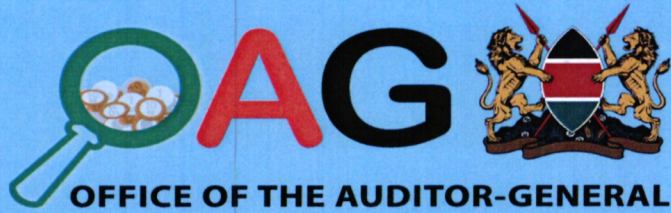


REPUBLIC OF KENYA



*Enhancing Accountability*

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**REPORT**

**OF**

**THE AUDITOR-GENERAL**

**ON**

**TAVEVO WATER AND SEWERAGE  
COMPANY LIMITED**

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





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**TAVEVO WATER AND SEWERAGE COMPANY LIMITED**

**ANNUAL REPORT AND FINANCIAL STATEMENTS**

**FOR THE FINANCIAL YEAR ENDING**

**JUNE 30, 2022**

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

**Tavevo Water and Sewerage Company Limited**  
**Annual Report and Financial Statements for the year ended June 30, 2022**

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**Tavevo Water and Sewerage Company Limited**  
**Annual Report and Financial Statements for the year ended June 30, 2022**

**I. Key entity Information**

**(a) Background information**

The Company was established in March 2006 under the Water Act 2002, and was registered on 7<sup>th</sup> April, 2006 under the Companies Act (Cap 486) as a public limited company. It is licensed by Water Services Regulatory Board (WASREB) as a Water Service Provider (WSP) under the current Water Act, 2016. The entity is domiciled in Taita Taveta County, Kenya. Oversight and strategic direction responsibilities lie with the Board of directors under the leadership of the Chairperson.

**(b) Principal Activities**

The principal activities of the Company are provision of adequate and portable, safe, Piped Water and Sanitation Services to the residents of Taita Taveta County.

**(c) Directors**

<b>No.</b>	<b>Name</b>	<b>Designation</b>	<b>Appointment Date</b>
1.	Mr Houghton Mombo	Chairman	From 29 <sup>th</sup> May 2020 to date.
2.	Mr. Elistone Mwangungu	Member	From 15-3-2018 to date.
3.	Joyce K. Mwachia	Member	From 29 <sup>th</sup> May 2020 to date
4.	Mrs. Ruth Lelewu	Member	From 29 <sup>th</sup> May 2020 to date
5.	Mr John Bwire	Member	From 29 <sup>th</sup> May 2020 & Resigned February 2022
6.	Rev. Silvanus Mwakoma	Member	From 29 <sup>th</sup> October 2019 to date.
7.	Ms. Agnes Mwasi	Member	From 15-3-2018 to date.
8.	Mr Richard Ngwatu	Managing Director	From 1 <sup>st</sup> January 2021 to date.

**Tavevo Water and Sewerage Company Limited**  
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**(d) Corporate Secretary**

Mr Justus Munyithya,  
Advocate/CPS (K), LL.M, LL.B.  
I.C.P.S.K membership number – P/CPSB/1434,  
4<sup>th</sup> Floor, N.S.S.F Building, Nkrumah Road P.O. Box 43370 - 80100 Mombasa.

**(e) Registered Office**

National Water Camp,  
Voi, Sofia road before Coast institute of Technology,  
P.O. Box 6-80300,  
Voi, Kenya.

**(f) Corporate Headquarters**

National Water Camp,  
Voi, Sofia road before Coast institute of Technology,  
P.O. Box 6-80300,  
Voi, Kenya.

**(g) Corporate Contacts**

Telephone: (254) 713676213/780676213  
E-mail: [info@tavevowater.co.ke](mailto:info@tavevowater.co.ke)  
Website: [www.tavevowater.co.ke](http://www.tavevowater.co.ke)

**(h) Corporate Bankers**

1. Kenya Commercial Bank,  
Next to K.R.A Voi branch,  
P.O. Box 137-80300  
Voi Town, Kenya.
2. Co-operative Bank of Kenya,  
Next to K.C.B Voi,  
P.O. Box 770-80300,  
Voi Town, Kenya.

**Tavevo Water and Sewerage Company Limited**  
**Annual Report and Financial Statements for the year ended June 30, 2022**

**(i) Independent Auditors**

Auditor-General.






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

**(j) Principal Legal advisors**

1. The Attorney General  
State Law Office and Department of Justice  
Harambee Avenue  
P.O Box 40112  
City Square 00200  
Nairobi, Kenya.
2. Mr Justus Munyithya,  
Advocate/CPS (K), LLM, LLB.  
I.C.P.S.K membership number – P/CPSB/1434,  
4<sup>th</sup> Floor, N.S.S.F Building, Nkrumah Road P.O. Box 43370 - 80100 Mombasa.

**Tavevo Water and Sewerage Company Limited**  
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**II. The Board of Directors**

PHOTO	NAME/POSITION	QUALIFICATION
	<p>Mr Houghton Mombo            Chairman Board of Directors            From 29<sup>th</sup> May 2020 to date.            D.O.B 04/02/1964</p>	<p>Executive MBA.            Bachelor of            Technology (Electrical            &amp; Electronics)            Telecommunications.</p>
	<p>Mr. Elistone Mwamtungu            Mwanyuma - Member from            15-3-2018 to date.            Chairman-Human resource            and Finance committee.            D.O.B 01/01/1979</p>	<p>Special Group.            Representative of            People living with            disabilities.</p>
	<p>Joyce K. Mwachia            Member from 29<sup>th</sup> May 2020            Ag. County Chief Officer            Finance and Planning Taita            Taveta County.</p>	<p>Master of Business            Administration</p>
	<p>Mrs Ruth Lelewu            Member from 29<sup>th</sup> May            2020            Chairperson-Technical and            commercial committee.            D.O.B 20/05/1961</p>	<p>Bachelor of Commerce            (Marketing Option).</p>
	<p>Mr John Bwire            Member from 29<sup>th</sup> May 2020            &amp; Resigned 9<sup>th</sup> February            2022.</p>	<p>Post graduate diploma            advocates training            program (Kenya school            of law)            Bachelor of Law degree            (LLB)</p>




**Tavevo Water and Sewerage Company Limited**  
**Annual Report and Financial Statements for the year ended June 30, 2022**

	<p>Rev. Silvanus Mwakoma          Member from 29<sup>th</sup> October          2019.</p>	<p>County Chief Officer          Water &amp; Sanitation          Taita Taveta County          Government.</p>
	<p>Ms Agnes Mwasi –Member          From 15-3-2018 to date.          Chairperson-Audit          Committee.          D.O.B 23/05/2022</p>	<p>Business Lady.</p>
	<p>Mr Richard Ngwatu          Managing Director from 1<sup>st</sup>          January 2021 to date.</p>	<p>Bachelor of Economics          and Business          Management          Master of Economics          (Economics and          Business Management)</p>
	<p>Mr Justus Munyithya          Company Secretary</p>	<p>Kioko Munyithya          Ngugi &amp; Co.          Advocates,          Advocate/CPS (K),          LL.M, LL.B.          I.C.P.S.K membership          number – P/CPSB/1434</p>

**III. Management Team**

Photo	Name	Qualification
	<p>Mr Richard Ngwatu Managing Director</p>	<p>Master of Economics (Economics and Business Management) Bachelor of Economics and Business Management</p>
	<p>Mr Justus Munyithya Company Secretary.</p>	<p>Kioko Munyithya Ngugi &amp; Co. Advocates, Advocate/CPS (K), LLM, LLB. I.C.P.S.K membership number – P/CPSB/1434</p>
	<p>Mr Laban Mbelenga Kinyai Head of Finance</p>	<p>MBA Finance Bachelor of Commerce (Accounting) CPA (K). ICPAK M/no. 18867</p>
	<p>Engineer Patrick Mwangoe Wadu. Head of Technical Services.</p>	<p>BSc. Water Engineering.</p>
	<p>Mr Richard W. Kibengo Head of Business Development Commercial Services and ICT. From February 2020.</p>	<p>MBA Marketing Bachelor of commerce (Marketing).</p>

**Tavevo Water and Sewerage Company Limited**  
**Annual Report and Financial Statements for the year ended June 30, 2022**

	<p>Ag. Supply Chain Management Officer</p>	<p>Bachelors in Procurement and Supply chain management</p>
	<p>Mr Henry Mutiso Mutinda Ag. Internal Audit Manager</p>	<p>C.P.A 3</p>
	<p>Mrs. Emily Katambo Ag. Human Resource Manager</p>	<p>Diploma Human Resource Management</p>

#### **IV. Chairman's Statement**

It is now 16 years since the Company started operating and managing water services in Taita Taveta County. Undoubtedly, the company has made tremendous strides in the management and delivery of water services despite the difficult operating environment brought about by slow economic growth and general inflation.

We do affirm as a Company to work closely with the County Government of Taita Taveta and other key stakeholders in order to ensure clean, portable and affordable water is available to all within Taita Taveta County.

#### **ACTIVITIES/ACHIEVEMENTS DURING THE PERIOD**

##### **Projects**

##### **A. Water and Sanitation Development Project**

Tavevo has through the Water and Sanitation development Project (W.S.D.P) received numerous assets to boost efficiency and improve delivery of services to our customer. There are a number of activities on-going and completed through the above mentioned project as listed below;

##### **Goods**

- i. Water supply Repair Kits.
- ii. Three Double cabin vehicles and 10 motorcycles.
- iii. 10,540 no. Consumer meters plus fittings.
- iv. Two Exhauster trucks and 2 no. Water Bowsers for Sanitation and water tracking services respectively.
- v. General ICT equipment.
- vi. Sanitation tools and equipment.

##### **Works**

- i. 8 No. Ablution blocks in Voi, Taveta, Mwatate, Wundanyi and Maungu towns.
- ii. Combined waste water monitoring Laboratory at Voi Headquarters.
- iii. Storage Warehouse.
- iv. New Office block.
- v. Upgrade of water distribution systems in Voi, Wdy, Mwatate and Taveta towns.

Other objectives of the project are as follows;

- i. To engage a consultant on detailed design review, ESIA, RAP supervision of construction works and technical support for medium term works.
- ii. To upgrade water distribution systems in Voi, Wundanyi, Mwatate and Taveta respectively.
- iii. To construct sludge handling facilities in Voi and Taveta town.
- iv. To construction 8 No. ablution blocks in urban areas within the Taita Taveta County.

**Tavevo Water and Sewerage Company Limited**  
**Annual Report and Financial Statements for the year ended June 30, 2022**

- v. To construct a modern laboratory, Office blocks and warehouse.

