

Scanned

REPUBLIC OF KENYA

PARLIAMENT
OF KENYA
LIBRARY



OAG



OFFICE OF THE AUDITOR-GENERAL

Enhancing Accountability

REPORT

PARLIAMENT
OF KENYA
LIBRARY

OF

THE AUDITOR-GENERAL

ON

PAPERS LAID	
DATE	19/10/2022.
TABLED BY	SEN MAJORITY WHIP
COMMITTEE	_____
CLERK AT THE TABLE	A. MACHARIA.

**KAHUTI WATER AND SANITATION
COMPANY LIMITED**

**FOR THE YEAR ENDED
30 JUNE, 2021**





**International Financial Reporting Standards (IFRS)
Annual Financial Reporting Template for
Commercial Government Owned Entities**

**KENYA CORPORATION
KAHUTI WATER AND SANITATION COMPANY LTD
ANNUAL REPORTS AND FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED
JUNE 30, 2021**

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

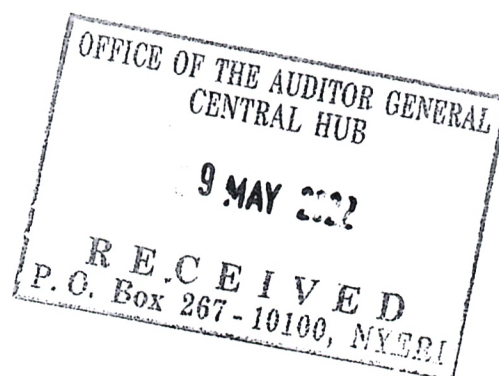


Table of Contents

Contents

KEY ENTITY INFORMATION.....	3
THE BOARD OF DIRECTORS	5
MANAGEMENT TEAM.....	6
CHAIRMAN’S STATEMENT	8
REPORT OF THE CHIEF EXECUTIVE OFFICER.....	10
STATEMENT OF PERFORMANCE AGAINST PREDETERMINED OBJECTIVES FOR FY 2020/2021	12
CORPORATE GOVERNANCE STATEMENT	13
MANAGEMENT DISCUSSION AND ANALYSIS.....	15
ENVIRONMENTAL AND SUSTAINABILITY REPORTING.....	18
REPORT OF THE DIRECTORS	21
STATEMENT OF DIRECTORS’ RESPONSIBILITIES	22
REPORT OF THE INDEPENDENT AUDITORS ON THE ENTITY (specify entity name).....	23
STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 30 JUNE 2021.	24
STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2021.....	25
STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 JUNE 2021	26
STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2021	27
STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS FOR THE PERIOD ENDED 30 JUNE 2021.....	28
NOTES TO THE FINANCIAL STATEMENTS	32
APPENDICES	65
APPENDIX 1: PROGRESS ON FOLLOW UP OF AUDITOR RECOMMENDATIONS	65
APPENDIX II: PROJECTS IMPLEMENTED BY THE ENTITY	71

KEY ENTITY INFORMATION

Background information

Kahuti Water and Sanitation Company was established by the Companies Act of Parliament on 10th April 2006. At cabinet level, the entity is represented by the Cabinet Secretary for Environment, Water & Natural Resources, who is responsible for the general policy and strategic direction of the entity.

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

1. Mrs. Frasih Wanjiku Kamau - Chairperson
2. Mrs. Margaret Mworira
3. Mr. Stephen Kamau
4. Mrs. Martha W. Wanguku
5. Mr. Erastus Thuku Nyingi

Corporate Secretary

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

Corporate Headquarters/Registered Office

Kahuti Water Building
Off Kangema-Kanorero Road

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
Private Bag
Kangema.





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

THE BOARD OF DIRECTORS

<p>1.</p>  <p>Frasah W. Kamau – Chair Person</p>	<ul style="list-style-type: none"> - Bachelor of Education(Arts) - Works as a teacher - Representing Education institution - Born -1965
<p>2.</p>  <p>Margaret Mworira – Board Member</p>	<ul style="list-style-type: none"> - University graduate-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 - 1948
<p>5.</p>	<ul style="list-style-type: none"> -Diploma in School of Management -P1 Teacher training -Head Teacher -Representing professional bodies -Born -1956



Mr. Stephen M. Kamau – Board Member

MANAGEMENT TEAM

1.



BSC –Civil Engineering

Eng. Ephantus Kamau – General Manager





2.



BSC-Water & Environmental Engineering

J.K. Kiarie – Technical Manager

Kenya Corporation Kahuti Water & Sanitation Company Ltd
Annual Reports and Financial Statements
For the year ended June 30, 2021

3.  Master's in Business Administration(MBA)	Titus M. Mukunda – Commercial Manager
4.  B.Com- HR Option	Ceciliah Nthigah – HR/A Officer
5.  Bachelor of Business Administration- (BBA)	Josephat Macharia– Internal Auditor
6  Richard Gikuhi Kiana	Company Secretary

CHAIRMAN'S STATEMENT

I am pleased to present the company's annual report and financial statements for the years ended 30th June 2021

The company has continued to grow upward by carrying out its strategies focusing on its customer service delivery objectives. In doing this, the company continues to be guided by our vision, mission, values and strategic objectives.

Some of the positive indicators on this include increased number of active customers, extension of services to some hitherto un-served areas and the gradual decrease of non-revenue water.

The extension of services has been achieved through internal funding and assistance from the National Government. We've for example received assistance worth over ksh 45million under the Murang'a Community Water project for the boosting of some of the distribution lines within our area of jurisdiction. This is part of the National Government's Corporate Social Responsibility package for the Northern Collector Tunnel project. Once completed, this is going to improve our service greatly. The project is still on-going and is being implemented by Athi Water Services Board.

In order to reduce water losses, the company is now using the HDPE pipes for the new lines. These are more durable, and less prone to bursts. If resources allow, we intend to sustain this approach.

We've also submitted a number of proposals to the National Government for various distribution lines, including Mukarara-Kiamara-Nyakahura, Kawariua -Githiga-Gatang'ara among others. Let me also state that we've submitted proposals worth over ksh 500 million to the County Government, and we look forward to a positive response.

Over the years, we've also expanded our scope on Corporate Social Responsibility. In partnership with the Murang'a County Initiative, we've admitted a number of interns to join the company as they await their admission to university. This is in addition to the attachees that we engage regularly from the various institutions. We've also installed some water catchment facilities (gutters and tanks) to some needy families. We promise to continue and enhance our Corporate Social Responsibility as a way of being part of the community.

Let me also point out that recently, we've been experiencing some challenges. The major one has been brought by the misunderstandings by various parties on the approach and extent of devolution of the Water Sector within the County. This led to the imposition of irregular tariffs by the County Government, which greatly affected our revenue and hence our service delivery. Some matters are in court and we may not discuss them in more details here. Adverse weather,

Kenya Corporation Kahuti Water & Sanitation Company Ltd
Annual Reports and Financial Statements
For the year ended June 30, 2021


characterised by long dry periods followed by extremely heavy rains is also a challenge that we've to contend with.

Looking forward however, the future is bright. The National Government is supportive and there's hope that the many proposals we've submitted will bear fruits.

I take this opportunity to assure our stakeholders of the continued commitment towards availing clean & affordable water to all the residents within our area of jurisdiction in an efficient manner. And 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 extend my sincere thanks to 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 Services Board, and the National Government. My sincere thanks to them.

The management and staff of the company have worked tirelessly to achieve the said progress. I sincerely thank them. To you our stakeholders, your continued support is highly appreciated. God bless you all. Thank you.

for FRASIAH W. KAMAU  DATE 29/4/22

REPORT OF THE CHIEF EXECUTIVE OFFICER

I wish to comment about the company's performance for the financial year ending 30th June 2021.

Key indicators

In regard to other sector performance parameters, the company fairs as follows:

i. **Non-Revenue Water (NRW):**

This is the water that has been produced at abstraction but is not billed. At incorporation of the company in 2006, the NRW status was not known. The company took measures to establish the same and found it was about 89%. At the close of 19-20 the NRW was at 66.6% while currently, it is 63.5%. This is a drop of around 3%. This is a progressive decline and we hope to reduce further. To achieve this, we've adopted use of HDPE pipes instead of the PVC, as the former is less prone to damage.

ii. **Service Coverage:**

This is the number of customers served as a percentage of the total population within our service area. There has been significant growth over the years, as during the incorporation of the company, the number of active connections was hardly 3,000, which is about 12% while currently we are at .At the close of financial year 2019-2020 we had 11,756 active accounts and as we closed yr. 2020-21 active connections had grown to 13,070 connection. This is an increase of 1,314 accounts

On this, we've a long way to go to achieve the sector bench mark of 80%, but with the continued assistance from the National Government as indicated here below, we believe it is achievable.

iii. **Operations & Maintenance coverage:**

This is the extent to which internally generated funds cover the cost running the company. It is a measure of the company's financial sustainability. The recommended sector benchmark is 150%, although anything above 106% is considered safe. The company has maintained an operation & maintenance cost coverage of above 100% over the years.

iv. **Collection efficiency:**

This is the ratio of amount collected to amount billed. Sector benchmark is that collection efficiency must be above 95%. The company has maintained a collection efficiency of 101%.

