

Scanned

PARLIAMENT
OF KENYA
LIBRARY

REPUBLIC OF KENYA



Enhancing Accountability

REPORT

OF

THE AUDITOR-GENERAL

ON

**KITUI WATER AND SANITATION COMPANY
LIMITED**

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

| PAPERS LAID | |
|--------------------|---------------------------|
| DATE | 13/10/22 |
| TABLED BY | Senate Majority leader |
| COMMITTEE | — |
| CLERK AT THE TABLE | Abdulrahman, M. |



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

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

Kitui Water and Sanitation Company Limited
Annual Reports and Financial Statements
For the year ended June 30, 2021

| Table of Contents | Page |
|---|-------------|
| I. KEY ENTITY INFORMATION | iii |
| II. THE BOARD OF DIRECTORS | vi |
| III. MANAGEMENT TEAM | viii |
| IV. CHAIRMAN’S STATEMENT | x |
| V. REPORT OF THE MANAGING DIRECTOR | xi |
| 2.4 Non-Revenue Water Reduction | xii |
| CONCLUSION | xiii |
| VI. STATEMENT OF PERFORMANCE AGAINST PREDETERMINED OBJECTIVES FOR FY 2020/2021 | xiv |
| VII. CORPORATE GOVERNANCE STATEMENT | xvi |
| VIII. MANAGEMENT DISCUSSION AND ANALYSIS | xix |
| IX. REPORT OF THE DIRECTORS | xxiv |
| STATEMENT OF DIRECTORS’ RESPONSIBILITIES | xxv |
| X. REPORT OF THE INDEPENDENT AUDITORS ON THE KITWASCO | xxvii |
| XI. STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 30 JUNE 2021 | 1 |
| XII. STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2021 | 2 |
| XIII. STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 JUNE 2021 | 4 |
| XIV. STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2021 | 4 |
| XV. STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS FOR THE PERIOD ENDED 30 JUNE 2021 | 6 |
| XVI. NOTES TO THE FINANCIAL STATEMENTS | 8 |
| APPENDICES | 60 |
| APPENDIX II: PROJECTS IMPLEMENTED BY THE ENTITY | 62 |
| APPENDIX III: INTER-ENTITY TRANSFERS | 64 |
| APPENDIX IV: RECORDING OF TRANSFERS FROM OTHER GOVERNMENT ENTITIES | 66 |

I. KEY ENTITY INFORMATION

Background information

Kitui water and Sanitation Ltd was established by the companies Act CAP 486 laws of Kenya. Kitui water and sanitation Ltd has branches in Masinga, Kithyoko, Katheka, Kitui Central and Kitui south.

Principal Activities

The principal activity / mission is to provide sustainable, safe and adequate water services for domestic, industrial and commercial use in a cost-effective manner and effectively manage the resultant waste water with a committed and motivated human resource.

The mandate of the Company is; -

- To ensure that it possesses and retains all the necessary expertise necessary to fulfil the technical, commercial, financial and administrative functions.
- To provide the services within the KITWASCO's defined Service Area.
- To meet all the required standards, guidelines and provisions of the SPA.
- To obtain all necessary licenses, permits and warranties necessary to carry out its obligations in accordance with statutes in force.
- To maintain the assets in good working order and not to dispose of any assets without the authorization of Tanathi Water Services Board.
- To fulfil the performance targets set in performance contract signed and achieve them within a
- To come up with proposals for improvement of the assets so as to enhance service delivery.
- To carry out connection and disconnection of services to properties for non-payment for water and sanitation services.
- To take legal action for breach of obligations by customers and others causing damage or adversely affecting the services.
- To ensure that appropriate measures for the protection of the environment are adhered to in line with appropriate legislations.
- To maintain, exercise all statutory powers within the area, in relation to works, assets, pipe work and appurtenances of the water supply and sanitation systems.

Kitui Water and Sanitation Company Limited
Annual Reports and Financial Statements
For the year ended June 30, 2021

Directors

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

- | | | | |
|----|---------------------------|---------------------|---------------------------|
| 1. | Harrison Maluki Nyumu | - Chairman | - Appointed in March 2021 |
| 2. | Geoffrey Kiita | - Managing Director | - Appointed in March 2018 |
| 3. | Stanley Shadrack Mang'eli | -Member | - Appointed in March 2021 |
| 4. | Queen Moli Masila | -Member | - Appointed in March 2021 |
| 5. | Gustus James Mumo | -Member | - Appointed in March 2021 |
| 6. | Dr Grace Mutia | -Member | -Appointed in March 2021 |
| 7. | Rev. Peter Kimanga Wambua | -Member | -Appointed in March 2021 |
| 8. | CO-Water | -Member | -Appointed in March 2018 |
| 9. | CO- Treasury | -Member | -Appointed in March 2018 |

Corporate Secretary

N/A

Registered Office

N/A

Corporate Headquarters

Kitui School- Manyenyoni Road

Near KEWI Campus and Opposite Meteorological Department Offices

P.O. BOX341-90200

KITUI

Corporate Contacts

Telephone: (254)701545554, (254)73233330

E-mail:kitwasco@gmail.com

Corporate Bankers

Kenya Commercial Bank

P.O Box 683-90200

KITUI

Kitui Water and Sanitation Company Limited
Annual Reports and Financial Statements
For the year ended June 30, 2021

Co-operative Bank.

P.O Box 668-90200

KITUI

Kenya Post Office Saving Bank

P.O Box 668-90200

KITUI

Independent Auditors

Auditor General

The Office of the Auditor General

Anniversary Towers, University Way

P.O. Box 30084

GPO 00100

Nairobi, Kenya

Principal Legal Advisers

1. The Attorney General

State Law Office

Harambee Avenue





P.O. Box 40112

City Square 00200



Nairobi, Kenya

Kitui Water and Sanitation Company Limited
Annual Reports and Financial Statements
For the year ended June 30, 2021

II. THE BOARD OF DIRECTORS




| Ref | Directors | Details |
|-----|---|---|
| 1. |  Harrison Maluki Nyumu | Born in 1960 Bachelor of Education (Arts) Retired Teacher |
| 2. |  Stanley Shadrack Mang'eli | Born in 1962 Diploma in County Management Former Chairman County Council of Machakos |
| 3. |  Queen Moli Masila | Born in 1976 KCSE Business |
| 4 |  Dr Grace Mumbi Mutia | Born in 1974 PHD in Aquatic Sciences Lecturer Seku University |

Kitui Water and Sanitation Company Limited
Annual Reports and Financial Statements
For the year ended June 30, 2021


| | | |
|----|--|---|
| | | |
| 5. |  Rev. Peter Kimanga Wambua | Born in 1961 Diploma in Theology Reverend |
| 6. |  Gustus James Mutio | Born in 1952 TTC P1 Certificate Retired Teacher |


Kitui Water and Sanitation Company Limited
Annual Reports and Financial Statements
For the year ended June 30, 2021

III. MANAGEMENT TEAM

| Manager's passport-size photo and name and key profession/academic qualifications | Responsibility |
|--|--|
|  <p>CPA (16172) Geoffrey Kiita B.Com MBA(Finance), CPA(K), CPS, CFA</p> | <p>Managing Director</p> |
|  <p>Stephen Mutua Bachelor of Science (Chemical Engineering)</p> | <p>Technical Manager</p> |
|  <p>CPA Clement Muinde BBA , MBA - Finance, CPA (K)</p> | <p>Head, Internal Audit Department</p> |

Kitui Water and Sanitation Company Limited
Annual Reports and Financial Statements
For the year ended June 30, 2021

| | |
|--|---|
|  <p>CPA Victor Muimi B. Com (Accounting) and CPA(K),</p> | <p>Commercial Manager and in charge of Finance Department</p> |
|--|---|

| | |
|--|--|
|  <p>Urbanus Mutisya BA Public Administration HND – HRM Certified HR Consultant</p> | <p>Human Resource and Administration manager</p> |
|--|--|

IV. CHAIRMAN'S STATEMENT



On behalf of the Board of Directors of Kitui Water and Sanitation Company Ltd, I have the pleasure to present the financial results and annual statements for the Year ended 30th June 2021 as follows: -

Review of Operations

The Company operated under unprecedented times- the extend of Covid-19 challenge was beyond our imaginations. However, despite the effects brought about by the pandemic we remained resilient in our operations and delivered growth in our revenues for the year 2020/2021.

Due to financial constraints brought about by the novel corona virus, the Company employed austerity measures cutting across all her operations. As a result, the Company was able to meet its administrative costs and partly operational expenses which were subsidized by County Government of Kitui and the Water Sector Trust Fund through the conditional liquidity Support grant.

To spearhead the company's operations, the Board is committed to ensuring full implementation of the Strategic plan for the period 2017 – 2021 whose Core Objectives are (i) Water and sewerage infrastructure development, (ii) Operational efficiency and customer satisfaction, (iii) Financial sustainability, (iv) Institutional development and strengthening and (v) Effective corporate governance.

Conclusion

On behalf of the Board of Directors, I hereby extend my deepest appreciation to the County Government of Kitui, our esteemed stakeholders, Management and the staff for the continued support and significant contribution towards driving the growth of the company. I wish to assure the stakeholders that the Board of Directors has implemented appropriate strategies as outlined in the strategic plan to boost and sustain improved performance geared towards self-sustainability. We anticipate better performance in the coming years.



Harrison Maluki Nyumu

CHAIRMAN

V. REPORT OF THE MANAGING DIRECTOR

1.0 INTRODUCTION



KITWASCO is as a result of the Water Act 2002 which was the culmination of the agitation for the need to reform water services with a view to improving service delivery. The company became operational in April 2006. It has shareholding by guarantee and is now 100% held by County Government of Kitui. The people are represented in this forum by appointed stakeholder

representatives.

2.0 PERFORMANCE REPORT

2.1 Water Production

During the year the company produced 3,626,235 cubic meters of water being an average production of 9,935 cubic meters daily against design capacity of 18, 000 Cubic meters daily. With the current production the company continues to ration its customers. It's my hope that the production will improve with the rehabilitation of Masinga – Kitui Water pipeline funded by African Development bank through Tanathi and Athi water works Development Agencies.

2.2 Sewerage coverage

The sewerage system is operational especially in the pro-poor areas of Kitui town. We expect to connect more customers in the coming years which will improve revenues in the in the near future. We have contractor on the ground under the same last mile connectivity funded by African Development bank targeting 2500 households and 40km distribution lines in Kitui town.

2.3 Financial performance

The Company has been operating under a subsidized water tariff. During the year, the Company received an amount totalling to Kshs 61,781,447 as subsidy from County Government of Kitui and grant of Kshs 66,712,123 from the Water Sector Trust fund under the Conditional liquidity support grant. Out of the WSTF grant we had spent Kshs 33,612,296 at the end of the financial year. The balance of Kshs 33,099,827 was in the

Kitui Water and Sanitation Company Limited
Annual Reports and Financial Statements
For the year ended June 30, 2021

bank account. Further we received a grant from WSTF in form of payment for chemical amounting Kshs 2,447,056. This makes the total subsidy from WSTF Kshs 36,056,341.

The company sales turnover was Kshs 279,283,370 against Kshs. 268,198,729 reported in the previous year which is 4% growth. While the total expenses incurred in the year were Kshs. 146,955,872 compared Kshs. 144,175,268 reported in the previous year.

The company made a surplus of Kshs. 762,322 during the year which is a drop compared to a surplus of Kshs. 2,461,698 in the previous year.

Energy costs continue to be a threat to sustainability and took Kshs 126,499,367 which is approximately 87.6% of total revenues of Kshs 144,285,402 from water sales compared to 88% in the previous year.

2.4 Non-Revenue Water Reduction

We have managed to reduce levels of Non-Revenue Water from 57% in 2019/2020 to 54% in 2020/2021 financial years. Avenues have been identified and mitigating measures budgeted for in the coming Financial Year.

We acknowledge the importance reducing NRW, we have therefore among others: Established a Non-Revenue Water management unit, budget allocation for NRW reduction programs enhanced, disciplinary actions taken on errant employees, constant raids and arrests, enhanced trainings, inspection and Surveillance and the introduction of mobile meter reading.

The management will continue to invest on any emerging technologies and materials with a view to alleviate the effects of high levels of NRW

3.0 CHALLENGES

Water Resources

- Declining capacity for water resources; climate change and destruction of wetlands continue to be a major challenge.
- Water use demands are quickly exceeding the dry weather water flows.

Sewerage

- Since majority of the customers are yet to be connected to the sewer line, water related diseases remain a risk.


Kitui Water and Sanitation Company Limited
Annual Reports and Financial Statements
For the year ended June 30, 2021

Water supply pipeline

- Inadequate funds to finance proposed pipe lines to serve areas not yet served.
- Old dilapidated pipes that are prone to burst leading to water losses
- Water assets ownership has yet to be determined and this poses a challenge to accounting treatment of such assets as well as their bearing on borrowing leverage.

CONCLUSION

On behalf of the entire Management, I extend our sincere appreciation to all staff, customers, development partners, County Government of Kitui and stakeholders for their support. It is my hope that the same enabling environment shall continue to prevail as we soldier on towards self-sustainability.


