

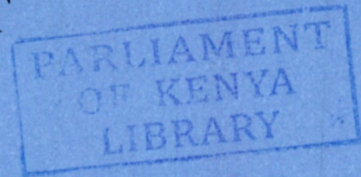
REPUBLIC OF KENYA



*Enhancing Accountability*

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**REPORT**



**OF**

**THE AUDITOR-GENERAL**

**ON**

**KWALE WATER AND SEWERAGE COMPANY  
LIMITED**

**FOR THE YEAR ENDED  
30 JUNE, 2023**



**KWALE WATER AND SEWERAGE COMPANY LIMITED  
ANNUAL REPORT AND FINANCIAL STATEMENTS**

**FOR THE FINANCIAL YEAR ENDED  
30 JUNE 2023**

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



**KWALE WATER & SEWERAGE COMPANY LIMITED  
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**Key Entity Information**

Kwale Water and Sewerage Company Limited is registered under the Company Act 2015 and it is also regulated under the state corporations Act Cap 446. Under devolved function, the company is a County Government Corporation. The water companies were formed under the water Act of 2002 and now regulated in the Water Act of 2016.

Kwawasco's Managing Director is responsible for the day to day running of the organisation and is answerable to the Board of Directors who guide the governance of the Company. The Board of Directors are responsible for formulation of the strategic plan and policies of the company. A team of managers support the managing director. The Company is domiciled in Kwale and has satellite stations at Ukunda, Kombani, Samburu, Taru, Mariakani, Mazeras, Lungalunga, Msambweni, Mkanda Kinango.

**Core Business**

The core business of Kwale Water and Sewerage Company (KWAWASCO) is to supply and distribute safe and quality water and provide sewerage services to the resident of Kwale County.

**Company Vision**

To be a Company of choice in water and sanitation services.

**Company Mission**

To be committed to providing quality, reliable, safe, adequate, accessible water and efficient sanitation services to the satisfaction of the customer.

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**Directors**

The Directors who served Kwale water and sewerage Company during the year ending 30 June 2023 were as follows:

1. Rehema Chidzuga - Chairperson Commenced 11<sup>th</sup> July 2022
2. Eric Parmet - Managing Director
3. Helen Njoroge - Member Reappointed 28<sup>th</sup> March 2023
4. Mwanatumu Kadau - Member Exited 27<sup>th</sup> March 2023
5. Joseph Gathua - Member Exited 27<sup>th</sup> March 2023
6. Kassim Ramadhan - Member Exited 27<sup>th</sup> March 2023
7. Alex Onduko - Chief Officer Finance & Economic Planning
8. Musyoki Muthoka - Chief Officer Water Services Exited 27<sup>th</sup> March 2023
9. Elisha Mandara Mwachizi – Member Appointed 28<sup>th</sup> March 2023
10. Mwanasha Mbaraka Kipanga – Member Appointed 28<sup>th</sup> March 2023
11. Fatuma Mkambe Ali – Member Appointed 28<sup>th</sup> March 2023
12. William Yawa Chimega – Member Appointed 28<sup>th</sup> March 2023
13. Jackson Gitonga M'bundi – Member Appointed 28<sup>th</sup> March 2023
14. Mildred Auma Omondi - Member Appointed 28<sup>th</sup> March 2023

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**Company Secretary**

Lewa and Associates  
Off Sauti ya Kenya Road  
Ganjoni (Near Jahazi Hotel)  
P.O. Box 2937 - 80100  
Mombasa

**Registered Office and Principal Place of Business**

Sida Offices-Off-Kwale-Likoni Road  
Kwale Area  
P.O. Box 18 - 80403  
Kwale

**Corporate Contacts**

Telephone: (254) 41 2014155  
E-mail: [info@kwalewater.co.ke](mailto:info@kwalewater.co.ke)  
Website: [www.kwalewater.co.ke](http://www.kwalewater.co.ke)

**Company Bankers**

1. Kenya Commercial Bank  
Ukunda Branch  
P.O. Box 150 - 80400  
Ukunda
2. Equity Bank  
Ukunda Branch  
P.O. Box 1476 – 80400  
Ukunda

**Independent Auditors**


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

**Principal Legal Advisers**





1. County Attorney  
Kwale County Government  
P.O. Box 4 - 80403  
Kwale

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**I. THE BOARD OF DIRECTORS**

Ref	Name	Directors	Details
1.	Rehema Chidzuga		<b>Chairperson of Board of Directors</b> P.O. Box 31 Matuga, Kwale Holds Bachelors of Education Date of Birth 18 <sup>th</sup> April 1957
2.	Eric Melubo Parmet		<b>Managing Director</b> KWAWASCO P. O. Box 4 – 80403 Kwale Master in project planning management. BA in Development studies and Business Administration Date of birth: 1976
3.	Alex Onduko		<b>Board Member</b> P. O. Box 4 – 80403 Kwale CPA (K) Holder Holds master of Business Administration (Finance).
4.	Helen Njoroge		<b>Chairperson Human Resource &amp; Finance Committee</b> P.O. Box 4 – 80403 Kwale Diploma in ECDE Retired Head Teacher Date of Birth 30/09/1956



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5.	Mwanatumu Kadau		<p><b>Chairperson Technical Committee</b> P.O. Box 115 LungaLunga O level Date of Birth 21/5/ 1972</p>
6.	Kassim Ramadhan		<p><b>Chairperson Audit &amp; Risk Management Committee</b> P.O. Box 18 - 80403 KWALE O level Cooperative College B.M.C Certificate Date of Birth 01/01/1960</p>
7.	Joseph Gathua		<p><b>Board Member</b> P.O. Box 32, Mukurueni O level Accountant. Date of Birth 28/08/ 1957</p>
8.	Munyao Musyoki Muthuka		<p><b>Board member</b> P. O. Box 4 – 80403 Kwale Holds a master degree in Science and Geology Has extensive experience in managing project.</p>

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9.	Jackson Gitonga M'bundi		<b>Board member</b> P.O. Box 115 LungaLunga O level Diploma in Bible and Theology Date of Birth 21/5/ 1972
10.	William Yawa Chimega		<b>Board member</b> P.O. Box KWALE O level Certificate in Postal Management Course Date of Birth 21/03/1958
11.	Fatuma Mkambe Ali		<b>Board member</b> P.O. Box Kwale O level Financial Management Course Date of Birth: 19/3/1968
12.	Mwanasha Mbaraka Kipanga		<b>Board member</b> P.O. Box Kwale O level Higher Diploma in Accounting (CPA) Date of Birth: 10/10/1990

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13.	Elisha Mandara Mwachizi		<p><b>Board member</b> P.O. Box Kwale Bachelor of Education Early Childhood Date of Birth: 18/5/1984</p>
14.	Mildred Auma Omondi		<p><b>Board member</b> P.O. Box Kwale O level Diploma in Secretarial course Date of Birth 1973</p>

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**II. MANAGEMENT TEAM**

Ref	Name	Management	Details
1.	Eric Melubo Parmet		<b>Managing Director</b> KWAWASCO P. O. Box 4 – 80403 Kwale Master in project planning management. BA in Development studies and Business Administration Date of birth: 1976
2.	William Jefwa		<b>Finance Manager.</b> Bachelor of Business Administration - Accounting CPA (K), Member of ICPAK MBA- Ongoing
3.	Bismark Isaiah Odede		<b>Head of Technical</b> Civil and Environment Engineering(Egerton University) Master in project planning and management(UoN) Computer application:auto cad &archcad,gis leadership training.member EBK
4.	Susan Mlamba		<b>Human Resource Manager.</b> Bachelor of Arts & Sociology HR. post graduate Master in Business Administration

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5.	Hussein Mwavadu		<p><b>Commercial Manager</b> Degree in Information and Technology. Diploma in IMIS Master Degree on going</p>
6.	Steven Safari		<p><b>Internal Auditor.</b> Bachelor of Commerce (Accounting Option) CPA (K), Member of ICPAK Registered member of IIA</p>
7.	Swaleh Kidzuga		<p><b>Technical Manager.</b> Diploma in water Engineering Higher Diploma in Building and Civil Works Member of Engineering Registration Board of Kenya</p>
8.	Hamisi Nzimo		<p><b>Procurement Officer</b> Master Degree Project Planning &amp; Management (UoN) Bachelor of Commerce Procurement &amp; S.C (UoN) Registered member KISM</p>

### **III. BOARD CHAIR STATEMENT**

#### **Technical Activities**

##### **Key Projects and Investment decisions Kwawasco is planning / Implementing**

Kwale water and Sewerage Company in pursuing its mandate of supplying water of safe quality and sufficient quantities to the residents of Kwale County, has continuously worked closely with development partners in the water and sanitation sector in effort to secure resources for water and sanitation infrastructure development.

The Company's water supply jurisdiction currently stands at slightly above 50% of the County's total population standing at 866,000 people based on the last census. Key among these development partners are: The World Bank, County Government of Kwale, Water Sector Trust Fund, Coast Water Works Development Agency and the Ministry of Water and Sanitation.

The company successfully received (Loan and Grant) funding from World Bank for Water and Sanitation Development Programme (WSDP) targeting Ukunda town and its environs. The project which is currently under implementation at a cost of Ksh. 2.5Billion is expected to be completed in April 2024 with an expected additional 5,000 new connections drawn from Ukunda, Diani, Tiwi and Kombani towns. This is expected to broaden the company's revenue base considering the potential within Ukunda , Diani as a tourism Hub and the fast growing town of Kombani which is currently a preferred residential area due to available land and other social amenities.

So far through the World Bank Support, the following have been delivered and are under implementation: -

- Procurement and delivery of Consumer water metres, all critical tools and fast moving fittings now available in our store that would address both the high non- revenue water and execute emergency repair within shortest time possible.
- Construction of a modern meter testing bench with the structure complete and in use.
- Procurement of 2 water Boozers and 2 exhausters of capacity 10,000 Litres each
- Laying of water reticulation system within Ukunda Town and its environs of 66km total length.
- Drilling and equipping of 11 boreholes including laying of collector lines and construction of a storage reservoir of capacity 4200 m<sup>3</sup> at Mabokoni TUM campus.
- Construction of 10 No public sanitation blocks 4 in Kwale and 6 in Ukunda

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The foregoing works are to be completed by the end of April 2024 with a possibility of extension being granted by the Bank.

The Water Sector Trust Fund (WSTF) under the financial year 2022 approved plans for sanitation improvement within community households under the UBSUP program (Up scaling Basic Sanitation in Urban Poor) basically aimed at improving the sanitation standards within the environs of urban centres. Ukunda urban town was selected for this intervention where 200 toilets doors were constructed at owner cost with the programme eventually offering a subsidy of Ksh 20,000 and Ksh 15,000 for each door constructed or rehabilitated respectively. Particular toilet model is being promoted that would prevent possible ground water resource pollution as is the case with the normal non-aligned conventional pit Latrines. UBSUP programme also came up with a decentralised treatment facility (DTF) that was constructed within Mabokoni area on a Land dedicated to Kwawasco by County Government of Kwale next to Technical University of Mombasa campus. Construction of this facility was completed by end of March 2022 thus complementing the other component of toilet construction and utilization of the sewerage exhauster trucks. Emptying and effective waste treatment is now being realised at the DTF, accommodating a capacity of 50,000 litres of waste per day. The Company in its effort to reach its customers located within its urban centres and not covered under the existing supply network has invested using own internal resources to put up extension lines around Kwale town , Gopha areas, Tiwi Maweni areas and KRA Horohoro Offices. Other critical projects being undertaken particularly by CWWDA include the borehole rehabilitation networks around Tiwi aimed at boosting supply to Tiwi, Kombani and Ukunda areas, the Kwale town water improvement works under the Kenya Water Security and Climate Resilience Project targeting Kwale town, Pemba and Makamini dam projects under CWWDA aimed at improving supply for Kinango Town and its environs.

