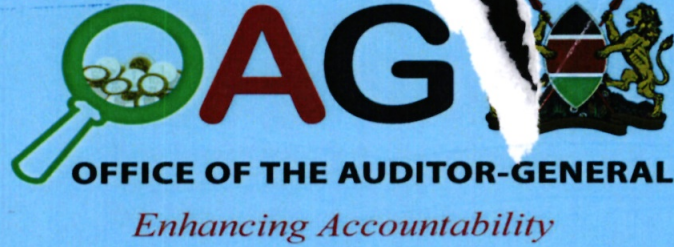


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REPORT

OF

THE AUDITOR-GENERAL

ON

**KISUMU WATER AND SANITATION
COMPANY**

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





KISUMU WATER AND SANITATION COMPANY LIMITED
ANNUAL REPORTS AND FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED JUNE 30, 2021

The Financial Statements have been prepared in accordance with the Accrual Basis of Accounting Method under the International Financial Reporting Standards (IFRS)

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COMPANY INFORMATION

Background Information

The Kisumu Water and Sanitation Company Limited was founded in 2001 and registered under CAP 486 of the laws of Kenya. It began its operations in July 2003 to provide adequate clean potable water and to collect, treat, and dispose sewerage (wastewater) within the jurisdiction of Kisumu City

Board of Directors

Vinod Patel	: Chairman
Salmon Orimba	: Director
George Okong'o	: Director
Thomas Odongo	: Managing Director
Aballa Wang'a	: Director - Appointed on 5th October 2020
Phylis Chepkemboi	: Director - Appointed on 23rd December 2020
Prof. Norbert Opiyo Aketch	: Director - Appointed on 23rd December 2020
Doris Ombara	: Director - Retired on 5th October 2020
Janet Ogot	: Director - Retired on 23rd December 2020
Caren Aketch Oloo	: Director - Retired on 23rd December 2020
Nirmal Darbar	: Director - Retired on 23rd December 2020
Pollyins Ochieng	: Director - Retired on 23rd December 2020
Victor Obaso	: Director - Retired on 23rd December 2020
Ben Kitoto	: Director - Retired on 23rd December 2020

Management Team

Thomas Odongo	: Managing Director
Simon Ondigo	: Head of Audit and Risk
Evelyne Opiyo	: Head of Human Resources & Administration
Eng. Moses Jura	: Head of Technical Services
Nicholas Moseti	: Head of Finance
Jason Ochola	: Head of Commercial Services
Anthony Ogwang	: Supply Chain Manager
Shem Otieno	: ICT Manager
Eldah Odongo	: Head of Corporate Affairs & Communication

Registered Office : Nafaka House
: Oginga Odinga Street
: P.O. Box 3210, 40100
: KISUMU

Auditors : Auditor General
: P.O. Box 30084, 40100
: NAIROBI

Company Secretary : Equity Secretaries and Registrars
: Certified Public Secretaries
: P.O. Box 14868, 00100
: NAIROBI

Principal Bankers : Co-operative Bank of Kenya Limited
: P.O. Box 1511, 40100
: KISUMU

Chief Legal Advisor : Ouma Njoga and Company Advocates
: P.O. Box 2536, 40100
: KISUMU

BOARD COMMITTEES

FINANCE AND COMMERCIAL COMMITTEE

Phylis Chepkemboi : Acting Chair
George Okong'o
Mr. Salmon Orimba
Mr. Thomas Odongo

AUDIT AND RISK COMMITTEE

Prof. Norbert Opiyo Aketch : Acting Chair
Phylis Chepkemboi
George Okong'o

TECHNICAL COMMITTEE

Prof. Norbert Opiyo Aketch : Chairperson
Mr. Salmon Orimba
Mr. Thomas Odongo
Mr. Abala Wanga

HUMAN RESOURCE AND LEGAL COMMITTEE

Phylis Chepkemboi : Chairperson
Mr. Abala Wanga
Prof. Norbert Opiyo Aketch
Mr. Thomas Odongo

Board of Directors



Vinod Patel

Age: 52

He is a Businessman and a contractor

He is the nominee from the Governor's office
He is currently the Chairman of Kisumu Water & Sanitation Co. Ltd



Thomas Odongo

Age: 52

BA. Economics & Sociology; Executive Diploma in Business Management & Ex. Diploma in Sales & Marketing
Member Marketing Society of Kenya

He is currently the Managing Director of Kisumu Water and Sanitation Company Ltd



Mr. Abala Wanga

Age:52

Master of Business Administration from the prestigious Strathmore University (SBS- Strathmore Business School). Bachelor's Degree in Law (LLB) from Kampala International University-Uganda, Diploma in Medical Laboratory Technology from Kenya Medical Training Centre, Nairobi, Kenya and is a beneficiary of Pan African EMBA IESE, Lagos and Strathmore Business School.

He is currently the City Manager of Kisumu and a member of the Board for Kisumu Water and Sanitation Company



Prof. Nobert Opiyo Akech

Age: 67

Ph. D Degree holder in Geochemistry

He is currently a member of the Board Kisumu Water AND Sanitation Company representing Institutions of Higher Learning



Hon. Salmon Orimba

Age:54

Currently serving as the County Executive Committee member in charge of Water, Environment, Climate Change and Natural Resources in the County Government of Kisumu



George Okong'o

Age:44

Currently serving as the County Executive Committee member in charge of Finance and Planning in the County Government of Kisumu







Ms. Phyllis Chepkemboi Barasa


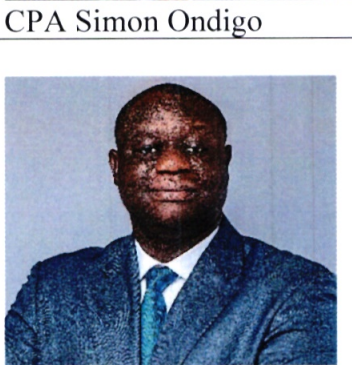



Age:40

An Advocate of the High Court of Kenya, Commissioner of Oaths and a Notary Public for over 10 years. She is the Managing Partner at C. P & A Advocates a law firm based in Kisumu City. She previously worked as Head of Legal and Compliance in a State Corporation and a leading commercial bank with footprints in East Africa.

She is currently a member of the Board, Kisumu Water And Sanitation Company representing Local Professionals

Kisumu Water and Sanitation Company Ltd
 Annual Report and Financial Statements
 For the year ended 30th June 2021

NAME	POSITION	QUALIFICATIONS	PROFESSION
 Mr Thomas Odongo	Managing Director	BA. Economics & Sociology; Executive Diploma in Sales & Marketing	Marketer
 Everlyne Opiyo	Head of Human Resources & Administration	BBA- Management Option, MBA- HRM, CPS	Human Resources Practitioner
 Eng. Moses Jura	Chief Engineer Technical Services	BSc. Civil Engineering	Engineer
 CPA Nicholas Moseti	Head of Finance	MBA Strategic Management , BCOM-Finance, CPA (K)	Accountant

	<p>Head of Audit and Risk</p>	<p>MBA, CPA (K)</p>	<p>Accountant</p>
	<p>Supply Chain Manager</p>	<p>MBA, Bachelors in Purchasing and Supply Management</p>	<p>Supply Chain Management</p>
	<p>Head of Commercial services</p>	<p>MBA-Finance, BA in Economics, MA in Economics, CPA-K</p>	<p>Business Development</p>
	<p>ICT Manager</p>	<p>MBA, BSC, Information Technology/MIS</p>	<p>MIS Specialist</p>
	<p>Ag. Head of Corporate Affairs & Communication</p>	<p>MBA Strategic Management, BA in Finance</p>	<p>Communication Expert</p>
<p>Eldah Odongo</p>			

Management Team

CHAIRMAN'S STATEMENT

I am greatly honoured to present my statement for the financial year ending 30th June 2021 as the Chairman of Kisumu Water & Sanitation Company Ltd. Despite the micro-economic uncertainty brought about by the Covid-19 pandemic the business remained resilient. Of concern were creeping inflation, high non-revenue water percentage and the rising cost of living affecting our esteemed customers. I'm however happy to report that despite these challenges we are confident that we are better placed to manage the shifting economic landscape.

Some of the Board's key highlights in the financial year 2020/2021 are tabulated as below;

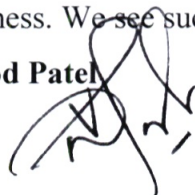
Performance Indicator	Board Intervention	Impact
Enhanced Partnership with the County Government and other stakeholders	The Board has created an environment that has enhanced partnership with the County Government of KISUMU, WSTF and other stakeholders	This has led to financial support and goodwill from the County government, WSTF for water infrastructure development
Enhanced Corporate Governance	The Board is committed to ensure that there is increased transparency and accountability	
Enhanced Internal Controls	The Board has enhanced internal controls in all departments including the Technical, Commercial and Finance and HR and Administration departments.	This has led to operational efficiency and adherence to various statutory regulations and guidelines
Risk Management	The Board has ensured approval of Risk Management Framework and necessitated risk based audits.	This has led to compliance with the Public Financial Management Act, 2012 and other regulations

Acknowledgement

I want it to be recognized how hard our colleagues in the Board and staff have worked during the past year and thank them for their commitment through difficult times. The Board has remained united, diligent and focused and the Staff has shown enthusiasm, commitment, diligence and competence.

On behalf of the Board, I would like to thank the Managing Director and the senior management team for their continued hard work and dedication. Strong foundations have been laid since we began our turnaround and I believe that we have focused on the right priorities as we continue to rebuild and strengthen the business. We see success in sight. God bless KIWASCO, Kisumu and our country Kenya

Vinod Patel



Chairman

Kisumu Water and Sanitation Company Ltd
Annual Report and Financial Statements
For the year ended 30th June 2021

MANAGING DIRECTOR'S STATEMENT

I take this opportunity to present to you the report for the year ended 30 June 2021 and to highlight key areas of our operations that underlie the reported financial performance.

Team Members,

When we started the FY 2020/2021, we were looking forward to an optimistic year, with the hope that the Covid-19 pandemic will be a thing of the past, or better still, hope that a vaccination would be approved, then we revert to normalcy. We are happy that the vaccine was found and availed to us. Some of us caught the virus but I am glad that we have not lost any team member to Covid 19. The pandemic is still with us today, Kisumu has been a hotspot for a while now and this further complicates the business environment as we start yet another financial year. I, therefore, call upon all of us to adhere to COVID 19 protocols as directed by the Ministry of Health.

Our Priority

Our focus as management during the last financial year was majorly on three things. I can proudly report to the team that we achieved all three, they included;

- Safeguarding the health and safety of our employees and customers amidst the pandemic
- Steering the company towards target achievement in these unprecedented times
- Safeguard all jobs and pay all staff salaries and benefits despite the challenges faced.

Financial Performance

The net turnover for the year 2021 increased by 0.36% to Kshs 797,099,981.00 from Kshs.794,276,150 in FY 2020, Equally the company reported a net profit of Kshs. 77,671,832 against a profit of Kshs.3,973,723 in the FY 2020 resulting in 1,855% profitability growth.

