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THE AUDITOR-GENERAL

ON

**OTHAYA MUKURWEINI WATER AND
SANITATION COMPANY LIMITED**

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



OTHAYA MUKURWEINI WATER & SANITATION COMPANY LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED

June 30, 2023

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



Othaya Mukurwe-ini Water & Sanitation Company Ltd
Annual Report and Financial Statements for the year ended June 30, 2023

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1. Acronyms and Glossary of Terms

| | |
|--------|--|
| ICPAK | Institute of Certified Public Accountants of Kenya |
| IFRS | International Financial Reporting Standards |
| MD | Managing Director |
| PFM | Public Financial Management |
| PSASB | Public Sector Accounting Standards Board |
| WASREB | Water Services Regulatory Board |
| TWWDA | Tana Water Works Development Agency |
| WSTF | Water Sector Trust Fund |
| NRW | Non-Revenue Water |

2. Key Company Information

Background information

The Company was incorporated in Kenya under the Companies Act, 2015 (formerly Cap 486) as a company limited by guarantee on 29th May 2006 and started operations on 7th July 2006. In response to the revised Water Act 2016, the Company has amended its Memorandum and Articles of Association in compliance with the law as an agent of the County Government of Nyeri at Board level, the Company has two directors nominated by the County Government of Nyeri.

The Board of Directors is responsible for the general policy and strategic direction of the Company and provides oversight on management. The Company is domiciled in Kenya and operates in Nyeri South and Mukurweini sub counties.

Principal Activities

The principal activity of the company is to provide water services to residents of Mukurwe-ini and Nyeri south Sub-Counties.

Vision

A water service provider choice.

Mission

To be a provider of accessible, adequate, affordable and quality water services while conserving the environment.

Core Values

OMWASCO is firmly committed to the following core values:

- Customer focus
- Corporate responsibility
- Environmental conservation.
- Integrity transparency and accountability
- Team work
- Networking
- Response to technology
- Innovation and creativity

Directors

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

| SN/O | NAME | DIRECTORSHIP | AGE (YRS) | DATE OF APPOINTMENT |
|------|---------------------|------------------------|-----------|---------------------|
| 1. | Mr. Moses N N Munyi | Managing Director | 40 | 01/09/2019 |
| 2. | Mr. Arthur G Mukira | Non-Executive Director | 66 | 23/06/2018* |
| 3. | Ms. Grace G Iregi | Non-Executive Director | 45 | 26/06/2019 |
| 4. | Ms Rachel Muchunu | Non-Executive Director | 61 | 26/05/2017 |
| 5. | Mr. Samuel Kago | Non-Executive Director | 59 | 18/06/2018* |
| 6. | Mr. John W Nyaga | Non-Executive Director | 46 | 27/07/2021 |
| 7. | Mr. Benjamin Maingi | Non-Executive Director | 66 | 27/07/2021 |
| 8. | Mr. Anthony Githae | Non-Executive Director | 52 | 27/06/2022 |
| 9. | Ms. Pauline Ndegwa | Non-Executive Director | 40 | 7/03/2022 |
| 10. | Mr. Kimani Rucuiya | Non-Executive Director | 31 | 7/03/2022 |

* The directors retired at the AGM Held in June 2023 ad two directors were appointed in their place.

Company Secretary

Gikuhi Kiana & Company.

P.O. Box 1271 – 10100

Nyeri

Independent Auditor

Auditor General

The Office of the Auditor General

Anniversary Towers, University Way

P.O. Box 30084 GPO 00100

Nairobi, Kenya

Registered Office

OMWASCO Building,

Off Kanyange Road

P. O. Box 482-10106

Othaya-Kenya.

Corporate Contacts

Telephone: (254) 702145585

E-mail: omwasco@gmail.com

Website: www.omwasco.co.ke




Corporate Bankers

1. Kenya Commercial Bank Ltd.
P. O. BOX 201-10106
Othaya-Kenya
2. Equity Bank
P.O. Box 436-10106
Othaya-Kenya.
3. Co-operative Bank
P. O. BOX 256-10106
Othaya-Kenya

Principal Legal Advisers

The Attorney General
State Law Office, Harambee Avenue
P.O. Box 40112
City Square 00200
Nairobi, Kenya

3. The Board of Directors

| | |
|---|---|
|  <p>Eng. Benjamin Maingi</p> | <p>He has been a member of the technical Committee. He was appointed to be the board chair for the company effective July 2023.</p> <p>The director has many years' experience in infrastructure projects, and management in both the public and private sector. He holds a Bsc. Degree in civil engineering, Msc. Highways and is a member of Engineers board of Kenya as well as Institute of Directors of Kenya.</p> <p>He has vast experience in governance having risen to the position of General Manager, together with directorships held at various public institutions.</p> |
|  <p>Arthur G. Mukira</p> | <p>He has been the Chairman to the board representing Chinga Tea Factory.</p> <p>He holds a B.A degree from USA he has associates in arts Marketing and retailing from Strayer college, an established farmer and former Chairman Chinga Tea factory. He has been a member of board of governance for Chinga Boys, Kiamuya and Kariko secondary</p> <p>He has extensive knowledge in marketing, debt collections, customer relations & environmental management acquired while working with Crown Paints as the manager in charge.</p> <p>He retired in June 2023, and is not eligible for re-election.</p> |
|  <p>Samuel Kago</p> | <p>The director has built his career in the construction industry to the level of site supervisor.</p> <p>He has been a board chair in various education and other institutions spanning years and sub county representative in alcoholic regulations board. He was elected to the board at the 2018 AGM.</p> <p>He retired in June 2023, and is not eligible for re-election.</p> |



Rachel Muchunu

She is a businessperson holding a leadership position in Nyeri south sub-county. She is an astute businessperson holding various investments in the county.



Grace W. Iregi

She is an administrator working with CDF Mukurweini. She brings to the company experience in Project Audit and Community engagement and project monitoring and supervision.






Eng. John W. Nyaga

The director has vast experience in business management from working in various companies. He holds a Bsc. Degree in civil engineering and is a member of Engineers board of Kenya.



Anthony Githae

The director was appointed in 2022. He holds CPA qualifications, B. Com finance degree and is currently pursuing MBA program. He has been a board member for various institutions in Mahiga in addition to working in various not for profit projects. He is a finance expert working with PCEA Church.

| | |
|---|--|
|  <p>Pauline Ndegwa</p> | <p>She is the chief officer- Water and Irrigation Services with Bachelor of Arts (Cultural Studies Moi University) 2003 Training she has held various other positions being Chief Officer Governor's office 2018-2019, Chief Officer Public Service Management 2018, Sub County Admin 2015-2018, Ward Administrator 2014-2015, Project Director - Compassion International Kenya 2008- 2014, Social Worker - Compassion International Kenya 2006-2008, BOM teacher Bingwa secondary school 2005-2006 and BOM Teacher Witima Secondary school, Othaya 2003-2004.</p> <p>She left the company in April 2023</p> |
|  <p>Kimani Rucuiya,</p> | <p>The director has been seconded by the County government of Nyeri as a Director in Omwasco.</p> <p>He is a lawyer by profession and an advocate of the high court service as the county attorney for the Nyeri County Government.</p> <p>He has been instrumental in formulation and implementation of various policy papers and policy decisions, Acts and regulations, as county legal counsel and county attorney while holding various briefs.</p> |
|  <p>Moses N N. Munyi</p> | <p>Moses N. N. Munyi is the Managing Director and secretary to the Board. He holds a Bsc. Degree in Biosystems Engineering (Water Resources) from University of Nairobi.</p> <p>He is also a Graduate Engineer Registered with Engineers Board of Kenya and has over twelve years' experience in the Water Sector with over six years in senior Management position.</p> |






FCS. Richard Gikuhi




He is the company secretary and a Certified Secretary and a fellow of the Institute of Certified Secretaries of Kenya.

He is an Accredited Governance Auditor, holds a Master of Business Administration Degree with a major in Strategic Management from Moi University and an Advanced Practical Course in Management of Urban Development from Birmingham University.

He has over 25 years' experience working with various WSPs as a Company Secretary giving advisory roles in the area of Corporate Governance. He is knowledgeable in Project Management and Capacity building.

4. Key Management Team

| Managers | Details |
|---|--|
|  <p>Moses N. N. Munyi</p> | <p>Managing Director He is the Managing Director and secretary to the Board. He holds a Bsc. Degree in Biosystems Engineering (Water Resources) from University of Nairobi. He is also a Graduate Engineer Registered with Engineers Board of Kenya and has over twelve years' experience in the Water Sector with over six years in senior Management position.</p> |
|  <p>FCS. Richard Gikuhi</p> | <p>Company Secretary He is a Certified Secretary and a fellow of the Institute of Certified Secretaries of Kenya. He is an Accredited Governance Auditor, holds a Master of Business Administration Degree with a major in Strategic Management from Moi University and an Advanced Practical Course in Management of Urban Development from Birmingham University. He has over 25 years' experience working with various WSPs as a Company Secretary giving advisory roles in the area of Corporate Governance. He is knowledgeable in Project Management and Capacity building.</p> |
|  <p>CPA Peter Ndirangu</p> | <p>Commercial Manager He is the manager responsible for commercial services at the company, financial reporting and budget reporting and control at the company. He is a registered with ICPAK, and holds Bachelor's degree in commerce from KCA University</p> |

| | |
|---|--|
|  <p>Mary W. Kibandi</p> | <p>Human Resources and Administration Manager</p> <p>The officer is responsible for the company Human resource including, employee’s life cycle from recruitment to exit and also in charge of administration function of the organisation. She holds a B Arts HR option.</p> |
|  <p>Duncan Nderi</p> | <p>Technical Manager</p> <p>The officer is responsible for production, provision and management of water and distribution systems for Othaya and Mukurweini. He is a holder of Bsc. in Project planning, diploma water engineering.</p> |
|  <p>Mary N. Murugi</p> | <p>Internal Audit Manager</p> <p>Manager responsible for Risk management., ensuring effectiveness of internal control systems in the company and monitoring of compliance to laws and regulations. She is registered with ICPAK and holds a Bsc. degree in commerce from Kenyatta University.</p> |

5. Chairman's Statement

Introduction

I am delighted to present my remarks which shows our journey throughout the Financial year. In the previous financial year, the company was still on a recovery path from the effects of COVID-19 which had greatly affected the economy and the effects of it greatly affected our business.

The company emphasised on meter replacements, installation of meter on accounts that were previously on flat rate (active unmetered) as well as on measures towards Non-Revenue Water reduction. The Company undertook projects targeting the area of Gakindu in Mukurweini and Mumwe area in Othaya in both NRW reduction as well in consumer data collection through an exercise we called Customer Identification Survey whose objective was to understand our water consumers in those areas better as well as in updating our customer data base.