Managing Director

**VI. STATEMENT OF PERFORMANCE AGAINST PREDETERMINED OBJECTIVES
 FOR FY 2020/2021**

Section 81 Subsection 2 (f) of the Public Finance Management Act, 2012 requires the accounting officer to include in the financial statement, a statement of the national government entity's performance against predetermined objectives.

KITWASCO has five strategic pillars and objectives within its Strategic Plan for the FY 2017/2018- 2020/2021. These strategic pillars are as follows:

Pillar 1: Water and sewerage infrastructure development.

Pillar 2: Operational efficiency and customer service

Pillar 3: Financial sustainability

Pillar 4: Institutional Capacity Strengthening

Pillar 5: Corporate Governance

KITWASCO develops its annual work plans based on the above five pillars. Assessment of the Board's performance against its annual work plan is done on a quarterly basis. KITWASCO achieved its performance targets set for the FY 2020/2021 period for its five strategic pillars, as indicated in the diagram below:

| Strategic Pillar | Objective | Key Performance Indicators | Activities | Achievements |
|-------------------------|--|--|---|---|
| Pillar 1: | a) Increased water supply. b) Increased Sanitation. | -Increase Production -Water Distribution -Rehabilitation of pipeline -Increased sewer connection. | New pump Line extension Rehabilitation of existing line Connecting households. | - 10.3M to 12M per month. -Distribution line from 1450km to 1500KM Rehabilitated 31.2km Upgraded 1km |

Kitui Water and Sanitation Company Limited
Annual Reports and Financial Statements
For the year ended June 30, 2021

| | | | | |
|-----------|--|--|--|---|
| Pillar 2: | <p>a) Reduce NRW</p> <p>b) Operation efficiency</p> <p>c) Customer satisfaction.</p> | <p>-Reduce water leakage</p> <p>-Meter reading efficiency</p> <p>-Improving field operations</p> <p>-Quick response to customer complains.</p> | <p>-Line patrols</p> <p>-Automation</p> <p>-Purchase of more M/cycles</p> <p>-Platform to receive complains.</p> | <p>-Reduced NRW from 57% to 54%.</p> <p>-Automation of meter reading.</p> <p>-increased patrols and surveillance operations</p> <p>-undertaken several Customer Outreach & Education forums</p> |
| Pillar 3: | <p>a) O & M Coverage</p> <p>b) Increase billing.</p> <p>c) Reduce debt levels</p> <p>d) Robust financial management system</p> | <p>-Grow sales from 8M to 42M per month.</p> <p>-Push for cost reduction measures.</p> <p>-New water tariff.</p> <p>-Increase collection efficiency.</p> <p>-Formulation of debt policy</p> <p>-Acquire ERP.</p> | <p>-Automation of billing activities.</p> <p>-Adherence to PPOA procedures.</p> <p>-Engagement of collection agents.</p> | <p>-Increased revenue from 10M to 12M.</p> <p>-O & M coverage from 83% to 93%</p> <p>-Acquired robust ERP.</p> <p>-procured services of an external debt collector.</p> |
| Pillar 4: | a) Staff alignment | <p>-New organization structure.</p> <p>-Staff rationalization.</p> | -Developing org. structure. | - Implemented |

Kitui Water and Sanitation Company Limited
Annual Reports and Financial Statements
For the year ended June 30, 2021

| | | | | |
|-----------|---|---|--|---|
| | <p>b) Strengthen human capital.</p> <p>c) Employee satisfaction level.</p> <p>d) Company image.</p> | <p>-New human resource manual</p> <p>-Performance management policy</p> <p>-Staff trainings</p> <p>-Org.culture change</p> | <p>-Staff placement in New scheme of service.</p> <p>-Organizing regular staff trainings.</p> | <p>new scheme of service</p> <p>-Senior managers on performance management</p> <p>-established a training calendar targeting all the staff.</p> |
| Pillar 5: | <p>a) BOD trainings</p> <p>b) Improving stakeholders relations</p> | <p>-Strengthening BOD capacity.</p> <p>-Developing instruments of good corporate governance</p> <p>-Developing risk mgt strategy.</p> | <p>-Organizing for trainings.</p> <p>-Holding BOD meetings as per guidelines</p> <p>-Holding AGM regularly</p> | <p>-BOD meeting done as per guidelines</p> <p>-AGM held annually.</p> <p>-conducted BOD induction training.</p> |

VII. CORPORATE GOVERNANCE STATEMENT

The corporate governance structure ensures that we act with high standards of corporate behaviour and in the best interest of our stakeholders. The Board of Directors has the authority to perform the functions and determine the policies that control the trust activities. The structure of the Board is as per the corporate governance guidelines issued by the Water Services Regulatory Board.

- The Board of Directors comprises 9 members nominated by respective stakeholder institutions.
- The Managing Director sits in the board as a full-time director and as a secretary.
- The Directors have a broad range and experience.
- The Board has four committees namely; Technical committee, Finance, Commercial

Kitui Water and Sanitation Company Limited
Annual Reports and Financial Statements
For the year ended June 30, 2021

& Procurement committee, Human resource & General Purpose committee and Audit Committee.

- Any issue(s) outside the scope of the above committees may be handles by specially constituted adhoc committee made by a resolution of the Board of Directors including its membership.
- The Board in consultation with the management develops strategic direction for annual and long-term period.
- The board also prepares for the Annual General Meeting and determines the agendas in which the annual audited accounts are presented.

At its regular meetings, the Board considerations include;

- Technical and financial progress quarterly reports.
- Audit reviews and quarterly reports.

To effectively carryout governance responsibilities, the Board has established four board committees with specific delegated mandates. The membership is summarized as follows;

| Technical Committee | Audit Committee | Human Resource and General Purpose committee | Finance, Commercial and Procurement Committee |
|---------------------|-----------------|--|---|
| Gustus Mutio-Chair | - | Augustus Nding'o-Chair | Martin Mumo-Chair |
| Augustus Nding'o | Gustus Mutio | Stanley Mang'eli | - |
| Dr. Grace Mutia | Peter Kimanga | Dr. Grace Mutia | Queen Moli |
| Stanley Mang'eli | Martin Mumo | Queen Moli | Peter Kimanga |

1. Technical committee

The composition of the committee is as follows;

- Gustus Mutio-Chair
- Dr Grace Mutia-Member
- Augustus Nding'o-Member
- Stanley Mang'eli-Member

The committee secretary is the Technical Manager. Each member of the committee has a

Kitui Water and Sanitation Company Limited
Annual Reports and Financial Statements
For the year ended June 30, 2021

general familiarity with the technical aspects of the water and sanitation industry necessary to undertake the committee's responsibilities to oversee the company's technical activities. The functions and responsibilities of the committee are as follows;

- Advises the Board in monitoring and reviewing any project(s) development and major asset acquisition.
- Review and make recommendations to the Board of Directors on matters relating to the infrastructure assets of the company including master plans, capital plans etc.

2. Audit committee

The composition of the Audit Committee is as follows;

- Gustus Mutio – Member
- Bishop Peter Kimanga – Member
- Martin Mumo – Member

The Committee Secretary is the Internal Audit Manager. Each member of the committee has a general familiarity with the duties and responsibilities of all members of the committee.

The functions and responsibilities of the Audit committee are to provide oversight and advice in the following areas:

- Internal control systems.
- Governance structures
- Risk management
- Financial statements
- Compliance requirements
- External and Internal audit including approval of annual work plans
- Review of entity's performance

The committee meets quarterly and presents its reports to the full Board of Directors meeting.

3. Finance, Commercial & Procurement Committee

The composition of the Committee is as follows;

- Martin Mumo – Chair
- Queen Moli- Member
- Bishop Peter Kimanga-Member

The Committee Secretary is the Commercial Manager. Each member of the committee has a general familiarity with the duties and responsibilities of all members of the committee.

The functions and responsibilities of the committee are as follows:

Kitui Water and Sanitation Company Limited
Annual Reports and Financial Statements
For the year ended June 30, 2021

- Review and approve budget estimates
- Review procurement system, procedures and structures to ensure compliance with all laws and regulations
- Approve and oversee the operationalization of procurement plans
- Monitor on quarterly basis the financial performance of the company

The committee meets quarterly and presents its reports to the full Board of Directors meeting

4. Human Resource and General Purpose Committee

The composition of the Committee is as follows;

- Augustus Nding'o – Chair
- Stanley Mang'eli-Member
- Queen Moli- Member
- Dr. Grace Mutia-Member

The Committee Secretary is the Human Resource Manager. Each member of the committee has a general familiarity with the duties and responsibilities of all members of the committee.

The functions and responsibilities of the committee are as follows:

- Continually review the company's structure, co-functions and optimum establishment
- Examine policy and procedures on employment and staff promotion
- Review the Collective bargaining agreement (CBA) and make recommendations
- Review the company's Human resource policies and recommend to the Board any amendments for approval.

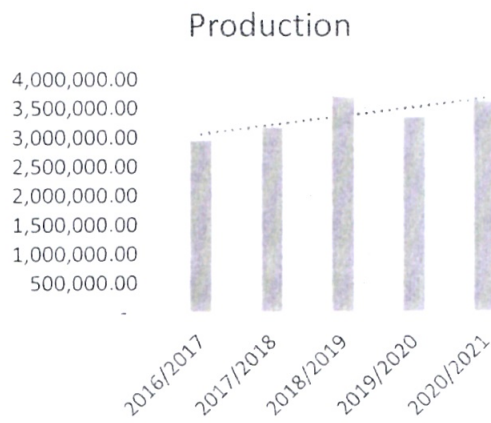
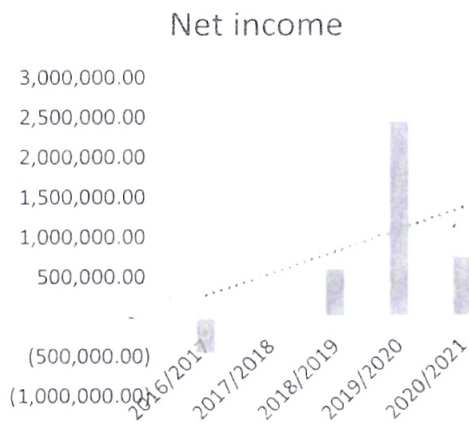
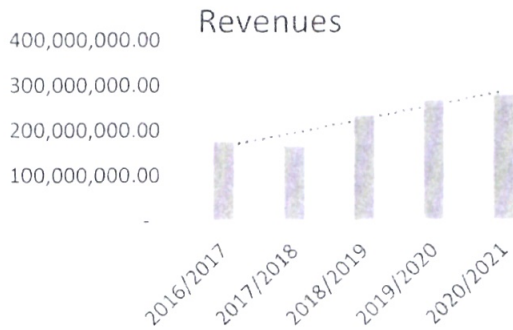
The committee meets quarterly and presents its reports to the full Board of Directors meeting

VIII. MANAGEMENT DISCUSSION AND ANALYSIS

During the year under review the company operational performance remained fairly moderate with a slight growth in revenues amid the effects of covid-19 pandemic. In general the resiliency of our operations was evident throughout the financial year.

Kitui Water and Sanitation Company Limited
Annual Reports and Financial Statements
For the year ended June 30, 2021

HIGHLIGHTS OF THE FINANCIAL YEAR 2020/2021



Kitui Water and Sanitation Company Limited
Annual Reports and Financial Statements
For the year ended June 30, 2021

During the financial year, we managed to do line extension, pipeline rehabilitation, upgrading and new projects in the following areas:

| S.no | Region | Rehabilitation | Extension | Upgrading | New projects | Total distance in metres |
|------|------------|----------------|-----------|-----------|--------------|--------------------------|
| 1 | Township | 2,100 | 1,500 | 1,000 | - | 4,600 |
| 2 | Mutomo | - | - | - | 2,400 | 2,400 |
| 3 | Katheka | 250 | 7,100 | - | - | 7,350 |
| 4 | Kithyoko | - | 3,000 | - | - | 3,000 |
| 5 | Kwa-Vonza | 5,000 | 5,000 | - | - | 10,000 |
| 6 | Masinga | 16,000 | 6,000 | - | - | 22,000 |
| 7 | Ikanga | - | 800 | - | - | 800 |
| 8 | Kangukangu | 5,000 | 18,500 | - | - | 23,500 |
| | Total | 28,350 | 41,900 | 1,000 | 2,400 | 73,650 |

The company received financial support from the county government of Kitui through payment of electricity bills for Masinga treatment works, water sector trust fund through the EU-Climate Proofed Infrastructure Program for arid areas and the conditional liquidity support grant program.

The last mile connectivity project funded by The World bank through Athi water and Tanathi water works development agencies is ongoing. Upon completion the project will reduce frequent burst and increase water supply in Kitui town and other areas. This also reduces the level of non-revenue water which has been a major challenge for company. This will double the billing per month thus improving the liquidity level for the organization.

The same contractor will connect most of building in town to our sewer mainline. The revenue for sewer is likely to increase thus growing the profitability of the organization. With this the level of sanitation will improve gradually in Kitui town.

