSSF). This is a defined contribution scheme registered under the National Social Security Act. The company's obligation under the scheme is limited to specific contributions legislated from time to time.

n) Provision for staff leave pay

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

o) Budget information

The original budget for FY 2022-2023 was approved by the Board on 10th May 2022. Subsequent revisions or additional appropriations were made to the approved budget in accordance with specific

Kakamega County Water and Sanitation Company Limited
Annual Report and Financial Statements for the year ended June 30, 2023

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.

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

A statement to reconcile the actual amounts on a comparable basis included in the statement of comparison of budget and actual amounts and the actual as per the statement of financial performance.

p) Service concession arrangements

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

q) Comparative figures

Where necessary comparative figures for the previous financial year have been amended or reconfigured to conform to the required changes in presentation. Furniture and fittings has been merged with Office Equipment

r) 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.

Kakamega County Water and Sanitation Company Limited
Annual Report and Financial Statements for the year ended June 30, 2023

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.

Estimates and Assumptions

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

Useful lives and residual values

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

- The condition of the asset based on the assessment of experts employed by the 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
- Changes in the market in relation to the asset

Kakamega County Water and Sanitation Company Limited
Annual Report and Financial Statements for the year ended June 30, 2023

Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions is included in Notes.

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.

- i) **Revenue from the sale of goods and services** is recognised in the year in which the entity delivers services to the customer, the customer has accepted the services and collectability of the related receivables is reasonably assured.
- ii) **Other income** is recognised as it accrues.

Kakamega County Water and Sanitation Company Limited
Annual Report and Financial Statements for the year ended June 30, 2023

Notes to the financial statements (continues)

6. Operating Revenue

	2023	2022
	Kshs	Kshs
Water sales	255,831,579	226,654,895
Sewer	52,135,430	49,052,968
Meter rent	10,671,100	11,327,000
TOTAL	318,638,109	287,034,863

Billing for other services refers to income generated from services such as reconnection fees, sales of sludge, water analysis samples etc.

7. Grants Income

	2023	2022
	Kshs	Kshs
WSTF	16,648,720	65,225,187
KENHA	22,892,455	-
Total	39,541,175	65,225,187

This amount has been recognized in the statement of comprehensive income since it is not a capital development grant.

8. Other Income

	2023	2022
	Kshs	Kshs
Bowser	3,242,247	1,922,684
Disconnection Request	10,000	3,600
Exhauster	1,744,000	1,400,004
Illegal Connection Penalties	2,353,000	2,500,000
Lab-Testing	167,124	62,800
Late Fee For Reconnection	3,455,000	2,588,000
Meter Replacement/Stolen	372,500	357,001
Meter Tempering	188,000	243,000
Meter Test	28,400	38,000
Mainline Interference	-	35,000
Sewer-connection	99,500	22,500
Statement printing fee	28,200	17,200
Reconnection Request	1,400	4,400
Sewer unblocking	7,500	3,000
Surcharge fee	386,500	363,000

Kakamega County Water and Sanitation Company Limited
Annual Report and Financial Statements for the year ended June 30, 2023

Survey Fee	2,818,100	1,452,803
Turn Off Fee	150,121	131,399
Turn On Fee	54,600	19,000
Total	15,106,192	11,163,392

9. Finance Income

	2023	2022
	Kshs	Kshs
Nov-22	863,014	-
Dec-22	244,520	-
Jan-23	244,520	-
Feb-23	279,452	-
Mar-23	279,452	-
Apr-23	279,452	-
May-23	279,452	-
Jun-23	279,452	-
Total	2,749,314	-

10. Staff Costs

Description	2023	2022
	Kshs	Kshs
Basic salary	75,669,200	81,793,500
Leave allowance	1,781,408	1,911,733
Transfer allowance	2,563,500	1,067,633
Commuter allowance	6,407,000	3,789,000
House allowance	20,541,000	22,296,500
Airtime allowance	2,170,000	4,552,000
Pension(Employer Contribution)	12,896,880	13,929,750
NSSF Employer	1,820,880	2,887,920
Acting allowance	1,122,596	1,599,300
Special duty allowance	302,400	1,199,380
Casual wages	6,349,139	3,451,473
Gratuity	2,929,050	2,962,050
Non-practicing allowance	440,000	305,000
Performance reward	5,789,992	9,010,100
Risk allowance	798,000	477,000
Entertainment	795,000	865,980
Medical insurance	15,339,402	11,291,781
Staff Training Expenses	-	11698284
Salary Arrears	845,848	-
Total	158,561,295	175,088,384

