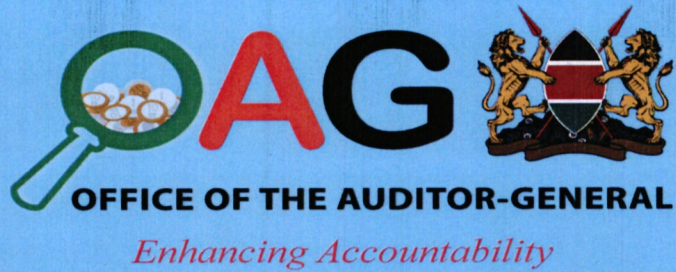


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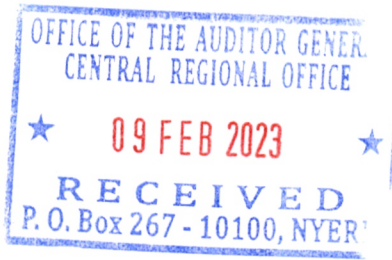
THE AUDITOR-GENERAL

ON

**KAHUTI WATER AND SANITATION
COMPANY LIMITED**

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





KAHUTI WATER AND SANITATION COMPANY LIMITED

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)**



Table Of Contents	Page
I. Key Entity Information	iv
II. The Board of Directors.....	vi
III. Management Team.....	viii
IV. Chairman’s Statement	ix
V. Report of the Managing Director	xi
VI. Statement of Performance against Predetermined Objectives for FY 2021/2022	xv
VII. Corporate Governance Statement.....	xvi
VIII. Management Discussion and Analysis.....	xviii
IX. Environmental and Sustainability Reporting	xxii
X. Report of the Directors	xxv
XI. Statement of Directors’ Responsibilities.....	xxvi
XII. Report of the Independent Auditors	xxvii
XIII. Statement of Profit or Loss & Other Comprehensive Income for The Year Ended 30 June 2022.	1
XIV. Statement of Financial Position as at 30 June 2022	2
XV. Statement of Changes in Equity for the Year Ended 30 June 2022	4
XVI. Statement of Cash Flows for the Year Ended 30 June 2022.....	5
XVII. Statement of Comparison of Budget & Actual Amounts for the Period Ended 30 June 2022 ...	6
XVIII. Notes to the Financial Statements	10
XIX. Appendices	52

I. Key Entity Information

Background information

Kahuti Water and Sanitation Company was established by the Companies Act of Parliament on 10th April 2006. The entity is fully owned by the County Government of Murang'a.

Principal Activities

The principal activity of the entity is to provide quality water & sanitation services at an affordable rate.

Vision

To be the leading water and sanitation provider in the country.

Mission

To ensure provision of quality water and sanitation services to its customers in an affordable and sustainable manner.

Core objectives

1. To increase access and coverage to water services within the area of jurisdiction
2. To reduce non-revenue water
3. To achieve operational financial stability
4. To strengthen the company's institutional capacity
5. To improve communication with stakeholders
6. Facilitate improvement in access to sanitation services
7. Mainstream cross cutting issues of poverty, HIV, environment

Directors

The Directors who served the entity during the year/period were as follows as appointed and re-elected during our Annual General Meeting held on 27th May 2022.

1. Mrs. Frasih Wanjiku Kamau - Chairperson
2. Mrs. Margaret Mworia
3. Mr. Stephen Kamau
4. Mrs. Martha W. Wanguku
5. Mr. Erastus Thuku Nyingi
6. Mr. George M. Kamau
7. Mr. William M. Njuguna

Corporate Secretary

Mr. Gikuhi Kiana
P.O. Box 1271-10100
NYERI

Corporate Headquarters/Registered Office

Kahuti Water Building
Off Kangema-Kanorero Road
P.O. Box 118-10202
Kangema, KENYA

Corporate Contacts

Telephone: (254) 728 828 168 or 020 2061816
E-mail: kahutiwater@yahoo.com
Web-site: info@kawasco.co.ke

Corporate Bankers

Equity Bank Ltd
Kangema Branch

Family Bank Ltd
Kangema Branch





Independent Auditors




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

Principal Legal Advisers


1. The Attorney General
State Law Office
Harambee Avenue
P.O. Box 40112
City Square 00200
Nairobi, Kenya

II. The Board of Directors






<p>1.</p>  <p>Frasah W. Kamau – Chair Person</p>	<ul style="list-style-type: none"> - Bachelor of Education(Arts) - Diploma in School Management - Works as a Head OF institution - Representing Education institution - Born -1965
<p>2.</p>  <p>Margaret Mworia – Board Member</p>	<ul style="list-style-type: none"> - Bachelor of Education-(B.E.D) - Representing business community - Retired high school principal. - Born – 1958 - Business woman
<p>3.</p>  <p>Martha W. Wanguku – Board Member</p>	<ul style="list-style-type: none"> - Certificate in Early childhood. - Women leader and farmer - Representing Women groups - Born - 1971
<p>4.</p>  <p>Erastus Nyingi T – Board Member</p>	<ul style="list-style-type: none"> - Certificate in GCE - Community leader - Representing C.D.F - Born - 1952

<p>5.</p>  <p>Mr. Stephen M. Kamau – Board Member</p>	<ul style="list-style-type: none"> -Diploma in School of Management -P1 Teacher training -Head Teacher -Representing professional bodies -Born -1956
<p>6</p>  <p>Mr. George M. Kamau-CEC Water& Irrigation</p>	<ul style="list-style-type: none"> -MBA -B.COM-ACCOUNTING -CPAK -Management Consultant-Strategy and Finance
<p>7</p>  <p>Mr. William M. Njuguna- REP- CEC Finance</p>	<ul style="list-style-type: none"> -Bachelor of Arts (Sociology)

Company Secretary

 <p>Richard Gikuhi Kiana – Company Secretary</p>	<ul style="list-style-type: none"> -MBA -CPS(K)
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III. Management Team

 <p>Eng. Ephantus Kamau – Managing Director</p>	<p>BSC –Civil Engineering</p>
 <p>Peter Njoroge Murigi – Technical Manager</p>	<p>-Masters in. Engineering BSC-(Water & Environmental Engineering), PMP</p>
 <p>Titus Mukunda Wahungu–Commercial Manager</p>	<p>Master’s in Business Administration(MBA) -B.COM- Finance -CPA - K</p>
 <p>Ceciliah Nthigah – Human Resource & Administration Manager</p>	<p>Master’s in Business Administration(MBA) -B.COM-Human Resource Management -Dip. -HRM - IHRM</p>
 <p>Josephat Macharia– Internal Auditor</p>	<p>Bachelor of Business Administration-(BBA) CPA-K</p>

IV. Chairman's Statement

It gives me pleasure, on behalf of the Board of Directors to present to you the company's financial statements for the years ended 30th June 2022.

The report covers a period of unprecedented and unparalleled changes in many ways. The world was hit by the Covid -19 pandemic, forcing into an experience that the current generation had never undergone. As a result, there were frequent partial lockdowns, and as a company, we had to re – engineer the way we carry out our business. We take pride in the role we played in alleviating the burden on our Stakeholders, by among other activities, installing free water taps in market places and matatu stations.

The same period has seen intensive damages of our pipe infrastructure during road construction. Right now, our two main lines from Tuthu have been rendered inoperational. This is a matter we are still pursuing with the relevant authorities and we look forward to a permanent remedy.

Despite the above, the company has started recovering and recorded a revenue of ksh 69,059,410. The company has also recorded an improvement in other key performance indicators. Non-revenue water has continued to decline and currently stands at 58.4%. There has been an increase in the number of active connections, which is as a result of extension of services to hitherto unserved areas. An example is Mbari ya Hiti area in Mugoiri which is now duly connected.

The extension of services has been achieved through both internal and external funds. In this regard, we have received funds from the National Government. Some of the lines that have already been completed include Kiruri - Ichichi line, the new Rwathia - Kagaa line to boost flow in Mugoiri among others.

We have also a number of on-going distribution lines, which once completed, will ensure and improve service and wider coverage.

In order to reduce non-revenue water, we have embarked on a policy of using HDPE pipes for the new lines. These are more durable and less prone to damages. To improve our customer services, we have installed an Enterprise Resource Programme in our IT department that integrates various modules like billing, customer care, among others. We will continue adopting new technologies for improved services as they emerge.

Some proposals that we have submitted to the National and County Governments include construction of treatment works at Tuthu, centralized sewerage system for Kangema and Kahuro Towns, and various distribution and extension lines among others.

Over the years, we have also expanded our scope on Corporate Social Responsibility. Thus, in any given time, we have over eight (8) attachees from various institutions, and the company has in deed become a major point of reference in this. This year, we also visited Heritage Children's Home in Kirogo and donated Food staffs. And as I had indicated earlier, we have installed many free water points in public places. In partnership with the World Bank and Water Sector Trust Fund, we have also installed free connections to over 100 most vulnerable homesteads within our area of jurisdiction.

We promise to continue and enhance our Corporate Social Responsibility as a way of being part of the community.

Looking forward, the future is bright. The National Government has invested a lot in infrastructure and the fruits of this will soon start emerging. We also look forward to a positive response to many other proposals that we have submitted.

I take this opportunity to assure our Stakeholders of our continued commitment towards availing clean and affordable water to all the residents within our area of jurisdiction. To achieve this, we will continue to uphold our values, which have so far guided us in our endeavours.

Finally, may I take this opportunity to thank the Board of Directors, whose tireless effort has seen the company continue to progress. We have continued to receive a lot of support from Tana Water Works Development Agency, Athi Water Works Development Agency, WSTF, National Government and County Government. My sincere thanks to all of them.

The Management and staff of the company have worked tirelessly to sustain the company and achieve progress. I sincerely thank them. To our Stakeholders, your continued support is highly appreciated.

FRASIAH W. KAMAU  DATE 27/9/22

V. Report of the Managing Director

Introduction

Kawasco's stated mission is to ensure provision of quality water and sanitation services to our customers in an affordable and sustainable manner. This is in tandem with the Sustainable Development Goal (SDG) no.6 (on water and sanitation) and the social and economic pillars of Kenya's Vision 2030.

The advent of Covid-19 in early 2020 had adverse effects and posed unprecedented challenges. However, this did not distract us from our stated mission.

Financial Status

Revenue for the reporting period was ksh 69,059,410 and an expenditure of ksh 69, 989,946. In this year, we received a conditional liquidity support grant of Ksh 20,922,440 from WSTF to assist us carry out most of our operations and Kshs 1,000,000 from AWWDA to help us lay pipelines in designated areas.