Kenya Corporation Kahuti Water & Sanitation Company Ltd
Annual Reports and Financial Statements
For the year ended June 30, 2021

v. Drinking Water Quality:

I am happy to report that all our drinking water quality tests have passed. This means that our water is well treated and safe to drink. This is also verified by low number of water borne diseases in our service area.

vi. On-going developments

With the assistance of the National Government, the company has initiated a number of development projects as follows:

- i. **Murang'a Community Water project:** This is on-going and estimated at ksh 45 million. It involves laying HDPE pipes in various lines in all the five wards to boost service. The project is being implemented through Athi Water Services Board as part of the Corporate Social Responsibility for the Northern Collector Tunnel. It is at 79% completion level.
- ii. The over-haul of phase II line is on-going. There has been replacement of the PVC pipes with HDPE and also increasing the diameter to boost supply. This will not only reduce the cost of maintenance, it will also improve services in Mugoiri area. The contractor is on site and the work is at 80% completion.

ENG. E. KAMAU.....



Date:.....

29th APRIL 2022

STATEMENT OF PERFORMANCE AGAINST PREDETERMINED OBJECTIVES FOR FY 2020/2021

According to water sector regulatory board the performance of the company 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 2019-20	KAWASCO 2020-21	
Key Performance Indicators							
1.	Water coverage-%	>90%	80 – 90%	< 80%	56%	58%	
2.	Drinking Water Quality	>95%	90 – 95%	< 90%	98%	100%	
3.	Hours of Supply	Population > 100,000	21 - 24	16-20	< 16	21hrs	18hrs
		Population < 100,000	17 - 24	12-16	< 12	n/a	n/a
4.	Personnel Expenditure as % of O&M costs	Very and large large	< 20%	20 – 30%	> 30%	48%	52%
		Medium WSPs	< 30%	30 – 40%	> 40%	n/a	n/a
		Small WSPs	< 40%	40 – 45%	> 45%	n/a	n/a
5.	O&M Cost Coverage	≥ 150%	100-149%	≤ 99%	109%	106%	
6.	Revenue Collection Efficiency	> 95%	95-85%	<85%	89%	102%	
7.	Non-Revenue Water	< 20%	20-25%	>25%	65%	63%	
8.	Staff Productivity - Staff per 1,000 connections	Very and large large	< 5	5-8	> 8	6	6
		Medium WSPs	< 7	7-11	> 11	n/a	n/a
		Small WSPs	< 9	9-14	> 14	n/a	n/a
9	Metering ratio	100%	95 - 99%	< 95%	90%	91%	

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 2002, Service Provision Agreement granted by Tana Water Services Board 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 effect utilization of resources. It also approves capital investment and ensures they meet technical standards and are well maintained and deals with general finance matters of the company.

- 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 to terms however, came into effect in January 2014. The directors, upon election, do sign a code of ethics and are taken for induction training. Further, all directors are required to sign a "declaration of interest" book during each meeting

Kenya Corporation Kahuti Water & Sanitation Company Ltd
Annual Reports and Financial Statements
For the year ended June 30, 2021

The board meeting for the year were held as below

Name of member	2/7/2020	2/10/2020	18/12/2020	9/4/2021	19/4/2021	26/4/2021	29/6/2021
Frasiah W. Kamau	✓	✓	✓	✓	✓	✓	✓
Stephen M.Kamau	✓	✓	✓	✓	✓	✓	✓
Margaret W. Mworia	✓	✓	✓	✓	✓	✓	✓
Martha W. Wanguku	✓	✓	✓	✓	✓	✓	✓
Erastus N.Thuku	✓	✓	✓	✓	✓	✓	✓
CEC- Finance	✓	X	X	✓	✓	X	✓
CEC - Water	X	X	✓	✓	✓	X	✓

Administration, Finance & Technical Committee

Name of member	18/09/2020	04/12/2020	8/3/2021
Stephen M.Kamau	✓	✓	✓
Martha W. Wanguku	✓	✓	✓
Frasiah W. Kamau	✓	✓	✓
CEC - Water	✓	X	X

Audit Committee

Name of member	13/08/2020	20/11/2020	17/2/2021	9/7/2021
Erastus N. Thuku	✓	✓	✓	✓
Martha W.Mworia	✓	✓	✓	✓
CEC -finance	✓	X	X	✓

By order of the Board
For and on its behalf

fw MRS. FRASHIAH W. KAMAU

H. Sini

DATE 29/4/22

CHAIRPERSON KAHUTI WATER & SANITATION COMPANY

Eng. E. KAMAU

[Signature]

DATE 29th APRIL 2022

GENERAL MANAGER KAHUTI WATER & SANITATION COMPANY

Kenya Corporation Kahuti Water & Sanitation Company Ltd
Annual Reports and Financial Statements
For the year ended June 30, 2021

MANAGEMENT DISCUSSION AND ANALYSIS

The financial year 2020/2021 was going on well as far as major company objectives were concerned despite the dire effects of Covid 19 since March 2020. This has really affected our financial year in all aspects of our operations which in return affected our overall performance during the year. The company had lined up several projects 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 Community Water Project	Sep-19	97%	97%	40%	10%	0%	60%	80%	Contractor deserted site before completion of his work
Kahuti Community water Project	Sep-20	100%	100%	90%	100%	100%	0%	95%	Contractor deserted site immediately after handover; some activities were left undone
Rwathia-Kagaa mainline (under Kiambu-Ruaka Sewerage project)	Jul-20	90%	90%	0%	0%	0%	0%	70%	Works progressing well
Gatango community water project	Jun-21	85%	85%	30%	45%	30%	20%	75%	Works progressing well
Murang'a Augmentation community water project	Jun-21	80%	80%	10%	0%	10%	10%		
Kiruri Ichichi water project	Dec-20	95%	95%	90%	60%	80%	0%	90%	The intake was fully constructed and its functional awaiting commissioning

Kenya Corporation Kahuti Water & Sanitation Company Ltd
Annual Reports and Financial Statements
For the year ended June 30, 2021

FINANCIAL PERFORMANCE

The year progressed well despite Covid 19 effects which have been very detrimental to our financial position. However we were able to remain a going concern being able to meet our core activities which helped us in mitigating the effects of the pandemic. We were able to continuously supply treated water to all our customers and also free water points as per the GOK directives in all the bus station and the marketed.

We experienced a major 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 so we gave our customers some amnesty so that we could navigate through the situations.

Billing compared to our collection for the years were as follows

MONTH	TOTAL Billings	TOTAL Collections
Jul-20	4,947,927	5,302,917
Aug-20	5,329,735	5,558,289
Sep-20	6,729,589	5,155,689
Oct-20	6,021,255	5,843,074
Nov-20	5,459,782	5,547,325
Dec-20	5,553,605	5,185,526
Jan-21	5,158,932	5,445,842
Feb-21	5,576,329	5,051,853
Mar-21	5,863,685	5,627,841
Apr-21	5,606,050	6,035,371
May-21	3,438,730	5,155,517
Jun-21	4,425,162	4,657,470
TOTAL	64,110,781	64,566,714

Our collection efficiency for the year was 101% against the regulators benchmark of 95%

CHALLENGES

- Covid 19 still and continues to be a main challenge in our operations. We are keenly monitoring the situation so that we can continue executing our core mandate
- Continued non-payment of county government owned hospitals and other establishments which have accumulated debts of approximately 2million
- We anticipate 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

Way forward

Kenya Corporation Kahuti Water & Sanitation Company Ltd
Annual Reports and Financial Statements
For the year ended June 30, 2021

- We have started major 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 persuade them 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 part payment arrangement mode. 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.
- Continue monitoring the situation with an aim to adjust our expenditures accordingly to remain afloat with the absence of our main consumers that is the schools and other institutions which are major consumers of our water

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

STRENGTH	<ol style="list-style-type: none"> 1. Good organizational structure 2. Competent staff 3. Adequate water production 4. Staff good working relationship 5. Gravitational water system 6. Increased automation 7. A going concern 8. Credit worthiness 9. High revenue collection efficiency 	OPPORTUNITIES	<ol style="list-style-type: none"> 1. Wide coverage area 2. Adequate water at the sources 3. Favourable terrain for gravitational supply 4. Improved road network 5. Availability of financiers 6. Availability of technology 7. Improving Economic status of the society 8. Potential for introduction of sewer services 9. Continuously rehabilitated infrastructure
WEAKNESSES	<ol style="list-style-type: none"> 1. Aging infrastructure 2. Inadequate office space 3. Inadequate transport 4. Low revenue generation 5. Inadequately motivated staff 6. High NRW level 7. High level of debtors 8. Inadequate working tools 	THREATS	<ol style="list-style-type: none"> 1. Political interference 2. Pandemics 3. Poor terrain 4. Competition 5. Degradation of catchment areas 6. Unpredictable weather patterns 7. Vandalism of water infrastructure 8. Declining population numbers

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 always above 100%, meaning that we are able to meet the operations and maintenance needs without seeking external subsidies, save for the 1st year of covid -19 when we had to re-adjust our budget. Other challenges to our sustainability include damage of pipelines during road construction, which we try to mitigate by engaging the road agencies.

ii) 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.

iii) Employee welfare

Regarding employee welfare, the company has clear policies guiding the hiring 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 paper. 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 is in the process of implementation. 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 trainings of its staff training. 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 standalone policy.

iv) Market place practices-

The organisation should 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 are also capitalising 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, we have no competitor 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 have a specific time of the month when we make payments to the various suppliers. The company honours all contracts and pay them accordingly.