In the year under review, we have increased our billing from ksh 10.3M to ksh 12M per month. This is due to reduction of non-revenue water and automation of our billing systems. In the areas of compliance to statutory obligation, we managed to clear all our taxes and other payroll deductions. Our major risk remains the cost of energy i.e. pumping water from Masinga to Kitui

town and its environments. Our monthly electricity bill in average is ksh10, 000,000. This is normally paid by the county government of Kitui as a subsidy. The other risk is the Non – revenue water (water loss). Our level of NRW has been on average of 54% which is a drop from the previous year of 57%. We have managed to reduce levels of Non-Revenue Water from 57% in 2019/2020 to 54% in 2020/2021 financial years. Avenues have been identified and mitigating measures budgeted for in the coming Financial Year. We acknowledge the importance reducing NRW, we have therefore among others: Established a Non-Revenue Water management unit, budget allocation for NRW reduction programs enhanced, disciplinary actions taken on errant employees, constant raids and arrests, enhanced trainings, inspection and Surveillance and the introduction of mobile meter reading. The management will continue to invest on any emerging technologies and materials with a view to alleviate the effects of high levels of NRW

ENVIRNOMENTAL AND SUSTAINABILITY REPORTING

KITWASCO exists to transform lives. This is our purpose; the driving force behind everything we do. It's what guides us to deliver our strategy, which is founded on five pillars: putting the Citizen first, delivering water and sewer services, and improving operational excellence. Below is a brief highlight of our achievements in each pillar

1. Sustainability strategy and profile -

Kitui water and Sanitation Company has managed to ensure that the people of Kitui are getting water seven days per week with slight water rationing. With the support of our able county governor Hon.Charity Ngilu, we have managed to extend our water supply system to big population. We have also been handed over many boreholes powered by solar from County Government of Kitui.

2. Environmental performance

We are in the process of developing our environmental policy but this does not give us blank cheque. We have ensured that all our well managed and disposed in the best way. With the best sewer pods in the country, we have ensured all the waste from connected customer is well disposed.

3. Employee welfare

The recruitment process in Kitui Water and Sanitation Company is well guided by the human resource manual which ensures the gender aspect is taken into account. We normally have a big budget for staff trainings. The company also organizes for benchmarking to other water service providers. We normally have performance management tool for appraising our staffs on annual basis. The best employees are normally awarded. The company is in the process of procuring the service of consultant to formulate our policy on safety.

4. Market place practices

a) Responsible competition practice.

Our operations are guided by the best procedures and policies. Our policies and manuals are frequently reviewed to accommodate the emerging issues. The procurement department is guided by public procurement and disposal Act.

b) Responsible Supply chain and supplier relations

We normally ensure that our service providers are paid in time and thus the supply of goods and services not interrupted.

c) Responsible marketing and advertisement.

The company while publicizing its products ensures our marketing and advertising campaigns are conducted using fair language are morally upright and adhere to other fair advertising and marketing practices.

The entity is in the process of formalizing responsible marketing and advertisement policy.

d) Product stewardship.

The Company is committed to provide sustainable, safe and adequate water services to her customers in a cost effective manner and effectively manage the resultant waste water in compliance with the regulator's set guidelines and standards.

Corporate Social Responsibility / Community Engagements

Water is life. We normally ensure that all the charitable organization in our area of operation get free water. The company also deliver free water to all burial ceremony in Kitui County.

IX. REPORT OF THE DIRECTORS

The Directors submit their report together with the audited financial statements for the year ended June 30, 2021 which show the state of the Kitwasco's affairs.

i) Principal activities

The principal activities of the entity are;

- ✓ To provide and distribute constant supply of water for commercial, industrial and domestic purpose within the jurisdiction of county government Kitui.
- ✓ To be responsible for provision and maintenance of water and sewerage services within Kitui county

ii) Results

The results of the entity for the year ended June 30, 2021 are set out on page 1.

iii) Directors

The members of the Board of Directors who served during the year are shown on page iv in accordance with Regulation of the Kitui water and sanitation Ltd Articles of Association.

iv) Auditors

The Auditor General is responsible for the statutory audit of the KITWASCO in accordance with Article 229 of the Constitution of Kenya and the Public Audit Act 2015 to carry out the audit of the KITWASCO for the year/period ended June 30, 2021, in accordance to section 23 of the Public Audit Act, 2015 which empowers the Auditor General to appoint an auditor to audit on his behalf.

Kitui Water and Sanitation Company Limited
Annual Reports and Financial Statements
For the year ended June 30, 2021

STATEMENT OF DIRECTORS' RESPONSIBILITIES

Section 81 of the Public Finance Management Act, 2012 and (*section 14 of the State Corporations Act*) require the Directors to prepare financial statements in respect of that KITWASCO, which give a true and fair view of the state of affairs of the KITWASCO at the end of the financial year/period and the operating results of the KITWASCO for that year/period. The Directors are also required to ensure that the KITWASCO keeps proper accounting records which disclose with reasonable accuracy the financial position of the KITWASCO. The Directors are also responsible for safeguarding the assets of the KITWASCO.

The Directors are responsible for the preparation and presentation of the KITWASCO's financial statements, which give a true and fair view of the state of affairs of the KITWASCO for and as at the end of the financial year (period) ended on June 30, 2021. This responsibility includes: (i) Maintaining adequate financial management arrangements and ensuring that these continue to be effective throughout the reporting period; (ii) maintaining proper accounting records, which disclose with reasonable accuracy at any time the financial position of the entity; (iii) Designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of the financial statements, and ensuring that they are free from material misstatements, whether due to error or fraud; (iv) Safeguarding the assets of the KITWASCO; (v) selecting and applying appropriate accounting policies; and (vi) Making accounting estimates that are reasonable in the circumstances.

The Directors responsibility for the KITWASCO's financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity with International Financial Reporting Standards (IFRS), and in the manner required by the PFM Act, 2012 and (the State Corporations Act) .

The Directors are of the opinion that the KITWASCO's financial statements give a true and fair view of the state of KITWASCO's transactions during the financial year ended June 30, 2021, and of the KITWASCO's financial position as at that date. The Directors further confirm the completeness of the accounting records maintained for the KITWASCO, which have been relied upon in the preparation of the KITWASCO's financial statements as well as the adequacy of the systems of internal financial control.

Kitui Water and Sanitation Company Limited
Annual Reports and Financial Statements
For the year ended June 30, 2021

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

Approval of the financial statements

The KITWASCO's financial statements were approved by the Board on 10/1/2021 2021 and signed on its behalf by:

Signature

Name

Chairperson of the Board

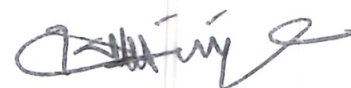


Harrison Maluki Nyumu

Signature

Name

Managing Director



Geoffrey K. Kuita

REPUBLIC OF KENYA

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



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

REPORT OF THE AUDITOR-GENERAL ON KITUI WATER AND SANITATION COMPANY LIMITED FOR THE YEAR ENDED 30 JUNE, 2021

PREAMBLE

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

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

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

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

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of Kitui Water and Sanitation Company Limited set out on pages 1 to 61, which comprise of the statement of

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

financial position as at 30 June, 2021, and the statement of profit or loss and other comprehensive income, statement of changes in equity, statement of cash flows and statement of comparison of budget and actual amounts for the year then ended, and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, 2015. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

In my opinion, except for the effect of the matters described in the Basis for Qualified Opinion section of my report, the financial statements present fairly, in all material respects, the financial position of Kitui Water and Sanitation Company Limited as at 30 June, 2021, and of its financial performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards (IFRS) and comply with the Public Finance Management Act, 2012, the Companies Act, 2015 and the Water Act, 2016.

Basis for Qualified Opinion

1. Presentation and Accuracy of the Financial Statements

1.1 Incomplete Statement of Changes in Equity

Review of the financial statements presented for audit revealed that the statement of changes in equity for the year ended 30 June, 2021 lacks comparative figures for the prior year.

1.2. Unexplained Variances Between the Audited and Amended Financial Statements

Review of the revised financial statements submitted in response to the issues raised in the Management Letter showed that several amendments were made from the previously audited financial statements without supporting documents and trial balance as detailed out below:

| Item | Original Financial Statement Submitted on 30 September, 2021 (Kshs.) | Amended Financial Statement Submitted on 11 January, 2022 (Kshs.) | Variance (Kshs.) |
|-------------------------------------|---|--|-------------------------|
| Operations and Maintenance Expenses | 178,920,284 | 47,355,108 | 131,565,176 |
| Electricity Expenses | 126,499,367 | 0 | 126,499,367 |
| Chemicals | 5,065,809 | 0 | 5,065,809 |
| Bank and Cash Balances | 71,488,971 | 69,103,770 | 2,385,201 |
| WSTF | 53,026,974 | 53,233,418 | (206,444) |
| Trade and Other Payables | 147,070,958 | 144,479,313 | 2,591,645 |

In the circumstances, the completeness and accuracy of the financial statements for the year ended 30 June, 2021 could not be confirmed.

2. Long Outstanding Trade and Other Receivables

The statement of financial position reflects trade and other receivables balance of Kshs.240,924,034 (2020-Kshs.200,223,279) and as disclosed under Note 18 to the financial statements. Review of the analysis provided under Note 18(a) and 18(b) and the documents provided in support of the balance revealed that trade receivables balance was net of provision for bad debts of Kshs.14,396,886 which is equivalent to 5.6% of gross receivables balance. However, Note 18(a) shows that trade receivables totalling Kshs.168,103,168 out of a total of Kshs.255,320,920 representing 65% of the gross trade receivables had been outstanding for more than 120 days implying that their collectability is doubtful. Therefore, the 7.3% provision for bad debts may not be adequate to reflect a fair level of impairment on debtors.

Further, included in the balance are amounts of Kshs.30,469,204, Kshs.8,402,070 and Kshs.10,767,448 in respect to Value Added Tax recoverable, water bowser and Kitui County Government other receivables respectively which had little or no change from the previous year casting doubt on their validity and recoverability.

In the circumstances, the fair statement of trade and other receivables balance of Kshs.240,924,034 as at 30 June, 2021 could not be ascertained.

3. Unsupported Acquisition of Assets

The statement of financial position reflects property, plant and equipment balance of Kshs.19,446,578 as disclosed in Note 15 to the financial statements. Included in the balance are amounts totalling Kshs.7,788,857 which was incurred on acquisition of assets during the year under review. Review of payment documents revealed the following anomalies:

- i. An amount of Kshs.499,050 was paid to a contractor for construction of three-doors pit latrine within the Company's premises. However, this project was not included in the Company's approved procurement plan for the year. Further, interim payment certificate and inspection reports to support the payment of Kshs.200,000 were not provided for audit review.
- ii. Review of documents provided revealed that all the buildings of the Company valued at Kshs.9,261,516 were not insured against risks of damage and destruction.
- iii. A motor vehicle was acquired for Kshs.4,500,000 through a financing loan from a commercial bank. However, Board approval for use of loan financing to acquire the motor vehicle and log book showing joint ownership with the bank were not provided for audit review. In addition, the acquisition was not included in the approved procurement plan for the year.

In the circumstances, the propriety of the expenditure of Kshs.5,199,050 incurred on the acquisition of assets for the year ended 30 June, 2021 could not be confirmed.

4. Unsupported Customer Deposit

The statement of financial position reflects trade and other payables balance of Kshs.144,479,313 and as disclosed under Note 27 to the financial statements. Included in the balance are customers deposit of Kshs.25,561,487 which was not supported by way of a ledger. Further, the bank account holding the customer deposit at Kenya Commercial Bank, reflected a balance of Kshs.3,785,107 resulting to an unexplained variance of a Kshs.21,776,380.

In the circumstances, the accuracy and completeness of customers deposits of Kshs.25,561,487 as at 30 June, 2021 could not be confirmed.

5. Retained Earnings

The statement of financial position reflects retained earnings balance of Kshs.120,847,279 and the disclosure is given under Note 24. However, the disclosure describes the opening balance of the account as capital reserve which is misleading. In addition, the statement of changes in equity reflects prior adjustments totalling Kshs.11,603,837 which were not supported.

In the circumstances, the accuracy and completeness of the retained earnings of Kshs.120,847,279 could not be confirmed.

6. Unexplained Operation and Maintenance Costs Adjustment

The statement of profit or loss and other comprehensive income reflects operations and maintenance expenditure of Kshs.47,355,108 as disclosed in Note 12 to the financial statements. Included in the expenditure is the amount of Kshs.13,228,134 which was incurred in respect of water system maintenance which further includes an adjustment of Kshs.3,130,258 posted vide Journal Voucher Number ACC-JV-2021-00708-2 dated 3 February, 2021. Examination of the supporting documents revealed that the adjustment related to stock differences between physical stock count and bin card (S13) balances. However, it was not explained why stock adjustments were accounted for as water system maintenance. In addition, the Management did not explain what occasioned the variances between actual stock balances and inventory records and how the same were resolved.

In the circumstances, the accuracy and propriety of operations and maintenance costs of Kshs.3,130,258 for the year ended 30 June, 2021 could not be ascertained.

7. Unsupported Bank and Cash Balances

The statement of financial position and Note 19 to the financial statements reflects bank and cash balances of Kshs.69,103,770. The balance includes an amount of Kshs.3,886,017 which was indicated as being held at Post Office. However, the actual

balance confirmed by the Postal Corporation of Kenya (PCK) was Kshs.2,889,485 resulting in unreconciled difference of Kshs.996,532. In addition, the balance represents un-surrendered collections from customers by Postal Corporation of Kenya (PCK) on behalf of the Company which have been outstanding for long time and do not meet the criteria for recognition as cash and cash equivalents. Further, the Management has not demonstrated tangible efforts towards reconciliation with PCK and recovery of the un-surrendered amounts.