Kakamega County Water and Sanitation Company Limited
Annual Report and Financial Statements for the year ended June 30, 2023

11. General and Operations Expenses

	2023	2022
Description	Kshs	Kshs
Electricity-production	11,116,572	-
Chemicals	16,026,894	-
WARMA	3,241,048	-
SIBO	1,182,310	-
Telephone, Internet and Postage	4,503,484	3,468,366
Transportation, travelling & Subsistence	17,330,013	12,128,291
Printing and Stationery	788,415	864,087
Security services	13,166,907	14,669,500
Fuel & Lubricants	4,361,860	4,234,700
Lab reagents	193,195	553,285
Domestic requisites	1,470,466	4,009,416
Corporate Social responsibility	1,489,650	883,600
Uniform & protective clothing	187,500	1,104,750
Subscription fees	994,980	711,330
Publicity & Advertisement	2,931,542	5,366,521
Consultancy/professional fees	788,500	910,000
Bank Charges	625,987	303,155
Games & Sport	701,428	2,034,925
Customer Identification Survey	3,767,845	-
Stakeholders Awareness	1,455,200	-
Pro-Poor	698,460	-
Debt Collection	4,372,675	-
Motor vehicle insurance	225,882	391,188
ICT Expense	2,370,208	563,700
Auditors' remuneration	-	565,152
Legal fees	545,940	2,174,100
Depreciation	-	4,575,394
WASREB levies	12,745,524	11,481,394
WASPA -Annual fee	132,000	132,000
Provision for bad debts	30,285,377	23,920,486
Electricity office	468,108	422,937
Hospitality	2,619,400	-
Training	9,065,041	-
Enforcement	45,825	360,000
Journals	1,500,000	340,000
Total	151,398,245	96,172,277

Kakamega County Water and Sanitation Company Limited
Annual Report and Financial Statements for the year ended June 30, 2023

12. Board Expenses

Description	2023	2022
	KShs	KShs
Chairman Honoraria	605,000	660,000
Board Expenses	5,572,550	3,483,100
Total Board Expenses	6,177,550	4,143,100

13. Maintenance Expenses

Description	2023	2022
	Kshs	Kshs
Operation and Maintenance	33,060,810	45,248,507
Motor Vehicle Repairs	2,095,750	3,807,450
Software Maintenance	2,000,000	-
Total Maintenance Expenses	37,156,560	49,055,957

14. Depreciation

Property plant and Equipment includes the following assets that are fully depreciated:

Description	2023	2022
Water supply infrastructure	1,226,050	125,816
Plant and machinery	-	92,818
Motor vehicles, including motorcycles	3,875,807	876,652
Computers and related equipment	79,801	2,710,397
Office equipment, furniture and fittings	66,270	190,031
Water meters	508,750	579,680
Total	4,433,209.00	4,575,394

15. Finance Cost

Description	2023	2022
	KShs	KShs
KFW Kakamega loan-Tindinyo	21,048,645	21,516,393
World Bank- Mumias	2,585,926	3,620,296
World Bank- Lumakanda	472,599	661,638
Interest -Motor vehicles	555,663	-
Total	24,662,883	25,798,327

Kakamega County Rural Water and Sanitation Company Limited
Annual Report and Financial Statements for the year ended June 30, 2023

Notes to the financial statements (continued)

16. Property, Plant and Equipment

FY 2022/2023	Water supply infrastructure	Plant and machinery	Motor vehicles and motorcycles	Computers & related items	office equipment, furniture & fittings	Water meters	Land and buildings	Capital Work In Progress	TOTALS
Cost as at 01/07/2021	4,641,155	2,419,115	20,963,276	7,237,750	5,961,023	28,579,883	2,900,000	44,981,000	117,683,202
Additions	-	-	1,468,000	5,925,610	-	3,150,000	1,500,000	14,062,911	24,606,521
Disposal	-	-	-	-	-	-	-	-	-
Impairment	-	-	-	-	-	-	-	-	-
As on 30/06/2022	4,641,155	2,419,115	22,431,276	13,163,360	5,961,023	31,729,883	4,400,000	59,043,911	142,289,723
Depreciation									
At start of year (1st July 2021)	1,495,752	1,258,896	18,924,668	5,032,168	3,585,632	24,483,883	-	-	54,780,999
Disposal	-	-	-	-	-	-	-	-	-
Charge for the year	125,816	92,818	876,652	2,710,397	190,031	579,680	-	-	4,575,394
Total depreciation at end of year	1,621,568	1,351,714	19,801,320	7,742,565	3,775,663	25,063,563	-	-	59,356,393
Net Book Value as on 30/06/2022	3,019,587	1,067,401	2,629,956	5,420,795	2,185,360	6,666,320	4,400,000	59,043,911	84,433,331
Cost as at 01/07/2022	4,641,155	2,419,115	22,431,276	13,163,360	5,961,023	31,729,883	4,400,000	59,043,911	143,789,723
Additions	29,253,223		15,503,227	4,316,796	530,163	4,070,000	3,361,012	28,718,868	85,753,289
Disposal	-	-	-	-	-	-	-	-	-
Transfer		14,062,911						(14,062,911)	-
Impairment	-	-	-	-	-	-	-	-	-