Water Distribution and Coverage

KIWASCO has consistently pursued an expansion programme on water services to improve coverage in line with MDGs and later SDGs on water and sanitation, the coverage improved from 82% to 83%. The company shall continuously improve its water coverage to meet and exceed the industry target of 85%.

In the past the focus of regulation has largely been on urban utilities which are considered to be commercially viable. Despite this attention on the urban areas, it shall be noted that counties have obligations under section 94(2) of the Water Act 2016 to put in place 'measures for provision of water services to rural areas which are considered not to be commercially viable'. In advancing this responsibility, WASREB in consultation

with counties has already developed guidelines for water and sanitation services provision in rural and underserved areas.

Non-Revenue Water (NRW) Management

NRW levels continued to be high across all the counties, KIWASCO achieved 31% average for the year under review against 36.6% in the FY 2020, these was a great improvement anchored on teamwork and changes in tact on handling NRW issues. High NRW poses a greater risk to the extent that it undermines not only the progressive realization of the right to water enshrined in the constitution, but also the operational sustainability of the utility from the principle of commercialization.

Other performance highlights and achievements in the FY 2020/2021

Covid19 was unprecedented, but I am happy that with the concerted effort from staff and other stakeholders, we remained resilient and adjusted our operations to suit the crisis.

1. Our billing stood at an average of Kshs 64.1million with 90.7% Collection efficiency, customer complaint resolution was at an average of 73.6% and NRW improved to an average of 31%.
2. The pandemic led to us explore the digital space and as a result the following were achieved;
 - ❖ Launched a call center,
 - ❖ USSD code,
 - ❖ Kiwasco App
 - ❖ Expanded the digital payment platforms
 - ❖ Installations of CCTV cameras.
 - ❖ Firewall deployed to our networks for safety.
 - ❖ Acquisition of a computer-assisted audit tool for audit operations is also in the process
3. Our Meter test bench got accredited by KENAS, creating a new revenue stream.
4. Impact 13 report by WASREB rated us as the Best utility in Customer Service and the Lake Victoria South Region. The good performance by our Board of Directors also took us to position two in governance.
5. Training and benchmarking sessions for staff were also carried out.

2021/2022 Outlook

We are carrying the same hope into this financial year 2021/2022 as it is the final year of our five years strategic plan 2017-2022. Our KPI's as per the plan include;

- Reduced NRW to 20%
- Increased billing to 75 million and collection efficiency to 98%

- Increased sewer coverage to 25%, water coverage to 87% and sanitation coverage to 60%
- Increased customer satisfaction level to 80% and employee satisfaction level to 70%
- Improve access in the low-income areas to 90%
- Retrain staff and automate the BSC
- Encourage more partnerships in the WASH activities.

Conclusion

As we have done in the past, I urge all staff to remain focused, passionate, and determined to provide quality water and sanitation services for improved livelihoods and achieve the set targets, lets close the year with a bang. I look forward to a healthy and fruitful financial year ahead.

On behalf of the Management team, I wish to thank the Board for its prudent guidance and direction. I also appreciate our loyal esteemed customers for making KIWASCO their brand of choice and all other stakeholders for their unwavering support. As we work together as a team, KIWASCO shall be the envy of the Kenya Water Sector.



Thomas Odongo

Managing Director

29TH SEPTEMBER
.....2021

REVIEW OF THE COMPANY'S PERFORMANCE FOR FY 2020/2021

Kisumu Water and Sanitation Co. Ltd (KIWASCO) has 7 strategic pillars and objectives within its Strategic Plan for the FY 2017/2018- 2021/2022. These strategic pillars are as follows:

1. Water and waste water Infrastructure Development
2. Operational Efficiency
3. Customer Service
4. Pro-poor initiatives
5. Financial Sustainability
6. Institutional Strengthening
7. Corporate Governance

KIWASCO develops its annual work plans based on the above 7 pillars. Assessment of the Board's performance against its annual work plan is done on a quarterly basis. The Company achieved its performance targets set for the FY 2020/2021 period for its strategic pillars except for revenue growth and profitability which was largely hampered by the Covid-19 Pandemic as indicated in the table below:

Strategic Objective	Performance indicator	Strategic Activities	Achievement
1. Water and waste water Infrastructure Development	Increased water coverage from 73% to 85%	Improve the water treatment facilities for Kajulu and Dunga plants.	83% water Coverage
		Improve the water distribution network.	
		Increase water service coverage through network expansion	
	Increased sewer coverage from 16% to 30%	Improvement of the waste water treatment facilities.	
		Expansion of the sewer network	
2. Operational Efficiency	Reduced NRW from 37% to 25%	Active leak detection	31% NRW in June 2021 (average for the year)
		Eliminate illegal connections	
		Pressure management	
		Improve meter accuracy	
		Develop NRW reduction framework	
	Improved operational efficiencies	Modernize and automate all operations in water treatment plants	Dosing process already automated
		Improve the operations of the water distribution network	
		Improve the operations at the waste water plants and pumping station	99% efficiency in sewer distribution
		Improve operations of the sewer network	
	100% safety and optimal utilization of resources	Strengthen internal controls	96% water quality
		Ensure effective asset protection	
	100% adherence to drinking water and waste water	Improve water quality assurance infrastructure	Implemented
		Implement water safety plan - WSPs	
Implement waste water standards			

Strategic Objective	Performance indicator	Strategic Activities	Achievement
	standards and regulations		
3. Customer Service	Increased customer satisfaction level from 71% to 80%	Strengthen customer service management systems	85% Customer satisfaction achieved and call centre established
		Entrench a customer focus culture among all employees	
		Establish a customer care centre	
		Improve on the levels of customer satisfaction	
		Improve customer engagements and loyalty	
		Develop and implement a customer focused Marketing Strategy	
4. Pro-poor initiatives	Improve access in the low income area from 78% to 90%	Increase access in the low income areas	82% achievement
		Develop policies and strategies aimed at Pro-poor sector	
		Reduce NRW in LIAs	
		Adopt appropriate technologies	
	Sustain Pro poor initiatives	Enhance Community participation	Continuous exercise
		Develop partnerships	
Implement sustainable initiatives			
5. Financial Sustainability	Improve revenues by 10% (From 52M per month to 85M per month)	Improve revenue collection efficiency	ERP system implemented to improve efficiency.
		Improve billing efficiency	
		Increase number of water and sewer connections	
		Enhance alternative revenue streams	
	Improve cost efficiency from 90% to 95% (cost management)	Automation of operations	ERP system in place
		Ensure efficient supply chain management process	
		Manage staff costs	Continuous exercise
		Reduce operational costs	
	Improve Financial Management and Accountability	Ensure effective budgeting process	Continuous exercise
		Adopt financial best practices	Continuous exercise in addition to new ERP system
		Adhere to regulatory and statutory obligations	
		Ensure effective audit and reporting practices	
		Strengthen financial management system	
		Procure an integrated financial management system	
	Reduce accounts receivables by 50% (From 180M to 90M by 2022)	Develop a Debt Management Structure	Debt policy approved by the Board
		Develop a debt management policy framework	
		Provide for bad and doubtful debts	
	Mobilize required resources	Improve credit rating	Grants & donations received from various partners
		Develop a resource mobilization strategy	
		Develop funding proposals	
Develop sustainable partnerships			

Kisumu Water and Sanitation Company Ltd
Annual Report and Financial Statements
For the year ended 30th June 2021

Strategic Objective	Performance indicator	Strategic Activities	Achievement
6. Institutional Strengthening	Improve employee productivity from 79% to 85%	Attract and retain competent staff	Continuous exercise
		Undertake a staff rationalization exercise	
		Implement a responsive organization structure	
		Develop employee training and development plan	
		Implement a robust performance management system	
	Increased employee satisfaction levels from 61% to 70%	Improve employee motivation	Currently at 65% satisfaction
		Improve staff welfare	
		Improved working environment	
		Provide adequate office infrastructure	
		Provide employees with working tools	
	Strengthened human resources function	Develop, review and implement institutional policies and procedures	ERP system implemented
		Develop integrated human resources information management system	
	Improved institutional visibility and branding	Implement the organization core values	Continuous exercise
Undertake a culture change programme			
Improve employee branding			
Improve company branding			
7. Effective Corporate governance	Enhanced board capacity in good governance	Strengthen the capacity of the Board on corporate governance	Training and evaluation conducted
		Reinforce the structures and instruments of good corporate governance	
		Undertake annual board evaluations	
	Reduced exposure to risks	Implement enterprise wide risk management framework	Continuous exercise
		Protect company assets	
		Develop a business continuity plan	BCP and Emergency response plan implemented
		Develop a COVID-19 Management Framework	
		Ensure effective Audits	Continuous exercise
	Improved stakeholder relations	Undertake stakeholder engagements	Done annually
		Ensure annual reporting to stakeholders	
		Ensure fulfilment of external/statutory requirements	
		Develop sustainable partnerships	
	Increased Lobbying	Lobby for increased resources	Continuous exercise
Lobby for supportive legislation and regulations		Ongoing with the County assembly	

CORPORATE GOVERNANCE STATEMENT

Preamble

KIWASCO is committed to observing highest standards in corporate Governance in its operations. For effective governance the Board recognizes that even though it has delegated the daily running of the business to the management team, the Board is ultimately and fully responsible for the way the Company is managed. The Board is therefore actively engaged in leading the Company and is confident that there is an effective system of Corporate Governance in place.

Board Calendar

Operations of the Board are governed by Annual Board Calendar which contains the schedule of meetings of the Board and its Committees.

Board Composition and Appointment

The Board is composed of eleven directors, ten of whom are non-executive and independent. The Board is composed of directors with good mix of skills, experience and competence in the relevant fields.

Members of the Board are appointed by various stakeholder segments and elected at the Annual General Meeting.

Board Meetings

The Board meets at least four times a year. The Board deals with all significant matters including strategic directions, ensuring competent management of the business, internal controls, compliance with laws and regulations and reporting performance to the shareholders.

Information to the Board

The Directors are given timely information on key activities of the business regularly.

Conflict of Interest

The Directors are under a fiduciary duty to act honestly and in the best interest of the Company. There is a policy in place that provides that Directors, their families and Companies in which they have interest in do not transact any business with KIWASCO.

Committees of the Board

Subject to strategic policy or formal issues reserved for its approval, the Board has delegated some of the responsibilities to Board Committees which operate within definite terms of reference laid down by the Board.

The Board has four Committees namely:

- Audit and Risk
- Finance and Commercial
- Technical
- Human Resource and Legal

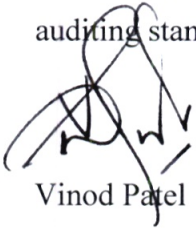
Internal Controls

The Board reviews from time to time the effectiveness of internal controls and relies on management to establish appropriate systems of control for running the business.

The system of internal controls has defined procedures for operational and financial controls to ensure assets are safeguarded, transactions are properly authorized, recorded and irregularities are prevented or detected within reasonable period of time.