Based on the lessons learnt, a similar Customer Identification Survey is on-going targeting the Chinga area.

Implementation and Review of The Strategic Plan

Our company's strategic plan 2017-2022 came to an end in June 2022. We began our financial year by heavily focusing on analysis of the previous strategic Plan to identify the successes, challenges and lessons learnt over the last five years. These successes and areas of improvements were shared with the company stakeholders during the open stakeholders' forum held on the 9th of June 2023. There were positive gains over the last five years such as:

- i) Continuous improvement and expansion of the conventional sewer system in Othaya town.
- ii) Continuous replacements of the old and dilapidated meters and pipelines within the confines of our annual budgets.
- iii) Continuous metering at the company's cost of consumers that were previously unmetered
- iv) Strides were made in overall improvement in our sanitation through assisting the most vulnerable persons in our area of supply to construct decent latrines in parts of Mukurweini
- v) Construction of an onsite wastewater Facility located in Mukurweini commonly known as DTF and acquisition of an exhauster truck to serve areas that are not sewered.

Going forward, the new strategic plan 2022-2027 which will be shared with the stakeholders within the coming financial year will have to maintain the above-mentioned successes as well as provide a clear road map towards addressing some of the challenges that still remain such as:

- i) The high-Water losses (NRW)
- ii) The ever-rising cost of doing business
- iii) Company visibility and branding
- iv) Compliance and

v) Climate change.

The company has vigorously engaged other partners to address the above issues and am delighted to mention that the National Government has committed to partner with the company to ensure we achieve the following:

- i) Further expansion of the sewerage system for Othaya.
- ii) There are plans to construct a conventional sewer system for Mukurweini Town
- iii) The County Government is factoring in ward-based programs to assist the company in renewal of its pipeline network every year.
- iv) The national Government has commenced improvement works around Kaharo Water Treatment Works in Othaya to boost clean water supply to the areas from Gitugi Tea Factory-Kihome-Kairuthi-Othaya boys, Gatuyaini and Mwai Kibaki Hospital areas in Othaya.
- v) In partnership with the Water Services Trust Fund (WSTF), we have embarked on a program to overhaul and upgrade the Water Distribution systems for our two urban areas namely Mukurweini and Othaya Towns. Currently Tana Water Works Development Agency technical team is around and is working closely with our Technical team and design work for that upgrade is on-going.

Conducting Our Business Responsibly

The company prides itself with the history of conducting its business responsibly and being sensitive to the surrounding environment as well as promoting quality of life for our people.

The company over the last five years participated in several initiatives towards conservation of the environment through planting of trees and meeting our obligations towards payments of levies to the Water Resources Authority (WRA) and Kenya Forest Services (KFS). These two institutions are custodians of the Water Resources and Forest resources in the country respectively where our raw material for our business (that is Water) comes from.

Within the last year, the company partnered with several institutions such as Mukurweini Boys' and Karima Boys' High Schools within our area of supply to support the very needy and bright students in paying the schools fees. These schools are part of our high-water consumers and pay for water services on time.

The company also supported several children's homes within our area of supply such as Mahiga Children's home in Mahiga and Bewomi school in Othaya Town with foodstuff, firewood and other essential items for their day to day use.

The company recently constructed an ablution block for the teachers of Kariko Primary school.

We have also maintained flexible water payment plans for the very needy institutions and less privileged members of the community who have made the request to us complete with the necessary justifications.

With all the above, still more is needed and the next strategic plan 2022-2027 must address key issues related to climate change especially on how to mitigate against the effects of prolonged drought.

There are proposals in the new Strategic plan to partner with the National and County Government towards sustainable rehabilitation of Chinga Dam which has been receding and urgently requires protection.

Stakeholder Engagement and Good Governance Practises

The company continued the good tradition of regular and predictable practice of changes at the board level as per WASREB guidelines.

New Directors came in during the AGM and older ones exited the board Mr. Arthur Mukira the Board Chairman exited the board having served his full term as a Director and was procedurally replaced by Mr. Peter Kabuki Gachoka.

Other changes were the exit of Ms. Pauline Wacuka Ndegwa who was the Chief Officer Water and Irrigation Services-County Government of Nyeri and had been appointed by the County Government to represent the department of water in our board. Her replacement was Mr. Bernard Kiama.

Further Mr. Samwel Kago exited from the board and was replaced by Mr. Charles Maina Mwangi.

The company has put in place adequate structures to ensure that these positive practices continue. These annual directors' retirement has been embedded in our key company documents and in our Strategic Plan.

Under Mr. Mukira's leadership, the company made strides in improving and or observing proper Corporate Governance practises as issued to Water Service Providers by Water Services Regulatory Board (WASREB).

The company has over the last few years done its best to comply with the WASREB guidelines of 2018 and observance of this, the board even began carrying out regular and annual Board of Directors evaluation exercises to assess the performance of the entire board as well as individual directors. Moving forward, there are plans to have the board sign an annual Performance Contract with the County Government of Nyeri and have the same cascaded to management and all the other company staff.

The previous year also saw the board develop, review and approve a record eight internal policies to help steer the company forward. We have also at the board level encouraged staff development through regular training and refresher courses and we allow staff to have academic leave days for

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those wishing to further their studies. We have also exposed our staff to best Water Sector practises through promoting their interaction with their other colleagues from other Water Companies through various forums as well as through the Annual Water Sector Games. Last year the games were held in Kisumu City where about 25 of our staff participated.

Conclusion

While the company has progressively delivered on its strategy, it hasn't been without challenges, but the company is now stronger than the previous year especially in terms of the annual revenue turnover. The company has also moved from the category of large Water Service Provider to Very Large Water Services Provider.

I wish to appreciate once more the support we have received as a company overtime from the National Government especially through Tana Water Works Development Agency and our County Government of Nyeri.

May the Almighty God bless us all both individually and collectively.

I thank you all.

Yours Sincerely



Eng. Benjamin K. Maingi
OMWASCO CHAIRMAN

6. Report of the Managing Director

Introduction

Dear Stakeholders, The CECM in charge of Water Nyeri County Government, The chairman of the Board, other Board of Directors, representatives of the National and County Government present, it's with great pleasure that I present the report of the company performance for the year one year ended.

Operations

On company performance, the following is the comparative performance of the company on a number of key areas:

Customer growth

| ITEM | 2022 | 2023 | CHANGE IN GROWTH |
|-------------------------------------|---------------|---------------|------------------|
| Sewer connections | 953 | 1073 | 120 |
| Water connections | 33,714 | 35,486 | 1,772 |
| Total registered connections | 34,667 | 36,559 | 1,892 |

As mentioned by the Chairman in his report, out of the regulated 93 Water Service Providers in Kenya, our company has now joined the league of the Very Large Water Service Providers in Kenya.

All the sewerred accounts are within Othaya Town.

Revenue growth

Under the financial year 2022-2023, the total turnover was Kshs.171,553,803 compared to Kshs.155,853,191 in the previous period. This represented a 3 percent growth in gross income.

The National Government through the support from the World Bank also assisted Water Service Providers with a grant to help the institutions bounce back from the effects of COVID-19 in the previous year. For our case, we received a grant of Kshs.30 million which was used to pay several key levies as was required under the grant conditions.

Development

i) ICT developments

During the year under review, the company fully integrated all its operations under an Enterprise Resource Program (ERP) by fully automating the Procurement and Finance and accounts sections with the other modules carried out in the previous year.

Most of our internal operations are now paperless.

In our next Strategic Plan, we intend to ensure that we have very effective web-based interactions with our consumers through our website and other social media platforms.

ii) Other Developments-Sanitation matters

Within the period under review and in partnership with Tana Water Works Development Agency (TWWDA), we had a sewer expansion in Othaya Town whereby an extra 2,116 meters of trunk sewer lines were constructed.

We also completed a sludge drying bed at Karega Sewerage works meaning that in the very near future, we will be having ready to use and well treated manure from our sewerage system. The same will improve the quality of our final effluent that is disposed back to the environment after treatment.

Challenges

• **NRW**

The company still has as its main challenge the problem of Water losses commonly referred to as Non-Revenue Water.

The main driver of NRW is:

- i) The generally old infrastructure and
- ii) The old and dormant meters.

This was well highlighted during our stakeholder forum held on the 9th of June 2023.

Our new strategic plan has proposed a raft of measures to address this concern which in due time will be shared with the stakeholders.

• **Risks**

The company also was affected by one mudslide within the Mumbu-ini area in Chinga. We are doing our best to map out all areas prone to mudslides so that we can be able to have effective mitigation measures against this problem.

• **Drought.**

The company was affected by severe drought in the months of January to March 2023 which led us to have water rationing programs in areas that previously are not rationed.

As indicated in the Chairman's remarks, we need to be vigilant and find new strategies to mitigate against the negative effects of Climate change.

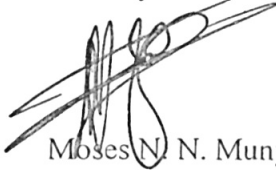
Conclusion

I wish to thank the National Government for their support especially through Tana Water Works Development Agency, Water Services Trust Fund and Water Resources Authority for their support and also thank County Government of Nyeri headed by Mwalimu Kahiga for providing conducive and enabling environment to serve our clients as well as by supporting us heavily in last mile initiatives to extend water coverage specifically in the following areas, Ngaaku in Mukurweini Central, Migombeini in Mukurweini West and Kaharo in Gikondi wards respectively. I also wish to thank the entire stakeholder body for their unrelenting support that has ensured that the company maintains smooth operations.

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Finally, I wish to appreciate the staff for their continuous effort in ensuring that on a day to day basis, all our customers are able to get water services.

Thank you all.



Moses N. N. Munyi

MANAGING DIRECTOR

7. Statement of Performance Against Predetermined Objectives for FY 2022-2023

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

OMWASCO has 4 strategic pillars and objectives within its Strategic Plan for the FY 2017- 2022 addressing the company core functions. These strategic pillars are as follows:

KRA 1: Water Capacity and Infrastructure

KRA 2: Customer Focus

KRA 3: Financial Sustainability

KRA 4: Institutional Capacity

OMWASCO develops its annual work plans based on the above four pillars. Assessment of the Board's performance against its annual work plan is done on a quarterly basis.

