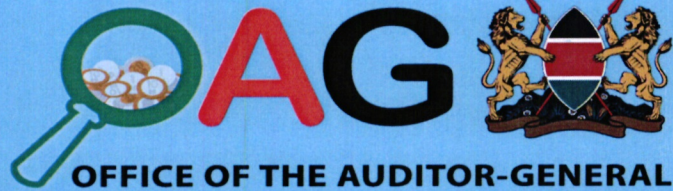


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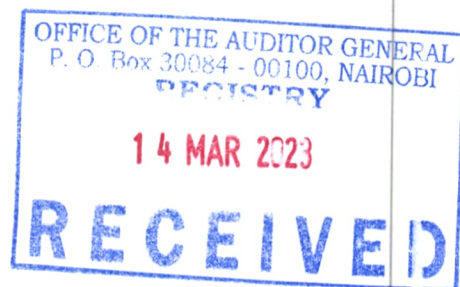
THE AUDITOR-GENERAL

ON

**GUSII WATER AND SANITATION
COMPANY LIMITED**

**FOR THE YEAR ENDED
30 JUNE, 2022**





**GUSII WATER AND SANITATION COMPANY LTD
ANNUAL REPORTS AND FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED
JUNE 30, 2022**

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

GUSII WATER AND SANITATION COMPANY LTD
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KEY COMPANY'S INFORMATION

Background information

The Gusii Water & Sanitation Company Limited (GWASCO) was incorporated on 12th June 2006 under the Companies Act Cap 486 laws of Kenya and commenced operations in August 2006. GWASCO operated as an agent of Lake Victoria South Water Services Board now Lake Victoria South Water Works Development Agency in line with the Water Act 2002 under the defunct Municipal Councils and county councils in Kisii and Nyamira when the company signed a Service Provision Agreement (SPA) commencing 1st August 2006.

Upon the transfer of the devolved function for water and sanitation services to the County Governments, the County Governments of Kisii and Nyamira acquired full ownership of the company through transmission of the shares previously held by defunct Municipal Councils and county councils. Currently the company is operating under a license issued by Water Services Regulatory Board (WASREB) in line with Water Act 2016.

GWASCO is licensed to supply water and sanitation services to the larger Gusii (Kisii and Nyamira) and covers an approximate area of 1,974 km² with an estimated population of about 1.6 million. The Company operates the following Schemes: **Kisii County:** 8 Nr. schemes Plants; Kegati, Nyakomisaro, Nyangori, Gesusu, Ogembo, Keumbu, Tabaka and Birongo and 1 Nr. Wastewater Treatment Plant at Suneka, **Nyamira County:** 4 Nr. Schemes; Nyamira, Keroka, Nyansiongo, and Ikonge.

Principal Activities

The principal activities of the Company are:

The responsibilities and mandate of GWASCO as a water service provider are stipulated in Section 78. (1) Of the Water Act 2016 and include:

- a) Provision of water services within the area specified in the license
- b) Development of County assets for water service provision
- a) To carry on the business of a Water Services Provider, as defined by the Water Act 2016
- b) To manage and conserve the sources and supply of water in the area of the county governments and in particular, to conserve, redistribute and augment those water resources as consented to by the licensee.
- c) To provide and distribute a constant supply of potable water for commercial, industrial and domestic purposes within the area of the county governments.
- d) To be responsible for the provision, control and maintenance of sewerage and drainage for commercial, industrial and domestic purposes within the area of the county governments.

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- e) To maintain and rehabilitate existing water and sewerage infrastructure and facilities, as well as develop infrastructure or facilities for furthering the objects of the company.

Vision

To be the premier company in the provision of portable water and sewerage services in Kenya.

Mission

The company provides safe water and sewerage services efficiently and effectively to sustainably meet expectations of the customers and other stakeholders.

Directors

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

1. Charles N. Moturi	Chairman	- Appointed on 29 th June 2021
2. Jemimah M. Mosegere	Director	- Appointed on 29 th June 2021
3. David O. Obure	Director	- Appointed on 29 th June 2021
4. Isabella N. Lumumba	Director	- Appointed on 29 th June 2021
5. Saboke O. Kiboma	Director	- Appointed on 29 th June 2021
6. Moses Onderi	Director	- Appointed on 29 th June 2021
7. Amos Andama	Director	- Appointed on 29 th June 2021
8. Samwel Maiko	Director	- Appointed on 29 th June 2021
9. Emily Ongaga	Director	- Appointed on 29 th June 2021

Corporate Secretary

Mr. Edward begi
Kisii

Registered Office

Gusii Water & Sanitation Co. Ltd.
P.O. Box 3880 - 40200
KISII, KENYA
Bobaracho Main Office
Kisii-Keroka Highway

Corporate Headquarters

Gusii Water & Sanitation Co. Ltd.
Bobaracho Main Office
Kisii-Keroka Highway
KISII, KENYA.

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Corporate Contacts

Telephone: (+254) 0208029088/058-31345

Email: info@gwasco.co.ke

Website: www.gwasco.co.ke

Corporate Bankers

Kenya Commercial Bank Ltd

Eco Bank (K) Ltd.

Independent Auditors

Auditor General

The Office of the Auditor General

Anniversary Towers, University Way

P.O. Box 30084GPO 00100

Nairobi, Kenya.

Principal Legal Advisers

The Attorney General

State Law Office, Harambee Avenue

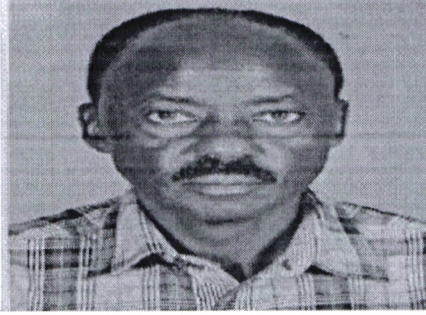


P.O. Box 40112

City Square 00200




Nairobi, Kenya

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I. THE BOARD OF DIRECTORS

Ref	Directors	Details
1.	 Charles N. Moturi	Charles N. Moturi is the Chairman of the Board. He represents Chamber of Commerce group and hold BBA of purchasing & supplies management.
2.	 Lucy Wachira Managing Director MBA (Strategic Management), BBA, Dip in BA	Directing, Planning, implementation, monitoring and evaluation.
3.	 Saboke O Kiboma	Saboke Kiboma holds Bachelor of Education and represents Resident Associations. He chairs Technical Committee of the Board.



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4.	 <p>Isabella M Lumumba</p>	<p>Isabella M. Lumumba holds BA of Education & Masters in project management and represents Community Based Organizations.</p>
5.	 <p>David Obure</p>	<p>David Obure holds BCOM and Masters in personnel Management. He represents Professional Associations and Chairs Audit Committee of the board.</p>
6.	 <p>Jemimah Moraa</p>	<p>Jemimah Moraa holds Bachelor of Arts & Masters and represents Institutions and Gender. She is the Chair Finance and Human Resources Committee of the Board.</p>



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<p>7.</p>	 <p>CPA EMILLY MORAA ONGAGA</p>	<p>CPA Emilly Moraa Ongaga is the CECM: Finance and Economic Planning Nyamira County Executive.</p> <p><i>Academic Qualifications</i></p> <p>Mrs. Emily Moraa Ongaga holds a post graduate in Business Administration (Finance) from Egerton University and a Bachelor of Arts (Economics & Sociology) degree from the University of Nairobi.</p> <p><i>Professional Experience</i></p> <p>Prior to her appointment, she served as the Director Corporate Services in the National Commission for Science, Technology and Innovation. She is a member of the Institute of Certified Public Accountants of Kenya (ICPAK). She has a wealth of experience from various institutions spanning twenty one years.</p>
<p>8.</p>	 <p>SAMWEL MAIKO</p>	<p>Samwel Maiko is the <u>ECM, Environment, Energy, Mining & Natural Resources</u>, at Nyamira County Government.</p>




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9.	 <p>AMOS ANDAMA</p>	<p>Amos Andama is the <u>ECM, Environment, Energy, Mining & Natural Resources</u> at Kisii County Government.</p>
10.	 <p>Moses Onderi</p>	<p>He is the CEC for Finance and Economic Planning, Kisii County. He previously worked as the CEC in charge of the Department of Lands, Housing Planning and Urban Development. Prior to that, he worked as Training/Programme Officer at the African Network for Prevention and Protection Against Child Abuse and Neglect (ANPPCAN). He also worked as lecturer at the Kenya School of Government, formerly Kenya Institute of Administration (KIA). He holds a Masters Degree in Education (Education Technology) from Maharaja Sayajirao University of Baroda (India), a Higher Diploma in Human Resources Management from the Institute of Personnel Management and a Bachelors Degree in Education from the Karnatak University, Dharwad (1991). Higher Diploma in Human Resources Management, Institute of Personnel Management (2002) and a Bachelors degree in Education from the Karnatak University, (Dharwad, India).</p>



II. MANAGEMENT TEAM

Ref	Management	Details
1	 <p>Lucy Wachira Managing Director MBA (Strategic Management), BBA, Dip in BA</p>	Directing, Planning, implementation, monitoring and evaluation.
2	 <p>Gerald Ogero Gisairo Technical Manager BSC Civil Engineering, Graduate Eng.</p>	Manage, control and maintain water and sewerage systems for constant supply of potable water.

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3	 <p>Alex Nyakundi Procurement Manager BSC. Purchasing &Supplies Management, Dip. Supply Chain Management, MKISM</p>	Supply chain management and storage of materials and equipment
4	 <p>Naom Manyara Ag. Human Resource Manager BA (Social Sciences)</p>	Manage personnel, Formulate, Enforce and regularly update human resource policies
6	 <p>Dalton M. Ogero Internal auditor BSC with IT, CPA</p>	Ensuring integrity of internal control systems and risk management.

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7	 <p>Thaddeus Mogesi Mogoi Financial Accountant BBM, MBA, CPA (K), MKIM</p>	Implement, maintain, manage and enhance financial and accounting systems.
8	 <p>Collins Ong'era ICT Manager Bachelor of Business Information Technology</p>	Enhancement of ICT infrastructure and information processing and management information systems.

III. CHAIRMAN'S STATEMENT

1. The Strategy

The company has a revised 5 year strategic plan covering the period 2020-2023. Management signed the performance contract in an effort to monitor and improve operational efficiency. It is in the process of reviewing and developing a new strategic plan to cover the new phase. The following are the highlights of the strategic plan.

2. Governance

The Board of Directors seek to adhere to and comply with the principles of good corporate governance in Kenya as well as guidelines published and issued by Water Services Regulatory Board.

My Board upholds personal and corporate integrity as well as a culture that values high ethical standards. The Board continues to maintain strategic objectives, key policies and approval of annual budget. It promotes accountability through monitoring of implementation of policies and strategies in a structured system of the following Board Committees.

- a) Finance, HR & Procurement Committee
- b) Technical Committee
- c) Audit Committee

3. Expansion programmes

Meeting customer water demand and managing Non Revenue Water remain a huge challenge. The company had a production capacity of 6,000m³/day of water per day which comprise of the treatment works of New Kisii, Keroka, Nyamira, Ogembo, Tabaka, Ikonge, Keumbu, Nyansiongo and Gesusu. The estimated demand in our area of jurisdiction is 30,000m³/day.

To meet the growing demand as well as grow our market share, the company has undertaken an integrated approach that encompasses improvement of production capacity, expansion and rehabilitation of the network to manage non-revenue water and enhancement of operational efficiency.

In this regard, through Lake Victoria South Water works Development Agency Kisii water supply and Nyamira water supply are set to inject an additional 21,000m³/day and 1,200m³/day respectively following the completion of expansion works.

4. Future Outlook

Our new constitution places the water and sanitation services under the county government and also declares access to clean water a human right. We continue to adhere to the Water Act 2016 to deliver on our mandate. Kisii and Nyamira towns under Kisii and Nyamira Counties respectively have witnessed increased economic activities and therefore demand for water and sanitation services has more than tripled.