Accountability and Audit

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



Vinod Patel

Chairman



Thomas Odongo

Managing Director

MANAGEMENT DISCUSSIONS AND ANALYSIS

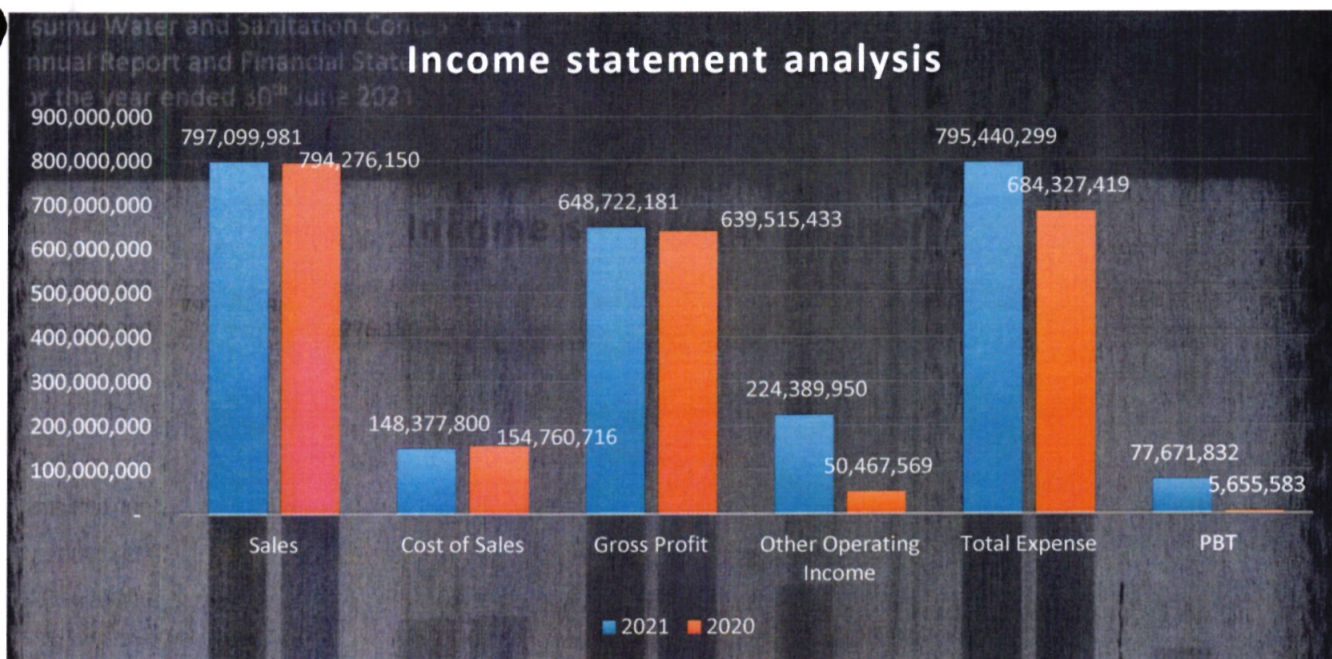
Budget Absorption for FY 2020/2021

DESCRIPTION	Budgets 2020/2021	Actual 2020/2021	% ABSORPTION
Total Revenue	909,830,910	1,021,489,931	112.27%
Total costs	956,684,890	943,818,099	98.66%

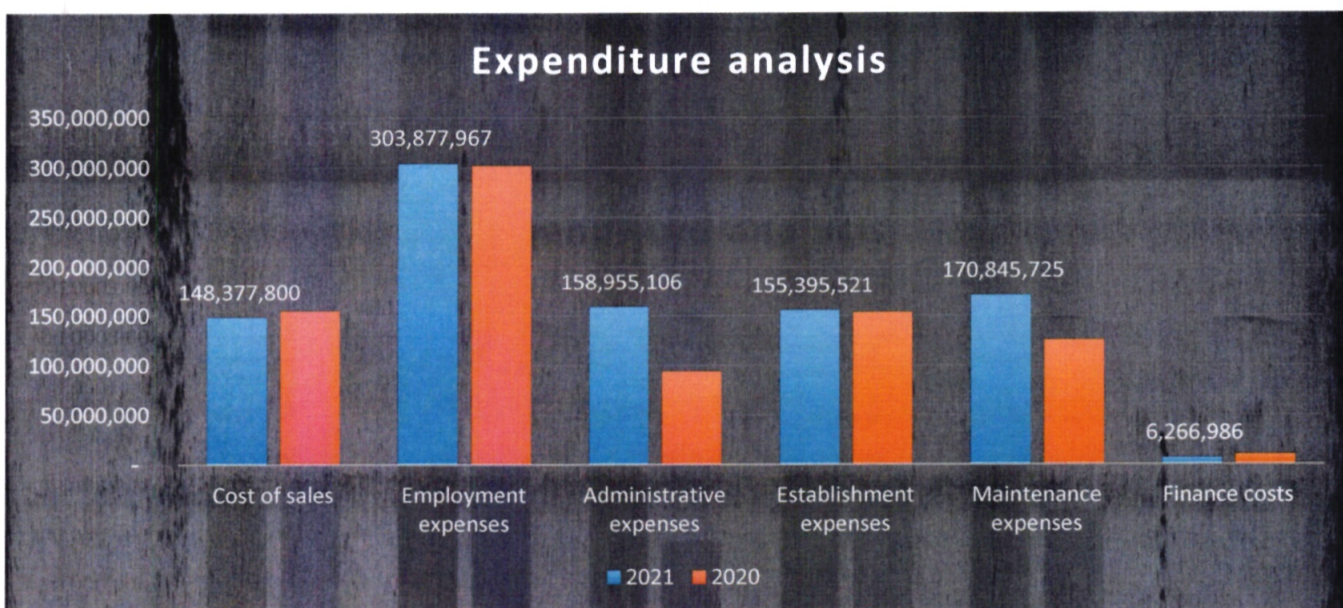
The absorption rate of the estimated revenue budget compared to the actuals for the year was 112.27% against the expenditure absorption of 98.66%.

Description	2021 (Ksh)	2020 (Ksh)	Variance (Ksh)	Percentage
Sales	797,099,981.00	794,276,149.78	2,823,831.22	0.36
Cost of Sales	(148,377,800.00)	(154,760,716.48)	(6,382,916.48)	(4.12)
Gross Profit	648,722,181.36	639,515,433.30	9,206,748.06	1.44
Other Operating Income	224,389,950.30	50,467,569.16	134,209,845.14	344.63
Total Expense	(795,440,299.00)	(684,327,419.18)	111,112,810.82	16.24
PBT	77,671,832.37	5,655,583.28	76,681,909.39	1,273.36
Net Profit/(loss)	77,671,832.37	3,973,723.30	53,677,336.57	1,854.64
Fixed assets	286,548,337.26	306,228,589.00	(19,581,258.74)	(6.43)
Long-Term Liabilities	249,394,059.77	256,424,408.00	(7,030,348.23)	(2.74)
Current Assets	356,904,686.00	317,376,604.00	39,528,082.00	12.45
Current liabilities	263,399,336.40	314,192,990.00	(50,793,654.60)	(16.17)
Total Assets	643,453,023.36	626,788,807.00	16,664,216.36	2.66
Total Liabilities	512,793,396.17	570,617,398.00	57,824,001.83	10.24

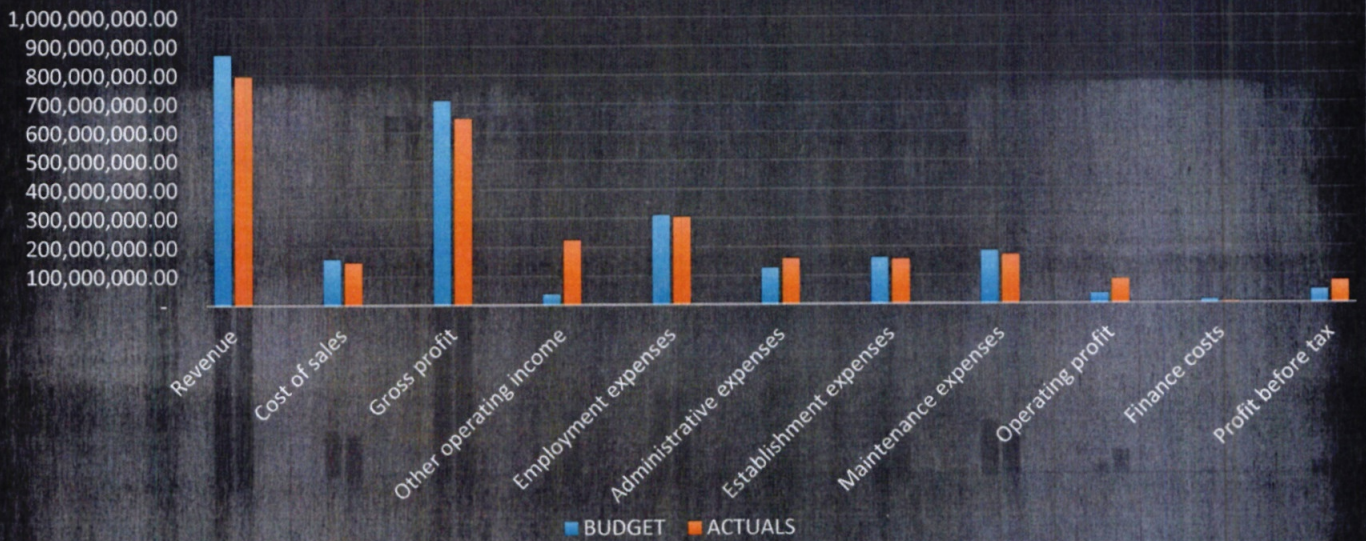
- i. The rise in profitability in the Financial year ended 2021 was attributed to grant received from WSTF (Government) to cushion the company against the impact of Covid-19 pandemic.
- ii. The cost of production marginally reduced by 4.12% due reduced consumption/production during the year compared to previous financial year.
- iii. Total costs of operations in the year realized an increase of 16.24%
- iv. The Company's fixed assets declined by 6.43% while the long-term Liabilities grew by 2.74%
- v. Total assets grew by 2.66% while total liabilities reduced by 10.24% in the year under review.



EXPENDITURE ANALYSIS



FY 2021 BUDGET VS ACTUALS



ASSET GROWTH



CORPORATE SOCIAL RESPONSIBILITY STATEMENT/SUSTAINABILITY REPORTING

Kisumu Water and Sanitation Company recognize its obligations to act responsibly, ethically and with integrity in its dealings with staff, customers, neighbours and the environment as a whole. We remain firmly committed to courses that positively impact our society and influence sustainability of our business.

In the year, we supported a number of CSR activities namely;

- ❖ Constructed eight hand washing stations in various public areas within the city.
- ❖ Donated over 200 (two hundred) hand washing containers to various stakeholders across the city e.g. Kisumu county government, hospitals, schools, churches, hotels and markets.
- ❖ Donated over 5000 litres of sanitizers, hand washing soaps and face masks to various customers, schools, section of boda boda stages within the city.
- ❖ Waiver of water bills to low income customers including rescheduling of debts to various customers.
- ❖ Tree planting within the city and Kiwasco installations.
- ❖ Free water donations using 10,000 litres bowsers

To this end: -

1. The Company has a separate occupational and health policy statement and Quality policy statement clarifying its commitment to delivering a net positive impact on the safety and health.
2. The Company has established a Corporate Social Responsibility budget line within its annual budget through which it supports its social responsibility objectives.
3. The company undertakes regular health and safety workplace audits
4. Ethically the Company is committed to doing the right things, conducting ourselves in a legal, ethical and trust worthy manner.