The above activities once undertaken will be instrumental in turning around Tavevo and increase overall efficiency of the Company.

**B. Water Sector Trust Fund**

Water sector trust fund (W.S.T.F) has also been a key partner during the period under review through its immense financial support in the period under review. These include;

- i. Nyangoro Maktau water project,
- ii. Community Led total sanitation (C.L.T.S)
- iii. Up scaling basic sanitation for urban poor (U.B.S.U.P)
- iv. Maktau Bus park Public Sanitation Facility.
- v. Conditional Liquidity Support Grant.

Important to note all the above mentioned projects have been in conjunction with the **Taita Taveta County Government.**

**Non-Revenue Water**

During the reporting period our Non-Revenue Water which is the difference between the water produced for distribution and the water billed was 36% against a national average of 54.6%. This is an improvement compared to the previous financial year at 37%.

However, 36% is still high which is highly attributed to the old and dilapidated water supply infrastructure dating over 50 years which are prone to frequent bursts and leakages. Despite this challenge the company endeavours to reduce it to sector benchmark levels of less than 25%.

**Metering**

It is the policy of the Company to meter all consumer connections in addition to metering major supply lines to monitor losses due to pipeline leakages and illegal connections. Our metering level is 100%. Metering is a critical tool for managing Non-Revenue water and is also essential in managing per capita water consumption.

**Drinking Water Quality**

The quality of drinking water has a direct impact on the health of our consumers. Tavevo has made commendable efforts in ensuring that the water we provide our customers is free of disease-causing organisms by chlorinating our water and ensuring that the required residual chlorine is maintained all over the supply area.

**Human Resource Capacity**

The Company has made reasonable strides to improve its terms and conditions of service, while scrupulously keeping to its staffing ceiling level in order to maintain competent and well-motivated human resource capacity.

**Tavevo Water and Sewerage Company Limited  
Annual Report and Financial Statements for the year ended June 30, 2022**

**Summary of challenges during the period**

However notwithstanding our stated achievements, we have some key challenges to address as we plan for the future of the company. These include:

1. High cost of electricity due to pumping cost and topography of Taita Taveta.
2. High Operational Costs due to old and dilapidated infrastructure.
3. Low water Supply Coverage especially in rural areas.
4. High Number of Inactive customer connections.
5. High Non-Revenue Water compared to the sector benchmark of 25%.
6. High cost of Bulk water from the Mzima Water bulk supply.

**WAY FORWARD**

According to Article 43 (d) of the Kenya constitution, 2010 and Water Act 2016, every person has the right “to clean and safe water in adequate quantities”. To this end Tavevo has successfully been able to reach more residents in both urban and peri-urban areas of Taita Taveta County. The Company targets to increase the area of water coverage especially in the rural, to improve sewer coverage, drinking water quality, improve hours of supply, reduction of N.R.W, increase staff productivity and collection efficiency.

The Board of directors are committed to ensure that the strategic objectives of the Company are met.

Date.....14/3/2023

Signature.....

**CHAIRMAN;**

**TAVEVO WATER AND SEWERAGE COMPANY LTD; BOARD OF DIRECTORS**

## **V. Report of the Managing Director**

Tavevo since inception in the year 2007 was mandated to supply water to residents of Taita Taveta County. We have diligently performed this function fully to date.

During the year under review Tavevo received enormous financial support from stakeholders which include;

- i. Ministry of water and Sanitation
- ii. Water Sector Trust Fund
- iii. Taita Taveta County Government

Some of the key activities/projects are explained further below;

### **Projects**

#### **A. Water and Sanitation Development Project**

Tavevo has through the Water and Sanitation development Project (W.S.D.P) received numerous assets to boost efficiency and improve delivery of services to our customer. There are a number of activities on-going and completed through the above mentioned project as listed below;

#### **Goods**

- vii. Water supply Repair Kits.
- viii. Three Double cabin vehicles and 10 motorcycles.
- ix. 10,540 no. Consumer meters plus fittings.
- x. Two Exhauster trucks and two Water Bowsers for Sanitation and water tracking services respectively.
- xi. General ICT equipment.
- xii. Sanitation tools and equipment.

#### **Works**

- vi. 8 No. Ablution blocks in Voi, Taveta, Mwatate, Wundanyi and Maungu towns.
- vii. Combined waste water monitoring Laboratory at Voi Headquarters.
- viii. Storage Warehouse.
- ix. New Office block.
- x. Upgrade of water distribution systems in Voi, Wdy, Mwatate and Taveta towns.

Other objectives of the project are as follows;

- i. To engage a consultant on detailed design review, ESIA, RAP supervision of construction works and technical support for medium term works.
- ii. To upgrade water distribution systems in Voi, Wundanyi, Mwatate and Taveta respectively.
- iii. To construct sludge handling facilities in Voi and Taveta town.
- iv. To construction 8 No. ablution blocks in urban areas within the Taita Taveta County.

**Tavevo Water and Sewerage Company Limited**  
**Annual Report and Financial Statements for the year ended June 30, 2022**

- v. To construct a modern laboratory, Office blocks and warehouse.

The above activities once undertaken will be instrumental in turning around Tavevo and increase overall efficiency of the Company. Tavevo is set to receive approximately **Kshs. 2,500,000,000** throughout the project duration.

**B. Water Sector Trust Fund**

Water sector trust fund (W.S.T.F) has also been a key partner during the period under review through its immense financial support in the period under review. These include;

- i. Nyangoro Mwakitau water project,
- ii. Community Led total sanitation (C.L.T.S)
- iii. Up scaling basic sanitation for urban poor (U.B.S.U.P)
- iv. Maktau Bus park Public Sanitation Facility.(P.S.F)
- v. Conditional Liquidity Support Grant.

Important to note all the above mentioned projects have been in conjunction with the Taita Taveta County Government who were core financiers of three of the above financed projects (C.L.T.S, Nyangoro Mwakitau and Maktau P.S.F) at 13% of the total budget while Water sector trust fund financed 87% of the project.

**Water Coverage**

The Company has strived to expand coverage to those areas who currently do not have piped water hence the increase of coverage from 82% to 88% in the urban and peri-urban areas.

However, the rural areas are still lower with the water coverage at 25%. Tavevo is working hand in hand with its main shareholder which is The County Government of Taita Taveta in extending services to the rural areas of Taita Taveta by running the projects successfully completed by the Government and taking over the ones under the communities.

In addition hours of supply have also increased from an average of 12 to 15 hours.

**Non-Revenue Water**

During the reporting period our Non-Revenue Water which is the difference between the water produced for distribution and the water billed was 3% against a national average of 54.6%. This is an improvement compared to the previous financial year at 37%.

However, 36% is still high which is highly attributed to the old and dilapidated water supply infrastructure dating over 50 years which are prone to frequent bursts and leakages. Despite this challenge the company endeavours to reduce it to sector benchmark levels of less than 25%.

**Metering**

It is the policy of the Company to meter all consumer connections in addition to metering major supply lines to monitor losses due to pipeline leakages and illegal connections. Our metering level is 100%. Metering is a critical tool for managing Non-Revenue water and is also essential in managing per capita water consumption. We have received over 10,000 meters under the W.S.D.P project boosting our metering efforts while also replacing old meters.

**Drinking Water Quality**

The quality of drinking water has a direct impact on the health of our consumers. Tavevo has made commendable efforts in ensuring that the water we provide our customers is free of disease-causing organisms by chlorinating our water and ensuring that the required residual chlorine is maintained all over the supply area.

**Human Resource Capacity**

The Company has made reasonable strides to improve its terms and conditions of service, while scrupulously keeping to its staffing ceiling level in order to maintain competent and well-motivated human resource capacity.

**Summary of challenges during the period**

However notwithstanding our stated achievements, we have some key challenges to address as we plan for the future of the company. These include:

1. High cost of electricity due to pumping cost and topography of Taita Taveta currently the average billing is Kshs. 5 million per month.
2. High Operational Costs due to old and dilapidated infrastructure some of which were laid over 50 years ago.
3. Low water Supply Coverage especially in rural areas. Most rural areas in Taita Taveta are sparsely populated thereby making the cost of reaching these areas quite high not mentioning maintenance of the same.
4. High Number of Inactive customer connections. Tavevo has embarked on a customer survey exercise to identify all customers with an aim to clean our database.
5. High Non-Revenue Water compared to the sector benchmark of 25%.
6. High cost of Bulk water from the Mzima. The tariffs paid by Tavevo are higher considering we do all the pumping and sometimes treatment of water by ourselves. The Bulk system supplies us by Gravity.

**WAY FORWARD**

According to Article 43 (d) of the Kenya constitution, 2010 and Water Act 2016, every person has the right “to clean and safe water in adequate quantities”. To this end Tavevo has successfully been able to reach more residents in both urban and peri-urban areas of Taita Taveta County. The Company targets to increase the area of water coverage especially in the rural, to improve sewer coverage, drinking water quality, improve hours of supply, reduction of N.R.W, increase staff productivity and collection efficiency.

The Management is committed to ensure that the strategic objectives of the Company are met.

Date... 14/02/2023...

Signature...  .....

**AG. MANAGING DIRECTOR**

**TAVEVO WATER AND SEWERAGE COMPANY LTD**

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

Tavevo has had an unfortunate gap since the expiry of the strategic plan. A consultant has been procured through the Ministry of Water and sanitation for the formulation of a complete strategic plan and a draft provided during the period.

## **VII. Corporate Governance Statement**

The Board of Directors during the year had six full board meetings and four quarterly meetings for each committee as listed below. The attendance of the meetings was between 100% to two thirds quorum as required. The Board has 3 committees namely:

- (a) Finance and Human resource Committee.
- (b) Audit Committee.
- (c) Technical Committee.

### **Board of Directors appointment process**

1. Board appointments shall be transparent and competitive so as to ensure the public served has an opportunity to participate in decision making in service delivery that affects them.
2. Vacant positions shall be advertised in the media and on the website of the WSP and the criteria set out by WASREB shall be used.
3. An ad hoc nominating committee of the board of directors comprising county and select Committee from two or three primary/key stakeholders shall assess applications and ensure that not only is the Leadership and Integrity criteria met but shall perform a background check to ensure the candidates add value to the entity.
4. The select committee shall receive the applications, vet them to ensure that they comply to the Fit and Proper Test plus the eligibility criteria and where necessary conduct interviews.
5. The Report of the selection committee shall be submitted to the shareholder who is required as shareholder and function owner to ensure that only persons who add value to the company are appointed.
6. The Fit and Proper Test Form is annex 2 to this Guideline and must be filled by all applicants and appointees.
7. The copy of the Fit and Proper Test Forms of each of the appointed directors shall be sent to WASREB.
8. A letter of appointment issued by the county secretary that adheres to the articles of association of the WSP shall be given after ratification of names of the accepted directors at annual general meeting by the shareholder.
9. The letter must contain a termination clause on poor performance and misconduct and ensure that it captures that unless the board is retired due to poor performance a third of the members shall retire every year from the third year.
10. Board members shall serve a maximum of six (6) years based on the approval of the shareholder and on performance issues.
11. Before a board member begins to serve he must be inducted in governance training customized for the water services sector and sign a code of ethics based on the Leadership and Integrity Act 2012 and the Public Officer Ethics Act 2003.
12. The list of ratified board members and the stakeholder group they represent shall be maintained on the website of the WSP and shall be communicated to WASREB.
13. It is good practice that board service is not disrupted by the election cycle and independent oversight must not be compromised by the cycle.