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The Company Board under whose chairmanship I hold is formulating a comprehensive blueprint to spearhead the provision and improvement of the Water and Sanitation Services Provision to meet the water demand of Kisii and Nyamira Counties.

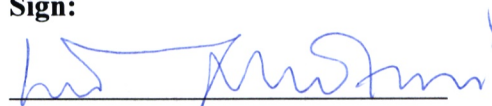
It is my humble believe that with continued support from the Government of Kenya, County Governments of Kisii and Nyamira, Lake Victoria South Water Works Development Agency, business development partners and unwavering commitment of our staff, the company will resiliently overcome operational and economic challenges in the Company and sustainably achieve its stated mandate.

5. Appreciation

I wish to take this opportunity to thank all our stakeholders for their support without which our remarkable performance would not have been achieved. I also take this opportunity to sincerely thank our Ministry of Environment, Water & Natural Resources both at the National Government and the two Counties for their invaluable support, Water Services Regulatory Board, other water sector institutions, our development partners and the stakeholders for the continued support of all our activities.

The Directors remain committed to provide the necessary leadership to facilitate continued improvement of the Company's operations. I remain confident that we have the skills, abilities and resources necessary to manage the significant opportunities and challenges that lie ahead of us.

Sign:



Col. (Rtd) Charles N. Moturi

Chairman

19 January 2023

IV. REPORT OF THE MANAGING DIRECTOR

I am delighted to present my report on the performance of the Company for the financial year 2021/2022

1. Financial Performance

a) Turnover

The Company recorded sales for the year 2021/2022 amounting to Kshs. 190,644,280 against Kshs. 153,408,563 for the year 2020/2021 representing 24% increase. The increase in sales turnover was purely as result of internal growth within the service provision area. Water charges remained consistent in the year under the current tariff regime which expired in 30 June 2022. The management is in the process of embarking into Regular Tariff Application to adjust its pricing on water and sanitation services for the tariff period 2023-2025. The tariff regime will enable the company break-even and attain sustainability in its operation and maintenance costs.

b) Expenses

The total expenses for the year under review were Kshs. 270,082,000 against Kshs. 206,760,500 in the financial year 2020-2021. This represents an increase in costs by 31%.

c) Profit for the year

The Company registered a marginal surplus of Kshs. 26,155,150 against a surplus of Kshs. 8,812,446 the previous year. This compares favorably and the trend indicates the company's trajectory is headed to sustainability and going concern. This trend was enhanced by management restructuring and governance review and increased efforts on Non-Revenue Water Management. To meet viability of the Company and its ability to continue as a going concern, the management continues to embark on the following:

- i. Continued focus on monthly efficient invoice collections, sustained efforts in recovery of debtors; and
- ii. Continued focus on cost management, containment and optimization of resources allocated to company business facilities.

d) Capital investment

During the period under review the company continued to maintain a sound rapport with our external financiers and sustained management of New Kisii Treatment Works and Rehabilitation of Water System in Kisii and Nyamira Towns funded by Kfw through Lake Victoria South Water Works Development Agency at a cost of KShs. 2 Billion.

2. Human resource

The company's human resource has continued to be a valuable asset in achieving business objectives, targets, customer satisfaction and stakeholder expectations. Consequently, the company's work ethics are founded on team-work.

In order to enhance staff productivity, the company has continued to embrace a performance management system as a basis for rewarding and identifying areas of improvement. To this end, the managers signed a performance contract the result of which shall be the basis of future improvements.

3. Information Communication Technology (ICT)

The company recognizes that ICT is the nerve centre of the company's business. It is a vital component for the establishment and support of all existing and new business and customer service initiatives, as well as company's operations.

In its endeavour to enhance customer service management, the company continued to engage Earthview Management Co. Ltd to upgrade majisoft billing software. M-Pesa services for bills payment continued to be part of improved customer service. In managing its debts, the company approved a draft debt management policy for use in its commercial operations.

4. Climate Change and operational resiliency

Following the end of the financial year 2021/2022, strategies aimed at securing adequate water supply, expanding water access to the residents, improving the quality of supply and service to our customers, as well as the financial performance took the centre stage of our operations. The Company's performance has remained steady despite the many challenges facing it. This include but not limited to: expired tariff, challenges with the billing software, dwindling sources due to drought like Gesabei dam for Nyansiongo water supply, Nyamira water supply, Nyakomisaro water supply and Eucalyptus trees along the water sources as well as dry river chirichiro who provides raw water source to Birongo water project. In the face of these challenges, the company has continued to streamline its revenue growth and service delivery.

To deliver our priorities and a strong customer proposition, everyone in the business needs to be engaged with our vision and values and the needs of our customers. This is why managers in the company get together to talk about our values, what our customers expect and what our strategies for delivery. As Gusii Water family, we are committed to driving changes that will deliver to our customers.

I fully recognize that the privileges of running a water company come with important responsibilities, and understand the significant impact on our customers and the environment and the effects when we fall short of the standards expected by our customers. During the last year we've seen a series of major bursts on some of our distribution water pipes in urban, peri-urban and rural areas where our systems serve and we've missed our leakage control target. Leaks are inevitable on a network of our

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enormous size and age which stem way back to 1976, but it's vital we invest wisely and continually to improve our resilience.

We are in a hugely privileged institution with life-long investment from our customers through their bills, and everything we do impacts on them, their children, their grandchildren and beyond. We're custodians of their money and hence the need to be smart and disciplined about how we spend it. Our customers also play an active part in operating our water and waste-water networks, every time they turn on a tap, use a washing machine or flush the toilet. Hence, the way we engage with them and explain our business is a continuing priority.

5. Health and the Environment

The company has continued to expand its services to the un-served areas where raw water has been used for domestic use. By providing potable, clean, safe and affordable water to such areas, the company is playing a major role in improving the health of the residents under its jurisdiction.

The company has also invested in maintenance of Suneka sewerage ponds and conducting environmental audits through National Environment Management Authority to achieve a clean and safe environment. To this end, continuous laboratory tests and analysis of both treated water and water discharged from our sewerage treatment works ensures that we comply with the stringent regulatory standards and legislation.

6. Customer service and social responsibility

Satisfying our customers and creating stakeholder value remain our cherished goals. As we look into the future, our resolve is to remain focused to achieve these goals through securing adequate water supply, distribution capacity, reducing Non-Revenue Water and expansion of our customer base.

We are also expanding our social responsibility by providing our services to the low income areas through construction of water kiosks where water is affordable to all residents of those areas.

Conclusion

We acknowledge that our company plays a major role in the socio-economic development of our two counties and the country at large. We shall therefore continue to actively pursue strategies aimed at increasing access to safe water, improving the quality of supply, services to our customers and securing our sustainability. With the commitment of our staff, the guidance of the board, support of the stakeholders and the Government, we are confident that we shall continue to satisfy our customers' expectations.

Sign:



Lucy Wahito Wachira
Managing Director
19 January 2023

V. STATEMENT OF PERFORMANCE AGAINST PREDETERMINED OBJECTIVES FOR THE YEAR ENDED 30 JUNE 2022

The Company has 4 strategic pillars/ themes/issues and objectives within the current Strategic Plan for the financial year 2021/2022. These strategic pillars/ themes/ issues are as follows:

1. Pillar /theme/issue : Financial perspective
2. Pillar/theme/issue : Customer Perspective
3. Pillar/theme/issue : Internal (process) perspective
4. Pillar/theme/issue : Learning and growth perspective

The Company develops its annual work plans based on the above 4 pillars/Themes/Issues. Assessment of the Board’s performance against its annual work plan is done on a quarterly basis. The Company achieved its performance targets set for the FY 2021/2022 period for its 4 strategic pillars, as indicated in the diagram below:

Vision:	To be the premier company in the provision of potable water and sanitation services in Kenya			
Mission:	To provide safe water and sanitation services efficiently and effectively to sustainably meet expectations of the customers and other stakeholders.			
Strategic Priorities	Increase Access to Water and Sanitation			
Financial perspective	Strategic Objective	Measures	2021	2022
	Increase the coverage and access to clean and safe drinking water and sanitation services	% increase in water access	45%	65%
		Increased number of active connections	9,500	11,600
		% increase in sewerage access	13%	16%
	Improve financial sustainability to cover all operational costs and attain 100% O&M cost recovery	Increase in Billing and revenue	10M	17M
		% increase in collection efficiency	82%	90%
		Increase O&M cost coverage	75%	85%
		% reduction in NRW	57	53
		Reduction in dormant accounts	3,750	2,900

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Customer Perspective	Identify and implement appropriate communication and branding for the company	Identify and implement appropriate communication and branding for the company	All main offices (Kisii and Nyamira) branded GWASCO with branded boards erected	All other regional offices branded GWASCO with branded boards erected
		Develop and update company website & social media platforms for consumer interaction	Updated Website in line with Strategic Plan	Developed social media platforms
		Promotion and participation in CSR activities	1 CSR conducted	2 CSR conducted
	Improved Customer Relations	Develop and implement customer service management systems	Procurement of the CRM	Implementation of the CRM
		Develop and implement a customer service charter	development and approval of the customer service charter	
	Provide quality water and sanitation services that meet and surpass our customers and other stakeholders' expectations.	Increase in Hours of supply (hrs)	15	17
		No. of customer satisfaction surveys	1	1
		Drinking water quality - Compliance with residual chlorine	93%	95%
		Improve on consumer complaint and resolutions	70%	85%
	Internal (process) perspective	Fortify and internalize Organizational capacity and processes	Automate and integrate ICT in all business processes like Management Information System	Procurement of the MIS and update of the GIS system

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		(MIS), Geographical Information System (GIS), Monitoring and Evaluation Framework		
		Number of policies to be developed	2	2
		Regulatory compliance	80%	90%
		Disaster and Risk Management plan (DRM)	Disaster and Risk Management plan (DRM) developed	
		Governance ranking	45%	55%
Learning and growth (People) perspective	Develop and enhance knowledge management, effective communication and employee satisfaction.	Capacity build and develop employee skills	TNA report and training plan developed	
			TOT program developed	
			1 Bench marking visit	1 Bench marking visit
		Enhance the management of Employee performance	Developed and approved PM policy	
			Performance evaluation conducted for Utility management	
Foster Innovation & Increase Employee satisfaction	Institutionalization of the research and engineering unit and conducting customer satisfaction survey			

VI. CORPORATE GOVERNANCE STATEMENT

Transparency and accountability are the two basic tenets of Corporate Governance. Gusii Water and Sanitation Company Ltd envisions laying the foundation for good governance. Responsible corporate conduct is integral to the way we do our business. Our actions are governed by our values and principles, which are reinforced at all levels within the Company. We are committed to doing things the right way which means taking business decisions and acting ethically in compliance with applicable legislation.

Our Code of Business Principles is an extension of our values and reflects our continued commitment to ethical business practices across our operations. We acknowledge our individual and collective responsibilities to manage our business activities with integrity. Our Code of Business Principles inspires us to set standards which not only meet applicable legislation but go beyond in many areas of our functioning.

The Board of Directors is responsible for and committed to sound principles of Corporate Governance in the Company. The Board plays a crucial role in overseeing how the management serves the short and long term interests of shareholders and other stakeholders. This belief is reflected in our governance practices, under which we strive to maintain an effective, informed and independent Board.

The Board of Directors

The Board of Directors is entrusted with the ultimate responsibility of the management, general affairs, direction and performance of the Company. The Company has been vested with requisite powers, authorities and duties to sustainably achieve its core mandate of Water Service Provision. The Management Committee of the Company is headed by the Managing Director and has business / functional heads as its members, which look after the management of the day-to-day affairs of the Company.

Composition

The Board of our Company has a good mix of Executive and Non-Executive Directors with half of the Board of the Company comprising of Independent Directors. As on date of this Report, the Board consists of ten Directors comprising one Non-Executive Chairman, Eight Independent Directors and One Executive Director who is the Managing Director. The Board is constituted taking into account Articles and Memorandum of Association, diversity of skills, age, value addition, and gender, academic qualifications and experience necessary to help Gusii Water and Sanitation Company achieve its goals and objectives.