Other Key Indicators

i. Non –Revenue Water

This water has been produced at abstraction but is not billed. At incorporation of the company, the new NRW was not known. The company took measures to establish the same and found it was about 89% at the time. This has been going down progressively and is currently at 58.4%. Some of the measures undertaken to achieve this is the shift from PVC to HDPE pipes ,control of quality of customers fittings, increased vigilance on illegal connections etc.

ii. Service Coverage

This is the number of customers served as a percentage of the total population within our area of jurisdiction. There has been a significant growth over the years; during the year, the total population served was 70,650 against a total population of 154,118 giving a total service coverage of 62%. There is potential for the numbers to rise following the opening of some hitherto unserved areas like Mbari ya Hiti among others.

iii. Drinking Water Quality

I am happy to report that all our drinking water quality tests have passed. This means that our water is safe to drink.

Completed Projects

Over the period, a number of projects have been undertaken and completed, with the assistance of the National Government. They Include:

- i. The laying of distribution lines along Kagaa-Kiria and Kairini-Kahuro – Gitaro under the Kahuti Water Supply project.
- ii. Ichichi-Kiruri project boosting supply in parts of Murarandia and Kanyenyaini. This involved construction of a new intake at Karurumo and laying of transmission lines to Kawariuwa.
- iii. Laying of new line from Rwathia Treatment Works to Kagaa in Kahuro. This is to boost the supply in Kiria, Mirichu etc
- iv. Distribution lines in Mbari ya Hiti, which have brought flow to the area for the first time.
- v. A number of small distribution and service lines within the whole area of jurisdiction.

On –going Projects

Some of the on-going projects include:

- 22Km 3” line from Weithaga to Gatheru.
- Gitugu- Iyego –G3 line, to boost supply in Iyego and G3 areas.
- Kanyenya-ini –Githiga line 3”.
- Kiaguthu –Kahuro 4” line.
- 4” line from Weithaga to Gituto.
- 4” line from Karuri to Gitui.
- 8” line from Gitugu to Mukarara.
- 3” line from Mukarara to Kiamara.

Other Plans /Proposals

We have submitted various proposals to the National Government, County Government and WSTF for other projects that we hope will be considered favorably.

They include:

- Construction of centralized Sewerage for Kangema and Kahuro towns. A preliminary study financed by the National Government has commenced on Kangema Sewerage and we are making follow ups.
- Raising of the weir at the Tuthu intake to allow constant flow particularly during the dry periods.
- Extension of lines in various areas within our area of jurisdiction.

Corporate Social Responsibility

We are cognizant of the fact that we belong to the wider community and cannot be blind to the needs, aspirations and challenges within it .It is our policy therefore to always give back to the society in accordance with our ability. Some of the corporate social Responsibility that we undertake are:

- i. Donating food stuffs and other items to children’s homes. We did this to Heritage Children’s Home last December.
- ii. Over the last 4 months, we installed 100 connections free of charge to the most vulnerable homesteads within our area of jurisdiction.
- iii. At the peak of the Covid -19 pandemic, we had installed public water taps and storage tanks in various market places and matatu parks to facilitate hand – washing .
- iv. We continuously admit attachees, mainly students from the various institutions to come and gain practical experience.
- v. We further engage in tree planting to protect the environment.


Challenges

The main challenges facing the company in the extension of its mandate over the period were:

- i. Damage of pipes during road construction. On this, we can report two of our main lines from Tuthu have been rendered in operational over the last two years. This has greatly affected services in the lower parts of Kangema. It is an issue that we are following up with the roads agencies. Also the Kiria – Kagaa - Kiruri road under construction is causing a lot of damages and thus affecting our services adversely.
- ii. Aging infrastructure is leading to frequent pipe bursts causing high NRW .We plan to progressively replace the same.

- iii. Erratic weather, coupled with rough terrain, has led to constant landslides and thus pipe damage. A significant point is the 300m portion in Kiairathe where the ground has been moving and we had to repair major bursts every two weeks. We have relocated the pipeline to the other side of the river and we foresee a lot of saving on operations and maintenance as a result.
- iv. Vandalism of fittings. This is where the water fittings are stolen from site and thus leaving some pipes unoperational.
- v. Illegal Connections. This is where consumers install water without following the due process.

I trust with your support, we will be able to overcome these challenges. I take this opportunity to thank all those who have contributed in making the period a success for the company. They include Board of Directors, Management, Staff, Customers and Stakeholders.

ENG. E. KAMAU..........Date: *27th September 2022*.....

VI. Statement of Performance against Predetermined Objectives for FY 2021/2022

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

The company's performance is assessed using the broad 9 key performance indicators as shown below to assess the company performance. The company posted an improvement in all KPI'S apart from Personnel expenditure and collection efficiency.

WASREB		Good	Acceptable	Not Acceptable	KAWASCO	KAWASCO	
					2020-21	2021-22	
Key Performance Indicators							
1.	Water coverage-%	>90%	80-90%	< 80%	59%	62%	
2.	Drinking Water Quality	>95%	90 – 95%	< 90%	100%	100%	
3.	Hours of Supply	Population >100,000	21 - 24	16-20	< 16	22hrs	22hrs
		Population <100,000	17 – 24	12-16	< 12	n/a	
4.	Personnel Expenditure as % of O&M costs	Very large and large WSPs	< 20%	20 – 30%	> 30%	54%	54%
		Medium WSPs	< 30%	30 – 40%	> 40%	n/a	
		Small WSPs	< 40%	40 – 45%	> 45%	n/a	
5.	O&M Cost Coverage	≥ 150%	100-149%	≤ 99%	106%	111%	
6.	Revenue Collection Efficiency	> 95%	95-85%	<85%	102%	97%	
7.	Non-Revenue Water	< 20%	20– 25%	>25%	64%	58.4	
8.	Staff Productivity - Staff per 1,000 connections	Very large and large WSPs	< 5	5-8	> 8	6	6
		Medium WSPs	< 7	7-11	> 11	n/a	
		Small WSPs	< 9	9-14	> 14		
9.	Metering ratio	100%	95 - 99%	< 95%	91%	91%	

VII. Corporate Governance Statement

KAWASCO is committed to operating under clear governance frame work and adheres to sound management practices.

We are committed to ensuring compliance with all the provision of the water Act 2016, Licence conditions granted by WASREB and the Companies Act CAP 486.

Board Committee

In order to enhance corporate governance, the KAWASCO Board of Directors has constituted the following committees;

(i) **Audit Committee:**

The committee addresses audit reports from internal and external auditors and also evaluates the financial reporting standards adopted by the company. The committee also ensures compliance with financial regulations and soundness of internal control systems.

The members of the committee are;

- a) Margaret Mworira
- b) Erastus Nyingi
- c) CEC Finance

(ii) **Administration, Finance & Technical committee:**

The Committee is responsible for all human resources, technical issues and effective utilization of resources. It also recommends capital investment for approval to the board and ensures they meet technical standards and are well maintained. They also deal with policy matters of the board.

The members of the committee are;

- a) Stephen Kamau
- b) Martha Wanguku
- c) CEC Water

The succession plan for the directors is in accordance with Article 31 and 32 of the Memorandum & Articles of Association, which require that in every Annual General Meeting, one third of the directors must retire and are eligible for election subject to a maximum of two terms. The Article restricting the terms however, came into effect in January 2014. The directors, upon election, do sign a code of ethics and are taken for induction and corporate governance training.

Further, all directors are required to sign a “declaration of interest” book during each meeting to ensure that there is no conflict of interest with the companys matters.

The board meeting for the year were held as below

Name of member	10/9/2021	22/12/2021	29/3/2022	31/3/2022	20/4/2022	26/5/2022	13/6/2022	24/6/2022
Frasiah W. Kamau	✓	✓	✓	✓	✓	✓	✓	✓
Stephen M.Kamau	✓	✓	✓	✓	✓	✓	✓	✓
Margaret W. Mworia	✓	✓	✓	✓	✓	✓	✓	✓
Martha W.Wanguku	✓	✓	✓	✓	✓	✓	✓	✓
Erastus N.Thuku	✓	✓	✓	✓	✓	✓	✓	✓
CEC- Finance	✓	X	✓	✓	X	✓	✓	✓
CEC - Water	✓	✓	✓	X	✓	✓	✓	✓

Administration, Finance & Technical Committee

Name of member	27/8/2021	10/12/2021	18/3/2022
Stephen M.Kamau	✓	✓	✓
Martha W.Wanguku	✓	✓	✓
CEC - Water	✓	✓	✓

Audit Committee

Name of member	9/7/2021	24/11/2021	3/3/2022
Erastus N. Thuku	✓	✓	✓
Martha W.Mworia	✓	✓	✓
CEC -Finance	✓	✓	✓

By order of the Board
For and on its behalf

Ms. FRASHIAH W. KAMAU
CHAIRPERSON



DATE 27/9/22

Eng. E. KAMAU
MANAGING DIRECTOR



DATE 27/09/2022

VIII. Management Discussion and Analysis

The financial year 2021/2022 went on well. The company had lined up several projects whereby it has been able to complete some while others are ongoing as follows;

CAPITAL INVESTMENT PROJECTS

Project Name	Expected completion date	Excavation	Pipe laying	Installation of fittings	Concrete works	Testing and cleaning	Commissioning	Overall Progress	Remarks
Murang'a Augmentation community water project	Jun-21	100%	100%	100%	100%	100%	100%	100%	Completed
Kiruri Ichichi water project	Dec-20	100%	100%	100%	100%	100%	100%	100%	The project is complete and officially handed over for operation.
Rwathia-Kagaa mainline (under Kiambu-Ruaka Sewerage project)	Jul-20	100%	100%	100%	98%	100%	100%	100%	

Gatango Community Water Project

a) Wangu-Mugoiri Distributions	Dec-21	100%	100%	20%	20%	20%	20%	90%	Work halted due to financial constraints faced by the contractor. The Client AWWDA is handling the matter.
b) Mukarara-Mugechi Kaboro pipeline.	Dec-21	100%	100%	0%	0%	0%	0%	60%	
c) Kawariuwa-Kahuti pipeline	Dec-21	100%	100%	0%	0%	0%	0%	60%	
d) Karurumo-Gatuya Pipeline	Dec-21	100%	100%	0%	0%	0%	0%	60%	
e) Tuthu intake facility Expansion	Dec-21	0%	N/A	0%	0%	0%	0%	0%	

Construction works for Gatundu Water and Sanitation Project lot 2

f) Gitiri-Mbari ya hiti pipeline	Dec-21	100%	100%	30%	30%	100%	100%	95%	Work in progress
Makutano water and Sewerage projects	Feb-23	95%	95%	0%	0%	0%	0%	65%	

FINANCIAL PERFORMANCE

The year progressed well and we were able to remain a going concern being able to meet our core activities which helped us in mitigating the effects of Covid 19 pandemic. We were able to continuously supply treated water to all our consumers and also established free water points as per the GOK directives in almost all the bus station and the marketed places.