Several projects have been and are being implemented by the County Government in the entire Kwale County resulting in more areas being covered with clean water particularly in the rural areas thus improved hygiene, clean and safe drinking water for productive citizens.

These developments will ultimately result in a positive impact on Kwawasco as a company transforming it to a self-sustainable status in the near future.



.....  
Rehema Chidzuga

**CHAIRPERSON**

#### **IV. REPORT OF THE MANAGING DIRECTOR**

Kwale Water and Sewerage Company Limited (KWAWASCO) was incorporated on the 26th September 2005. The company's mandate is to provide quality, reliable, safe adequate, accessible water and efficient sanitation services to the satisfaction of the customer accordance with interim licence issued by the WASREB, sector regulator.


The Company has 10 board members representing the County Government of Kwale, Water User Association, hotel industry, professional's representative and farming community gender, representation and all 5 Sub Counties represented. The population within KWAWASCO's service area is about 866,000 people based on the last census by the Kenya National Bureau of Statistics while the company's estimated population served is about 50%. Kwale Water and Sewerage Company receive bulk water from Coast Water Works Development Agency (Bulk Unit) from its various sources namely Marere Springs, Mzima Springs and Tiwi Boreholes.

KWAWASCO also operates water schemes in Msambweni, Lungalunga and Vanga all of which are served by boreholes from Msambweni, Mwalewa, Tsuini and Kikwezani respectively.

KWAWASCO is headed by a Managing Director and has four (4) Administrative departments namely; Technical department, Commercial and Business Development, Finance and Administration and Human Resource. In efforts to take services closer to the people and improve on the company performance and service delivery, the company has the following area offices across the county which are headed by Zonal Managers. These are;

<b>Station</b>	<b>Zones</b>	<b>Zonal Office</b>
1	Tiwi/Ukunda	Ukunda
2	Msambweni/Mkanda	Msambweni
3	Kwale/Kinango	Kwale
4	Mzima	Mariakani

The company is currently operating with an interim 2-year licence issued by WASREB in December 2021. In conclusion, the company is in the process of undertaking a tariff review to accommodate inflation rate especially on the critical aspects like pipes and fittings, water treatment chemicals and cost of electricity that have continued to escalate every year.



Eric Parmet

Managing Director

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**V. STATEMENT OF PERFORMANCE AGAINST PREDETERMINED OBJECTIVES FOR  
FY 2022/2023**

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

Kwale Water and Sewerage Company has 13 strategic pillars/ themes/issues and objectives within the current Strategic Plan for the FY 2022- FY 2025. These strategic pillars/ themes/ issues are as follows:

Pillar /theme/issue 1:

Pillar/theme/issue 2

KWAWASCO develops its annual work plans based on the above 13 pillars/Themes/Issues. Assessment of the Board's performance against its annual work plan is done on a quarterly basis. The Company achieved its performance targets set for the FY 2022/2023 period for its 13 strategic pillars, as indicated in the diagram below:

Strategic Pillar/Theme/Issues	Objective	Key Performance Indicators	Activities	Achievements
Pillar 1:	Increase Revenue by 50%	<ul style="list-style-type: none"> <li>Automation of billing system and meter reading</li> <li>Water clinics</li> </ul>	<ul style="list-style-type: none"> <li>Improve revenue collection efficiency</li> <li>Improve billing accuracy.</li> <li>Increase connection by 25% of current.</li> </ul>	Revenue increased by 5.2%
Pillar 2:	Increase Customer satisfaction to 30% by 2025	<ul style="list-style-type: none"> <li>Customer care desk every station</li> <li>Recording of customer complain</li> </ul>	<ul style="list-style-type: none"> <li>Evaluate customer satisfaction.</li> <li>Manage customer expectation.</li> <li>Restructure customer's</li> </ul>	Customer Satisfaction increased to 25%

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			on daily basis	complaint management system.	
Pillar 3:		Establish a robust ICT infrastructure	<ul style="list-style-type: none"> <li>• Installation of internet to all station</li> <li>• Issuance of Computer/ Laptops to station in charge</li> </ul>	<ul style="list-style-type: none"> <li>• Internet connectivity in all outer station to enhance communication with HQ for faster inquiries and response</li> </ul>	ICT infrastructure across the company increased by 40%
Pillar 4:		Improve fiscal health by 50% by 2023	<ul style="list-style-type: none"> <li>• Proper book keeping</li> </ul>	<ul style="list-style-type: none"> <li>• Keeping proper Assets register.</li> <li>• Cleaning of the uncollectable debts.</li> </ul>	Fiscal health increased by 30%
Pillar 5:		Establish an Integrated Financial and Information Management System for the company	<ul style="list-style-type: none"> <li>• Operational IMS.</li> <li>• Training schedule</li> </ul>	<ul style="list-style-type: none"> <li>• Acquiring an IMS.</li> <li>• Staff capacity building.</li> </ul>	Achieved 10%
Pillar 6:		Improve the supply chain management to effectively enhance service delivery.	Time Cost of production and Compliance	<ul style="list-style-type: none"> <li>• Staff and Supplier Attitude change.</li> <li>• Embrace e-procurement.</li> </ul>	Achieved 20%
Pillar 7:		Establish Inclusive,	Composition of BOD	<ul style="list-style-type: none"> <li>• Develop and strengthen</li> </ul>	Achieved 80%

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	transparent and accountable water governance structures at all levels.		institutional mechanisms for effective stakeholder participation in the management of water resources. <ul style="list-style-type: none"> <li>• Identify and reduce barriers to participation.</li> <li>• Create forums for discussions/suggestions.</li> <li>• Streamlining operations with devolved governance structures.</li> </ul>	
Pillar 8:	Enhance staff productivity and service delivery	Staff trainings , Bench marking, Mentorship programmes	<ul style="list-style-type: none"> <li>• Develop and maintain open and effective horizontal vertical communication.</li> <li>• Training and development.</li> <li>• Motivate and retain employees.</li> </ul>	Achieved 50%
Pillar 9:	Enhance employee satisfaction	Conduct employee survey	<ul style="list-style-type: none"> <li>• Team building</li> <li>• Mentorship programmes</li> <li>• Competitive remuneration</li> </ul>	Achieved 40%

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			<ul style="list-style-type: none"> <li>• Recognition and reward</li> </ul>	
Pillar 10:	Increase supply of quality piped water by 20% every year.	Water treatment and replacement of dilapidated pipelines	<ul style="list-style-type: none"> <li>• Install new metered connections to Households and institutional clients.</li> <li>• Extend Network coverage.</li> <li>• Develop new water sources.</li> <li>• Improve quality and safety of piped water.</li> <li>• Improve water storage management practices.</li> </ul>	Achieved 15%
Pillar 11:	Increase supply coverage by 20% by 2023	Pipeline Extension	<ul style="list-style-type: none"> <li>• Revive cut offs due to Big debts by negotiations and agreements on payment plans.</li> <li>• Connects new clients on projected projects.</li> </ul>	Achieved 40%
Pillar 12:	Reduce non-revenue water by 50% by 2023.	Replacement of dilapidated pipelines	<ul style="list-style-type: none"> <li>• Establish DMAs</li> <li>• Establish and equip rapid response team.</li> <li>• Carry out meter reading Audits.</li> <li>• Replace non-working meters.</li> </ul>	Achieved 6% decrease

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			<ul style="list-style-type: none"> <li>• Minimise water losses and unaccounted for water.</li> <li>• Strengthen internal control systems and accounting.</li> <li>• Staff and consumer attitude change.</li> <li>• Operationalize Kwale County water Act.</li> </ul>	
Pillar 13:	Develop efficient sanitation services to 30% coverage in urban areas by 2023.	Construction of Decentralised Treatment Facility	<ul style="list-style-type: none"> <li>• Initiate establishment of sewer system and waste water treatment.</li> <li>• Establish Decentralize Treatment Facility in urban areas.</li> <li>• Create awareness on sanitation needs within urban areas.</li> <li>• Purchase sewer trucks for exhaustion.</li> </ul>	Achieved 20%

**VI. CORPORATE GOVERNANCE STATEMENT**

Corporate governance is the process and structure by which companies are directed, controlled and held accountable in order to achieve long-term value to shareholders taking cognisance of the interest of the other shareholders. The Board of Directors of KWAWASCO is responsible for the governance of the corporation and is accountable to the shareholders in ensuring that the corporation complies with the laws and the highest standards of business ethics and corporate governance.

Accordingly, the Board attaches very high importance to the generally accepted corporate governance practices and has embraced the internationally developed principles and code of best practice of good corporate governance and is guided by the corporate governance guidelines as set by the sector regulator WASREB.

**Board of Directors**

The roles and functions of the Chairman and the Managing Director are distinct and their respective responsibilities are clearly defined within the Company. The Company's Board comprises of Nine (9) directors who are non-executive directors including the Chairman. To maintain the integrity of internal procedures of the company, the board of KWAWASCO has established an Audit committee (which is mandatory). Due to the volume of issues to be dealt with on a continuous basis and which cannot be adequately dealt with by the Board itself, The Finance and Administration Committee of the board, Technical Committee of the board were also established as outlined in WASREB Governance regulations.

The Board defines the Company's strategies, objectives and values and ensures that procedures and practices are set in place to ensure effective control over strategic, financial, operational and compliance issues. Except for direction and guidance on general policy, the Board delegates authority of its day-to-day business to the Management through the Managing Director. The Board nonetheless is responsible for the stewardship of the Corporation and assumes responsibilities for the effective control over the Company.

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**Board Meetings**

The Board holds meetings on a quarterly basis while special meetings are called when it is deemed necessary to do so. The Board held four (4) regular and no special meetings during the year under review. As the Entity is a State Corporation, the Inspector General of State Corporations is expected to attend meetings of the Board and Board Committees for oversight and advisory purposes in accordance with the State Corporations Act.

**Committees of the Board**

Board has set up the following principal Committees that meet under well-defined terms of reference set by the Board. This is intended to facilitate efficient decision making of the Board in discharging its duties and responsibilities.

a) Audit and Risk Management Committee

Membership of the Audit Committee is comprised of:

1. Elisha Mandara Mwachizi - Chairperson
2. Mwanasha Mbaraka Kipanga - Member
3. William Yawa Chimega - Member

The Committee assists the Board in fulfilling its corporate governance responsibilities and in particular to:

- Review financial statements before submission to the Board focusing on changes in accounting policies, compliance with International Financial Reporting Standards and legal requirements.
- Strengthen the effectiveness of the internal audit function.
- Maintain oversight on internal control systems.
- Review and make recommendations regarding the Company's budgets, financial plans and risk management.
- Liaise with the external auditors.

The Committee held three regular meeting and no special meetings in the year under review.

b) Human Resource, Finance and Administrations Committee

The membership of the Finance and Administration Committee comprise of:

1. Helen Njoroge - Chairperson
2. Alex Onduko - Member
3. Jackson Gitonga M'bundi – Member
4. Fatuma Mkambe Ali – Member

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5. Mildred Auma Omondi - Member

The Committee reviews and provides recommendations on issues relating to all human resources matters including, career progression, performance management, training needs, job transfers, staff recruitment, staff placements, promotions, demotions, discipline and staff welfare. The Committee assists the Board in fulfilling its oversight responsibilities relating to the Corporation's finance, information and technology, procurement, investment strategies, policies, projects and related activities.