Taka Gas Company Limited
Annual Report and Financial Statements for the year ended June 30, 2023

As on 30/06/2023	33,894,378	16,482,026	37,934,503	17,480,156	6,491,186	35,799,883	7,761,012	73,699,868	229,543,012
Depreciation									
At start of year (1st July 2022)	1,621,568	1,351,714	19,801,320	7,742,565	3,775,663	25,063,563	-	-	59,356,393
Disposal	-	-	-	-	-	-	-	-	(14,062,911)
Charge for the year	1,290,912	1,891,289	725,327	292,127	339,440	1,342,040	-	-	4,433,209
Total depreciation at end of year	2,912,480	3,243,002	20,526,647	8,034,693	4,115,103	26,405,603	-	-	65,237,530
Net Book Value as on 30/06/2023	30,981,897	13,239,023	17,407,856	9,445,463	2,376,082	9,394,280	7,761,012	73,699,868	164,305,482

Kakamega County Rural Water and Sanitation Company Limited
Annual Report and Financial Statements for the year ended June 30, 2023

Notes to the financial statements (continued)

17. Inventories

	2023	2022
	Kshs	Kshs
Pipes and Fittings	13,694,827	10,725,657
Meters	2,561,240	1,933,200
Stationery	4,010,962	1,715,470
Electrical Material	1,685,390	70,915
Chemicals	1,699,428	1,310,227
Water stock	1,861,358	4,271,600
General items	260,800	364,000
Total	25,773,962	20,391,069

18. Trade and Other Receivables

	2023	2022
	Kshs	Kshs
Kakamega	160,827,729	102,122,751
Shinyalu	15,689,646	15,950,552
Mumias	61,815,962	59,899,591
Shitoli	40,608,898	38,657,791
Murhanda	3,408,518	3,202,766
Lumakanda	3,981,672	3,575,919
Malava	3,470,992	3,458,463
Butere	6,391,504	6,464,447
Tindinyo	5,571,852	5,872,584
Other charges	1,087,000	-
Total	302,853,773	239,204,864
Less Provision for bad debts	30,285,377	-
Net Receivable	272,568,396	239,204,864

19. Bank Balances

		2023	2022
Account Name	Account number	Kshs	Kshs
Cooperative Bank CLSG	01141632410100	538.35	1,618
Cooperative Bank Revenue	01100632410100	1,833,093	831,969
KCB Expenditure	1273194667	1,280,893	96,095
KCB Revenue	1273194454	621,537	359,237
KCB Development	1233504525	272,487	8,938,244
KCB WSTF	1266314725	438,120	568,837
Family Bank Project WSTF	078000040458	3,903,881	91,354

Kakamega County Water and Sanitation Company Limited
Annual Report and Financial Statements for the year ended June 30, 2023

Family Bank Revenue	078000040724	128,683	189,115
Family Bank Deposit	078000040459	957,386	666,409
M-PESA Pay Bill 772153 (Revenue Urban)	772153	817,176	566,349
Family Bank-	078000055956	311,281	1,023,314
M-PESA	883061	76,790	-
National Bank	01520242885400	127,862,588	128,001,700
TOTAL		138,504,454	141,334,242

20. Prepayment

	2023	2022
	Kshs	Kshs
Prepayment Medical cover		
Contract sum pro-rated to 6months	(7,669,701)	-
Total contract sum	-	11,823,295
Total payments covering to June 2023	10,317,992	(8,867,471)
Total Prepayment	2,648,291	2,955,824

21. Long term Payables

	2023	2022
	Kshs	Kshs
KFW	38,387,465	-
World bank-Mumias	275,541,203	359,899,415
World bank Lumakanda	63,013,172	-
Motor vehicles	12,770,348	-
Lake Victoria North Water Works Development Agency	24,669,225	27,069,254
Total	414,381,413	386,968,670