In the circumstances, the completeness and accuracy of the balance of Kshs.69,103,770 could not be confirmed.

8. Unsupported Trade and Other Payables

The statement of financial position reflects trade and other payables balance of Kshs.144,479,313 and as disclosed under Note 27 to the financial statements. Review of the analysis and supporting documents revealed that only trade payables of Kshs.54,362,569 were supported, while the balance of Kshs.90,116,744 was un-supported.

Further, trade and other payables balance increased from Kshs.98,994,457 reported in the previous financial year representing a Kshs.45,484,856 (or 46%) increase. This is indicative of inability of the Company to settle its obligations as and when they arise.

In addition, the payables balance included a prior year adjustment of Kshs.2,022,807 which was not supported with relevant documents.

In the circumstances, the accuracy and completeness of trade and other payables balance of Kshs.144,479,313 could not be confirmed.

9. Accountability Over Retention Monies

Trade and other payables balance of Kshs.144,479,313 includes an amount of Kshs.2,173,490 relating to retention monies as disclosed under Note 27 to the financial statements. However, it was noted that the Company does not maintain a separate bank account for contractors' retentions where all retention deducted from contractor's payment should be transferred for ease of accountability. In addition, the Management did not provide a ledger in support of the retention account.

In the circumstances, the accuracy of contractors' retention by the Company could not be confirmed.

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

Key Audit Matters

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

Other Matter

1. Budgetary Control and Performance

1.1 Budget Preparation Process

Review of board executive committee minutes revealed that the budget preparation process was finalized on 30 June, 2020 which is past the Water Act, 2016 requirement that the estimates be prepared three months before 30 June of every financial year.

In the circumstances, the Management failed to adhere to the set timelines on budget preparation for the year ended 30 June, 2021.

1.2 Budgetary Performance

The statement of comparison of budget and actual amounts for the year ended 30 June, 2021 reflects budgeted and actual revenue of Kshs.299,983,524 and Ksh.279,283,370 respectively resulting to a shortfall of Kshs.20,700,154 or 7% of the approved budget. Similarly, the Company had budgeted to spend Kshs.299,983,524 (including cost of sales) during the financial year but actual expenditure was Kshs.278,521,048 resulting to under-expenditure of Kshs.21,462,475 or 7% of the budget.

In the circumstances, the underfunding and the resultant underperformance affected the planned activities and may have impacted negatively on-service delivery to the stakeholders.

1.3 Unauthorized Over-Expenditure

The Company incurred expenditure above the approved budget under the components detailed out in the table below:

| Sub Component | Actual Expenditure Kshs. | Budgeted Expenditure Kshs. | Variance Kshs. |
|---------------------------------|---------------------------------|-----------------------------------|-----------------------|
| Telephone Expenses | 789,431 | 278,530 | 510,901 |
| Software Maintenance | 917,565 | 846,000 | 71,565 |
| Annual General Meeting Expenses | 674,103 | 620,598 | 53,505 |
| Water System Maintenance | 13,228,134 | 12,519,216 | 708,918 |
| Electricity Expenses | 126,499,367 | 111,980,888 | 14,518,479 |

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

2. Unresolved Prior Year Matters

In the audit report of the previous year, several issues were raised under the Report on the Financial Statements, Report on Lawfulness and Effectiveness in Use of Public Resources, and Report on Effectiveness of Internal Controls, Risk Management and Governance. However, the Management has not resolved the issues or given any explanation for failure to adhere to the provisions of the Public Sector Accounting Standards Board reporting template and The National Treasury's Circular Ref: No. AG.4/16/3 Vol.1(9) dated 24 June, 2020.

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. Exceeded Non-Revenue Water

Review of records revealed that during the year, the Company produced a total of 3,626,235 cubic meters (M³) of water out of which only 1,649,346 M³ were billed to customers leaving out the balance of 1,976,889 M³ unbilled representing 55% of the production as Non-Revenue Water (NRW). The NRW is equivalent of Kshs.173,966,232 based on the average selling price per M³ of Kshs.88 and exceeded the threshold of 25% set in the Water Services Regulatory (WASREB) Guidelines by 30%. No explanation was provided for the high NRW and measures being put in place to resolve it.

In the circumstances, the efficiency of management of water resources is in doubt and this has negatively affected the financial performance of the Company as well as its long-term sustainability.

3. Failure to Adhere to the Two-Thirds Deductions Rule

Review of the payroll records revealed that seven (7) employees of the Company earned net salaries during the year which were below one-third of their basic pay contrary to the provisions of Section 19(3) of the Employment Act, 2007 which stipulates that the total amount of all deductions which, may be made by an employer from the wages of his employee at any one time shall not exceed two thirds of such wages. The affected staff may be exposed to pecuniary embarrassment.

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

4. Irregular Staff Ethnic Composition

Review of the staff composition revealed that the Company had a total of one hundred and sixteen (116) employees out of which, one hundred and seven (107) or 92% of the workforce were from the dominant ethnic community in the County. This is contrary to the provisions of Section 7(1) and (2) of the National Cohesion and Integration Act, 2008 which stipulates that, no public establishment shall have more than one third of its staff from the same ethnic community.

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

5. Failure to Comply with Two-Thirds Gender Rule

Review of personnel documents revealed that, the Company had a total of 116 employees out of which only 26 employees were female representing 22% of the total workforce. This is contrary to the provisions of Section B.22 (2) of the Human Resource Policies and Procedures Manual for the Public Service, 2016 providing that the Government will endeavour to have a gender balanced Civil Service by ensuring that not more than 2/3 of positions in its establishment are filled by either gender.

To this extent, the Management has not complied with the law.

6. Irregular Appointment of Members of the Board of Directors

During the year under review, a new Board of Directors was appointed. However, a review of the board members' personnel files revealed that four (4) of the six (6) Board Members had not met the minimum eligibility criteria set out in the advertisement of having at least a degree in a relevant field.

In the circumstances, the Company has not complied with the criteria on Board appointment.

7. Unclear Ownership of the Company

The background information to the financial statements indicate that Kitui Water and Sanitation Company Limited was established by the Companies Act CAP, 486 laws of Kenya. Examination of the certificate of incorporation showed that the Company was incorporated on 10 April, 2006 as a company limited by guarantee. However, Management did not provide details of the subscribers to the Company and statement of guarantee as required under Section 29(h) of the Companies Act, 2015. Further, no document was provided to show that the ownership of the Company was changed from limited by guarantee to limited by shares and transferred to the County Government of Kitui in trust for the people of the County as required by the Water Act, 2016.

In the circumstances, the compliance with the law on legal status and ownership of the Company could not be ascertained.

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 control, risk management and overall governance were operating effectively, in all material respects. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

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

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

Responsibilities of Management and those Charged with Governance

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

In preparing the financial statements, Management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless Management is aware of intentions 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 the entity monitors compliance with relevant legislative and regulatory requirements, ensuring that effective processes and systems are in place to address key roles and responsibilities in relation to governance and risk management, and ensuring the adequacy and effectiveness of the control environment.

Auditor-General's Responsibilities for the Audit

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

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

Further, in planning and performing the audit of the financial statements and audit of compliance, I consider internal control in order to give an assurance on the effectiveness of internal controls, risk management and governance processes and systems in accordance with the provisions of Section 7(1)(a) of the Public Audit Act,

2015 and submit the audit report in compliance with Article 229(7) of the Constitution. My consideration of the internal control would not necessarily disclose all matters in the internal control that might be material weaknesses under the ISSAIs. A material weakness is a condition in 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 Company's policies and procedures may deteriorate.

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal 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 applicable basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in the auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my audit report. However, future events or conditions may cause the Company to 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

14 July, 2022

Kitui Water and Sanitation Company Limited
Annual Reports and Financial Statements
For the year ended June 30, 2021

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

| | Note | 2020-2021 | 2019-2020 |
|--|------|--------------------|--------------------|
| | | Kshs | Kshs |
| REVENUES | | | |
| Sales | 6 | 156,704,059 | 133,382,492 |
| Total | | 156,704,059 | 133,382,492 |
| Subsidy | 7 | 97,837,788 | 107,931,857 |
| Other Income | 8 | 24,741,523 | 26,884,381 |
| TOTAL REVENUES | | 279,283,370 | 268,198,729 |
| COST OF SALES | 9 | 131,565,176 | 121,561,764 |
| GROSS PROFIT | | 147,718,194 | 146,636,965 |
| OPERATING EXPENSES | | | |
| General and Administration Expenses | 10 | 28,239,794 | 40,802,794 |
| Personnel Expenses | 11 | 66,370,418 | 57,472,843 |
| Operations and maintenance Expenses | 12 | 47,355,108 | 43,165,854 |
| Board of Directors Expenses | 13 | 4,615,330 | 2,335,360 |
| Bank Service Charges | 14 | 375,222 | 398,417 |
| TOTAL OPERATING EXPENSES | | 146,955,872 | 144,175,268 |
| NET PROFIT/(LOSS) BEFORE TAXATION | | 762,322 | 2,461,698 |
| INCOME TAX EXPENSE/(CREDIT) | | - | - |

Kitui Water and Sanitation Company Limited
Annual Reports and Financial Statements
For the year ended June 30, 2021

| | Note | 2020-2021 | 2019-2020 |
|---|------|-----------|-----------|
| | | Kshs | Kshs |
| NET PROFIT/(LOSS) AFTER TAXATION | | 762,322 | 2,461,698 |

XII. STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2021


| | Note | 2020-2021 | 2019-2020 |
|---------------------------------|------|--------------------|--------------------|
| | | Kshs | Kshs |
| ASSETS | | | |
| Non-Current Assets | | | |
| Property, plant and equipment | 15 | 19,446,578 | 13,534,095 |
| Intangible assets | 16 | 2,033,282 | 2,480,209 |
| Total Non-Current Assets | | 21,479,860 | 16,014,304 |
| Current Assets | | | |
| Inventories | 17 | 2,398,004 | 2,394,009 |
| Trade and other receivables | 18 | 240,924,034 | 200,223,279 |
| Bank and cash balances | 19 | 69,103,770 | 26,069,878 |
| Total Current | | 312,425,808 | 228,687,166 |
| Total Assets | | 333,905,668 | 244,701,470 |
| EQUITY AND LIABILITIES | | | |
| Capital and Reserves | | | |
| Capital Fund | 20 | 11,845,658 | 11,845,658 |


Kitui Water and Sanitation Company Limited
Annual Reports and Financial Statements
For the year ended June 30, 2021

| | | | |
|-------------------------------------|----|--------------------|--------------------|
| WSTF Projects | 21 | 53,233,418 | 13,598,104 |
| Retained earnings | 24 | 120,847,279 | 108,481,119 |
| Total | | 185,926,355 | 133,924,881 |
| Non-Current Liabilities | | | |
| Borrowings | 25 | 3,500,000 | 10,259,728 |
| Total | | 3,500,000 | 10,259,728 |
| Current Liabilities | | | |
| Bank Overdraft | 26 | - | 1,522,404 |
| Trade and other payables | 27 | 144,479,313 | 98,994,457 |
| Total | | 144,479,313 | 100,516,861 |
| TOTAL EQUITY AND LIABILITIES | | | |
| | | 333,905,668 | 244,701,470 |

The financial statements were approved by the Board on 10/1/2022 2021 and signed on its behalf by:


 Geoffrey Kiita
Managing Director


 Victor Muteti
 ICPAK No...21940...
Head of Finance


 Harrison Maluki Nyumu
Chairperson of the Board

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

| | Capital Fund | Retained earnings | Total |
|------------------------|--------------|-------------------|-------------|
| As at July 1, 2020 | 11,845,658 | 108,481,120 | 120,326,778 |
| Prior year adjustments | | 11,603,837 | 11,603,837 |
| Surplus for the year | - | 762,322 | 762,322 |
| As at June 30, 2021 | 11,845,658 | 120,847,279 | 132,692,937 |

XIV. STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2021

| | Note | 2020-2021 | 2019-2020 |
|---|-------|------------------|---------------------|
| | | Kshs | Kshs |
| Cash Flows From Operating Activities | | | |
| Cash Generated From/(Used In) Operations | | 762,322 | 2,461,698 |
| Add; Depreciation and Amortiz-ation | 15&16 | 2,323,302 | 1,385,105 |
| Working Capital Changes | | 3,257,702 | (97,260,721) |
| Net Cash Generated From/(Used In) Operating Activities | | 6,343,325 | (93,413,919) |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | |
| Purchase of property, plant and equipment | 15&16 | (7,788,857) | (9,050,949) |
| Proceeds from disposal of property, plant and equipment | | - | - |