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

REPORT OF THE DIRECTORS

The directors submit their report and the audited financial statements for the year ended 30 June 2021 which disclose the state of affairs of the company.

PRINCIPAL ACTIVITIES

The principal activities of the company are:

- i) To provide and distribute a constant supply of water for commercial, industrial and domestic purposes within the jurisdiction of County Government of Kisumu.
- ii) To be responsible for the provision and maintenance of water and sewerage services within the jurisdiction of County Government of Kisumu.

RESULTS	2021 Shs	2020 Shs
Profit before tax	77,671,832	5,655,583
Tax	<u>0</u>	<u>(1,681,860)</u>
Profit for the year	<u><u>77,671,832</u></u>	<u><u>3,973,723</u></u>

DIVIDEND

The directors do not propose a dividend for the year.

DIRECTORS

The directors who held office during the year and to the date of this report are shown on page ii.

AUDITORS

The company's auditor is the Auditor General and continues in office in accordance with section 159(2) of the Companies Act.

BY ORDER OF THE BOARD



DIRECTOR

KISUMU

29TH SEPTEMBER 2021



DIRECTOR

KISUMU

29TH SEPTEMBER 2021

STATEMENT OF BOARD OF DIRECTORS' RESPONSIBILITIES

The Companies Act 2015 requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company as at the end of the financial year and of its profit and loss for that year. It also requires the directors to ensure that the company maintains proper accounting records which disclose with reasonable accuracy the financial position of the company. The directors are also responsible for safeguarding the assets of the company.

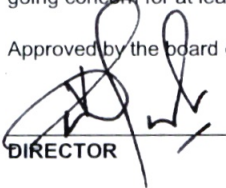
The directors accept the responsibility for the preparation and fair presentation of the financial statements that are free from material misstatements whether due to fraud or error. They also accept responsibility for:

- i. Designing, implementing and maintaining such internal control as they determine what is necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error;
- ii. Selecting and applying appropriate accounting policies; and
- iii. Making accounting estimates and judgements that are reasonable in the circumstances;

The directors are of the opinion that the financial statements give a true and fair view of the state of the financial position of the company as at 30 June 2021 and of the company's financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Kenyan Companies Act.

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

Approved by the board of directors on 29TH SEPTEMBER 2021 and signed on its behalf by:



DIRECTOR



DIRECTOR

REPUBLIC OF KENYA

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



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

REPORT OF THE AUDITOR-GENERAL ON KISUMU WATER AND SANITATION COMPANY 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 Kisumu Water and Sanitation Company set out on pages 1 to 25 which comprise of the statement of financial position as at 30 June, 2021, and the statement of profit or loss and other comprehensive income,

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

statement of changes in equity, statement of cash flows and the 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 Kisumu Water and Sanitation Company 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 Companies Act, 2015 and the Public Finance Management Act, 2012.

Basis for Qualified Opinion

1. Unsupported Property, Plant and Equipment

The statement of financial position reflects property, plant and equipment balance of Kshs.266,509,028 which, as disclosed in Note 10 to the financial statements includes additions during the year totalling to Kshs.26,849,851. However, the asset register maintained by the Management was not updated with asset identification number, location, cost, depreciation rate, accumulated depreciation, depreciation charge for the year and book value of the asset among others.

In the circumstances, the accuracy and completeness of property, plant and equipment balance of Kshs.266,509,028 could not be confirmed.

2. Unsupported Provision for Bad Debts

The statement of profit or loss and other comprehensive income reflects administrative expenses of Kshs.158,955,106 which, as disclosed in Note 26 to the financial statements includes bad debts provision of Kshs.48,986,667 owed by seven hundred and forty-seven (747) customers. The decision to provide for bad debts was recommended by the finance committee. However, Management has not disclosed the basis for the provision given that the majority of the customers are schools. It has also not been indicated for how long the debts have been outstanding and the measures taken to have them collected.

In addition, according to debtors age analysis report, the provision included a balance of Kshs.573,824 owed by customers whose accounts were less than 180 days old and Management did not provide customer statements and demand notices to confirm measures taken to recover each of the debts.

In the circumstances, the accuracy and completeness of provision for bad debts amount of Kshs.48,986,667 could not be confirmed.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the Kisumu Water and Sanitation Company

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 Information

The Directors are responsible for the other information, which comprises, the Chairman's Statement, Managing Directors Statement, a review of Company's Performance, Corporate Governance statement, Management discussion analysis and Corporate Social Responsibility Statement. 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. Non-compliance with the Public Sector Accounting Standards Board Requirements

In the audit report of the previous year, several issues were raised. However, the Management has not disclosed and resolved the issues or given satisfactory explanation for failure to adhere to the provisions of the Public Sector Accounting Standards Board (PSASB) templates.

In the circumstances, the annual reports and financial statements are not PSASB compliant.

2. Lack of Bank Accounts Register

It was noted during the audit that the Company did not maintain a register of bank accounts. This was contrary to Section 87(3) of the Public Finance Management (County Governments) Regulations, 2015 which requires each public entity to maintain a register of bank accounts. Although eight (8) accounts were disclosed in the financial statements, it was not possible to confirm that these were the only accounts operated by the Company.

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

3. Non-compliance with the Law on Staff Ethnic Composition

Review of the Company's payroll revealed that out of the three hundred and twenty-seven (327) permanent employees, two hundred and seventy-six (276) or approximately 84% were from the dominant ethnic community. This is in contravention of Section 7(1) & (2) of the National Cohesion and Integration Act, 2008, which stipulates that all public establishments shall seek to represent the diversity of the people of Kenya in the employment of staff and that no public establishment shall have more than one third of its staff from the same ethnic community.

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

4. Non-compliance with the Law on Non-revenue Water

During the year under review, the Company produced a total of 9,915,691 cubic meters (M³) of water. However, a total of 6,842,992 M³ was billed to customers resulting to Non-Revenue Water (NRW) of 3,072,699 M³ or 31%. The allowable NRW rate according to Water Service Regulatory Board (WASREB) guidelines is 25%, resulting to 6% over and above the allowable rate. Therefore, the unallowable 6% representing 594,942 M³ of water may have resulted to Non-Revenue Water (NRW) loss estimated at Kshs.17,848,244 at a rate of Kshs.30 M³.

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

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

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

Basis for Conclusion

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

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

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

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

Responsibilities of Management and the Board of Directors

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

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

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

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

The Board of Directors is responsible for overseeing the Company's financial reporting process, reviewing the effectiveness of how Management monitors compliance with relevant legislative and regulatory requirements, ensuring that effective processes and

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


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

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

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

I communicate with the 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 to communicate with them all relationships and other matters that may reasonably be thought to bear on my independence and where applicable, related safeguards.


CPA Nancy Gathungu, CBS
AUDITOR-GENERAL

Nairobi

08 September, 2022

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


	Notes	2021 Shs	2020 Shs
Revenue	1	797,099,981.00	794,276,150
Cost of sales	6	(148,377,800)	(154,760,716)
Gross profit		648,722,181	639,515,433
Other operating income	2	224,389,950	50,467,569
Employment expenses	4	(303,877,967)	(301,780,340)
Administrative expenses	26	(158,955,106)	(94,249,739)
Establishment expenses	27	(155,494,515)	(153,182,955)
Maintenance expenses	28	(170,845,725)	(125,288,550)
Operating profit		83,938,818	15,481,418
Finance costs	5	(6,266,986)	(9,825,835)
Profit before tax		77,671,832	5,655,583
Tax Charge	7	0	(1,681,860)
Profit for the year		77,671,832	3,973,723
Total comprehensive income for the year		77,671,832	3,973,723
Dividend:			
Proposed final dividend for the year	8		
Total dividend for the year		-	-

The significant accounting policies on pages 6 to 12 and the notes on pages 13 to 25 form an integral part of these financial statements.

STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2021

	Notes	2021 Shs	2020 Shs
CAPITAL EMPLOYED			
Share capital	24	100,000	100,000
Revaluation reserve		1,176,114	1,176,114
Retained earnings		129,383,512	51,711,680
Shareholders' fund		130,659,626	52,987,795
Non-current liabilities			
Borrowings	9	0	43,920,162
Trade and other payables	14	153,401,997	140,872,699
Grants	17	95,992,063	71,631,547
		249,394,060	256,424,408
		380,053,686	309,412,203
REPRESENTED BY			
Non current assets			
Property, plant and equipment	10	266,509,028	281,180,868
Intangible Asset		15,025,237	20,033,650
Deferred tax	11	5,014,071	5,014,071
		286,548,337	306,228,589
Current assets			
Inventories	12	43,810,587	32,394,679
Trade and other receivables	13	258,209,917	254,915,333
Cash and cash equivalents	29	54,884,182	30,066,592
		356,904,686	317,376,604
Current liabilities			
Trade and other payables	14	245,406,566	291,965,922
Provision for liabilities and charges	15	8,718,695	4,702,008
Borrowings	9	0	4,372,626
Current tax	7	9,274,075	13,152,434
		263,399,336	314,192,990
Net current assets		93,505,350	3,183,614
		380,053,686	309,412,203

The financial statements on pages 1 to 25 were authorised for issue by the Board of Directors on 29th SEPTEMBER 2021 and were signed on its behalf by:


 CPA Nicholas Moseti
 Head of Finance
 ICPAK no.14313


 DIRECTOR


 DIRECTOR

The significant accounting policies on pages 6 to 12 and the notes on pages 13 to 25 form an intergral part of these financial statements.

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

	Notes	Share capital Shs	Revaluation Reserve Shs	Retained earnings Shs	Total Shs
Year ended 30 June 2020					
At start of year	24	100,000	1,176,114	47,737,957	49,014,071
		<u>100,000</u>	<u>1,176,114</u>	<u>47,737,957</u>	<u>49,014,071</u>
Total comprehensive income for the year	-	-	-	3,973,723	3,973,723
Dividends Payable				-	-
		<u>100,000</u>	<u>1,176,114</u>	<u>51,711,680</u>	<u>52,987,794</u>
At end of year		<u>100,000</u>	<u>1,176,114</u>	<u>51,711,680</u>	<u>52,987,794</u>
Year ended 30 June 2021					
At start of year		100,000	1,176,114	51,711,680	52,987,794
		<u>100,000</u>	<u>1,176,114</u>	<u>51,711,680</u>	<u>52,987,794</u>
At start of year		100,000	1,176,114	51,711,680	52,987,794
Total comprehensive income for the year	-	-	-	77,671,832	77,671,832
Dividends payable reversed:				-	-
		<u>100,000</u>	<u>1,176,114</u>	<u>129,383,512</u>	<u>130,659,626</u>
At end of year		<u>100,000</u>	<u>1,176,114</u>	<u>129,383,512</u>	<u>130,659,626</u>

The significant accounting policies on pages 6 to 12 and the notes on pages 13 to 25 form an integral part of these financial statements.