We experienced a slight drop in our collection efficiency meaning that we were billing but not doing much collections because we didn't want to enforce punitive measures on collection e.g. disconnections.

We gave our customers some amnesty on payment so that we could navigate through the difficult situations.

Billing compared to our collection for the years were as follows;

MONTH	BILLINGS	COLLECTIONS
Jul-21	5,624,970	5,306,105
Aug-21	5,980,622	5,508,220
Sep-21	6,316,520	5,493,204
Oct-21	6,246,030	5,137,408
Nov-21	5,518,990	6,218,093
Dec-21	5,255,149	5,181,940
Jan-22	5,586,280	5,986,121
Feb-22	5,859,415	5,253,494
Mar-22	5,842,054	6,274,980
Apr-22	5,675,045	4,776,050
May-22	5,322,644	6,250,462
Jun-22	5,831,691	5,468,867
TOTAL	69,059,410	66,854,944

Our collection efficiency for the year was 97% against the regulators benchmark of 95%

CHALLENGES

- Huge debts-The company continue to experience huge debts that remains unpaid years. Some of this debt are irrecoverable and therefore requires to be written off from the books. We have lined up several interventions to ensure that this process is finalised .
- Major interruption of our systems from the effects of the Mau Mau road constructions that touches most of our lines and especially the mainline around Kiamara-Kangema-Kanyenyaini-Tuthu where the road is being constructed and the works have already commenced.
- Aging infrastructure leading to frequent pipe bursts causing high NRW .We plan to progressively replace the same.
- Erratic weather, coupled with rough terrain, has led to constant landslides causing pipe damage

Way forward

- We have started major sensitization campaigns across all the areas where we are doing major extension works through the assistance of the National government so as to open up all this areas. This coupled with the new water connection charges will be monitored so as to build on our customer base
- One on one visitation of our customers to negotiate the terms to pay for the water. We have also established an adhoc team that is currently calling the customers with huge debts and trying to convince them to pay their dues or come up with a payment plan. This approach has assisted us to collect without necessarily doing mass disconnections as we also maintain the supply of water to our customers at this time when it is very much needed.
- Conduct debtors analysis and categorisation with a purpose to clean our books from the long outstanding unrecoverable debts

During the year an analysis of the company risks, strengths and opportunities were analysed and were as:

STRENGTH	<ul style="list-style-type: none"> i. Good organizational structure ii. Competent staff iii. Adequate water production iv. Good staff working relationship v. Gravitational water system vi. Increased automation vii. A going concern viii. Credit worthiness ix. High revenue collection efficiency 	OPPORTUNITIES	<ul style="list-style-type: none"> i. Wide coverage area ii. Adequate water at the sources iii. Favourable terrain for gravitational supply iv. Improved road network v. Availability of financiers vi. Availability of technology vii. Improving Economic status of the society viii. Potential for introduction of sewer services ix. Continuously rehabilitated infrastructure
WEAKNESSES	<ul style="list-style-type: none"> i. Aging infrastructure ii. Inadequate office space iii. Inadequate transport iv. High NRW level v. High level of debtors status vi. Inadequate working tools 	THREATS	<ul style="list-style-type: none"> i. Political interference ii. Pandemics iii. Poor terrain iv. Irrigation Water-Some consumers reverts to using irrigation water v. Degradation of catchment areas vi. Unpredictable weather patterns vii. Vandalism of water infrastructure viii. Low rate of population growth

IX. Environmental and Sustainability Reporting

Kahuti Water & 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, putting the customer first, delivering relevant goods and services, and improving operational excellence. Below is an outline of the organisation's policies and activities that promote sustainability.

i) Sustainability strategy and profile -

Kahuti Water & Sanitation Company Ltd has invested heavily in an effort to ensure sustainability of the company. Following a lot of investment on distribution lines, we are working on last mile connectivity, which will increase the number of customers and hence the revenue base. The on-going Rwathia –Kagaa line will open the south eastern parts of our area of jurisdiction with increased flow and more customers. Following the completion of the Karurumo –Kiruri line, we expect increased service coverage in the area. Other strategies include adoption of new technologies in improving services, e.g. smart meter reading, etc.

Currently, our operations and maintenance coverage is at 100%, meaning that we are able to meet the operations and maintenance needs without seeking external subsidies.

Environmental performance

Kahuti Water & Sanitation Company envisions sustainability of the environment as key to its success. Our emphasis is in protection & sustenance of our catchment areas that are our source of water. We achieve this through tree planting events, which we do in close partnership with educational and other institutes. The company is in the process of drafting a comprehensive environmental policy.

ii) Employee welfare

Regarding employee welfare, the company has clear policies guiding the hiring and separation processes as outlined in our Human Resource & Administration Regulations. All recruitments are on a competitive basis. Those of senior management must be advertised in at least one daily newspaper. Our current gender ratio is about 25% female to 75% male. We however, have a policy of encouraging women to apply for new vacancies as we work towards the one third rule.

The company has an annual appraisal system. A reward and recognition policy was formulated this year and has been implemented. The best performers in various categories receive rewards at the end of the calendar year.

Training and skills improvement is part of our human resource policy. The company liaises with such associations like Water Service Providers Association (WASPA), KEWI and others in conducting training of its staff. In addition, periodic training needs assessments are carried out.

The company complies with the provisions of the Occupational Safety and Health Act 2007 as captured in our Human Resource & Administration Manual. We are however, in the process of drafting the policy as a stand alone policy.

iii) Market place practices-

The organisation outline its efforts to:

a) Responsible competition practice.

In our service provision, our main competitors are mainly community self-help and irrigation water projects. Our competitive advantage over them is proper governance structures, which we rely on to ensure better services. We also capitalize on leveraging on emerging technologies in service provision. In this way, the competition is fair and we leave the choice to the customer. In most of the areas however, there are no competitors and we are guided by our commitment to improve the welfare of the community that we serve.

b) Responsible Supply chain and supplier relations

Regarding our supply chain, we ensure open tendering for all our suppliers, where due process is followed. We also comply with the Public Procurement and Disposal Act 2015 when it comes to issues of dealing with the suppliers payment

c) Product stewardship

Consumer rights are safeguarded by ensuring value for money. In this regard, we endeavour to offer safe and clean water to the best of our ability. The company also has a customer complains desk in each of its four stations i.e Kangema, Murarandia, Kahuro and Kanyenyaini. Customers also complain through SMS and we've recently installed an ERP with a customer relations module that will improve service delivery. We also have other customer friendly tools like part payment plans where customers can clear their dues in instalments.

Challenges

- i. Aging infrastructure contributes to water loss and hence high NRW.
- ii. Pipe damage by road contractors contracted by the various government agencies. A lot of pipes have been damaged and no compensation has been forthcoming despite our appeals. The damage so far is estimated to be over ksh 50 million.

X. 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 entity's affairs.

Principal activities

The principal activities of the entity are provision of quality water & sanitation services at affordable rates.

Results

The results of the entity for the year ended June 30, 2022 are set out on page 1.

Directors

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

i) Auditors

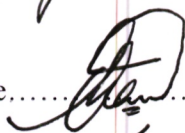
The Auditor General is responsible for the statutory audit of the Company in accordance with Article 229 of the Constitution of Kenya and the Public Audit Act 2015 .In accordance to section 23 of the Public Audit Act 2015, the Auditor General can elect to appoint an auditor to audit the entity on its behalf.

By Order of the Board

Name.....

Ephantus Koman

Signature.....



Date.....

27 / 09 / 2022

Managing Director

XI. Statement of Directors' Responsibilities

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

The Directors are responsible for the preparation and presentation of the entity's financial statements, which give a true and fair view of the state of affairs of the entity for and as at the end of the financial year (period) ended on June 30, 2022 This responsibility includes:

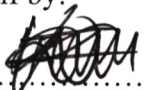
- (i) Maintaining adequate financial management and ensuring that these continue to be effective throughout the reporting period;
- (ii) Maintaining proper accounting records, which disclose with reasonable accuracy at any time the financial position of the entity;
- (iii) Designing, implementing and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

The Directors accept responsibility for the entity's financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity with International Financial Reporting Standards (IFRS), and in the manner required by the PFM Act and the State Corporations Act. The Directors are of the opinion that the entity's financial statements give a true and fair view of the state of entity's transactions during the financial year ended June 30, 2022, and of the entity's financial position as at that date. The Directors further confirm the completeness of the accounting records maintained for the entity, which have been relied upon in the preparation of the entity's financial statements as well as the adequacy of the systems of internal financial control.

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

Approval of the financial statements

The *entity's* financial statements were approved by the Board on 27th September 2022 and signed on its behalf by:

Signature: 

Name: Frasih Kamau

Chairperson of the Board

Signature : 

Name: Eng. E. Kamau

Managing Director

REPUBLIC OF KENYA

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



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

REPORT OF THE AUDITOR-GENERAL ON KAHUTI 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 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 Kahuti Water and Sanitation Company Limited set out on pages 1 to 57, which comprise 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 Kahuti 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 Water Act, 2016, the Companies Act, 2015 and the Public Finance Management Act, 2012.

Basis for Qualified Opinion

1.0 Long Outstanding Loan

As similarly reported in the previous year, the statement of financial position reflects a loan owed by the Company to the African Development Bank balance of Kshs.13,344,063 as at 30 June, 2022. However, review of documents provided for audit revealed that the Company had defaulted in servicing the loan for several years. Further, the outstanding repayments and interest and penalties if any, due on the unpaid amounts have, as in previous periods, not been provided for in the books of the Company.

In the circumstances, the disclosures made on the loan in the financial statements may not be accurate and complete.

2.0 Lack of Ownership Documents

The statement of financial position and as disclosed in Note 16(b) to the financial statements as at 30 June, 2022 reflects property, plant and equipment balance of Kshs.77,963,374. The balance includes an amount of Kshs.8,265,000 in respect of 4 parcels of land held in various locations within Murang'a County. However, ownership documents including title deeds were not provided for audit review. Further, the balance includes an amount of Kshs.2,332,500 in respect of motor vehicles and motorcycles, which further includes two motor vehicles worth Kshs.1,300,000 whose ownership documents are not in the name of Kahuti Water and Sanitation Company Limited.