Board meetings held

**Board succession policies and period in office**

1. The shareholder must avoid a situation where all Board members retire at the same time in order to ensure institutional memory.
2. In order to avoid this situation, one third of the Board members other than those from the County Governments, shall retire from office by rotation every year starting from the third year after appointment.
3. The retiring members shall be determined on the basis of those who have served longest and, if they have served for the same period of time, then the retirement will be determined by lot.
4. The retiring members shall be required to reapply for their positions if they are eligible for reappointment
5. The county water department as function owner is advised to use annual performance evaluation of the board of directors and WSP to assess suitability of reapplying members and the need to make changes to improve performance.

**Collective and individual role of directors**

In order to enable every director to be more clearly aware of their collective and individual accountability and liability in regard to their acts of commission and omission, the directors are required to ensure compliance with the law. Having the assistance of competent company secretary / legal officer and internal auditor will largely assist the board of directors understand compliance?

1. Be aware of the License provisions of the water service provider.
2. Be aware of the laws the company is supposed to comply with, that are Water Act 2016, county water legislation, Companies Act 2015, Public Procurement and Asset Disposal Act, 2015, Public Finance Management Act 2012.
3. Be aware of the Environmental Management and Co-ordination Act.
4. Be aware of the Anti- Corruption and Economic Crimes Act № 3 of 2003.
5. Be aware of the laws relating to employment and labour relations.
6. Be able to understand the financial statements of the company in order to know in depth the financial status of the company and take action accordingly.
7. In good faith, a member shall disclose to the board for recording any business or other interest that he/she holds that is likely to create a potential conflict of interest and withdraw himself from participating in that decision.
8. Be aware of liability of directors jointly and severally in the context of personal liability for fraud, secret profits, corruption and bribery.
9. Board members having conflicting directorships or missing three meetings consecutively should resign voluntarily or be replaced by the shareholder as per the articles of association of the company.

**Directors training and development policy**

1. All directors in the water services sector shall receive formal training on their role, duties, responsibilities and obligations as well as board practices and procedures on first appointment before they begin business. This is particularly critical for those with no previous Board experience.
2. Subsequent trainings involve improving understanding of the water service sector operations, deepening oversight skills in financial management different compliance requirements that are critical to the WSP business.
3. The company shall organize these trainings and inform the County Government Water office which should also participate.
4. All directors shall be exposed, at least once every two years, to the following matters:
  - i. Corporate strategy in the water sector and institutional organization.
  - ii. Role, duties and responsibilities of the Board and directors.
  - iii. The License content.
  - iv. Rights and obligations of a director.
  - v. Statutory liabilities and duties of a director under criminal and company law.
  - vi. Board practices and procedures.
  - vii. Disclosure and communication policies.
  - viii. Financial management systems,
  - ix. Risk management, internal control procedures and internal audit.
  - x. The importance of external audit by the Auditor General
  - xi. Performance targeting, monitoring and evaluation with emphasis to the water service sector minimum service level requirements and sector benchmarks
  - xii. The role of Information Technology in oversight

**Board Remuneration Policy**

To provide efficiency and act as an incentive to improve performance at oversight level, the following are the limits for sitting allowances and other expenditures of the board and its committees:

For companies with:

- a. Annual Turnover of up to Kshs 100,000,000 – board activities capped at the higher of 5% of the turnover or Kshs 4 million per annum
- b. Annual Turnover of up to Kshs 500,000,000 board activities capped at the higher of 2% of the turnover and Kshs 7 million per annum.
- c. Annual Turnover up to Kshs 1,000,000,000 board activities capped at the higher of 1% and 12m per annum.
- d. Annual Turnover above Kshs 1,000,000,000 board activities capped at a maximum of the higher of 1% and Kshs 12m per annum.

Tavevo Water and Sewerage Co. Ltd fall under annual turnover of over Kshs.100, 000,000 up to Kshs. 500,000,000.

**VIII. Management Discussion and Analysis**

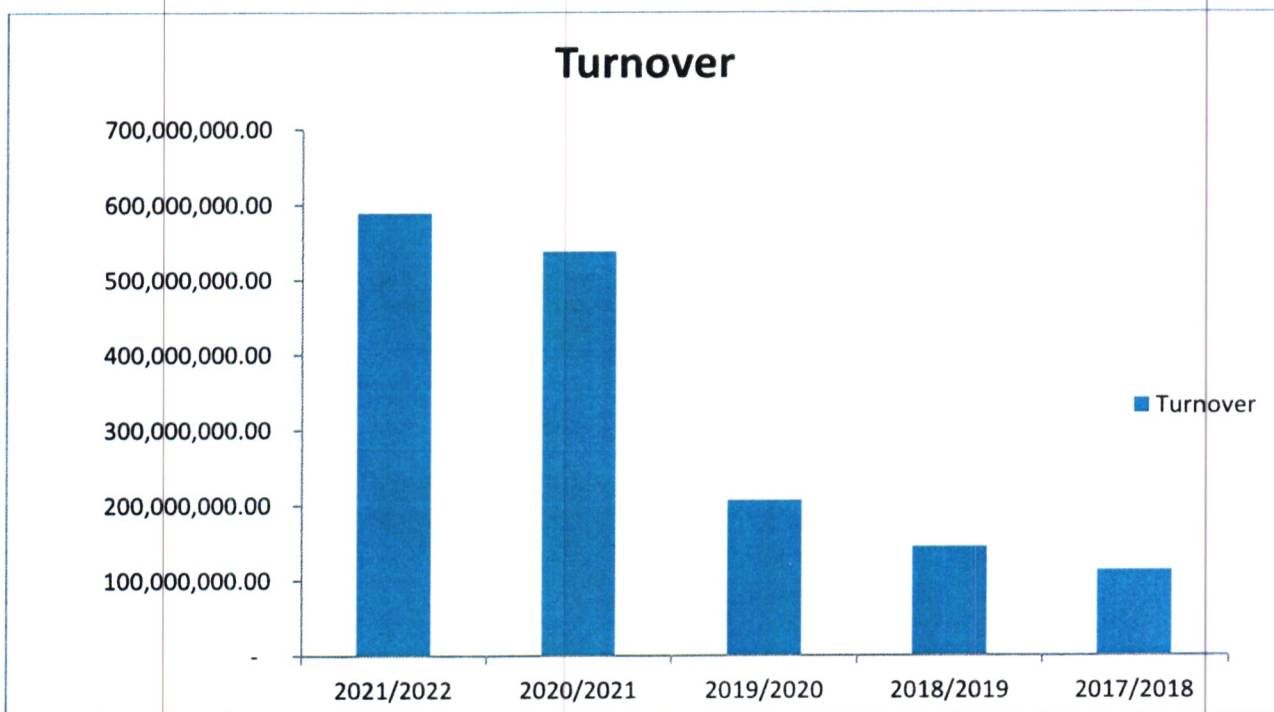
**Introduction**

Under this section Tavevo management wishes to summarise financial performance as stipulated in the below subcategories;

**i. Annual Turnover**

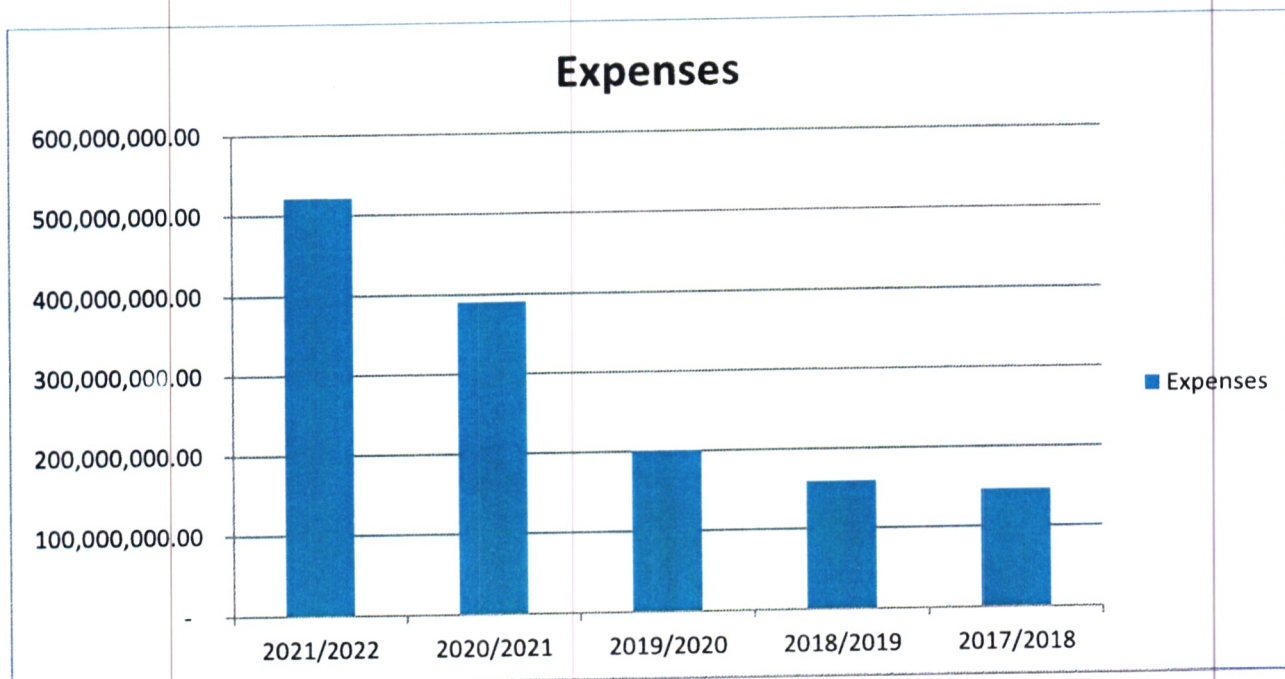
Tavevo management has seen continued increase in revenue over the last 5 years as summarised in the below graph;

Important to note Tavevo received grants as reported during the period.