The company has a total the outstanding loan amount is Kshs. 4,296,194,094 from National Government secured by Lake Victoria water works for water infrastructure in Tindinyo, Namabacha and Lumakanda. However, there are still negotiations by Council of Governors to write off, we have only acknowledged the interest on the same in our Financial Statements

22. Trade and Other Payables

	2023	2022
	Kshs	Kshs
Trade payables	59,193,638	-
Contingent Liability	13,410,788	-
Customer Deposits	3,242,000	-
Other payables	218,755,651	200,178,663
Total	294,602,077	200,178,663

WARMA Kshs. 13,410,787.50 has been considered under contingency liability since there is controversy over implementation of new water obstruction rate by WARMA from Kshs. 0.5 to Kshs.5 and 5% levy of monthly water use charges

Kakamega County Water and Sanitation Company Limited
Annual Report and Financial Statements for the year ended June 30, 2023

Notes to financial statements (continued)

Other Disclosures

23. Related Party Disclosures

County Government of Kakamega

The County Government of Kakamega is the principal shareholder of the Company, holding 100% of the Company's equity interest. The County of Government of Kakamega 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 Kakamega
 - Water works Agencies
 - WASREB (Water Services Regulatory Board)
 - WARMA
 - Water Sector Trust Fund
 - Key management
 - Board of directors
24. During the Financial year 2022-2023 there was completion of DTF Project which had a cost of Kshs. 14,062,911
25. WARMA Kshs. 13,410,787.50 has been considered under contingency liability since there is controversy over implementation of new water obstruction rate by WARMA from Kshs. 0.5 to ksh.5 and 5% levy of monthly water use charges
26. Kshs. 215,000,000 in Equity reserves from County comprises of Kshs. 128,000,000 from County Government of Kakamega for 2 containerized water treatment plant, of which Kshs. 100,000,000 has been fixed in National Bank and Ksh.87,000,000 from County Government of Kakamega
27. Loans for 2 Motor vehicles were acquired by the company through Family Bank Asset Financing of Kshs. 9,495,000 at an interest rate of 14%
28. Lake Victoria Outstanding Levies were levies accrued before enactment of Water Act 2016 and after separation of Busia water supply
29. The company implemented a revised tariff in January 2022 as approved by WASREB
30. Capitalised Inventory of Kshs, 148,042,643 which has been running as an explained reserve has been written off against retained earnings after Boards approval awaiting final approval by the county treasury

Kakamega County Water and Sanitation Company Limited
Annual Report and Financial Statements for the year ended June 30, 2023

31. The Republic of Kenya, on the basis of the agreement dated 4th December 2007, between the Government of Federal Republic of Germany and the Government of the Republic of Kenya on financial co-operation in 2006 and 2007 (Government Agreements), borrowed a loan of EUR 27,960,000 (Kshs. 2,338,738,372) from KfW, Frankfurt am Main, vide a loan agreement dated 21st May 2008.

The loan was meant for implementation of the Water Sector Development Programme (Phase II, stage 2) (Investment Measure).

The project executing agency, whom the funds were channelled to, was Lake Victoria North Water Works Development agency.

These funds were used for infrastructure Development of the Kakamega water supply /Tindinyo treatment works.

In addition, the Government of the Republic of Kenya, borrowed a loan of Kes.1, 654,992,498 from World Bank for infrastructure development of the Mumias water supply/Nambacha treatment works and a further Kes. 302,463,225 Million, for infrastructure development of the Lumakanda water supply/Kipkaren treatment works.

In total the outstanding loan amount is Kshs. 4,296,194,094 (Four Billion, Two Hundred and Ninety Six Million, One Hundred and Ninety Four Thousand, and Ninety Four Shillings).

KACWASCO did not enter into any loan agreement apart from the handover deed from the Executing agency, which listed the loans as a liability.

In line with the provisions of the Water Act 2016, the Water works development agencies are mandated with infrastructure development. Ownership of the developed assets for the three water supplies vest in Lake Victoria Water Works development Agency.

Since the loan obligations are huge and unmanageable by the Company, we have written to the National Treasury, through the office of the Governor, for intervention on repayment of these huge outstanding liabilities by the borrower, the Government of the Republic of Kenya. (Attached is the letter to the National Treasury).