The company achieved its performance targets set for the FY 2020/2021 period for its four strategic pillars, as indicated in the diagram below:

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| Strategic Pillar | Objective | Key Performance Indicators | Activities | Achievements |
|--|---|---|--|--|
| Pillar 1: Water Capacity and Infrastructure: | <ul style="list-style-type: none"> To develop, improve and maintain access to sufficient and high-quality water service To facilitate improvement, maintenance and expansion of Infrastructure | <ul style="list-style-type: none"> Maintain average water supply hours to covered zones to at least 20 hours per day throughout the year. | <ul style="list-style-type: none"> Treat and distribute water at Othaya and Mukurweini | <ul style="list-style-type: none"> Water supply was maintained in the company for over 23 hours in the year. |
| <ul style="list-style-type: none"> Pillar 2: Customer Focus | <ul style="list-style-type: none"> To increase the customer base To increase customer satisfaction | <ul style="list-style-type: none"> Increase active connection from 20,364 active connections to 22,000 connections by 30th June 2021 Gross billed revenue to be an average of Kshs 14.7m by 30th June 2020 | <ul style="list-style-type: none"> Connect 1,600 new customers to the company | <ul style="list-style-type: none"> Active connections increased to 21,763 caused by 1,250 new connections installed in the year, making active connections as at the close of the financial year. Consolidated average revenue from water & sewer is Average Billed revenue for the period settled at 15.4 up from 14.8M registered in the previous year. |
| <ul style="list-style-type: none"> Pillar 3: Financial sustainability | <ul style="list-style-type: none"> To improve efficient supply of water. To improve timely and accurate billing of water & Sewerage To improve efficient collection of revenue To improve capital-based financing | <ul style="list-style-type: none"> The projected income and expenditure statement based on the principal assumptions above indicates an income of Kshs.190,559,878 against an expenditure of Kshs.190,827,880 The billing for water will improve to an average of Kshs.2.2 million on a monthly basis and the company will strive to collect old debts by 95% efficiency. | <ul style="list-style-type: none"> Bill all active connections Identify illegal connections and surcharge Meter high consumer flat rates Maintain revenue collection efficiency of 95% disconnect all unpaid accounts on time Reconnect all paid up accounts on time Enter into part payment agreements | <ul style="list-style-type: none"> During the year 22,000 accounts were billed on average monthly basis The company collected a consolidated income of Kshs185,660,245 besides the grants and reimbursement for pipeline rerouting Kshs 8,686,872and Kshs5,493,682 grants. Monthly collections at the company add up to 101% collection efficiency. 298 commitments valued at over 3.8m were made out of which Kshs2.1M was serviced in the period |

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| | | | | |
|---|---|---|--|---|
| <p>Pillar4 : Institutional Capacity</p> | <ul style="list-style-type: none"> • To strengthen human capital • To promote good corporate governance • To integrate ICT in OMWASCO operations • To operationalize policies to address cross cutting issues in compliance with relevant acts • To operationalize Policies to address cross cutting issues in compliance with relevant acts | <ul style="list-style-type: none"> • Technology deployment and usage - implement technical solutions to enhance work quality and efficiency, and project the image of a high-tech workforce. • Human resources development - harness and maintain an efficient and committed workforce. • Adopting and maintaining a customer-oriented approach in the service delivery. • Prepare a staffing plan and adequately staff the company to comply with regulatory requirements. • Review and implement tariff • Continually review the existing strategies in line with the company, county and national goals. | <ul style="list-style-type: none"> • Install ERP at the company • Recruit substantive holders to management positions • Submit tariff proposal and negotiate new tariff • Revise HRAM manual, undertake strategic plan midterm review and Debt management • proposal. | <ul style="list-style-type: none"> • The company has a functional ERP system having Finance, Billing, Procurement, Human resources and CRM modules • The company through the HR department has been proactive in effective management of the resource by undertaking training for capacity building, compliance with OSH Act and culture change. • The management tabled for Board approval revised ICT manual, Procurement and disposal manual, NRW manual and Pro-poor manual. • The company finalised the tariff study and submitted to WASREB tariff proposal together with the study |
|---|---|---|--|---|

8. Corporate Governance Statement

Board meetings OMWASCO is committed to operating under a clear governance framework and strongly adheres to sound management and control practices. During the year the company established a meeting calendar to enable the board to exercise the governance functions. OMWASCO is committed to ensuring compliance with the provisions of the water Act 2016, the Licence conditions and other regulatory and supervisory corporate governance requirements.

During the year the company applied for licence renewal as per WASREB guidelines the process of which runs up to September 2023.

By The close of the year, the application for licence had gone for public participation and was awaiting issue of the document by WASREB. In line with the corporate governance guideline requirements, the company board during 2022-23 financial year the board held twelve meetings and board attendance was as follows;

| DIRECTOR NAME | NO SCHEDULED OF BOARD MEETING | MEETING ATTENDED |
|--|-------------------------------------|---------------------|
| Mr. Moses N N Munyi Managing Director | 11 | 11 |
| Mr. Arthur Gachugi Mukira Board Chairman | 11 | 11 |
| Ms. Grace Iregi | 11 | 11 |
| Ms Rachel Muchunu | 11 | 11 |
| Mr. Samuel Kago | 11 | 11 |
| Eng. Benjamin Maingi | 11 | 11 |
| Eng. Wanjau Nyagah | 11 | 11 |
| MR. Kimani Rucuiya | 11 | 10 |
| Ms. Pauline Ndegwa | 11 | 6 |
| Anthony Githae | 11 | 11 |
| Mr. Vincent Kachi-Representing CEO TWWDA | 1 | 1 |

During the year, the board carried out the annual self-evaluation.

Succession Plan:

During the financial year ended the board in exercise of its mandate and in establishment recognizes the value created by inculcation a culture of stability at the company in the achievement of the strategic goals of OMWASCO.

To effectively plan and execute a seamless implementation of the board mandate, the board in the financial year implemented a number of measures including; NRW review, Review of Memorandum of Association, Articles of Association, Policy review, board retirement, public participation and Annual General Meeting.

Company performance

To enhance continued performance by the company, the board shall ensure that:

- i) The company adheres to minimum service level guarantee in the Service Provision Agreement and produces quarterly reports on those indicators
- ii) The company operates within the guidelines and has issued a performance guarantee as advised by WASREB to ensure that the specified risks are covered.
- iii) The company issues a performance evaluation report to its shareholders and stakeholders at the end of year.

OMWASCO has continued to implement corporate governance guidelines. Governance is implemented through three board committees that meet on a quarterly basis to deliberate and give guidance on the effective implementation of the company vision, mission and goals.

During the financial year the board of the company scheduled and met five times to deliberate and make resolutions on general business of the board. The board had additional meetings on a need arise basis to discuss, resolve and implement key agendas that would not have been implemented in the ordinary business of the company as follows; Special full board for AGM,

Board evaluation, review of policies and Special full board meeting with company secretary.

Succession planning; during the financial year the board in exercise of its mandate recognizes the role of a stable company in the achievement of the strategic goals of the company.

To effectively plan and execute a seamless implementation of the board mandate, two members of the board retired by rotation and the company substantively filled the positions during the AGM held on June 29, 2022 after adhering to the due process. The review was sanctioned by the stakeholders at an Annual General Meeting.

During the year, the board discussed and approved the following policies;

- i) Disaster management policy
- ii) Debt management policy
- iii) Procurement policy
- iv) ICT policy
- v) Draft-NRW work plan

- vi) Pro-poor policy
- vii) Water safety plan
- viii) Technical services policy
- ix) Occupation Health and safety policy.

The company has an existing board charter, which defines the roles of the board. The board undertakes an annual self-evaluation of the board performance in line with the Charter and realigns itself to live in tandem with the Charter. During the year the company undertook a board evaluation in line with the charter.

The company memorandum and articles of association have defined the process of appointment and removal of directors. The MOA and AOA recognizes the role of stakeholders in effective appointment and retirement of directors. As a policy the company recognizes the need for gender balance in appointment of board.

During the year then ended the company advertised to fill the position of the board of directors where women and persons with disability are normally encouraged to apply. Two Directors retired by rotation and they were not eligible for re-election.

Roles and functions of the board,

The Board has ensured that proper management structures that maintain integrity, reputation and responsibility are in place.

The key board mandate is;

- i) To maintain the assets in serviceable conditions according to good utility practice.
- ii) To implement appropriate Asset Management Techniques
- iii) To develop an Asset Management Plan and Procedures
- iv) To manage the assets in an economical, efficient and sustainable manner.
- v) To foresee any improvements and demands of water services within the area.
- vi) To connect, disconnect and reconnect and charge for water services to the consumers

In this regard we are committed to best practice and continuously seek to promote best corporate governance practice.

Induction and training, Board and member performance

The company board is inducted on the various matters of importance with the board. During the year the board was taken through corporate governance that covered the following topics; corporate governance, role of the board and management, financial reporting, procurement, CBA negotiations.

To effectively equip the board in its mandate, the company during the year partially assisted by TWWDA undertook a training on effective board management in conjunction with other WSPs carried out annual induction program.

In addition, a tour of Malindi water was carried out to appreciate developments in ICT related technologies in the water sector.

Conflict of interest;

The board of directors is cognizant of the requirement to be free from any interest and where there is real or perceived interest, the board members are obligated to declare the interest. The board has opened a register of interest to record any member interest at the agenda tabled in committee and board meetings. During the financial year ended June 30, 2023 there was no interest admitted at any sitting of the committee or the board.

Board remuneration,

The company operates in a regulated sector. The cost attributed to the board for sitting allowances and other expenditures of the board and its committees are set at a higher of 2% of the turnover and Kshs 7 million per annum as per clause 3.4.6 of the Corporate Governance Guidelines for the Water Services Sector 2018 as issued by WASREB. During the year the board proposed a review of the allowances due to the members and proposed an introduction of Chairman Honoraria to help the company execute its mandate. During the year costs associated with the board amount to Kshs6.5M. The board will continue to ensure that all costs are maintained within the capping costs.

Ethics and conduct;

The Board has identified internal and external stakeholders on which they agree in policy on how to relate to them especially relation to appointing the Directors and monitoring the performance of the company. On an annual basis the company has embraced signing of code of ethics by the board and staff of the company as a way to increase the company performance.

Governance audit;

The company on an annual basis submits its data to the regulator for audit of compliance with the requirements of the governance structure. The report is usually considered and actioned in subsequent annual periods to close the gaps in governance. The company scored 85% in the previous assessment carried out by WASREB.

9. Management Discussion and Analysis

• Operational and Financial Performance

The company has over the five years experienced an increase in gross revenue over the years. The increase has been growing annually at 8% on average for the past five-year period. The company has shown a trend toward full recovery from the pressure of Covid 19 and the operating environment has been relatively stable.