**ii. Expenses**

The management of Tavevo Water and sewerage Company limited also has had a challenge in managing expenses especially operational costs due to challenges as addressed in the Chairman's statement. Despite the challenges Tavevo continues to cater for its operational expenses.



**Key Projects during the period**

<b>Project</b>	<b>Status</b>	
i. Water and Sanitation Development Project (W.S.D.P). Goods received during the year are as shown under the status.	i. Water supply Repair Kits.	
	ii. Three Double cabin vehicles and 10 motorcycles.	
	iii. 10,540 no. Consumer meters plus fittings.	
	iv. Two Exhauster trucks and two Water Bowsers for Sanitation and water tracking services respectively.	
	v. General ICT equipment.	
	vi. Sanitation tools and equipment.	
	<b><u>Works</u></b>	
	vii. 8 No. Ablution blocks in Voi, Taveta, Mwatate, Wundanyi and Maungu towns-On going.	
	viii. Combined waste water monitoring Laboratory at Voi Headquarters-On-going.	
	ix. Storage Warehouse-On-going.	
	x. New Office block-On-going.	
xi. Upgrade of water distribution systems in Voi, Wundanyi, Mwatate and Taveta towns.		
ii. Water Sector Trust Fund-The listed projects though on-going	i. Nyangoro Mwakitau water project,	
	ii. Community Led total sanitation	

are as shown under the status.	(C.L.T.S) iii. Up scaling basic sanitation for urban poor (U.B.S.U.P) iv. Maktau Bus park Public Sanitation Facility.(P.S.F) v. Conditional Liquidity Support Grant.
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## **IX. Environmental and Sustainability Reporting**

The Company remained a social responsible corporate citizen by conducting its business in a socially acceptable and responsible manner. The company contributed and participated in various forums at the County level that include;

### **1. Sustainability strategy and profile**

- Strategic development partnerships with Water Sector Trust Fund, Water and Sanitation Development Project (W.S.D.P) through Ministry of Water & Sanitation, Taita Taveta County Government, Water Sector Trust Fund and Red cross Kenya. The above partnerships are bearing fruit through the various development projects as listed earlier in this report.
- Infrastructure development by extension of Water and sewerage systems through efficiency and responsive institutions.

### **2. Environmental Performance**

Tavevo management has ensured continued adherence to environmental laws and policy as documented by the National Environmental Management Authority (N.E.M.A).

### **3. Employee Welfare**

- The hiring process of Tavevo water and sewerage Co. Ltd is guided by the approved Human resource policy by Board of Directors. Tavevo is an equal opportunity employer. Management also gives high priority to staff training and capacity building as envisaged in the Company policy. Tavevo undertakes annual staff appraisal for staff and the same forwarded to the Board of Directors.

### **4. Market place practices**

- Tavevo Water and Sewerage Company Limited have a zero tolerance to corruption policy and ensure all staff adheres to the same policy.
- All procurements by Tavevo are done fairly and on competitive basis as per the Public Procurement and Asset disposal act of 2015. Supplier payments are on first in first out basis.
- Every Kenyan has a right to access clean water. In light of this Tavevo continues to extend its services as close as possible to the residents of Taita Taveta.

### **5. Community Engagements**

- Tavevo continues to reach out to communities and its clients on location by customer care clinics to solve their customer care queries. In addition Tavevo has continuously provided hand washing points with tanks during the Covid-19 pandemic for free across the Taita Taveta County Government.

**X. Report of the Directors**

The Directors submit their report together with the audited financial statements for the year ended June 30, 2022, which show the state of the Company's affairs.

**i) Principal activities**

The principal activities of the Company are provision of adequate and portable, safe, Piped Water and Sanitation Services to the residents of Taita Taveta County.

**ii) Results**

The results of the Company for the year ended June 30, 2022 are set out on page 1-5. Profit made during the year was Kshs. 114,218,980.

**iii) Dividends**

There were no dividends declared or issued during the reporting period.

**iv) Directors**

The members of the Board of Directors who served during the year are shown on page v-vi in accordance with Regulation.

**v) Auditors**

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

By Order of the Board

Name... JUNIOR KIRIGHA

Signature... 

Date... 14/03/2023

Secretary to The Board

**XI. Statement of Directors' Responsibilities**

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

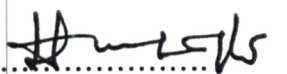
The Directors are responsible for the preparation and presentation of Tavevo Water and Sewerage Company Limited financial statements, which give a true and fair view of the state of affairs of Tavevo Water and Sewerage Company Limited for and as at the end of the financial year (period) ended on June 30, 2022. 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 Tavevo Water and Sewerage Company Limited ; (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 Tavevo Water and Sewerage Company Limited ; (v) selecting and applying appropriate accounting policies; and (vi) making accounting estimates that are reasonable in the circumstances.

The Directors responsibility for Tavevo Water and Sewerage Company Limited financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity with International Financial Reporting Standards (IFRS), and in the manner required by the PFM Act, 2012 and the State Corporations Act section 14. The Directors are of the opinion that Tavevo Water and Sewerage Company Limited financial statements give a true and fair view of the state of Tavevo Water and Sewerage Company Limited transactions during the financial year ended June 30, 2022, and of Tavevo Water and Sewerage Company Limited financial position as at that date. The Directors further confirm the completeness of the accounting records maintained for Tavevo Water and Sewerage Company Limited, which have been relied upon in the preparation of Tavevo Water and Sewerage Company Limited 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 Tavevo Water and Sewerage Company Limited will not remain a going concern for at least the next twelve months from the date of this statement.

**Approval of the financial statements**

The Tavevo water and sewerage company limited financial statements were approved by the Board on 14/3/2023 and signed on its behalf by:

Signature.....  
Name.....Houghton Mungo

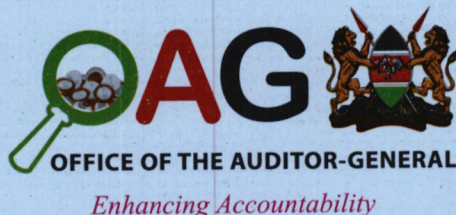
**Chairperson of the Board**

Signature.....  
Name.....RICHARD W. KIBETIGO

**Ag. Managing Director**

# REPUBLIC OF KENYA

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



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

## **REPORT OF THE AUDITOR-GENERAL ON TAVEVO WATER AND SEWERAGE COMPANY LIMITED FOR THE YEAR ENDED 30 JUNE, 2022**

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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 Government achieves value for money and that such funds are applied for the intended purpose.
- C. Report on Effectiveness of Internal Controls, Risk Management and Governance, which considers how the entity has instituted checks and balances to guide internal operations. This responds to the effectiveness of the governance structure, the risk management environment and the internal controls, developed and implemented by those charged with governance for orderly, efficient and effective operations of the entity.

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

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

### **REPORT ON THE FINANCIAL STATEMENTS**

#### **Qualified Opinion**

I have audited the accompanying financial statements of Tavevo Water and Sewerage Company Limited set out on pages 1 to 34, which comprise of the statement of financial position as at 30 June, 2022, and the statement of profit or loss and other comprehensive income for the year ended 30 June, 2022, statement of changes in equity, statement of cash flows and statement of comparison of budget and actual amounts for the year then

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*Report of the Auditor-General on Tavevo Water and Sewerage Company Limited for the year ended 30 June, 2022*

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 Tavevo Water and Sewerage Company Limited as at 30 June, 2022, and its financial performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards and comply with the Public Finance Management Act, 2012 and Water Act, 2016.

### **Basis for Qualified Opinion**

#### **1. Unsupported Cash and Bank Balances**

The statement of financial position and Note 20 to the financial statements reflects bank and cash balance of Kshs.159,544,572 which include a bank balance of Kshs.3,092,301 in respect of Posta Pay. However, the balance was not supported with bank reconciliations statements, bank statements and a certificate of bank balance. Further, Management did not provide the approval to operate the account for audit review.

In the circumstances, the accuracy and completeness of the bank and cash balance of Kshs.159,544,572 could not be confirmed.

#### **2. Unsupported Customer Deposits**

The statement of financial position and Note 27 to the financial statements reflects customer deposits of Kshs.33,475,516. However, no listing of the persons owed the deposits was provided for audit review.

In addition, the customer deposits bank account reflected a balance of Kshs.1,115,257 as at 30 June, 2022 resulting to a variance of Kshs.32,360,259 between the financial statements balance and the bank statement that was not reconciled.

In the circumstances, the accuracy and completeness of the customer deposits balance of Kshs.33,475,516 could not be confirmed.

#### **3. Unexplained Loss of Revenue**

The statement of profit or loss and other comprehensive income and Note 6 to the financial statements reflects operating revenue of Kshs.259,350,715 which includes water sale of Kshs.247,082,575. Review of the Company's annual report noted that 5,420,914 cubic meters of water was produced and out of which 3,450,338 cubic meters (or 64%) was billed to customers. The unbilled amount of 1,970,576 cubic meters of water (or 36%) represented Non-Revenue Water which is more than the maximum allowable loss of 25% by the Water Services Regulatory Board (WASREB).

In addition, the calculated amount of the billed water of 3,450,338 cubic meters was equivalent to Kshs.287,679,949 as compared to revenue collections of Kshs.247,082,575, resulting in an unexplained variance of Kshs.40,597,374.

In the circumstances, the accuracy and completeness of water sales of Kshs.247,082,575 could not be confirmed.

#### **4. Unexplained Variance in Coast Water Works Development Agency Payables**

The statement of financial position and Notes 25 and 26 to the financial statements reflects Coast Water Works Development Agency (CWWDA) payables balance of Kshs.129,397,816 for lease fees and Kshs.470,843,523 for bulk water supply, all totalling to Kshs.600,241,339. However, the audited financial statements for the Coast Water Works Development Agency for the same period reflect Kshs.708,109,182 as receivables from the Company, resulting in an unexplained variance of Kshs.107,867,843.

In the circumstances, the accuracy and completeness of Coast Water Works Development Agency payables balance of Kshs.600,241,339 could not be confirmed.

#### **5. Long Outstanding Receivables**

The statement of financial position and Note 18A to the financial statements reflects trade and other receivables balance of Kshs.341,160,132. However, debtors totalling Kshs.4,119,954 had been long outstanding for a period of over four years yet the Management did not explain the measures being undertaken to collect debt.

In the circumstances, the accuracy and collectability of the trade and other receivables balance of Kshs.341,160,132 could not be confirmed.