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2021

	Notes	2021 Shs	2020 Shs
Operating activities			
Cash generated from operations	16	57,610,017	70,975,950
Gratuity Paid		-	-
Tax paid		(3,878,359)	-
Net cash generated from operating activities		53,731,658	70,975,950
Investing activities			
Purchase of property, plant and equipment	10	(26,849,851)	(66,208,957)
Intangible Asset		-	(10,991,588)
Disposal/Impaired		1,892,592	5,475,600
Net cash (used in) investing activities		(24,957,259)	(71,724,944)
Financing activities			
Increase in water deposits	14	12,529,297	9,240,428
Grant received	17	38,073,668	30,566,688
Borrowings Received	9	-	13,845,752
Borrowings Paid	9	(48,292,788)	(34,728,823)
Interest paid	5	(6,266,986)	(9,825,835)
Donations received	9	-	-
Repayment of finance leases			
Net cash from financing activities		(3,956,809)	9,098,210
Increase in cash and cash equivalents		24,817,591	8,349,216
Movement in cash and cash equivalents			
At start of year		30,066,592	21,717,376
Increase/(Decrease)		24,817,591	8,349,216
At end of year	29	54,884,182	30,066,592

The significant accounting policies on pages 6 to 12 and the notes on pages 13 to 25 form an integral part of these financial statements.

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

	Notes	ORIGINAL BUDGET 2020/2021 Shs	ADJUSTMENTS 2020/2021 Shs	FINAL BUDGET 2020/2021 Shs	ACTUAL ON COMPARABLE 2020/2021 Shs	PERFORMANCE/ DIFFERENCE 1.00 Shs
Revenue	1	871,606,910	0	871,606,910	797,099,981	(74,506,928.51)
Cost of sales	6	(160,187,394)	0	(160,187,394)	(148,377,800)	11,809,594.00
Gross profit		711,419,516	0	711,419,516	648,722,181	(62,697,334.51)
Other operating income	2	38,224,000	0	38,224,000	224,389,950	186,165,950.30
Employment expenses	4	(310,174,010)	0	(310,174,010)	(303,877,967)	6,296,043.05
Administrative expenses	26	(127,767,192)	0	(127,767,192)	(158,955,106)	(31,187,913.98)
Establishment expenses	27	(153,470,494)	(8,000,000)	(161,470,494)	(155,494,515)	5,975,979.37
Maintenance expenses	28	(145,127,313)	(40,000,000)	(185,127,313)	(170,845,725)	14,281,587.59
Operating profit		13,104,506	(48,000,000)	(34,895,494)	83,938,818	118,834,311.82
Finance costs	5	(11,958,487)	0	(11,958,487)	(6,266,986)	5,691,500.75
Profit before tax		1,146,019	(48,000,000)	(46,853,981)	77,671,832	124,525,812.57
Tax Charge	7	(343,806)	0	0	0	0.00
Profit for the year		<u>802,214</u>	<u>(48,000,000)</u>	<u>(46,853,981)</u>	<u>77,671,832</u>	<u>124,525,812.57</u>
Total comprehensive income for the year		<u>802,214</u>	<u>(48,000,000)</u>	<u>(46,853,981)</u>	<u>77,671,832</u>	<u>124,525,812.57</u>

NOTE:

- i. The Company achieved 91.5% of the budgeted revenue in the year under review. This is considered a good performance considering the state of the Economy that is affected by the Covid-19 pandemic
- ii. Other incomes increased in the year due to the Government grant that was given to mitigate wtare companies against the effects of Covid-19 Pandemic i.e. Conditional Liquidity Support Grant (CLSG) and donations of Water chemicals
- iii. Employment expenses was marginally within approved budget with a 98% utilisation
- iv. The overall Administrative expenses remained within the approved budget in the year under review. Reallocation of funds within the budget was done and approved in the supplementary budget to acter for under and overspendings within the budget line. A provision for baddebts totalling to Kshs.48,986,666.96 was proposed by Mangement and approved by the Board for write-off
- v. Establishment expenses were within budget except for the depreciation amount which was increased due to cater for under-budgeting at the start of the year. Overall utilisation was 95.4%.
- vi. Maintenance expense adjusted upwards to cater for new projects and activities brought about by the Government grant (CLSG) However, reallocations within the budget lines was considered in the supplementary budget to cater for under/over spendings
- vii. Favourable terms with the bank led to redution of finance costs i.e. interest only on disbursed loan amounts. Grant subsidy from WSTF towards the Output Based Aid (OBA) in RIAT also led to reduced loan amount hence low interest charge
- viii. Improved profitability caused by the Grant received (CLSG) from the Governemnt which is not subject to Taxation
- ix. Cost of sales includes donations of Chemicals worth Kshs.39,712,536 from the Government and other development patners

The significant accounting policies on pges 6 to 12 and notes on pages 13 to 25 form an intergral part of these financial statements

NOTES TO THE FINANCIAL STATEMENTS

SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

a) Basis of preparation

The financial statements are prepared under the historical cost basis except for the measurement at revalued amounts of certain items of property, plant and equipment and financial instruments at fair value, impaired assets at their estimated recoverable amounts. The preparation of financial statements in conformity with International Financial Reporting Standards (IFRS) allows the use of estimates and assumptions. It requires management to exercise judgement in the process of applying the entity's accounting policies.

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

The financial statements have been prepared in accordance with the PFM Act 2014 and International Financial Reporting Standards (IFRS). The accounting policies adopted have been consistently applied to all years presented.

Going Concern

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

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

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

Adoption of new and revised International Financial Reporting Standards (IFRSs) and Interpretations (IFRIC)

Adoption of new and revised International Financial Reporting Standards (IFRS)

i. New standards and amendments to published standards effective for the period ended 30 June 2016

There were no new and revised IFRSs that were effective in the current year that had impact on the amounts reported in these financial statements

ii. Impact of new and amended standards and interpretations on the financial statements for the period ended 30 June 2016 and future annual periods

In May 2015, IFRS 15 was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. IFRS 15 will supersede the current revenue recognition guidance including IAS 18 Revenue, IAS 11 construction Contracts and the related interpretations when it becomes effective.

iii. Early adoption of standards

The Company did not early-adopt any new or amended standards in the financial period.

NOTES

SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

b) Critical Accounting Judgements and Key sources of estimation uncertainty

In the process of applying the company's accounting policies, the directors are required to make judgements, estimates and assumptions about carrying amounts of assets and liabilities that are not readily apparent from other sources.

The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if revision affects only that period or in the period of revision and future periods if the revision affects both current and future periods.

i. Critical Judgements in applying accounting policies

There are no critical judgements apart from those involving estimations (in ii below), that the directors have made in the process of applying the company's accounting policies and that are the most significant effect on amounts recognised in the financial statements.

ii. Key sources of estimation uncertainty

Impairment losses - At the end of each period, the company reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss.

If any such indications exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. Where it is possible to estimate the recoverable amount of an individual asset, the company estimates the recoverable amount of the cash generating unit which the asset belongs.

Property, plant, equipment and intangible assets- Management reviews the useful lives of property plant and equipment on a regular basis. During the financial year, the directors determined no significant changes in the useful lives and residual values.

Contingent liabilities - As disclosed in note 26 to these financial statements, the company is exposed to various contingent liabilities in the normal course of business including a number of legal cases. The directors evaluate the status of these exposures on a regular basis to assess the probability of the company incurring related liabilities. However, provisions are only made in the financial statements where, based on directors' evaluation, a present obligation has been established.

c)

Significant judgements made by management in applying the company's accounting policies

Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and/or performance of services, in the ordinary course of business and is stated net of Value Added Tax (VAT), rebates and discounts.

The company recognises revenue when the amount of revenue can be reliably measured, it is probable that future

- i) Sale of water is recognised upon delivery of water and customer acceptance.
- ii) Sale of services are recognised upon performance of the services rendered by reference to the stage of completion of the service contract.

Operating Expenses

Operating expenses comprise the fair value of the consideration paid or payable for the purchase of goods and services in the ordinary course of business and are stated net of Value Added Tax (VAT). The Company recognises operating expenses when the expense can be reliably measured and is probable that the it has been incurred.

NOTES

SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

d) Translation of foreign currencies

Transactions in foreign currencies during the year are converted into Kenya Shillings (the functional currency), at rates ruling at the transaction dates. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items that are measured in terms of historical costs in a foreign currency are not retranslated. Assets and liabilities at reporting date which are expressed in foreign currencies are translated into Kenya Shillings at rates ruling at that date. The resulting differences from conversion and translation are dealt with in profit or loss in the year in which they arise.

Translation differences on non-monetary financial assets and liabilities such as equities held at fair value through profit or loss are recognised in profit or loss as part of the fair value gain or loss. Translation differences on non-monetary financial assets such as equities classified as available for sale, are included in other comprehensive income.

e) Property, plant and equipment

All property, plant and equipment is initially recorded at cost and thereafter stated at historical cost less

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the company and the cost can be reliably measured. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to profit or loss during the financial period in which they are incurred.

Depreciation on buildings is provided on a straight line basis over its estimated useful life of 40 years.

Freehold land is not depreciated

Leasehold land is depreciated over the remaining period of the lease

Depreciation on other assets is calculated on the reducing balance basis to write down the cost of each asset, to its

	Rate %
Buildings	2.5 (Straight line)
Plant, machinery and meters	12.5
Motor vehicles and cycles	25
Furniture and fittings	12.5
Computer equipment	30

Capital work in progress is not depreciated.

The assets residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is

Gains and losses on disposal of property, plant and equipment are determined by comparing the proceeds with the carrying amount and are taken into account in determining operating profit/loss. On disposal of revalued assets, amounts in the revaluation reserve relating to that asset are transferred to retained earnings in the statement of changes in equity.

NOTES (CONTINUED)

f) Intangible assets

Computer software

Computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives which are

Costs associated with developing or maintaining computer software programmes are recognised as an expense as incurred. Costs that are directly associated with the production of identifiable and unique software products controlled by the company, and that will probably generate economic benefits exceeding costs beyond one year, are recognised as intangible assets. Direct costs include software development staff costs and an appropriate portion of relevant overheads.

Computer software development costs recognised as assets are amortised over their estimated useful lives which are estimated to be 5 years on a straight line basis.

g) Financial instrument

Financial assets and financial liabilities are recognised when the company becomes a party to the contractual provisions of the instrument.

Financial assets

The company's financial assets which include cash and bank balances and trade and other receivables fall into the following category:

Loans and receivables: financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are classified as current assets where maturities are within 12 months of the reporting date.

All assets with maturities greater than 12 months after the reporting date are classified as non-current assets. Such assets are carried at amortised cost using the effective interest rate method. Changes in the carrying amount are recognised in profit or loss.

Purchases and sales of financial assets are recognised on the trade date i.e. the date on which the company commits to purchase or sell the asset.