In the circumstances, the accuracy, completeness and ownership status of land and motor vehicles valued at Kshs.8,265,000 and Kshs.1,300,000 respectively as at 30 June, 2022 could not be confirmed.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the Kahuti 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

Unresolved Prior Year Audit Issues

In the audit report of the previous year, several matters were raised under the Report on Financial Statements, Report on Lawfulness and Effectiveness in Use of Public Resources and Report on Effectiveness of Internal Controls, Risk Management and Governance. However, Appendix 1 to the financial statements for the year under review indicates that several of the issues had not been resolved as at 30 June, 2022. The report has not indicated the reasons for the failure to resolve the issues.

Other Information

The Management is responsible for the other information, which comprises Chairman's Statement, Report of the Managing Director, Corporate Governance Statement, Management Discussions and Analysis, Environmental and Sustainability Reporting, Report of the Directors 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 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 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 Excessive Non-Revenue Water

Water production records indicated that the Company produced 2,723,180 cubic meters (M³) of water in the year under review, out of which 1,132,084 M³ were billed to customers and the difference totaling 1,591,096 M³ or 58% of production reported as Non-Revenue

Water (NRW). The NRW was 33 percentage points above the allowable loss of 25% set in guidelines issued by the Water Services Regulatory Board (WASREB).

In the circumstances, the high NRW ratio was an indication of unfavourable performance in harnessing the water produced and denoted substantial loss of resources which may pose a significant risk to sustainable delivery of services by the Company if not urgently controlled by Management.

2.0 Non-compliance with Law on Staff Ethnic Diversity

As similarly reported in the previous year, the Company had seventy-three (73) employees in the year under review out of which, sixty-six (66) or 90% were drawn from the dominant ethnic community in the County. This was contrary to the requirements of Section 7(2) of the National Cohesion and Integration Act, 2008, which requires that no public establishment shall have more than one third of its staff from the same ethnic community.

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

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

As required by Section 7(1)(a) of the Public Audit Act, 2015, based on the audit procedures performed, except for the matter 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 governance were not effective.

Basis for Conclusion

Lack of Risk Management Policy

The Management did not provide supporting documents, for audit review, as evidence of existence of a risk management policy to guide the Management on risk assessment and formulation of risk mitigation strategies in the year under review. This is contrary to Section 158(1)(a) and (b) of the Public Finance Management (County Governments) Regulations, 2015 which requires the Accounting Officer to develop risk management strategies which include fraud prevention mechanism and internal control that builds robust business operations.

In the circumstances, it was not possible to confirm whether the internal controls built within the financial and operational systems were functioning as intended during the year under review.

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

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

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

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

Responsibilities of Management and the Board of Directors

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

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

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

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

The Board of Directors is responsible for overseeing the Company's financial reporting process, reviewing the effectiveness of how Management monitors compliance with relevant legislative and regulatory requirements, ensuring that effective processes and systems are in place to address key roles and responsibilities in relation to governance and risk management, and ensuring the adequacy and effectiveness of the control environment.

Auditor-General's Responsibilities for the Audit

The audit objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion in accordance with the provisions of Section 48 of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISSAIs will always detect a material misstatement and weakness when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

In addition to the audit of the financial statements, a compliance audit is planned and performed to express a conclusion about whether, in all material respects, the activities, financial transactions and information reflected in the financial statements are in compliance with the authorities that govern them and that public resources are applied in an effective way, in accordance with the provisions of Article 229(6) of the Constitution and submit the audit report in compliance with Article 229(7) of the Constitution.

Further, in planning and performing the audit of the financial statements and audit of compliance, I consider internal control in order to give an assurance on the effectiveness of internal controls, risk management and governance processes and systems in accordance with the provisions of Section 7(1)(a) of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution. My consideration of the internal control would not necessarily disclose all matters in the internal control that might be material weaknesses under the ISSAIs. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

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

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

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

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Management.
- Conclude on the appropriateness of the Management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in the auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my audit report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information and business activities of the Company to express an opinion on the financial statements.
- Perform such other procedures as I consider necessary in the circumstances.

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

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


CPA Nancy Gathungu, CBS
AUDITOR-GENERAL

Nairobi

08 March, 2023

Kahuti Water and Sanitation Company Ltd.

Annual Report and Financial Statements for the year ended June 30, 2022

XIII. Statement of Profit or Loss & Other Comprehensive Income for The Year Ended 30 June 2022.

	Note	2021-2022	2020-2021
		Kshs	Kshs
Revenue			
Revenue from billings	6	69,059,410	66,079,809
Grants Income	7	26,265,581	5,384,361
Other Income	8	588,746	1,401,275
Finance income	9	571,837	441,077
Total Revenue		96,485,574	73,306,522
Expenses			
Staff Costs	10	38,493,366	35,210,127
General and Operations expenses	11	26,675,831	24,253,246
Board Expenses	12	2,250,168	1,013,880
Maintenance Expenses	13	3,064,535	4,438,951
Depreciation and Amortization expenses	14	14,497,196	12,424,885
Total Expenses		84,981,096	77,341,089
Profit/(Loss) Before Taxation		11,504,478	(4,034,567)
Income Tax Expense/(Credit)	22	-	-
Profit/(Loss) After Taxation		11,504,478	(4,034,567)

XIV. Statement of Financial Position as at 30 June 2022

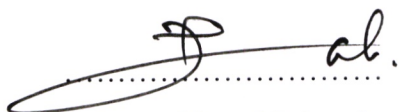
	Note	2021-2022	2020-2021
		Kshs	Kshs
ASSETS			
Non-Current Assets			
Property, plant and equipment	16(b)	77,963,374	75,973,715
Total Non-Current Assets		77,963,374	75,973,715
Current Assets			
Inventories	19	2,244,121	1,170,275
Trade and receivable	20(a)	53,519,158	51,314,693
Bank and cash balances	21(a)	18,245,040	13,016,476
Total Non-Current Assets		74,008,319	65,501,444
Total Assets		151,971,693	141,475,159
EQUITY AND LIABILITIES			
Capital and Reserves			
Capital fund		13,512,583	13,512,583
Revaluation reserve		30,407,408	30,407,408
Capital Reserves		1,988,918	1,988,918
Retained earnings		28,937,939	12,173,687
Capital and Reserves		74,846,848	58,082,596
Non-Current Liabilities			
ADB Loan		13,344,063	13,344,063
Deferred Income	30	29,347,298	28,252,108
Total Non-Current Liabilities		42,691,361	41,596,171
Current Liabilities			
Trade and other payables	28	21,732,656	27,844,271
Customer Deposits	29	12,275,437	10,006,473

Kahuti Water and Sanitation Company Ltd.

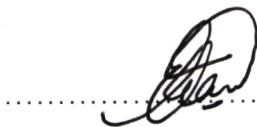
Annual Report and Financial Statements for the year ended June 30, 2022

Taxation	22	425,391	3,945,648
Total Current Liabilities		34,433,484	41,796,392
TOTAL EQUITY AND LIABILITIES		151,971,693	141,475,159


The financial statements were approved by the Board on 27/09 2022 and signed on its behalf by:



Name: Titus Mukunda
Head of Finance
Icpak No:10227



Name : Eng. E. Kamau
Managing Director



Name: Frasih Kamau
Chairperson - BOD

Kahuti Water and Sanitation Company Ltd
Annual Report and Financial Statements for the year ended June 30, 2022

XV. Statement of Changes in Equity for the Year Ended 30 June 2022

	Notes	Share Fund	Capital	Revaluation reserve	Capital reserve	Retained earnings	Capital/ Development Fund	Total
As at July 1, 2020		13,512,583	12,857,835	1,988,918	16,208,254	-	44,567,590	
Revaluation gain		-	17,549,573	-	-	-	17,549,573	
Profit /Loss for the year		-	-	-	(4,034,567)	-	(4,034,567)	
As at June 30, 2021		13,512,583	30,407,408	1,988,918	12,173,687	-	58,082,596	
As at July 1, 2021		13,512,583	30,407,408	1,988,918	12,173,687	-	58,082,596	
Overprovision of Tax					3,520,257		3,520,257	
Prior year adjustment					1,739,517		1,739,517	
Profit for the year		-	-	-	11,504,478	-	11,504,478	
At June 30, 2022		13,512,583	30,407,408	1,988,918	28,937,939	-	74,846,848	

Note:

- i) The provision of tax over the years had been overstated by Ksh 3,520, 257.the overstatement came as a result of using draft financial statement to file the returns therefore after the final Audit report from the Auditor General came out the amended returns were filed through I tax.
- ii) An amount of Kshs 1,739,517 for Sundry creditor which was a gain upon compensation by insurance after several motorbikes had been stolen in the office compound which has remained in the books for long though that amount had been used for other operations but has been adjusted in the current year against the retained earnings.