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

#### **Key Audit Matters**

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

#### **Other Matter**

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

The statement of comparison of budget and actual amounts reflects final revenue budget and actual on comparable basis of Kshs.1,415,131,988 and Kshs.738,917,763 respectively, resulting to an under collection of Kshs.676,214,225 or 48% of the budget. Similarly, the Company spent an amount of Kshs.624,698,783 against an approved budget of Kshs.382,758,689 resulting to an over-expenditure of Kshs.241,940,094 or 38% of the budget which was not approved.

In the circumstances, the under collection of revenue may adversely affect implementation of the activities of the Company.

## **2. Unresolved Prior Year Matters**

Various prior year audit issues remained unresolved as at 30 June, 2022. Although Management has indicated that audited financial statements had not been received as the reason for the delay in resolving the prior year audit issues, the Auditor's Report was transmitted to the Management on 11 October, 2022. Further, the unresolved prior year issues are not disclosed under the progress on follow up of auditor's recommendations section of the financial statements as required by the Public Sector Accounting Standards Board.

### **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. Irregular Management of Imprests**

The statement of financial position and Note 18 to the financial statements reflects trade and other receivables balance of Kshs.341,160,132 which includes staff receivables of Kshs.2,466,062 and staff imprests amounting to Kshs.1,725,384. However, no deductions were effected for staff debts amounting to Kshs.327,359 and the monthly staff debts deductions of Kshs.374,000 for five (5) staffs were not effected as at 30 June, 2022.

Further, staff imprests amounting to Kshs.1,725,384 were held for a period of over one year without being surrendered, contrary to Regulations 93(5) of the Public Finance Management (County Governments) Regulations, 2015 which limits the imprest surrender period to a maximum of seven (7) days of completion of the work for which it was issued or of return to duty station. Management did not explain the reasons for non-recovery of the staff debts.

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

##### **2. Irregular Payment of Airtime Allowances**

The statement of financial performance and Note 10 to the financial statements reflects general and operations expenses of Kshs.417,466,909 which include staff airtime allowance of Kshs.2,600,700. Review of the financial records supporting the airtime payments revealed that all staff received airtime allowances. However, the grades as evidence of eligibility for airtime and therefore the amount payable to each staff were not provided for audit. This was contrary to Clause 8.14.1 of Tavevo Water and Sewerage Company Limited Human Resource Policy Manual, 2018, that requires beneficiaries to be at senior management levels. Also, there were no Board minutes to support the rates used.

In the circumstances, the regularity of the airtime allowance of Kshs.2,600,700 could not be confirmed.

### **3. Lack of Approved Strategic Plan**

The Company did not provide an approved strategic plan in the year under review as required of Section 68 (2)(g) Public Finance Management Act, 2012. Management did not explain how the budget estimates for the year were developed without an approved strategic plan.

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

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

## **REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE**

### **Conclusion**

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

### **Basis for Conclusion**

#### **1. Lack of an Approved Staff Establishment**

The statement of profit or loss and other comprehensive income reflects staff costs of Kshs.120,778,879. However, no staff establishment was provided in support of the two hundred and forty-six (246) staff reflected in payroll as required of Clause 3.9 of the Tavevo Water and Sewerage Company Limited Human Resources Policy Manual, 2018 which require the permanent and pensionable staff establishment to be reviewed and approved annually by the Board on the recommendation of the Staff Advisory Committee.

In the circumstances, Management was in breach of the Human Resource Policy manual.

#### **2. Non-Adherence to Human Resource Policy**

The statement of profit or loss and other comprehensive income and Note 9 to the financial statements reflects staff costs of Kshs.120,778,879 which include salary of Kshs.85,614,786. Review of the payroll for the year under review noted payment of acting allowances totalling Kshs.184,168 to two staffs in Internal Audit and Human Resource Departments who have been acting since 15 August, 2018 and 1 September, 2021 respectively, which was more than the six months stipulated under Paragraph 8.2.6 of the Tavevo Water and Sewerage Company Limited Human Resource Policy Manual.

In addition, the payroll during the year under review reflected two hundred and forty-two (246) employees as compared to the previous year's number of one hundred and thirty-six (136), translating to an increase of one hundred and ten (110) employees. However, advertisement for the positions, details of the applicants and those short-listed, interviewed and eventually appointed as per Paragraph 7.1 of the Tavevo Water and Sewerage Company Limited Human Resource Policy, were not provided for audit verification.

In the circumstances, Management was in breach of the Human Resource policy.

### **3. Lack of Risk Management Policy**

The Company did not provide the Risk Management Policy for audit review as required of Regulation 158 of the Public Finance Management (County Governments) Regulations, 2015. Also, there was no fraud prevention mechanism, operational plan and disaster recovery plan.

In the circumstances, it was not possible to determine the effectiveness of the internal controls in risk mitigation.

### **4. Failure to Insure Company Assets**

The statement of financial position and Note 15 to the financial statements reflects property, plant and equipment balance of Kshs.327,277,357. However, it was noted that only motor vehicles and motor cycles worth Kshs.42,442,500 were insured during the year, while other assets totalling Kshs.284,834,857 were not insured.

In the circumstances, the fixed assets were not covered against insurable risks.

### **5. Excess Board Committees Membership and Sitings**

Review of Board minutes and related records revealed the following anomalies as regards to board sittings and eligibility for allowances:

- i. During the period ending 30 June, 2022, the Board Committees of Finance and Human Resources and, Technical committees each had a total of five members. However, the number was higher than three (1/3 of board membership of 10) allowed by the Circular No. OP/CAB.9/1A dated 11 March, 2020. Further, it was noted that Finance and Human Resources Committee held three sittings with attendance of six, seven and four members while the Technical committee held two sittings with attendance of five and six members. The excess membership and attendance resulted in an overpayment of Kshs.130,000 for the five combined sittings of the two committees.
- ii. In addition, three persons were members of all the three committees of Finance and Human Resources and, Audit and Technical in violation of the Circular which requires a member to sit on a maximum of two committees. Hence an overpayment of sitting allowances of Kshs.60,000 for sitting in the additional committees.
- iii. Further, four members were in both Finance and Audit Committees contrary to the requirement that a member serving in the finance committee cannot be appointed

as a member in the audit committee, thus occasioning an overpayment of Kshs.60,000 in sitting allowances.

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

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, proper books of account have been kept by the Company, so far as appears from the examination of those books;
- iii. The Company's financial statements are in agreement with the accounting 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 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 control, risk management and overall governance.

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

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

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

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

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

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

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

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

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

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

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

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

**Nairobi**

**03 May, 2023**

**Tavevo Water and Sewerage Company Limited**  
**Annual Report and Financial Statements for the year ended June 30, 2022**

**XIII. Statement of Profit or Loss and Other Comprehensive Income for The year ended 30<sup>th</sup>  
June 2022**


	Note	2021-2022	2020-2021
		Kshs	Kshs
<b>Revenue</b>			
Operating Revenue	6	259,350,715	281,051,730
Grants Income	7	449,909,428	376,396,840
Other Income	8	29,657,620	18,185,820
<b>Total Revenue</b>		<b>738,917,763</b>	<b>675,634,390</b>
<b>Expenses</b>			
Staff Costs	9	120,778,879	102,355,290
General and Operations expenses	10	417,466,909	323,704,143
Board Expenses	11	6,444,976	6,835,546
Maintenance Expenses	12	32,314,430	50,471,919
Depreciation and Amortization expenses	13	47,693,589	44,497,755
<b>Total Expenses</b>		<b>624,698,783</b>	<b>527,864,653</b>
<b>Profit/(Loss) Before Taxation</b>		<b>114,218,980</b>	<b>147,769,737</b>
<b>Income Tax Expense/(Credit)</b>	14	<b>34,265,694</b>	<b>44,330,921</b>
<b>Profit/(Loss) After Taxation</b>		<b>79,953,286</b>	<b>103,438,816</b>
<b>Total Comprehensive Income For The Year</b>		<b>79,953,286</b>	<b>103,438,816</b>


**Tavevo Water and Sewerage Company Limited**  
**Annual Report and Financial Statements for the year ended June 30, 2022**

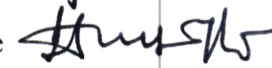
**XIV. Statement of Financial Position as at 30 June 2022**

	Note	2021-2022	2020-2021
		Kshs	Kshs
<b>ASSETS</b>			
<b>Non-Current Assets</b>			
Property, plant and equipment	15	327,277,357	212,453,976
Intangible assets	16	1,910,755	1,614,862
<b>Total Non-Current Assets</b>		<b>329,188,112</b>	<b>214,068,838</b>
<b>Current Assets</b>			
Inventories	17	94,416,888	77,322,326
Trade and other receivables	18	341,160,132	354,917,252
Short-term deposits	19	46,000	46,000
Bank and cash balances	20	159,544,572	39,789,652
<b>Total Current Assets</b>		<b>595,167,592</b>	<b>472,075,230</b>
<b>Total Assets</b>		<b>924,355,704</b>	<b>686,144,068</b>
<b>EQUITY AND LIABILITIES</b>			
<b>Capital and Reserves</b>			
Ordinary share capital	21	100,000	100,000
Fair value adjustment reserve	22	97,214,636	97,214,636
Retained earnings	23	(10,843,976)	(125,062,956)
<b>Capital and Reserves</b>		<b>86,470,660</b>	<b>(27,748,320)</b>
<b>Non-Current Liabilities</b>			
Service Gratuity	24	44,101,656	28,796,019
Coast Water Works Development Agency- Lease fees	25	129,397,816	129,397,816
<b>Total Non-Current Liabilities</b>		<b>173,499,472</b>	<b>158,193,835</b>
<b>Current Liabilities</b>			
Trade and other payables	26	630,910,057	527,683,147
Customer deposits	27	33,475,516	28,015,406
<b>Total Current Liabilities</b>		<b>664,385,573</b>	<b>555,698,553</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>924,355,704</b>	<b>686,144,068</b>

The Financial Statements were approved by the Board on...1.4/3...2023 and signed on its behalf by;