A financial asset is impaired if its carrying amount is greater than its estimated recoverable amount. The amount of the impairment loss for assets carried at amortised cost is calculated at the difference between the assets carrying amount and the present values of expected future cash flows, discounted at the financial instrument's effective interest rate. Impairment losses are taken into account for determining operating profit.

Financial liabilities

The company's financial liabilities which include borrowings, current tax and trade and other payables fall into the following category:

Other financial liabilities: These are initially measured at fair value and subsequently measured at amortised cost, using the effective interest rate method.

Borrowings are initially recognised at fair value, net of transaction costs incurred and are subsequently stated at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption value is recognised as interest expense in profit or loss under finance costs.

NOTES (CONTINUED)

SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

g) Other Financial liabilities (continued)

Fees associated with the acquisition of borrowing facilities are recognised as transaction costs of the borrowing to the extent that it is probable that some or all of the facilities will be acquired. In this case the fees are deferred until the drawn down occurs. If it is not probable that some or all of the facilities will be acquired the fees are accounted for as prepayments under trade and other receivables and amortised over the period of the facility.

All financial liabilities are classified as current liabilities unless the company has an unconditional right to defer settlement of the liability for at least 12 months after the reporting date.

Financial liabilities are derecognised when, and only when, the company's obligations are discharged, cancelled or expired.

Offsetting financial instruments

Financial assets and liabilities are offset and the net amount is presented in the statement of financial position when there is a legally enforceable right to offset the amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

h) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined by the direct purchase value and all costs attributable to bringing the inventory to its current location and condition and is stated on a first-in first-out (FIFO) basis. Net realisable value is the estimate of the selling price in the ordinary course of business, less the selling expenses.

i) Cash and cash equivalents

For the purposes of the statement of cash flows, cash and cash equivalents comprise cash in hand and deposits held at call with banks.

In statement of financial position, bank overdrafts are included within borrowings in current liabilities

j) Share capital

Ordinary shares are classified as equity.

k) Dividends

Proposed dividends are disclosed as a separate component of equity until declared. Dividends are recognised as a liability in the period in which they are approved by the shareholders

l) Taxation

The tax expense for the year comprises current and deferred tax. Tax is recognised in profit or loss.

Current tax

Current tax is provided on the results for the year, adjusted in accordance with tax legislation.

Deferred tax

Deferred tax is provided using the liability method for all temporary timing differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes. Currently enacted tax rates are used to determine deferred tax. Deferred tax assets are recognised only to the extent that it is probable that future taxable profits will be available against which temporary timing differences can be utilised.

No deferred tax asset/liability was recognised in the year under review

NOTES (CONTINUED)

SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

m) Accounting for leases

Leases of property, plant and equipment, where the company assumes substantially all the risks and rewards of ownership, are classified as finance leases. Finance leases are capitalised at cost. Each lease payment is allocated between the liability and finance charges. The interest element is charged to profit or loss over the lease period and is included under finance costs. Such property, plant and equipment are depreciated over its useful life.

Leases of assets under which a significant portion of the risks and rewards of ownership are effectively retained by the lessor are classified as operating leases. Payments made under operating leases are charged to profit or loss on a straight line basis over the period of the lease.

n) Provisions

Provisions for environmental restoration, restructuring costs and legal claims are recognised when the company has present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and amount has been reliably estimated. Provisions for future operating losses are not recognised.

The amount recognised as provisions is the best estimate of the present value of expenditures expected obligation using pre-tax rate that reflects the current market assessment of time value of money and the risks specific to the obligation. Increase in provisions due to passage of time is recognised as interest expense in profit or loss under finance costs.

o) Employee entitlements

The estimated monetary liability for employees' accrued annual leave entitlement at the reporting date is recognised as an expense accrual.

p) Retirement benefit obligations

Employee entitlements to gratuity and long service awards are recognised when they accrue to employees. A provision is made for the estimated liability for such entitlements as a result of services rendered by employees up to the reporting date.

The company operates a defined contribution staff retirement benefit scheme for its permanent and pensionable employees. The assets of this scheme are held in a separate trustee administered fund. The company's contributions to the defined contribution retirement benefit scheme are charged to profit or loss in the year to which they relate. The company has no further payment obligations once the contributions have been paid.

The company and its employees contribute to the National Social Security Fund (NSSF), a statutory defined contribution scheme registered under the NSSF Act. The company's contributions to the defined contribution scheme are charged to profit or loss in the year to which they relate.

q) Grants

Grants related to assets, including-non monetary grants at fair value are presented in the statement of financial position by setting up the grant as deferred income.

The grant is recognised as income on a systematic and rational basis over the useful life of the asset.

NOTES (CONTINUED)

SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

r) **Borrowing costs**

Borrowing costs that are attributable to acquisition, construction or production of a qualifying asset are capitalised as part of the asset based on either on actual cost on specific borrowing or in the case of general borrowings, based on a weighted average cost.

Capitalisation of borrowing costs ceases when all activities necessary to prepare the asset for its intended use or sale are complete. All other borrowing costs are recognised in profit or loss.

s) **Comparatives**

Where necessary, comparative figures have been adjusted to conform with changes in presentation in the current year.

NOTES

	2021 Shs	2020 Shs
1. Revenue		
Sale of Water/Sewerage and services	797,099,981	794,276,150
2. Other operating income		
Illegal connections	1,740,532	824,295
New water connections	6,321,366	5,378,926
Reconnection fees	6,345,688	46,302
Sewer agreement forms	0	-
Sewer connection	806,318	582,887
Tender income	0	0
Water connection forms	0	0
Surcharge on meter loss	1,734,059	2,313,135
Other miscellaneous income	1,096,681	6,204,934
Other Income - Donations	47,738,772	23,239,942
Exhauster Services	6,572,600	1,644,070
Other income - Grants	138,320,782	0
Write back of grants	13,713,152	10,233,078
Total other operating income	224,389,950	50,467,569
3. Operating profit		
The following items have been charged in arriving at operating profit:		
Establishment expenses (Note.27)	115,628,842	111,274,856
Depreciation on property, plant and equipment (Note 10)	39,865,673	41,908,099
Administrative costs (Note.26)	91,300,713	88,308,718
Admin Expenses - Auditors' remuneration		
- Current year	580,000	580,000
Trade receivables - impairment	-	-
Repairs and maintenance (Note.28)	170,845,725	125,288,550
Staff costs (Note 4)	303,877,967	301,780,340
4. EMPLOYMENT EXPENSES		
Salaries and wages	239,217,781	238,307,340
Other staff costs	23,436,112	23,745,990
Gratuity (Note 15)	4,016,687	3,432,338
Allowances in lieu of leave	211,690	1,318,303
Pension costs:		
- Defined contribution scheme	13,555,337	13,738,646
- National Social Security Fund	784,400	796,200
Staff medical expense	21,541,806	20,046,650
Staff welfare	918,055	195,823
DIT Levy	196,100	199,050
	303,877,967	301,780,340
5. FINANCE COSTS		
Interest on Bank loan - Co-op Bank (OBA Project)	5,288,008	9,035,103
Interest on IPF - Medical Insurance	978,978	790,732
	6,266,986	9,825,835
6. COST OF SALES		
Opening inventories of chemicals	3,395,401	3,864,390
Water chemicals	89,693,211	92,163,347
Electricity	57,843,358	62,128,380
Closing inventories of chemicals	(2,554,170)	(3,395,401)
Total cost of sales	148,377,800	154,760,716

NOTES (CONTINUED)

7. Tax	2021 Shs	2020 Shs
Brought forward	13,152,433	11,470,573
Current tax	0	1,681,860
Tax paid	(3,878,359)	0
	<u>9,274,075</u>	<u>13,152,433</u>
Amount that would arise using the basic rate as follows:		
Profit before tax	<u>77,671,832</u>	<u>6,124,572</u>
Tax calculated at a tax rate of 30% (2021: 30%)	23,301,550	1,837,372
Tax effect of:		
- expenses not deductible for tax purposes	14,908,618	16,230,739
- income not subject to tax	(60,058,264)	(16,245,554)
- overprovision of current tax in prior years	-	-
Tax charge	<u>-</u>	<u>1,822,557</u>
Tax charge for the year	<u>-</u>	<u>1,822,557</u>

8. Dividends

Payment of dividend is subject to a withholding tax at the rate of 5% for residents and 10% for non-residents or 0% where holding is by a resident company holding more than 12.5%.
 There was no Dividends declared in the year under review

9. Borrowings	2021 Shs	2020 Shs
Coop Bank -OBA Project Loan	-	48,292,788
	<u>-</u>	<u>48,292,788</u>
Maturity Analysis:		
	2021 Shs	2020 Shs
Non-current		
Co-oP Bank OBA Project Loan	-	43,920,162
	<u>0</u>	<u>43,920,162</u>
Current		
Coop Bank - OBA Project Loan	-	4,372,626
Asset Finance	-	-
	<u>-</u>	<u>4,372,626</u>
Total borrowings	<u>-</u>	<u>48,292,788</u>

Finance leases are secured by a right over the leased assets i.e.an All Asset Debentures.

Weighted average effective interest rates at the year end was 13%.

The fair values of current borrowings equal to their carrying amount, as the impact of discounting is not significant. The fair values are based on cash flows discounted using the weighted average rates mentioned above.

In the opinion of the directors, it is impracticable to assign fair values to the company's long-term liabilities due to inability to forecast interest rate.

The carrying amounts of the company's borrowings are denominated in the Kenya Shillings.

The entire loan amount is classified as longterm due to a moratorium on interest payment in the first year of the loan.