The Committee held four (4) regular meetings and no special meeting in the year under review.

c) Technical and Commercial committee

The membership of the Technical and Commercial Committee is comprised of:

1. William Yawa Chimega -Chairperson
2. Elisha Mandara Mwachizi -Member
3. Mwanasha Mbaraka Kipanga - Member

The Committee held four (3) regular meetings and no special meeting in the year under review.

**Shareholding**

The company recently reviewed its strategic plan and aligned to the realistic operational environment and whereby the mission and vision, core values were revised to take into this account.

The Memorandum & Articles of Association of the company was registered and deposited with the Registrar of Companies having shareholding portfolio as stated hereunder;

Town Council of Kwale	1998 shares
Chairman Town Council of Kwale	1 share
Town Clerk- Town Council	1 share
<b>Total</b>	<b>2000 shares</b>



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Eric Parmet  
**MANAGING DIRECTOR**



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Rehema Chidzuga  
**CHAIRPERSON**

**KWALE WATER & SEWERAGE COMPANY LIMITED  
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**VII. MANAGEMENT DISCUSSION AND ANALYSIS**

**(a) Staffing**

During the end of the financial year, the number of staff stood at 140 as shown in table 1

Table 1

<b>NO. OF STAFF</b>	<b>QUARTER 1</b>	<b>QUARTER 2</b>	<b>QUARTER 3</b>	<b>QUARTER 4</b>
Permanent	57	57	57	57
Contract	82	82	79	79
Management Contract	4	4	4	4
<b>TOTAL</b>	<b>143</b>	<b>143</b>	<b>140</b>	<b>140</b>

**b) Production, billed volume, NRW, Billed Revenue Amount.**

During the year under review, the company produced 4,773,813m<sup>3</sup> of water compared to the previous year's 5,085,218m<sup>3</sup> of water. This represents 6.53 % decrease in bulk water production. The comparable yearly bulk water production translates to water/sales of Kshs 182,731,525 and Kshs 181,948,355 for the years 2023 and 2022 respectively. The company registered a decrease in volume of water it billed its customers from 2,178,882 m<sup>3</sup> in 2022 to 2,149,831 m<sup>3</sup> in 2023; a decrease of approximately 1.35%.

Non-Revenue water decreased from 57% in 2022 to 55% in 2023. The reduction of NRW from 57% to 55% a decrease by 2% was due to rapid response in leaks and burst. (Management meeting once a week). Among notable causes of high NRW as noted by management was high estimated bills slapped to the water utility by Coast Water Works Development Agency. Old and dilapidated water supply infrastructure has resulted to frequent leaks and bursts.

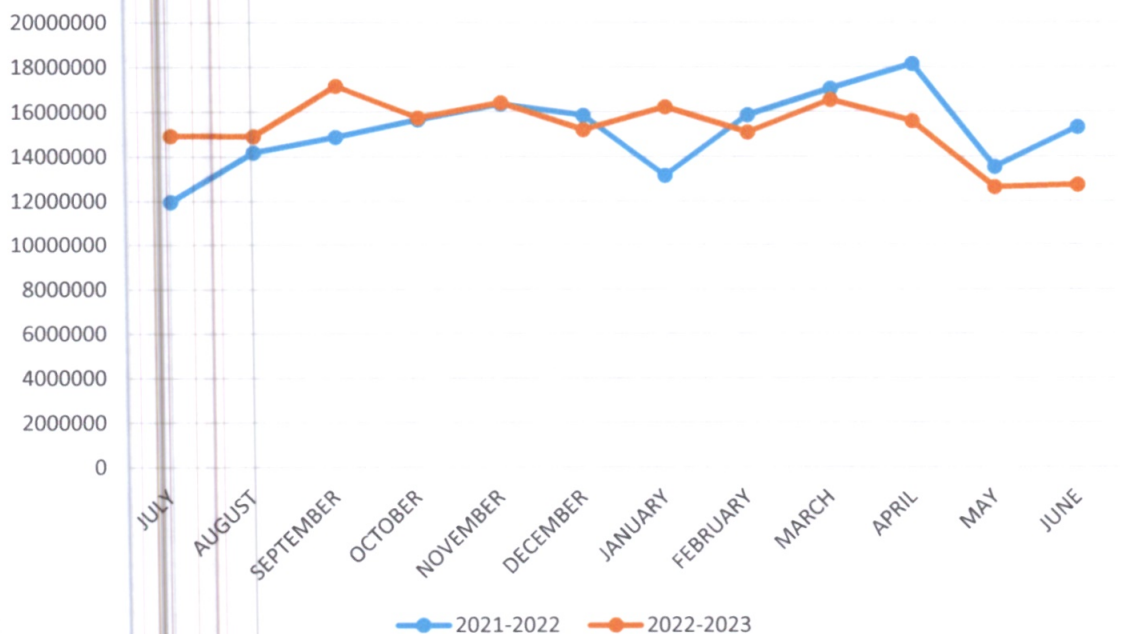
The company reconciled the bulk water purchase figures so that the figures in the company's books are in harmony with those held by Coast Water Works Development Agency. For more details, refer to table 2.

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**Table 2: Water Production versus billings Summary**

Months	Production in m3		Billed Vol. m3		NRW		Water Sale (Kshs)	
	2021-2022	2022-2023	2021-2022	2022-2023	2021-2022	2022-2023	2021-2022	2022-2023
July	407,174	415,218	144,077	174,950	263,097	240,268	11,975,160	14,923,330
August	465,210	409,112	170,037	172,864	295,173	236,248	14,181,761	14,921,400
September	415,871	402,573	178,099	189,268	237,772	213,305	14,867,030	17,151,565
October	432,066	385,652	187,337	186,557	244,729	199,095	15,652,261	15,730,715
November	455,151	404,591	195,556	186,590	259,595	218,001	16,350,875	16,412,355
December	391,863	408,543	189,713	178,709	202,150	229,834	15,854,221	15,203,145
January	398,289	416,460	157,909	180,217	240,380	236,243	13,150,880	16,215,370
February	438,722	344,493	189,861	180,600	248,861	163,893	15,866,801	15,084,975
March	465,678	436,325	203,676	206,272	262,002	230,053	17,041,075	16,533,030
April	434,331	379,336	216,700	196,746	217,631	182,590	18,148,116	15,594,165
May	383,193	387,017	162,509	147,158	220,684	239,859	13,541,880	12,631,820
June	397,670	384,493	183,408	149,900	214,262	234,593	15,318,295	12,329,655
	<b>5,085,218</b>	<b>4,773,813</b>	<b>2,178,882</b>	<b>2,149,831</b>	<b>2,906,336</b>	<b>2,623,982</b>	<b>181,948,355</b>	<b>182,731,525</b>
					57%	55%		

Revenue graph



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**c) Number of Connections (Active Billed)**

During the year under review, the company recorded an overall average growth of 6% in customer base when compared to the financial year ending 2022. KWAWASCO had the following water connection movement as illustrated below.

Year	No. of Connections		Change in No. of connections	
	2021-2022	2022-2023	Per Qtr.	% Change
Average Qtr1	19,505	21,142	246	1%
Average Qtr2	19,871	21,339	197	2%
Average Qtr3	20,681	21,707	368	4%
Average Qtr4	20,896	22,181	474	1%

**d) Risks**

**i) Sustainability**

The major risk facing the company is lack of sustainability. This challenge is a function of many factors, a few among many, being high cost of operations including increased pumping power & fuel cost, high Non-Revenue Water (Water loss) through leaks and bursts, illegal water use, being billed for water consumed by other neighbouring water utilities. The management has put in place cost cutting measures to reduce on cost to drive the company to sustainability. Among the measures and strategies management is putting in place to ensure sustainability of the firm include carrying out an investment grade energy audit to identify energy saving opportunities, carrying out a customer identification survey to clean up the customer data base, intensifying on NRW reduction activities, putting a caveat on staff employment, enhance budgetary controls among others.

**ii) Going Concern of KWAWASCO**

Reported surplus and other comprehensive income is Ksh. 5,500,582 reducing the accumulated deficit to Ksh. 41,093,821. The current liabilities balance is Ksh. 396,171,565 while total current assets balance is Ksh. 351,735,683 resulting into a negative working capital of Ksh. 44,435,882 which is a significant improvement. With the completion of major projects, the company will highly erode the issue of going concern implying that soon the company will be able to meet its obligation as and when they fall due.

**VIII. ENVIRONMENTAL AND SUSTAINABILITY REPORTING**

**a) Sustainability Strategy and Profile**

The company has diversified the number of water sources including the 11 boreholes to be drilled under the Ukunda Water Supply Project (Phase 1). This is directly increasing the water supply to counter the ever increasing demand especially in the tourism Hotel sector. Close partnership with the County Government and the National Government has made it possible to access resources from World Bank for more investments. There has been devoted effort of increasing the area specific staff to monitor and report the unaccounted water (physical and financial losses) for the prompt response and reconnections. This is also supported by the above project in replacing the old pipeline with the new pipelines as well as increasing the customer care and the adoption of water treatment for the borehole/underground water. There has been increase in the customer base. Some of the key challenges have been the leakages especially in the pristine areas (forest) where access is challenging thus response time is longer than expected thus leading to losses.

**b) Environmental Performance**

The organization has hired Environment & Social Safeguards Specialist whose Terms and References include the preparation of the Environmental Policy. However, the organization does abide by Good International Industry Specific Best Practices in management of biodiversity, waste and efforts to reduce environmental impact related to organizations' day to day activities. The organization undertakes due diligence including the undertaking of Environmental and Social Impact Assessment for new projects case in point is the Ukunda Urban Water Supply project and the proposed Office Complex Building. Project specific Contractors Environment and Social Management Plans, Waste Management Plans, Biodiversity Management Plans are prepared by the contractors before site hand over and start of the project.

**c) Employee Welfare**

In line with Work Injury Benefits Act, 2007, the organization has taken appropriate WIBA cover for all staff members. Other additional measures in line with Occupational Health and Safety Act, 2007 include:

- i Acquisition of the personal protective equipment for the staff including but not limited to: Gumboots, safety boots, motor cycle riders' reflector jackets, among others,
- ii Provision of masks and sanitizers,
- iii Fumigation of vehicles after every two weeks.

**d) Market place practices**

**i) Responsible Competing Practices**

The organization is guided by the following core values:

- Customer Focus
- Quality
- Results Oriented
- Professionalism & Ethical Conduct
- Innovation
- Transparency & Accountability

All new staff members are properly oriented to appreciate the intent of this core values for the organization to guarantee responsible competition practices in issues like anti-corruption, responsible political involvement, fair competition and respect for competitors.

Various stakeholders are involved at different levels of implementation. The key stakeholders include; our Customers, Government Ministries, Departments, Agencies, Civil Society, Development Partners and the Media, to ensure transparency and ownership. The engagements are in form of open dialogues with the various key players and entails building synergies, improving effectiveness of the institutional activities.

The organization has taken effort to prequalify service providers, nationwide circulation of the advertisement for open tendering, with special categories including the women, youth and people with disabilities getting opportunities for Business with KWAWASCO.

The organization is open in market practices with the private water service providers local CBOs through support training in operation and maintenance of their borehole and treatment plants, provision of chemical to other water service providers when there is scarcity at the County Government to ensure compliance on quality.

**ii) Product Stewardship**

Safety of water is guaranteed in the following ways:

Monthly sampling and testing of the physiochemical properties including but not limited to the turbidity, E-coli, among others

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**IX. CORPORATE SOCIAL RESPONSIBILITY / COMMUNITY ENGAGEMENTS**

Kwale Water and Sewerage Company is the only registered Water Service Provider in Kwale County. The Company operations cover all the sub counties with service lines in all major towns in the county including Mackinon, Taru, Samburu, Mazeras, Mariakani, Kinango, lutsangani /Tsunza, Kwale, Kombani, Ukunda/ Diani, Msambweni, Lungalunga and Vanga towns. The Company also operates other rural schemes mainly on Mzima line and Mkanda dam serving areas of Kasemeni, Mwavumbo ,Dzombo and Kikoneni areas respectively . The Company as at June 30, 2023 has a total of 22,181 connections mainly registered on domestic tariff and a few connections on commercial tariff.