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. Customers also complain through sms and we've recently installed an ERP computer package 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.

v).Corporate Social Responsibility / Community Engagements

We are cognisant of the fact that we belong to the wider community and cannot be blind to the needs and challenges within it. It is the policy of the company therefore to always give back to the society in accordance with our ability. In the past, we've engaged in various CSR activities like donating food and detergents to Kombi Children's home, planting trees (in partnership with banks and education institutes). We also regularly engage attaches from the various Institutes within our locality to gain on the job experience.

Currently we've admitted five (5) interns who are waiting to join university. These were sourced from among those who were supported by the Murang'a County Initiative for their secondary school education, and are thus from needy family. We've also been installing tanks and gutters for rain harvesting for the needy cases.

Challenges

- i. **Unsustainable water tariffs:** as noted above, the tariff imposed by the County Government has made the company not achieve full operation and maintenance cost for the first time. It is also affecting our service delivery as we've to scale down some of our activities e.g. we've reduced standby staff on weekends.
- ii. **Unfavourable political environment:** this is occasioned by misunderstandings by various parties on devolution of the water sector within the County. It has continued to have adverse effect on service delivery.
- iii. **Aging infrastructure** contributes to water loss and hence high NRW.
- iv. **Pipe damage** by road contractors contracted by the County Government and KERRA. A lot of pipes have been damaged and no compensation has been forth coming despite our appeals. The damage so far is estimated to be over ksh +50 million.

I believe with your continued support, we will be able to overcome the above challenges. I take this opportunity to thank all those who've contributed in making the year a success for the company. They include the management of Kawasco, the Board of Directors and our customers and stakeholders. To you all, your valuable support is highly appreciated.

REPORT OF THE DIRECTORS

The Directors submit their report together with the audited financial statements for the year ended June 30, 2021 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, 2021 are set out on page 2.

Directors

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

Auditors

The Auditor General is responsible for the statutory audit of the entity in accordance with the Public Finance Management (PFM) Act, 2012, which empowers the Auditor General to nominate other auditors to carry out the audit on his behalf.

By Order of the Board

Corporate Secretary

Nairobi

Date:

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, 2021 This responsibility includes: (i) maintaining adequate financial management arrangements and ensuring that these continue to be effective throughout the reporting period; (ii) maintaining proper accounting records, which disclose with reasonable accuracy at any time the financial position of the entity; (iii) designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of the financial statements, and ensuring that they are free from material misstatements, whether due to error or fraud; (iv) safeguarding the assets of the entity; (v) selecting and applying appropriate accounting policies; and (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, 2021, 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 29th APRIL 2022 and signed on its behalf by:

Signature 
Name Ephraim Kamau
Chairperson of the Board/Council

Signature 
Name EPHRAIM KAMAU
Accounting officer

REPUBLIC OF KENYA

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



OFFICE OF THE AUDITOR-GENERAL

Enhancing Accountability

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, 2021

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 24 to 70, which are comprised of the statement of

Report of the Auditor-General on Kahuti Water and Sanitation Company Limited for the year ended 30 June, 2021

financial position as at 30 June, 2021, and the statement of profit or loss and other comprehensive income, statement of changes in equity, statement of cash flow 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, 2021, 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, Companies Act, 2015 and the Public Finance Management Act, 2012.

Basis for Qualified Opinion

1.0 Unexplained Variances in the Financial Statements

The financial statements reflect unexpected variances between identical account balances, as explained in the following paragraphs:

1.1 Revenue

The statement of profit or loss and other comprehensive income reflects revenues totalling Kshs.66,079,809 as further disclosed in Note 6 to the financial statements. However, the statement of comparison of budget and actual amounts reflects Kshs.67,436,331 as the total actual income for the year under review resulting to an unexplained variance of Kshs.1,356,522.

1.2 Expenditure

The statement of profit or loss and other comprehensive income for the year ended 30 June, 2021 reflects expenditure totalling Kshs.71,553,566. However, the statements of budget and actual amounts reflects expenditures totalling Kshs.63,159,467 resulting to an unexplained variance of Kshs.8,394,099.

1.3 Administrative Costs

The statement of profit or loss and other comprehensive income reflects administrative costs totalling Kshs.17,144,155 whereas Note 12 to the financial statements reflects Kshs.17,114,155 in respect of the item resulting to an unexplained variance of Kshs.30,000.

1.4 Cash Generated from Operating Activities

The statement of cash flows reflects Kshs.5,674,883 in respect of cash generated from / operating activities. However, Note 23 to the financial statements reflects Kshs.9,911,792

in respect to the item resulting to a variance of Kshs.4,236,909 which has not been explained.

In view of these discrepancies validity, accuracy and completeness of the revenues and expenditures and the administrative costs and cash generated from operations could not be confirmed.

2.0 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. 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.

As a result, the disclosures made on the loan in the financial statements may not be accurate and complete.

Emphasis of Matter

1.0 Deteriorating Financial Performance

The statement of profit and loss and other comprehensive income reflects an operating loss totalling Kshs.4,034,567 for the year under review against a loss of Kshs.2,167,473 reported in the previous year.

The loss for the year under review decreased the revenue reserves of the Company from Kshs.16,208,255 as at 30 June, 2020 to Kshs.12,173,687 as at 30 June, 2021 indicating that the financial position of the Company continued to be unfavourable.

Any further delay in improving the financial performance of the Company to reverse the loss-making trend is likely to impair the Company's ability to fulfill its mandate and sustain its operations.

2.0 Excessive Personnel Costs

The statement of profit or loss and other comprehensive income reflects staff costs totalling Kshs.34,342,316 as further disclosed in Note 11 to the financial statements. However, Clause 7(k) of the Interim Licence for the provision of water services issued to the Company by the Water Services Regulatory Board (WASREB) in December, 2020 provides that the Company's staff expenses shall not exceed 30% of its operations and maintenance costs. Therefore, staff expenses for the year under review should have amounted to Kshs.21,466,070 or less being 30% of operations and maintenance costs totalling Kshs.71,553,566 incurred by the Company in the year.

As a result, the expenditure exceeded the authorized threshold by Kshs.12,876,246 or 60% and may have denoted inefficient and ineffective use of public funds by the Company.

In the circumstances, Management may have to reduce the staff costs to secure the Company's profitability.

My opinion is not qualified in regard to these matters.

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

1.0 Budgetary Control and Performance

The statement of comparative budget and actual amounts reflects final expenditure budget and actual on comparable basis totalling Kshs.68,426,149 and Kshs.72,324,813 respectively resulting to over-expenditure of Kshs.3,916,664 or 6% of the budget. No records were provided for audit to confirm approval of the over-expenditure by the Board as required by Section 31(e) of the Public Finance Management (County Governments) Regulations, 2015.

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

2.0 Prior Year Issues

In the audit report of the previous year, several matters were raised under the Report on Financial Statements and Report on Lawfulness and Effectiveness in Use of Public Resources. 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, 2021. 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 Key Entity Information, Chairman's statement, Report of the Chief Executive Officer, 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 Unpaid Current Tax Liability

The statement of financial position as at 30 June, 2021 reflects current tax liability of Kshs.3,945,648 being unpaid tax carried forward from the prior year. The liability implies that the Company did not meet its tax payment obligations contrary to Section 92A(1) of the Income Tax Act Cap_470 which provides that where any person is required to furnish a return under Section 52B, the tax chargeable shall be due and payable on the last day of the fourth month following the end of the year of income or accounting period.

In the circumstances, the Company may have to pay interest and penalties on the accrued taxes which would denote imprudent use of public resources.

2.0 Excessive Non-Revenue Water

Water production records indicated that the Company produced 3,335,937 cubic metres (M³) of water in the year under review, out of which 1,214,494 M³ were billed to customers and the difference totalling 2,121,443 M³ or 63.59% of production reported as Non-Revenue Water(NRW).The NRW was 39 percentage points above the allowable loss of 25% set in guidelines issued by the Water Services Regulatory Board (WASREB) and had a potential sales value of Kshs.111,632,244 at the Company's unit price of Kshs.52.62.

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

3.0 Lack of Ethnic Diversity in Staff Establishment

As similarly, reported in the previous year, out of the Company's seventy-four (74) employees in the year under review sixty-four (64) or 86% 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 all public establishments to represent the diversity of the people of Kenya in the employment of staff.

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

4.0 Low Recovery of Receivables

Records on debtors indicated that trade and other receivables totalled Kshs.51,314,693 as at 30 June, 2021. The balance was 99% of the receivables totalling Kshs.51,842,992 as at as at 30 June, 2020. Most of the debts were long overdue for payments by the Company's customers. The low debt collection rate suggested that Management had not established effective debt collection mechanisms. Further review indicated that the Company did not have a policy on providing for bad and doubtful debts.

Accumulation of large amounts of receivables hampers cash flows for operations and investment and may hamper the Company from carrying out its operations in a profitable and sustainable way.

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

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

Basis for Conclusion

1.0. Inadequate Maintenance of Fire-Fighting Equipment

Paragraph 8.19 of the Human Resources and Administration Manual provides that Kahuti Water and Sanitation Company Limited provides a safe and healthy place of work.