There is a noted increase in cost during the period averaging at 13% pushed mainly by changing market dynamics. The company has in the period applied for tariff review in a bid to cushion itself from the economic changes. The table below shows the changes in revenue and expenditure over a five-year period.

| NOTE | 2018/2019 FY | 2019/2020 FY | 2020/2021 FY | 2021/2022 FY | 2022/2023 FY |
|------------------------------|--------------------|--------------------|--------------------|--------------------|---------------------|
| Operating Income | 155,853,191 | 148,725,142 | 155,946,378 | 175,281,895 | 187,292,375 |
| Interest incomes | 994,169 | 1,357,757 | 2,867,007 | 2,688,289 | 4,817,306 |
| Grants | | | | 34,637,271 | 5,493,682 |
| Operating Expenditure | 137,855,017 | 137,933,222 | 158,301,093 | 181,631,435 | 246,540,396 |
| Taxation | 396,184 | 2,257,895 | 860,102 | 948,797 | 1,445,192 |
| Surplus (deficit) | 18,596,159 | 9,891,781 | (347,810) | (4,610,048) | (50,382,224) |

• Customer Growth

The company operates within Nyeri south and Mukurweini sub counties offering water and sanitation services in the area. The demand for the resources at the company has been consistent in the period as indicated through the consistent increase in connections over the five-year period as per the table below. The company during the year graduated from large to the very large category as per WASREB guidelines based upon the number of customer connections per table below.

| DETAILS | 2018/19 | 2019/20 | 2020/21 | 2021/22 | 2022/23 |
|---|---------|---------|---------|---------|---------|
| Total number of registered water connections | 30,692 | 32,019 | 33,225 | 34,294 | 35,528 |
| Total number of active connections | 19,389 | 18,930 | 19,274 | 20,551 | 21,763 |
| Total number of inactive connections | 11,303 | 13,089 | 13,361 | 13,743 | 13,765 |
| Total active metered connections | 17,994 | 16,936 | 17,920 | 19,570 | 21,298 |
| Total active un-metered connections/flat rate | 1,395 | 1,994 | 1,354 | 981 | 463 |

Key Projects or Investments

During the year the company invested in the following major projects as part of the sustaining strategies on the company operations.

| S/NO | PROJECT | DESCRIPTION | VALUE (Kshs) |
|------|---|---|--------------|
| 1. | Smart ups | The company procured UPS to protect the server and desktop machines from power outages. The UPS ensures continuity in service delivery to walk in customers in need of data | 149,640 |
| 2. | Generator and installation costs | The company procured a generator to enhance business continuity at Othaya offices. The company existing generator developed technical problems and could not meet the demand for the | 404,100 |
| 3. | Supply of ICT equipment including; hard disk, Phone and laptop, | The company has adopted technologies to enhance billing, collections, meter reading and general customer care management. In addition, the board and management introduced virtual meetings and this necessitated procurement of necessary hardware including iPad. The company has adopted GIS and there was need to have a hardware device for data storage and hence procurement of hard disk. | 1,995,478 |
| 4. | Container & Store Container partitioning | During the period, the company procured 2, 40 feet container and 2, 20 feet containers to enhance the storage capacity and create office space for the stores and procurement officer. The cost has three components container, paintwork and partitioning cist | 2,378,320 |
| 5. | Sophos appliance | The company renewed the license for the Sophos appliances as a measure to sustain security for its ICT Equipment. | 698,114 |
| 6. | construction of DTF Facility | During the period, the company undertook completion of the DTF facility constructed at Mukurweini as per contracted works of which the cost was financed by WSTF. | 2,004,294 |

The company consistently reviews the risk matrix and updates the risk register to ensure continuity of services even in view of major risks facing the organisation. The following matrix represents the risks facing the company and the mitigating factors.

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| No. | RISK FACTOR | LEVE | MITIGATION MEASURE |
|--------|---|--------|--|
| (i) | Inadequate resources | High | <ul style="list-style-type: none"> • Efficiency in resource utilisation through Proper annual work plans & budgets • Documentation and reporting on resource utilisation • Enhance Public Private Partnership (PPP) to support capacity building, technical assistance and exchange programs • Increase generation and collection efficiency |
| (ii) | Staff turnover | Medium | <ul style="list-style-type: none"> • Build Capacity • Enhance staff incentive programs improvement working environment |
| (iii) | Consumers with huge debts | High | <ul style="list-style-type: none"> • Negotiate with customers on payment modalities • Timely disconnection of defaulters to manage accumulation of debts • Engage debt collectors • Listing of defaulters with Credit Reference Bureau • Liaison with other agencies e.g., Nyeri County Government, Lands Board • Adhere to approved Debt policy |
| (iv) | Landslides/ mudslide | Medium | <ul style="list-style-type: none"> • Rerouting of pipelines • Anchoring on high-risk areas • Change of pipe materials • Installation of Pressure Reducing Valves • Timely repair of leaks |
| (v) | Wildlife menace | Low | <ul style="list-style-type: none"> • Engage KWS • Reroute pipelines |
| (vi) | Destructive land use practices in water catchment areas | High | <ul style="list-style-type: none"> • Rehabilitation of catchment areas • Public awareness • Liaising with the KFS to plant trees |
| (vii) | Conflict over the competing uses of the water resources | High | <ul style="list-style-type: none"> • Conduct public awareness • Engage Water Resources Authority |
| (vii) | Climate Change | High | <ul style="list-style-type: none"> • Build storage facilities • Participation in Conservation environment • Create public awareness |
| (viii) | Corruption | High | <ul style="list-style-type: none"> • Good corporate governance • Building strong ethical practices • Enforce/ invoke the law |

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| No. | RISK FACTOR | LEVE | MITIGATION MEASURE |
|---------|--------------------------------|--------|--|
| (ix) | Irrigation boreholes and wells | High | <ul style="list-style-type: none"> • Creation of public awareness • Provision of reliable treated water supply. |
| (x) | Quality risk | Medium | <ul style="list-style-type: none"> • Specification • Reporting & Inspections • Monitoring |
| (xi) | Safety of valves installations | Medium | <ul style="list-style-type: none"> • Secure the valves by cementing. • Sensitise the community on ownership |
| (xii) | Non-delivery of goods risk | Low | <ul style="list-style-type: none"> • Enhance inspection committee • Fill the bin card immediately after issue and delivery of items • Stores management system |
| (xiii) | Not using riding gear | High | <ul style="list-style-type: none"> • Construct staff storage cabinets • To follow traffic rules • Training of riders • Provide helmets • Allocation of Motor bikes to individual riders |
| (xiv) | Indiscipline | Medium | <ul style="list-style-type: none"> • Team Building • Warning letters • Use of Disciplinary procedures • Evaluation of performance |
| (xv) | Communication breakdown | High | <ul style="list-style-type: none"> • Enhance communication • Regular open staff meetings • Cultivate the good culture |
| (xvi) | Evaluation risks | Medium | <ul style="list-style-type: none"> • Set the performance targets |
| (xvii) | Virus, hacking, cybercrime | High | <ul style="list-style-type: none"> • Antivirus, restricted administration rights • Remote backup |
| (xviii) | Burglary of offices) | Medium | <ul style="list-style-type: none"> • Install CCTV • Insure office • Fencing of offices |
| (xix) | Fire outbreak | Medium | <ul style="list-style-type: none"> • Insurance • Install fire extinguishers, water Bowsers & Hydrants • Smoke detectors • Trap doors |
| (xx) | Legal and compliance risk | High | <ul style="list-style-type: none"> • Compliance • Engage legal service |

| No. | RISK FACTOR | LEVE | MITIGATION MEASURE |
|-------|-------------|------|--|
| (xxi) | Pandemics | High | <ul style="list-style-type: none"> • Comply With covid prevention measures • Review work conditions for high-risk staff • Align working office with acceptable OSH requirements |

• **Material Arrears in Statutory and Other Financial Obligations,**

During the financial year the company has no arrears in statutory obligations as at the close of the financial year. All obligations including VAT, PAYE, NSSF, NHIF are settled by due date except for the accrued cost for the month.

• **Review of the Economy,**

The company registered and domiciled in Kenya under the company act to offer water and sewer services as an agent of the Nyeri County Government. WASREB Impact 14, describes the following; Organisation for Economic Co-Operation and Development (OECD, 2012) describes the future globe as ‘hot, crowded, and running out of fuel: Earth of 2050 a scary place’.

The report paints a grim picture of the world in 2050 based on current global trends. It predicts a world population of 9.2 billion people, generating a global GDP four times the size of today’s, requiring 80 percent more energy. With a worldwide energy mix still 85 percent reliant on fossil fuels by that time, it will be coal, oil, and gas that make up most of the difference, the OECD predicts.

The report warns the result will be the ‘locking in’ of global warming, with a rise of as much as 6° C (about 10.8° F) predicted by the end of the century. Almost half the world’s people will be living under severe water stress, predicts the OECD. Already, water stress – where the reliable water supply is being used up more quickly than it can be replenished – is widespread and is expected to increase significantly in the years ahead, particularly in North Africa, the Middle East, and Asia. The report further noted that the UN-Water Integrated Monitoring Initiative for SDG 6 (IMI-SDG6) states that the world is off-track on its journey to ensure water and sanitation for all by 2030.

From the 2022 impact 15 transformative promises of the 2030 Agenda for Sustainable Development and its Sustainable Development Goals (SDGs). The key word is ‘inclusivity’. Ensuring universal access means providing services for all in all settings including schools, health-care facilities, workplaces, and public places while addressing the needs of all population groups. From the progress report launched in August 2021, there is a need to accelerate progress, in some areas up to four times faster, to meet SDG 6 within the next eight years. However, large data gaps remain for some indicators, hampering efforts to direct interventions where they are needed most. Prominent water experts from across the UN family are calling on governments to encourage more national and sub-national data collection, and help policy and decision makers to take data

informed action. During the period Water Sector institutions carried out various activities related to climate resilience.

During the period, Kenya National Water and Sanitation Investment and Financing Plan (NAWASIP) was developed. NAWASIP is the tool that both levels of government will use towards universal Water Services Sector coverage. It has five components with funding requirements of Kshs. 995 Billion over a period of eight years.

The water sector is focused on sustainable development, fighting poverty, supporting food systems and creating jobs, prosperity, human rights and gender equality. The globe adopted the Water Action Agenda, a ‘milestone’ action plan containing almost 700 commitments to protect ‘humanity’s most precious global common good’.