The Company has within the reporting period undertaken CSR initiatives together with other partners in the County, including County Government of Kwale, Red Cross, Base Titanium and Civil Society Organizations.

The advent of Covid-19 and subsequent travel restrictions and containment measures dealt a blow to the company's main revenue stream being the beach hotels and cottages. The same had a ripple effect since hotels and the tourism sector laid-off staff for a long period of time, who happen to be a majority of the Company's customers on domestic tariff, mainly in Ukunda /Diani.

The containment measures imposed by the Ministry of Health required concerted efforts by all stakeholders at County level. Initial steps undertaken include ensuring sufficient/ uninterrupted supply of water to all customers, installation of hand washing- points at all public spaces and water trucking to major markets and bus parks. As a member of the County Covid-19 response committee, KWAWASCO is tasked with the mandate of ensuring availability of water within the service areas. In addition, the company undertake water trucking to all major markets and towns in Kwale County. With a Grant from Water Sector Trust Fund (WSTF), the company installed 27 hand washing points across the County, mounted with 3000 litre tanks. The Company has continued to supply water to these points and other hand washing points in the county that were installed by other partners including County Government and Base Titanium.

The Company is investing in extension of supply lines within Kwale, Kinango and Ukunda towns to reach informal settlements/ urban poor with water supply. In addition, the company has periodically delivered free water to institutions that have identified as critical including Kwale Prisons, Kwale Police Station, Kwale school for the Mentally handicapped and Kwale School for the deaf.

The Company also avails transport to the County Government for delivery of relief food supplies and critical consignments to hospitals within Kwale County.

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KWAWASCO has also partnered with the County Government to supply water to ECD centres, rural dispensaries and far flung areas affected by drought that resulted in the drying up water sources like dams, wells and boreholes.

**X. REPORT OF THE DIRECTORS**

The directors submit their report together with the financial statements for the year ended 30<sup>th</sup> June 2023, which show the state of the company's affairs.

**Principal activities of the company**

- Provide quality and economical water services to consumers.
- Billing for water and ensure timely collection of dues.
- Routinely maintain water services and infrastructure.
- Ensure that standards and licensing requirements are complied with as stipulated in the license by the Water Service Regulatory Board (WASREB).

**Results of operations**

The results of the company for the year ended 30<sup>th</sup> June, 2023 as set out on page One (1) to Five- (5)

**Directors**

The members of the Board of Directors who served during the year are shown on page (iv) to page (vi). In accordance with the entity's Memorandum and Articles of Association, the number is supposed to be nine.

**Management Team**

The management team that served in the organization during the period are set out on page (Vii) to page (Viii)

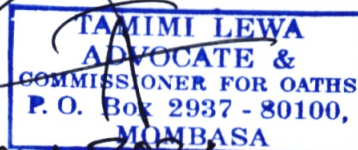
**Auditors**

The Auditor General is responsible for the statutory audit of the company in accordance with Article 229 of the Constitution of Kenya, 2010 and the Public Audit Act 2015.

By Order of the Board

Lewa and Associates Advocates, Company Secretary

Mombasa



Date... 14<sup>th</sup> February, 2024

**KWALE WATER & SEWERAGE COMPANY LIMITED  
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**XI. STATEMENT OF DIRECTORS' RESPONSIBILITIES**

Section 14 of the State Corporation Act, Cap 446 require the Directors to prepare financial statements in respect of KWAWASCO, which give a true and fair view of the state of affairs of the Company at the end of the financial year/period and the operating results of KWAWASCO for that year/period. The Directors are also required to ensure that KWAWASCO keeps proper accounting records which disclose with reasonable accuracy the financial position of the Company. The Directors are also responsible for safeguarding the assets of KWAWASCO.

The Directors are responsible for the preparation and presentation of KWAWASCO's financial statements, which give a true and fair view of the state of affairs of the Company for and as at the end of the financial year ended on June 30, 2023. This responsibility includes:

- (i) Maintaining adequate financial management arrangements and ensuring that these continue to be effective throughout the reporting period;
- (ii) Maintaining proper accounting records, which disclose with reasonable accuracy at any time the financial position of the entity;
- (iii) Designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of the financial statements, and ensuring that they are free from material misstatements, whether due to error or fraud;
- (iv). Safeguarding the assets of the Company;
- (v) Selecting and applying appropriate accounting policies;
- (vi). Making accounting estimates that are reasonable in the circumstances.

The Directors responsibility for the Company'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, the State Corporations Act and the PSASB Reporting Template

**KWALE WATER & SEWERAGE COMPANY LIMITED  
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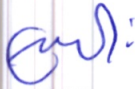
**STATEMENT OF DIRECTORS' RESPONSIBILITIES (Continued)**


The Directors are of the opinion that KWAWASCO's financial statements give a true and fair view of the state of the Company's transactions during the financial year ended June 30, 2023, and of KWAWASCO's financial position as at that date. The Directors further confirm the completeness of the accounting records maintained for the Company, which have been relied upon in the preparation of KWAWASCO's financial statements as well as the adequacy of the systems of internal financial control.

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

**Approval of the financial statements**

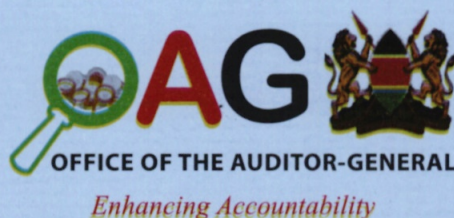
KWAWASCO's financial statements were approved by the Board on 14/21 2024 and signed on its behalf by:

**Signature**   
**Name:** Rehema Chidzuga  
**Chairperson of the Board**

**Signature**   
**Name:** Eric Melubo Parmet  
**Managing Director**

# REPUBLIC OF KENYA

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Anniversary Towers  
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NAIROBI

## REPORT OF THE AUDITOR-GENERAL ON KWALE WATER AND SEWERAGE COMPANY LIMITED FOR THE YEAR ENDED 30 JUNE, 2023

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### 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 the Government achieves value for money and that such funds are applied for the intended purpose.
- C. Report on the 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, risk management environment and 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 Kwale Water and Sewerage Company Limited set out on pages 1 to 47, which comprise the statement of financial

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*Report of the Auditor-General on Kwale Water and Sewerage Company Limited for the year ended 30 June, 2023*

position as at 30 June, 2023, and the statement of profit or loss and other comprehensive income, statement of changes in equity, statement of cash flows and statement of comparison of budget and actual amounts for the year then ended and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, 2015. I have obtained all the information and explanations which to the best of my knowledge and belief, were necessary for the purpose of the audit.

In my opinion, except for the effect of the matters described in the Basis for Qualified Opinion section of my report, the financial statements present fairly, in all material respects, the financial position of the Kwale Water and Sewerage Company Limited as at 30 June, 2023 and of its financial performance and its cash flows for the year then ended, in accordance with the International Financial Reporting Standards and comply with the Water Act, 2016 and the Public Finance Management Act, 2012.

### **Basis for Qualified Opinion**

#### **1. Inaccuracy of the Income Tax Expense (Credit)**

The statement of profit or loss and other comprehensive income reflects an income tax expense balance of Kshs. 2,357,392 being 30% of the current year's profit before taxation of Kshs. 7,857,974. However, the Company made a loss before taxation for the previous period of Kshs. 17,583,795 which implies that the tax liability for the current period should have been nil in line with the provisions of the Income Tax Act, Cap 470 Section 92 (a) which requires that all taxes due shall be paid on or before 30 September in that following year.

In the circumstances, the accuracy and completeness of the income tax expenses (credit) balance of Kshs.2,357,392, which eventually affects the accuracy of the profit after taxation balance of Kshs.5,500,582, could not be confirmed.

#### **2. Unreconciled Variance on Cost of Bulk Water**

The statement of profit or loss and other comprehensive income reflects cost of sales of Kshs.97,623,973. Included in this cost and as disclosed in Note 7 to the financial statements, is the cost of bulk water of Kshs.39,970,400. However, the Management Discussion and Analysis section of the financial statements revealed water production volume of 4,773,813 cubic meters (m<sup>3</sup>) which translated to the cost of bulk water of Kshs.95,476,260, at the rate of Kshs.20/m<sup>3</sup> as per gazette notice of 2018, resulting to an unreconciled variance of Kshs.55,505,860.

In the circumstances, the accuracy and completeness of the cost of sales of Kshs.97,623,973 could not be confirmed.

### **3. Unsupported Capital Reserves**

The statement of financial position reflects capital reserves of Kshs.36,719,864 as disclosed in Note 20 to the financial statements. However, schedule showing details of the capital reserves was not provided for audit review.

In the circumstances, the accuracy and completeness of the capital reserves balance of Kshs.36,719,864 could not be confirmed.

### **4. Unreconciled Variance on Trade and Other Payables**

The statement of financial position reflects trade and other payables balance of Kshs.367,644,878 which includes payables to Coast Water Works Development Agency (CWWDA) of Kshs.293,206,084. However, the audited financial statements of the Agency reflect the amount owed from Kwale Water and Sewerage Company (KWAWASCO) as Kshs.908,587,827, resulting to an unreconciled variance of Kshs.615,381,743.

Reconciliation of the variances in payables to the Agency from 1 July, 2017 to 30 June, 2022 (5 years) was undertaken and in a meeting held on 14 April, 2023 between the two parties, it was agreed that the amounts owed to the Agency as at 30 June, 2022 was Kshs.586,056,889. However, Management of the Company and the Agency have not revised their financial statements to reflect the agreed balance.

In the circumstances, the accuracy and completeness of payables to Coast Water Works Development Agency of Kshs. 293,206,084 could not be confirmed.

The audit was conducted in accordance with the International Standards for Supreme Audit Institutions (ISSAIs). I am independent of the Kwale Water and Sewerage Company Limited Management in accordance with ISSAI 130 on the 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 judgement, are of most significance in the audit of the financial statements. There were no key audit matters to report in the year under review.

### **Emphasis of Matter**

#### **1. Budgetary Control and Performance**

The statement of comparison of budget and actual amounts reflects final revenue budget and actual amounts on comparable basis of Kshs.662,007,208 and Kshs.579,861,528 respectively, resulting in revenue shortfall of Kshs.81,608,387, or 12% of the budget. Similarly, the Company expended Kshs.572,003,804 against an approved budget of

Kshs.661,469,200, resulting in an under expenditure of Kshs.89,465,396, or 14% of the budgeted amount.

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

## **2. Material Uncertainty Related to Going Concern**

The statement of financial position reflects total current liabilities balance of Kshs.396,171,565 and total current assets balance of Kshs.351,735,683, resulting in negative working capital of Kshs.44,435,882 or a current ratio of about 0.9. This is an indication that the Company may not be able to settle its current obligations as and when they fall due. The condition indicates the existence of a material uncertainty, which may cast doubt on the Company's ability to continue as a going concern and that the Company's existence is dependent on continued support from the County Government of Kwale, shareholders and creditors. Management did not disclose the measures being taken to mitigate this condition.

In the circumstances, the Company's ability to continue as a going concern could not be confirmed.

My opinion is not modified in respect of these matters.