Kitui Water and Sanitation Company Limited
Annual Reports and Financial Statements
For the year ended June 30, 2021

| | Note | 2020-2021 | 2019-2020 |
|---|------|-------------------|--------------------|
| | | Kshs | Kshs |
| Net Cash Generated From/(Used In) Investing Activities | | (7,788,857) | (9,050,949) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | |
| Repayment of Loan from Kenya Commercial Bank | 23 | (6,759,728) | 3,172,390 |
| WSTF Projects | 21 | 39,635,313 | 13,598,105 |
| Transfer to retained earnings | 24 | 11,603,837 | 89,493,788 |
| Net Cash Generated From/(Used In) Financing Activities | | 44,479,422 | 106,264,282 |
| Increase/(Decrease) In Cash And Cash Equivalents | | 43,033,891 | 3,799,415 |
| Cash And Cash Equivalents At Beginning Of Year | | 26,069,879 | 22,270,459 |
| Cash And Cash Equivalents At End Of The Year | 19 | 69,103,767 | 26,069,879 |

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

| | Original budget | Adjustment s | Final budget | Actual on comparable basis | Performance difference | % of Utilization |
|--|--------------------|--------------------|--------------------|-------------------------------|---------------------------|---------------------|
| | 2020-2021 | 2020-2021 | 2020-2021 | 2020-2021 | 2020-2021 | 2020-2021 |
| Revenue | Kshs | Kshs | Kshs | Kshs | Kshs | % |
| Sale of water and sewer | 168,614,945 | (3,000,000) | 165,614,945 | 156,704,059 | (8,910,886) | -5% |
| Subsidy from Kitui County Government | 109,580,888 | - | 109,580,888 | 97,837,788 | (11,743,100) | -11% |
| Other income- Exhauster and miscellaneous income | 21,787,691 | 3,000,000 | 24,787,691 | 24,741,523 | (46,168) | - |
| Total income | 299,983,524 | - | 299,983,524 | 279,283,370 | (20,700,154) | -7% |
| Cost Of Sales | 123,384,488 | 1,600,000 | 124,984,488 | 131,565,176 | (6,580,688) | -5% |
| Gross Profit | 176,599,036 | (1,600,000) | 174,999,036 | 147,718,194 | (27,280,842) | -16% |
| Expenses | | | | | | % |
| Staff Costs | 68,116,594 | 1,000,000 | 69,116,594 | 66,370,418 | 2,746,176 | 4% |
| Operation and Maintenance Costs | 59,786,559 | (4,100,000) | 55,686,559 | 47,355,108 | 8,331,451 | 15% |

Kitui Water and Sanitation Company Limited
Annual Reports and Financial Statements
For the year ended June 30, 2021

| | | | | | | |
|---------------------------------------|--------------------|----------|--------------------|--------------------|-------------------|-----------|
| Administrative Costs | 44,166,447 | 700,000 | 44,866,447 | 28,239,794 | 16,626,653 | 37% |
| Board of Directors Expenses | 4,093,221 | 800,000 | 4,893,221 | 4,615,330 | 277,891 | 6% |
| Bank Charges | 436,214 | - | 436,214 | 375,222 | 60,992 | 14% |
| Total expenditure | 176,599,036 | - | 174,999,036 | 146,955,872 | 28,043,163 | 7% |
| Deficit/Surplus for the period | - | - | - | 762,322 | 762,322 | |

Note: PFM Act section 81(2) ii and iv requires a National Government entity to present appropriation accounts showing the status of each vote compared with the appropriation for the vote and a statement explaining any variations between actual expenditure and the sums voted. IFRS does not require entities complying with IFRS standards to prepare budgetary information because most of the entities that apply IFRS are private entities that do not make their budgets publicly available.

However, for public sector entities, the PSASB has considered the requirements of the PFM Act, 2012 which these statements comply with, the importance that the budgetary information would provide to the users of the statements and the fact that the public entities make their budgets publicly available and decided to include this statement under the IFRS compliant financial statements.

XVI. NOTES TO THE FINANCIAL STATEMENTS

1. General Information

Kitui Water and Sanitation Company Limited is established by and derives its authority and accountability from the Company Act. The entity is wholly owned by the Government of Kenya and is domiciled in Kenya. The entity's principal activity is to provide and distribute constant supply of water for commercial, industrial and domestic purpose within the jurisdiction of Kitui County and parts of Machakos County.

For Kenyan Companies Act reporting purposes, the balance sheet is represented by the statement of financial position and the profit and loss account by the statement of profit or loss and other comprehensive income in these financial statements.

2. Statement of Compliance and Basis of Preparation

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

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

i. *New and amended standards and interpretations in issue effective in the year ended 30 June 2021.*

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

Kitui Water and Sanitation Company Limited
Annual Reports and Financial Statements
For the year ended June 30, 2021

| Title | Description | Effective Date |
|--|---|--|
| IFRS 7- Financial Instrument Disclosures | IFRS 7 "Financial Instruments: Disclosures" requires disclosure of information about the significance of financial instruments to an entity, and the nature and extent of risks arising from those financial instruments, both in qualitative and quantitative terms. Specific disclosures are required in relation to transferred financial assets and a number of other matters. | The amendments are effective for annual periods beginning on or after January 1, 2020. Earlier application is permitted. |
| IFRS 16- Leases | IFRS 16 specifies how to recognize, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring the recognition of assets and liabilities for all leases, unless the lease term is 12 months or less or the underlying asset has a low value. Lessor accounting however remains largely unchanged from IAS 17 and the distinction between operating and finance leases is retained. | The amendments are effective for annual periods beginning on or after January 1, 2020. Earlier application is permitted. |

The Directors have assessed the applicable standards and amendments. Based on their assessment of impact of application of the above, they do not expect that there will be a significant impact on the company's financial statements.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

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

ii. *New and amended standards and interpretations in issue but not yet effective in the year ended 30 June 2021.*

| Title | Description | Effective Date |
|--|--|---|
| IAS 1 — Presentation of Financial Statements | IAS 1 "Presentation of Financial Statements" sets out the overall requirements for financial statements, including how they should be structured, the minimum requirements for their content and overriding concepts such as going concern, the accrual basis of accounting and the current/non-current distinction. The standard requires a complete set of financial statements to comprise a statement of financial position, a statement of profit or loss and other comprehensive income, a statement of changes in equity and a statement of cash flows. | The amendments are effective for annual periods beginning on or after January 1, 2023. Earlier application is permitted. |
| IAS 12 — Income Taxes | IAS 12, "Income Taxes" implements a so-called 'comprehensive balance sheet method' of accounting for income taxes which recognizes both the current tax consequences of transactions and events and the future tax consequences of the future recovery or settlement of the carrying amount of an | Earlier application is permitted. The amendments are effective for annual reporting periods beginning on or after January 1, 2023. Early adoption is permitted. |

| Title | Description | Effective Date |
|---|--|--|
| | entity's assets and liabilities. Differences between the carrying amount and tax base of assets and liabilities, and carried forward tax losses and credits, are recognized, with limited exceptions, as deferred tax liabilities or deferred tax assets, with the latter also being subject to a 'probable profits' test. | |
| IAS 16 — Property, Plant and Equipment | IAS 16 "Property, Plant and Equipment" outlines the accounting treatment for most types of property, plant and equipment. Property, plant and equipment is initially measured at its cost, subsequently measured either using a cost or revaluation model, and depreciated so that its depreciable amount is allocated on a systematic basis over its useful life. | The amendments are effective for annual periods beginning on or after January 1, 2022. Early application is permitted. |
| IAS 37 — Provisions, Contingent Liabilities and Contingent Assets | IAS 37 "Provisions, Contingent Liabilities and Contingent Assets" outlines the accounting for provisions (liabilities of uncertain timing or amount), together with contingent assets (possible assets) and contingent liabilities (possible obligations and present obligations that are not probable or not reliably measurable). | The amendments are effective for annual periods beginning on or after January 1, 2022. Early application is permitted. |

Kitui Water and Sanitation Company Limited
Annual Reports and Financial Statements
For the year ended June 30, 2021

| Title | Description | Effective Date |
|---|--|--|
| IAS 41 — Agriculture | IAS 41 "Agriculture" sets out the accounting for agricultural activity – the transformation of biological assets (living plants and animals) into agricultural produce (harvested product of the entity's biological assets). The standard generally requires biological assets to be measured at fair value less costs to sell. | The amendments are effective for annual periods beginning on or after January 1, 2022. Early application is permitted. |
| IFRS 1 — First-time Adoption of International Financial Reporting Standards | IFRS 1 "First-time Adoption of International Financial Reporting Standards" sets out the procedures that an entity must follow when it adopts IFRS for the first time as the basis for preparing its general purpose financial statements. The IFRS grants limited exemptions from the general requirement to comply with each IFRS effective at the end of its first IFRS reporting period. | The amendments are effective for annual periods beginning on or after January 1, 2022. Early application is permitted. |
| IFRS 3 — Business Combinations | IFRS 3 "Business Combinations" outlines the accounting when an acquirer obtains control of a business (e.g. an acquisition or merger). Such business combinations are accounted for using the 'acquisition method', which generally requires | The amendments are effective for annual periods beginning on or after January 1, 2022. Early application is permitted if an entity also applies all other updated references (published together with the updated Conceptual Framework) at the same time or earlier. |

| Title | Description | Effective Date |
|-------------------------------|--|--|
| | assets acquired and liabilities assumed to be measured at their fair values at the acquisition date. | |
| IFRS 17 — Insurance Contracts | IFRS 17 establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts within the scope of the standard. The objective of IFRS 17 is to ensure that an entity provides relevant information that faithfully represents those contracts. This information gives a basis for users of financial statements to assess the effect that insurance contracts have on the entity's financial position, financial performance and cash flows. | The IASB tentatively decided to defer the effective date of IFRS 17, Insurance Contracts to annual periods beginning on or after January 1, 2022. [The IASB has also published 'Extension of the Temporary Exemption from Applying IFRS 9 (Amendments to IFRS 4)' to defer the fixed expiry date of the amendment also to annual periods beginning on or after January 1, 2023.] |

The Directors do not plan to apply any of the above until they become effective. Based on their assessment of the potential impact of application of the above, they do not expect that there will be a significant impact on the company's financial statements.

iii. Early adoption of standards

The entity did not early – adopt any new or amended standards in year 2020/2021

NOTES TO THE FINANCIAL STATEMENTS (Continues)

4. Summary of Significant Accounting Policies

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

a) Revenue recognition

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

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Summary of Significant Accounting Policies

b) In-kind contributions

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

c) Property, plant and equipment

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

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

Increases in the carrying amounts of assets arising from re-valuation are credited to other comprehensive income. Decreases that offset previous increases in the carrying amount of the same asset are charged against the revaluation reserve account; all other decreases are charged to profit or loss in the income statement. Gains and losses on disposal of items of property, plant and equipment are determined by comparing the proceeds from the disposal with the net carrying amount of the items, and are recognised in profit or loss in the income statement.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Summary of Significant Accounting Policies

d) Depreciation and impairment of property, plant and equipment

Freehold land and capital work in progress are not depreciated. Capital work in progress relates mainly to the costs of ongoing but incomplete works on buildings and other civil works and installations.

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

| | |
|--|--|
| Freehold Land | Nil |
| Buildings and civil works | 25 years or the unexpired lease period |
| Plant and machinery | 12.5 years |
| Motor vehicles, including motor cycles | 4 years |
| Computers and related equipment | 3 years |
| Office equipment, furniture and fittings | 12.5 years |

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

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Summary of Significant Accounting Policies

e) Intangible assets

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

f) Amortisation and impairment of intangible assets

Amortisation is calculated on the straight-line basis over the estimated useful life of the intangible asset. All intangible assets are reviewed annually for impairment. Where the carrying amount of an intangible asset is assessed as greater than its estimated recoverable amount, an impairment loss is recognised so that the asset is written down immediately to its estimated recoverable amount.

g) Investment property

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Summary of Significant Accounting Policies

h) Right of Use Asset

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

i) Fixed interest investments (bonds)

Fixed interest investments refer to investment funds placed under Central Bank of Kenya (CBK) long-term infrastructure bonds and other corporate bonds with the intention of earning interest income upon the bond's disposal or maturity. Fixed interest investments are freely traded at the Nairobi Securities Exchange. The bonds are measured at fair value through profit or loss.

j) Quoted investments

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Summary of Significant Accounting Policies

k) Unquoted investments

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

l) Inventories

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

m) Trade and other receivables

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Summary of Significant Accounting Policies

n) Taxation

i) Current income tax

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

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

Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

o) Deferred tax

Deferred tax is provided using the liability method on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Summary of Significant Accounting Policies

Deferred Tax

Deferred tax liabilities are recognized for all taxable temporary differences, except in respect of taxable temporary differences associated with investments in controlled entities, associates and interests in joint ventures, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future. Deferred tax assets are recognized for all deductible temporary differences, the carry forward of unused tax credits and any unused tax losses. Deferred tax assets are recognized to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilized, except in respect of deductible temporary differences associated with investments in controlled entities, associates and interests in joint ventures, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Unrecognized deferred tax assets are re-assessed at each reporting date and are recognized to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered. Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred tax relating to items recognized outside surplus or deficit is recognized outside surplus or deficit. Deferred tax items are recognized in correlation to the underlying transaction in net assets. Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Summary of Significant Accounting Policies

p) Borrowing costs

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

q) Cash and cash equivalents

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

r) Borrowings

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

s) Trade and other payables

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

t) Retirement benefit obligations

The entity operates a defined contribution scheme for all full-time employees from July 1, 2010. The scheme is administered by an in-house team and is funded by contributions from both the company and its employees. The company also contributes to the statutory National Social Security Fund (NSSF). This is a defined contribution scheme registered under the National Social Security Act. The company's obligation under the scheme is limited to specific contributions legislated from time to time and is currently at 15% of the basic salary per employee per month.

u) Provision for staff leave pay

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

v) Exchange rate differences

The accounting records are maintained in the functional currency of the primary economic environment in which the entity operates, Kenya Shillings. Transactions in foreign currencies during the year/period are translated into the functional currency

using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Any foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Summary of Significant Accounting Policies

w) Budget information

The original budget for FY 2020-2021 was approved by the Board of Directors on 30/06/2020. Subsequent revisions or additional appropriations were made to the approved budget in accordance with specific approvals from the appropriate authorities. The additional appropriations are added to the original budget by the entity upon receiving the respective approvals in order to conclude the final budget. Accordingly, the entity recorded additional appropriations on the 2020-2021 budget following the Board of Director's approval.