The composition of the Board represents an optimal mix of professionalism, knowledge and experience and enables the Board to discharge its responsibilities and provide effective leadership to

CORPORATE GOVERNANCE STATEMENT CONT'D

the business. The positions of the Chairman of the Board and the Managing Director of the Company are held by separate individuals, where the Chairman of the Board is a Non-Executive Director. None of the Directors of our Company are inter-related to each other.

Evaluation

During the year under review, the Board did not conduct a self-evaluation exercise to gauge its performance. The evaluation could have assessed the effectiveness of the Company leadership giving members an opportunity to reflect on their responsibilities.

Work plan and meetings

Dates of Board meetings in the ensuing year are decided in advance and scheduled in a work plan. The Board meets once a quarter or more when necessary to transact Company business.

Board Meetings

Regular Board meetings are conducted in accordance with prepared board al manac for every financial year as per quarters.

Board Succession Policy

The Company has a succession plan where all Board members do not retire at the same time. Two thirds of the Board members other than those from the County Governments, retire from office by rotation every three years. The retiring members are determined on the basis of those who have served longest.

Board Charter

There has an existing board charter during the year under review.

Functions of the Board of Directors

- 1) Before commencing business they sign the code of ethics as circulated by WASREB.
- 2) Have a schedule of full board meetings at the end of every year for the next year.
- 3) Have only one full board meeting in every quarter.
- 4) Define the limits of authority of the Managing Director and other top executives in a schedule of duties.
- 5) Approve an annual budget.
- 6) Devote sufficient time to their responsibilities.
- 7) Have an approved organizational structure and adhere to the staff efficiency ratio guideline of 8 staff per 1,000 connections.
- 8) Have a performance management and appraisal system in place.

CORPORATE GOVERNANCE STATEMENT CONT'D

- 9) Map out communication strategy for internal and external liaisons to include at least one public forum in its area of supply.
- 10) Define how the Board will operate including:
- 11) Embark on bench marking with other WSPs to constantly monitor management performance and the financial progress of the company.
- 12) Evaluate its own performance at least once every year based on the Service Provision Agreement.
- 13) Ensure that the company is properly managed and for the attainment of lawful objectives.
- 14) Ensure that the company's affairs are not managed or conducted in a manner oppressive to any of its shareholders or for fraudulent purposes.
- 15) Ensure that the company complies with all statutory requirements.

Remuneration

Directors are entitled to sitting allowance for every meeting attended, lunch allowance (accommodation allowance and mileage reimbursement where applicable), within set limits of Board Minutes as per WASREB guidelines. Furthermore, Chairman is paid a monthly honorarium.

Accountability and audit

The Companies Act, 2015 vests sole responsibility on Directors to prepare financial statements for each financial year that give a true and fair view of the state of affairs of the Company. Director's responsibility stems from the premise that suitable accounting policies are consistently applied supported by reasonable and prudent judgments and estimates on proper accounting records kept disclosing with reasonable accuracy the financial position of the Company. Additionally, applicable accounting standards which include International Financial Reporting Standards and Relevant Laws of Kenya, Water Act, State Corporations Act, Public Financial Management Act, 2012 among others are followed as well as the duty to exercise care, skill and diligence. To achieve this, they have a fiduciary duty to ensure adequate internal control systems are in place to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

Directors' shareholding

None of the Directors owns Company shares in their individual capacity.

Ethical standards

The Company works towards ensuring that Directors and staff conduct themselves with integrity and professionalism in accordance with the Company's Code of Ethics for employees and the Directors Code of Conduct issued by WASREB. These are public statements that stipulate expectations and hold us accountable for our business conduct. Directors and all employees are required to read, understand, sign and remain bound by their provisions. The Company intends to carry out integrity

CORPORATE GOVERNANCE STATEMENT CONT'D

awareness, training, risk assessments and enforcement of corruption prevention measures. The Company remains open to receiving complaints and making follow-ups on allegations and cases of unethical conduct. Objective analysis of reported cases will be done and appropriate action instituted to control and mitigate any risk arising. The Company continues to collaborate with external partners to entrench a culture of ethics and integrity.

Communication with Stakeholders

The Company values and maintains good relations with stakeholders as fostered through effective communication. Company reports are available on the Company website at www.gwasco.co.ke and shared at the Annual General Meeting with the shareholders.

All shareholders are entitled to attend and vote at the AGM for which notice is published at least 21 calendar days before the meeting. Stakeholders are also given an opportunity to ask questions or seek clarification on any matter relating to Company business during the AGM. In addition, the Company maintains an open-door policy and stakeholders have direct access to the Managing Director.

Board Committees

To enhance corporate governance, the Board has three committees namely; Finance, HR & Procurement, Technical and Audit Committees. These standing committees assist the Company to effectively discharge various business functions and responsibilities. The committees submit reports of their activities to the Board on a regular basis.

Finance, HR & Procurement Committee

The Finance, HR & Procurement committee is responsible for ensuring that the Company's financial and administrative policies are adequate and has the right staff, at the right place and doing the right thing at the right time for the right course. The committee is also responsible for reviewing the Company's annual budget and quarterly financial reports. They also collaborate with Technical Committee in reviewing the viability of the Company's new projects.

Technical Committee of the Board

The committee is responsible for strategic planning, exploration of opportunities and developing proposals for funding and investment programs for the Company. This committee has oversight responsibility of ensuring that Company is complying with the agreements signed between it and the financiers. It also ensures that there is adequate asset development, maintenance and infrastructure improvement to ensure sustainability of all water infrastructures.

Audit Committee

The committee comprises three non-executive directors and regularly invites Internal Audit Manager to its meetings. The Internal Audit Manager of the Company is the Secretary of the Committee. The

GUSII WATER AND SANITATION COMPANY LTD
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CORPORATE GOVERNANCE STATEMENT CONT'D

committee is charged with the responsibility of ensuring adequate operating and control process are applied to safeguard the Company assets by reviewing internal Controls Measures of the Company and recommends appropriate remedial action where necessary. The committee also reviews all areas of risk and weaknesses in the Company and considers Internal Audit reports. They also ensure that appropriate action is taken on the recommendations of both Internal and external Auditors.

VII. MANAGEMENT DISCUSSION AND ANALYSIS

The financial statements comprise two components:

- a) Financial performance
- b) Operational performance

A further analysis is made on the following

As part of the financial statements, included are the statement of financial position, statement of comprehensive income, statement of changes in equity and the statement of cash flows

Results of operations are recorded using accrual basis of accounting whereby transactions are reported when underlying events occur regardless of the timing of cash flows. In this regard, revenues and expenses are reported in these financial statements for some items that will result in cash flows in future fiscal periods which include accounts receivable and accounts payable.

The statements of cash flows present the flow of cash and cash equivalents during the last two fiscal years. The notes to the financial statements provide additional information that is essential to the full understanding of the data provided in these financial statements.

1. Financial and operational review

The Company recorded sales for the year 2021/2022 amounting to Kshs. 190,644,280 against Kshs. 153,408,563 for the year 2020/2021 representing 24% increase. The increase can be attributed to sustained efforts in revenue collection. However, the company realized a marginal surplus of Kshs.26,155,150 up from Kshs. 8,812,700 the previous year.

2. Key projects or investment decisions

The Company undertook extension of the water intakes at Nyangori and Kegati and Nyamira treatment works during the period. The project is aimed at addressing the water production challenges associated with the deteriorating raw water quality in the treatment process and at the raw water intakes. Other projects being undertaken during the year include rehabilitation works in New Kisi water Supply and Sewerage systems and the Company undertook some key restructuring and enhancement of the network in Kisii, plus the replacement of some of the electro-mechanical equipment at the water works. These are aimed at reversing the water shortages being experienced in most parts of the Kisii Town.

These projects were financed through a concessionary loan and grant from the development partner Kfw through the Government of Kenya. No amount of internally generated revenue has been committed to these projects.

3. Service to the Poor Settlements

In line with our social mandate of providing services to the less privileged, the Company continued implementing the pro-poor interventions aimed at improving the lives of the people living in the urban poor settlements. Providing free water pro poor areas (Jogoo and Nyanchwa), Provision of Urban free

MANAGEMENT DISCUSSION AND ANALYSIS CONT'D

water to Nubia, institutions, schools and dispensaries, and Provision of tank services to Nubia, institutions, schools and dispensaries.

4. Compliance with statutory requirements

The Company has endeavoured to comply with statutory requirements as laid down by the Government of Kenya. Statutory returns are timely submitted like the NSSF, NHIF and Pay as You Earn. Pension obligations for staff are late but a payment plan has been agreed upon with respective schemes. Service obligations to regulatory requirements have not been complied with due to financial constraints. These include SPA administrative fee to LVSWWDA, regulatory levy to WASREB, and NITA training levy.

5. Major risks facing the company

Risk: Water resources and climate change

Risks description: Failure to develop our infrastructure, to improve its resilience and to manage demand would mean that we would not be able to meet our statutory duties and meet future demand. Climate change will increase instances of severe flooding and drought which can affect the availability of resources and the operation of our infrastructure.

Mitigation: We operate in an area of serious water stress and manage demand through our metering programme. We have also consistently endeavoured to meet our NRW targets. Our Water Resources Management Plan is developed to take account of opportunities for cooperation between WASREB and WARMA.

6. Risk: Regulatory and legal compliance

Risks description: Our business operates within a specific legislative and regulatory framework and many of our activities have an impact on the environment. Failure to ensure compliance with regulatory and legislative requirements may lead to criminal and civil liability, regulatory enforcement actions and disruption to the business and loss of management time. It will also affect the perception of GWASCO by customers, regulators and others with a stake in our business.

Mitigation: We have a wide range of policies, processes and controls to ensure that we meet our duties and obligations. We also monitor compliance with our statutory obligations for the purpose of reporting on our performance and for the purpose of our compliance. We review annually compliance performance and processes with the relevant department. We monitor changes to compliance requirements in order to adapt our processes and policies when required.

7. Risk: Security and information security

Risks description: The security and resilience of our information infrastructure is essential to maintain our service to the public. We must protect ourselves from loss of data and systems, and cyber-attacks and keep customers' data up-to-date and safe. Failure to protect personal data may lead to

MANAGEMENT DISCUSSION AND ANALYSIS CONT'D

enforcement actions and legal actions and would cause reputational damage. Loss or corruption of data would result in disruption to the business and additional costs.

These financial statements are designed to provide a general overview of the company's finances.

8. Material arrears in statutory and other financial obligations

No matter involving financial probity has been reported in the period under review.

VIII. ENVIRONMENTAL AND SUSTAINABILITY REPORTING

The core values are the fundamental principles that guide the behaviour of every person or entity working with GWASCO. They should be practiced and embraced to create the organizational culture to drive GWASCO's vision. The core values guiding GWASCO are:

- Customer focus
- Integrity
- Gender Responsive
- Professionalism
- Team work
- Innovation

Gusii Water and Sanitation Company Ltd exists to transform lives. This is our purpose; the driving force behind everything we do. It's what guides us to deliver our strategy, which is founded on 4 pillars: focusing on our Financial perspective, Customer Perspective, Internal (process) perspective and Learning and growth perspective. Below is a brief highlight of our achievements in each pillar

1. Sustainability strategy and profile

The Company as an agency has been able to Manage water devolved to the County Government after transition from National Government. It's now under the ownership of two County Governments of Kisii and Nyamira. This has offered a wide coverage area providing potential for more customers. Cross-county ownership, however, poses a risk of misunderstanding on distribution of water and sewerage services and structure of governance and supervision.

High cost of production involving electricity poses a great macroeconomic challenge. This led to: Cost recovery challenges, reduced revenue, Disruption of water services due to frequent disconnections and power fluctuations. The Company applied to the regulator for tandem adjustments of water tariff by WASREB.