### **Other Matter**

#### **Unresolved Prior Year Matters**

The prior year audit issues remained unresolved as at 30 June, 2023. Management has not provided reasons for the delay in resolving the prior year audit issues. However, although Management has indicated under the progress on follow up of auditor's recommendations section that some issues have been resolved, no explanation and documentary evidence were provided to show how the issues have been resolved as required by the Public Sector Accounting Standards Board templates. This is contrary to Section 149(2)(l) of the Public Finance Management Act, 2012 which require accounting officers designated for county government entities to try to resolve any issues resulting from an audit that remain outstanding.

## **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. Expired Water Tariffs Structure**

Review of applicable tariffs approved by Water Services Regulatory Board (WASREB) revealed that the tariffs in use by the Company during the financial year ended 30 June, 2023 expired on 30 June, 2020. This was contrary to Section 72(1)(b) of the Water Act, 2016 which provides that the powers and functions of the regulatory board includes to evaluate and recommend water and sewerage tariffs to the County Water Service Providers and approve the imposition of such tariffs in line with consumer protection standards.

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

### **2. Nonregistration for Data Protection**

The Company has in place a revenue management information system (SULIS) and a payroll management system (XACT). The two (2) systems databases hold personal information on customers such as phone and identification numbers, and area of residence, and on employees such as identification numbers, Kenya Revenue Authority (KRA) Personal Identification Numbers (PINs) and remuneration details respectively. However, the Company has not been registered with the Data Commissioner as a data processor. This is in contravention of Section 18(1) of the Data Protection Act, 2019 which requires that no person shall act as a data controller or data processor unless registered with the Data Commissioner.

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

### **3. Lack of Gender Balance, Ethnicity and Regional Distribution**

Analysis of the payroll data revealed that one hundred and nine (109), or 78%, out of the one hundred and forty (140) Company's employees were male. This was in contravention of Paragraph B.22(2) of the Human Resource Policies and Procedures Manual for Public Service of May, 2016 which stipulate that the Government will endeavor to have a gender balanced civil service by ensuring that not more than two-thirds (2/3) of positions in its establishment are filled by either gender. Further analysis of the payroll data revealed that, 115, or 82%, out of the 140 employees were from one ethnic community. This was in contravention of Section 7(2) of the National Cohesion and Integration Act, 2008 which requires that no public establishment shall have more than one third of its staff from the same ethnic community.

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

### **4. Non-Revenue Water**

The statement of profit or loss and other comprehensive income reflects revenue of Kshs.182,731,525 as disclosed in Note 6 to the financial statements. However, Management Discussion and Analysis section of the annual report and financial statements indicates that the company's total quantity of bulk water received amounted to 4,773,813 cubic meters (M<sup>3</sup>), out of which 2,149,831 cubic meters (M<sup>3</sup>) or 45% were

billed to customers for Kshs.182,731,525 at the rate of Kshs.85 per cubic meter. The balance of 2,623,982 (55%) cubic meters (M<sup>3</sup>) or Kshs.223,038,470 was gross Non-Revenue Water (NRW), which is higher than the 25% loss allowable by the Water Service Regulatory Board (WASREB) Guidelines. After allowing for the allowable loss by WASREB of 25%, the estimated net NRW amounts to Kshs.167,278,853 or 91% of the water sales of Kshs.182,731,525.

In the circumstances, the significant level of non-revenue water is an indication of lack of effectiveness in the use of public resources and, may negatively affect the Company's profitability and its long-term sustainability.

The audit was conducted in accordance with the International Standards for Supreme Audit Institutions (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 comply, 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 THE EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

### **Conclusion**

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

### **Basis for Conclusion**

#### **Lack of Provisions in the Articles of Association**

The Company's Memorandum and Articles of Association did not make provisions for the Company Board's size, composition, members identification, selection and appointment process contrary to Section 79(1) of the Water Act, 2016 which requires that

a water service provider shall have a board of directors and in the case of a company, the members of its board of directors shall be constituted in accordance with the Companies Act, 2015 or any other written law and the directors shall be nominated to serve on the board in accordance with the company's memorandum and articles of association.

Additionally,, the Company's Articles of Association wrongly indicate that the Company is owned by the Town Council of Kwale (1,998 Shares), the Honorable Chairman of the Town Council of Kwale (1 share) and the Town Clerk of the Town Council of Kwale (1 share) instead of the current ownership by the County Government of Kwale.

In the circumstances, the Memorandum and Articles of Association were in breach of the law and does not reflect the current ownership status of the Company.

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 Kenyan Companies Act, 2015, I report based on the 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 my audit;
- (ii) In my opinion, adequate accounting records have been kept by the Company, so far as appears from the examination of those records;
- (iii) The Company's financial statements are in agreement with those records and returns.

### **Responsibilities of Management and Board of Directors**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the International Financial Reporting Standards and for maintaining effective internal controls 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 controls, 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 the intention to liquidate the Company or to cease operations.

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

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

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

and risk management, and ensuring the adequacy and effectiveness of the control environment.

### **Auditor-General's Responsibilities for the Audit**

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

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

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

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

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

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

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

  
**FCPA Nancy Gathungu, CBS**  
**AUDITOR-GENERAL**

**Nairobi**

**21 March 2024**

**KWALE WATER & SEWERAGE COMPANY LIMITED**

**ANNUAL REPORTS AND FINANCIAL STATEMENTS  
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**XIII. STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME  
FOR THE YEAR ENDED 30 JUNE 2023.**


	Note	2022-2023	2021-2022
		Kshs	Kshs
<b>REVENUES</b>			
Revenue	6	182,731,525	181,948,355
Cost of sales	7	(97,623,973)	(102,565,177)
Gross profit		<b>85,107,552</b>	<b>79,383,178</b>
<b>Other Income</b>			
Grants	8	117,259,030	79,099,550
Other Income	9	16,933,704	15,774,307
<b>TOTAL OPERATING INCOME</b>		<b>219,300,286</b>	<b>174,257,035</b>
<b>OPERATING EXPENSES</b>			
Administration Costs	10	162,871,460	149,187,509
Depreciation of property, plant and equipment	14	48,328,680	42,442,817
Amortization of Intangible Assets	15	242,172	210,504
<b>TOTAL OPERATING EXPENSES</b>		<b>211,442,312</b>	<b>191,840,830</b>
<b>PROFIT/(LOSS) BEFORE TAXATION</b>		<b>7,857,974</b>	<b>(17,583,795)</b>
<b>INCOME TAX EXPENSE/(CREDIT) 30%</b>		<b>(2,357,392)</b>	<b>-</b>
<b>PROFIT/(LOSS) AFTER TAXATION</b>		<b>5,500,582</b>	<b>(17,583,795)</b>
<b>OTHER COMPREHENSIVE INCOME</b>			
Gains On Property Revaluation		-	2,300,000
Corporate tax		-	-
Net gain on property revaluation		-	2,300,000
<b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR</b>		<b>5,500,582</b>	<b>(15,283,795)</b>


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**XIV. STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2023**

	Note	2022-2023	2021-2022
		Kshs	Kshs
<b>ASSETS</b>			<b>Restated</b>
<b>Non-Current Assets</b>			
Property, plant and equipment	14	735,850,938	399,975,643
Intangible assets	15	274,560	411,172
<b>Total Non-Current Assets</b>		<b><u>736,125,498</u></b>	<b><u>400,386,815</u></b>
<b>Current Assets</b>			
Prepayments (Advance payment)	16	40,262,366	99,822,769
Inventory	16 (a)	3,404,497	-
Trade and other receivables	17	275,581,471	261,546,166
Accrued interest receivable	17 (b)	79,759	93,899
Bank and cash balances	18	32,407,590	53,425,150
<b>Total Current Assets</b>		<b><u>351,735,683</u></b>	<b><u>414,887,984</u></b>
<b>Total Assets</b>		<b><u>1,087,861,181</u></b>	<b><u>815,274,799</u></b>
<b>EQUITY AND LIABILITIES</b>			
<b>Capital and Reserves</b>			
Ordinary share capital	19	2,000,000	2,000,000
Capital reserve	20	36,719,864	36,719,864
Revaluation Reserve	21	2,300,000	2,300,000
Retained earnings/ Accumulated Deficit	23	(41,093,821)	(46,594,403)
<b>Capital and Reserves</b>		<b>(73,957)</b>	<b>(5,574,539)</b>
<b>Non-Current Liabilities</b>			
Borrowings/ World Bank (WSDP) Loan	24	638,387,864	375,450,595
Deferred Income (IDA Grant)	24 (a)	25,671,580	74,242,432
Customer Deposit	25	27,704,129	24,452,701
<b>Total Non-Current Liabilities</b>		<b><u>691,763,573</u></b>	<b><u>474,145,728</u></b>
<b>Current Liabilities</b>			
Trade and other payables	27	367,644,878	324,567,145
Gratuity Payable	29	22,573,957	18,802,403
Tax payable	28	5,952,730	3,334,062
<b>Total Current Liabilities</b>		<b><u>396,171,565</u></b>	<b><u>346,703,610</u></b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b><u>1,087,861,181</u></b>	<b><u>815,274,799</u></b>

The financial statements were approved by the Board on 15/02/2024 and signed on its behalf by:

  
 Managing Director  
**Name: Eric Parmet**

  
 Finance Manager  
**Name: William Jefwa**  
**ICPAK M/NO: 12660**

  
 Chairperson of the Board  
**Name: Rehema Chidzuga**

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**XV. STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 JUNE 2023**

	note	Ordinary share capital	Capital reserve	Revaluatio n Reserve	Retained earnings/ Reserve Deficit Restated	Capital/ Developmen t Grants/Fund	Restated Total
<b>As at July 1, 2021</b>		<b>2,000,000</b>	<b>36,719,864</b>	-	<b>(129,296,522)</b>	-	<b>(90,576,658)</b>
Profit for the year/ Loss		-	-	-	(17,583,795)	-	(17,583,795)
Revaluation reserve				2,300,000			2,300,000
Prior year adjustment					89,216,383		89,216,383
Adjustments on Debtors and Tax					11,069,531		11,069,531
Capital/Development grants received during the year		-	-	-	-	-	-
<b>As at June 30, 2022</b>		<b>2,000,000</b>	<b>36,719,864</b>	<b>2,300,000</b>	<b>(46,594,403)</b>	-	<b>(5,574,539)</b>
<b>As at July 1, 2022</b>		<b>2,000,000</b>	<b>36,719,864</b>	<b>2,300,000</b>	<b>(46,594,403)</b>	-	<b>(5,574,539)</b>
Profit/Loss for the year		-	-	-	5,500,582	-	5,500,582
Revaluation reserve							-
Adjusted Income tax		-	-			-	-
<b>At June 30, 2023</b>		<b>2,000,000</b>	<b>36,719,864</b>	<b>2,300,000</b>	<b>(41,093,821)</b>	-	<b>(73,957)</b>

**Note:** Adjusting for WSDP Grant not accounted for in the previous years. Note 8 indicate that Kwawasco is entitled to 19.2% of every disbursement received, as at 30 June 2023 disbursement was Kshs. 790,083,990 of which accumulated Loan was Ksh 638,387,860 while accumulated Grants amounted to Kshs. 151,696,126. During the year Kshs. 62,479,740 was recognised as Grant Income

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**XVI. STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2023**

	Note	2022-2023	2021-2022
		Kshs	Kshs
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Cash generated from operations	31	43,151,696	19,850,126
<b>NET CASH GENERATED FROM/(USED IN) OPERATING ACTIVITIES</b>		-	-
<b>CASH FLOWS FROM/Used in INVESTING ACTIVITIES</b>			
Purchase of property, plant and equipment	14	(327,000,965)	(283,084,738)
Purchase of intangible assets	15	(105,560)	(435,000)
Advance Payments used in Acquisition of Assets	16	-	(99,822,770)
<b>NET CASH GENERATED FROM/(USED IN) INVESTING ACTIVITIES</b>		<b>(327,106,525)</b>	<b>(383,342,508)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
WSDP Loan		262,937,269	312,436,900
Deferred Income		-	74,242,433
<b>NET CASH GENERATED FROM/(USED IN) FINANCING ACTIVITIES</b>		<b>262,937,269</b>	<b>386,679,333</b>
<b>INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS</b>		<b>(21,017,560)</b>	<b>23,186,951</b>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>		<b>53,425,150</b>	<b>30,238,199</b>
<b>CASH AND CASH EQUIVALENTS AT END OF THE YEAR</b>		<b>32,407,590</b>	<b>53,425,150</b>

Note: KWAWASCO prepares its cash flow using indirect method as the entity reports under IFRS Accrual basis.