Report of the Auditor-General on Kahuti Water and Sanitation Company Limited for the year ended 30 June, 2021

However, the audit revealed that fire-fighting equipment and facilities were not regularly serviced to keep them in good working condition.

In the absence of properly serviced equipment the Company may not adequately respond to fire outbreaks.

2.0. Lack of Disaster Recovery Plan

Audit review of the Company's operational systems indicated that there was no disaster recovery plan for its Information telecommunication technology function. Further, the Company did not have an IT Steering and Risk Management Committee.

In the circumstance, security of the Company's data and possibility of recovery of its operations on occurrence of disruptive events was low.

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 Kahuti Water and Sanitation 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.

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 the entity monitors compliance with relevant legislative and regulatory requirements, ensuring that effective processes and systems are in place to address key roles and responsibilities in relation to governance and risk management, and ensuring the adequacy and effectiveness of the control environment.

Auditor-General's Responsibilities for the Audit

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

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

Further, in planning and performing the audit of the financial statements and audit of compliance, I consider internal control in order to give an assurance on the effectiveness of internal controls, risk management and governance processes and systems in accordance with the provisions of Section 7(1)(a) of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution. My consideration of the internal control would not necessarily disclose all matters in the internal control that might be material weaknesses under the ISSAIs. A material weakness is a condition in

Kenya Corporation Kahuti Water & Sanitation Company Ltd
Annual Reports and Financial Statements
For the year ended June 30, 2021

STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2021

	Note	<u>2020/2021</u>	<u>2019/2020</u>
Non-current assets			
Property, plant and equipment	17	75,973,715	55,085,512
Total Non-Current Assets		<u>75,973,715</u>	<u>55,085,512</u>
Current assets			
Inventories	19	1,170,275	1,011,207
Trade and other receivables	20	51,314,693	51,842,992
Cash at bank and in hand	21	13,016,476	15,783,864
		<u>65,501,444</u>	<u>68,638,063</u>
Total Assets		<u>141,475,159</u>	<u>123,723,575</u>
EQUITY			
Capital fund		13,512,583	13,512,583
Capital Reserves		1,988,918	1,988,918
Retained earnings		12,173,687	16,208,255
Revaluation Reserve		30,407,408	12,857,835
Capital and Reserves		<u>58,082,596</u>	<u>44,567,591</u>
Non-Current Liabilities			
ADB Loan		13,344,063	13,344,063
Grant Deferred Income		24,015,200	21,304,519
Total Non-Current Liabilities		<u>37,359,263</u>	<u>34,648,582</u>
Current liabilities			
Trade and other payables	22	37,850,744	36,698,500
Current tax		3,945,648	3,945,648
Grant Deferred income		4,236,908	3,863,253
Total Current Liabilities		<u>46,033,300</u>	<u>44,507,401</u>
Total Equity and Liabilities		<u>141,475,159</u>	<u>123,723,574</u>

The financial statements were approved by the Board on 29th APRIL 2022 and signed on its behalf by:

Director General/C.E. O/M. D Head of Finance Name: T. M. MUKWA Chairman of the Board
Name: EPHAN TUS KAMAU Signature: [Signature] Name: Freshah K.
Signature: [Signature] ICPAK M/NO: 10227 Signature: [Signature]

Kenya Corporation *(Indicate actual name of the entity)*

Annual Reports and Financial Statements

For the year ended June 30, 2021

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 30 JUNE 2021.

	Note	<u>2020/2021</u> Shs	<u>2019/2020</u> Shs
Revenue	6	66,079,809	66,802,787
Cost of Sales	7	<u>5,787,523</u>	<u>13,934,550</u>
Gross profit		60,292,286	52,868,237
Other income	9	7,226,713	7,949,037
Gross Income		<u><u>67,518,999</u></u>	<u><u>60,817,274</u></u>
Repair & Maintenance Expenses	10	4,438,951	3,318,688
Staff Costs	11	34,342,316	31,225,706
Administrative expenses	12	17,114,155	15,962,913
Legal & Professional Fees	13	2,219,379	608,300
Directors Expenses	14	1,013,880	1,303,938
Depreciation on property, plant and equipment	15	12,424,885	10,565,202
Total Expenditure		<u><u>71,553,566</u></u>	<u><u>62,984,747</u></u>
Profit /Loss before tax expense		<u><u>(4,034,567)</u></u>	<u><u>(2,167,473)</u></u>

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 or to sustain its services. If I conclude that a material uncertainty exists, I am required to draw attention in the auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my audit report. However, future events or conditions may cause the Company to cease to continue as a going concern or to sustain its services.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information and business activities of the 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

15 July, 2022

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 JUNE 2021

	Capital	Capital	Revaluation	Revenue	
	Reserves	funds	Reserve	Reserves	Total
	Kshs	Kshs	Kshs	Kshs	Kshs
At 1st July 2019					
As restated	1,988,918	13,512,583	12,857,835	18,375,728	46,735,064
Changes in equity in 2019					
Profit/(loss) for the year					
Revaluation of assets				(2,167,473)	(2,167,473)
At 30th June 2020					
	<u>1,988,918</u>	<u>13,512,583</u>	<u>12,857,835</u>	<u>16,208,255</u>	<u>44,567,591</u>
	Capital	Capital	Revaluation	Revenue	
	Reserves	funds	Reserve	Reserves	Total
	Kshs	Kshs	Kshs	Kshs	Kshs
At 1st July 2020	1,988,918	13,512,583	12,857,835	16,208,255	44,567,591
As restated					
Changes in equity in 2019					
Profit/(loss) for the year				(4,034,567)	(4,034,567)
Revaluation of assets			17,549,573		17,549,573
At 30th June 2020	<u>1,988,918</u>	<u>13,512,583</u>	<u>30,407,408</u>	<u>12,173,687</u>	<u>58,082,596</u>

Kenya Corporation (Indicate actual name of the entity)
Annual Reports and Financial Statements
For the year ended June 30, 2021

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2021

	Note	<u>2020/2021</u> Kshs	<u>2019/2020</u> Kshs
Cash flows from operating activities			
Receipt from trade debtors		69,597,912	65,950,497
Payment to suppliers		(28,566,835)	(29,679,934)
Payment to Employees		(35,356,196)	(32,529,644)
Income tax paid		-	(82,727)
Net cash generated from/(used in) operating activities		<u>5,674,881</u>	<u>3,658,192</u>
Cash flows from investing activities			
Purchase of property, plant and equipment		(8,442,269)	(2,226,516)
Net cash generated from/(used in) investing activities		<u>(8,442,269)</u>	<u>(2,226,516)</u>
Cash flows from financing activities			
Repayments of long-term borrowings		-	-
Interest on loans		-	-
Net cash generated from/(used in) financing activities		<u>-</u>	<u>-</u>
Net increase in cash and cash equivalents	-	(2,767,388)	1,431,676
Cash and cash equivalents at 1st July		<u>15,783,866</u>	<u>14,352,188</u>
Cash and cash equivalents at 30th June		<u>13,016,476</u>	<u>15,783,864</u>

Kenya Corporation Kahuti Water & Sanitation Company Ltd
Annual Reports and Financial Statements
For the year ended June 30, 2021

STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS FOR THE
PERIOD ENDED 30 JUNE 2021

	Budget	Adjustment	Final Budget	Actuals 2020-2021	Variance	% Variance
Income						
1100020 · Connection fees	1,376,043	-	1,376,043	1,639,530	263,487	19%
1100030 · Reconnection fees	401,918	-	401,918	329,498	-72,420	-18%
1100050 · Water sales	58,416,170	-	58,416,170	64,110,781	5,694,611	10%
Total collection	60,194,131	-	60,194,131	66,079,809	5,885,678	10%
1200025 · Other Income	528,000	-	528,000	1,318,743	790,743	150%
Total Income	60,722,131		60,722,131	67,398,552	6,676,421	11%
Expense						
2100020 · Chemicals	1,080,000	120,000	1,200,000	926,350	273,650	23%
2100030 · Repair & Maintenance-Materials&Labour	4,269,400	2,300,000	6,569,400	7,383,807	(814,407)	-12%
3100000 · Advertising and Promotion	510,000	225,000	735,000	757,788	(22,788)	-3%
3100011 · Vehicle running expenses	2,820,000	-	2,820,000	3,196,621	(376,621)	-13%
3100012 · Vehicle/Bikes repairs & Maintenance	570,000	-	570,000	812,939	(242,939)	-43%
3100020 · Bank Service Charges	120,000	-	120,000	105,820	14,180	12%
3100030 · Staff Training	480,000	-	480,000	666,538	(186,538)	-39%
3100050 · Subscriptions	160,000	-	160,000	217,830	(57,830)	-36%
3100060 · Insurance Expense	350,000	-	350,000	322,973	27,027	8%
3100080 · General Expense	120,000	-	120,000	68,444	51,556	43%
3100090 · Postage and Telephone	540,000	-	540,000	661,909	(121,909)	-23%
3200000 · Printing and stationeries	300,000	-	300,000	365,150	(65,150)	-22%

Kenya Corporation Kahuti Water & Sanitation Company Ltd
Annual Reports and Financial Statements
For the year ended June 30, 2021