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

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

NOTES TO THE FINANCIAL STATEMENTS (Continues)

a) Service concession arrangements

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

b) Comparative figures

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

c) Subsequent events

There have been no events subsequent to the financial year end with a significant impact on the financial statements for the year ended June 30, 2021.

5. Significant Judgments and Sources of Estimation Uncertainty

The preparation of the Entity's financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of the reporting period. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods.

NOTES TO THE FINANCIAL STATEMENTS (Continues)

State all judgements, estimates and assumptions made: e.g

Estimates and assumptions

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

a) Useful lives and residual values

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

- The condition of the asset based on the assessment of experts employed by the Entity
- The nature of the asset, its susceptibility and adaptability to changes in technology and processes
- The nature of the processes in which the asset is deployed
- Availability of funding to replace the assets

b) Provisions

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

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

- i) Provision for bad and doubtful debts

General provision for bad and doubtful debts has been made at 15% of the trade receivables.

ii) Provision for leave allowances

Provision for leave allowances has been made based on the liability accruing to the company from outstanding leave. This is based on the employees' basic pay.

iii) Provision for contingencies

Provision for contingencies relates to pending court cases. The estimates is based on the employees' basic salaries and management experience from other court cases that have already been determined

NOTES TO THE FINANCIAL STATEMENTS (Continues)

6. Revenue

| | 2020/2021 | 2019/2020 |
|--------------------|--------------------|--------------------|
| | Kshs | Kshs |
| Water Billing | 144,285,402 | 130,552,016 |
| Water Tanker Sales | 9,902,912 | - |
| Sewer Sales | 2,515,745 | 2,830,475 |
| Total | 156,704,059 | 133,382,492 |

7. Subsidy

| | 2020/2021 | 2019/2020 |
|--------------------------------------|-------------------|--------------------|
| | Kshs | Kshs |
| Subsidy from Kitui County Government | 61,781,447 | 107,931,857 |
| Subsidy from Water Trust Fund (WSTF) | 36,056,341 | - |
| Total | 97,837,788 | 107,931,857 |

8. Other Income

| | 2020/2021 | 2019/2020 |
|------------------|-----------|-----------|
| | Kshs | Kshs |
| Exhauster sales | 1,748,500 | 2,564,580 |
| Meter rent | 4,739,075 | - |
| Standing charges | 5,006,000 | - |

| | | |
|----------------------------|-------------------|-------------------|
| Water tanker Sales | - | 3,888,369 |
| New connection fee | 3,552,434 | 3,145,917 |
| Re-connection fee | 932,500 | 1,463,500 |
| Other miscellaneous income | 8,763,014 | 15,822,015 |
| Total | 24,741,523 | 26,884,381 |

9. Cost of Sales

| | 2020/2021 | 2019/2020 |
|--------------------------------|--------------------|--------------------|
| | Kshs | Kshs |
| Chemicals | 5,065,809 | 6,053,660 |
| Electricity expenses Masinga | 114,139,312 | 107,931,857 |
| Electricity expenses boreholes | 12,360,055 | 7,576,247 |
| Total | 131,565,176 | 121,561,764 |

NOTES TO THE FINANCIAL STATEMENTS (Continued)

10 General and Administrative Expenses

| | 2020/2021 | 2019/2020 |
|-------------------------------|------------|-----------|
| Description | Kshs | Kshs |
| Depreciation and amortization | 2,323,302 | 1,385,105 |
| Staff Welfare | 2,299,536 | 2,018,638 |
| Legal expenses | 943,514 | - |
| Office maintenance | 1,658,331 | 141,729 |
| Office rent | 87,000 | 104,606 |
| Postal expenses | 99,305 | 30,539 |
| Printing and Stationery | 298,787 | 509,869 |
| Transport expenses | 293,428 | 218,607 |
| Telephone expenses | 789,431 | 736,431 |
| Membership fee | 95,000 | 85,000 |
| Security expenses | 10,269,864 | 7,526,638 |
| Newspaper expense | 156,420 | 164,270 |
| Insurance expense | 404,356 | 567,240 |
| Computer expense | 105,989 | 34,370 |
| Electricity Expense –Office | 243,675 | - |
| Staff training | 1,902,251 | 2,581,861 |
| Office consumables | - | 29,395 |

Kitui Water and Sanitation Company Limited
Annual Reports and Financial Statements
For the year ended June 30, 2021

| | 2020/2021 | 2019/2020 |
|-------------------------------------|-------------------|-------------------|
| Description | Kshs | Kshs |
| Office internet | 506,838 | 351,996 |
| Advertisement | 743,852 | 329,700 |
| Audit fees | 231,996 | 696,000 |
| Software maintenance expense | 917,565 | 330,000 |
| Consultancy fee | 348,000 | 111,000 |
| Bad and doubtful debts | (3,772,092) | 18,168,978 |
| Staff travel and subsistence | 3,993,366 | 3,915,656 |
| Staff Uniform | - | 986 |
| AGM expenses | 674,103 | 534,180 |
| Repair and maintenance of buildings | 3,500 | 230,000 |
| Provision for Contingency expense | 2,622,480 | - |
| Total | 28,239,797 | 40,802,794 |

NOTES TO THE FINANCIAL STATEMENTS (Continued)

11 Personnel Expenses

| Description | 2020/2021 | 2019/2020 |
|--|-------------------|-------------------|
| | Kshs | Kshs |
| Basic pay | 35,761,221 | 32,064,037 |
| House allowance | 6,698,600 | 5,046,200 |
| Acting allowance | 191,984 | 204,561 |
| Salary arrears | 180,977 | 228,000 |
| Leave allowance | 2,891,202 | 2,681,925 |
| Disturbance allowance | 437,114 | 450,000 |
| Commuter allowance | 2,484,912 | 2,039,174 |
| Medical allowance | 2,824,954 | 2,472,338 |
| Gratuity | 4,565,133 | 3,403,629 |
| Nssf ER | 262,800 | 206,000 |
| Pension | 2,893,800 | 2,625,187 |
| Casual Wages | 3,394,800 | 4,316,531 |
| Stipend allowance | 3,682,000 | 1,684,800 |
| Entertainment allowance | 100,920 | 50,460 |
| Total | 66,370,418 | 57,472,843 |
| The average number of employees at the end of the year was: | | |
| Permanent employees – Management | 4 | 4 |

Kitui Water and Sanitation Company Limited
Annual Reports and Financial Statements
For the year ended June 30, 2021

| Description | 2020/2021 | 2019/2020 |
|------------------------------------|------------|------------|
| | Kshs | Kshs |
| Permanent employees – Union sable | 52 | 52 |
| Temporary and contracted employees | 60 | 55 |
| Total | 116 | 111 |

NOTES TO THE FINANCIAL STATEMENTS (Continued)

12 Operation and Maintenance Expenses

| | 2020/2021 | 2019/2020 |
|---|-------------------|-------------------|
| Description | Kshs | Kshs |
| Water system maintenance | 13,228,134 | 12,783,565 |
| Abstraction fee-WARMA | 1,813,118 | 1,675,965 |
| Sewer maintenance expenses | 362,721 | 509,797 |
| Fuel and lubricants | 7,145,356 | 5,847,794 |
| Motor vehicle & motor cycle running costs | 6,931,626 | 4,056,992 |
| Repairs and maintenance of PPE | 4,299,395 | 1,225,744 |
| Water purchase | 227,680 | 128,200 |
| Wasreb fee | 5,771,416 | 4,849,787 |
| Non-revenue water expenses | 3,304,434 | - |
| Genset hire | - | 6,000 |
| SMS Billing | 463,563 | 245,129 |
| Drought mitigation expenses | - | 5,311,595 |
| Water meters | 2,174,831 | 6,525,285 |
| Generator fuel, lubricants & service | 1,621,835 | - |
| Exhauster expenses | 11,000 | - |
| Total | 47,355,109 | 43,165,853 |

NOTES TO THE FINANCIAL STATEMENTS (Continued)

13 Board of Directors Expenses

| | 2020/2021 | 2019/2020 |
|--------------------------------|------------------|------------------|
| Description | Kshs | Kshs |
| Directors fees-Board Committee | 578,550 | 284,846 |
| Directors fees-Full board | 501,410 | 604,993 |
| Chairman's Honoraria | 490,000 | 480,000 |
| Directors fees-Special | 837,400 | 434,986 |
| Other directors' expenses | 301,420 | 530,535 |
| Training BOD | 1,906,550 | - |
| Total | 4,615,330 | 2,335,360 |

14 Bank Service Charges

| | 2020/2021 | 2019/2020 |
|--------------|----------------|----------------|
| | Kshs | Kshs |
| Bank charges | 375,222 | 398,417 |
| Total | 375,222 | 398,417 |

NOTES TO THE FINANCIAL STATEMENTS (Continued)

15 Property, Plant and Equipment

| 2021 | Motor Cycles | Buildings & civil works | Plant and machinery | Motor vehicles | Computers & related equipment | Office equipment, furniture & fittings | Bicycles | Total |
|--|------------------|-------------------------|---------------------|------------------|-------------------------------|--|---------------|-------------------|
| COST OR VALUATION | | | | | | | | |
| At July 1, 2020 | 4,042,179 | 9,206,696 | 1,827,082 | 5,099,860 | 3,252,853 | 989,488 | 38,636 | 24,456,794 |
| Additions | 289,200 | 499,050 | 1,172,159 | 4,500,000 | 693,400 | 635,048 | - | 7,788,857 |
| Transfers | - | - | - | - | - | - | - | - |
| Disposals | - | - | - | - | - | - | - | - |
| At June 30, 2021 | 4,331,379 | 9,705,746 | 2,999,241 | 9,599,860 | 3,946,254 | 1,624,536 | 38,636 | 32,245,651 |
| DEPRECIATION | | | | | | | | |
| At July 1, 2020 | 2,366,162 | 281,150 | 496,936 | 4,783,110 | 2,389,489 | 576,847 | 29,007 | 10,922,701 |
| Charge for the year | 340,207 | 163,080 | 215,992 | 776,153 | 315,027 | 64,719 | 1,192 | 1,876,370 |
| Impairment loss | - | - | - | - | - | - | - | - |
| Eliminated on disposal | - | - | - | - | - | - | - | - |
| At June 30, 2021 | 2,706,369 | 444,230 | 712,928 | 5,559,263 | 2,704,516 | 641,566 | 30,199 | 12,799,071 |
| NET BOOK VALUE At June 30, 2021 | 1,625,010 | 9,261,516 | 2,286,313 | 4,040,597 | 1,241,738 | 982,970 | 8,437 | 19,446,581 |

NOTES TO THE FINANCIAL STATEMENTS (Continued)

15 Property, Plant and Equipment (Continued)

| 2020 | Motor Cycles | Buildings & civil works | Plant and machinery | Motor vehicles | Computers & related equipment | Office equipment, furniture & fittings | Bicycles | Total |
|--|------------------|-------------------------|---------------------|------------------|-------------------------------|--|---------------|-------------------|
| COST OR VALUATION | | | | | | | | |
| As at 1 July 2019 | 2,871,879 | 3,020,359 | 786,000 | 5,099,860 | 2,824,573 | 764,538 | 38,636 | 15,405,845 |
| Additions | 1,170,300 | 6,186,337 | 1,041,082 | - | 428,280 | 224,950 | - | 9,050,949 |
| Transfers | - | - | - | - | - | - | - | - |
| Disposals | - | - | - | - | - | - | - | - |
| As at 30th June 2020 | 4,042,179 | 9,206,696 | 1,827,082 | 5,099,860 | 3,252,853 | 989,488 | 38,636 | 24,456,794 |
| DEPRECIATION | | | | | | | | |
| At July 1, 2019 | 2,072,016 | 92,960 | 375,563 | 4,673,846 | 2,115,911 | 543,913 | 27,648 | 9,901,857 |
| Charge for the year | 294,146 | 188,190 | 121,373 | 109,264 | 273,577 | 32,934 | 1,359 | 1,020,843 |
| Impairment loss | - | - | - | - | - | - | - | - |
| Eliminated on disposal | - | - | - | - | - | - | - | - |
| As at 30th June 2020 | 2,366,162 | 281,150 | 496,936 | 4,783,110 | 2,389,489 | 576,847 | 29,007 | 10,922,701 |