These commitments include the following;

- i) Reducing the pressures on hydrological systems and ensuring good decision-making and smart policies.
- ii) Developing new, alternative food systems to reduce the unsustainable use of water in food production and agriculture.
- iii) Designing and implementing a new global water information system to guide plans and priorities by 2030
- iv) Integrating approach on water, ecosystems and climate to reduce greenhouse gas emissions and strengthen communities.
- v) Having resilient infrastructure, water pipelines and wastewater treatment plans, and ensuring every person in the world is protected with early warning systems against natural disasters by 2027.
- vi) Continuing to press for climate justice and global action to limit global warming to a 1.5-degree rise.
- vii) Dramatically accelerating resources and investment into the ability of all countries to reach Sustainable Development Goal 6.
- viii) Review of the Sector

The company is in a regulated industry guided by various laws, policies and guidelines. The company has a target to achieve overall efficiency by achieving nine-point benchmarks set as tariff conditions as stated below;

| TARIFF BENCHMARK | KEY MEASUREMENT | COMPANY PERFORMANCE |
|------------------|---|---------------------|
| Water Coverage | Number of people served with water services/ Population in Service area. During the period the company had a total of 35,528 connections covering a total of 123,458 in population. | 97.8%. |

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| TARIFF BENCHMARK | KEY MEASUREMENT | COMPANY PERFORMANCE |
|---|---|---------------------|
| Drinking Water Quality | This metric compares the company water quality in terms of Compliance with residual Chlorine standards, bacteriological standards and Drinking Water Quality the company had a near perfect score on the water quality evaluated in the categories of Residual Chlorine 100% Bacteriological Quality (100%) and overall drinking water quality of 100% up from 93% in the previous period. We shall endeavour to maintain high water quality standards on all water supplied to our system. | 100% |
| Hours of Supply | Weighted average of all registered zones, for water supplied throughout the financial year. | 23 hours |
| Personnel Expenditure as a % of O&M Costs | Sum of personnel expenditures incurred during the reporting period compared with the Total O+M as a percentage | 42% |
| Operation and Maintenance Cost Coverage | The metric compares the sum of billing for water, sewerage and other services and the sum total of "Total operating expenditures B" "Sum of expenses on personnel, BoD, General admin, direct operations, maintenance and levies and fees net of provisions. | 132% |
| Revenue Collection Efficiency | This comprises the total of all bills on water and sewerage services collected during the reporting period including arrears as a proportion of the annual billing. | 104% |
| Non-Revenue Water | NRW comprises of water from unauthorised consumption (e.g., illegal connections) + Customer meter reading inaccuracies, Estimates and Data Handling errors "Physical Losses B" Leakages on transmission and /or distribution pipes + Leakages and overflows at utility storage tanks + Leakage on service connections up to the point of customer use | 36% |
| Metering Ratio | (Total number of active metered connections/Total number active of connections) *100 | 98% |
| Staff Productivity | The total number of staffs divided by the total number of connections within the WSP service area per thousand connections | 4 |

Future Developments

The company has developed a five-year strategic plan, business plan for the 2022-2027 cycle. The plan focuses on six thematic areas including Infrastructural Development, Customer Experience, Financial and Resource Mobilization, Capacity Building, Risk Management, ICT and Digitization that will guide the strategic direction of the company.

The company has partnered with TWWDA for the construction of a full treatment facility at Kaharo targeting Mwai Kibaki level 6 hospital. A further proposal for rehabilitation of Othaya urban and Mukurweini town reticulation system valued at Kshs30M has been approved by WSTF and is awaiting funding.

10. Environmental and Sustainability Reporting

OMWASCO exists to supply clean and accessible water to the residents of Nyeri South and Mukurweini water sub counties. This is our purpose; the driving force behind everything we do. It's what guides us to deliver our strategy, which is founded on four pillars: putting the customer/Citizen first, delivering clean water services, and improving operational excellence. During the period ending June 2023 which is the end term for the strategic period, the management noted our achievements in each pillar

- **Sustainability strategy and profile**

The company makes policies in line with the internal and macroeconomic business environment. During the period, the company revised various policies to enable the company to achieve the objectives in line with the law. During the period the company budget was to increase the customer base by installing new connections in its area of supply as well as NRW reduction in the company. In response to the changing business environment and adjusting its operations in line with the changes. During the year the company focused on staff capacity building, board training and last mile connectivity of the sewer network at Othaya. The company invested in rehabilitation of pipelines at Othaya town, Gikondi and Mumwe zones.

- **Environmental performance**

The company has focused on environmental conservation annually by institutionalising tree planting targeting at least 5,000 trees annually. The company aims to increase sewer connections in Othaya urban and also makes it possible to use exhauster services by construction of a DTF facility in Mukurweini in partnership with Water Sector Trust Fund (WSTF).

During the period a total of 26 plots resulting in 81 connections were installed thereby increasing sewer facility. The company has been funded by the ADB last mile project to construct additional sewer lines and drying bends which is currently ongoing. This will help improve sanitation in future while giving the company additional revenues.



Figure 1: Environmental Conservation

- **Employee welfare**

The company HR manual is dynamic to allow competitive recruitment of staff. The company management comprises three men and two ladies. The company undertook continued staff capacity building by training of staff in cross cutting issues. The organisation policy on safety and compliance with Occupational Safety and Health Act of 2007, (OSHA) was reviewed and is under implementation. The company's current establishment has men and ladies. The company, also in compliance with the law, is working to achieve gender balance and ethnicity compliance by encouraging people from all walks of life to apply.

- **Marketplace practices**

Product stewardship- The company has taken efforts to safeguard consumer rights and interest through stakeholder engagements, union representation membership with WASPA, WASCO and FKE. The company boasts of a strong SACCO welfare team and a framework with a robust arrangement with financial partners to ensure access to credit facilities by the company staff.

- **Community Engagements**

During the year the company as part of the strategic positioning and in response to community needs carried out the following CSR activities. The company shall continue to prepare and align operations with the environment it operates in.

| ACTIVITY | AMOUNT |
|---|---------|
| Paid school fees for a needy students Mumbuini, Mukurweini and Karima Boys worth | 105,850 |
| The company has become an active sponsor and participant during Mashujaa day celebrations | 5,000 |
| The company paid the water bills for customers identified as needy cases, and provided firewood for Mahiga, Boma and Bewomi Children's homes. | 43,280 |

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11. Report of the Directors

The Directors submit their report together with the audited financial statements for the year ended June 30, 2023 which show the state of the company's affairs.

• **Principal activities**

The principal activities of the company continue to be supply of water and sanitation services to the residents of Othaya and Nyeri south sub counties while conserving the environment.

• **Results**

The results of the company for the year ended June 30, 2023 are set out on page 1 Below is a summary of the profit or loss made during the year.

| Item | 2022/2023 | 2021/2022 |
|-----------------------|--------------|-------------|
| (Loss) after Taxation | (50,382,224) | (1,146,214) |

• **Dividends**

The company has not declared dividends for the year ended June 2023 since the company is registered by guarantee and does not pay dividends.

• **Directors**

The members of the Board of Directors who served during the year are shown on page 3 In accordance with Regulation 28 of the company's Articles of Association.

• **Auditors**

The Auditor General is responsible for the statutory audit of the Company in accordance with Article 229 of the Constitution of Kenya and the Public Audit Act 2015 for the period ended June 30, 2023.

By Order of the Board



.....
FCS. Richard Gikuhi
Company Secretary/Secretary to the Board

Date: 18/12/2023

12. Statement of Directors' Responsibilities

Section 164 of the Public Finance Management Act, 2012 and companies Act 2015- (entities should quote the applicable legislation under which they are regulated) require the Directors to prepare financial statements in respect of that Company, which give a true and fair view of the state of affairs of the Company at the end of the financial year/period and the operating results of the Company for that year.

The Directors are also required to ensure that the Company keeps proper accounting records which disclose with reasonable accuracy the financial position of the Company. The Directors are also responsible for safeguarding the assets of the Company.

The Directors are responsible for the preparation and presentation of the Company financial statements, which give a true and fair view of the state of affairs of the Company for and as at the end of the financial year (period) ended on June 30, 2023.

This responsibility includes:

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

The Directors responsibility for the Company 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, water act 2016 and companies Act 2015.

The Directors are of the opinion that the Company's financial statements give a true and fair view of the state of Company's transactions during the financial year ended June 30, 2023, and of the Company's financial position as at that date.

The Directors further confirm the completeness of the accounting records maintained for the Company, which have been relied upon in the preparation of the company financial statements as well as the adequacy of the systems of internal financial control.

In preparing the financial statements, the Directors have assessed the Company's ability to continue as a going concern. Nothing has come to the attention of the Directors to indicate that the

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Company 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 company financial statements were approved by the Board on September 25, 2023 and signed on its behalf by:



.....
Eng. Benjamin Maingi
Board Chairman



.....
Moses N. N. Munyi
Managing Director

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REPORT OF THE AUDITOR-GENERAL ON OTHAYA MUKURWEINI WATER AND SANITATION COMPANY LIMITED FOR THE YEAR ENDED 30 JUNE, 2023

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 Othaya Mukurweini Water and Sanitation Company Limited set out on pages 1 to 48, which comprise of the statement of financial position as at 30 June, 2023 and the statement of profit or loss and other

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

In my opinion, except for the effect of the matters described in the Basis for Qualified Opinion section of my report, the financial statements present fairly, in all material respects, the financial position of Othaya Mukurweini Water and Sanitation Company Limited as at 30 June, 2023, and of its financial performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards and comply with the Water Act, 2016, the Companies Act, 2015 and the Public Finance Management Act, 2012.

Basis for Qualified Opinion

1.0 Long Outstanding Trade and Other Receivables

The statement of financial position reflects trade and other receivables balance of Kshs.120,868,815 which is net of provision for bad and doubtful debts of Kshs.115,551,951 as disclosed in Note 24 to the financial statements. However, gross receivables amounting to Kshs.204,977,504 relates to the financial year 2021/2022 and earlier years which had not been collected as at 30 June, 2023. Further, trade receivables amounting to Kshs.64,976,396 was owed by eight thousand two hundred and seventy-seven (8,277) debtors who had no contact information including telephone numbers and postal address to facilitate follow up and recovery. In addition, detailed receivables aged analysis was not provided for audit review.

In the circumstances, the validity, accuracy and recoverability of trade and other receivables balance of Kshs.120,868,815 could not be confirmed.

2.0 Property, Plant and Equipment

2.1. Lack of Ownership Documents

The statement of financial position reflects property, plant and equipment balance of Kshs.23,066,288 as disclosed in Note 20 to the financial statements, which includes motor vehicles/cycles valued at Kshs.954,471. Review of the records in support of this amount revealed that the Company had four (4) motorcycles and five (5) motor vehicles of unknown value that were not registered in its name.

In the circumstances, the accuracy and ownership status of motor vehicles and motorcycles valued at Kshs.954,471 could not be confirmed.

2.2. Undisclosed Inherited Assets

The statement of financial position reflects property, plant and equipment balance of Kshs.23,066,288 as disclosed in Note 20 to the financial statements. Information provided during the audit indicated that the Company inherited non-current assets including land

and buildings from the defunct Tana Water Services Board. However, the assets were not incorporated in the financial statements. Further, the balance excludes undetermined value of water meters which were expensed instead of being capitalized and reported as part of property, plant and equipment.