Kakamega County Water and Sanitation Company Limited
Annual Report and Financial Statements for the year ended June 30, 2023

32. Appendices

Appendix I: Progress on follow up of auditor recommendations

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

No.	Issue	Response
1.	<p>1. Board Expenses</p> <p>The statement profit and Loss and other comprehensive income reflects Board Expenses totaling Ksh. 3,633,500. However, the balance differs with the sums of Ksh. 2,519,100 and Ksh. 1,016,850 reflected in the expenditure schedules and payment vouchers presented for audit respectively. No explanation was provided for the variances.</p> <p>In the circumstances the accuracy of the board expenses balance of Ksh. 3,633,500 could not be confirmed</p>	<p>We have attached a schedule of all the payments with the support documentation as per Annex 1.(Board expenses schedules</p> <p>Kshs 3,633,500 was the actual expense for Board expenses during the year under review. The Payment Vouchers amounting to Kshs 3,633,500 have were provided to the auditor for review.</p>
2.	<p>Cost of Sales - Failure to Account for Water Stocks</p> <p>The statement of profit or loss and other comprehensive income reflects cost of sales of Kshs.26, 905,798 which, as shown under note 3, comprises of the cost of electricity, chemicals and payments to Water Resources Management Authority (WARMA). However, the Company did not account for the cost of the water distributed, contrary to International Accounting Standard (IAS) 2 which requires inventories to be measured at the lower of cost or net realizable value.</p> <p>Consequently, the accuracy and completeness of the sales figure of Kshs.26, 905,798 could not be confirmed.</p>	<p>This was noted and the company committed to put mechanisms in place to ensure that water stocks at the end of the financial year are accounted for.</p> <p>In the Financial Statements for the FY2021/2022, the company accounted for water stocks Annex 2 (Inventories –water stocks pg. 11 of FY 2022/2023)</p>
3.	<p>Trade and Other Receivables</p>	<p>We have attached a schedule in PDF (See Annex 3a)(List of debtors w/o) We have also attached the Board approval to write off</p>

Kakamega County Water and Sanitation Company Limited
Annual Report and Financial Statements for the year ended June 30, 2023

	<p>The statement of financial position reflects a trade and other receivables balance of Kshs.221,634,128 which, as shown under Note 11, is net of a balance of Kshs.55,408,532 being bad debts written off. However, no explanation was provided on the elements that constituted the balance. Further, there was no record of the Board of Directors having approved the write-offs of the debts.</p> <p>In the circumstances, the fair valuation of the trade and other receivables balance of Kshs.221,634,128 as at 30 June, 2021 could not be confirmed</p>	<p>20% of the debts provided for. Annex 3b (Minutes of Board approval) The criteria to write –off bad debts was based on:</p> <p>i) Accounts whose account holders could not be traced and the houses were inhabitable especially in the informal settlements</p> <p>ii) Accounts whose account holders had passed on and the next of kin were not in a position to pay since the deceased were the bread winners</p> <p>iii) Accounts that belonged to groups which today do not exist and have no known physical registered addresses</p> <p>N/B</p> <p>These debts are historical debts which were handed over to the Company through the various transitions in the water sector.</p>
4	<p>Trade and other payables</p> <p>The statement of financial position reflects a balance of Kshs.65, 884,508 under trade and other payables as at 30 June, 2021. However, the balance includes Kshs.40, 450,837 being unremitted deductions and employer contribution due to six (6) organizations. No explanation was provided for the failure to remit the deductions.</p>	<p>- Due to the old tariff (See Annex 3a) the company could not adequately cover its operational costs. However, the company has managed to review its tariff (See Annex 4-revised tariff) which is a cost recovery tariff which will ensure remittance of outstanding employee deductions</p> <p>- The company has put in place measures to reduce the outstanding arrears of employee deductions and also remit up-to date monthly deductions (See Annex 4b- Standing orders) and (annex 4c-PAYE part-payment agreement with KRA)</p>
5	<p>Material Uncertainty Relating to Going Concern</p> <p>The statement of Profit and Loss and other comprehensive income indicates that the company recorded a loss of Kshs.125,423,982 compared to a loss of Kshs.12,656,540 realized in the year 2019/2020, resulting in accumulated losses of Kshs.462,075,667 as at 30 June, 2021. This continued loss</p>	<p>- The company was operating on an old tariff which was last reviewed in 2012 and therefore could not cover operational costs. The company has since reviewed its tariff to enable it meet its operational costs (See Annex 5a-old tariff,5b-revised tariff and 5c-Reduced losses financial statements 2022/2023 Pg.1).</p>