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**XVII. STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS FOR THE PERIOD ENDED 30 JUNE 2023**

	Original budget	Adjustments	Final budget	Actual on comparable basis	Performance difference	% of utilisation
	2022-2023	2022-2023	2022-2023	2022-2023	2022-2023	2022-2023
	Kshs	Kshs	Kshs	Kshs	Kshs	%
<b>Revenue</b>						
Sale of services	191,045,772	-	191,045,772	182,731,525	(8,314,247)	-4.3%
Transfers from Deferred Income	54,155,786	-	54,155,786	48,570,852	(5,584,934)	-10.3%
Grant from WSTF	-	-	-	6,208,438	6,208,438	100%
Other income	16,805,650	-	16,805,650	16,933,704	128,054	0.7%
<b>Total income</b>	<b>262,007,208</b>	<b>-</b>	<b>262,007,208</b>	<b>254,444,519</b>	<b>(7,562,689)</b>	<b>-2.8%</b>
Disbursement from WSDP	-	400,000,000	400,000,000	325,417,009	(74,582,991)	0
<b>Total receipts</b>	<b>262,007,208</b>	<b>400,000,000</b>	<b>662,007,208</b>	<b>579,861,528</b>	<b>(81,608,387)</b>	
<b>Expenses</b>						
Compensation of employees	67,587,276	1,881,985	69,469,261	69,217,431	251,830	0.3%
Direct Cost	98,200,000	(-)	98,200,000	97,623,973	576,027	0.5%
Other payments	93,799,939	21,553,594	115,353,533	95,380,450	19,973,083	17.3%
Capital Expenditure from WSDP	-	378,446,406	378,446,406	309,781,700	68,664,706	0
<b>Total Payments</b>	<b>259,587,215</b>	<b>400,000,000</b>	<b>661,469,200</b>	<b>572,003,804</b>	<b>89,465,396</b>	<b>0</b>
<b>Surplus for the period</b>	<b>2,419,993</b>	<b>-</b>	<b>538,008</b>	<b>7,857,974</b>		

The Kshs. 21,553,594 is a recurrent portion in the WSDP and reported under the other payments vote.

## **XVIII. NOTES TO THE FINANCIAL STATEMENTS**

### **1. General Information**

Kwale Water and Sewerage Company Ltd is established by and derives its authority and accountability from Companies Act. The entity is wholly owned by the County Government of Kwale and is domiciled in Kenya. The Company principal activity is to provide quality and sufficient water and sewerage services in a reliable and sustainable manner to the residents of Kwale, Kinango, Lungalunga and Msambweni Subcounties.

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 in the notes.

The financial statements have been prepared and presented in Kenya Shillings, which is the functional and reporting currency of the Kwale Water and Sewerage Company Limited.

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 2023*

<b>Title</b>	<b>Description</b>	<b>Effective Date</b>
IFRS 17 Insurance Contracts (issued in May 2017)	The new standard establishes principles for the recognition, measurement, presentation and disclosure of insurance contracts issued. It also requires similar principles to be applied to reinsurance contracts held and investment contracts with discretionary participation features issued. The objective is to ensure that entities provide relevant information in a way that faithfully represents those contracts.	Effective for annual periods beginning on or after 1 <sup>st</sup> January 2023.
IAS (International Accounting Standards) 8- Accounting	The amendments, applicable to annual periods beginning on or after 1st January 2023, introduce a definition of 'accounting estimates' and include other amendments to IAS 8 to help entities distinguish changes in accounting policies from changes in accounting estimates.	The amendments are effective for annual reporting periods beginning on or after January 1, 2023.

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Title	Description	Effective Date
Policies, Errors, and Estimates		
Amendments to IAS 1 titled Disclosure of Accounting Policies (issued in February 2021)	The amendments, applicable to annual periods beginning on or after 1st January 2023, require entities to disclose their <b>material</b> accounting policy information rather than their <b>significant</b> accounting policies.	The amendments are effective for annual periods beginning on or after January 1, 2023.

Amendments to IAS 12 titled Deferred Tax	The amendments, applicable to annual periods beginning on or after 1st January 2023, narrowed the scope of the recognition exemption in paragraphs 15 and 24 of IAS 12	The amendments are effective for annual periods beginning on or after January 1, 2023.

<p>Related to Assets and Liabilities arising from a Single Transaction (issued in May 2021)</p>	<p>(recognition exemption) so that it no longer applies to transactions that, on initial recognition, give rise to equal taxable and deductible temporary differences.</p>	
<p>Amendments to IAS 1 titled Classification of Liabilities as Current or Non-current (issued in January 2020, amended in</p>	<p>The amendments, applicable to annual periods beginning on or after 1st January 2024, clarify a criterion in IAS 1 for classifying a liability as non-current: the requirement for an entity to have the right to defer settlement of the liability for at least 12 months after the reporting period</p>	<p>The amendments are effective for annual periods beginning on or after January 1, 2024. Earlier application is permitted.</p>

October 2022)		
Amendment to IFRS 16 titled Lease Liability in a Sale and Leaseback (issued in September 2022)	The amendment, applicable to annual periods beginning on or after 1st January 2024, requires a seller-lessee to subsequently measure lease liabilities arising from a leaseback in a way that it does not recognise any amount of the gain or loss.	The amendments are effective for annual periods beginning on or after January 1, 2024. Earlier application is permitted.
Amendments to IAS 1 titled Non-current Liabilities with Covenants (issued in	The amendments, applicable to annual periods beginning on or after 1st January 2024, improve the information an entity provides about liabilities arising from loan arrangements for which an entity's right to defer settlement of those liabilities for at least twelve months after the reporting period is subject to the entity	The amendments are effective for annual periods beginning on or after January 1, 2024. Earlier application is permitted.

October	complying with conditions specified in the loan	
2022)	arrangement.	

*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.*

*i. Early adoption of standards*

The entity did not early – adopt any new or amended standards in year 2022/2023

**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 Kwawasco delivers products to the customer, the customer has accepted the products and collectability of the related receivables is reasonably assured.
- ii) 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 Kwawasco 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 Kwawasco 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 cost of on-going but incomplete works on buildings and other civil works and installations.

Depreciation on property, plant and equipment is recognised in the income statement on a straight-line 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	2.5%
Plant and machinery	12.5 %
Motor vehicles, including motor cycles	25%
Computers and related equipment	30%
Office equipment, furniture and fittings	12.5 %
Loose tools	30%

Depreciation charge is recognised in prorated basis in the year of asset purchase and in full 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 company contributes to the statutory National Social Security Fund (NSSF). This is a defined contribution scheme registered under the National Social Security Act. The company's obligation under the scheme is limited to specific contributions legislated from time to time and is currently at Kshs.200 per employee per month.

**u) Provision for staff leave pay**

Employees' entitlements to annual leave are recognised as they accrue at the employees. At 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 2022-2023 was approved by the BOD on 15<sup>th</sup> March 2022.

There has been no additional appropriation made to the approved budget in accordance with specific approvals from 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 company did not record additional appropriations on the 2022-2023 budgets following the governing body'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 page 5 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, 2023.

**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.

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

**NOTES TO THE FINANCIAL STATEMENTS (Continues)**

**a) Estimates and assumptions**

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

**b) Useful lives and residual values**

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

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

**c) Provisions**

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

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.

(include provisions applicable for your organisation e.g provision for bad debts, provisions of obsolete stocks and how management estimates these provisions)

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**NOTES TO THE FINANCIAL STATEMENTS (Continues)**

**6. Revenue**

	2022/2023	2021/2022
	Kshs	Kshs
Minor water sales	133,099,715	171,245,915
Major water sales	43,287,810	10,702,440
Water Bowzer	6,344,000	-
<b>Total</b>	<b>182,731,525</b>	<b>181,948,355</b>

There was an increase in revenue from Ksh 181,948,355 to Ksh 182,731,525

**7. Cost of Sales**

	2022/2023	2021/2022
	Kshs	Kshs
WASREB/WARMA	8,097,183	7,963,804
Cost of Bulk Electricity	48,292,760	50,464,848
Cost of Bulk water	39,970,400	41,660,240
Water treatment chemicals	1,263,630	2,476,285
<b>Total</b>	<b>97,623,973</b>	<b>102,565,177</b>

WASREB levy is at 4% of Kwawasco turn over which include water sale, meter charge and sewerage charge as per the gazette notice issued on 4<sup>th</sup> November 2018 and charge for WARMA being ksh. 247,284

Water sale	Kshs. 182,731,525
Meter charge	Kshs. 12,323,450
Sewerage charge	Kshs. <u>1,192,503</u>
Total	Kshs. <u>196,247,478</u>

The levy charged to KWAWASCO on turnover will be 4% of Kshs. 196,247,478 then add the WARMA charge which is Ksh. 247,284

**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

**8. Grants**

	2022/2023	2021/2022
	Kshs	Kshs
Recurrent grants received from World bank (IDA)	62,479,740	-
Deferred income amortised	48,570,852	
Recurrent grants received from County Government	-	20,000,000
WSTF Grant	6,208,438	
Conditional Grant (CLGS)	-	59,099,550
<b>Total</b>	<b>117,259,030</b>	<b>79,099,550</b>

Note: KWAWASCO is entitled 19.199% of every disbursement from WSDP as grant which amounted to Ksh. 62,479,740 to cater for recurrent expenditure and ablution blocks. The company utilised deferred income of Ksh. 48,570,852 being:

- i. Depreciation of motor vehicles financed from WSDP Grant Kshs. 27.8Million
- ii. WSDP recurrent expenditures Ksh. 20,720,914

The company received a grant of Ksh 6,208,438 from WSTF for Pipeline extension (Mkwakwani pipeline Extension).

**9. Other Incomes**

	2022/2023	2021/2022
Description	Kshs	Kshs
Meter Charge	12,323,450	11,746,450
Connection	2,990,168	3,493,950
Sewerage	1,192,503	440,000
Disposal of storage tank as scrape	322,002	-
Interest on Fixed deposit	79,759	93,899
Earned Interest from Equity Collection Account	25,822	8
<b>Total</b>	<b>16,933,704</b>	<b>15,774,307</b>

Accrued interest from fixed deposit of ksh. 2,347,469 in Equity bank at the rate of 5.25%.