In the circumstances, the accuracy and completeness of property, plant and equipment balance of Kshs.23,066,288 as at 30 June, 2023 could not be confirmed.

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

Key Audit Matters

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

Other Matter

Unresolved Prior Year Audit Issues

The progress on follow up on Auditor's recommendations section of the financial statements reflects that the issues raised in previous year's audit report remained unresolved as at 30 June, 2023. No satisfactory explanation was provided for the delay in resolving the issues.

Other Information

The Directors are responsible for the other information, which comprise of the Chairman's Statement, Report of the Managing Director, Corporate Governance Statement, Management Discussions and Analysis, Environmental and Sustainability Reporting, Report of the Directors, Statement of Performance Against Predetermined Objectives for Financial Year 2022/2023 and the Statement of Directors' Responsibilities. The other information does not include the financial statements and my auditor's report thereon.

My opinion on the financial statements does not cover the other information and I do not express any form of assurance or conclusion thereon.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

As required by Article 229(6) of the Constitution, based on the audit procedures performed, except for the matters described in the Basis for Conclusion on Lawfulness and Effectiveness in Use of Public Resources section of my report, I confirm that, nothing

else has come to my attention to cause me to believe that public resources have not been applied lawfully and in an effective way.

Basis for Conclusion

1. Unmetered Water Connections

Note 6 to the financial statements reflects operating revenue of Kshs.177,315,367 for the year ended 30 June, 2023. Examination of documents provided for audit revealed that the Company had a total of twenty-six thousand eight hundred and four (26,804) active connections as at 30 June, 2023 out of which four hundred and eighty-four 484 were unmetered. It was noted that all the customers who were unmetered were issued with estimated meter readings.

In the circumstances, the Company's may have lost revenue through the unmetered customers.

2. Non-Compliance with the Law on Staff Ethnic Composition

Review of personnel records revealed that as at 30 June, 2023 the Company had one hundred and twenty-four (124) employees out of which one hundred and fifteen (115) or 93% of the total number of employees were from one dominant ethnic community. This was contrary to Section 7(1) and (2) of the National Cohesion and Integration Act, 2008 which states that all public establishments shall seek to represent the diversity of the people of Kenya in the employment of staff and that no public establishment shall have more than one third of its staff from the same ethnic community.

Further, during the year under review the Company recruited three (3) staff from the dominant ethnic community contrary to Section 65(1)(e) of the County Governments Act, 2012 which require that in selecting candidates for appointment, the County Public Service Board shall consider the need to ensure that at least thirty percent of the vacant posts at entry level are filled by candidates who are not from the dominant ethnic community in the County.

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

3. Failure to Update Water Tariff Structure

The customer tariffs charged by the Company for billing water in the year under review were approved by Water Services Regulatory Board (WASREB) and gazetted on 7 June, 2013, for the period 2012/2013 and 2013/2014. The Company did not adjust and seek approval for new tariffs from the Water Services Regulatory Board. This was contrary to Section 72(1)(b) of the Water Act, 2016 which states that the powers and functions of the Regulatory Board shall be to evaluate and recommend water and sewerage tariffs to the county water services providers and approve the imposition of such tariffs in line with consumer protection standards.

In the circumstances, the tariff levied may have negatively impacted on the Company's profitability and sustainability of its services.

4. High Non-Revenue Water Levels

During the year under review, the Company produced a total of 6,461,280 cubic meters (M³) of water out of which 4,128,699 M³ was billed to customers. The difference of 2,332,581 M³ or approximately 36% represented Non-Revenue Water (NRW), which was 11% over and above the allowable water loss threshold of 25% as per the Water Services Regulatory Board guidelines.

In the circumstances, the high NRW may be an indicator of inefficiency and ineffectiveness in use of water resources, which may negatively impact on the Company's profitability and ability to sustain service delivery.

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

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

Basis for Conclusion

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

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

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

- i. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of my audit;
- ii. In my opinion, adequate accounting records have been kept by the Company, so far as appears from the examination of those books; and
- 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 the requirements of the Companies Act, 2015 and for maintaining effective internal control as Management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error and for assessment of the effectiveness of internal control, risk management and governance.

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

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

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

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

Auditor-General's Responsibilities for the Audit

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

In addition to the audit of the financial statements, a compliance audit is planned and performed to express a conclusion about whether, in all material respects, the activities, financial transactions and information reflected in the financial statements are in compliance with the authorities that govern them and that public resources are applied in

an effective way, in accordance with the provisions of Article 229(6) of the Constitution and submit the audit report in compliance with Article 229(7) of the Constitution.

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

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


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

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

- Obtain sufficient appropriate audit evidence regarding the financial information and business activities of 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 to communicate with them all relationships and other matters that may reasonably be thought to bear on my independence and where applicable, related safeguards.


FCPA Nancy Gathungu, CBS
AUDITOR-GENERAL

Nairobi

26 March, 2024

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14. Statement of profit/loss & other comprehensive income for the year ended 30 June 2023

| | Note | 2022-23 | 2021-22* |
|--|------|---------------------|--------------------|
| | | Kshs | Kshs |
| Revenue | | | |
| Operating Revenue | 6 | 177,315,367 | 165,686,654 |
| Grants Income | 7 | 5,493,682 | 31,692,078 |
| Other Income | 8 | 9,977,008 | 2,966,714 |
| Finance income | 9 | 4,817,306 | 2,900,435 |
| Other gains/(losses) | 10 | - | - |
| Total Revenue | | 197,603,363 | 203,245,881 |
| Expenses | | | |
| Staff Costs | 11 | 84,630,518 | 76,755,136 |
| General and Operations expenses | 12 | 103,520,500 | 79,246,549 |
| Board Expenses | 13 | 6,578,320 | 4,956,004 |
| Maintenance Expenses | 14 | 47,609,495 | 34,902,186 |
| Depreciation and Amortisation expenses | 15 | 4,201,562 | 7,662,089 |
| Finance Costs | 16 | - | - |
| Total Expenses | | 246,540,396 | 203,521,964 |
| Profit/(Loss) Before Taxation | | (48,937,033) | (276,083) |
| Income Tax Expense/(Credit) | 17 | 1,445,192 | 870,131 |
| Profit/(Loss) After Taxation | | (50,382,224) | (1,146,214) |
| Other Comprehensive Incomes | | 0 | 0 |
| Total Comprehensive Income for The Year | | (50,382,224) | (1,146,214) |

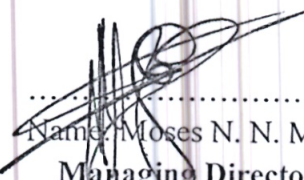
Comparative FY refers to the financial year preceding the current financial year.


Othaya Mukurwe-ini Water & Sanitation Company Ltd
Annual Report and Financial Statements for the year ended June 30, 2023


15. Statement of financial position as at 30th June 2023

| | Note | 2022-23 | 2021-22 |
|-------------------------------------|------|--------------------|--------------------|
| | | Kshs | Kshs |
| Assets | | | |
| Non-current assets | | | |
| Plant Property and Equipment | 20 | 23,066,288 | 22,036,350 |
| Software | 21 | 465,412 | 8,700 |
| Deferred Asset | 22 | 9,702,263 | 8,201,900 |
| Total non-current assets | | 33,233,962 | 30,246,950 |
| Current assets | | | |
| Inventories | 23 | 12,832,709 | 10,057,399 |
| Trade & Other Receivables | 24 | 120,868,815 | 169,101,123 |
| Short Term Deposit | 25 | 20,000,000 | 46,026,625 |
| Cash and Bank Balances | 26 | 48,057,119 | 28,370,394 |
| Deferred Current Asset | 27 | 248,776 | - |
| Total non-current assets | | 202,007,419 | 253,555,541 |
| Total Assets | | 235,241,381 | 283,802,491 |
| Equity and liabilities | | | |
| Equity & Reserves | | | |
| Capital & Revenue Reserves | 28 | 141,244,564 | 171,138,246 |
| Capital Grants | 29 | 9,951,039 | 8,201,900 |
| Total Equity & Reserves | | 151,195,603 | 179,340,146 |
| Current liabilities | | | |
| Trade and other payables | 30 | 27,623,945 | 51,459,805 |
| Consumer deposits | 31 | 27,781,284 | 25,982,159 |
| Creditors, Prepayments and Accruals | 32 | 27,069,082 | 26,108,827 |
| Provision for Tax | 33 | 1,107,468 | 447,554 |
| Other Provisions | 34 | 464,000 | 464,000 |
| Total current liabilities | | 84,045,779 | 104,462,345 |
| Total equity and liabilities | | 235,241,381 | 283,802,491 |

The financial statements were approved by the Board on September 25, 2023 and signed on its behalf by:


Name: Moses N. N. Munyi
Managing Director


Name: CPA Peter N Gakuru
Head of Finance
(ICPAK M/No:12592)


Name: Eng. Benjamin Maingi
Chairman of the Board

Othaya Mukurwe-ini Water & Sanitation Company Ltd
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16. Statement of Changes in Equity for the Year Ended 30 June 2023

| | Notes | Capital | Retained | Total |
|---|-------|------------|--------------|--------------|
| As at July 1, 2021 (Previous FY) | | | 172,284,459 | 172,284,459 |
| Profit for the year | | | (1,146,213) | (1,146,213) |
| Capital/Development grants received during the year | | 8,201,900* | | 8,201,900 |
| Transfer of depreciation/amortisation from capital fund to retained earnings | | - | | 0 |
| As at June 30, 2022 (Previous FY) | | 8,201,900 | 171,138,246 | 179,340,146 |
| | | | | |
| As at July 1, 2022 (Current FY) | | 8,201,900 | 171,138,246 | 179,340,146 |
| Prior year Adjustment | | | 20,488,542* | 20,488,542 |
| Surplus for the year | | | (50,382,224) | (50,382,224) |
| Capital/Development grants received during the year | | 2,004,294 | - | 2,004,294 |
| Transfer of depreciation/ amortisation from capital fund to retained earnings | | (255,155) | - | (255,155) |
| At June 30, 2023 (Current FY) | | 9,951,039 | 141,244,564 | 151,195,603 |

Note:

*The revision includes adjustment for Capital grants received for completed projects and the resultant depreciation effected at 2% effective 2022-23 FY.

*During the financial year, the company carried out a reconciliation of amounts accrued and due to TWWDA resulting in adjusted balance accrued and due to the agency. The adjustments have been affected in the creditor ledger in the financial year.