Kahuti Water and Sanitation Company Ltd
Annual Report and Financial Statements for the year ended June 30, 2022

XVI. 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(b)	66,854,944	66,608,108
Grants	7(b)	21,922,440	1,147,452
Other Income	8	588,746	1,401,275
Finance Income	9	571,837	441,077
Total Receipts		89,937,967	69,597,912
Payments			
Staff Costs	10	38,493,366	35,210,127
General And Operation Expenses	11(b)	31,592,328	23,260,074
Board Expenses	12	2,250,168	1,013,880
Maintenance	13	3,064,535	4,438,951
Total Payments		75,400,397	63,923,032
Net Cash From/(Used In) Operating Activities		14,537,571	5,674,880
Cash Flows from Investing Activities			
Purchase Of Property, Plant And Equipment (PPE)	16(b)	(11,048,524)	(8,442,269)
Net Cash From/(Used In) Investing Activities		(11,048,524)	(8,442,269)
Cash Flows from Financing Activities			
Prior Period Adjustments	23	1,739,517	-
Net Cash From/(Used In) Financing Activities		1,739,517	-
Increase/(Decrease) In Cash And Cash Equivalents		5,228,564	(2,767,389)
Cash And Cash Equivalents At Beginning Of Year	21	13,016,476	15,783,866
Cash And Cash Equivalents At End Of The Year		18,245,040	13,016,476

Kahuti Water and Sanitation Company Ltd
Annual Report and Financial Statements for the year ended June 30, 2022

XVII. Statement of Comparison of Budget & Actual Amounts for the Period Ended 30 June 2022

	Original budget	1st Adjustments	2nd Adjustment	Final budget	Actual on comparable basis	Performance difference	% of utilization
	2021-2022	2021-2022		2021-2022	2021-2022		
Revenue	Kshs	Kshs	Kshs	Kshs	Kshs	Kshs	%
Reconnection Fees	343,100	-	-	343,100	656,939	(313,839)	191
Connection Fees	1,200,000	-	-	1,200,000	1,601,871	(401,871)	133
Water Sales	68,355,501	-	-	68,355,501	66,800,600	1,554,901	98
Total Revenue	69,898,601	-	-	69,898,601	69,059,410	839,191	99
Total Other Income	540,000	22,922,440	1,000,000	24,462,440	27,426,164	(2,963,724)	112
Total Income	70,438,601	22,922,440	1,000,000	94,361,041	96,485,574	(2,124,533)	102
Expense							
Sallaries & Wages	36,590,045	406,637	-	36,996,682	37,363,911	(367,229)	101
Chemicals	2,400,000	(100,000)	-	2,300,000	1,804,236	495,764	78
Pipes and Fittings	7,200,000	(400,000)	(500,000)	6,300,000	6,298,161	1,839	100
TWSB Arrears	1,200,000	-	-	1,200,000	1,200,000	-	100
Contingencies	140,803	-	-	140,803	-	140,803	0
Computer Expenses	60,000	10,000	50,000	120,000	67,720	52,280	56

Kahuti Water and Sanitation Company Ltd
Annual Report and Financial Statements for the year ended June 30, 2022

General expenses	197,241	-	-	197,241	69,976	127,265	35
Bank Service Charges	90,867	-	40,000	130,867	124,702	6,165	95
Electricity	215,122	-	-	215,122	190,290	24,832	88
Corporate social responsibility	285,392	-	-	285,392	252,635	32,757	89
Strategic plan&Bussiness Plan	-	300,000	-	300,000	286,002	13,998	95
Repair and Maintenance Intake	163,275	-	150,000	313,275	310,030	3,245	99
Staff Uniform	200,000	91,800	350,000	641,800	313,700	328,100	49
Audit Fees	100,000	-	700,000	800,000	335,000	465,000	42
Repair and Maintenance Office	205,748	150,000	34,126	389,874	363,095	26,779	93
Legal &Professional fees	460,000	-	40,000	500,000	377,000	123,000	75
Printing and Stationeries	436,761	-	-	436,761	412,936	23,825	95
Subscriptions	224,858	120,000	126,998	471,856	461,585	10,271	98
Provision for bad debts	-	-	-	-	493,959	(493,959)	
Postage and Telephone	676,463	-	-	676,463	685,862	(9,399)	101
Insurance Expense	360,000	-	25,000	385,000	707,229	(322,229)	184
WARMA - Abstraction fees	720,000	-	-	720,000	720,000	-	100
Advertising and Promotion	720,000	265,360	-	985,360	861,521	123,839	87

Kahuti Water and Sanitation Company Ltd
Annual Report and Financial Statements for the year ended June 30, 2022

Software Maintenance & Hosting	-	750,000	132,000	882,000	902,500	(20,500)	102
AGM/Stakeholder Expenses	900,000	-	100,000	1,000,000	990,282	9,718	99
Security Services	1,044,000	-	-	1,044,000	1,051,700	(7,700)	101
Staff Welfare	660,000	150,000	426,950	1,236,950	1,129,455	107,495	91
Staff Training	600,000	380,000	660,000	1,640,000	1,485,580	154,420	91
Fines& Penalties	-	1,546,190	-	1,546,190	1,546,190	(0)	100
Director Allowances	1,099,200	543,780	1,000,000	2,642,980	2,250,168	392,812	85
Wasreb Regulatory levy	2,702,342	-	-	2,702,342	2,772,023	(69,681)	103
Vehicles /Bikes Repair&maintena	600,000	274000	80,000	954,000	880,340	73,660	92
Vehicle Running Expenses	2,760,000	(280,000)	-	2,480,000	2,037,334	442,666	82
Travelling and Subsistence	2,160,000	80,000	640,000	2,880,000	2,938,779	(58,779)	102
Depreciation Expense	-	-	-	-	14,497,196	(14,497,196)	
Total Expense	65,172,117	4,287,767	4,055,074	73,514,958	86,181,096	(12,666,138)	
<u>Capital Expenditure</u>							
Meters	2,500,000	690,000	-	3,190,000	2,766,450	423,550	87
Water Pipeline &Extensions	1,500,000	2,300,000	4,750,000	8,550,000	8,035,070	514,930	94
Computer& Accessories	-	169,100	50,000	219,100	114,600	104,500	52

Kahuti Water and Sanitation Company Ltd
Annual Report and Financial Statements for the year ended June 30, 2022

Office Equipment	-	-	-	-	49,000	(49,000)	
Sludge Equipment	-	85,000	-	85,000	83,404	1,596	98
Total Capital Expenditure	4,000,000	3,244,100	4,800,000	12,044,100	11,048,524	995,576	

Notes:

- Reconnection and Connection fees exceeded the budget, as many customers came on board for new connections and those were dormant were activated and restored back to the system.
- Salaries and wages exceeded the budget due an amount of Kshs 190,000 paid to a staff upon separation and baggage allowance paid to another upon retirement. In addition, the directive by the court to increase remuneration by 10% across board made these changes, as it had not been factored during budget preparations.
- Provision for bad and doubtful debt and Depreciation expenses are not factored in the budget as they are made only once at the end of year.

XVIII. Notes to the Financial Statements

1. General Information

Kahuti Water and Sanitation Company Ltd is established by and derives its authority and accountability from Company's Act. The Company is wholly owned by the County Government of Muranga in Kenya. The Company's principal activity is to provide quality Water & Sanitation services at an affordable rate.

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 areas involving a higher degree of judgement or complexity, or where assumptions and estimates are significant to the financial statements, are disclosed.

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 and International Financial Reporting Standards (IFRS). The accounting policies adopted have been consistently applied to all the years presented.

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.

Kahuti Water and Sanitation Company Ltd
Annual Report and Financial Statements for the year ended June 30, 2022

Title	Description	Effective Date
Amendment to IFRS 9 titled Fees in the '10 per cent' Test for	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
Derecognition of Financial Liabilities	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.
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 Directors have assessed the applicable standards and amendments. Based on their assessment of impact of application of the above, they do not expect that there will be a significant impact on the company's financial statements.

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.

Kahuti Water and Sanitation Company Ltd
Annual Report and Financial Statements for the year ended June 30, 2022

Title	Description	Effective Date
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.

iii. 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 water sales** is recognized in the year in which the Company sells water to the customer, the customer consumes the water and is billed on monthly basis. It also consists of reconnection and new connection fees.
- ii) Grants from Government Entities** are recognized in the year in which the Company actually receives such grants. Recurrent grants are recognized in the statement of comprehensive income. Development/capital grants are recognized in the statement of financial position and realised in the statement of comprehensive income over the useful life of the assets that has been acquired using such funds.
- iii) Finance income** comprises interest receivable from bank deposits, and is recognized in profit or loss on a time proportion as it accrues.
- iv) Other income** is recognized as it accrues.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Summary of Significant Accounting Policies

b) In-kind contributions

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

c) Property, plant and equipment

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

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

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.

Kahuti Water and Sanitation Company Ltd
Annual Report and Financial Statements for the year ended June 30, 2022

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Summary of Significant Accounting Policies

d) Depreciation and impairment of property, plant and equipment

Freehold land and capital work in progress are not depreciated. Capital work in progress relates mainly to the 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	Years	Rates %
Freehold Land	40	2.5
Buildings and civil works	40	2.5
Infrastructure works(Water Pipelines	8	12.5
Plant and machinery	40	2.5
Motor vehicles, including motor cycles	4	25
Computers and related equipment	3	30
Office equipment, furniture and fittings	8	12.5
Intangible Assets	3	33 1/3

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.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Summary of Significant Accounting Policies

e) 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.

f) Amortization and impairment of intangible assets

Amortization 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.

Kahuti Water and Sanitation Company Ltd
Annual Report and Financial Statements for the year ended June 30, 2022

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Summary of Significant Policies

g). Inventories

Inventories are stated at the lower of cost and net realizable value. Cost comprises direct materials and, where applicable, direct labor 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.

h). Trade and other receivables

Trade and other receivables are recognized at fair values less allowances for any uncollectible amounts. These are assessed for impairment on a continuing basis. An estimate is made of doubtful receivables based on a review of all outstanding amounts at the year end. Bad debts are written off after all efforts at recovery have been exhausted and when the necessary approval to write off is granted. A general provision of 20% is made on all outstanding debts at the end of financial year.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Summary of Significant Accounting Policies

I). Taxation

i) Current income tax

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

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.

ii). 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.

Kahuti Water and Sanitation Company Ltd
Annual Report and Financial Statements for the year ended June 30, 2022

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Summary of Significant Accounting Policies

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.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Summary of Significant Accounting Policies

j). 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 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.

k). 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 authorized public officers and/or institutions which were not surrendered or accounted for at the end of the financial year.

Kahuti Water and Sanitation Company Ltd
Annual Report and Financial Statements for the year ended June 30, 2022

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Summary of Significant Accounting Policies

l). Borrowings

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

m). Trade and other payables

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

n). 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 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.

o). Provision for staff leave pay

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Summary of Significant Accounting Policies

p.) 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 recognized in profit or loss.

q). Budget information

Our budgets are incremental budgets. The budgets are prepared from the user sections and departments where every section is required to forward all their requirements to the finance and procurement sections. After these budgets are consolidated in their respective votes. There is also a comparison from the last budget period for the purposes of having a realistic budget. The budget after compilation is presented to the management by the commercial manager. Any amendments at that stage are incorporated after which it's presented to the board for the approval

r). Service concession arrangements

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

s). Comparative figures

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

Kahuti Water and Sanitation Company Ltd
Annual Report and Financial Statements for the year ended June 30, 2022

t). 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

Kahuti Water and Sanitation Company Ltd**Annual Report and Financial Statements for the year ended June 30, 2022****Provisions**

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.

e.g. provision for bad debts-a general provision of 20% has been provided for debts as at the year end.