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**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

**10. Administration Costs**

	2022/2023	2021/2022
Description	Kshs	Kshs
Staff costs (note 10b)	69,217,431	63,202,377
Directors' emoluments	2,180,000	2,124,500
Electricity and water	24,296	49,115
Communication services and supplies	1,229,855	1,290,287
Transportation, travelling and subsistence	28,620,201	22,165,647
Advertising, printing, stationery and photocopying	2,136,480	2,883,701
Subscription	423,596	168,290
Rent expenses	219,000	246,000
Staff training expenses	797,360	1,081,431
Hospitality supplies and services	3,084,340	2,293,970
Insurance costs	194,488	909,978
Bank charges and commissions	632,219	603,106
Office and general supplies and services	3,357,093	2,279,865
Auditors' remuneration	232,000	580,000
Corporate social responsibility	180,800	166,500
Legal fees	1,664,700	2,095,711
Consultancy fees	480,000	1,019,500
Licenses and permits	142,509	84,508
Repairs and maintenance	8,359,826	6,410,511
Provision for bad and doubtful debts	286,434	6,868,030
Other operating expenses	18,687,918	13,457,907
Other operating expenses (WSDP)	20,720,914	19,206,575
<b>Total</b>	<b>162,871,460</b>	<b>149,187,509</b>

The increase in Transport, travelling and subsistence allowance is due to the fact that Kwawasco is currently implementing project funded on loan from World Bank (WSDP) Project.

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**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

**10b Staff Costs**

Description	2022/2023	2021/2022
	Kshs	Kshs
Salaries and allowances of permanent employees	61,598,185	57,546,879
Wages of temporary employees	-	-
Employer's contributions to national social security schemes	837,767	337,800
Employer's contributions to pension scheme	1,087,817	1,040,778
Leave pay	-	-
Gratuity provisions	5,693,662	4,276,920
Staff welfare	-	-
<b>Total</b>	<b>69,217,431</b>	<b>63,202,377</b>
<b>The average number of employees at the end of the year was:</b>		
Permanent employees – Management	3,978,961	3,729,419
Permanent employees – Unionisable	25,199,021	23,619,646
Temporary and contracted employees	40,039,449	35,853,312
<b>Total</b>	<b>69,217,431</b>	<b>63,202,377</b>

The increase in staff salary and remuneration of truck drivers, operators and procurement officer who were hired during the year by the Company

**11. Operating Expenses**

	2022/2023	2021/2022
	Kshs	Kshs
<b>The operating expenses</b>		
Staff costs (note 10b)	69,217,431	63,202,377
Depreciation of property, plant and equipment	48,328,680	42,698,792
Depreciation of right-of-use asset	-	-
Amortisation of intangible assets	242,172	210,504
Provision for bad and doubtful debts	-	-
Directors' emoluments – fees	2,180,000	2,138,500
- other	-	-
Auditors' remuneration - current year fees	232,000	580,000

**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

**12. Earnings Per Share**

The earning per share of Kshs. 2,750.29 is calculated by dividing the surplus of Kshs. 5,500,582 by the average number of ordinary shares in issue during the year of 2,000. There were not dilutive or potentially dilutive ordinary share as at the reporting date.

**13. Dividend Per Share**

No proposed dividend for the year ended 30 June 2023

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**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

**14. Property, Plant and Equipment**

	Freehold Land	Buildings & civil works	Plant and machinery	Motor vehicles, including, motor cycles	Computers & related equipment	Office equipment, furniture & fittings	Loose Tools	Work In Progress	Total
<b>COST OR VALUATION</b>									
At July 1, 2022		13,875,860	125,532,748	104,658,281	8,324,272	5,322,503	5,692,181	235,455,234	498,861,079
Additions	812,680	-	4,560,405	2,943,807	2,215,908	854,325	-	372,816,850	384,203,975
Revaluation		-	-		-	-	-	-	-
Disposals		(-)	(-)	(-)	(-)	(-)		(-)	(-)
<b>At June 30, 2023</b>	<b>812,680</b>	<b>13,875,860</b>	<b>130,093,153</b>	<b>107,602,088</b>	<b>10,540,180</b>	<b>6,176,828</b>	<b>5,692,181</b>	<b>608,272,084</b>	<b>883,065,054</b>
<b>DEPRECIATION</b>									
At July 1, 2022		693,792	45,720,308	39,452,460	6,275,851	3,327,713	3,415,312		98,885,436
Charge for the year		346,896	16,135,831	26,532,548	2,848,570	757,179	1,707,656		48,328,680
Impairment loss		-	-	-	-	-		-	-
Eliminated on disposal		(-)	(-)	(-)	(-)	(-)	(-)	(-)	(-)
<b>At June 30, 2023</b>	<b>-</b>	<b>1,040,688</b>	<b>61,856,139</b>	<b>65,985,008</b>	<b>9,124,421</b>	<b>4,084,892</b>	<b>5,122,968</b>	<b>-</b>	<b>147,214,116</b>
<b>NET BOOK VALUE At June 30, 2023</b>	<b>812,680</b>	<b>12,835,172</b>	<b>68,237,014</b>	<b>41,617,080</b>	<b>1,415,759</b>	<b>2,091,936</b>	<b>569,213</b>	<b>608,272,084</b>	<b>735,850,938</b>

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**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

**Property, Plant and Equipment (Continued)**

			Motor vehicles, including, motor cycles	Compute rs & related equipmen t	Office equipmen t, furniture & fittings	Loose Tools	Capital work in progress	Total
<b>2021</b>	<b>Buildings &amp; civil works</b>	<b>Plant and machinery</b>						
<b>COST OR VALUATION</b>								
As at 1 July 2021	13,875,860	97,251,064	83,617,536	7,996,772	5,042,928	5,692,181	-	213,476,341
Additions		28,281,684	18,740,745	327,500	279,575		235,455,234	283,084,738
Revaluation			2,300,000					2,300,000
Transfers	-	-	-	-	-	-	(-)	-
Disposals	(-)	(-)	(-)	(-)	(-)	(-)	(-)	(-)
<b>As at 30<sup>th</sup> June 2022</b>	<b>13,875,860</b>	<b>125,532,748</b>	<b>104,658,281</b>	<b>8,324,272</b>	<b>5,322,503</b>	<b>5,692,181</b>	<b>235,455,234</b>	<b>498,861,079</b>
<b>DEPRECIATION</b>								
At July 1, 2020	346,896	31,513,639	15,324,233	4,555,201	2,994,995	1,707,656	-	56,442,619
Charge for the year	346,896	14,206,669	24,128,227	1,720,650	332,718	1,707,656	-	42,442,817
Impairment loss	-	-	-	-	-	-	-	-
Eliminated on disposal	(-)	(-)	(-)	(-)	(-)	(-)	(-)	(-)
<b>As at 30<sup>th</sup> June 2022</b>	<b>693,792</b>	<b>45,720,308</b>	<b>39,452,460</b>	<b>6,275,851</b>	<b>3,327,713</b>	<b>3,415,312</b>	<b>-</b>	<b>98,885,436</b>
<b>NET BOOK VALUE</b>								
<b>At June 30, 2022</b>	<b>13,182,068</b>	<b>79,812,440</b>	<b>65,205,821</b>	<b>2,048,421</b>	<b>1,994,790</b>	<b>2,276,869</b>	<b>235,455,234</b>	<b>399,975,643</b>

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**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

**14 (b) Property, Plant and Equipment at Cost**

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

	Cost	Accumulated Depreciation	NBV
	Kshs	Kshs	Kshs
Land	812,680	-	812,680
Buildings	13,875,860	1,040,688	12,835,172
Plant and machinery	130,093,153	61,856,139	68,237,014
Motor vehicles, including motorcycles	107,602,088	65,985,008	41,617,080
Computers and related equipment	10,540,180	9,124,421	1,415,759
Office equipment, furniture, and fittings	6,176,731	4,084,892	2,091,839
Loose tools	5,692,181	5,122,968	569,213
Work in progress	608,272,084	0	608,272,084
	<b>883,064,957</b>	<b>147,214,116</b>	<b>735,850,938</b>

Property Plant and Equipment includes the following assets that are fully depreciated in the financial year ended 30 June 2023.

	Cost or valuation	Normal Annual Depreciation Charge
Plant and machinery	435,560	-
Motor vehicles, including motor cycles	4,950,000	-
<b>Total</b>	<b>5,385,560</b>	<b>-</b>

Property Plant and Equipment excludes the following assets that are fully depreciated:

	Cost or valuation	Normal Annual Depreciation Charge
Plant and machinery	1,157,042	-
Motor vehicles, including motor cycles	-	-
Computers and related equipment	2,696,633	-
Office equipment, furniture and fittings	2,648,350	-
<b>Total</b>	<b>6,502,025</b>	<b>-</b>

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**15. Intangible Assets**

	2022/2023	2021/2022
	Kshs	Kshs
<b>COST</b>		
At 1 July, 2022	701,680	266,680
Additions	105,560	435,000
Disposals	(-)	(-)
<b>At 30 June, 2023</b>	<b>807,240</b>	<b>701,680</b>
<b>AMORTISATION</b>		
At 1 July, 2022	290,508	80,004
Charge for the year	242,172	210,504
Disposals	(-)	(-)
Impairment loss	(-)	(-)
<b>At 30 June, 2023</b>	<b>532,680</b>	<b>290,508</b>
<b>NET BOOK VALUE</b>		
At 30 June, 2023	<b>274,560</b>	<b>411,172</b>

Additions during the year of Kshs. 105,560 relates to component on the billing software.

**16. Prepayments**

Contractor	Description	Amount Paid	Amounts captured in IPC certificate	Prepayments
Thomas and Piron	Construction of transmission line and drilling of boreholes	82,465,668.85	42,203,302.85	40,262,366
Total Amount		82,465,668.85	42,203,302.85	40,262,366

**16 (a)** Inventory for the year was Kshs. 3,404,497. These were consumable items in stock at the end of the financial year.

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**17.) Trade and Other Receivables**

	2022/2023	2021/2022
	Kshs	Kshs
Trade receivables (note 17 (a))	275,867,905	268,414,196
Deposits and prepayments	-	-
<b>Gross trade and other receivables</b>	<b>275,867,905</b>	<b>268,414,196</b>
Provision for bad and doubtful debts	(286,434)	(6,868,030)
<b>Net trade and other receivable</b>	<b>275,581,471</b>	<b>261,546,166</b>

**17 (a) Trade Receivables**

	2022/2023	2021/2022
	Kshs	Kshs
Gross trade receivables	336,948,778	322,627,039
Adjustment on Debtors	(61,080,873)	(54,212,843)
Net trade receivables	275,867,905	268,414,196
<b>At June 30, the Ageing Analysis of the Gross Trade Receivables was as follows:</b>		
Less than 30 days	2,368,905	3,283,386
Between 30 and 60 days	2,930,219	5,472,310
Between 61 and 90 days	3,211,389	3,830,617
Between 91 and 120 days	3,615,184	4,104,232
Over 120 days	263,742,208	251,723,651
<b>Total</b>	<b>275,867,905</b>	<b>268,414,196</b>

The provision for doubtful debts is the increase of ksh 14,321,739 from the trade receivables subjected to 2%, making the charge for the year to be ksh. 286,434,

17 (b) Accrued interest from fixed deposit of Ksh. 2,347,469 amounts to Ksh. 79,759

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**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

**18. Bank and Cash Balances**

	2022/2023	2021/2022
	Kshs	Kshs
Cash at bank	32,240,574.00	53,336,082.00
Cash in hand	167,015.00	89,068.00
<b>Total</b>	<b>32,407,590.00</b>	<b>53,425,150.00</b>

Most of Kwawasco cash is held at Kenya Commercial Bank and Equity bank Ukunda branches