2. Environmental performance

The Company could not sustainably manage solid/liquid waste and this was further compounded by sewer leakages. Further it was faced with catchment degradation through human activity such as deforestation and encroachment of water sources and Climate change and environmental degradation. This led to compromised water quality, high turbidity/ siltation, reduced water levels and sources, destruction of wetlands, water sources are threatened by reduction in water base, and flow due to prolonged dry spells and unpredictable rains. To mitigate on this, the Company has resorted to public awareness initiatives on proper waste management. Lobby for environmental protection, and adopt climate change adaptation and coping mechanisms

ENVIRONMENTAL AND SUSTAINABILITY REPORTING CONT'D

3. Employee welfare

The company has an existing human resources policy guiding staff management. It is also in the process of developing policy on safety and compliance as per Occupational Safety and Health Act of 2007, (OSHA).

4. Market place practices-

a) Responsible competition practice.

The company adheres to responsible competition practice by steering off corrupt practices. Being aware of the political environment we operate in, we direct our energy and efforts towards sustainably meeting customer expectations.

b) Responsible Supply chain and supplier relations-

The accounts payable have remained relatively high. Despite this, the Company has negotiated with suppliers and established a payment plan to reduce the amount owed to suppliers.

c) Responsible marketing and advertisement

The company adheres to responsible marketing and advertisement practices in its operations in creating awareness of its products to customers.

d) Product stewardship- outline efforts to safeguard consumer rights and interests

Every consumer has a constitutional right of access to safe and potable water. The Company is under obligation to meet this requirement and has endeavored to do so.

5. Corporate Social Responsibility/Community Engagements-

We encourage all employees to stay engaged with the community. We offer to pay leave to our employees if they wish to get involved in charity work during business hours.

The Company has entered into a partnership with learning institutions who play a role in teaching primary, secondary schools, colleges and university students how water, waste water and sanitation services are treated, supplied and why it is such is an important part of our lives.

Gusii Water also sponsor many regional ASK business excellence awards, Country Charities and environmental activities through our partnerships with various stakeholders.

Over the years GWASCO Ltd. has had the pride on its regular contribution towards community regeneration activities. We have continued this long-standing tradition of providing the communities with high quality and affordable Water and Sanitation Services. Within the past years, we concentrated on the improvement of the infrastructure and made substantial contributions towards the construction and maintenance of water and Sewer networks in our areas of our Jurisdiction and promoted sanitation. These have surely controlled to some level diseases caused by contaminated water.

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IX. REPORT OF THE DIRECTORS

The Directors submit their report together with the audited financial statements for the year ended June 30, 2022 which show the state of the Company's affairs.

Principal activities

The principal activities of the entity are provision of water and sewerage services.

Results

The results of the entity for the year ended June 30, 2022 are set out on page 1-49. Below is summary of the profit or loss made during the year.

Dividends

Subject to the approval of the shareholders, the Directors do not recommend the payment of any dividend for the year.

Directors

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

Auditors

The Auditor General is responsible for the statutory audit of the Company in accordance with Article 229 of the Constitution of Kenya and the Public Audit Act 2015 for the year ended June 30, 2022 in accordance to section 23 of the Public Audit Act, 2015 which empowers the Auditor General to appoint an auditor to audit on his behalf.

By Order of the Board

Sign: 

Col. (Rtd) Charles N. Moturi

Chairman

19 January 2023

GUSII WATER AND SANITATION COMPANY LTD
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X. STATEMENT OF DIRECTORS' RESPONSIBILITIES

Section 164 of the Public Finance Management Act, 2012, The Companies Act 2015 and Section 129 of the Water Act 2016 require the Directors to prepare financial statements in respect of that Company, which give a true and fair view of the state of affairs of the Company at the end of the financial year/period and the operating results of the Company for that year/period. The Directors are also required to ensure that the Company keeps proper accounting records which disclose with reasonable accuracy the financial position of the Company. The Directors are also responsible for safeguarding the assets of the Company.

The Directors are responsible for the preparation and presentation of the Company financial statements, which give a true and fair view of the state of affairs of the Company for and as at the end of the financial year (period) ended on June 30, 2022. This responsibility includes: (i) Maintaining adequate financial management arrangements and ensuring that these continue to be effective throughout the reporting period;(ii) maintaining proper accounting records, which disclose with reasonable accuracy at any time the financial position of the entity; (iii) Designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of the financial statements, and ensuring that they are free from material misstatements, whether due to error or fraud; (iv) Safeguarding the assets of the Company; (v) selecting and applying appropriate accounting policies; and (vi) Making accounting estimates that are reasonable in the circumstances.

The Directors responsibility for the Company financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity with International Financial Reporting Standards (IFRS), and in the manner required by the PFM Act, 2012, water act 2016 and companies Act 2015.

The Directors are of the opinion that the Company's financial statements give a true and fair view of the state of Company's transactions during the financial year ended June 30, 2022, 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 financial statements as well as the adequacy of the systems of internal financial control.

Approval of the financial statements

The Company's financial statements were approved by the Board on 19 January 2023 and signed on its behalf by:



Col. (Rtd) Charles N. Moturi
Chairman
19 January 2023



Lucy Wahito Wachira
Managing Director
19 January 2023

REPUBLIC OF KENYA

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REPORT OF THE AUDITOR-GENERAL ON GUSII WATER AND SANITATION COMPANY LIMITED FOR THE YEAR ENDED 30 JUNE, 2022

PREAMBLE

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

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

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

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

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of the Gusii Water and Sanitation Company Limited set out on pages 1 to 35, which comprise of the statement of financial

position as at 30 June, 2022, and the statement of profit or loss and other comprehensive income, statement of changes in equity, statement of cash flows and statement of comparison of budget and actual amounts for the year then ended, and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, 2015. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

In my opinion, except for the 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 the Gusii Water and Sanitation Company Limited as at 30 June, 2022, 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 Companies Act, 2015, the Water Act, 2016 and the Public Finance Management Act, 2012.

Basis for Qualified Opinion

1.0 Variance in Operating Revenue

The statement of profit or loss and other comprehensive income reflects operating revenue amount of Kshs.190,644,280 and as disclosed in Note 6 to the financial statements which was tallying with the monthly billing schedules provided for audit. However, the amount differs with Kshs.198,402,244 recorded in the monthly billing summary from the Majisoft Portal used by the Company resulting to a variance of Kshs.7,757,975. Management has explained that revenue amounts extracted from the Majisoft Portal keeps on fluctuating at a point in time and that the financial statements' amount of Kshs.190,644,280 was extracted from the Majisoft portal on 30 June, 2022. Further, at the time of audit in December, 2022, the system reflected a revenue billing of Kshs.198,402,244 while in March, 2023 the monthly billing summary amounted to Kshs.198,471,544 which casts doubt in the effectiveness of the Majisoft Portal in revenue billing.

In the circumstances, the accuracy and completeness of the reported operating revenue amount of Kshs.190,644,280 for the year ended 30 June, 2022 could not be confirmed.

2.0 Unsupported Board Expenses

The statement of profit or loss and other comprehensive income reflects Board expenses amount of Kshs.2,827,580 which, as disclosed in Note 11 to the financial statements includes travel and accommodation expenses of Kshs.784,620 whose supporting schedule of individual Directors' payments was not provided for audit and sitting allowances amounting to Kshs.1,453,860 whose supporting Board meetings minutes provided for audit were not signed, casting doubt on whether the meetings actually took place.

In the circumstances, the accuracy, completeness and regularity of the expenditure of Kshs.2,827,580 could not be confirmed.

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

Key Audit Matters

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

Other Matter

1.0 Budgetary Control and Performance

The statement of comparison of budget and actual amounts reflects final receipts budget and actual on comparable basis of Kshs.329,276,640 and Kshs.296,237,150 respectively, resulting to an underfunding of Kshs.33,039,490 or 10% of the budget. Similarly, the Company spent Kshs.270,082,000 against an approved budget of Kshs.329,276,640, resulting in an under-expenditure of Kshs.59,194,640 or 18% of the budget.

The underfunding and under-expenditure affected the planned activities and may have impacted negatively on service delivery to the public.

2.0 Unresolved Prior Year Matters

Several issues raised in the report for the previous year had not been resolved. Management has not provided satisfactory reasons for failure to solve the prior year issues.

Other Information

The Directors and Management are responsible for the other information, which comprises (The Chairman's Report, Directors' Report, the Statement of Corporate Governance, Management Discussions and Responsibilities, Statement of Corporate Social Responsibility and the Statement of Directors' Responsibilities). The other information does not include the financial statements and my auditor's report thereon.

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

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 effect of the matters described in the Basis for Conclusion on Lawfulness and Effectiveness in Use of Public Resources section of my report, I confirm that, nothing else has come to my attention to cause me to believe that public resources have not been applied lawfully and in an effective way.

Basis for Conclusion

1.0 Irregular Utilization of Customer Deposits

The statement of financial position reflects customer deposits balance of Kshs.22,661,460 in respect of amounts deposited by customers for new water meter, paid upon connection. These funds were supposed to be retained in the Company's deposit account with the bank. However, the balance differs with the closing balance of Ksh.6,015,000 reflected in the deposits account bank statement, resulting to a variance of Kshs.16,646,460 which represents customer deposits withdrawn from the deposit bank account and used for other purposes. However, the Board's approval for these withdrawals and when the withdrawn amount was to be refunded were not provided for audit review.

In the circumstances, the regularity of the withdrawal of Kshs.16,646,460 and its existence as at 30 June, 2022 could not be confirmed.

2.0 Non-Revenue Water (NRW) Losses

The statement of profit or loss and other comprehensive income reflects operating revenue of Kshs.190,644,280. However, examination of water production data revealed that the Company produced 4,556,986 cubic meters (M³) of water out of which, only 1,061,417 cubic meters (M³) were billed to customers, resulting in the balance of 3,495,569 cubic meters (or approximately 77% of the volume produced) representing Non-Revenue Water (NRW) which is 52% above the allowable set benchmark loss of 25% prescribed by the Water Services Regulatory Board Guidelines, 2010.

This NRW may have resulted in loss of sales estimated at Kshs.262,167,675 (at the average rate of Kshs.75 per cubic meter) out which, Kshs.176,724,188 which is above allowable benchmark was not acceptable. This was an indication of lack of efficiency and effectiveness in the use of public resources and no evidence of the Company's efforts to address the situation was provided for audit review.

The potential NRW loss of Kshs.262,167,675 for the year ended 30 June, 2022 has negatively impacted on the Company's profitability and its long-term sustainability.

3.0 Irregular Procurement of Chemicals

The statement of profit or loss and other comprehensive income reflects general and operations expenses of Kshs.153,791,840 which, as disclosed in Note 10 to the financial statements, includes an amount of Kshs.10,971,620 spent on chemicals. However, examination of documents supporting this expenditure revealed the following inadequacies:

- i. The amount of Kshs.10,971,620 includes Kshs.10,910,925 (Kshs.9,576,430 and Kshs.1,334,495) paid to two (2) vendors who were awarded tenders for supply of various chemicals. Review of the price schedules presented by both vendors revealed that the first vendor quoted a total price of Kshs.17,940,000 in respect of four (4) chemicals, while the second vendor quoted a total price of Kshs.13,529,920 for the same chemicals. However, the vendor who quoted the higher price ended up being awarded majority of the tenders without any justification.
- ii. The Company entered into a framework agreement with the two (2) companies to supply chemicals, instead of the prescribed minimum of seven (7) alternative vendors, contrary to Regulation 102 of the Public Procurement and Asset Disposal Regulations, 2020 and no signed contract agreements between the Company and the two vendors were provided for audit review.
- iii. The Management failed to prepare quarterly reports detailing analysis of items procured through framework contracts, including analysis of pattern of usage, procurement costs in relation to the prevailing market rates and recommendations, contrary to Regulation 134 of the Public Procurement and Asset Disposal Regulations, 2020.

In the circumstances, value for Kshs.10,910,925 expenditure on chemicals could not be confirmed and the Management was in breach of the law.