Kakamega County Water and Sanitation Company Limited
Annual Report and Financial Statements for the year ended June 30, 2023

	<p>making trend indicates inability of the Company to sustain its operations and meet its obligations.</p> <p>In the circumstances, the water company continued existence as a going concern is dependent upon the financial</p>	<p>- During the Covid-19 pandemic there was high inflation leading to rise of costs of essential items such as Chemicals, Fuel, pipes and fittings, Electricity. The Government also imposed VAT on Chemicals</p>
	Key Audit Matters	
1	Budgetary Control	
1.1	<p>Revenue Shortfall</p> <p>The statement of comparison of budget and actual amounts indicates that, the Company's budgeted revenue for the year under review totaled to Ksh.300, 000,000. However, only Ksh.248, 084,968 (83%) was realized. No explanation was provided for the shortfall of Ksh.51,915,032</p> <p>Similarly, the company's budgeted and actual expenditures (including finance costs totaled Ksh.333,191,894 and Ksh.350,053,531 resulting in over-expenditure or Ksh.16,861,637</p> <p>No satisfactory explanation was provided by Management for the over-expenditure</p>	<p>The budget was prepared based estimates based on the following assumptions:</p> <ul style="list-style-type: none"> i) Operationalization of the Kakamega County Referral Hospital ii) Revival of Mumias Sugar <p>During that year under review Covid-19 pandemic affected the company's revenue streams hence the shortfall and increased the company's expenditure to meet covid-19 guidelines.</p>
1.2	<p>Insufficient budget for Water Treatment facility</p> <p>Examination of procurement records indicated that the Company awarded a contract to a local supplier on 16 October, 2020, for supply, delivery and installation of a water treatment facility at Musembe in Lugari Sub County at a contract sum of Kshs. 57,382,037 and a contract period of one year from the</p>	<p>1d). The County Government of Kakamega through the department of water environment and natural resources-County Government of Kakamega were the financiers of the above named project. Earlier when allocating the budget for the portable treatment facilities, they had intended to buy four facilities at Kshs. 200,000,000 and not five as erroneously indicated on the procurement plan since one (1) portable treatment facility for Lumino project had already been</p>

Kakamega County Water and Sanitation Company Limited
Annual Report and Financial Statements for the year ended June 30, 2023

<p>date of the contract. However, the approved budget and procurement plan indicate that the project was allocated only Kshs. 40,000,000. No explanation was provided for awarding the contract at Kshs. 57,382,037, which was Kshs. 17,382,037 above the budgeted amount.</p>	<p>purchased in the previous financial year. This is evident from our letter addressed to the Chief Officer responsible for water ,County government of Kakamega, County Ministry of Water, Environment and Natural Resources where we had sought for authority for issuance of notification of award letters clearly stating the total of the tender and noted that the ministry should look into the quoted sums for the two tenders in consideration of the two more containers to be delivered upon successful installation of the first two .The budgeted amount of 200million for the 4 containerized treatment facilities was clearly stated in the letter</p>
<p>As at 30 June, 2021, the Company had paid a total of Kshs.28, 685019. An audit inspection carried out in October, 2021, confirmed that the facility had not been completed and work was ongoing</p>	<p>The Ministry through a letter dated 22nd /09/2020 referenced: CGK/MWENR/WAT.CO/1/(121) authorized issuance of the letter of notification of award as a response to the authority that had been sought and as a result the notification letter of award was sent for tender no: CGK/KACUWASCO/DMSDS/02/2020-2021. Attached is the above mentioned letters (See Annex 6a and 6b)</p>
<p>In circumstances, Management breached regulations on budgetary control.</p>	<p>i. A physical inspection carried out in October 2021, revealed that the facility had not been completed and work was going on at the site.</p>
	<p>Response</p> <p>Note that the company was only mandated to procure the containerized portable water treatment facility on behalf of the County Government of Kakamega through the department of water environment and natural resources. Civil works were handled by the department of Water, Environment and Natural Resources</p>

Kakamega County Water and Sanitation Company Limited
Annual Report and Financial Statements for the year ended June 30, 2023