3200010 · Repair and Maintenance Office	160,000	-	160,000	201,710	(41,710)	-26%
3200020 · Repair & maintenance intakes	60,000	-	60,000	115,300	(55,300)	-92%
3200050 · Staff welfare	630,000	-	630,000	867,811	(237,811)	-38%
3200060 · Travelling and Subsistence	2,250,000	-	2,250,000	2,709,955	(459,955)	-20%
3200070 · Security services	960,000	-	960,000	1,035,000	(75,000)	-8%
3200080 · Staff uniform	40,000	-	40,000	4,600	35,400	89%
3200090 · Computer expenses	40,000	-	40,000	72,700	(32,700)	-82%
3300000 · Director allowances	1,200,000	-	1,200,000	1,013,880	186,120	16%
3300010 · Corporate social responsibility	120,000	-	120,000	244,802	(124,802)	-104%
3300020 · Audit fees	100,000	-	100,000	1,005,000	(905,000)	-905%
3300030 · Legal & Professional fees	902,000	-	902,000	1,214,379	(312,379)	-35%
3300051 · TWBS-Arrears	1,200,000	-	1,200,000	1,200,000	-	0%
3300052 · Wasreb-Regulatory Levy	2,407,765	-	2,407,765	3,927,720	(1,519,955)	-63%
3300053 · WARMA-Abstraction Fees	720,000	-	720,000	760,000	(40,000)	-6%
3300060 · AGM/Stakeholders Expenses	1,500,000	-	1,500,000	-	-	0%
3300070 · Salaries & Wages	33,513,984	-	33,513,984	34,343,316	(829,332)	-2%
3400010 · Electricity	360,000	-	360,000	184,227	175,773	49%
3400020 · Contingencies	200,000	-	200,000	84,098	115,902	58%
3400045 · Strategic & Business plan	800,000	-	800,000	1,052,870	-252,870	-32%
Total Expense	58,483,149	2,645,000	61,128,149	65,523,537	-4,395,388	-7%
Capital Expense						
Repayments of Customer Deposits	528,000	-	528,000	741,077	(213,077)	-40%
Meters	2,170,000	-	2,170,000	3,020,900	(850,900)	-39%

Kenya Corporation Kahuti Water & Sanitation Company Ltd
Annual Reports and Financial Statements
For the year ended June 30, 2021

Billing System	-	4,000,000	4,000,000	4,100,000	(100,000)	-3%
Meter reading phones	-	-	-	226,400	(226,400)	0%
Extension	600,000	-	600,000	1,034,670	(434,670)	-72%
Computer & Accessories	-	-	-	60,299	(60,299)	0%
Total Capital Expense	3,298,000	4,000,000	7,298,000	9,183,346	(1,885,346)	-26%

Notes to the budget statement

- There was an overall increase in our revenue of 11% as compared with the projected. This came about due to extensive follow-up of arrears and ensuring customer gets good services and also encouraging customers who have been dormant for long to reactivate their accounts at no cost. As a result many customers came on board resulting to increase in revenue collected.
- In this year the company experienced major destruction of its supply lines due to the construction of Mau Mau road hence increased costs on expenditures that were solely directed toward provision of water e.g. salaries and wages, purchase of pipes and fittings to ensure customers who comes on bond are provided with service lines, Repairs of motor vehicles and motorbikes for ease of operations, Fuel and oils etc.
- Towards the close of the year 2019/2020, we were given chemical (alum and chlorine) by the County Government thus we did not purchase much chemicals as anticipated in the year 2020/2021. Also with most of our systems being down due to road destruction, less chemicals was used.
- With the reinstatement of VAT on purchases by the government, the prices of commodities rose having effect on printing stationery & pipes and fittings expenditures
- There was an over expenditure in the vote for corporate social responsibility this was due to the emergence measures taken during the onset of the Covid 19 pandemic to offer free water kiosk in all public places and also to the vulnerable population in the society
- We did not pay anything of the ADB loan since we are still following up on the disagreement that arose between the company and Murang'a south water company that we were sharing the treatment with.

Kenya Corporation Kahuti Water & Sanitation Company Ltd
Annual Reports and Financial Statements
For the year ended June 30, 2021

- Expenditures on meters and extensions exceeded the budget due to the revival of dormant service lines and installation of meters to the dormant customers who came to reactivate their accounts in order to continue receiving water.

NOTES TO THE FINANCIAL STATEMENTS

1. General Information

Kahuti water and Sanitation Company is established by and derives its authority and accountability from Company's Act. The entity is wholly owned by the Government of Kenya and is domiciled in Kenya. The entity'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 entity'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 Kahuti Water & Sanitation Company.

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

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 2021.*

Title	Description	Effective Date
IAS 39-Financial Instruments: Recognition and Measurement	IAS 39 "Financial Instruments: Recognition and Measurement" outlines the requirements for the recognition and measurement of financial assets, financial liabilities, and some contracts to buy or sell non-financial items. Financial instruments are initially recognized when an entity becomes a party to the contractual provisions of the instrument and are classified into various categories depending upon the type of instrument, which then determines the subsequent measurement of the instrument (typically amortized cost or fair value). Special rules apply to embedded derivatives and hedging instruments.	The amendments are effective for annual periods beginning on or after January 1, 2020. Earlier application is permitted.
IFRS 4- Insurance Contracts (Superseded)	IFRS 4 "Insurance Contracts" applies, with limited exceptions; to all insurance contracts (including reinsurance contracts) that an entity issues and to reinsurance contracts that it holds. In light of the IASB's comprehensive project on insurance contracts, the standard provides a temporary exemption from the requirements of some other IFRSs, including the requirement to consider IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors" when selecting accounting policies for insurance contracts.	The amendments are effective for annual periods beginning on or after January 1, 2020. Earlier application is permitted.
IFRS 7- Financial	IFRS 7 "Financial Instruments: Disclosures" requires disclosure of	The amendments are effective for

Title	Description	Effective Date
Instrument Disclosures	information about the significance of financial instruments to an entity, and the nature and extent of risks arising from those financial instruments, both in qualitative and quantitative terms. Specific disclosures are required in relation to transferred financial assets and a number of other matters.	annual periods beginning on or after January 1, 2020. Earlier application is permitted.
IFRS 16- Leases	IFRS 16 specifies how to recognize, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring the recognition of assets and liabilities for all leases, unless the lease term is 12 months or less or the underlying asset has a low value. Lessor accounting however remains largely unchanged from IAS 17 and the distinction between operating and finance leases is retained.	The amendments are effective for annual periods beginning on or after January 1, 2020. Earlier application is permitted.

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 2021.*

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.
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.	Earlier application is permitted. The amendments are effective for annual reporting periods beginning on or after January 1, 2023. Early adoption is permitted.
IAS 16 — Property, Plant	IAS 16 "Property, Plant and Equipment" outlines the accounting	The amendments are effective for

Title	Description	Effective Date
and Equipment	treatment for most types of property, plant and equipment. Property, plant and equipment is initially measured at its cost, subsequently measured either using a cost or revaluation model, or depreciated so that its depreciable amount is allocated on a systematic basis over its useful life.	annual periods beginning on or after January 1, 2022. Early application is permitted.
IAS 37 — Provisions, Contingent Liabilities and Contingent Assets	IAS 37 "Provisions, Contingent Liabilities and Contingent Assets" outlines the accounting for provisions (liabilities of uncertain timing or amount), together with contingent assets (possible assets) and contingent liabilities (possible obligations and present obligations that are not probable or not reliably measurable).	The amendments are effective for annual periods beginning on or after January 1, 2022. Early application is permitted.
IAS 41 — Agriculture	IAS 41 "Agriculture" sets out the accounting for agricultural activity – the transformation of biological assets (living plants and animals) into agricultural produce (harvested product of the entity's biological assets). The standard generally requires biological assets to be measured at fair value less costs to sell.	The amendments are effective for annual periods beginning on or after January 1, 2022. Early application is permitted.
IFRS 1 — First-time Adoption of International Financial Reporting Standards	IFRS 1 "First-time Adoption of International Financial Reporting Standards" sets out the procedures that an entity must follow when it adopts IFRS for the first time as the basis for preparing its general purpose financial statements. The IFRS grants limited exemptions from the general requirement to comply with each IFRS effective at the end of its first IFRS reporting period.	The amendments are effective for annual periods beginning on or after January 1, 2022. Early application is permitted.
IFRS 3 — Business	IFRS 3 "Business Combinations" outlines the accounting when an	The amendments are effective for

Title	Description	Effective Date
Combinations	acquirer obtains control of a business (e.g. an acquisition or merger). Such business combinations are accounted for using the 'acquisition method', which generally requires assets acquired and liabilities assumed to be measured at their fair values at the acquisition date.	annual periods beginning on or after January 1, 2022. Early application is permitted if an entity also applies all other updated references (published together with the updated Conceptual Framework) at the same time or earlier.
IFRS 17 — Insurance Contracts	IFRS 17 establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts within the scope of the standard. The objective of IFRS 17 is to ensure that an entity provides relevant information that faithfully represents those contracts. This information gives a basis for users of financial statements to assess the effect that insurance contracts have on the entity's financial position, financial performance and cash flows.	The IASB tentatively decided to defer the effective date of IFRS 17, Insurance Contracts to annual periods beginning on or after January 1, 2022. [The IASB has also published 'Extension of the Temporary Exemption from Applying IFRS 9 (Amendments to IFRS 4)' to defer the fixed expiry date of the amendment also to annual periods beginning on or after January 1, 2023.]