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17. Statement of cash flows for the year ended 30 June 2023

| | | 2022-23 | 2021-22 |
|---|-----------|--------------------|---------------------|
| | | Kshs | Kshs |
| Cash Flows from Operating Activities | | | |
| Receipts | | | |
| Operating Receipts | 36 | 177,315,367 | 168,653,368 |
| Capital Grants Income | 36 | 2,004,294 | 0 |
| Operating Grants Income | 36 | 5,493,682 | 31,692,078 |
| Finance Income | 36 | 4,817,306 | 2,900,435 |
| Other Income-compensation and recoveries | 36 | 9,977,008 | 1,748,820 |
| Customer Deposits | 36 | 1,816,625 | 1,727,735 |
| Total Receipts | | 201,424,282 | 206,722,436 |
| Payments | | | |
| Staff Costs | 36 | 84,630,518 | 74,061,415 |
| General and Operation Expenses | 36 | 59,063,739 | 56,482,722 |
| Board Expenses | 36 | 6,578,320 | 4,956,004 |
| Maintenance Expenses | 36 | 47,609,495 | 34,902,186 |
| Payment of income tax | 36 | 1,708,310 | 865,115 |
| Refund of Customer Deposits | 36 | 17,500 | 28,060 |
| Payment to suppliers | 36 | 463,794 | 3,240,037 |
| Total Payments | | 200,071,676 | 174,535,539 |
| Net Cash From/ (Used In) Operating Activities | | 1,352,606 | 32,186,897 |
| Cash Flows from Investing Activities | | | |
| Purchase of Property, Plant and Equipment (PPE) | 36 | (4,990,098) | (12,082,078) |
| Purchase of Asset under Grant | 36 | (2,004,294) | |
| Proceeds from Disposal of PPE | | 0 | 0 |
| Purchase of Intangible Assets | 36 | (698,114) | 0 |
| Purchase of Investment Property | | 0 | 0 |
| Net Cash From/ (Used In) Investing Activities | | (7,692,506) | (12,082,078) |
| Cash Flows from Financing Activities | | | |
| Proceeds from Borrowings | | 0 | 0 |
| Net Cash From/ (Used In) Financing Activities | | 0 | 0 |
| Increase/(Decrease) In Cash and Cash Equivalents | | (6,339,900) | 20,104,819 |
| Cash and Cash Equivalents at Beginning Of Year | 47 | 74,397,019 | 54,292,200 |
| Cash and Cash Equivalents At End of the Year | 47 | 68,057,119 | 74,397,019 |

Othaya Mukurwe-ini Water & Sanitation Company Ltd
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18. Statement of comparison of budget & actual amounts for the period ended 30 June 2023

| | Original budget | Adjustments | Final budget | Actual on comparable basis | Performance difference | % of utilisation |
|--------------------------------------|--------------------|--------------------|--------------------|----------------------------|------------------------|------------------|
| | A | B | C=A+B | D | E= C-D | F=E/D % |
| | Kshs | Kshs | Kshs | Kshs | Kshs | xxx% |
| Revenue | | | | | | |
| Operating Revenue | 209,065,978 | -28,700,000 | 180,365,978 | 177,315,367 | 3,050,611 | 98% |
| Other Income | 9,753,200 | - | 9,753,200 | 9,977,008 | - 223,808 | 102% |
| Grants | 46,000,000 | -38,600,000 | 7,400,000 | 5,493,682 | 1,906,318 | 74% |
| Finance Income | 2,600,000 | 2,220,000 | 4,820,000 | 4,817,306 | 2,694 | 100% |
| | | | | | 0 | |
| Total Revenue | 267,419,178 | -65,080,000 | 202,339,178 | 197,603,363 | 4,735,815 | 98% |
| Expenses | | | | | | |
| Staff Costs | 86,749,937 | 394,625 | 87,144,562 | 84,630,518 | 2,514,044 | 97% |
| Board Expenses | 6,281,160 | - | 6,281,160 | 6,578,320 | -297,160 | 105% |
| General and Operations Expenses* | 57,232,348 | -1,273,377 | 55,958,971 | 103,520,500 | -47,561,529 | 185% |
| Maintenance and Depreciation Costs** | 70,325,062 | -15,770,000 | 54,555,062 | 51,811,057 | 2,744,005 | 95% |
| Finance costs | - | - | - | - | - | |
| Total Recurrent Expenditure | 220,588,506 | -16,648,752 | 203,939,754 | 246,540,395 | -42,600,640 | 121% |
| Profit or Loss | 46,830,672 | -48,431,248 | -1,600,576 | -48,937,032 | 47,336,455 | 3057% |
| | | | | | | |
| Capital Expenditure | 50,489,920 | -42,955,747 | 7,534,173 | 7,629,946 | -95,773 | 101% |
| | | | | | | |
| Total Expenditure | 271,078,426 | -59,604,499 | 211,473,927 | 254,170,341 | -42,696,413 | 120% |

Budget notes:

During the period the management made reallocations of the budget to align operations with the budget figures. The differences between the total of actual on a comparable basis and the statement of financial performance totals is due to differences in accounting basis (budget is cash basis, statement of financial performance is accrual).

***General and Operations Expenses**

The actual cost increased significantly above the budgeted cost due to specific provisions of Kshs64,976,396, net of general provisions Kshs.20,519,635. The provisions do not amount to funds movements and therefore not budgeted for.

****Maintenance and Depreciation Costs**

The cost related to provisions for depreciation and amortization of Kshs. 4,201,562 incurred during the year. The provisions do not amount to funds movements

19. Notes to the financial statements

1) General Information

Othaya Mukurweini Water and sewerage Company Ltd is established by and derives its authority and accountability from Water Act 2016. The Company is wholly owned by the Nyeri County Government and is domiciled in Kenya. The Company's principal activity is provision of water and sewerage services in Nyeri south and Mukurweini sub counties. For Kenyan Companies Act reporting purposes, the balance sheet is represented by the statement of financial position and the profit and loss account by the statement of profit or loss and other comprehensive income in these financial statements.

2) Statement of Compliance and Basis of Preparation

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

The financial statements have been prepared and presented in Kenya Shillings, which is the functional and reporting currency of the Company. The figures are rounded to the nearest Kenyan shilling.

The financial statements have been prepared in accordance with the PFM Act, the State Corporations Act, Water Act 2016 and the Company's Act (include any other applicable legislation), and International Financial Reporting Standards (IFRS). The accounting policies adopted have been consistently applied to all the years presented.

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

i) New and amended standards and interpretations in issue and effective in the year ended 30 June 2023.

| Title | Description | Effective Date |
|--|--|--|
| IFRS 17 Insurance Contracts (issued in May 2017) | The new standard establishes principles for the recognition, measurement, presentation and disclosure of insurance contracts issued. It also requires similar principles to be applied to reinsurance contracts held and investment contracts with discretionary participation features issued. The objective is to ensure that entities provide relevant information in a way that faithfully represents those contracts. | Effective for annual periods beginning on or after 1 st January 2023. |

Othaya Mukurwe-ini Water & Sanitation Company Ltd
Annual Report and Financial Statements for the year ended June 30, 2023

| Title | Description | Effective Date |
|---|---|--|
| | The Company does not issue insurance contracts. | |
| IAS (International Accounting Standards) 8- Accounting Policies, Errors, and Estimates | The amendments, applicable to annual periods beginning on or after 1st January 2023, introduce a definition of ‘accounting estimates’ and include other amendments to IAS 8 to help entities distinguish changes in accounting policies from changes in accounting estimates. During the period, the company has made amendments of financial year reports affecting the following items; Debited retained earnings and credited Accounts payable Kshs.20,488,542 being the balance owed to TWWDA accrued over time after reconciliation and agreement on cut off period for debt accrual between the company and TWWDA. | The amendments are effective for annual reporting periods beginning on or after January 1, 2023. |
| Amendments to IAS 1 titled Disclosure of Accounting Policies (issued in February 2021) | The amendments, applicable to annual periods beginning on or after 1st January 2023, require entities to disclose their material accounting policy information rather than their significant accounting policies. the company had not had changes in the accounting policies disclosed. | The amendments are effective for annual periods beginning on or after January 1, 2023. |
| Amendments to IAS 12 titled Deferred Tax Related to Assets and Liabilities arising from a Single Transaction (issued in May 2021) | The amendments, applicable to annual periods beginning on or after 1st January 2023, narrowed the scope of the recognition exemption in paragraphs 15 and 24 of IAS 12 (recognition exemption) so that it no longer applies to transactions that, on initial recognition, give rise to equal taxable and deductible temporary differences. | The amendments are effective for annual periods beginning on or after January 1, 2023. |

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

Notes to the Financial Statements (Continued)

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

ii) New and amended standards and interpretations in issue but not yet effective in the year ended 30 June 2023.

| Title | Description | Effective Date |
|--|--|--|
| Amendments to IAS 1 titled Classification of Liabilities as Current or Non-current (issued in January 2020, amended in October 2022) | The amendments, applicable to annual periods beginning on or after 1st January 2024, clarify a criterion in IAS 1 for classifying a liability as non-current: the requirement for an Company to have the right to defer settlement of the liability for at least 12 months after the reporting period | The amendments are effective for annual periods beginning on or after January 1, 2024. Earlier application is permitted. |
| Amendment to IFRS 16 titled Lease Liability in a Sale and Leaseback (issued in September 2022) | The amendment, applicable to annual periods beginning on or after 1st January 2024, requires a seller-lessee to subsequently measure lease liabilities arising from a leaseback in a way that it does not recognise any amount of the gain or loss. | The amendments are effective for annual periods beginning on or after January 1, 2024. Earlier application is permitted. |
| Amendments to IAS 1 titled Non-current Liabilities with Covenants (issued in October 2022) | The amendments, applicable to annual periods beginning on or after 1st January 2024, improve the information a Company provides about liabilities arising from loan arrangements for which a Company's right to defer settlement of those liabilities for at least twelve months after the reporting period is subject to the Company complying with conditions specified in the loan arrangement. | The amendments are effective for annual periods beginning on or after January 1, 2024. Earlier application is permitted. |

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

iii) Early adoption of standards

The Company did not early – adopt any new or amended standards in the year under review.