NOTES (CONTINUED)

10.(a) Property, plant and equipment
Year ended 30 June 2021

	Leasehold improvements Shs	Plant, machinery and meters Shs	Motor vehicles and cycles Shs	Furniture and fittings Shs	Computer equipment Shs	Capital work-in- progress Shs	Project Assets Shs	Real Assets Total Shs
Cost or Valuation	2.50%	12.5%	25%	12.5%	30%		12.5%	
As at 1st July 2020	1,138,554	236,750,747	20,933,683	13,195,123	16,088,020	-	192,065,373	480,171,499
Additions	(0)	12,911,977	5,744,000	371,910	2,307,740	5,514,224	-	26,849,851
Impairment	-	(1,892,592)	-	-	-	-	-	(1,892,592)
Transfers to Finished Assets	-	-	-	-	-	-	-	-
Reclassification to Intangible Assets	-	-	-	-	-	-	-	-
As at 30th June 2021	1,138,554	247,770,132	26,677,683	13,567,033	18,395,760	5,514,224	192,065,373	505,128,758
Depreciation								
As at 1st July 2020	394,714	107,907,297	17,187,435	8,031,916	11,507,991	-	53,961,279	198,990,631
Reversal on impairment/Acc. Dep	-	(236,574)	-	-	-	-	-	(236,574)
Charge for the year	18,596	17,453,283	2,372,562	691,890	2,066,331	-	17,263,012	39,865,673
As at 30th June 2021	413,310	125,124,006	19,559,997	8,723,806	13,574,321	-	71,224,290	238,619,730
Net book value - 30th June 2021	725,244	122,646,126	7,117,687	4,843,228	4,821,438	5,514,224	120,841,082	266,509,028

10.(b) Property, plant and equipment
Year ended 30 June 2019

	Leasehold improvements Shs	Plant, machinery and meters Shs	Motor vehicles and cycles Shs	Furniture and fittings Shs	Computer equipment Shs	Capital work-in- progress Shs	Project Assets Shs	Total Shs
Cost	2.50%	12.5%	25%	12.5%	30%		12.5%	
As at 1st July 2019	1,138,554	212,475,807	20,933,683	12,104,275	12,357,430	100,118,574	69,351,882	428,480,205
Additions	0	29,750,540	-	1,090,848	3,730,590	31,636,979	-	66,208,957
Transfers/Disposal/Impairment	-	(5,475,600)	-	-	-	(122,713,490)	122,713,490	(5,475,600)
						(9,042,062)		(9,042,062)
As at 30th June 2020	1,138,554	236,750,747	20,933,683	13,195,123	16,088,020	-	192,065,373	480,171,499
Depreciation								
As at 1st July 2019	375,641	90,381,097	15,938,685	7,294,315	9,545,121	-	34,232,122	157,766,982
Reversal on impairment	-	(684,450)	-	-	-	-	-	(684,450)
Charge for the year	19,073	18,210,650	1,248,750	737,601	1,962,870	-	19,729,156	41,908,099
As at 30th June 2020	394,714	107,907,297	17,187,435	8,031,916	11,507,991	-	53,961,279	198,990,631
Net book value - 30th June 2020	743,840	128,843,449	3,746,249	5,163,207	4,580,029	-	138,104,094	281,180,868

NOTES (CONTINUED)

11 Deferred tax

Deferred tax is calculated, in full, on all temporary timing differences under the liability method using a principal tax rate of 30%. (2021:30%). There was no movement in the year under review as shown below:

	2021 Shs	2020 Shs
At start of year	(5,014,071)	(5,014,071)
(Credit)/charge to profit or loss (Note 7)	<u>-</u>	<u>-</u>
At end of year	<u>(5,014,071)</u>	<u>(5,014,071)</u>

Deferred tax (assets) and liabilities, deferred tax charge/(credit) to other comprehensive income and deferred tax charge/(credit) to equity, deferred tax charge/(credit) in profit or loss are attributable to the following items:

	At start of year Shs	(Credit) to profit or loss Shs	At end of year Shs
Deferred tax (assets)			
Provisions	<u>(5,014,071)</u>	<u>0</u>	<u>(5,014,071)</u>
Net deferred tax (asset)	<u>(5,014,071)</u>	<u>-</u>	<u>(5,014,071)</u>

12 Inventories

	2021 Shs	2020 Shs
Chemicals	2,554,170	3,395,401
Consumables	<u>41,256,417</u>	<u>28,999,278</u>
	<u>43,810,587</u>	<u>32,394,679</u>

13 Trade and other receivables

Trade receivables	200,650,307	201,375,910
Less: Offset of Inherited County Government bills	0	0
Less: provision for impairment/Credits awarded	<u>-</u>	<u>-</u>
Net trade receivables	200,650,307	201,375,910
Prepayments and deposits (Appendix c)	8,930,921	8,372,163
Other receivables (Appendix d)	29,564,029	29,394,510
Receivable from related parties (Note 13 on movements)	<u>19,064,661</u>	<u>15,772,751</u>
	<u>258,209,917</u>	<u>254,915,333</u>

NOTES (CONTINUED)

13 Trade and other receivables (continued)	2021 Shs	2020 Shs
Movement in related parties balances		
At start of year	15,772,751	12,480,841
Additions in the year - Bills	9,347,159	9,347,159
Bills paid by the County government	(6,055,249)	(6,055,249)
	<u>19,064,661</u>	<u>15,772,751</u>
At end of year	<u>19,064,661</u>	<u>15,772,751</u>

Related party referred to here is the County Government of Kisumu formerly Municipal Council of Kisumu (MCK). KIWASCO is a wholly owned subsidiary of the County Government of Kisumu and supplies water to various institutions and premises owned and operated by the County Government of Kisumu.

Movement in impairment provisions

At start of year	-	-
Additions	48,986,667	-
	<u>48,986,667</u>	<u>-</u>
At end of year	<u>48,986,667</u>	<u>-</u>

In the opinion of the directors, the carrying amounts of trade and other receivables approximate to their fair value.

The company's credit risk arises primarily from trade receivables. The directors have not made a provision for the portion of the receivable whose recovery is in doubt this year.

The carrying amounts of the company's trade and other receivables are all denominated in Kenya Shillings.

The maximum exposure to credit risk at the reporting date is the fair value of each class of receivable mentioned above. The company does not hold any collateral as security.

14 Trade and other payables	2021 Shs	2020 Shs
Non current		
Water deposits	126,741,601	114,212,303
County Government of Kisumu - Contributions	26,660,396	26,660,396
Offset of Contributions by KIWASCO debts	0	0
	<u>153,401,997</u>	<u>140,872,699</u>

Non-current liabilities above include water deposits received from customers to mitigate the company against losses which may arise from non payment of water consumed and bills raised. The deposits are refundable on demand by the customers incase of transfer or movement from the premises. An annual provision of Ksh.1,400,000 (Current liability) is estimated to be refunded within one financial year of operations.

NOTES (CONTINUED)

14 Trade and other payables (continued)	2021 Shs	2020 Shs
Current		
Trade payables	52,151,596	110,209,140
County Government of Kisumu - Conservancy fee	88,528,525	59,370,419
Accruals (Appendix a)	40,308,473	35,369,553
Other payables (Appendix b)	11,123,785	14,220,229
County Government Lease Fees	24,793,650	35,496,044
Lake Victoria South Water Services Board Levy	27,100,538	36,100,538
Water deposits	1,400,000	1,200,000
Offset of County Government liabilities with debts	0	0
	<u>245,406,566</u>	<u>291,965,922</u>
Total trade and other payables	<u><u>398,808,563</u></u>	<u><u>432,838,621</u></u>

Movement in County Governemnt of Kisumu (formerly MCK)- Contributions

At start of year and as previously stated	26,660,396	26,660,396
Prior year adjustment:		
Water deposit	-	-
As restated	26,660,396	26,660,396
Amount offset against irrecoverable water debtors taken over at inception	0	0
	-	-
At end of year	<u><u>26,660,396</u></u>	<u><u>26,660,396</u></u>

In the opinion of the directors, the carrying amount of trade and other payables approximate to their fair value.

The carrying amounts of the company's trade and other payables are all denominated in Kenya Shillings.

The maturity analysis of trade and other payables is as follows:

	2021 Shs	2020 Shs
Within three months	57,551,596	115,609,140
Three to twelve months	187,854,970	176,356,782
Over one year	153,401,997	140,872,699
	<u><u>398,808,563</u></u>	<u><u>432,838,621</u></u>

15 Provisions for liabilities and charges

At start of year	4,702,008	1,269,670
Charge to profit or loss (Note 4)	4,016,687	3,432,338
	8,718,695	4,702,008
Utilised during the year	-	-
At end of year	<u><u>8,718,695</u></u>	<u><u>4,702,008</u></u>

NOTES (CONTINUED)

16 Cash generated from operations	2021 Shs	2020 Shs		
Reconciliation of profit before tax to cash generated from operations:				
Profit before tax	77,671,832	6,124,572		
Adjustments for:				
Depreciation on property, plant and equipment (Note 10)	39,865,673	55,886,541		
Amortisation of intangible assets (Note 30)	5,008,413			
Depreciation reversal - Impairment loss on meters (Note 10)	(236,574)	(684,450)		
Interest expense (Note 5)	6,266,986	9,825,835		
Increase/(decrease) provision for liabilities and charges (Note 15)	4,016,687	3,432,338		
Grants written back (Note 17)	(13,713,152)	(10,233,078)		
Changes in working capital:				
- Increase in Inventories (Note 12)	(11,415,908)	(5,476,299)		
- Increase in trade and other receivables (Note 13)	(3,294,584)	(45,259,679)		
- Increase in trade and other payables (Note 14)	(46,559,356)	71,807,601		
Prior year adjustment - Trade payables				
Cash generated from operations	<u>57,610,017</u>	<u>85,423,382</u>		
17 Grants				
	At start of year	Advance during the year	Write back to income	At end of year
Year ended 30 June 2021				
Nyalenda project	879,931		(109,991.40)	769,940
Lake Victoria South Water Services Board	113,475		(14,184.42)	99,291
Water Service Trust Fund & Others	38,839,756	-	(4,854,969.54)	33,984,787
Other Grants - OBA	31,798,384	38,073,668	(8,734,006.46)	61,138,045
	<u>71,631,547</u>	<u>38,073,668</u>	<u>(13,713,152)</u>	<u>95,992,063</u>
Year ended 30 June 2020				
Nyalenda project	1,005,636		(125,704)	879,931
Lake Victoria South Water Services Board	129,686		(16,211)	113,475
Water Service Trust Fund	31,924,246	12,464,047	(5,548,537)	38,839,756
Other Grants - OBA	5,774,322	30,566,688	(4,542,626)	31,798,384
	12,464,047	(12,464,047)	0	
	<u>51,297,938</u>	<u>30,566,688</u>	<u>(10,233,078)</u>	<u>71,631,547</u>
18 Related party transactions and balances			2021 Shs	2020 Shs
i) Sale of goods and services				
Sale of water to related parties - county of Kisumu			<u>9,347,159</u>	<u>9,347,159</u>
ii) Purchase of goods and services				
Lease charges and levy from related parties - County of Kisumu			<u>0</u>	<u>0</u>
iii) Outstanding balances arising from sale and purchase of goods/service and other contractual agreements				
Receivable from related parties (Note 13)			<u>19,064,661</u>	<u>19,064,661</u>
Payable to related parties (Note 14)	19		<u>88,528,525</u>	<u>59,370,419</u>

NOTES (CONTINUED)

18 Related party transactions and balances (Continued)

Key Management personnel compensation	2021 Shs	2020 Shs
Short term employee benefits	33,870,624	33,604,128
Post employment benefits (Ref: Employment benefits)	4,726,563	4,686,589
	<u>38,597,187</u>	<u>38,290,717</u>

19 Risk management objectives and policies

Financial risk management

The company's activities expose it to a variety of financial risks: market risk (including interest rate risk) credit risk and liquidity risk.

The company's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the company's financial performance.

Risk management is carried out by the management under policies approved by the board of directors. Management identifies, evaluates and hedges financial risks in close co-operation with various departmental heads. The board provides written principles for overall risk management, as well as written policies covering specific areas, such as interest rate risk, credit risk, and investment of excess liquidity.

(a) Market risk

- Interest rate risk

The company has no interest bearing assets and as a result its cashflows are substantially independent of changes in market interest rates.

The company's exposure to interest rate risk arises from current borrowings. Borrowings obtained at different rates expose the company to interest rate risk. Borrowings obtained at fixed rates expose the company to fair value interest rate risk except where the instruments are carried at amortised cost

	2021 Shs	2020 Shs
Effect on profit-(decrease)	<u>(6,266,986)</u>	<u>(6,309,113)</u>

The table above summarises the effect on post-tax profit had interest rates been 1 percentage point higher, with all other variables held constant. If the interest rates were lower by 1% point, the effect would have been the opposite.