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 2020/2021

NOTES TO THE FINANCIAL STATEMENTS (Continues)

4. Summary of Significant Accounting Policies

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

a) Revenue recognition

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

- i) Revenue from the sale of goods and services** is recognized in the year in which Kahuti water and Sanitation Company delivers products to the customer, the customer has accepted the products and collectability of the related receivables is reasonably assured.
- ii) Grants from National Government** are recognized in the year in which Kahuti water and Sanitation Company actually receives such grants. Recurrent grants are recognized in the statement of comprehensive income. Development/capital grants are recognized in the statement of financial position and realised in the statement of comprehensive income over the useful life of the assets that has been acquired using such funds.
- iii) Finance income** comprises interest receivable from bank deposits and investment in securities, and is recognized in profit or loss on a time proportion basis using the effective interest rate method.
- iv) Dividend income** is recognized in the income statement in the year in which the right to receive the payment is established.
- v) Rental income** is recognized in the income statement as it accrues using the effective interest implicit in lease agreements.
- vi) 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 Kahuti water and Sanitation Company in the form of actual goods and/or services rather than in money or cash terms. These donations may include vehicles, equipment or personnel services. Where the financial value received for in-kind contributions can be reliably determined, Kahuti water and Sanitation 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.

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 recognized in profit or loss in the income statement.

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 cost of ongoing but incomplete works on buildings and other civil works and installations.

Depreciation on property, plant and equipment is recognized in the income statement on a straight-line basis to write down the cost of each asset or the re-valued amount to its residual value over its estimated useful life. The annual rates in use are:

	<u>YEARS</u>	<u>RATE</u>
Freehold Land	40	2.5%
Buildings and civil works	40	2.5%
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%
Water Pipeline, Water Meters	8	12.5%
Intangible Assets	3	331/3%

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

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

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 recognized so that the asset is written down immediately to its estimated recoverable amount.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Summary of Significant Accounting Policies

g) Unquoted investments

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

h) 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.

i) 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. A general provision of 20% is made on all outstanding debts at the year end.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Summary of Significant Accounting Policies

j) 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 Entity 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.

Losses made in a period are recovered from subsequent profits made in the following years.

k) 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.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Summary of Significant Accounting Policies

Deferred Tax

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

l) 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.

m) 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 the Central Bank of Kenya and at various Commercial Banks at the end of the reporting period. For the purposes of these financial statements, cash and cash equivalents also include short term cash imprests and advances to authorized public officers and/or institutions which were not surrendered or accounted for at the end of the financial year.

n) 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.

o) 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.

p) Retirement benefit obligations

The entity operates a defined contribution scheme for all full-time employees from July 1, 2020. 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.

q) Provision for staff leave pay

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

r) 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.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

s) 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 amendment's at that stage are incorporated after which it's presented to the board for the approval

a) Service concession arrangements

Kahuti water and Sanitation 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 Entity 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 Entity also recognizes a corresponding liability, adjusted by a cash consideration paid or received.

b) Comparative figures

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

c) 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, 2021.

5. Significant Judgments and Sources of Estimation Uncertainty

The preparation of the Entity'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.

NOTES TO THE FINANCIAL STATEMENTS (Continues)

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 Entity based its assumptions and estimates on parameters available when the financial statements were prepared. However, existing circumstances and assumptions about future developments may change due to market changes or circumstances arising beyond the control of the Entity. Such changes are reflected in the assumptions when they occur.

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 Entity
- The nature of the asset, its susceptibility and adaptability to changes in technology and processes
- The nature of the processes in which the asset is deployed
- Availability of funding to replace the assets

c) Provisions

Provisions 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.

NOTES TO THE FINANCIAL STATEMENTS (Continues)

6. Revenue

	2020/2021 Kshs	2019/2020 Kshs
Reconnection Fees	329,498	504,410
Connection Fees	1,551,570	1,207,900
Water Sales	64,110,781	65,050,177
Other Service Charges	87,960	40,300
	<u>66,079,809</u>	<u>66,802,787</u>

7. Cost of Sales

	2020-21	2019-20
Opening stock	1,011,207	2,199,212
Purchases	5,946,591	12,746,545
Closing stock	(1,170,275)	(1,011,207)
	<u>5,787,523</u>	<u>13,934,550</u>

8. Grants from National Government

	2020/2021 Kshs	2019/2020 Kshs
Recurrent grants received-Pipeline	7,321,244	2,032,500
In Kind contributions-chemicals(material)	872,736	285,360
Total	8,193,980	2,317,860

NOTES TO THE FINANCIAL STATEMENTS (Continued)

9. Other Income

Description	2020/2021	2019/2020
	Kshs	Kshs
Operational Grant from MOWI	274,716	560,076
Water Connection Fittings	6,307	2,967,617
In-Kind contribution	872,736	-
Sale of Chemical tins & others	1,309,230	-
Salary surcharge	3,206	30,550
Interest Earned	441,077	527,541
Grant Deferred Income	4,236,909	3,863,253
Decrease in Provision	82,532	-
Total	7,226,713	7,949,037

10. Repair and Maintenance Expenses

Description	2020/2021	2019/2020
	Kshs	Kshs
Repair & Maintenance labor	2,363,566	1,927,377
Repairs and Maintenance (Materials)	872,736	285,360
Repair & Maintenance intakes	115,300	98,200
Vehicle repair and maintenance	812,939	725,718
Repair & Maintenance office	201,710	242,933
Repairs & maintenance (Computer expenses)	72,700	39,101
Total	4,438,951	3,318,688

11 Staff Costs

Description	2020/2021		2019/2020	
	Kshs		Kshs	
Salaries and allowances of permanent, one year & 3 months contractual employees	31,259,969.00		28,399,574.00	
Wages of temporary employees	301,671.00		261,757.00	
Employer's contributions to national social security schemes	182,600.00		179,600.00	
Employer's contributions to pension scheme	614,697.00		640,856.00	
Gratuity provisions	1,983,379.00		1,743,919.00	
Total	34,342,316.00		31,225,706.00	
The average number of employees at the end of the year was:				
Permanent employees – Management	5		5	
Permanent employees – Unionisable	16		20	
Temporary and contracted employees	55		49	
Total	76		74	

12. Administrative Costs

Description	2020/2021		2019/2020	
	Kshs		Kshs	
Licenses Administrative Fees	4,687,720		3,039,776	
Postages and telephones	661,909		599,828	
Security Services	1,035,000		931,500	
Vehicle running	3,196,621		2,736,968	
Printing and stationery	365,150		372,843	
Electricity and water	184,227		155,361	
AGM/Strategic Plan Expenses	932,870		234,470	
Increase in Provision for Bad Debts	-		1,747,583	
Bank charges and commissions	105,820		99,667	
General Expenses	152,542		432,369	
Staff welfare	867,811		628,580	
Staff Uniforms	4,600		700	
Staff training expenses	666,538		363,960	

Kenya Corporation Kahuti Water & Sanitation Company Ltd
Annual Reports and Financial Statements
For the year ended June 30, 2021

Corporate Social Responsibility	244,802	428,71
Insurance	322,973	338,25
Staff travel and Subsistence	2,709,955	2,933,33
Advertising and sales promotion	757,788	820,40
Subscription	217,830	98,60
Total	17,114,155	15,962,91

13. Legal & Professional fees

Description	2020/2021 Kshs	2019/2020 Kshs
Legal and professional fees	1,214,379	608,300
Audit fees		
- Current year Provision		
- KENAO fees	1,005,000	
Total	2,219,379	608,300

14. Directors Expenses

Description	2020/2021 Kshs	2019/2020 Kshs
Directors' emoluments	1,013,880	1,303,938

15. Depreciation Expense

Description	2020/2021 Kshs	2019/2020 Kshs
Depreciation on property, plant and equipment	12,424,885	10,565,202

NOTES TO THE FINANCIAL STATEMENTS (Continued)

16. Income Tax Expense/(Credit)

(a) Current Tax

	2020/2021	2019/2020
	Kshs	Kshs
Current taxation based on the adjusted profit for the year at 25%	3,945,648	3,945,648
Current tax: prior year under/(over) provision	-	-
Current year deferred tax charge	-	-
Prior year under-provision for deferred tax	-	-
Total	3,945,648	3,945,648

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

	2020/2021	2019/2020
	Kshs	Kshs
Profit /Loss before taxation	(4,034,567)	(2,167,473)
Tax at the applicable tax rate of 25%	(757,392)	(541,868)
Current tax	3,945,648	3,945,648
Prior year under-provision	-	-
Tax effects of expenses not deductible for tax purposes	12,424,885	12,312,785
Tax effects of income not taxable	4,517,932	7,390,946
Tax effects of excess capital allowances over depreciation/amortization	12,424,885	10,565,202
Total	(7,547,499)	(7,810,837)

Annual Reports and Financial Statements
For the year ended June 30, 2021

NOTES TO THE FINANCIAL STATEMENTS (Continued)