*Richard W. Kibet*  
 Name   
 Ag. Managing Director

*Amna Sulaiman*  
 Name   
 Head of Finance  
 ICPAK M/No: 15011

*Houghton Mwangi*  
 Name   
 Chairman of the Board

**XV. Statement of Changes in Equity For The year Ended 30 June 2022**

	<b>Ordinary share capital</b>	<b>Fair value adjustment reserve</b>	<b>Retained earnings</b>	<b>Total</b>
<b>At July 1, 2020</b>	<b>100,000</b>	<b>97,214,636</b>	<b>(272,832,693)</b>	<b>(175,518,057)</b>
Total comprehensive income	-	-	147,769,737	<b>147,769,737</b>
Capital/Development grants received during the year	-	-	-	-
Transfer of depreciation/amortization from capital fund to retained earnings	-	-	-	-
Dividends paid-2019	-	-	-	-
Interim dividends paid – 2020	-	-	-	-
Proposed final dividends	-	-	-	-
Prior Year adjustments	-	-	-	-
<b>At June 30, 2021</b>	<b>100,000</b>	<b>97,214,636</b>	<b>(125,062,956)</b>	<b>(27,748,320)</b>
<b>At July 1, 2021</b>	<b>100,000</b>	<b>97,214,636</b>	<b>(125,062,956)</b>	<b>(27,748,320)</b>
Issue of new share capital	-	-	-	-
Total comprehensive income	-	-	114,218,980	<b>114,218,980</b>
Capital/Development grants received during the year	-	-	-	-
Dividends paid – 2020	-	-	-	-
Interim dividends paid – 2021	-	-	-	-
Proposed final dividends	-	-	-	-
Prior Year adjustments	-	-	-	-
<b>At June 30, 2022</b>	<b>100,000</b>	<b>97,214,636</b>	<b>(10,843,976)</b>	<b>86,470,660</b>

**XVI. Statement of Cash flows for the year Ended 30 June 2022**

	Note	2021-2022	2020-2021
		Kshs	Kshs
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Cash generated from/(used in) operations	28	161,912,569	192,267,492
Increase/decrease in receivables		13,757,120	(60,096,458)
Increase/decrease in prepayments		-	-
Increase/decrease in customer deposit		5,460,110	5,353,887
Increase/decrease in Lease fee payable		-	(9,379,923)
Increase/decrease in payables		103,226,910	86,001,282
Increase/decrease in gratuity payables		15,305,637	15,055,561
Increase/decrease in Long term loan		-	(5,983,542)
Prior year adjustments		-	-
<b>Net cash flows from/(used in) operating activities</b>		<b>299,662,345</b>	<b>223,218,299</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Purchase of property, plant and equipment		(162,390,159)	(254,228,219)
Inventory increase		(17,094,562)	-
Purchase of intangible assets		(422,704)	(442,020)
<b>Net cash flows from/(used in) investing activities</b>		<b>(179,907,425)</b>	<b>(254,670,239)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Net cash flows from/(used in) financing activities		-	-
<b>INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS</b>		<b>119,754,920</b>	<b>(31,451,940)</b>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>		<b>39,789,652</b>	<b>71,241,592</b>
<b>CASH AND CASH EQUIVALENTS AT END OF THE YEAR</b>		<b>159,544,572</b>	<b>39,789,652</b>

**Tavevo Water and Sewerage Company Limited**  
**Annual Report and Financial Statements for the year ended June 30, 2022**

**XVI. Statement of Comparison of Budget and Actual Amounts for the Period Ended 30 June 2022**

	Original budget	Adjustments	Final budget	Actual on comparable basis	Performance difference	% of utilization
	2021-2022	2021-2022	2021-2022	2021-2022		
	Kshs	Kshs	Kshs	Kshs	Kshs	%
<b>Revenue</b>						
Operating Revenue	380,536,051	18,000,000	398,536,051	259,350,715	139,185,336	65%
Grants	958,798,226	32,020,445	990,818,671	449,909,428	540,909,243	45%
Other gains	16,682,326	9,094,940	25,777,266	29,657,620	(3,880,354)	115%
<b>Total Revenue</b>	<b>1,356,016,603</b>	<b>59,115,385</b>	<b>1,415,131,988</b>	<b>738,917,763</b>	<b>676,214,225</b>	
<b>Expenses</b>						
Staff Costs	133,431,082	(11,450,000)	121,981,082	120,778,879	1,202,203	99%
Board Expenses	6,936,688	-	6,936,688	6,444,976	491,712	93%
General and operations Expenses	209,533,512	3,117,939	212,651,451	417,466,909	(204,815,458)	196%
Maintenance	37,574,468	3,615,000	41,189,468	32,314,430	8,875,038	78%
Depreciation and amortization	-	-	-	47,693,589	(47,693,589)	0%
<b>Total Recurrent Expenditure</b>	<b>387,475,750</b>	<b>(4,717,061)</b>	<b>382,758,689</b>	<b>624,698,783</b>	<b>(241,940,094)</b>	
<b>Profit or Loss</b>	<b>968,540,853</b>		<b>1,032,373,299</b>	<b>114,218,980</b>	<b>918,154,319</b>	
<b>Capital Expenditure</b>	<b>9,742,626</b>	<b>34,766,557</b>	<b>44,509,183</b>	<b>179,907,425</b>	<b>(135,398,242)</b>	<b>404%</b>
<b>Total Expenditure</b>	<b>397,218,376</b>	<b>30,049,496</b>	<b>427,267,872</b>	<b>804,606,208</b>		

*Note; W.S.D.P grant operational expenses of Kshs.182,421,901 have been incorporated into the operations expenses figure of Kshs 417,466,909 however these expenses utilise the grants budget line.*

## **XVIII. Notes to the Financial Statements**

### **1. General Information**

Tavevo Water and sewerage Co. Ltd is established by and derives its authority and accountability from Companies Act. The entity is wholly owned by the County Government of Taita Taveta and is domiciled in Taita Taveta. The entity's principal activity is to provide adequate portable piped water and sanitation services to residents of Taita Taveta.

### **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 Public Sector Accounting Standards (IPSAS) 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 financial statements have been prepared and presented in Kenya Shillings, which is the functional and reporting currency of the Tavevo.

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

### **3. Application of new and revised International Financial Reporting Standards (IFRS).**

Our financial statements were not affected by any new and revised International Financial Reporting Standards (IFRS).

## **Notes to the Financial Statements (Continued)**

### **4. Summary of Significant Accounting Policies**

#### **a.) Revenue recognition**

Revenue is recognized to the extent that it is probable that future economic benefits will flow to the Tavevo water and sewerage Co. Ltd and the revenue can be reliably measured. Revenue is recognized at the fair value of consideration received or expected to be received in the ordinary course of the *entity's* activities, net of value-added tax (VAT), where applicable, and when specific criteria have been met for each of the *entity's* activities as described below.

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

#### **b.) In kind contributions**

During the reporting period Tavevo did not receive any in-kind contributions or donations.

#### **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-evaluation 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.

**Notes to the Financial Statements (Continued)**

**Summary of Significant Accounting Policies**

Gains and losses on disposal of items of property, plant and equipment are determined by comparing the proceeds from the disposal with the net carrying amount of the items, and are recognized in profit or loss in the income statement.

**d. Depreciation and impairment of property, plant and equipment**

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

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

Plant and machinery	12.5%
Motor vehicles, including motor cycles	25%
Computers and related equipment	30%
Office equipment, furniture and fittings	12.5%
Intangible assets	30%
Buildings	2.5%
Water distribution systems	2.5%

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

**e. Intangible assets.**

Intangible assets comprise purchased computer software licenses, which are capitalized on the basis of costs incurred to acquire and bring to use the specific software. These costs are amortized over the estimated useful life of the intangible assets from the year that they are available for use, usually over three years.

**f. Amortisation and impairment of intangible assets**

Amortisation is calculated on the straight-line basis over the estimated useful life of computer software of three years.

All computer software is 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

**Notes to the Financial Statements (Continued)**  
**Summary of Significant Accounting Policies**

The fair value of investment property is 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 DE recognition 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.

**h. Right of use of 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**

There were no quoted investments for Tavevo water and sewerage Co. ltd.

## **Notes to the Financial Statements (Continued)**

### **Summary of Significant Accounting Policies**

**k. Unquoted investments**

There were no quoted investments for Tavevo water and sewerage Co. Ltd.

**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.

**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.

## **Notes to the Financial Statements (Continued)**

### **Summary of Significant Accounting Policies**

**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.

**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. Bank account balances include amounts held at various commercial banks at the end of the financial year. For the purposes of these financial statements, cash and cash equivalents also include short term cash Imprests and advances to authorized public officers 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

## **Notes to the Financial Statements (Continued)**

### **Summary of Significant Accounting Policies**

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 amortized cost, which is measured at the fair value of contractual value of the consideration to be paid in future in respect of goods and services supplied, whether billed to the *company* or not, less any payments made to the suppliers.

#### **t. Retirement benefit obligations**

The entity operates a defined contribution scheme for all full-time employees from July 1, 2012. The scheme is administered by a registered fund Manager and is funded by contributions from both the company and its employees. The company also contributes to the statutory National Social Security Fund (NSSF). This is a defined contribution scheme registered under the National Social Security Act. The company's obligation under the scheme is limited to specific contributions legislated from time to time and is currently at Kshs.200 per employee per month.

#### **u. Provision for staff Leave**

Employees' entitlements to annual leave are recognised as they accrue at the employees. The total leave cost is captured at the reporting date

#### **v. Exchange rate difference**

The accounting records are maintained in the functional currency of the primary economic environment in which the entity operates, Kenya Shillings. Tavevo did not undertake any transactions in foreign currency.

#### **w. Budget information**

The original budget for FY 2021-2022 was approved by the Board of directors on 21-06-2022. Subsequent revisions or additional appropriations were made to the approved budget in accordance with specific approvals from the appropriate authorities. The additional appropriations are added to the original budget by the

## **Notes to the Financial Statements (Continued)**

### **Summary of Significant Accounting Policies**

Entity upon receiving the respective approvals in order to conclude the final budget. Accordingly, the entity recorded additional appropriations on the 2021-2022 budgets following the Board of director's approval.

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

#### **a. 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.

## **Notes to the Financial Statements (Continued)**

### **Summary of Significant Accounting Policies**

#### **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, 2022.

#### **d. Fair value adjustment reserve**

The fair value adjustment reserve relates to assets handed over from Coast Water Works Development Agency during formation of Tavevo water and sewerage Company. Details of the same are still scanty from the handover in the year 2006.