4.0 Non-Compliance with the Law on Engagement of Temporary Employees

The statement of profit or loss and other comprehensive income reflects staff cost amount of Kshs.95,560,560 which, as disclosed in Note 9 to the financial statements includes wages of temporary employees amounting to Kshs.4,373,750. However, review of documents relating to the staff costs revealed that the latter amount was paid to thirty-four (34) temporary employees attached to various departments who had worked continuously for periods of between three (3) to twelve (12) months during the year under review without being given contracts to be paid monthly salaries or wages, contrary to Section 37(1) and Section 35(1)(c) of the Employment Act, 2007.

Further, the wages of Kshs.4,373,750 includes Kshs.2,168,316 paid to fourteen (14) casuals whose personal files and appointment letters were not provided for audit and Kshs.807,924 paid to seven (7) casual employees whose contracts had expired.

In the circumstances, the Management was in breach of the law and value for Kshs.4,373,750 spent on temporary employees could not be confirmed.

5.0 Irregular Secondment of a County Employee to the Company

Examination of personnel records and payroll revealed that one (1) officer of Kisii County Government was seconded to the Company. According to the letter dated 15 December, 2021, the officer was deployed to the Company as a Lab Analyst by a senior officer in the Department of Water and Sanitation of the County Government of Kisii and reported to work with effect from 10 January, 2022. However, the approved requisition from the Company's Board, the release letter from the County Public Service Board and the specific duties and functions to be undertaken by the staff in support of the secondment were not provided for audit.

In the circumstances, value for money of the expenses incurred on the seconded officer could not be confirmed.

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

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

Basis for Conclusion

1.0 Lack of an Integrated Revenue System

Audit review of the internal controls in respect to revenue revealed that there was lack of integration between the billing system and the payment system. Instead, manual reconciliations between the billing report and payments report were done for individual customers to determine their outstanding balances which may be prone to errors. In addition, the Management failed to maintain individual customer ledgers to show the opening balances, amount invoiced, amount paid and the outstanding balances.

In the circumstances, the Company had weak internal controls over revenue collection which might have led to loss of revenue.

2.0 Lack of Approved Risk Management Policy and Strategy

Information provided for audit indicated that the Company operated without an approved risk management policy and strategies during the financial the year under review. It was

therefore not possible to ascertain how risks were identified, their significance estimated and how likelihood of their occurrence was determined. Further, it could not be confirmed how the risks were controlled and monitored to ensure that mitigation measures were effective in the absence of documentation and reports on the same. Without an approved risk management policy in the Company, it was not possible to confirm how risks were identified and mitigated during the year under review.

3.0 Inventory Management Weakness

The statement of financial position reflects inventories balance of Kshs.1,065,920 and as disclosed in Note 16 to the financial statements. However, audit inspection of inventories at the Kigati stores and facilities revealed that the pumping machines and equipment at the Kigati facility were not manned by security personnel to restrict unauthorized access. Further, the facility had high value machines and equipment but no surveillance cameras like CCTVs were put in place to monitor and detect intrusions in case of break ins. In addition, most of the Company's asset were not tagged for ease of tracking and prevention of theft.

In the circumstances, some Company's assets might have been lost through theft or misused.

The audit was conducted in accordance with ISSAI 2315 and ISSAI 2330. The standards require that I plan and perform the audit to obtain assurance about whether 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

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

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

The 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 controls would not necessarily disclose all matters in the internal controls that might be material weaknesses under the ISSAIs. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Because of its inherent limitations, internal controls may not prevent or detect misstatements and instances of 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 policies and procedures may deteriorate.

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

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

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

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


CPA Nancy Gathungu, CBS
AUDITOR-GENERAL

Nairobi

02 May, 2023

GUSII WATER AND SANITATION COMPANY LTD
Annual Report and Financial Statements for the year ended June 30, 2022

XII. STATEMENT OF PROFIT OR LOSS & OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 30 JUNE 2022.


	Note	2021-2022	2020-2021
		Kshs	Kshs
Revenue			
Operating Revenue	6	190,644,280	153,408,600
Grants Income	7	91,986,550	36,001,200
Other Income	8	13,606,320	26,163,400
Total Revenue		296,237,150	215,573,200
Expenses			
Staff Costs	9	95,560,560	92,939,100
General and Operations expenses	10	153,791,840	92,379,101
Board Expenses	11	2,827,580	6,039,100
Maintenance Expenses	12	13,971,650	11,833,300
Depreciation and Amortization expenses	13	3,930,370	3,569,900
Total Expenses		270,082,000	206,760,500
Profit/(Loss)		26,155,150	8,812,700
Other Comprehensive Income			
Profit/ (Loss)		26,155,150	8,812,700
Surplus or deficit on revaluation of PPE		0	0
Re-measurement of net defined benefit liability		0	0
Fair value gain/(loss) on investments in equity instruments designated as at FVTOCI		0	0
Total Comprehensive Income For The Year		26,155,150	8,812,700

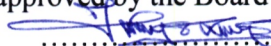
GUSII WATER AND SANITATION COMPANY LTD
Annual Report and Financial Statements for the year ended June 30, 2022

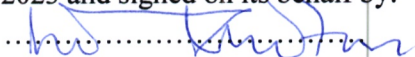
XIII. STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2022

	Note	2021-2022	2020-2021
		Kshs	Kshs
ASSETS			
Non-Current Assets			
Property, plant and equipment	14	44,604,160	44,771,600
Intangible assets	15	100,700	100,700
Total Non-Current Assets		44,704,860	44,872,300
Current Assets			
Inventories	16	1,065,920	1,055,400
Trade and other receivables	17	172,006,850	147,013,500
Bank and cash balances	18	62,091,420	7,234,100
Total Current Assets		235,164,190	155,303,000
Total Current and Non-Current Assets		279,869,050	200,175,300
EQUITY AND LIABILITIES			
Capital and Reserves			
Ordinary share capital	19	100,000	100,000
Capital reserves	20	67,053,200	67,053,200
Retained earnings	21	(2,774,550)	(28,929,700)
Capital and Reserves		64,378,650	38,223,500
Current Liabilities			
Retirement benefit obligations	22	21,098,300	0
Trade and other payables	23	126,369,160	98,671,800
Customer Deposits	24	22,661,460	18,366,600
Agency Account	25	45,361,480	44,913,400
Total Current Liabilities		215,490,400	161,951,800
TOTAL EQUITY AND LIABILITIES		279,869,050	200,175,300

The financial statements were approved by the Board on 19 January 2023 and signed on its behalf by:


 Name: Lucy Wachira
 Managing Director


 Name: Thaddeus Mogoi
 Head of Finance
 ICPAK M/No: 10736


 Name: Charles Moturi
 Chairman of the Board

GUSII WATER AND SANITATION COMPANY LTD
Annual Report and Financial Statements for the year ended June 30, 2022

XIV. STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 JUNE 2022

	Notes	Ordinary share capital	Revaluation reserve	Fair value adjustment reserve	Retained earnings	Total
		Kshs	Kshs	Kshs	Kshs	Kshs
As at July 1, 2020		100,000	67,053,200	(37,742,500)	0	29,410,700
Issue of new share capital						0
Revaluation gain						0
Deferred tax on excess depreciation						0
Profit for the year				8,812,700		8,812,700
Capital/Development grants received during the year						0
As at June 30, 2021		100,000	67,053,200	(28,929,800)	0	38,223,400
As at July 1, 2021		100,000	67,053,200	(28,929,800)	0	38,223,400
Issue of new share capital						0
Revaluation gain						0
Fair value adjustment on quoted investments						0
Profit for the year				26,155,150		26,155,150
Capital/Development grants received during the year						0
Transfer of depreciation/amortization from capital fund to retained earnings						0
Dividends paid – prior year						0
At June 30, 2022		100,000	67,053,200	(2,774,650)	0	64,378,550

GUSII WATER AND SANITATION COMPANY LTD
Annual Report and Financial Statements for the year ended June 30, 2022

XV. STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2022

	Note	2021-2022	2020-2021
		Kshs	Kshs
Cash Flows From Operating Activities			
Receipts			
Operating Revenue	6	190,644,280	153,408,600
Non-Operating Revenue			
Other Income	7	13,606,320	26,163,400
Grants	8	91,986,550	36,001,200
Total Receipts		296,237,150	215,573,200
Payments			
Staff Costs	9	95,560,560	92,939,100
Board Expenses	10	2,827,580	6,039,100
General and Operation Expenses	11	153,791,840	92,379,101
Maintenance	12	13,971,650	11,833,300
Depreciation and Amortization expenses	13	3,930,370	3,569,900
Total Payments		270,082,000	206,760,500
Net income (loss)		26,155,150	8,812,700
Depreciation and Amortization expenses	13	3,829,970	3,569,900
		29,985,120	12,382,600
Operating profit/(loss) before working capital changes			
Working Capital Changes			
(Increase)/decrease in inventories	16	(10,510)	(376,600)
(Increase)/decrease in trade and other receivables	17	(24,993,340)	(38,133,701)
Increase/(decrease) in Retirement Benefit Obligations	22	21,098,310	0
Increase/(decrease) in trade and other payables	23	27,697,370	27,360,700
Increase/(decrease) in Customer Deposits	24	4,294,860	3,900,500
Increase/(decrease) in Agency Account	25	448,090	4,009,200
Net Cash From/(Used In) Operating Activities		58,519,900	9,142,700
Cash Flows from Investing Activities			
Purchase Of Property, Plant And Equipment (PPE)	14	(3,662,480)	(4,055,900)
Net Cash From/(Used In) Investing Activities		(3,662,480)	(4,055,900)
Cash Flows from Financing Activities			
Proceeds From Issues Of New Share Capital		0	
Net Cash From/(Used In) Financing Activities		0	
Increase/(Decrease) In Cash And Cash Equivalents		54,857,420	5,086,799
Cash And Cash Equivalents At Beginning Of Year		7,234,000	2,147,300
Cash and Cash Equivalents At End Of The Year		62,091,420	7,234,099

GUSII WATER AND SANITATION COMPANY LTD
Annual Report and Financial Statements for the year ended June 30, 2022

XVI. STATEMENT OF COMPARISON OF BUDGET & ACTUAL AMOUNTS FOR THE YEAR ENDED 30 JUNE 2022

	Original budget	Adjustments	Final budget	Actual on comparable basis	Performance difference	% of utilization
	2021-2022	2021-2022	2021-2022	2021-2022		
	Kshs	Kshs	Kshs	Kshs	Kshs	
Revenue						
Operating Revenue	237,290,090	0	237,290,090	190,644,280	(46,645,810)	80.34%
Non-Operating Revenue						
Grants	91,986,550	0	91,986,550	91,986,550	0	100.0%
Other Income	0	0	0	13,606,320	13,606,320	100.0%
Finance Income	0	0	0	0	0	0.0%
Other gains	0	0	0	0	0	0.0%
	91,986,550	0	91,986,550	105,592,870	13,606,320	114.79%
Total Revenue	329,276,640	0	329,276,640	296,237,150	(33,039,490)	89.97%
Expenses						
Staff Costs	92,658,360	0	92,658,360	95,560,560	(2,902,200)	103.13%
Board Expenses	5,870,960	0	5,870,960	2,827,580	3,043,380	48.16%
General and operations Expenses	114,676,620	0	114,676,620	153,791,840	(39,115,220)	134.11%
Maintenance	17,103,860	0	17,103,860	13,971,650	3,132,210	81.69%
Depreciation and amortization	0	0	0	3,930,370	(3,930,370)	100.0%
Finance costs	0	0	0	0	0	0.0%
Total Recurrent Expenditure	230,309,800	0	230,309,800	270,082,000	(39,772,200)	117.27%
Profit or Loss	98,966,840	0	98,966,840	26,155,150	6,732,710	26.43%
Capital Expenditure	98,966,840	0	98,966,840	0	98,966,840	0.0%
Total Expenditure	329,276,640	0	329,276,640	270,082,000	59,194,640	82.02%
Surplus (Deficit) for the period	0	0	0	26,155,150	(92,234,130)	0

The following is an explanation of differences between actual and budgeted amounts (10% over/ under)

1. Board Expenses

Reduced Board meetings due to governance challenges faced by the Company

2. General and operations Expenses

Largely due to increased electricity consumption prompted by increased production capacity and increased regulatory levy

3. Maintenance costs

Attributed to reduced costs on Plant & machinery repairs & maintenance, Fuel, Oils and Lubricants, and Vehicle repair & maintenance

XVII. NOTES TO THE FINANCIAL STATEMENTS

1. General Information

The Company is established by and derives its authority and accountability from the Water Act. The Company is wholly owned by the County Governments of Kisii and Nyamira and is domiciled in Kenya. The Company's principal activity is provision of Water and Sewerage Services. For Kenyan Companies Act reporting purposes, the balance sheet is represented by the statement of financial position and the profit and loss account by the statement of profit or loss and other comprehensive income in these financial statements.