Kitui Water and Sanitation Company Limited
 Annual Reports and Financial Statements
 For the year ended June 30, 2021

| 2020 | Motor Cycles | Buildings & civil works | Plant and machiner y | Motor vehicles | Computers & related equipment | Office equipme nt, furniture & fittings | Bicycl es | Total |
|-----------------------|-----------------|-------------------------------|----------------------------|-------------------|-------------------------------------|--|--------------|------------|
| NET BOOK VALUE | | | | | | | | |
| At June 30, 2020 | 1,676,017 | 8,925,546 | 1,330,146 | 316,750 | 863,364 | 412,641 | 9,629 | 13,534,093 |

Kitui Water and Sanitation Company Limited
 Annual Reports and Financial Statements
 For the year ended June 30, 2021

NOTES TO THE FINANCIAL STATEMENTS (Continued)

16 Intangible Assets

| | 2020/2021 | 2019/2020 |
|-----------------------|-----------|-----------|
| | Kshs | Kshs |
| COST | | |
| At July 1 | 4,202,690 | 4,202,690 |
| Additions | - | - |
| Disposals | - | - |
| At June 30 | 4,202,690 | 4,202,690 |
| | | |
| AMORTISATION | | |
| At July 1 | 1,722,480 | 1,358,217 |
| Charge for the year | 446,928 | 364,263 |
| Disposals | - | - |
| Impairment loss | - | - |
| At June 30 | 2,169,408 | 1,722,480 |
| | | |
| NET BOOK VALUE | | |
| At June 30 | 2,033,282 | 2,480,209 |

Kitui Water and Sanitation Company Limited
Annual Reports and Financial Statements
For the year ended June 30, 2021

NOTES TO THE FINANCIAL STATEMENTS (Continued)

17 Inventories

| | 2020/2021 | 2019/2020 |
|-------------------------------|------------------|------------------|
| | Kshs | Kshs |
| Pipes and fittings | 1,395,871 | 1,791,287 |
| Motor vehicle spare parts | 164,350 | 552,940 |
| Stationery and general stores | 59,905 | 49,781 |
| Chemicals | 777,878 | - |
| Total | 2,398,004 | 2,394,009 |

18 Trade and Other Receivables

| | 2020/2021 | 2019/2020 |
|---|--------------------|--------------------|
| | Kshs | Kshs |
| Trade receivables | 197,892,735 | 165,290,107 |
| Deferred Tax | 7,789,463 | 3,568,427 |
| VAT recoverable | 30,469,204 | 30,469,204 |
| Water Bowser | 8,402,070 | 8,402,070 |
| Kitui County Govt other receivables | 10,767,448 | 10,662,448 |
| Gross trade and other receivables | 255,320,920 | 218,392,256 |
| Provision for bad and doubtful receivable | (14,396,886) | (18,168,978) |
| Net trade and other receivables | 240,924,034 | 200,223,278 |

Kitui Water and Sanitation Company Limited
Annual Reports and Financial Statements
For the year ended June 30, 2021

NOTES TO THE FINANCIAL STATEMENTS (Continued)

18 (a) Trade Receivables

| | 2020/2021 | 2019/2020 |
|--|-----------------------------|-----------------------------|
| | Kshs | Kshs |
| Gross trade receivables | 197,892,735 | 165,290,107 |
| Provision for doubtful receivables | (14,396,886) | (18,168,978) |
| | <u> </u> | <u> </u> |
| | 183,495,849 | 147,121,129 |
| At June 30, the ageing analysis of the gross trade receivables was as follows: | | |
| Less than 30 days | 10,028,658 | 11,570,307 |
| Between 30 and 60 days | 3,646,797 | 26,446,417 |
| Between 61 and 90 days | 3,252,485 | 38,016,724 |
| Between 91 and 120 days | 12,861,624 | 41,322,526 |
| Over 120 days | 168,103,168 | 47,934,131 |
| | 197,892,735 | 165,290,107 |

18 (b) VAT Recoverable

| | 2020/2021 | 2019/2020 |
|--------------------------|-----------------------------|-----------------------------|
| | Kshs | Kshs |
| At beginning of the year | 30,469,204 | 30,469,204 |
| | <u> </u> | <u> </u> |
| At end of the year | 30,469,204 | 30,469,204 |

Kitui Water and Sanitation Company Limited
Annual Reports and Financial Statements
For the year ended June 30, 2021

NOTES TO THE FINANCIAL STATEMENTS (Continued)

19 Bank and Cash Balances

| | 2020/2021 | 2019/2020 |
|-------------------|------------------|------------------|
| | Kshs | Kshs |
| Cash at bank | 69,102,684 | 26,053,278 |
| Cash in hand | 1,086 | 16,601 |
| | | |
| | 69,103,770 | 26,069,879 |
| | | ===== |
| Overdrawn account | - | 1,522,404 |

19 (a) Detailed analysis of the cash and cash equivalents

| | | | 2020/2021 | 201/2020 |
|------------------------------|---------------|-----------------------|-------------------|-------------------|
| Financial institution | Branch | Account number | KShs | KShs |
| a) Current account | | | | |
| KCB-Customer Deposit | Kitui | 1108997538 | 3,785,107 | 3,024,412 |
| KCB-Revenue | Kitui | 1106008197 | 1,062,535 | 2,229,051 |
| KCB-Gratuity | Kitui | 1110300336 | 2,922,418 | 3,473,653 |
| KCB-Drought | Kitui | 1205316566 | 9,277 | 10,342 |
| KCB EXPENDITURE | Kitui | 1113757604 | 56,230 | - |
| KCB-Endau Clts | Kitui | 1263502881 | 847 | 216,223 |
| KCB-Endau Earth | Kitui | 1261097319 | 22,188,743 | 12,151,743 |
| KCB-Kitwasco Household | Kitui | 1265924228 | - | 493,980 |
| KCB-Mutomo Public San | Kitui | 1268477567 | 117,490 | 736,159 |
| Co-op Bank | Kitui | 0114130067900 | 825,548 | 175,446 |
| Post Bank | Kitui | 07441300613 | 55,690 | 12,894 |
| Post Office | Kitui | 1209 | 3,886,017 | 3,055,992 |
| Conditional Grant | Kitui | 1282103876 | 33,099,827 | - |
| Sub- total | | | 68,009,729 | 25,579,895 |

Kitui Water and Sanitation Company Limited
Annual Reports and Financial Statements
For the year ended June 30, 2021

| | | | 2020/2021 | 201/2020 |
|------------------------------|---------------|-----------------------|-------------------|-------------------|
| Financial institution | Branch | Account number | KShs | KShs |
| b) Others (Specify) | | | | |
| cash in hand | | | 1,086 | 16,601 |
| M pesa | | 813235 | 1,092,954 | 473,384 |
| Sub- total | | | 1,094,040 | 489,985 |
| Grand total | | | 69,103,769 | 26,069,880 |
| KCB-Expenditure | Kitui | | | |
| Overdrawn account | | 1113757604 | - | 1,522,404 |

Kitui Water and Sanitation Company Limited
Annual Reports and Financial Statements
For the year ended June 30, 2021

NOTES TO THE FINANCIAL STATEMENTS (Continued)

20 Capital Fund

| | 2020/2021 | 2019/2020 |
|--------------------|-------------------|-------------------|
| | Kshs | Kshs |
| Authorised: | | |
| Capital Fund | 11,845,658 | 11,845,658 |
| Total | 11,845,658 | 11,845,658 |

21 WSTF PROJECTS

| | 2020-2021 | 2019-2020 |
|-----------------------------------|-------------------|-------------------|
| | Kshs | Kshs |
| KITWASCO HOUSEHOLD SANITATION | - | 493,979 |
| ENDAU EARTH DAM/COVID 19 | 20,015,253 | 12,151,743 |
| ENDAU MALALANI CLTS | 847 | 216,223 |
| PUBLIC SANITATION FACILITY-MUTOMO | 117,490 | 736,159 |
| CONDITIONAL LIQUIDITY GRANT | 33,099,827 | |
| Total | 53,233,417 | 13,598,104 |

22 Revaluation Reserve

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

23 Fair Value Adjustment Reserve

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

Kitui Water and Sanitation Company Limited
Annual Reports and Financial Statements
For the year ended June 30, 2021

profit or loss. Where a financial asset is impaired, the portion of the reserve that relates to that asset is recognised in profit or loss.

24 Retained Earnings

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

| | 2020-2021 | 2019-2020 |
|---|--------------------|--------------------|
| Opening Capital reserve | 108,481,120 | 22,648,207 |
| Surplus for the period | 762,322 | 2,461,698 |
| Transfers to Retained Earnings | - | 83,371,215 |
| Adjustment to RE – Leave allowance | 2,180,237 | - |
| Adjustment to RE – Deferred tax | 4,221,036 | - |
| Adjustment to RE – MV purchase loan KBN | 333,336 | - |
| Adjustment to RE – MV purchase loan KBG | 680,794 | - |
| Adjustment to RE – 10% lease fee | 270,884 | - |
| Adjustment to RE – Electricity & KRA | 357,862 | - |
| Adjustment to RE – Additional borrowing | 1,619,462 | - |
| Adjustment to RE | 1,940,226 | - |
| Net Reserve | 120,847,279 | 108,481,120 |

Kitui Water and Sanitation Company Limited
Annual Reports and Financial Statements
For the year ended June 30, 2021

NOTES TO THE FINANCIAL STATEMENTS (Continued)

25 Borrowings

| Description | 2020-2021 | 2019-2020 |
|--|------------------|-------------------|
| | KShs | KShs |
| Balance at beginning of the year | 10,259,728 | 7,087,338 |
| Loan from Customer deposit acc-New Office Block | - | 3,172,390 |
| Loan repayment | (6,759,728) | - |
| Loan from Customer deposit acc-Pension arrears payment | - | - |
| Total | 3,500,000 | 10,259,728 |

26 KCB Overdrawn Account

| | 2020-2021 | 2019-2020 |
|-------------------------|------------------|------------------|
| | Kshs | Kshs |
| KCB Expenditure Account | - | 1,522,404 |
| | ===== | ===== |

Kitui Water and Sanitation Company Limited
Annual Reports and Financial Statements
For the year ended June 30, 2021

NOTES TO THE FINANCIAL STATEMENTS (Continued)

27 Trade and Other Payables

| | 2020-2021 | 2019-2020 |
|-------------------------------|--------------------|-------------------|
| | Kshs | Kshs |
| Trade payables | 54,362,569 | 23,470,124 |
| Accrued expenses | 3,911,038 | 1,639,755 |
| Payroll payable | 7,214,990 | 7,905,866 |
| Withholding VAT (2%) | 302,555 | 84,441 |
| Customer deposit | 25,561,487 | 19,167,813 |
| Pensions | - | 1,197,592 |
| Withholding income tax (5%) | 43,367 | - |
| Retention Account | 2,173,490 | - |
| Prior year adjustment | 2,022,807 | - |
| Chairman's Honoraria | | - |
| Directors allowances | | - |
| Provision for leave allowance | - | 2,180,234 |
| Provision for contingencies | 7,082,048 | 4,459,568 |
| Abstraction fee-WARMA | 2,942,318 | 3,235,057 |
| KRA Liability | 16,093,954 | 16,184,955 |
| 4% Regulatory fee-WASREB | 13,956,528 | 10,888,888 |
| Lease fee-Tanathi Water Board | 6,756,164 | 6,756,164 |
| Provision for Audit fee-OAG | 2,055,996 | 1,824,000 |
| Total | 144,479,312 | 98,994,457 |

Kitui Water and Sanitation Company Limited
Annual Reports and Financial Statements
For the year ended June 30, 2021

NOTES TO THE FINANCIAL STATEMENTS (Continued)

28 Provision for Leave

| | 2020-2021 | 2019-2020 |
|--------------------------------------|------------------|------------------|
| Balance at the beginning of the year | 2,180,236 | 3,754,596 |
| Provision for the year | - | 2,681,924 |
| Reversal of previous provision | (2,180,236) | (1,761,951) |
| Leave paid during the year | - | 2,494,333 |
| Balance at the end of the year | - | 2,180,236 |

29 Notes to the Statement of Cash Flows

| | 2020-2021 | 2019-2020 |
|--|------------------|------------------|
| | Kshs | Kshs |
| (a) Reconciliation of operating profit/(loss) to cash generated from/(used in) operations | | |
| Operating profit/(loss) | 762,322 | 2,461,698 |
| Depreciation | 1,876,374 | 1,020,842 |
| Amortization | 446,928 | 364,263 |
| Operating profit/(loss) before working capital changes | 3,085,624 | 3,846,803 |
| (Increase)/decrease in inventories | (3,995) | 2,438,876 |
| (Increase)/decrease in trade and other receivables | (40,700,755) | (20,700,883) |
| Increase/(decrease) in trade and other payables | 43,962,452 | (17,020,481) |
| PYA | - | (61,978,234) |
| Net working capital changes | 3,257,702 | (97,260,721) |
| Cash generated from/(used in) operations | 6,343,325 | (93,413,919) |

Kitui Water and Sanitation Company Limited
Annual Reports and Financial Statements
For the year ended June 30, 2021

| | 2020-2021 | 2019-2020 |
|--|-------------------|-------------------|
| | Kshs | Kshs |
| (b) Analysis of changes in loans | | |
| | | |
| Balance at beginning of the year | 10,259,728 | 7,087,338 |
| Repayment during the year | (6,759,728) | 3,172,390 |
| Balance at end of the year | 3,500,000 | 10,259,728 |
| | | ===== |
| (c) Analysis of cash and cash equivalents | | |
| | | |
| Cash at bank | 69,102,684 | 26,053,278 |
| Cash in hand | 1,086 | 16,601 |
| Balance at end of the year | 69,103,770 | 26,069,878 |
| | | ===== |

Kitui Water and Sanitation Company Limited
Annual Reports and Financial Statements
For the year ended June 30, 2021

NOTES TO THE FINANCIAL STATEMENTS (Continued)

30 Related Party Disclosures

County Government of Kitui

The County Government of Kitui is the principal shareholder of the *KITWASCO*, holding 100% of the *KITWASCO*'s equity interest. The County Government of Kitui has provided full guarantees to all long-term lenders of the entity, both domestic and external.