### **5. Significant judgements 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 (Continued)**

**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 not issued during the period under review.

**Notes to the Financial Statements (Continued)**

**6. Operating Revenue**

	2021-2022	2020-2021
	Kshs	Kshs
Water sale	247,082,575	269,522,895
Meter rent	12,268,140	11,528,835
<b>Total</b>	<b>259,350,715</b>	<b>281,051,730</b>

**7. Grants Income**

	2021-2022	2020-2021
	Kshs	Kshs
Water Sanitation Development Project (I.D.A) Funding Through County Government	415,349,975	239,441,312
Water Sector Trust Fund UBSUP Mwatate	-	7,057,780
Water Sector Trust Fund Nyangoro Maktau Water project	-	77,096,024
Water Sector Trust Fund- Conditional Liquidity Support Grant	32,427,518	47,324,559
Water Sector Trust Fund- Community Led Total Sanitation	-	391,267
Water and Sanitation Development Project- Abbreviated Resettlement Action Plan	-	1,500,000
Water Sector Trust Fund- Maktau Public Sanitation Facility	2,131,935	3,585,898
<b>Total</b>	<b>449,909,428</b>	<b>376,396,840</b>

Notes to the Financial Statements (Continued)

8. Other Income

	2021-2022	2020-2021
Description	Kshs	Kshs
Bowser	13,260,440	11,189,350
Exhauster Services	3,555,970	144,500
Illegal Connections	704,510	338,585
Meter Replacement	70,600	126,565
Meter testing	-	36,500
New Connection	5,002,500	5,031,320
Reconnection fees	6,667,600	1,314,400
Termination fee	-	4,600
Payroll Recoveries	396,000	-
<b>Total</b>	<b>29,657,620</b>	<b>18,185,820</b>

9. Staff Costs

	2021-2022	2020-2021
Description	Kshs	Kshs
Salary	85,614,786	71,462,885
Leave allowance	4,450,875	5,140,030
Gratuity/Pension	17,324,270	17,564,240
Pension arrears	-	308,104
Casual wages	11,999,460	6,056,031
Training expenses	1,263,488	1,566,000
Staff medical	-	-
Recruitment cost	126,000	258,000
<b>Total</b>	<b>120,778,879</b>	<b>102,355,290</b>
<b>The average number of employees during the year</b>		
Permanent employees – Management	-	-
Permanent employees – Unionisable	14	14
Temporary and contracted employees	232	177
<b>Total</b>	<b>246</b>	<b>191</b>

**Notes to the Financial Statements (Continued)**

**10. General and Operations Expenses**

	2021-2022	2020-2021
Description	Kshs	Kshs
Abstraction fees	1,855,800	1,855,800
Advertising & Awareness	661,734	2,661,231
Airtime Allowance	2,600,700	2,096,960
Awards to retired staff	10,000	-
Bank Commission & charges	3,068,069	1,728,040
Bulk water fees	82,418,200	63,794,206
Burial expenses	87,000	72,100
Commercial Monitoring & evaluation	170,250	30,000
Consultancy	120,000	-
Contracted Guards	6,105,600	6,105,600
Corporate social responsibility	216,500	170,000
Customer care & public relation	735,575	897,650
Electricity	-	944,074
Electricity pumping	57,721,169	69,028,307
End year gift vouchers	-	635,000
Entertainment & Office meals	1,445,010	1,672,380
Fuel oils & lubricants	19,356,022	8,685,570
Hire of transport plant & equipment	275,200	426,100
Insurance costs	1,545,252	1,131,941
Internet & website expenses	1,969,687	1,417,399
KRA Bills	67,535	4,216,988
Lease fees CWWDA	-	4,074,611
Legal fees	-	750,000
Managing Directors office	3,710	38,210
Membership fees	146,600	590,160
Newspapers	42,020	39,480
Office & general	3,513,092	4,048,349
Postal services	66,740	170,695
Provision of Audit fees	464,000	464,000
Publishing & printing	38,060	28,469
Rent & rates	409,200	381,000
Sanitation Services	-	-
Staff Uniforms	750,410	37,900
Transfer to W.S.T.F UBSUP	-	3,867,254

**Notes to the Financial Statements (Continued)**

**General and Operations Expenses(Continued)**

	2021-2022	2020-2021
Description	Kshs	Kshs
Transportation, travelling and subsistence	29,874,199	22,218,607
W.S.D.P Expenses	182,421,901	102,393,799
W.S.T.F Community Led Total Sanitation	-	309,040
W.S.T.F Conditional liquidity support grant	-	3,382,527
Wasco games	721,600	-
Wasreb Levy	11,574,164	10,780,917
Water and Sanitation Development Project- Abbreviated Resettlement Action Plan	-	306,080
Water treatment	6,762,209	2,253,699
World Water day	249,700	-
<b>Total</b>	<b>417,466,909</b>	<b>323,704,143</b>

Notes to the Financial Statements (Continued)

11. Board Expenses

	2021-2022	2020-2021
Description	Kshs	Kshs
Chairman's Honoraria	770,000	420,000
Board of Directors Airtime	301,000	294,000
Other Directors allowances	5,373,976	6,121,546
<b>Total Board Expenses</b>	<b>6,444,976</b>	<b>6,835,546</b>

12. Maintenance Expenses

	2021-2022	2020-2021
Description	Kshs	Kshs
Refurbishment & maintenance of assets	869,694	161,328
Electro-mechanical	1,893,570	4,357,012
Maintenance of water supplies	18,387,159	34,245,548
Maintenance of motor vehicles	7,990,407	7,808,655
SMS Billing & maintenance	2,041,050	3,266,576
ICT equipment & software maintenance	1,132,550	632,800
<b>Total Maintenance Expenses</b>	<b>32,314,430</b>	<b>50,471,919</b>

13. Depreciation and Amortization Expenses

	2021-2022	2020-2021
Description	Kshs	Kshs
Property, plant and equipment	47,566,778	44,365,149
Intangible assets	126,811	132,606
<b>Total Depreciation and Amortization</b>	<b>47,693,589</b>	<b>44,497,755</b>

Notes to the Financial Statements (Continued)

14. Income Tax Expense/ (Credit)

	2021-2022	2020-2021
	Kshs	Kshs
Current taxation based on the adjusted profit for the year at 30%	34,265,694	44,330,921
Current tax: prior year under/(over) provision	-	-
Current year deferred tax charge	-	-
Prior year under-provision for deferred tax	-	-
<b>Total</b>	<b>34,265,694</b>	<b>44,330,921</b>

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

	2021-2022	2020-2021
	Kshs	Kshs
Profit before taxation	114,218,980	147,769,737
Tax at the applicable tax rate of 30%	34,265,694	44,330,921
Current tax		
Prior year under-provision	-	-
Tax effects of expenses not deductible for tax purposes	-	-
Tax effects of income not taxable	-	-
Tax effects of excess capital allowances over depreciation/amortization	-	-
Deferred tax prior year over-provision	-	-
<b>Total</b>	<b>79,953,286</b>	<b>103,438,816</b>

**Tavevo Water and Sewerage Company Limited**  
**Annual Report and Financial Statements For the year ended June 30, 2022**  
**Notes to the Financial Statements (Continued)**

**15. Property, Plant and Equipment**

	<b>Computers</b>	<b>Plant and Machinery</b>	<b>Meters</b>	<b>Furniture &amp; Fittings</b>	<b>Office equipment</b>	<b>Buildings</b>	<b>Water distribution systems</b>	<b>Motor Vehicles/Cycles</b>	<b>Total Tangible assets</b>
	<b>30%</b>	<b>12.5%</b>	<b>12.5%</b>	<b>12.5%</b>	<b>12.5%</b>	<b>2.5%</b>	<b>2.5%</b>	<b>25%</b>	
	<b>Kshs</b>	<b>Kshs</b>	<b>Kshs</b>	<b>Kshs</b>	<b>Kshs</b>	<b>Kshs</b>	<b>Kshs</b>	<b>Kshs</b>	<b>Kshs</b>
Cost as at 1-07-2020	6,789,125	5,360,023	48,315,624	2,820,575	5,805,955	5,406,281	38,193,107	3,220,000	115,910,690
Additions 20/21	1,417,344	16,071,292	77,434,017	718,550	139,750	-	-	81,700,000	177,480,953
As at 30-06-2021	8,206,469	21,431,315	125,749,641	3,539,125	5,945,705	5,406,281	38,193,107	84,920,000	293,391,643
Additions 21/22	891,500	10,375,167	-	147,750	701,116	2,791,799	142,807,824	1,050,000	158,765,156
Reclassification to Buildings	-	-	-	-	-	3,625,003	-	-	3,625,003
As at 30-06-2022	<b>9,097,969</b>	<b>31,806,482</b>	<b>125,749,641</b>	<b>3,686,875</b>	<b>6,646,821</b>	<b>11,823,083</b>	<b>181,000,931</b>	<b>85,970,000</b>	<b>455,781,802</b>
<b>Depreciation</b>									
As at 1-07-2021	6,776,268	5,789,677	35,396,924	2,698,771	3,394,191	669,460	4,177,376	22,035,000	80,937,667
Charge for the year 2022	267,450	3,975,810	15,718,705	460,859	830,853	295,577	4,525,023	21,492,500	47,566,778
As at 30-06-2022	<b>7,043,718</b>	<b>9,765,487</b>	<b>51,115,629</b>	<b>3,159,630</b>	<b>4,225,044</b>	<b>965,037</b>	<b>8,702,399</b>	<b>43,527,500</b>	<b>128,504,445</b>
<b>NBV at 30.06.2022</b>	<b>2,054,251</b>	<b>22,040,995</b>	<b>74,634,012</b>	<b>527,245</b>	<b>2,421,777</b>	<b>10,858,046</b>	<b>172,298,531</b>	<b>42,442,500</b>	<b>327,277,357</b>
NBV at 30.06.2021	1,430,201	15,641,638	90,352,717	840,354	2,551,514	4,736,821	34,015,731	62,885,000	212,453,976

**Tavevo Water and Sewerage Company Limited**  
**Annual Report and Financial Statements For the year ended June 30, 2022**  
**Notes to the Financial Statements (Continued)**

**15. (b) Property, Plant and equipment at Cost**

	<b>Cost</b>	<b>Accumulated Depreciation</b>	<b>NBV</b>
	<b>Kshs</b>	<b>Kshs</b>	<b>Kshs</b>
Buildings	11,823,083	965,037	10,858,046
Plant and machinery	31,806,482	9,765,487	22,040,995
Motor vehicles, including motorcycles	85,970,000	43,527,500	42,442,500
Computers and related equipment	9,097,969	7,043,718	2,054,251
Office equipment, furniture, and fittings	6,646,821	4,225,044	2,421,777
Meters	125,749,641	51,115,629	74,634,012
Furniture & Fittings	3,686,875	3,159,630	527,245
Water distribution systems	181,000,931	8,702,399	172,298,531
<b>TOTAL</b>	<b>455,781,801.78</b>	<b>128,504,444.72</b>	<b>327,277,357.06</b>