17a. Property, Plant and Equipment

	Land	Buildings	Water Pipelines	Motor cycles / vehicles	Furniture & fittings	Treatment Plant	Office equipment	Computers, copiers & faxes	Water Meters	Intangible Asset	Restated Total
	Shs	Shs	Shs	Shs	Shs		Shs	Shs	Shs		Shs
At 30th June 2021											
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	-	-	99,345,368
Additions	-	-	1,034,670	-	-	-	226,400	60,299	3,020,900	4,100,000	8,442,269
Grants	-	-	7,321,244.00	-	-	-	-	-	-	-	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
Balance as at 30th June 2021	217,500	324,825	19,901,458	1,166,250	90,264	1,385,203	95,230	187,605	14,141,532	1,625,300	39,135,166
Closing Net Book Value	8,482,500	12,668,175	25,231,295	3,498,750	631,851	12,466,820	666,607	386,744	9,206,272	2,734,700	75,973,715

NOTES TO THE FINANCIAL STATEMENTS (Continued)

17b. Property, Plant and Equipment (Continued)

	Buildings	Water Pipelines	Motor cycles / vehicles	Furniture & fittings	Treatment Plant	Office equipment	Computers, copiers & faxes	Water Meters	Intangible Asset	Restated Total
	Shs	Shs	Shs	Shs		Shs	Shs	Shs		Shs
At 30th June 2020										
Cost amount 1st July 2019	10,720,087	33,864,376	9,903,416	1,106,377	13,852,023	775,200	2,561,760	19,031,351	260,000	92,074,590
Additions	-	879,963	-	-	-	-	51,000	1,295,553	-	2,226,516
Grants		2,032,500	-	-	-	-	-	-	-	2,032,500
Revaluation on Mgt Estimate		-	-	-	-	-	-	-	-	-
Total Cost	10,720,087	36,776,839	9,903,416	1,106,377	13,852,023	775,200	2,612,760	20,326,904	260,000	96,333,606
Provision for Depreciation										
Balance as at 1st July 2019	1,648,090	9,662,759	6,498,334	593,674	692,602	256,900	2,561,760	8,682,194	86,580	30,682,892
Depreciation charge for the year	268,002	4,597,105	2,475,854	138,297	346,301	96,900	15,300	2,540,863	86,580	10,565,202
Balance as at 30th June 2020	1,916,092	14,259,863	8,974,188	731,971	1,038,902	353,800	2,577,060	11,223,057	173,160	41,248,094
Closing Net Book Value	8,803,995	22,516,976	929,228	374,406	12,813,121	421,400	35,700	9,103,847	86,840	55,085,512

Kenya Corporation (Indicate actual name of the entity)
Annual Reports and Financial Statements
For the year ended June 30, 2021

ANOTES TO THE FINANCIAL STATEMENTS (Continued)

Valuation

Land and buildings were valued by Pinnacle Valuers Limited independent valuer on April 2021 on cost basis of valuation. These amounts were adopted on 25th August 2021.

13 (b) 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	Net BV
	Kshs	Kshs	Kshs
Land & Buildings	21,693,000	542,325	21,150,675
Plant and machinery	13,852,023	1,385,203	12,466,820
Motor vehicles, including motorcycles	4,665,000	1,166,250	3,498,750
Computers and related equipment	574,349	187,605	386,744
Office equipment,	761,837	95,230	666,607
Furniture and fittings	722,115	90,264	631,851
Water Pipelines	45,132,753	19,901,458	25,231,295
Water Meters	23,347,804	14,141,532	9,206,272
	110,748,881	37,509,866	73,239,015

NOTES TO THE FINANCIAL STATEMENTS (Continued)

19. Inventories

	2020/2021	2019/2020
	KShs	KShs
Water Treatment Chemicals	103,037	393,501
Pipes & Fittings	1,067,238	617,706
Total	1,170,275	1,011,207

20. Trade and Other Receivables

	2020/2021	2019/2020
	KShs	KShs
Trade receivables (note 16 (a))	52,002,988	52,415,648
VAT recoverable	9,400,955	9,386,013
Staff receivables	35,756	23,256
Other receivables	275,592	501,204
Gross trade and other receivables	61,715,290	62,326,121
Provision for bad and doubtful receivable	(10,400,598)	(10,483,130)
Net trade and other receivables	51,314,693	51,842,992

20(a) Trade Receivables

	2020/2021	2019/2020
	KShs	KShs
Gross trade receivables	52,002,988	52,415,648
Provision for doubtful receivables	(10,400,598)	(10,483,130)
Net trade receivables	41,602,390	41,932,518
At June 30, the ageing analysis of the gross trade receivables was as follows:		
Less than 30 days	(3,421,308)	205,207
Between 30 and 60 days	0	0
Between 61 and 90 days	543,543	550,086
Between 91 and 120 days	50,455,591	46,553,625
Total	52,002,988	52,415,648

Kenya Corporation Kahuti Water & Sanitation Company Ltd
Annual Reports and Financial Statements
For the year ended June 30, 2021

NOTES TO THE FINANCIAL STATEMENTS (Continued)

21. Bank and Cash Balances

	2020/2021	2019/2020
	KSh	KSh
Cash at bank	13,016,476	15,783,864
Cash in hand	-	-
	13,016,476	15,783,864

Detailed analysis of the cash and cash equivalents

Financial institution	Account number	2020/2021	2019/2020
		KSh	KSh
a) Current account			
Equity Bank	0030290276210	1,205,882	1,603,331
Family Bank	0090000010562	1,897,742	4,025,624
b) Customer Deposit Account			
Equity Bank	0030190309493	9,912,852	654,910
c) Fixed deposits account			
Equity Bank	0030377379971	-	9,500,000
		-	
Grand total		13,016,476	15,783,865

22. Trade and Other Payables

	2020/2021	2019/2020
	KSh	KSh
Trade payables	16,822,011	15,474,733
Deposits	10,006,473	10,365,826
Employee payables	1,381,696	1,215,268
Other payables	9,640,564	9,642,673
Total	37,850,744	36,698,500

Note

Included in the payables is an amount of ksh 1,005,000 for audit fees (accrued for two years; 2018/2019&2019/2020 and provision for current year.

Kenya Corporation Kahuti Water & Sanitation Company Ltd
Annual Reports and Financial Statements
For the year ended June 30, 2021

NOTES TO THE FINANCIAL STATEMENTS (Continued)

23. Notes to the Statement of Cash Flows

	2020-2021		2019-2020
	Kshs		Kshs
(a) Reconciliation of operating profit/(loss) to cash generated from/(used in) operations			
Profit or loss before tax	(4,034,567)		(2,167,473)
Grant Deferred Income	(4,236,909)		(3,863,253)
Depreciation	12,424,885		10,565,202
Increase in tax paid			(82,729)
Amortisation	-		-
(Gain)/loss on disposal of property, plant and equipment	-		-
Operating profit/(loss) before working capital changes	4,153,409		4,451,746
(Increase)/decrease in inventories	(159,068)		1,188,005
(Increase)/decrease in trade and other receivables	528,299		(4,938,074)
Increase/(decrease) in trade and other payables	1,152,244		2,956,515
Increase/(decrease) in retirement benefit obligations	-		-
Increase/(decrease) in provision for staff leave pay	-		-
	1,521,474		(793,554)
Cash generated from/(used in) operations	5,674,883		3,658,192
(b) Analysis of changes in loans			
Balance at beginning of the year	13,344,063		13,344,063
Receipts during the year	-		-
Repayments during the year	-		-
Repayments of previous year's accrued interest	-		-
Foreign exchange (gains)/losses	-		-

Kenya Corporation Kahuti Water & Sanitation Company Ltd
 Annual Reports and Financial Statements
 For the year ended June 30, 2021

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	13,016,476	15,783,864
Cash in hand	-	-
Balance at end of the year	13,016,476	15,783,864
(d) 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	-	-
	=====	=====
(e) 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	-	-
	=====	=====

NOTES TO THE FINANCIAL STATEMENTS (Continued)

24. Related Party Disclosures

Kawasco related parties include:

- i) Government agencies
- ii) Athi water works development Agency
- iii) County Government of Murang'a
- iv) Wasreb
- v) WRA
- vi) Key management
- vii) Board of directors

Transactions with related parties

	2020-2021	2019-2020
	KShs	KShs
a) Sales to related parties		
Water sales to county government agencies	813,430	945,055
Water sales to Govt. agencies	319,330	246,510
Total	1,132,760	1,191,565
b) Payments to related parties		
Purchases of electricity from KPLC	184,227	155,361
Levies paid to Wasreb	2,653,352	2,319,776
Levies paid to WRA	720,000	720,000
Levies arrears to TWWDA	1,200,000	1,200,000
Total	4,757,579	4,395,137
b) Grants from the Government		
Capital Grants from National Govt(AWWDA)	7,321,244	2,032,500
Chemical Grant from county government of Murang'a	-	285,360
Chemical grant from WSTF	872,736	-
Total	8,193,980	2,317,860
c) Expenses incurred on behalf of related party		
Payments of salaries and wages for management employees	8,599,815	8,463,132
Total	8,599,815	8,463,132
d) Key management compensation		
Directors' emoluments	1,013,880	1,303,938
Total	1,013,880	1,303,938

NOTES TO THE FINANCIAL STATEMENTS (Continued)

24. Related Party Disclosures

Kawasco related parties include:

- i) Government agencies
- ii) Athi water works development Agency
- iii) County Government of Murang'a
- iv) Wasreb
- v) WRA
- vi) Key management
- vii) Board of directors

Transactions with related parties

	2020-2021	2019-2020
	Kshs	Kshs
a) Sales to related parties		
Water sales to county government agencies	813,430	945,055
Water sales to Govt. agencies	319,330	246,510
Total	1,132,760	1,191,565
b) Payments to related parties		
Purchases of electricity from KPLC	184,227	155,361
Levies paid to Wasreb	2,653,352	2,319,776
Levies paid to WRA	720,000	720,000
Levies arrears to TWWDA	1,200,000	1,200,000
Total	4,757,579	4,395,137
b) Grants from the Government		
Capital Grants from National Govt(AWWDA)	7,321,244	2,032,500
Chemical Grant from county government of Murang'a	-	285,360
Chemical grant from WSTF	872,736	-
Total	8,193,980	2,317,860
c) Expenses incurred on behalf of related party		
Payments of salaries and wages for management employees	8,599,815	8,463,132
Total	8,599,815	8,463,132
d) Key management compensation		
Directors' emoluments	1,013,880	1,303,938
Total	1,013,880	1,303,938

NOTES TO THE FINANCIAL STATEMENTS (Continued)

25. Financial Risk Management

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

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

(i) Credit risk

The entity 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 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 entity's directors, who have built an appropriate liquidity risk management framework for the management of the entity's short, medium and long-term funding and liquidity management requirements. The entity 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

Kenya Corporation Kahuti Water & Sanitation Company Ltd
Annual Reports and Financial Statements
For the year ended June 30, 2021

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.