Other related parties include:

- i) The Water Services Regulatory Board (WASREB) which is the regulator in the water sector in Kenya
- ii) The Water Resources Authority (WRA) which issues permits for abstraction of water.
- iii) Key management
- iv) Board of directors

Transactions with related parties

| | 2020-2021 | 2019-2020 |
|---|-------------------|--------------------|
| | Kshs | Kshs |
| a) Subsidy | | |
| Subsidy from County Government of Kitui | 61,781,447 | 107,931,857 |
| Subsidy from Water Trust Fund (WSTF) | 36,056,341 | - |
| Total | 97,837,788 | 107,931,857 |
| | | |
| b) WASREB Regulatory fee | 5,771,416 | 4,849,787 |
| c) WRA Abstraction fee | 1,813,118 | 1,675,695 |
| d) Key management compensation | | |
| Directors' emoluments | 490,000 | 480,000 |
| Compensation to the CEO | 2,981,100 | 2,682,900 |
| Compensation to key management | 8,884,560 | 9,698,184 |
| Total | 12,355,660 | 12,861,084 |

NOTES TO THE FINANCIAL STATEMENTS (Continued)

31 Financial Risk Management

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

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

(i) Credit risk

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

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

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

Kitui Water and Sanitation Company Limited
Annual Reports and Financial Statements
For the year ended June 30, 2021

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Credit Risk (Continued)

| | Total amount Kshs | Fully performing Kshs | Past due Kshs | Impaired Kshs |
|--|----------------------------------|--------------------------------------|--------------------------|--------------------------|
| At 30 June 2021 | | | | |
| Receivables from exchange transactions | 197,892,735 | 80,922,803 | 116,969,932 | - |
| Receivables from non-exchange transactions | 57,428,185 | 49,026,115 | 8,402,070 | - |
| Total | 255,320,920 | 129,948,918 | 125,372,002 | - |
| At 30 June 2020 | | | | |
| Receivables from exchange transactions | 165,290,107 | 70,738,614 | 94,551,493 | - |
| Receivables from non-exchange transactions | 59,224,723 | 50,822,653 | 8,402,070 | - |
| Total | 224,514,830 | 121,561,267 | 102,953,563 | - |

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

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

Kitui Water and Sanitation Company Limited
Annual Reports and Financial Statements
For the year ended June 30, 2021

NOTES TO THE FINANCIAL STATEMENTS (Continued)

ii) Liquidity risk management

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

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

| | Less than 1 month | Between 1-3 months | Over 5 months | Total |
|------------------------|------------------------------|-------------------------------|--------------------------|-------------------|
| | Kshs | Kshs | Kshs | Kshs |
| At 30 June 2021 | | | | |
| Trade payables | 24,108,423 | 20,646,537 | 9,607,609 | 54,362,569 |
| Total | 24,108,423 | 20,646,537 | 9,608,969 | 54,363,929 |
| At 30 June 2020 | | | | |
| Trade payables | 4,694,025 | 7,041,037 | 11,735,062 | 23,470,124 |
| Total | 4,694,025 | 7,041,037 | 11,735,062 | 23,470,124 |

Kitui Water and Sanitation Company Limited
Annual Reports and Financial Statements
For the year ended June 30, 2021

NOTES TO THE FINANCIAL STATEMENTS (Continued)

(iii) Market risk

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

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

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

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

Kitui Water and Sanitation Company Limited
Annual Reports and Financial Statements
For the year ended June 30, 2021

NOTES TO THE FINANCIAL STATEMENTS (Continued)

i) Fair value of financial assets and liabilities

a) *Financial instruments measured at fair value*

Determination of fair value and fair values hierarchy

IFRS 7 specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources; unobservable inputs reflect the *KITWASCO's* market assumptions. These two types of inputs have created the following fair value hierarchy:

- i)** Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities. This level includes listed equity securities and debt instruments on exchanges.
- ii)** Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).
- iii)** Level 3 – inputs for the asset or liability that are not based on observable market data (unobservable inputs). This level includes equity investments and debt instruments with significant unobservable components. This hierarchy requires the use of observable market data when available. The *KITWASCO* considers relevant and observable market prices in its valuations where possible.

Kitui Water and Sanitation Company Limited
Annual Reports and Financial Statements
For the year ended June 30, 2021

NOTES TO THE FINANCIAL STATEMENTS (Continued)

iv) Capital Risk Management

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

| | 2020-2021 | 2019-2020 |
|---|--------------------|--------------------|
| | Kshs | Kshs |
| Revaluation reserve | - | - |
| Retained earnings | 120,847,279 | 108,481,120 |
| Capital reserve | 11,845,658 | 11,845,658 |
| | | |
| Total funds | 118,230,542 | 120,326,778 |
| Total borrowings | 3,500,000 | 10,259,728 |
| Less: cash and bank balances | (71,488,971) | (26,069,879) |
| Net debt/(excess cash and cash equivalents) | (67,988,971) | (15,810,151) |
| Gearing | 5% | 39% |

32 Incorporation

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

33 Events After the Reporting Period

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

34 Currency

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

Kitui Water and Sanitation Company Limited
Annual Reports and Financial Statements
For the year ended June 30, 2021

APPENDICES

APPENDIX 1: PROGRESS ON FOLLOW UP OF AUDITOR RECOMMENDATIONS

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

| Reference No. on the external audit Report | Issue / Observations from Auditor | Management comments | Status: (Resolved / Not Resolved) | Timeframe: (Put a date when you expect the issue to be resolved) |
|--|-----------------------------------|---|--------------------------------------|---|
| 1. | Trade and other receivables | <ul style="list-style-type: none"> The management has taken measures to improve on collection efficiency A debt collector has been engaged to collect old outstanding debts | Being implemented | |
| 2. | Unsupported cash and bank balance | <ul style="list-style-type: none"> The variance has been established to result from cash in transit in the books of Postal Corporation of Kenya | Resolved | Resolved |
| 3. | Overdrawn Bank account | <ul style="list-style-type: none"> The overdrawn status of the expenditure account was established to have resulted from unrepresented cheques issued without simultaneously | Resolved | Resolved |

Kitui Water and Sanitation Company Limited
Annual Reports and Financial Statements
For the year ended June 30, 2021

| Reference No. on the external audit Report | Issue / Observations from Auditor | Management comments | Status: (Resolved / Not Resolved) | Timeframe: (Put a date when you expect the issue to be resolved) |
|--|--|--|-----------------------------------|--|
| | | transferring funds from the revenue account | | |
| 4. | Unsupported customer deposits | <ul style="list-style-type: none"> A schedule of the borrowings, approvals are available. Repayment plan is awaiting BOD approval. | Not resolved | End of Quarter 2 (Dec 2021) |
| 5. | Lack of logbooks for motor cycles and motor vehicles | <ul style="list-style-type: none"> The matter is actively being pursued with the County Government and Tanathi Water Works | Not resolved | End of FY2020-2021 |

Guidance Notes:

- (i) Use the same reference numbers as contained in the external audit report;
- (ii) Obtain the “Issue/Observation” and “management comments”, required above, from final external audit report that is signed by Management;
- (iii) Indicate the status of “Resolved” or “Not Resolved” by the date of submitting this report to National Treasury.

Managing Director



Date: 15/1/2022

Chairman of the Board



Date:

Kitui Water and Sanitation Company Limited
Annual Reports and Financial Statements
For the year ended June 30, 2021

APPENDIX II: PROJECTS IMPLEMENTED BY THE ENTITY

Projects

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

| Project title | Project Number | Donor | Period/ duration | Donor commit ment | Separat e donor reportin g require d as per the donor agreed (Yes/No) | Consoli dated in these financia l stateme nts (Yes/No) |
|--|--------------------------------|-------|---------------------|-------------------------|--|---|
| UBSUP | 01HS/TAWWDA/KITUI/ KITUI/26 | WSTF | 9 MONTHS | 100% | YES | YES |
| PSF | RUP/CPI/I/S/015/012 | WSTF | 8 MONTHS | 87% | YES | YES |
| CLTS | RUP/CPI/I/CLTS/015/020 | WSTF | 6 MONTHS | 87% | YES | YES |
| ILIMUKUY U WATER PROJECT | RUP/CPI/I/W/015/005 | WSTF | 11 MONTHS | 87% | YES | YES |
| COVID 19 | RUP/CPI/W/015/005 | WSTF | 3 MONTHS | 100% | YES | YES |
| CONDITIO NAL LIQUIDITY SUPPORT GRANT | | WSTF | 11 MONTHS | 100% | YES | YES |

Kitui Water and Sanitation Company Limited
 Annual Reports and Financial Statements
 For the year ended June 30, 2021

Status of Projects completion

| | Project | Total project Cost | Total expended to date | Completion % to date | Budget | Actual | Sources of funds |
|---|-------------------------------------|--------------------|------------------------|----------------------|-------------|------------|------------------|
| 1 | UBSUP | 7,114,012 | 7,114,012 | 100% | 7,114,012 | 6,923,178 | Donor |
| 2 | PSF MUTOMO | 5,789,339 | 5,549,495 | 100% | 5,789,339 | 5,548,701 | Donor |
| 3 | CLTS | 868,810 | 868,810 | 100% | 868,810 | 868,810 | Donor |
| 4 | ILIMUKUYU WATER PROJECT | 73,583,763 | 43,468,962 | 33% | 73,583,763 | 19,792,519 | Donor |
| 5 | COVID 19 | 7,500,000 | 7,500,000 | 100% | 7,500,000 | 7,308,829 | Donor |
| 6 | CONDITIONAL LIQUIDITY SUPPORT GRANT | 154,969,933 | 66,712,123 | 50% | 154,969,933 | 33,612,296 | Donor |

APPENDIX III: INTER-ENTITY TRANSFERS

| | | | | |
|--|-----------------------|--------------------------------------|----------------------|--|
| ENTITY NAME: | | | | |
| Break down of Transfers from the State Department of XXX | | | | |
| FY 2020/21 | | | | |
| a. | Recurrent Grants | <u>Bank Statement</u> <u>Date</u> | <u>Amount (KShs)</u> | <u>Indicate the FY to which the amounts</u> <u>relate</u> |
| | | | - | |
| | | | - | |
| | | Total | - | |
| b. | Development Grants | <u>Bank Statement</u> <u>Date</u> | <u>Amount (KShs)</u> | <u>Indicate the FY to which the amounts</u> <u>relate</u> |
| | | | - | |
| | | | - | |
| | | | - | |
| | | Total | - | |
| c. | Direct Payments | <u>Bank Statement</u> <u>Date</u> | <u>Amount (KShs)</u> | <u>Indicate the FY to which the amounts</u> <u>relate</u> |

Kitui Water and Sanitation Company Limited
 Annual Reports and Financial Statements
 For the year ended June 30, 2021

| | | | | |
|--|-----------------------|----------------------|---|---|
| ENTITY NAME: | | | | |
| Break down of Transfers from the State Department of XXX | | | | |
| FY 2020/21 | | | | |
| | | | - | |
| | | | - | |
| | | Total | - | |
| d | <u>Bank Statement</u> | | | <u>Indicate the FY to which the amounts</u> |
| . Donor Receipts | <u>Date</u> | <u>Amount (KShs)</u> | | <u>relate</u> |
| | | | - | |
| | | | - | |
| | | | - | |
| | | Total | - | |

APPENDIX IV: RECORDING OF TRANSFERS FROM OTHER GOVERNMENT ENTITIES

| Name of the MDA/Donor or Transferring the funds | Date received as per bank statement | Nature: Recurrent/Development/Others | Total Amount - KES | Where Recorded/recognized | | | | | Other - must be specific | Total Transfers during the Year |
|---|-------------------------------------|--------------------------------------|--------------------|------------------------------------|--------------|-----------------|-------------|---|--------------------------|---------------------------------|
| | | | | Statement of Financial Performance | Capital Fund | Deferred Income | Receivables | | | |
| Ministry of Planning and Devolution | - | Recurrent | - | - | - | - | - | - | - | |
| Ministry of Planning and Devolution | - | Development | - | - | - | - | - | - | - | |
| USAID | - | Donor Fund | - | - | - | - | - | - | - | |
| Ministry of Planning and Devolution | - | Direct Payment | - | - | - | - | - | - | - | |
| Total | | | - | - | - | - | - | - | - | |