2. Statement of Compliance and Basis of Preparation

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

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

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

Going Concern

The financial statements have been prepared on a going concern basis. 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 these financial statements.

As at 30 June 2022, the statement of financial position reflected an excess of current assets over current liabilities by a slight margin of Ksh. 19,673,790. Moreover, during the financial year ended 30 June 2022 the Company experienced a marginal surplus of Kshs. 26,155,150 (2021: Surplus 8,812,700.36). This performance reflected the continued and sustained efforts by the Company to management demand and service area coverage in the face of increased level of Non-Revenue Water in the distribution system. The continuing viability of the Company and its ability to continue as a going concern is dependent upon the Company being successful in its continuing efforts in growing its revenue base and/or accessing additional sources of capital from financiers.

GUSII WATER AND SANITATION COMPANY LTD
Annual Report and Financial Statements for the year ended June 30, 2022

NOTES TO THE FINANCIAL STATEMENTS (Continued)

The directors are satisfied that the Company is able to meet its working capital liabilities through the normal cyclical nature of income generation to meet financial obligations.

Consequently, the directors have proactively addressed the deficiency in net current assets and improved cash performance via the following initiatives:

- a) Continued focus on debtors invoice collections, keeping inventory levels at a minimum; and
- b) Continued focus on cost management and containment in all areas of business.

As a result of the above matters, the directors are of the view that the Company will continue as a going concern and, therefore, will realize its assets and liabilities and commitments in the normal course of business and at the amounts stated in the financial statements. The directors remain confident about the successful achievement of projected income targets and therefore no adjustments have been made to these financial statements relating to the recoverability and classification of the asset carrying amounts.

The directors believe that the Company will be successful in the above matters and, accordingly, have prepared the financial statements on a going concern basis.

GUSII WATER AND SANITATION COMPANY LTD
Annual Report and Financial Statements for the year ended June 30, 2022

NOTES TO THE FINANCIAL STATEMENTS (Continued)

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

i. New and amended standards and interpretations in issue effective in the year ended 30 June 2022

Title	Description	Effective Date
Amendments to IAS 16 titled Property, Plant and Equipment: Proceeds before Intended Use (issued in May 2020)	The amendments, applicable to annual periods beginning on or after 1 January 2022, prohibit a company from deducting from the cost of property, plant and equipment amounts received from selling items produced while the company is preparing an asset for its intended use. Instead, a company will recognise such sales proceeds and related cost in profit or loss	The amendments are effective for annual periods beginning on or after January 1, 2022. Early application is permitted.
Amendments to IAS 37 titled Onerous Contracts - Cost of Fulfilling a Contract (issued in May 2020)	The amendments clarify that for the purpose of assessing whether a contract is onerous, the cost of fulfilling the contract includes both the incremental costs of fulfilling that contract and an allocation of other costs that relate directly to fulfilling contracts. They are effective for contracts for which an entity has not yet fulfilled all its obligations on or after 1 January 2022.	The amendments are effective for annual periods beginning on or after January 1, 2022. Early application is permitted
Amendment to IFRS 1 titled Subsidiary as a First-time Adopter	The amendment, applicable to annual periods beginning on or after 1 January 2022, provides a subsidiary that becomes a first-time adopter later than its parent with an exemption relating to the measurement of its assets and liabilities. The exemption does not apply to components of equity.	The amendments are effective for annual periods beginning on or after January 1, 2022. Early application is permitted.
Amendment to IFRS 9 titled Fees in the '10 per cent' Test for Derecognition of Financial Liabilities	The amendment, applicable to annual periods beginning on or after 1 January 2022, to IFRS 9 clarifies the fees that a company includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability.	The amendments are effective for annual periods beginning on or after January 1, 2022. Early application is permitted
Amendment to IAS 41 titled Taxation in Fair Value Measurements (issued in May 2020 as part of the Annual Improvements to IFRS Standards 2018-2020)	The amendment, applicable to annual periods beginning on or after 1 January 2022, to IAS 41 removed the requirement to exclude taxation cash flows when measuring fair value. This amendment aligned the requirements in IAS 41 on fair value measurement with those in other IFRS	The amendments are effective for annual periods beginning on or after January 1, 2022. Early application is permitted.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

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

ii. New and amended standards and interpretations in issue but not yet effective in the year ended 30 June 2022.

Title	Description	Effective Date
IAS 1 — Presentation of Financial Statements	IAS 1 "Presentation of Financial Statements" sets out the overall requirements for financial statements, including how they should be structured, the minimum requirements for their content and overriding concepts such as going concern, the accrual basis of accounting and the current/non-current distinction. The standard requires a complete set of financial statements to comprise a statement of financial position, a statement of profit or loss and other comprehensive income, a statement of changes in equity and a statement of cash flows.	The amendments are effective for annual periods beginning on or after January 1, 2023. Earlier application is permitted.
Amendments to IAS 1 titled Classification of Liabilities as Current or Non-current (issued in January 2020)	The amendments, clarify a criterion in IAS 1 for classifying a liability as non-current: the requirement for an entity to have the right to defer settlement of the liability for at least 12 months after the reporting period.	The amendments are effective for annual periods beginning on or after January 1, 2023. Earlier application is permitted.
Amendments to IAS 1 titled Disclosure of Accounting Policies (issued in February 2021)	The amendments, applicable to annual periods beginning on or after 1st January 2023, require entities to disclose their material accounting policy information rather than their significant accounting policies	The amendments are effective for annual periods beginning on or after January 1, 2023. Earlier application is permitted.
IAS 12 — Income Taxes	IAS 12, "Income Taxes" implements a so-called 'comprehensive balance sheet method' of accounting for income taxes which recognizes both the current tax consequences of transactions and events and the future tax consequences of the future recovery or settlement of the carrying amount of an entity's assets and liabilities. Differences between the carrying amount and tax base of assets and liabilities, and carried forward tax losses and credits, are recognized, with limited exceptions, as deferred tax liabilities or deferred tax assets, with the latter also being subject to a 'probable profits' test.	The amendments are effective for annual reporting periods beginning on or after January 1, 2023. Early adoption is permitted.
IAS 8- Accounting Policies, Errors and Estimates	The amendments, applicable to annual periods beginning on or after 1st January 2023, introduce a definition of 'accounting estimates' and include other amendments to IAS 8 to help entities distinguish changes in accounting policies from changes in accounting estimates.	The amendments are effective for annual reporting periods beginning on or after January 1, 2023. Early adoption is permitted.

The Directors do not plan to apply any of the above until they become effective. Based on their assessment of the potential impact of application of the above, they do not expect that there will be a significant impact on the company's financial statements Early adoption of standards. The entity did not early – adopt any new or amended standards in year 2021/2022

NOTES TO THE FINANCIAL STATEMENTS (Continues)

4. Summary of Significant Accounting Policies

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

a) Revenue recognition

Revenue is measured based on the consideration to which the entity expects to be entitled in a contract with a customer and excludes amounts collected on behalf of third parties. The entity recognizes revenue when it transfers control of a product or service to a customer.

- i) Revenue from the sale of goods and services** is recognised in the year in which the Company delivers products/services to the customer, the customer has accepted the products/services and collectability of the related receivables is reasonably assured.
- ii) Grants from Government Entities** are recognised in the year in which the Company actually receives such grants. Recurrent grants are recognized in the statement of comprehensive income. Development/capital grants are recognized in the statement of financial position and realised in the statement of comprehensive income over the useful life of the assets that has been acquired using such funds.
- iii) Finance income** comprises interest receivable from bank deposits and investment in securities, and is recognised in profit or loss on a time proportion basis using the effective interest rate method.
- iv) Dividend income** is recognised in the income statement in the year in which the right to receive the payment is established.
- v) Rental income** is recognised in the income statement as it accrues using the effective interest implicit in lease agreements.
- vi) Other income** is recognised as it accrues.

b) In-kind contributions

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

c) Property, plant and equipment

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

Certain categories of property, plant and equipment are subsequently carried at re-valued amounts, being their fair value at the date of re-valuation less any subsequent accumulated depreciation and impairment losses. Where re-measurement at re-valued amounts is desired, all

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Summary of Significant Accounting Policies

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 recognised in profit or loss in the income statement.

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 recognised in the income statement on a straight-line/reducing balance 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:

Item of PPE	Years	Rate
Pipeline (Infrastructure)		5.0%
Building & civil work	2.5 years	10.0%
Plant & machinery	12.5 years	12.0%
Motor vehicle	4.0 years	15.0%
Computers	3.0 years	33.33%
Office equipment, furniture and fittings	12.5 years	15.0%

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

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

d) Intangible assets

Intangible assets with finite useful lives that are acquired separately are carried at cost less accumulated amortization and accumulated impairment losses. Amortization is recognized on a straight-line basis over their estimated useful lives. The estimated useful life and amortization method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. Intangible assets with indefinite useful lives that are acquired separately are carried at cost less accumulated impairment losses.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Summary of Significant Accounting Policies

e) Amortisation and impairment of intangible assets

Amortisation is calculated on the straight-line basis over the estimated useful life of the intangible asset. All intangible assets are 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 recognised so that the asset is written down immediately to its estimated recoverable amount.

f) Investment property

Investment property, which is property held to earn rentals and/or for capital appreciation (including property under construction for such purposes), is measured initially at cost, including transaction costs. Subsequent to initial recognition, investment property is measured at fair value. Gains or losses arising from changes in the fair value of investment property are included in profit or loss in the period in which they arise. An investment property is derecognized upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from the disposal. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the period in which the property is derecognized.

g) Right of Use Asset

The right-of-use assets comprise the initial measurement of the corresponding lease liability, lease payments made at or before the commencement day, less any lease incentives received and any initial direct costs. They are subsequently measured at cost less accumulated depreciation and impairment losses. Whenever the entity incurs an obligation for costs to dismantle and remove a leased asset, restore the site on which it is located or restore the underlying asset to the condition required by the terms and conditions of the lease, a provision is recognized and measured under IAS 37. To the extent that the costs relate to a right-of-use asset, the costs are included in the related right-of-use asset, unless those costs are incurred to produce inventories. Right-of-use assets are depreciated over the shorter period of lease term and useful life of the underlying asset. If a lease transfers ownership of the underlying asset or the cost of the right-of-use asset reflects that the entity expects to exercise a purchase option, the related right-of-use asset is depreciated over the useful life of the underlying asset. The depreciation starts at the commencement date of the lease. The right-of-use assets are presented as a separate line in the statement of financial position.

h) Fixed interest investments (bonds)

Fixed interest investments refer to investment funds placed under Central Bank of Kenya (CBK) long-term infrastructure bonds and other corporate bonds with the intention of earning interest income upon the bond's disposal or maturity. Fixed interest investments are freely

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Summary of Significant Accounting Policies

traded at the Nairobi Securities Exchange. The bonds are measured at fair value through profit or loss.

i) Quoted investments

Quoted investments are classified as non-current assets and comprise marketable securities traded freely at the Nairobi Securities Exchange or other regional and international securities exchanges. Quoted investments are stated at fair value.

j) Unquoted investments

Unquoted investments stated at cost under non-current assets, and comprise equity shares held in other Government owned or controlled entities that are not quoted in the Securities Exchange.

k) Inventories

Inventories are stated at the lower of cost and net realizable value. Cost comprises direct materials and, where applicable, direct labour costs and those overheads that have been incurred in bringing the inventories to their present location and condition. Cost is calculated using the weighted average cost method. Net realizable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution.

l) 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 of 10% is made of doubtful receivables based on a review of all outstanding amounts at the year end. Bad debts are written off after all efforts at recovery have been exhausted and when the necessary approval to write off is granted.

m) 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 Company operates and generates taxable income. Current income tax relating to items recognized directly in net assets is recognized in net assets and not in the statement of financial performance.