6. (a) Revenue from billings

	2021-2022	2020-2021
	Kshs	Kshs
Water sales	66,800,600	64,110,781
Billing for other services	2,258,810	1,969,028
Total	69,059,410	66,079,809

6. (b) Operating Revenue

	2021-2022	2020-2021
	Kshs	Kshs
Opening Receivables	51,314,693	51,842,992
Revenue from Billings	69,059,410	66,079,809
Closing Receivables	(53,519,158)	(51,314,693)
Total	66,854,945	66,608,108

7. (a) Grants Income

	2021-2022	2020-2021
	Kshs	Kshs
Capital grants from Government entities(AWWDA)	1,000,000	274,716
Recurrent/operational grants from other agencies(Liquidity Support Grant-WSFT)	18,622,440	-
Capital grants from other agencies(Liquidity Support Grant-WSFT)	2,300,000	-
Capital grants amortized	4,343,141	4,236,909
In Kind contribution/donations from other agencies	-	872,736
Total	26,265,581	5,384,361

Kahuti Water and Sanitation Company Ltd
Annual Report and Financial Statements for the year ended June 30, 2022

7(b) Grant Income Analysis

Name of the Entity sending the grant	Amount recognized in the Statement of Comprehensive Income	Amount deferred under deferred income	Amount recognized in capital fund.	Total grant income during the year	2021-2022
	KShs	KShs	KShs	KShs	KShs
Athi Water Works Development Agency	-	4,343,141	29,347,298	4,343,141	4,343,141
Water Trust Fund	21,922,440	-	-	21,922,440	21,922,440
Total	21,922,440	4,343,141	29,347,298	26,265,581	26,265,581

Kahuti Water and Sanitation Company Ltd
Annual Report and Financial Statements for the year ended June 30, 2022

8. Other Income

	2021-2022	2020-2021
	Kshs	Kshs
Sale of Water by Bowser&Tins	76,500	192,310
Salary Surcharge	17,024	3,206
Decrease in Bad & Doubtful Debts	-	82,532
Compensation for Damages	495,222	1,116,920
Water Connection Fittings	-	6,307
Total	588,746	1,401,275

9. Finance Income

	2021-2022	2020-2021
Description	Kshs	Kshs
Interest from commercial banks and financial institutions	571,837	441,077
Total	571,837	441,077

10. Staff Costs

Description	2021-2022	2020-2021
	Kshs	Kshs
Gross Salary and Allowances	33,435,276	30,865,203
Casual workers' Wages	400,794	301,671
Gratuity provisions	2,421,768	1,983,379
Employer's contributions to social security schemes	183,000	182,600
Employer's contributions to pension scheme	877,423	614,697
Staff welfare	1,129,455	867,811

Kahuti Water and Sanitation Company Ltd

Annual Report and Financial Statements for the year ended June 30, 2022

Other allowances	45,650	394,766
Total	38,493,366	35,210,127
The average number of employees during the year	77	76

Notes

- The staff cost increased as result of court directive to increase staff salaries by 10% across board and also in compliance with the Collective bargaining agreement with the union.

Kahuti Water and Sanitation Company Ltd
Annual Report and Financial Statements for the year ended June 30, 2022

NOTES TO THE FINANCIAL STATEMENTS (Continued)

11. General and Operations Expenses

	2021-2022	2020-2021
Description	Kshs	Kshs
Chemicals	1,804,235	1,036,504
Electricity	190,290	184,227
Fuel, oil, lubricants, and gases	2,037,334	3,196,620
Bulk Water Costs(Pipes&Fittings)	4,854,811	4,751,019
Uniform and protective clothing	313,700	4,600
Postage and courier	685,862	661,909
Insurance	707,229	322,973
Domestic Traveling and subsistence	2,938,779	2,709,955
Staff training and development	1,485,580	666,538
Bank Charges	124,702	105,820
Security services	1,051,700	1,035,000
Publicity and advertising	861,521	757,788
Audit fees	335,000	1,005,000
Legal fees and Consultancy fees	377,000	1,214,379
Licensing and levies	3,492,023	4,687,720
Stakeholders' expenses	1,276,284	932,870
Donations/CSR	252,635	244,802
Provision for doubtful debts	493,959	-
Subscriptions	461,585	217,830

Kahuti Water and Sanitation Company Ltd**Annual Report and Financial Statements for the year ended June 30, 2022**

Contingencies'	1,546,190	84,098
Printing and Stationeries	412,936	365,150
Software Maintenance for Billing,CRM& QuickBooks	462,500	-
Cloud Server Hosting	440,000	
General Expenses	69,976	68,444
Total	26,675,831	24,253,246

11.(b)General and Operation Expenses

	2021-2022	2020-2021
Description	Kshs	Kshs
Opening payables	37,850,744	36,698,500
Purchases(Chemicals & Pipes&Fittings)	7,732,891	5,946,595
General And Operation Expenses(Net of chemicals &Bulk Water Costs)	20,016,786	18,465,723
Closing Payables	(34,008,093)	(37,850,744)
Total	31,592,328	23,260,074

12. Board Expenses

Description	2021-2022	2020-2021
	KShs	KShs
Sitting allowances	2,250,168	1,013,880
Other allowances	-	-
Total Board Expenses	2,250,168	1,013,880

Kahuti Water and Sanitation Company Ltd
Annual Report and Financial Statements for the year ended June 30, 2022

13. Maintenance Expenses

	2021-2022	2020-2021
Description	Kshs	Kshs
Buildings/Office	363,095	201,710
Infrastructural networks	1,753,380	2,478,866
Motor vehicles	880,340	812,939
Material Donated	-	872,736
ICT	67,720	72,700
Total Maintenance Expenses	3,064,535	4,438,951

Kahuti Water and Sanitation Company Ltd
Annual Report and Financial Statements for the year ended June 30, 2022

14. Depreciation and Amortization Expenses

Description	2021-2022	2020-2021
	KShs	KShs
Property, plant, and equipment	13,045,316	10,972,745
Intangible assets	1,451,880	1,452,140
Total Depreciation and Amortization	14,497,196	12,424,885

15. Income Tax Expense/(Credit)

Reconciliation of tax expense/ (credit) to the expected tax based on accounting profit

	2021-2022	2020-2021
	Kshs	Kshs
Profit/Loss before taxation	11,504,478	(4,034,567)
Less: Exempt income(National Govt Grant)	19,678,298	(5,384,361)
Adjusted Loss/Profit for the year	(8,173,820)	(9,418,928)
add:		
Depreciation	14,497,196	12,424,885
Provision for bad debts	493,959	-
	14,991,155	12,424,885
	6,817,335	3,005,957
Less:		
Wear & Tear	9,517,749	5,530,291
Taxable Income/Loss	(2,700,414)	(2,524,334)
Income Tax Expense/(Credit)		
Profit/(Loss) After Taxation		

NOTES TO THE FINANCIAL STATEMENTS (Continued)

16. (a) Property, Plant and Equipment

	Land	Buildings	Water Pipelines	Motor cycles vehicles	Furniture & fittings	Treatment Plant	Office equipment	Computer s, copiers & faxes	Water Meters	Intangible Asset	Restated Total
	Shs	Shs	Shs	Shs	Shs		Shs	Shs	Shs		Shs
At 30th June 2021											
Reinstated amounts											
Cost 1st July 2020	-	10,720,087	36,776,839	9,903,416	1,106,377	13,852,023	775,200	51,000	20,326,904	260,000	93,771,846
Revaluation	8,700,000	2,272,913	-	(5,238,416)	(384,262)	-	(239,763)	463,050	-	-	5,573,522
Reinstated cost	8,700,000	12,993,000	36,776,839	4,665,000	722,115	13,852,023	535,437	514,050	20,326,904	260,000	99,345,368
Additions	-		1,034,670		-	-	226,400	60,299	3,020,900	4,100,000	8,442,269
Grants	-		7,321,244	-	-	-	-	-	-	-	7,321,244
Total Cost	8,700,000	12,993,000	45,132,753	4,665,000	722,115	13,852,023	761,837	574,349	23,347,804	4,360,000	115,108,881
Provision for Depreciation											
Balance as at 1st July 2020	-		14,259,863	-	-	1,038,902	-	15,300	11,223,057	173,160	26,710,282
Depreciation charge for the year	217,500	324,825	5,641,594	1,166,250	90,264	346,301	95,230	172,305	2,918,476	1,452,140	12,424,884
Total Accumulated Depreciation	217,500	324,825	19,901,457	1,166,250	90,264	1,385,203	95,230	187,605	14,141,533	1,625,300	39,135,166
Closing Net Book Value	8,482,500	12,668,175	25,231,296	3,498,750	631,851	12,466,820	666,607	386,744	9,206,271	2,734,700	75,973,715

NOTES TO THE FINANCIAL STATEMENTS (Continued)

16 (b). Property, Plant and Equipment (Continued)

	Land	Buildings	Water Pipelines	Motor cycles / vehicles	Furniture & fittings	Plant & Equipment	Office equipment	Computers & copiers & faxes	Water Meters	Intangible Asset	Restated Total
	Shs	Shs	Shs	Shs	Shs		Shs	Shs	Shs		Shs
At 30th June 2022											
Reinstated amounts											
Cost 1st July 2021	8,700,000	12,993,000	45,132,753	4,665,000	722,115	13,852,023	761,837	574,349	23,347,804	4,360,000	115,108,881
Additions	-		8,035,070	-	-	83,404	49,000	114,600	2,766,450	-	11,048,524
Grants	-		2,828,330	-	-	-	-	-	2,610,000	-	5,438,330
Total Cost	8,700,000	12,993,000	55,996,153	4,665,000	722,115	13,935,427	810,837	688,949	28,724,254	4,360,000	131,595,735
Provision for Depreciation											
Balance as at 1st July 2021	217,500	324,825	19,901,457	1,166,250	90,264	1,385,203	95,230	187,605	14,141,533	1,625,300	39,135,166
Depreciation charge for the year	217,500	324,825	6,999,518	1,166,250	90,264	348,386	101,355	206,685	3,590,532	1,451,880	14,497,195
Total Accumulated Depreciation	435,000	649,650	26,900,975	2,332,500	180,528	1,733,589	196,585	394,290	17,732,065	3,077,180	53,632,361
Closing Net Book Value	8,265,000	12,343,350	29,095,178	2,332,500	541,587	12,201,838	614,252	294,659	10,992,189	1,282,820	77,963,374

Kahuti Water and Sanitation Company Ltd
Annual Reports and Financial Statements
For the year ended June 30, 2022

NOTES TO THE FINANCIAL STATEMENTS (Continued)

17 (a) Property, Plant and Equipment at Cost

If the freehold land, buildings and other assets were stated on the historical cost basis, the amounts would be as follows:

	Cost	Accumulated Depreciation	NBV
	Kshs	Kshs	Kshs
Land and Buildings	21,693,000	1,084,650	20,608,350
Plant and machinery	13,935,427	1,733,588	12,201,839
Motor vehicles, including motorcycles	4,665,000	2,332,500	2,332,500
Computers and related equipment	688,949	394,289	294,660
Office equipment, furniture, and fittings	1,532,952	377,113	1,155,839
	42,515,328	5,922,140	36,593,188

17(b) Wear & Tear

	2021-2022		20-2021	
Depreciation rate	37.5,30,25	12.5	37.5,30,25	12.5
Wear& Tear rate	25	10	25	10
Assets				
Opening Written Down Value	3,885,494	35,736,025	964,928	32,416,629
Additions	114,600	40,721,232	60,299	11,603,214
	4,000,094	76,457,257	1,025,227	44,019,843
Wear& Tear	1,000,024	7,645,726	256,307	4,401,984
Closing WDV	3,000,071	68,811,531	768,920	39,617,859
Intangible asset	20%		20%	
Cost	4,360,000		4,360,000	
w&t	872,000		872,000	
	3,488,000		3,488,000	
Total Wear & Tear	9,517,749		5,530,291	

Kahuti Water and Sanitation Company Ltd
Annual Reports and Financial Statements
For the year ended June 30, 2022

18. Intangible Assets

	2021-2022	2020-2021
	Kshs	Kshs
COST		
At July 1	4,360,000	260,000
Additions	-	4,100,000
At June 30	4,360,000	4,360,000
AMORTISATION		
At July 1	1,625,300	173,160
Charge for the year	1,451,880	1,452,140
At June 30	3,077,180	1,625,300
NET BOOK VALUE		
At June 30	1,282,820	2,734,700

19. Inventories

	2021-2022	2020-2021
	Kshs	Kshs
Chemicals & Laboratory items	500,134	103,037
Water fittings and Accessories	1,743,987	1,067,238
Total	2,244,121	1,077,575

20(a.) Trade and Other Receivables

	2021-2022	2020-2021
	KShs	KShs
Trade receivables (note (20a))	54,472,784	52,002,988
Unrealised Interest Income	267,393	-
VAT recoverable	9,400,955	9,400,955
Staff receivables	54,196	77,196
Other receivables	218,388	234,152
Gross trade and other receivables	64,413,715	61,715,290
Provision for bad and doubtful receivable	(10,894,557)	(10,400,598)
Net trade and other receivables	53,519,158	51,314,692

Kahuti Water and Sanitation Company Ltd
Annual Reports and Financial Statements
For the year ended June 30, 2022

20 (b) Trade Receivables

	2021-2022	2020-2021
	Kshs	Kshs
Gross trade receivables	54,472,784	52,002,988
Provision for doubtful receivables	(10,894,557)	(10,400,598)
Net trade receivables	43,578,227	41,602,390
at June 30, the ageing analysis of the gross trade receivables was as follows:		
Less than 30 days	5,799,395	3,421,308
Between 30 and 60 days	2,843,184	-
Between 61 and 90 days	2,012,588	543,543
Between 91 and 120 days	1,645,976	5,495,260
Over 120 days	42,171,641	42,542,877
Total	54,472,784	52,002,988

Reconciliation of Impairment Allowance for Trade Receivables

Description	2021-2022	2020-2021
	KShs	KShs
At the beginning of the year	10,400,598	10,483,130
Additional provisions during the year	493,959	(82,532)
Recovered during the year	-	-
Written off during the year	-	-
At the end of the year	10,894,557	10,400,598

Kahuti Water and Sanitation Company Ltd
Annual Reports and Financial Statements
For the year ended June 30, 2022

NOTES TO THE FINANCIAL STATEMENTS (Continued)

21(a). Bank and Cash Balances

	2021-2022	2020-2021
	Kshs	Kshs
Cash at bank	18,245,040	13,016,476
Total	18,245,040	13,016,476

21(b). Detailed analysis of the cash and cash equivalents

		2021-2022	2020-2021
Financial institution	Account number	KShs	KShs
a) Current account			
Equity Bank	30290276210	346,624	1,205,882
Family bank	90000010652	5,542,213	1,897,742
Family bank -others	90000022124	141	-
Sub- total		5,888,978	3,103,624
b) Savings account			
Equity Bank	30190309493	1,856,062	9,912,853
Sub- total		1,856,062	9,912,853
c) Fixed deposits account			
Equity Bank	30377379971	10,500,000	-
Grand total		18,245,040	13,016,476

Kahuti Water and Sanitation Company Ltd
Annual Reports and Financial Statements
For the year ended June 30, 2022

22. Taxation

In the years the company reported the amount to be paid as corporate tax erroneously since the company was making losses thus no taxation was accruing. The taxation reported in the draft financial statement for the year ended 30th June 2022 amounting to Kshs 425,391 was the tax the company was supposed to pay for financial year ended 30th June 2018 having adjusted for allowable and disallowable incomes and expenditure, depreciation and wear and tear. In the subsequent years the company made losses. **(See the attached extract of the return filed through I tax).** Therefore, the opening balance of kshs 3,945,648 is erroneous since the company made a loss therefor the amount accruing was still kshs 425,391.

Tax computation

	2021-2022	2020-2021
	Kshs	Kshs
Balance b/f	3,945,648	3,945,648
Prior year under/over provision	(3,520,257)	-
Provision for the year	-	-
At June 30 2022	425,391	3,945,648

23. Prior year Adjustment

An amount of Kshs 1,739,517 for Sundry creditor which was a gain upon compensation by insurance after several motorbikes had been stolen in the office compound which has remained in the books for long though that amount had been used for other operations but has been adjusted in the current year against the retained earnings

24. Revaluation Reserve

The revaluation reserve relates to the revaluation of certain items of property, plant and equipment. As indicated in the Statement of Changes in Equity, this is stated after transfer of excess depreciation net of related deferred tax to retained earnings. Revaluation surpluses are not distributable.

25. Fair Value Adjustment Reserve

The fair value adjustment reserve arises on the revaluation of available-for-sale financial assets, principally the marketable securities. When a financial asset is sold, the portion of the reserve that relates to that asset is reduced from the fair value adjustment reserve and is recognised in profit or loss. Where a financial asset is impaired, the portion of the reserve that relates to that asset is recognised in profit or loss.

Kahuti Water and Sanitation Company Ltd
Annual Reports and Financial Statements
For the year ended June 30, 2022

26. Retained Earnings

The retained earnings represent amounts available for ploughing back to the *entity's* business activities.

27. Retirement benefit Asset/ Liability

The entity operates a defined benefit scheme for all full-time employees from July 1, 2021. The scheme is administered by Laptrust Pension Scheme while the same are the custodians of the scheme. The scheme is based on 7.5 percentage of salary of an employee at the time of retirement.

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 Laptrust Pension Fund. Employees contribute 7.5% 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.

28.a) Trade and Other Payables

	2021-2022	2020-2021
	Kshs	Kshs
Trade payables	14,543,341	16,822,011
Employee payables	859,171	1,383,696
Total	15,402,512	18,205,707

Kahuti Water and Sanitation Company Ltd
Annual Reports and Financial Statements
For the year ended June 30, 2022

b).Other Payables

	2021-2022	2020-2021
	<i>Kshs</i>	<i>Kshs</i>
Suspense Receipts from Customers	144,302	112,782
Sundry Creditor	-	1,739,517
Unclaimed compensations	33,051	33,051
Internal Borrowings	5,922,865	6,827,309
Withholding Vat	229,926	229,926
Accrued wages	-	695,979
	6,330,144	9,638,564
Total Payables	21,732,656	27,844,271

29. Customer Deposits

	2021-2022	2020-2021
	<i>Kshs</i>	<i>Kshs</i>
Opening Balance	10,006,473	10,365,826
Add: deposits received during the year	2,268,964	2,152,932
Less: Refunded deposits during the year	-	(2,512,285)
Total	12,275,437	10,006,473

Kahuti Water and Sanitation Company Ltd
Annual Reports and Financial Statements
For the year ended June 30, 2022

30. Deferred Income

	2020-2021					Deferred income	2021-2022
Name	Net Value	Additions	Total cost	rate	Useful life	Amortization	Net Value
Pipeline	23,651,712	2,828,330	26,480,042	12.50%	8yrs	3,310,005	23,170,037
Water Meters	3,545,708	2,610,000	6,155,708	12.50%	8yrs	769,464	5,386,244
Vehicle	1,054,688	-	1,054,688	25%	4yrs	263,672	791,016
	28,252,108	5,438,330	33,690,438			4,343,141	29,347,297

31. Notes to the Statement of Cash Flows

	2021-2022	2020-2021
	Kshs	Kshs
(a) Reconciliation of operating profit/(loss) to cash generated from/(used in) operations		
Profit or loss before tax	11,504,478	(4,034,567)
Depreciation	14,497,196	12,424,885
Exempt income	(18,585,069)	(4,236,909)
		-
Operating profit/(loss) before working capital changes	7,416,605	4,153,409
(Increase)/decrease in inventories	(1,073,846)	(159,068)
(Increase)/decrease in trade and other receivables	(2,204,466)	528,299
Increase/(decrease) in trade and other payables	(3,842,650)	1,152,243

Kahuti Water and Sanitation Company Ltd
Annual Reports and Financial Statements
For the year ended June 30, 2022

Increase/(decrease) in retirement benefit obligations	-	-
Increase/(decrease) in provision for staff leave pay	-	-
	(7,120,962)	1,521,474
Cash generated from/(used in) operations	14,537,567	5,674,883
(b) Analysis of changes in loans		
Balance at beginning of the year	13,344,063	13,344,063.00
Receipts during the year	-	-
Repayments during the year	-	-
Repayments of previous year's accrued interest	-	-
Foreign exchange (gains)/losses	-	-
Accrued interest	-	-
Balance at end of the year	13,344,063	13,344,063
(c) Analysis of cash and cash equivalents		
Short term deposits	-	-
Cash at bank	18,245,040	13,016,476
Cash in hand	-	-
Balance at end of the year	18,245,040	13,016,476

Kahuti Water and Sanitation Company Ltd
Annual Reports and Financial Statements
For the year ended June 30, 2022

	2021-2022	2020-2021
	Kshs	Kshs
(b) Analysis of interest paid		
Interest on loans	-	-
Interest on bank overdraft	-	-
Interest on lease liabilities	-	-
Interest on loans capitalised	-	-
Balance at beginning of the year	-	-
Balance at end of the year (note 35(b))	-	-
Interest paid	-	-
(c) Analysis of dividend paid		
Balance at beginning of the year	-	-
2019 dividends paid	-	-
2020 dividends paid	-	-
2021 interim dividends paid	-	-
Balance at end of the year	-	-
Dividend paid	-	-