(iii) Market risk

The board has put in place an internal audit function to assist it in assessing the risk faced by the entity 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 Finance Department 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 entity's exposure to market risks or the manner in which it manages and measures the risk.

Kenya Corporation Kahuti Water & Sanitation Company Ltd
Annual Reports and Financial Statements
For the year ended June 30, 2021

NOTES TO THE FINANCIAL STATEMENTS (Continued)

iv) Capital Risk Management

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

	2020-2021	2019-2020
	Kshs	Kshs
Revaluation reserve	30,407,408	12,857,835
Retained earnings	13,178,687	16,208,255
Capital reserve	1,988,918	1,988,918
Total funds	45,575,013	31,055,008
Total borrowings	13,344,063	13,344,063
Less: cash and bank balances	(13,016,476)	(15,783,864)
Net debt/(excess cash and cash equivalents)	327,587	(2,439,801)
Gearing	29%	43%

26. Incorporation

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

27. Events after the Reporting Period

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

28. Currency

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

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)
4.1.1	Property plant and equipment	The register has been updated, depreciation of laptop corrected & revaluation of assets that were fully depreciated done and values adopted in preparation of draft financial statements for 2020/2021.	Resolved	Copy of revaluation report
4.1.2	Direct cost	The error of misposting especially in the closing stocks has been rectified. We have done reconciliation of stocks in order to marry the system with physical stock sheets carried out on 30/06/2021	Resolved	Physical stock sheets
4.1.3	Inaccuracies and omission's in the financial statements	Notes to the financial statements have been with comparative figures corrected. Also the correct reporting template has been adopted	Resolved	Final financial statements 2019/2020
4.2	Budget performance	This has since been included in the financial statements	Resolved	Copy of final financial

No. on the external audit Report	Issue / Observations from Auditor	Management comments	(Resolved / Not Resolved)	(Put a date when you expect the issue to be resolved)
		with notes explaining the variances that are high.		statements 2019/2020
4.3.1	Compliance with recommended financial reporting template	The new template has been adopted and omission's in regards to; i). corporate governance statement ii). Management discussion & analysis iii). Trade receivables all of them has been included and all disclosures done	Resolved	Copy of final financial statements 2019/2020
4.3.2	Non-compliance with ethnic diversity requirement	As a company we are committed to ensuring that the 1/3 gender rule is adhered to. We will continue following up on subsequent recruitment to make our jobs openings reach everybody	Not resolved	Continuous process
4.4.1	Use of expired tariff	Several reminders have been made to the county government to give us ago ahead so that wasreb can approve them.	Not resolved	Once we secure a letter of no objection from the county government of muranga
4.4.2	Non-revenue water	Several intervention measures have been putting	Not resolved	Continuous process

Kenya Corporation Kahuti Water & Sanitation Company Ltd
 Annual Reports and Financial Statements
 For the year ended June 30, 2021

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)
		place to reduce NRW		
4.4.3	Long term liability ADB Loan	We have been following up with them to resolve the issues. Our argument was that In the meantime we are not benefiting from the facility and therefore Muswasco should take up the whole bunch of the loan until the issues are fully resolved	Not resolved	Continuous process
4.4.4	Non-compliance with Industrial benchmark on Personnel Costs	We have been struggling with this issue for some times now. In the tariffs' application that we have forwarded to wasreb for approval this issue has been taken care of and once approved the issue will be sorted. The tariff that we are operating on was last reviewed in 2010 an therefore several factors have changed in terms of salaries and the number of employees	Not resolved	Once the tariffs have been approved, the issue shall be resolved
4.4.5	Management of Accounts Payable	the creditors comprises of two categories i.e. regulatory levies and also the normal suppliers(merchants)The company has strived to ensure that all merchants and suppliers of goods are paid within 60days however we	Not resolved	Continuous process

Kenya Corporation Kahuti Water & Sanitation Company Ltd
 Annual Reports and Financial Statements
 For the year ended June 30, 2021

Reference No.	Item	Management Comments	Status (Resolved/Not Resolved)	Timeframe (If a date when you expect the issue to be resolved)
		<p>have had a challenge of payment to the regulatory levies and the arrears on administrative fees. We have come up with a payment plan with the relevant bodies to ensure that the arrears are paid</p> <ul style="list-style-type: none"> On the commitment of good and services after 31st of may this has been a challenge to us as a water service provider because we rely wholly on our monthly collections so we use the monthly revenue collections to operate and therefore in all the months we would find ourselves requiring to do several purchase especially for the pipes and fittings or emergencies that can arise in terms of water supply interruptions 		
4.4.6	Unrecovered Staff Advance Ksh.41,400	This money has remained unrecovered because attempts to reach the officer for the payments have been futile. The latest attempt was through the company lawyer who wrote to him and his lawyer wrote back .We are going to make the final attempt this years to see whether there is positive response. The recovery	Not resolved	Continuous process

Kenya Corporation Kahuti Water & Sanitation Company Ltd
Annual Reports and Financial Statements
For the year ended June 30, 2021

Reference: No. on the external audit Report	Issue/ Observations from Auditor	Management comments	Status: <i>Resolved</i> <i>Not</i> <i>Resolved</i>	Timeframe: <i>(Put a date</i> <i>when you</i> <i>expect the issue</i> <i>to be resolved)</i>
		<p>director is eligible for election if such a director offers himself for election, subject to a maximum of two terms.</p> <p>Since coming to effect, no director has served more than two terms, and the said article could not be applied retrospectively.</p> <p>We note that at the time of the audit, the appointment letter of Martha W. Wanguku could not be traced and we are still trying to sort out the anomaly. However, from the minutes of the AGM held on 24th April 2019 (a copy of which was given to you during audit), it is evident that she was among those elected, alongside Stephen M. Kamau. We attach an extract of the minutes (min. AGM 8/2019 ELECTION OF DIRECTORS). We further note that due to the restrictions provided in order to contain Covid -19, we were not able to hold the 2020 AGM.</p>		

Accounting Officer

Name *E.P.H.M.T.W. KAMAU*

General Manager

Signature *[Signature]*

Date *29th APRIL 2022*

Kenya Corporation Kahuti Water & Sanitation Company Ltd
Annual Reports and Financial Statements
For the year ended June 30, 2021

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)
		process through our legal process appears to be more costly and therefore a decision will be reached after this final attempt		
4.4.7	Unrecovered company asset	The company has already reported this case to the police who we hope will help us track the staff whom currently we don't know where he relocated to. We are also going to a demand letter through our lawyer to attempt to recover these funds	Not resolved	Continue following up
4.5.1	Expired term of office for directors	Our Memorandum & Articles of Association, Article no.30 states "At the first Annual General Meeting of the company incorporation, all directors shall retire from office and subsequently at the annual general meeting of every subsequent year, one third of the directors for the time being, or if their number is not divisible by three, then the nearest one third, shall retire from office. A stakeholder participation procedure shall be held to elect the new directors to replace those who have retired." Article 32, which is an amendment added in January 2014, states a retiring	Not resolved	Planning Foran Agm This Financial Year

Kenya Corporation Kahuti Water & Sanitation Company Ltd
Annual Reports and Financial Statements
For the year ended June 30, 2021

APPENDIX II: PROJECTS IMPLEMENTED BY THE ENTITY

Projects

Projects implemented by the State Corporation/ SAGA Funded by development partners.

Name of the project	Expected completion date	Excavation	Pipelaying	Installation of fittings	Concrete works	Overall progress
1. Rwathia-Kagaa mainline (under Kiambu Ruaka sewerage project)	October 2021	19km	19km	0%	0%	80%
2. Mukarara-Mugeci Kaboro Pipeline	December 2021	13.5km	13.5km	60%	10%	90%
Kawariua-Kahuti line	December 2021	14km	14km	0%	0%	90%
Karurumo-Gatuya Pipeline	December 2021	20km	18km	0%	0%	75%
Tuthu Intake facility expansion	December 2021	0%	NA	0%	0%	0%
Gitiri-Mbari ya Hiti Pipeline	December 2021	10km	10km	0%	0%	80%