		<p>The containerized treatment facility was not fully installed at the expected time since it depended on the completion of the civil works first.</p> <p>The project was completed and was commissioned in April 2022. (See be annex 6c)</p>
	Unresolved prior year issues	Prior year issues have been resolved 100% and in some cases are work in progress
	Basis For Conclusion	
1	<p>Lack of Ethnic Diversity in Staffing Examination of personnel records indicated that 138 (or 78%) out of the total staff establishment of 177 come from one community, contrary to the provisions of 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.</p> <p>In the circumstance, the Company was in breach of the law.</p>	Some of that staff were employed before enforcement of section 7(2) of the National Cohesion and Integration Act 2008. However this has been noted and the same will be implemented in subsequent employments to realize ethnic diversity
2.	<p>Non-Revenue Water</p> <p>The statement of profit or loss and other comprehensive income reflects a sales income of Kshs.248, 084,968 arising from sale of 2,203,432 cubic metres (m³) of water. However, records available indicate that the Company produced a total of 4,084,260 m³ of water valued at Kshs.459, 846,833. Consequently, the difference of Kshs.1, 880,828 m³ of water (or about 46%) valued at Kshs.211, 761,865 was not billed to</p>	<p>i) During the year under review, upgrading of marram roads to tarmac road by both National and County governments took place on a high gear that found most of our water pipelines that were once installed along the roads being damaged by road work contractors, leading to wastage of huge volumes of water.</p> <p>ii) Interference of our pipelines and fittings by private plumbers and corrupt customers, thus making illegal connections.</p> <p>iii) Illegal water consumption through self-reconnection by customers on disconnection due to non-payment of water bills.</p>

Kakamega County Water and Sanitation Company Limited
Annual Report and Financial Statements for the year ended June 30, 2023

	<p>customers and was therefore denoted as NRW. The 46% non-revenue water is above the 25% prescribed guidelines issued by the Water Services Regulatory Board (WASREB).</p>	<p>iv) Under registering consumer water meters due to being aged or tampered with.</p>
	<p>The high NRW Ratio and loss implied that the company's water distribution was inefficient, or large portion of its customers obtained its water free of charge, and may have depicted ineffective use of public resources. In addition, the ratio could be one of the causes for the company's loss-making trend reported over several years</p>	<p>v) Frequent water pipeline bursts and leakages due to aged and dilapidated infrastructure</p>
	<p>The high NRW Ratio and loss implied that the company's water distribution was inefficient, or large portion of its customers obtained its water free of charge, and may have depicted ineffective use of public resources. In addition, the ratio could be one of the causes for the company's loss-making trend reported over several years</p>	<p>vi) The automobiles we are using are very old and therefore breaking down quite often, interfering with the response time to reported leaks and bursts, and therefore a lot of water being lost. Repairers of pipeline bursts and leaks take a lot of time to respond to.</p>
<p>3.</p>	<p>Lack of Records on Procurement of Legal Services</p> <p>Examination of expenditure records indicated that the Management made payments totalling to Ksh.1, 673,200 to three firms for legal services provided to the company. However, records on procurement of the services were not provided for audit review.</p> <p>In the circumstance, regularity and value for money on the expenditure could not be confirmed.</p>	<ul style="list-style-type: none"> • The company fully undertook the registration of suppliers for financial year 2018-2020 exercise to source for vendors for various categories for goods works & services and among them was for the provision of legal services. • Due to the nature of Litigation matters that had emerged it was not possible to undertake procurement process as it applies to other suppliers at that time due to urgency. For instance, matters before the Public Procurement and Administrative Review Board (PPARB) require urgent and immediate attention within prescribed timelines, thus, a procurement process would not suffice. • For civil cases, a court order for a matter filed under certificate of urgency requires immediate response thus a procurement process would not suffice. • Criminal cases also call for immediate attention of the cases to avert arrest and detention of officers following issuance of

Kakamega County Water and Sanitation Company Limited
Annual Report and Financial Statements for the year ended June 30, 2023

	<p>warrants for non-attendance. Such cases are not planned for /foreseen thus a procurement process cannot suffice.</p> <ul style="list-style-type: none">• It is for the above reasons that registered law firms are profiled according to various parameters including: -their location/court jurisdiction as a guide on dealing/instructing a firm in accordance to where a case is to be filed, like in Nairobi, Kakamega etc• Familiarity/specialization of matters they handle is also another parameter to profile firms; whether civil, criminal, conveyancing, policy & legislation development and other matters as provided for under the Advocates' Remuneration Order 2016.• Further, remuneration of firms is guided by the Advocates' remuneration Order 2014. It is not possible to determine the cost of a litigation matter afore front as various factors determine the outcome of the case and therefore the remuneration.• For the case of Munyao Muthama Advocates', remuneration of Kshs 475,000 was arrived at in line with the Advocates' Remuneration Order 2014, Schedule 5 part I paragraph 2 An advocate may charge his fees at such hourly rate or rates as may be agreed
--	--