**16. Intangible Assets**

	<b>2021-2022</b>	<b>2020-2021</b>
	<b>Kshs</b>	<b>Kshs</b>
<b>COST</b>		
At July 1	5,784,966.00	5,342,946.00
Additions	422,704.00	442,020.00
Transfer to investment property	-	-
Disposals	-	-
At June 30	<b>6,207,670</b>	<b>5,784,966</b>
<b>AMORTISATION</b>		
At July 1	(4,170,104)	(4,037,498)
Charge for the year	(126,811)	(132,606)
Transfer to investment property	-	-
Disposals	-	-
At June 30	<b>(4,296,915)</b>	<b>(4,170,104)</b>
<b>NET BOOK VALUE</b>		
At June 30	<b>1,910,755</b>	<b>1,614,862</b>
	=====	=====

**Tavevo Water and Sewerage Company Limited**  
**Annual Report and Financial Statements For the year ended June 30, 2022**  
**Notes to the Financial Statements (Continued)**

**17. Inventories**

Description	2021-2022	2020-2021
	Kshs	Kshs
Supplies in stores	-	-
Work In Progress	94,416,888	77,322,326
Less: Impairment of Stocks	-	-
<b>Total</b>	<b>94,416,888</b>	<b>77,322,326</b>

*Note; All Work in progress during the period is captured here in as per the provided reporting template. As for stock every delivery is captured in full and expensed or capitalised respectively at point of receipt. Reporting the same again in financial statements will result in double accounting. Inventory as at 30<sup>th</sup> June 2023 is valued at Kshs. 91,143,912.*

**18. (A) Trade and Other Receivables**

	2021-2022	2020-2021
	Kshs	Kshs
Trade receivables (note 18 (B))	332,848,731	348,262,414
Deposits and prepayments	-	-
Staff receivables (note 18 (C))	2,466,062	1,894,329
Taita Taveta County receivable	3,828,616	3,828,615
BOD Receivable	240,728	240,728
Staff Imprest	1,725,384	640,555
Kenya Commercial Bank	18,150	18,150
Pan-African Insurance co. Ltd	<u>32,461</u>	<u>32,461</u>
<b>Gross trade and other receivables</b>	<b>341,160,132</b>	<b>354,917,252</b>
Provision for bad and doubtful receivable	-	-
<b>Net trade and other receivables</b>	<b>341,160,132</b>	<b>354,917,252</b>
	=====	=====

Notes to the Financial Statements (Continued)

18. (B) Trade Receivables

	2021-2022	2020-2021
	Kshs	Kshs
Gross trade receivables	332,848,731	348,262,414
Provision for doubtful receivables	-	-
	<b>332,848,731</b>	<b>348,262,414</b>
	=====	=====
At June 30, the ageing analysis of the gross trade receivables was as follows:		
Less than 30 days	13,529,157	19,060,705
Between 30 and 60 days	9,407,045	13,649,529
Between 61 and 90 days	7,845,855	12,850,577
Between 91 and 120 days	16,001,746	7,506,140
Over 120 days	286,064,928	295,195,463
	<b>332,848,731</b>	<b>348,262,414</b>
	=====	=====

18. (C) Staff Receivables

	2021-2022	2020-2021
	Kshs	Kshs
Gross staff advances	2,466,062	1,894,329
Provision for impairment loss	-	-
<b>Net staff advances</b>	<b>2,466,062</b>	<b>1,894,329</b>
Less: Amounts due within one year	2,466,062	1,894,329
<b>Amounts due after one year</b>	<b>-</b>	<b>1,894,329</b>
	=====	=====

**Tavevo Water and Sewerage Company Limited**  
**Annual Report and Financial Statements For the year ended June 30, 2022**

**Notes to the Financial Statements (Continued)**

**19. Short-Term Deposits**

	2021-2022	2020-2021
	Kshs	Kshs
Deposit receivable - Rented property	46,000	46,000
	<b><u>46,000</u></b>	<b><u>46,000</u></b>

*Deposits relate to rented/leased premises used in our MacKinnon, Mwatate and Maungu branch offices*

**20. Bank And Cash Equivalents**

	2021-2022	2020-2021
	Kshs	Kshs
Current Accounts	8,216,959	7,506,177
Mobile money accounts	1,126,894	609,800
Project accounts	150,200,423	31,584,930
Cash in Hand	295	88,745
<b>Total</b>	<b>159,544,572</b>	<b>39,789,652</b>
	=====	=====

**Tavevo Water and Sewerage Company Limited**  
**Annual Report and Financial Statements For the year ended June 30, 2022**

**Notes to the Financial Statements (Continued)**

**Detailed analysis of cash and cash equivalents**

	2021-2022	2020-2021
	Kshs	Kshs
<b>a). Current Accounts</b>		
Co-operative Bank - Customer deposit a/c 01136220957300	1,115,257	780,069
Equity bank a/c- 0790299925910	-	113,529
KCB-collection a/c-1108161227	1,155,979	2,818,231
KCB-expenditure a/c-1108161332	2,853,422	367,219
Posta Pay	3,092,301	3,385,073
Post Bank a/c-0744130013575	-	42,055
<b>Sub-Total</b>	<b>8,216,959</b>	<b>7,506,177</b>
<b>b). Mobile money accounts</b>		
M-PESA Paybill-913350	1,126,894	609,800
<b>Sub-Total</b>	<b>1,126,894</b>	<b>609,800</b>
<b>(c ). Project accounts</b>		
K.C.B. WSDP a/c 1242765387	147,616,207	2,432
K.C.B WSTF Maktau a/c 1261146727	2,465	25,166,736
KCB W.S.T.F UBSUP a/c 1268029874	2,339,219	3,941,796
Co-operative Bank - ARAP a/c 01141220957302	242,415	892,895
K.C.B WSTF C.L.S.G a/c 1282488406	116	1,217,257
Co-operative Bank - W.S.T.F C.L.T.S a/c 01141220957300	-	80,002
Co-operative Bank -W.S.T.F P.S.F a/c 01141220957301	-	<b>283,811</b>
<b>Sub-Total</b>	<b>150,200,423</b>	<b>31,584,930</b>
<b>(d). Cash in Hand</b>		
Cash in Hand-Cashier	295	88,745
<b>Sub-Total</b>	<b>295</b>	<b>88,745</b>
<b>Grand Total</b>	<b>159,544,572</b>	<b>39,789,652</b>

Notes to the Financial Statements (Continued)

21. Ordinary Share Capital

	2021-2022	2020-2021
	Kshs	Kshs
1,000 ordinary shares of Kshs. 100/= par value each	100,000	100,000

22. Fair Value Adjustment Reserve

	2021-2022	2020-2021
	Kshs	Kshs
Fair value adjustment reserve	97,214,636	97,214,636

23. Retained Earnings

	2021-2022	2020-2021
	Kshs	Kshs
Retained earnings	(10,843,976)	(125,062,956)

24. Service Gratuity

	2021-2022	2020-2021
	Kshs	Kshs
Service Gratuity	44,101,656	28,796,019

25. Coast Water Works Development Agency (C.W.W.D.A)- Lease Fees

	2021-2022	2020-2021
	Kshs	Kshs
Coast Water Works Development Agency-Lease fees	129,397,816	129,397,816

*Note; Lease fees as not billed during the year under review by Coast water works development agency hence the constant payable fees.*

**Notes to the Financial Statements (Continued)**

**26. Trade And Other Payables**

	2021-2022	2020-2021
	Kshs	Kshs
Coast Water Works Development Agency Bulk water supply	470,843,523	415,625,323
Other payables	126,102,982	83,564,518
KENAO fees	5,788,000	5,324,000
KPLC	7,554,482	9,472,119
Payroll Liabilities	15,517,172	13,620,581
KCB payable	5,076,606	76,606
Staff Payables	27,292	-
	<b>630,910,057</b>	<b>527,683,147</b>

**Note;**

- i. *Other payables entail operational creditors/suppliers of the Company.*
- ii. *Payroll liabilities include June 2022 salaries and deductions that were processed in June but paid in the month of July 2022.*
- iii. *K.C.B payable includes an outstanding facility/advance as at 30<sup>th</sup> June 2022 by the bank to Tavevo of Kshs. 5,000,000 payable in a month's time.*

**27. Customer Deposit**

	2021-2022	2020-2021
	Kshs	Kshs
Opening Balance	28,015,406	22,661,520
Add: deposits received during the year	5,492,610	5,447,386
Less: Refunded deposits during the year	(32,500)	(93,500)
Closing balance	33,475,516	28,015,406
<b>Total</b>	<b>33,475,516</b>	<b>28,015,406</b>

Notes to the Financial Statements (Continued)

28. Notes to the Statement of Cash Flows

	2021-2022	2020-2021
	Kshs	Kshs
<b>(a) Reconciliation of operating profit/(loss) to cash generated from/(used in) operations</b>		
Operating profit/(loss)	114,218,980	147,769,737
Depreciation	47,566,778	44,365,149
Amortization	126,811	132,606
(Gain)/loss on disposal of property, plant and equipment	-	-
<b>Operating profit/(loss) before working capital changes</b>	<b>161,912,569</b>	<b>192,267,492</b>
	=====	=====
<b>(b) Analysis of changes in loans</b>		
Balance at beginning of the year	-	5,983,542
Receipts during the year	-	-
Repayments during the year	-	(5,983,542)
Repayments of previous year's accrued interest	-	-
Foreign exchange (gains)/losses	-	-
Accrued interest	-	-
<b>Balance at end of the year</b>	<b>-</b>	<b>-</b>
	=====	=====
<b>(c) Analysis of cash and cash equivalents</b>		
Cash at bank	8,216,959	7,506,177
Cash in hand	295	88,745
Project accounts	150,200,423	31,584,930
Mobile money	1,126,894	609,800
<b>Balance at end of the year</b>	<b>159,544,572</b>	<b>39,789,652</b>
	=====	=====

29. Related Party Disclosures

(a) County Government

The County Government of Taita Taveta is the principal shareholder of Tavevo, holding 100% of the Tavevo's equity interest.

Other related parties include:

- i) The Parent County Government department of Water, Environment, climate change and sanitation.
- ii) The Board of Directors.
- iii) The Management.

**Notes to the Financial Statements (Continued)**

**Transactions with related parties**

	2021-2022	2020-2021
	Kshs	Kshs
<b>a) Key management compensation</b>		
Directors' emoluments	6,444,976	6,835,546
Compensation to the Managing Director	-	-
Compensation to key Management	-	-
<b>Total</b>	<b>6,444,976</b>	<b>6,835,546</b>

**30. Surplus Remission**

The surplus made during the year is attributed to conditional Grants received during the year from our different stake holders and development partners. Tavevo therefore did not remit any surplus as required by law.

**31. Incorporation**

Tavevo water and sewerage Co. Ltd in Kenya under the Kenyan companies Act and is domiciled in Kenya.

**32. Events After The Reporting Period**

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

**33. Currency**

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