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.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Summary of Significant Accounting Policies

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.

n) 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.

o) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as

NOTES TO THE FINANCIAL STATEMENTS (Continued)

the assets are substantially ready for their intended use or sale. To the extent that variable rate borrowings are used to finance a qualifying asset and are hedged in an effective cash flow hedge of interest rate risk, the effective portion of the derivative is recognized in other comprehensive income and reclassified to profit or loss when the qualifying asset impacts profit or loss. To the extent that fixed rate borrowings are used to finance a qualifying asset and are hedged in an effective fair value hedge of interest rate risk, the capitalized borrowing costs reflect the hedged interest rate. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization. All other borrowing costs are recognized in profit or loss in the period in which they are incurred.

p) Cash and cash equivalents

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

q) Borrowings

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

r) Trade and other payables

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

s) Retirement benefit obligations

The Company operates a defined contribution scheme for all full-time employees from July 1, 2021. 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

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

National Social Security Act. The company's obligation under the scheme is limited to specific contributions legislated from time to time and is currently at Kshs. 200 per employee per month.

t) Provision for staff leave pay

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

u) Exchange rate differences

The accounting records are maintained in the functional currency of the primary economic environment in which the entity operates, Kenya Shillings. Transactions in foreign currencies during the year/period are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Any foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

v) Budget information

The original budget for FY 2021-2022 was approved by the Board of Directors on 29 June 2021. Subsequent revisions or additional appropriations were not made to the approved budget in accordance with specific approvals from the appropriate authorities.

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

A statement to reconcile the actual amounts on a comparable basis included in the statement of comparison of budget and actual amounts and the actuals as per the statement of financial performance which has been presented under section XVII of these financial statements.

w) 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

NOTES TO THE FINANCIAL STATEMENTS (Continued)
Summary of Significant Accounting Policies

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.

a) Comparative figures

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

b) 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, 2022.

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.

a) Estimates and assumptions

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

b) Useful lives and residual values

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

c) Provisions

Provisions were raised and management determined an estimate based on the information available.

Provisions are measured at the management's best estimate of the expenditure required to settle the obligation at the reporting date, and are discounted to present value where the effect is material.

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

6. Operating Revenue

	2021/2022	2020/2021
	Kshs	Kshs
Water	118,108,400	94,952,300
Sewer	69,149,880	55,500,500
Refuse	0	45,100
Rent	3,386,000	2,910,700
Total	190,644,280	153,408,600

7. Grants Income

	2021/2022	2020/2021
Operational grants from Government entities		
Kisii County Government		
Nyamira County Government		
Total of grants received from County Governments		36,001,200
Recurrent/operational grants from other agencies	91,986,550	
In Kind contribution/donations from other agencies		
Total	91,986,550	36,001,200

Name of the Entity sending the grant	Amount recognized in the Statement of Comprehensive Income Kshs	Amount deferred under deferred income Kshs	Amount recognised in capital fund. Kshs	Total grant income during the year Kshs	2021-2022 Kshs
Water Sector Trust Fund	91,986,545	0	0	91,986,545	91,986,545
Total	91,986,545	0	0	91,986,545	91,986,545

8. Other Income

	2021/2022	2020/2021
	Kshs	Kshs
Change of Name	75,600	130,000
Exhauster Charges	3,385,500	2,322,000
Exhauster permit	50,000	0
Meter Testing	1,500	2,400
New Connection	3,223,790	14,750,500
Reconnection Fee	194,560	263,400
Sewer	4,453,340	7,874,900
Sewer Discharge	1,170,330	30,000
Sewer New Connection	306,400	597,500
Statement charges	72,600	30,000
Surcharge	0	6,000
Termination	20,200	22,200
Ton		200
Water Bowser	652,500	134,300
	13,606,320	26,163,400

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

9. Staff Costs

	2021/2022	2020/2021
	Kshs	Kshs
Gross salary and allowances	71,569,700	77,723,900
Wages of temporary employees	4,373,750	3,284,100
Medical insurance schemes	0	0
Employer's contributions to national social security schemes	326,400	321,300
Employer's contributions to pension scheme	0	
CPF Financial Services	2,256,250	2,142,500
LAP Fund	54,640	56,500
NW Pension	895,860	957,800
Leave pay	0	0
Gratuity provisions	16,083,960	8,453,000
Total	95,560,560	92,939,100

10. General and Operations Expenses

	2021/2022	2020/2021
	Kshs	Kshs
Chemicals	10,971,620	7,880,200
Regulatory Levy (WASREB)	7,680,610	5,945,000
Abstraction Levy (WRA)	2,322,220	1,251,700
Electricity	65,982,500	49,270,800
Travelling & accommodation	3,525,420	2,761,200
Transport & Lunch	1,437,210	1,181,300
Health, Hygiene and Safety	251,380	216,900
Protective clothing/ Uniforms	787,200	437,400
HIV & Covid-19 Programs	12,000	66,200
Staff entertainment & others	317,040	418,500
Printing & Photocopy	20,360	46,400
Stationery	186,820	562,900
Consumables	79,230	187,900
Advertising & Publicity	267,120	588,700
Mobile Airtime	316,050	151,200
Postage	1,780	7,400
Bulk sms	0	28,000
Repair of office equipment	18,300	2,400
Computer Repairs	10,500	411,700
Computer Software [ICT Maintenance]	1,692,180	778,300
Insurance Expense	1,421,610	1,120,700
Security Services	6,540,500	5,924,000
Audit fee	446,600	446,600
Legal fees	1,617,750	336,500
Secretarial Services	373,300	1,557,100

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	2021/2022	2020/2021
	Kshs	Kshs
Consultancy Services	0	4,565,500
Cleaning Services	2,409,260	0
Internet Broadband	0	702,400
Subscriptions and Dues	75,100	306,800
Donations	111,270	62,500
Office Rent	174,000	270,000
Staff Training	827,740	255,400
Medical Expenses	0	12,000
Increase in Provision for bad and doubtful debts	2,777,060	4,237,100
Bank charges and commissions	597,350	388,400
Conditional Liquidity Support Grant O&M costs	40,540,760	0
Total	153,791,840	92,379,100

11. Board Expenses

	2021/2022	2020/2021
	Kshs	Kshs
Chairman Honoraria	288,000	272,000
Sitting allowances	1,453,860	5,031,900
Travel and accommodation	784,620	168,900
Board expenses	301,100	566,300
Total	2,827,580	6,039,100

12. Maintenance Expenses

	2021/2022	2020/2021
	Kshs	Kshs
Hired Services	1,549,340	0
Ground maintenance	10,000	727,200
Electrical appliances	87,560	130,200
Cleaning materials	53,990	56,500
Maintenance of buildings	29,030	55,500
Building materials		
Plant/tanks repairs and mainten	145,790	32,300
Sewer network repairs	675,370	234,300
Pipe network repairs	4,460,970	3,434,700
Plant and machinery repairs	2,537,450	224,600
Fuel & Oil	2,997,420	4,713,500
Hired Transport	16,000	158,100
Vehicles repair & maintenance	1,086,190	1,749,700
Servicing/Repairs	322,540	316,700
Total	13,971,650	11,833,300

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

13. Depreciation and Amortization Expenses

Depreciation and Amortization expenses	2021/2022	2020/2021
	Kshs	Kshs
Depreciation	3,829,970	3,469,500
Amortization	100,400	100,400
Total	3,930,370	3,569,900

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

14. PROPERTY, PLANT AND EQUIPMENT

2022	Pipeline	Buildings/ Civil works	Plant and Machinery	Motor Vehicles	Computers	office Equipment	Capital Work in progress	Total
COST OR VALUATION								
At July 1, 2021	57,652,330	2,529,000	5,714,500	0	982,590	43,000	(0)	66,921,420
Additions	2,950,000	0	0	0	578,990	133,500	0	3,662,490
Transfers	0	0	0	0	0	0	0	0
Disposals	0	0	0	0	0	0	0	0
At June 30, 2022	60,602,330	2,529,000	5,714,500	0	1,561,580	176,500	(0)	70,583,910
DEPRECIATION								
At July 1, 2021	14,127,120	1,793,500	5,662,700	0	543,600	22,850	0	22,149,770
Charge for the year	3,030,120	252,900	0	0	520,480	26,480	0	3,829,980
Impairment loss	0	0	0	0	0	0	0	0
Eliminated on disposal	0	0	0	0	0	0	0	0
At June 30, 2022	17,157,240	2,046,400	5,662,700	0	1,064,080	49,330	0	25,979,750
Net Book Value as at June 30, 2022	43,445,090	482,600	51,800	0	497,500	127,170	(0)	44,604,160

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NOTES TO THE FINANCIAL STATEMENTS (Continued)
PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

2021	Pipeline	Buildings/ Civil works	Plant and Machinery	Motor Vehicles	Computers	office Equipment	Capital Work in progress	Total
COST OR VALUATION								
At July 1, 2020	54,249,000	2,529,000	5,714,500	0	330,000	43,000	(0)	62,865,500
Additions	3,403,330	0	0	0	652,590	0	0	4,055,920
Transfers	0	0	0	0	0	0	0	0
Disposals	0	0	0	0	0	0	0	0
At June 30, 2021	57,652,330	2,529,000	5,714,500	0	982,590	43,000	(0)	66,921,420
DEPRECIATION								
At July 1, 2020	11,244,500	1,540,600	5,662,700	0	216,100	16,400	0	18,680,300
Charge for the year	2,882,620	252,900	0	0	327,500	6,450	0	3,469,470
Impairment loss	0	0	0	0	0	0	0	0
Eliminated on disposal	0	0	0	0	0	0	0	0
At June 30, 2021	14,127,120	1,793,500	5,662,700	0	543,600	22,850	0	22,149,770
NET BOOK VALUE At June 30, 2021	43,525,210	735,500	51,800	0	438,990	20,150	(0)	44,771,650

NOTES TO THE FINANCIAL STATEMENTS (Continued)

15. Intangible Assets

Intangible Assets	2021-2022	2020-2021
	Kshs	Kshs
COST		
At July 1	301,500	301,500
Additions	0	0
Disposals	0	0
At June 30	301,500	301,500
AMORTISATION		
At July 1	100,400	100,400
Charge for the year	100,400	100,400
Disposals	0	0
Impairment loss	0	0
At June 30	200,800	200,800
NET BOOK VALUE		
At June 30	100,700	100,700

16. Inventories

	2021-2022	2020-2021
	Kshs	Kshs
Calcium Hypochlorite	651,630	307,300
Soda Ash	287,290	119,700
Aluminium Sulphate	127,000	628,425
Polmar	0	0
Total	1,065,920	1,055,425

17. Trade and Other Receivables

	2021-2022	2020-2021
	Kshs	Kshs
Trade receivables (note 23 (a))	191,118,720	163,348,060
Deposits and prepayments	0	0
VAT recoverable	0	0
Staff receivables	0	0
Other receivables	0	0
Gross trade and other receivables	191,118,720	163,348,060
Provision for bad and doubtful receivable	(19,111,870)	(16,334,810)
Net trade and other receivables	172,006,850	147,013,250

At June 30, the ageing analysis of the gross trade receivables was as follows

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

	2021-2022	2020-2021
	Kshs	Kshs
Less than 30 days	49,724,815.58	37,255,540
Between 30 and 60 days	5,974,136.35	974,136
Between 61 and 90 days	1,780,487.00	1,779,081
Between 91 and 120 days	5,493,522.75	6,993,523
Over 120 days	128,145,760.41	115,555,760
Total	191,118,722.09	163,348,060