**Detailed analysis of the cash and cash equivalents**

Financial institution	Account number	2022/2023	2021/2022
		KShs	KShs
<b>a) Current account (Expenditure)</b>			
Kenya Commercial Bank	1108004733	578,925.85	564,264.97
Equity Bank	0440294134905	28,689.72	19,680.72
WSDP Project	1240284225	6,866,394.26	10,208,127.64
KCB CLGS Account	1282342150	-	328.65
<b>Sub- total</b>		<b>7,474,009.83</b>	<b>10,792,401.98</b>
<b>b) Collection Accounts</b>			
Kenya Commercial Bank	1108004849	5,310,226.21	25,699,374.46
Equity Bank	0440194134911	336,443.80	14,441.80
Equity Bank Water Boozer	1580281271276	2,612,389.00	1,824,485.00
Equity Bank Sanitation	1580281271321	1,968,367.00	775,864.00
<b>Sub- total</b>		<b>10,227,426.01</b>	<b>28,314,165.26</b>
<b>c) Fixed deposits account</b>			
Equity Bank (Customer Deposit)	0440194134915	10,515,621.05	11,363,463.38
Deposit	1580381739303	-	2,347,469.00
Deposit	1580383512756	2,347,469.00	-
<b>Sub- total</b>		<b>12,863,090.05</b>	<b>13,710,932.38</b>
<b>Other Accounts</b>			
Project Accounts (d)		1,635,453.45	483,832.65
Cash		167,015.22	89,068.04
Mpesa		40,595.00	34,750.00
<b>Sub- total</b>		<b>1,843,063.67</b>	<b>607,650.69</b>
<b>Grand total</b>		<b>32,407,590.00</b>	<b>53,425,150.31</b>
<b>d) Other Accounts</b>			
WSTF Ukunda Household San	1268421448	41,324.25	338,332.25
Mkwakwani Koni-Musa	1295860538	1,434,987.30	-

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		2022/2023	2021/2022
Financial institution	Account number	KShs	KShs
Fujita Water project	1273250230	79,716.90	116,613.90
Madibwani Sanitation Project	1259629708	-	28,886.50
KRA Project	1580267877573	79,425.00	-
<b>Sub total</b>		<b>1,635,453.45</b>	<b>483,832.65</b>

**19. Ordinary Share Capital**

	2022/2023	2021/2022
	Kshs	Kshs
<b>Authorized:</b>		
2,000 ordinary shares of KShs 1,000 par value each	<b>2,000,000</b>	<b>2,000,000</b>
<b>Issued and fully paid:</b>		
2,000 ordinary shares of KShs 1,000 par value each	<b>2,000,000</b>	<b>2,000,000</b>

**20. Capital Reserve**

	2022/2023	2021/2022
	Kshs	Kshs
Capital Reserve	36,719,864	36,719,864

Third party takes over balances.

**21. 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.

A full depreciated motor vehicle was revalued in FY 2021/22 to a figure amounts to Kshs. 2,300,000

**22. Fair Value Adjustment Reserve**

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

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**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

**23. Retained Earnings/ Accumulated Deficit**

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

	Restated
As at July 1, 2021	(129,296,522)
Surplus/ deficit for the year	(17,583,795)
Adjusted on Debtors	-
Prior year adjustment	89,216,383
Adjusted Tax	11,069,531
As at June 30, 2022	(46,594,403)
As at July 1, 2022	(46,594,403)
Surplus/ Deficit for the year	5,500,582
Adjusted Tax	
As at June 30,2023	(41,093,821)

**24. World Bank (WSDP) Loan**

	<b>2022/2023</b>	<b>Reinstated 2021/2022</b>
First to Fourth Disbursement	375,450,595	375,450,595
Fifth Disbursement	262,937,269	-
<b>Total</b>	<b>638,387,864</b>	<b>375,450,595</b>

**24 (a) Deferred Income (IDA) Grant**

	<b>2022/2023</b>	<b>2021/2022</b>
Opening balance	74,242,432	74,242,432
Amortised deferred income	48,570,852	-
Closing balance	25,671,580	74,242,432

**25. Customer Deposit**

	<b>2022/2023</b>	<b>2021/2022</b>
	<b>Kshs</b>	<b>Kshs</b>
Opening balance	24,452,701	20,408,701
Movement	3,251,428	4,044,000
Customer Deposit	<b>27,704,129</b>	<b>24,452,701</b>

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**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

**26. Deferred Tax Liability**

Deferred tax is calculated on all temporary differences under the liability method using the enacted tax rate, currently 30%. The net deferred tax liability at year end is attributable to the following items:

**27. Trade and Other Payables**

	2022-2023	2021-2022
	Kshs	Kshs
Trade payables	347,721,440	309,115,452
Accrued expenses	1,635,453	483,832
Office of Auditor General	3,984,000	3,980,000
Other payables	14,303,985	10,987,861
<b>Total</b>	<b>367,644,878</b>	<b>324,567,145</b>

**28. Tax payable**

	2022/2023	2021/2022
Paye	3,334,062	15,789,234
Movement	2,618,668	(12,455,172)
<b>Total</b>	<b>5,952,730</b>	<b>3,334,062</b>

**29. Gratuity payable**

During the year gratuity payable increased by Ksh. 3,771,555 to Ksh. 22,573,957

Description	Defined benefit plan	Post-employment medical benefits	Other Benefits	2022-2023	2021-2022
	KShs	KShs	KShs	KShs	KShs
At the beginning of the year	18,802,402	-	-	18,802,402	16,557,617
Changes during the year	3,771,555	-	-	3,771,555	2,244,785
<b>Total employee benefits obligation</b>	<b>22,573,957</b>	<b>-</b>	<b>-</b>	<b>22,573,957</b>	<b>18,802,402</b>

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**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

**Recognition of Retirement Benefit Asset/ Liability**

**a) Amounts recognised under other gains/ Losses in the statement of Comprehensive Income**

The entity also contributes to the statutory National Social Security Fund (NSSF). This is a defined contribution scheme registered under the National Social Security Act. The entity's obligation under the scheme is limited to specific contributions legislated from time to time and is currently at KShs. 200 per employee per month. Other than NSSF the entity also has a defined contribution scheme operated by CPF Pension Fund. Employees contribute 5% while employers contribute 7% of basic salary. Employer contributions are recognized as expenses in the statement of financial performance within the period they are incurred

**30. Provisions**

No provision approved by the board on retirement benefit.

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**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

**31. Notes to The Statement of Cash Flows**

	Notes	2022-2023	2021-2022
		Kshs	Kshs
<b>(a) Reconciliation of operating profit/(loss) to cash generated from/(used in) operations</b>			
Profit or loss before tax		7,857,974	(17,583,793)
Add back: Depreciation	14	48,328,680	42,442,817
Amortisation	15	242,172	210,504
Provision for doubtful debts		286,434	6,868,032
Less: Amortisation of deferred income		(48,570,852)	-
Operating profit/(loss) before working capital changes		8,144,408	31,937,560
<b>Changes in Working Capital</b>			
Increase/(Decrease) in customer deposits	25	3,251,428	4,044,000
increase in Gratuity	29	3,771,555	2,244,786
(Increase)/decrease in trade receivables	17(a)	(14,321,739)	(27,472,123)
Increase in Accrued Interest	17(b)	14,140	(93,899)
(Increase)/decrease in inventory		(3,404,497)	
Increase/(decrease) in trade and other payables	27	43,077,733	10,575,445
Increase/(decrease) in Tax payable	28	2,618,668	(12,455,174)
PAYE Adjustment		-	11,069,531
<b>Cash generated from/(used in) operations</b>		<b>43,151,696</b>	<b>19,850,126</b>
<b>(b) Analysis of changes in loans</b>			
<b>Balance at beginning of the year</b>		<b>10,208,127</b>	<b>11,212,989</b>
Receipts during the year		325,417,009	312,436,900
Repayments during the year		(328,758,742)	(313,441,762)
Repayments of previous year's accrued interest		(-)	(-)
Foreign exchange (gains)/losses		-	(-)
Accrued interest		-	-
<b>Balance at end of the year</b>		<b>6,866,394</b>	<b>10,208,127</b>
<b>(c) Analysis of cash and cash equivalents</b>			
Short term deposits		12,863,090	13,710,932
Cash at bank		19,377,485	39,625,150
Cash in hand		167,015	89,068
<b>Balance at end of the year</b>		<b>32,407,590</b>	<b>53,425,150</b>

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**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

**32. Related Party Disclosures**

**Government of Kenya**

The County Government of Kwale is the principal shareholder of the company, holding 99.9% of Kwale water and Sewerage Company's equity interest.

Other related parties include:

- i) The Parent Ministry
- ii) Key management
- iii) Board of directors

**Transactions with related parties**

	2022-2023	2021-2022
	Kshs	Kshs
<b>a) Grants from the Government</b>		
Grants from County Government	-	20,000,000
CLSG Grant	-	59,099,550
<b>Total</b>	<b>-</b>	<b>79,099,550</b>
<b>b) Key management compensation</b>		
Directors' emoluments	2,180,000	2,124,500
Compensation to key management	3,978,961	3,729,419
<b>Total</b>	<b>6,158,961</b>	<b>5,853,919</b>

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**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

**33. 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:

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

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**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

**(ii) 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 on-going 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.

**a) Foreign currency risk**

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



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**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:

	2022-2023	Restated 2021-2022
	Kshs	Kshs
Share Capital	2,000,000	2,000,000
Retained earnings	(41,093,821)	(46,594,648)
Revaluation reserve	2,300,000	2,300,000
Capital reserve	36,719,864	36,719,864
<b>Total funds</b>	<b>(73,957)</b>	<b>(5,574,784)</b>
Total borrowings	-	-
Cash and bank balances	32,407,590	53,425,150

**34. Incorporation**

The entity is incorporated in Kenya under the Kenyan Companies Act, 2015 and is domiciled in Kenya.

**35. Events After The Reporting Period**

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

**36. Currency**

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



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**XIX. APPENDICES**

**APPENDIX 1: PROGRESS ON FOLLOW UP OF AUDITOR RECOMMENDATIONS**

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

<b>Reference No. on the external audit Report</b>	<b>Issue / Observations from Auditor</b>	<b>Management comments</b>	<b>Status: (Resolved / Not Resolved)</b>	<b>Timeframe: (Put a date when you expect the issue to be resolved)</b>
1.	Unsupported Capital Reserve	These were figures inherited from National Water Corporation without details for individual customers thus making it difficult for Kwawasco to follow up/ collect this debt. The amount of Ksh.36,719,864 reported in the financial statement was first introduced in the financial year 2007/2008.It represented customer third party balances at takeover. Attached an extract of the audited report of financial year 2007/2008 and a letter to treasury seeking the amount to be written off	In progress	30/06/2023
2.	Going Concern	With the completion of major projects, the company will highly erode the issue of going concerned implying that soon the company will be able to	Resolved	15/03/2022



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<b>Reference No. on the external audit Report</b>	<b>Issue / Observations from Auditor</b>	<b>Management comments</b>	<b>Status: (Resolved /Not Resolved)</b>	<b>Timeframe: (Put a date when you expect the issue to be resolved)</b>
		meet its obligation as and when they fall due.		
3.	Water Tarrif Structure Expiry	The process of having a new tarrif is in its final stage as the company awaits Wasreb to publish in the Kenya gazette.	Resolved	30/06/2023
4.	Non-Revenue Water	Kwawasco managed to secure support from the World Bank (WSDP) who by extension contracted a consultant with the aim to build the institutional capacity of the company and specifically address the prevailing NRW. Through this engagement, Kwawasco was able to reduce the NRW level from 62% at end of financial year 2021 to 57% by July 2022, a reduction of 5%.  The Company through WSDP is investing in customer identification survey and introduction of a GIS system to sort out illegal connections and unmetered connections.	In progress	30/06/2023



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Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
5.	Undisclosed Current Ownership of the Company	The process of changing to the current ownership structure as stipulated in the constitution is inprogress	In progress	30/06/2023

**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

Name

Eric Melubo Parmet

Signature



Date.....

14/2/2024