Kahuti Water and Sanitation Company Ltd
Annual Reports and Financial Statements
For the year ended June 30, 2022

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Other Disclosures

32.) Related Party Disclosures

Kawasco related parties include:

- i) Athi Water Works Development Agency
- ii) County Government of Murang'a
- iii) WASREB
- iv) WRA
- v) Key management
- vi) Board of directors
- vii) Tana Water Works Development Agency

Transactions with related parties

	2021-2022	2020-2021
	Kshs	Kshs
a) Sales to related parties		
Water sales to Govt. agencies	468,650	319,330
Water sales to county government agencies	3,205,964	813,430
Total	3,674,614	1,132,760
b) Payment from related parties		
Purchases of electricity from KPLC	190,290	184,227
Levies paid to WASREB	2,772,023	2,653,352
Levies paid to WRA	720,000	720,000
Levies arrears to TWWDA	1,200,000	1,200,000
Total	4,882,313	4,757,579
b) Grants from the Government		
Capital grants from Government entities(AWWDA)	1,000,000	274,716
Recurrent/operational grants from other agencies(Liquidity Support Grant-WSFT)	18,622,440	-
Capital grants from other agencies(Liquidity Support Grant-WSFT)	2,300,000	-
Capital grants amortized	4,343,141	4,236,909
In Kind contribution/donations from other agencies	-	872,736
Total	26,265,581	5,384,361
c) Expenses incurred on behalf of related party		
Payments of salaries and wages for Management employees	13,248,905	8,599,815

Kahuti Water and Sanitation Company Ltd
Annual Reports and Financial Statements
For the year ended June 30, 2022

Total	13,248,905	8,599,815
d) Key management compensation		
Directors' emoluments	2,250,168	1,013,880
Compensation to key management	-	-
Total	2,250,168	1,013,880

33). 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.

(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:

Kahuti Water and Sanitation Company Ltd
Annual Reports and Financial Statements
For the year ended June 30, 2022

	Total amount	Fully performing	Past due but not Impaired	Past due and Impaired
	Kshs	Kshs	Kshs	Kshs
At 30 June 2022				
Trade Receivables	43,578,227	12,301,143	31,277,084	-
Other Receivables	9,673,539	272,584	9,400,955	
Bank balances	18,342,040	18,342,040	-	-
Total	71,593,806	30,915,767	40,678,039	-
At 30 June 2021 (previous Year)				
Receivables	41,602,390	9,460,111	32,142,279	-
Other Receivables	9,712,303	311,348	9,400,955	-
Bank balances	13,016,476	13,016,476	-	-
Total	64,331,169	22,787,935	41,543,234	-

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

ii) Liquidity risk management

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

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

Kahuti Water and Sanitation Company Ltd
Annual Reports and Financial Statements
For the year ended June 30, 2022

	Less than 1 month	Between 1-3 months	Over 5 months	Total
	Kshs	Kshs	Kshs	Kshs
At 30 June 2022 current year				
Trade payables	2,052,679	481,440	12,009,222	14,543,341
Current portion of borrowings	-	-	5,922,865	5,922,865
Employee benefit obligation	-	499,544	359,627	859,171
Other Payables	-	-	407,279	407,279
Total	2,052,679	980,984	18,698,993	21,732,656
At 30 June 2021 previous year				
Trade payables	1,688,115	2,244,519	12,889,377	16,822,011
Current portion of borrowings	-	-	6,827,309	6,827,309
Employee benefit obligation	-	1,091,604	292,092	1,383,696
Other Payables	-	-	2,811,255	2,811,255
Total	1,688,115	3,336,123	22,820,033	27,844,271

(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.

Kahuti Water and Sanitation Company Ltd
Annual Reports and Financial Statements
For the year ended June 30, 2022

a) Foreign currency risk

The Company has transactional currency exposures. Such exposure arises through purchases of goods and services that are done in currencies other than the local currency. Invoices denominated in foreign currencies are paid after 30 days from the date of the invoice and conversion at the time of payment is done using the prevailing exchange rate.

b) 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.

i) Management of interest rate risk

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

ii) Sensitivity analysis

The Company analyses its interest rate exposure on a dynamic basis by conducting a sensitivity analysis. This involves determining the impact on profit or loss of defined rate shifts. The sensitivity analysis for interest rate risk assumes that all other variables, in particular foreign exchange rates, remain constant. The analysis has been performed on the same basis as the prior year.

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
Revaluation reserve	30,407,408	30,407,408
Retained earnings	28,937,940	12,173,687
Capital reserve	1,988,918	1,988,918
Total funds	61,334,266	44,570,013
Total borrowings	13,344,063	13,344,063
Less: cash and bank balances	(18,342,040)	(13,016,476)

Kahuti Water and Sanitation Company Ltd
Annual Reports and Financial Statements
For the year ended June 30, 2022

Net debt/(excess cash and cash equivalents)	(4,997,977)	327,587
Gearing Ratio	21.76%	29.94%

34. Incorporation

The Company is incorporated in Kenya under the Kenyan Companies Act Cap 254 and is domiciled in Kenya.

35. Events after the Reporting Period

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

36. Currency

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

Kahuti Water and Sanitation Company Ltd
Annual Reports and Financial Statements
For the year ended June 30, 2022

XIX. 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)
3.0	<p><u>Trade and Other Receivables</u> However, the company appear not to have proper debt collection policy and the accumulation of receivables might affect the long-term sustainability of the Company. Also, the management should adequately provide for bad debts.</p>	<p>The company has established a debt control office with an intention to reduce the cumulative debts over the years. We have commenced the process of aging of debtors with an ultimate goal to do a specific provision of debtors and also to further escalate to recommendation of debtors write off. Some of these debtors were inherited from the National water and Pipeline Company when they were handing over to companies. We are in the process of identifying their existence on the ground so that appropriate recommendations can be done</p>	Not Resolved	30/06/2023
4.0	<p><u>Long term Loan</u> The statement of Financial Position reflects an amount of Kshs. 13,344,063 which relates to ADB Loan. However, a review of documents availed</p>	<p>The ADB loan from a facility was advanced to Tana Water Works Development Agency (TWWDA) which was the principal at that time. After the completion of the treatment works the loan was apportioned between Muranga south water and Sanitation Company and Kahuti Water and Sanitation</p>	Not Resolved	30/06/2023

Kahuti Water and Sanitation Company Ltd
Annual Reports and Financial Statements
For the year ended June 30, 2022

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)
	for audit revealed that the Company had only repaid an amount of Kshs. 507,960 resulting to an unrepaid amount of Kshs. 13,344,063.	Company with an agreement of how to benefit from the said treatment works. As time went by it was found that the treatment work could not serve Kawasco optimally and therefore the company wrote to Tana Water for the reconsideration or redesigning of the treatment so that we can benefit fully. Tana water have not yet fully resolved the issue and we are following up with them to have them allocate the loan to the other company that is wholly utilizing the treatment works		
3.0	<u>Current Tax Liability</u> The statement of financial position as at 30 June 2021 shows a current tax of Kshs 3,945,648. This amount is tax carried forward from the prior years. Kahuti Water &	The company has been making provision for tax at the time of preparing the financial statements. The amount indicated above had not included grants advanced to assist in operations which was not included an allowable income for tax purpose. Therefore the provisions made for the years 2013/2014, 2014/2015 will change as adjusted taxable income is a loss which is recovered in 2016/2017 thus reducing the tax in the books. Since there were some amounts paid as advance payment, these reduced the tax	Resolved	Financial Statements 2021-2022

Kahuti Water and Sanitation Company Ltd
Annual Reports and Financial Statements
For the year ended June 30, 2022

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)
	Sanitation Company Limited has neither given an explanation nor a payment plan of the tax amount due	payable in 2016/2017 from ksh 398,235.68 to kshs 62,727 as payment made for the period. (See the attached) Since there the final audit reports for 2017/2018, 2018/2019 and 2019/2020 are out, filling is underway and the company is planning to pay any tax that has accrued		
4.0	<u>Non-Revenue Water</u> The UN accounted for water of 64.5 % is 38.59% above the allowable loss of 25% set by Water Services Regulatory Board (WASREB) Guidelines and is not acceptable.	Several intervention measures have been putting place to reduce NRW	Not resolved	Continuous Process
5.0	Water Tariffs Used to Bill Customers	We have done several reminders to the County Government of Muranga to give us a go ahead so that wasreb would approve our tarrifs. We have also sought for a sitting with the County Executive Committee Member for water to raise the issues in an attempt to	Not resolved	30/06/2023

Kahuti Water and Sanitation Company Ltd
Annual Reports and Financial Statements
For the year ended June 30, 2022

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)
		convince them get the necessary letter of no objection		
6.0	Staff Ethnic Diversity	As a company we are committed to ensuring that the balance is achieved. We will strive in all our recruitment to ensure that we strive to achieve this. We will continue following up on subsequent recruitment to make our job openings reach everybody. “The company remain an equal opportunity employer without any biasness	Not resolved	Continuous Process
1.0	<u>Fire Extinguishers:</u> An audit verification revealed that firefighting equipment and facilities were not properly and adequately maintained. The fire extinguishers were also not serviced. The management is	The company has taken the security control measure to service all the fire extinguishers regularly to ensure they remained operational in case of an eventuality. A committee on Occupation safety and health has been constituted that will deal with this issue among others	Resolved	Resolved

Kahuti Water and Sanitation Company Ltd
Annual Reports and Financial Statements
For the year ended June 30, 2022

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)
	expected to safeguard company assets and put them into proper use.			
2.0	<p><u>Disaster Recovery Plan</u> During the audit, it was noted that the company has no approved IT continuity plan and disaster recovery plan and therefore in the event of disaster the company may lose data and could not be able to recover from the disaster. Further, the company does not have an IT steering and risk management committee. In the circumstances, it could not be ascertained how the company would achieve its IT strategic objectives.</p>	The company is in the process of coming up with an IT policy which will document all the procedures and plans there is to protect data .The IT policy is at draft stages awaiting approval	Not resolved	30/06/2023

Kahuti Water and Sanitation Company Ltd
Annual Reports and Financial Statements
For the year ended June 30, 2022

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)

Signature: 

Date: 27/09/2022

Name: Eng. E. Kamau
Managing Director