17 (b) Reconciliation of Impairment Allowance for Trade Receivables

Description	2021-2022	2020-2021
	KShs	KShs
At the beginning of the year	(16,334,810)	(12,097,700)
Additional provisions during the year	(18,982,730)	(16,334,810)
At the end of the year	(35,317,540)	(28,432,510)

18. Bank and Cash Balances

	2021-2022	2020-2021
	Kshs	Kshs
Cash at Bank		
KCB - 1106368436	4,003,250	4,753,230
KCB - 1132172489	6,015,600	1,779,280
Eco Bank - 6622007422	51,445,780	0
Mpesa Business - 993600	626,790	701,570
Total	62,091,420	4,753,230

Detailed analysis of the cash and cash equivalents

a) Current account

Commercial banks

KCB	1106368436	4,003,250	4,753,200
KCB	1132172489	6,015,600	1,779,300
ECOBANK	6622007422	51,445,780	-
		61,464,630	6,532,500

b) On – call deposits

Sub- total

-

-

c) Fixed deposits account

Sub- total

-

-

d) Others(specify)

cash in hand

-

-

Mpesa Business

993600

626,790

701,600

Sub- total

626,790

701,600

Grand total

62,091,420

7,234,100

NOTES TO THE FINANCIAL STATEMENTS (Continued)

19. Ordinary Share Capital

	2021-2022	2020-2021
	Kshs	Kshs
Authorised:		
5,000 ordinary shares of Kshs.20.00 par value each	100,000	100,000
Issued and fully paid:		
5,000 ordinary shares of Kshs.20.00 par value each	0	0
	<u>100,000</u>	<u>100,000</u>

20. Capital Reserves

The capital reserve relates to the amount of property, plant and equipment. As indicated in the Statement of financial Position, this is stated after transfer of completed capital projects funded through grant from Water Sector Trust Fund. The amount funded is not repayable.

Capital Reserves (WSTF)	2021/2022	2020/2021
	Kshs	Kshs
Reserves as at 1st. July	67,053,200	67,053,200
Additions	0	0
As at 30 June	67,053,200	67,053,200

21. Retained Earnings

The retained earnings represent amounts available for distribution to the Company's shareholders. Undistributed retained earnings are utilised to finance the Company's business activities.

	2021-2022	2020-2021
	Kshs	Kshs
Retained earnings		
Reserves as at 1st. July	(28,929,700)	(37,742,400)
Profit/(Loss) for the Year	26,155,150	8,812,700
Total	(2,774,550)	(28,929,700)

22. Retirement Benefit Obligations

Description	Defined benefit plan	Post-employment medical benefits	Other Benefits	2020-2021	
	Kshs	Kshs	Kshs	2021-2022	2021
Current benefit obligation	0	0	0	0	0
Non-current benefit obligation	21,098,300	0	0	21,098,300	0
Total employee benefits obligation	21,098,300	0	0	21,098,300	0

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

The entity also contributes to the statutory National Social Security Fund (NSSF). This is a defined contribution scheme registered under the National Social Security Act. The entity's obligation under the scheme is limited to specific contributions legislated from time to time and is currently at Kshs. 200 per employee per month. Other than NSSF the entity also has a defined contribution scheme operated by County Pension Fund. Employees contribute 12% while employers contribute 15% of basic salary. Employer contributions are recognized as expenses in the statement of financial performance within the period they are incurred

23. Trade and Other Payables

	2021-2022	2020-2021
	Kshs	Kshs
Trade payables	40,715,060	45,908,703
Accrued expenses		0
Retention/ contract monies		0
Deposits		0
Employee payables	34,208,330	52,763,090
Other payables	51,445,780	0
Total	126,369,170	98,671,793

24. Customer Deposits

	2021-2022	2020-2021
Description	KShs	KShs
Balance at beginning of the year	18,366,600	14,466,100
Domestic borrowings during the year (Customer Deposits Received)	2,956,000	3,900,500
Direct Credits on Customer Deposits	1,338,860	
Repayments during the year (Deposit defunds)	0	0
Balance at end of the year	22,661,460	18,366,600

25. Related Party Disclosures

County Government of Kisii and Nyamira

The County Government of Kisii and Nyamira are the principal shareholder of the Company, holding 60% and 40% of the Company's equity interest respectively. The two County of Governments have 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
- Water works Agencies
- WASREB
- WARMA
- Water Sector Trust Fund

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

- Key management
- Board of directors

Transactions with related parties

Agency Account

Transactions with related parties

	2021-2022	2020-2021
	Kshs	Kshs
a) Sales to related parties		
Sales of electricity to Govt agencies	0	0
Rent Income from govt. agencies	0	0
Water sales to Govt. agencies	0	0
Interest income from Govt Commercial Banks	0	0
Interest income from Tbills and Bonds	0	0
Total	0	0
b) Purchases from related parties - Agency Costs		
SPA Fee (LVSWWDA)	19,121,850	21,121,850
Regulatory fee (WASREB)	26,239,650	20,559,040
Water abstraction fee (WARMA)	0	3,232,580
Rent expenses paid to govt agencies	0	0
Training and conference fees paid to govt. agencies	0	0
Bank charges paid to Govt Commercial banks	0	0
Interest expense to investments by other govt. entities	0	0
Total	45,361,500	44,913,470
b) Grants	0	0
Grants from National Govt Entities	91,986,550	0
Grants from County Government	0	36,001,200
Donations in kind	0	0
Total	91,986,550	36,001,200
c) Expenses incurred on behalf of related party		
Payments of salaries and wages for employees	1,200,000	0
Payments for goods and services	0	0
Total	1,200,000	0
d) Key management compensation		
Directors' emoluments	2,827,580	6,039,100
Compensation to key management	9,710,720	9,710,720
Total	12,538,300	15,749,820

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

26. Notes to The Statement of Cash Flows

	Note	2021-2022 Kshs	2020-2021 Kshs
(a) Reconciliation of operating profit/(loss) to cash generated from/(used in) operations			
Net income (loss)		26,155,150	8,812,700
Depreciation and Amortization expenses	13	3,829,970	3,569,900
		29,985,120	12,382,600
Operating profit/(loss) before working capital changes			
Working Capital Changes			
(Increase)/decrease in inventories	16	(10,510)	(376,600)
(Increase)/decrease in trade and other receivables	17	(24,993,340)	(38,133,701)
Increase/(decrease) in Retirement Benefit Obligations	22	21,098,310	0
Increase/(decrease) in trade and other payables	23	27,697,370	27,360,700
Increase/(decrease) in Customer Deposits	24	4,294,860	3,900,500
Increase/(decrease) in Agency Account	25	448,090	4,009,200
Net Cash From/(Used In) Operating Activities		58,519,900	9,142,700

27. Contingent Assets and Liabilities

Contingent Liabilities

	2021-2022 Kshs	2020-2021 Kshs
Contingent liabilities		
Court case 302 of 2016 against the entity	538,000	0
Bank guarantees in favour of subsidiary	0	0
Contingent liabilities arising from contracts including PPPs	0	0
Others (Specify)	0	0
Total	0	0

28. Financial Risk Management

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

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

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

(i) **Credit risk**

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

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

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

	Total amount Kshs	Fully performing Kshs	Past due but not Impaired Kshs	Past due and Impaired Kshs
At 30 June 2022				
Trade Receivables	191,118,720	191,118,720	0	0
Other Receivables			0	0
Investments			0	0
Bank balances	62,091,420	62,091,420	0	0
Total	253,210,140	253,210,140	0	0
At 30 June 2021 (previous Year)			0	0
Receivables	163,348,060	163,348,060	0	0
Other Receivables	0	0	0	0
Investments	0	0	0	0
Bank balances	7,234,073	7,234,073	0	0
Total	170,582,133	170,582,133	0	0

Credit Risk (Continued)

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

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

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

ii) Liquidity risk management

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

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

	Less than 1 month	Between 1-3 months	Over 5 months	Total
	Kshs	Kshs	Kshs	Kshs
At 30 June 2022 current year				
Trade payables	11,647,602	9,578,193	105,143,373	126,369,168
Current portion of borrowings	0	0	0	0
Provisions	0	0	0	0
Employee benefit obligation	473,745	1,407,153	19,217,402	21,098,300
Total	12,121,347	10,985,346	124,360,775	147,467,468
At 30 June 2021 previous year				
Trade payables	0	0	98,671,800	98,671,800
Current portion of borrowings	0	0	3,900,500	3,900,500
Provisions	0	0	16,334,800	16,334,800
Employee benefit obligation	0	0	0	0
Total	0	0	118,907,100	118,907,100

(iii) Market risk

The board has put in place an internal audit function to assist it in assessing the risk faced by the Company on an ongoing basis, evaluate and test the design and effectiveness of its internal accounting and operational controls.

Market risk is the risk arising from changes in market prices, such as interest rate, equity prices and foreign exchange rates which will affect the entity's income or the value of its holding of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return. Overall responsibility for managing market risk rests with the Audit and Risk Management Committee.

The company's Department in charge of risk management is responsible for the development of detailed risk management policies (subject to review and approval by Audit and Risk Management Committee) and for the day to day implementation of those policies.

There has been no change to the Company's exposure to market risks or the manner in which it manages and measures the risk.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

a) Interest rate risk

Interest rate risk is the risk that the Company's financial condition may be adversely affected as a result of changes in interest rate levels. The company's interest rate risk arises from bank deposits. This exposes the company to cash flow interest rate risk. The interest rate risk exposure arises mainly from interest rate movements on the company's deposits.

b) Management of interest rate risk

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

iv) Capital Risk Management

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

	2021-2022	2020-2021
	Kshs	Kshs
Ordinary share capital	100,000	100,000
Retained earnings	(2,800,560)	(28,929,700)
Capital reserve	67,053,200	67,053,200
Total funds	64,352,640	38,223,500
Total Customer Deposits	22,661,460	18,366,600
Less: cash and bank balances	62,091,420	7,234,100
Net debt/(excess cash and cash equivalents)	84,752,880	25,600,700
Gearing	1	1

29. Incorporation

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

30. Events After the Reporting Period

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

31. Currency

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

GUSH WATER AND SANITATION COMPANY LTD
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XVIII. APPENDICES

APPENDIX 1: PROGRESS ON FOLLOW UP OF AUDITOR RECOMMENDATIONS

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

Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
1	Statement of cash flows	The statement has been reconciled and provided	Resolved	30 June 2023
2	Statement of budget and actual amounts	The schedules in support of the amounts were provided to the auditor for review.	Resolved	30 June 2023
3	Share Capital	Consultation ongoing with the respective county governments to resolve shareholding.	Not Resolved	30 June 2023
4	Budgetary control and performance	To review revenue and cost projections and optimize all the corresponding inputs to create value to achieve sustainability.	Not Resolved	30 June 2023
5	Administrative Costs	All noted material items have been addressed.	Resolved	30 June 2023
6	Trade and other payables	Payment plan has been initiated and agreed upon with respective entities on modalities to clear outstanding amounts	Not Resolved	In progress
7	Agency Costs	Payment plan has been initiated and agreed upon with respective entities on modalities to clear outstanding amounts	Not Resolved	In progress
8	Non-Revenue Water	We operate in an area of serious water stress and manage demand through our metering programme. We have also consistently	Not Resolved	In progress

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Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
		endeavoured to meet our NRW targets. Our Water Resources Management Plan is developed to take account of opportunities for cooperation between WASREB and WARMA.		

Name : Lucy Wahito Wachira

Signature : 

Managing Director

Date : 19 January 2023

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APPENDIX II: PROJECTS IMPLEMENTED BY THE COMPANY

Projects

Projects implemented by the Company Funded by development partners.

Project title	Project Number	Donor	Period/ duration	Donor commitment	Separate donor reporting required as per the donor agreement (Yes/No)	Consolidated in these financial statements (Yes/No)
1	08W/KISII/GUSII/45	Water Fund	12 Months	19,309,722	Yes	No
2	08S/NYAMIRA/GUSII/44	Water Fund	12 Months	6,199,219	Yes	No