(b) Credit risk

Credit risk arises mainly from cash and cash equivalents and trade and other receivables.

Management assesses the credit quality of the customer, taking into account their financial position, past experience and other factors, when determining credit limits.

Individual limits are set based on internal or external information in accordance with limits set by the management. The utilisation of credit limits is regularly monitored.

No credit limits were exceeded during the reporting period, and management does not expect any losses from non-performance by these counterparties.

None of the financial assets that are fully performing has been renegotiated in the last year.

Exposure to this risk has been quantified in each financial asset note in the financial statements along with any concentration of risk.

NOTES (CONTINUED)

19 Risk management objectives and policies (continued)

(c) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. Due to the dynamic nature of the underlying businesses, the company's management maintains flexibility in funding by maintaining availability under committed credit lines.

Notes 9 and 16 discloses the maturity analysis of borrowings and trade and other payables.

20 Capital management/Commitment

The company's objectives when managing capital are:

- to provide an adequate return to shareholders by pricing services commensurately with the level of risk;
- to safeguard the entity's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders; and
- to maintain a strong asset base to support the development of business.
- to maintain an optimal capital structure to reduce the cost of capital.

The company sets the amount of capital in proportion to risk. The company manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the company may adjust the amount of dividends paid to shareholders or issue new shares.

As at the reporting date, the company had sufficient cash and cash equivalents to adequately cover its borrowings.

21 Commitments

	2021	2020
	Shs	Shs
Operating lease commitments		
Operating lease payable within one year	-	-

22 Incorporation

Kisumu Water and Sewerage Company Limited is incorporated in Kenya under the Companies Act as a private limited liability company and is domiciled in Kenya.

23 Presentation currency

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

NOTES (CONTINUED)	JUNE 2021 Shs	JUNE 2020 Shs
24. Share capital		
Authorised:		
5,000 (2019: 5,000) ordinary shares of Shs. 20 each	<u>100,000</u>	<u>100,000</u>
Issued and fully paid:		
5,000 (2019: 5,000) ordinary shares of Shs. 20 each	<u>100,000</u>	<u>100,000</u>
Total cost of sales		

The company is owned by County Government of Kisumu who hold 99.9% of the total shares.

25 Contingent Liabilities

The Company has contingent liabilities in respect of legal claims arising in the Ordinary course of business. There were active litigations against the company as the reporting date are being handled by the company's legal team.

26. ADMINISTRATIVE EXPENSES	2021 Shs	2020 Shs
Staff uniform and protective clothing	8,918,397	2,355,746
Board Expenses	6,183,739	6,749,124
Board retreat and annual general meeting	2,085,774	4,258,852
Advertising and publicity	7,257,779	3,910,935
Tenders	130,300	641,718
Bank charges and commissions	2,746,967	2,912,057
Training	4,796,082	3,672,634
Postages and telephones	12,518,189	11,431,564
Vehicle running expenses	22,309,816	20,468,552
Travels and subsistence	5,914,154	8,931,964
Printing and stationery	3,790,076	4,454,230
Sporting Activities	378,250	5,148,501
Audit fees	0	0
- Current year	580,000	580,000
ICT expenses	16,465,445	5,734,494
Debt collection	387,635	709,200
Bad debts Provision	48,986,667	0
Legal and professional fees an subscriptions	3,112,215	3,365,683
Consultancy	5,770,816	2,559,500
Office expenses	5,975,307	6,084,285
Donations	647,500	280,700
Total administrative expenses	<u>158,955,106</u>	<u>94,249,739</u>

NOTES (CONTINUED)

	2021	2020
	Shs	Shs
27. ESTABLISHMENT EXPENSES		
Lease fees	0	0
Conservancy fee	29,158,106	26,503,490
LVSWSB Levy	0	0
LTAP - operating Lease	6,000,000	4,000,000
WASREB levy	31,882,518	31,334,513
WRA levy	7,984,259	8,463,423
NEMA	210,000	10,000
KEBS levy	400,000	400,000
WASPA	180,000	225,000
Office rent	2,829,588	2,751,091
Office Repairs and maintenance	1,755,207	4,270,111
Electricity	677,123	548,916
General insurance	1,318,728	1,360,481
Security expenses	21,717,333	17,885,990
Impairment loss on meters	1,656,018	4,791,150
Depreciation on property, plant and equipment	39,865,673	41,908,100
Amortisation of Intangible assets	5,008,412	5,008,412
Water Bills	4,851,550	3,722,278
Total establishment expenses	155,494,515	153,182,955
28. MAINTENANCE EXPENSES		
Opening inventories of consumables	28,999,278	23,053,990
Network maintenance	149,013,098	108,306,138
Sewerage maintenance	8,377,712	6,093,446
Sanitation	2,301,615	3,749,575
Laboratory reagent	6,714,227	3,448,405
Water pump maintenance	5,836,744	1,144,209
Electrical items	10,859,469	8,492,066
Closing inventories of consumables	(41,256,417)	(28,999,278)
Total maintenance expenses	170,845,725	125,288,550
29 Cash and cash equivalents		
Cash in hand	635,407	433,264
Cash at bank	54,248,775	29,633,328
	54,884,182	30,066,592

For the purpose of the statement of cash flows, the year-end cash and cash equivalents comprise the above. Details of bank accounts, account numbers and year end balances for every account comprising the above totals are annexed in page 24 of this financial statements

NOTES (CONTINUED)

30 **Intangible Asset**

Year ended 30 June 2021

	work-in- progress Shs	Intangible Assets 5 Years	Total Shs
Cost			
As at 1st July 2020	-	25,042,062	25,042,062
Additions	-	-	-
Disposal	-		
As at 30th June 2021	- -	25,042,062 -	25,042,062
Depreciation			
As at 1st July 2020	-	5,008,412	5,008,412
Charge for the year	-	5,008,412	5,008,412
As at 30th June 2021	-	10,016,825	10,016,825
Net book value - 30th June 2021	-	15,025,237	15,025,237

NOTES (CONTINUED)

31 Bank Register for Cash & Cash Equivalent
 As at year ended 30 June 2021

NAME OF THE CORPORATION	NAME OF BANK (BANKERS)	BANK ACCOUNT NUMBERS	BANK BRANCH	CURRENCY	CASH BOOK BALANCE	BANK BALANCE
					AS AT 30/06/2021	AS AT 30/06/2021
Kisumu Water and Sanitation Company	Cash on Hand	N/A	N/A	KSH	0.00	N/A
Kisumu Water and Sanitation Company	Cooperative Bank of Kenya	01100012931300	KISUMU	KSH	325,569.66	325,569.66
Kisumu Water and Sanitation Company	Cooperative Bank of Kenya	01136012931300	KISUMU	KSH	45,599,267.65	45,599,267.65
Kisumu Water and Sanitation Company	Cooperative Bank of Kenya	01136012931301	KISUMU	KSH	2,186,330.46	2,186,330.46
Kisumu Water and Sanitation Company	Petty Cash	N/A	N/A	KSH	35,591.00	N/A
Kisumu Water and Sanitation Company	Cash on Hand - Mpesa	N/A	N/A	KSH	599,816.00	N/A
Kisumu Water and Sanitation Company	NIC Bank - Pamoja Trust	1001789399	KISUMU	KSH	445,294.36	445,294.36
Kisumu Water and Sanitation Company	Post bank	0744130005547	KISUMU	KSH	3,250.00	3,250.00
Kisumu Water and Sanitation Company	Equity Bank	0290265172985	KISUMU	KSH	21,506.99	21,506.99
Kisumu Water and Sanitation Company	Cash on Hand - KCB	1240290837	KISUMU WEST	KSH	95,783.90	95,783.90
Kisumu Water and Sanitation Company	Co-op Bank - CLSG Account	01141012931300	KISUMU	KSH	5,571,772.30	5,571,772.30
					54,884,182.32	

APPENDICES

	2021	2020
	Shs	Shs
a. ACCRUALS		
PAYE outstanding	2,681,467	1,884,887
NSSF outstanding	852,274	722,474
NHIF outstanding	546,750	317,250
Special PAYE	202,778	178,266
WASREB Levy	32,790,422	21,334,563
Accrued Salaries & Wages	0	1,530,658
WRMA	2,009,183	5,073,212
WASPA	0	0
NITA	65,600	16,500
IPF Medical & General Insurance	0	2,471,744
KEBS	0	100,000
KENAO	1,160,000	1,740,000
	<u>40,308,473</u>	<u>35,369,553</u>
b. OTHER PAYABLES		
Voluntary contribution	4,282,106	4,378,998
Union dues outstanding	185,036	487,470
Pension outstanding	6,527,186	9,277,154
NUWASE	129,457	76,607
Suspense Account	0	0
	<u>11,123,785</u>	<u>14,220,229</u>
c. PREPAYMENTS		
Telephone deposits	57,000	57,000
Electricity deposits	848,859	848,859
Internet	17,400	17,400
Creditors with Debit balances	0	0
Staff medical & General insurance	8,007,662	7,448,904
	<u>8,930,921</u>	<u>8,372,163</u>
d. OTHER RECEIVABLES		
VAT	28,761,122	28,761,122
Staff advances	802,907	633,388
	<u>29,564,029</u>	<u>29,394,510</u>

PERIOD COVERED: 12 MONTHS

TAX COMPUTATION

	KShs.	KShs.
Profit as per financial statements		77,671,832
Add: Depreciation of property, plant and equipment	39,865,673	
Airtime: 30% of Shs. 8,392,635.84	2,517,791	
Impairment loss on meters	1,656,018	
Amortisation of Intangible assets	5,008,412	
Donations	647,500	
	<u>647,500</u>	<u>49,695,394</u>
		127,367,226
Less: Wear and tear allowance	48,160,280	
Impairment loss on meters		
Government Grants	138,320,782	
Write back of grants	<u>13,713,152</u>	<u>(200,194,214)</u>
ADJUSTED TAXABLE PROFIT		<u><u>(72,826,988)</u></u>
Tax thereon @ 30%		<u><u>0</u></u>
Tax payable		<u><u>0</u></u>

WEAR AND TEAR SCHEDULE

	Class (iv) 30% KShs.	Class (iii) 25% KShs.	Class (ii) 12.50% KShs.	Total KShs.
W.D.V brought forward	2,147,256	5,567,342	335,062,047	342,776,645
Additions	2,307,740	5,744,000	16,905,519	24,957,259
Prior year adjustments (Project assets)			0	0
Disposal/Impairment	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
	4,454,996	11,311,342	351,967,566	367,733,905
Wear and tear allowance	<u>(1,336,499)</u>	<u>(2,827,835)</u>	<u>(43,995,946)</u>	<u>(48,160,280)</u>
W.D.V carried forward	<u><u>3,118,497</u></u>	<u><u>8,483,506</u></u>	<u><u>307,971,621</u></u>	<u><u>319,573,624</u></u>