		<p>with his client from time to time</p> <ul style="list-style-type: none"> • Due consideration was also given to the timelines aforementioned prescribed by the PPARB as per Schedule 5 part II which provides: - <p>Such fee for instructions as, having regard to the care and labour required, the number and length of the papers to be perused, the nature or importance of the matter, the amount or value of the subject matter involved, the interest of the parties, complexity of the matter and all other circumstances the case, may be fair and reasonable, but so that due allowances shall be given in the instruction fees for other charges raised under this Schedule.</p> <ul style="list-style-type: none"> • For the case of Matete Mwelese & Company advocates, remuneration of Kes.1,050,000 for policy development was arrived at as follows; Note that this was not a litigation matter and therefore remuneration of the same falls under Schedule 5 part II paragraph 1; and also noting that the development and review involved eight (8) policy documents each charged at Kshs 150,000. The Kes.1, 050,000 was a discounted rate from a total sum of 1,200,000 of all the eight policy documents. <p>Schedule 5 part II paragraph 1 provides: -</p>
--	--	--

Kakamega County Water and Sanitation Company Limited
Annual Report and Financial Statements for the year ended June 30, 2023

Such fee for instructions as, having regard to the care and labor required, the number and length of the papers to be perused, the nature or importance of the matter, the amount or value of the subject matter involved, the interest of the parties, complexity of the matter and all other circumstances the case, may be fair and reasonable, but so that due allowances shall be given in the instruction fees for other charges raised under this Schedule.

- For the case of Matete Mwelese & Company advocates, Criminal case no.423 Of 2021, remuneration of Kes.150,800 for was arrived at as follows
- Part A and B of schedule 7 of the advocates Remuneration Order 2014 (Party to Party costs and advocates-Client costs)

Conclusion

The Procurement of the services was done through the established procurement process where due to the urgency of the suits, registered firms were called upon to take the matter and proceed.

We also confirm that the fees was reviewed and found to be within the appropriate Advocates remuneration rates.

We do confirm that the amount was spent for a worthy cause the first instance being to develop company policies that are very dire to the organization, the criminal case was in defense of the company,

Kakamega County Water and Sanitation Company Limited
Annual Report and Financial Statements for the year ended June 30, 2023



		<p>deterrence of instances of illegal connections that negatively impact on NRW as well as to cushion the liability on the staff in whose respect warrants of arrest had been issued.</p> <p>The appropriate documentation and files are in place and a copy of the same is as attached for your review and validation. From the correspondence, it's clear that the fees charged was negotiated on as a cost saving measure.</p> <p>a) Please also refer to the Advocates' Remuneration Order 2016.</p>
--	--	--

Kakamega County Water and Sanitation Company Limited
Annual Report and Financial Statements for the year ended June 30, 2023

Appendix II: Projects Implemented by KACWASCO

S/No	Project Name	Budget (Kshs.)	Project Status As At 30 th June, 2023
1.	Construction of 5000m ³ Reinforced concrete ground tank at Lirhandanda– Shinyalu sub county.	97,045,948	<ul style="list-style-type: none"> • Foundation works 100% complete. • Columns erection 100% complete. • Walling 100% complete. • Formwork for roof slab 100% complete. • Roof slab steel works in progress. • Construction of resident engineers office at 75% complete. • Overall works certified progress 88% complete.
2.	Mumias Up-scaling Basic Sanitation For The Urban Poor (UBSUP) Project.	17,214,223	<ul style="list-style-type: none"> • 212 Safisan toilets constructed and subsidy fully paid to the beneficiaries. • 100% of the DTF complete. • The DTF was commissioned on 08th April 2022 by His Excellency the governor of the County Government of Kakamega.
3.	Procurement and installation of Musembe containerized water treatment plant.	60,250,000	<ul style="list-style-type: none"> • Plant procured installed and tested. • Project is 100% complete • The project was commissioned in April 2022 by his excellence the governor of the County Government of Kakamega.

Appendix III -Inter-Entity Transfers

In the Financial Year 2021/2022, the Company received Kshs.128, 000,000 (One Hundred and Twenty Eight Million Only) from the County Government of Kakamega meant for the purchase and installation of 2No.Portable Containerized Water Treatment Plants. Implementation to be done in 2022/2023 financial year.

Name: Eng. Michael Ogot

Signature: 

Managing Director

Date: 29/09/2023

Water and Sanitation Company Limited
Financial Statements for the year ended June 30, 2023