Notes to the financial statements (continued)

4) Summary of Accounting Policies

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

a). Revenue recognition

- Revenue is measured based on the consideration to which the Company expects to be entitled in a contract with a customer and excludes amounts collected on behalf of third parties. The Company recognizes revenue when it transfers control of a product or service to a customer.
- Revenue from the sale of goods and services is recognized in the year in which the Company delivers products/services to the customer, the customer has accepted the products/services and collectability of the related receivables is reasonably assured.
- Grants from Government Entities are recognized in the year in which the Company actually receives such grants. Recurrent grants are recognized in the statement of comprehensive income. Development/capital grants are recognized in the statement of financial position and realised in the statement of comprehensive income over the useful life of the assets that has been acquired using such funds.
- 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.
- Dividend income is recognized in the income statement in the year in which the right to receive the payment is established.
- Rental income is recognized in the income statement as it accrues using the effective interest implicit in lease agreements.
- Other income is recognized as it accrues.

b). In-kind contributions

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

c). Property, plant and equipment

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

Notes to the financial statements (continued)

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

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

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

The annual rates in use are:

| Item | Years | Rates |
|---|-------|--------|
| Furniture and Fittings | 8 | 12.50% |
| Computers and Accessories | 3 | 33.30% |
| Water meters and Distribution Pipelines | 5 | 20% |
| Motorcycle/ Vehicle | 4 | 25% |
| Water Tanks & Buildings | 40 | 2.50% |
| Laboratory Equipment & Loose tools | 8 | 12.50% |

A full year's depreciation charge is recognized both in the year of asset purchase and none in the year of asset disposal. Items of property, plant and equipment are reviewed annually for impairment and accounted for in line with the provisions in the standard.

e). Intangible assets

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

Intangible assets with indefinite useful lives that are acquired separately are carried at cost less accumulated impairment losses.

Notes to the financial statements (continued)

f). Amortisation and impairment of intangible assets

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

g). Investment property

Investment property, which is property held to earn rentals and/or for capital appreciation (including property under construction for such purposes), is measured initially at cost, including transaction costs. Subsequent to initial recognition, investment property is measured at fair value. Gains or losses arising from changes in the fair value of investment property are included in profit or loss in the period in which they arise.

An investment property is derecognized upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from the disposal. Any gain or loss arising from derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the period in which the property is derecognized.

h). Right of Use Asset

The right-of-use assets comprise the initial measurement of the corresponding lease liability, lease payments made at or before the commencement day, less any lease incentives received and any initial direct costs.

They are subsequently measured at cost less accumulated depreciation and impairment losses. Whenever the Company 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 Company 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 statement of financial position.

Notes to the financial statements (continued)

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. Fixed interest investments are freely traded at the Nairobi Securities Exchange. The bonds are measured at amortised cost or at fair value through profit or loss or at fair value through other comprehensive income (FVOCI). The company did not have Fixed interest bonds at the period.

j). Quoted investments

Quoted investments are classified as non-current assets and comprise marketable securities traded freely at the Nairobi Securities Exchange or other regional and international securities exchanges. Quoted investments are stated at fair value. The company did not have quoted investments in the period.

k). Unquoted investments

Unquoted investments stated at cost under non-current assets, and comprise equity shares held in other Government owned or controlled entities that are not quoted in the Securities Exchange. These are measured at fair value through profit or loss (FVTPL).

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 FIFO. 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 amortized cost 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 and when the necessary approval to write off is granted. Specific provision has been made on identified zones, and provisions made in Note 22 of this report.

Notes to the financial statements (continued)

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 Company 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 profit or loss statement. 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. 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.

ii) 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.

Deferred tax liabilities are recognized for all taxable temporary differences, except in respect of taxable temporary differences associated with investments in controlled entities, associates and interests in joint ventures, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognized for all deductible temporary differences, the carry forward of unused tax credits and any unused tax losses.

Deferred tax assets are recognized to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised, except in respect of deductible temporary differences associated with investments in controlled entities, associates and interests in joint ventures, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

Unrecognised deferred tax assets are re-assessed at each reporting date and are recognized to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Notes to the financial statements (continued)

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

o). 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 capitalised 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.

p). Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and cash at bank, short-term deposits on call and highly liquid investments with an original maturity of three months or less, which are readily convertible to known amounts of cash and are subject to insignificant risk of changes in value. Bank account balances include amounts held at various Commercial Banks at the end of the reporting period.

q). Borrowings

Interest bearing loans and overdrafts are initially recorded at fair value being received, net of issue costs associated with the borrowing. Subsequently, these are measured at amortised cost using the effective interest rate method. Amortised cost is calculated by considering 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.

Notes to the financial statements (continued)

r). Trade and other payables

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

s). Retirement benefit obligations

The Company has contracted CPF services to administer the staff pension services for all full-time employees from July 1, 2016. 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 6% of the basic pay per employee per month.

t). Provision for staff leave pay

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

u). Exchange rate differences

The accounting records are maintained in the functional currency of the primary economic environment in which the Company operates, Kenya Shillings. Transactions in foreign currencies during the year/period are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Any foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in profit or loss.

v). Budget information

The original budget for FY 2022-2023 was approved by the Board of Directors on August 28, 2022. Subsequent revisions were made to the approved budget in accordance with specific approvals from the board of directors. The additional appropriations are added to the original budget by the Company upon receiving the respective approvals in order to conclude the final budget. Accordingly, the Company recorded additional appropriations of Kshs (16,648,752) on the 2022-2023 budget following the governing body's approval. The Company'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 an accrual basis using a classification based on the nature of expenses in the statement of profit or loss, whereas the budget is prepared on a cash basis.

Notes to the financial statements (continued)

The amounts in the financial statements were recast from the accrual basis to the cash basis and reclassified by presentation to be on the same basis as the approved budget.

A comparison of budget and actual amounts, prepared on a comparable basis to the approved budget, is then presented in the statement of comparison of budget and actual amounts. In addition to the Basis difference, adjustments to amounts in the financial statements are also made for differences in the formats and classification schemes adopted for the presentation of the financial statements and the approved budget.

A statement to reconcile the actual amounts on a comparable basis included in the statement of comparison of budget and actual amounts and the actuals as per the statement of Comprehensive income has been presented under section 18 of these financial statements.

w). Service concession arrangements

The Company analyses all aspects of service concession arrangements that it enters into in determining the appropriate accounting treatment and disclosure requirements. In particular, where a private party contributes an asset to the arrangement, the Company 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 Company also recognizes a corresponding liability, adjusted by a cash consideration paid or received.

x). Comparative figures

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

y). Subsequent events

There have been no events subsequent to the financial year end with a significant impact on the financial statements for the year ended June 30, 2023.

Notes to the financial statements (continued)

5) Significant Judgments and Sources of Estimation Uncertainty

The preparation of the Company'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.

i) 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 Company 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 Company. Such changes are reflected in the assumptions when they occur.

ii) 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 for disposal:

- The condition of the asset based on the assessment of experts employed by the Company.
- 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.

iii) Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions is included in Note 31.

Provisions are measured at the management's best estimate of the expenditure required to settle the obligation at the reporting date and are discounted to present value where the effect is material. (Include provisions applicable for your organisation e.g. provision for bad debts, provisions of obsolete stocks and how management estimates these provisions)

Notes to the financial statements (continued)

6) Operating Revenue

| | 2022-23 | 2021-22 |
|----------------------------|--------------------|--------------------|
| | Kshs | Kshs |
| Water sales | 159,985,626 | 150,705,255 |
| Sewerage Services | 11,625,701 | 10,486,399* |
| Billing for other services | 5,704,040* | 4,495,000 |
| Total | 177,315,367 | 165,686,654 |

*Billing for sewer services has been separated and accounted for separately for the services.

*Billing for other services refers to income generated from services such as Meter test/, Replacement/, Turn Off/Turn Off, Sewer Connection, Surcharge, Reconnection Fee, Connection, Fees, Disposal of empties.

7) Grants Income

| | 2022-23 | 2021-22 |
|--|------------------|-------------------|
| | Kshs | Kshs |
| Recurrent/operational grants from other agencies (CLSG) | - | 30,382,078 |
| Capital grants amortised | - | - |
| Donations from County Governments | 5,493,682 | - |
| In Kind contribution/donations from other agencies (TWWDA) | - | 1,310,000 |
| Total | 5,493,682 | 31,692,078 |

(Note: For capital/development grants the amount recognized in the statement of comprehensive income should be the depreciation/amortisation equivalents for assets that have been acquired using such capital/development grant as per IAS 20).

Notes to the financial statements (continued)

A detailed analysis of grants received has been provided in the table below:

| Name of the Company sending the grant | Amount recognized in the Statement of comprehensive income KShs | Amount deferred under deferred income KShs | Amount recognised in capital fund. KShs | Total grant income during the year KShs | 2022-23 KShs |
|---------------------------------------|--|---|--|--|------------------|
| Department water environment | 5,493,682 | - | - | 5,493,682 | 5,493,682 |
| Water Sector Trust Fund | - | - | 2,004,525 | 2,004,525 | 2,004,525 |
| Total | 5,493,682 | - | 2,004,525 | 7,498,207 | 7,498,207 |

8) Other Income

| | 2022-23 Kshs | 2021-22 Kshs |
|--------------------------------|------------------|------------------|
| Disposal of assets | 102,300 | 58,400 |
| Fine and penalties | 1,094,700 | 2,244,274 |
| Compensation for loss of value | 8,686,872 | 664,040 |
| Recoveries for lost assets | 93,136 | - |
| Total | 9,977,008 | 2,966,714 |

9) Finance Income

| Description | 2022-23 Kshs | 2021-22 Kshs |
|---|------------------|------------------|
| Interest from commercial banks and financial institutions | 4,817,306 | 2,900,435 |
| Total | 4,817,306 | 2,900,435 |

10) Other Gains and Losses

| Description | 2022-23 Kshs | 2021-22 Kshs |
|---------------------------------|-----------------|-----------------|
| Gain on sale of fixed assets | - | - |
| Revaluation losses on inventory | - | - |
| Total | - | - |

Notes to the financial statements (continued)

11) Staff Costs

| Description | 2022-23 | 2021-22 |
|---|-------------------|-------------------|
| | Kshs | Kshs |
| Salaries | 73,812,473 | 67,198,501 |
| NSSF | 897,947 | 280,800 |
| NITA | 77,100 | - |
| Pension | 5,315,733 | 5,107,615 |
| Gratuity | 3,302,710 | 2,669,720 |
| Contract Employees | 1,224,555 | 1,498,500 |
| Total | 84,630,518 | 76,755,136 |
| The average number of employees at the end of the year was, | | |
| Permanent employees-Management | 5 | 4 |
| Permanent employees-Unionisable | 96 | 91 |
| Temporary and Contract Employee | 27 | 38 |
| Interns | 1 | 1 |
| | 129 | 134 |

During the year, the NSSF rates were revised and the company complied in compliance with the law and this resulted in increased NSSF for the period. The company also engaged staff on a temporary basis to bridge the organisation needs over the period.

12) General and Operations Expenses

| Description | 2022-2023 | 2021-2022 |
|---------------------------------|-----------|-----------|
| | Kshs | Kshs |
| Advertisement | 374,750 | 561,556 |
| AGM Costs | 1,110,118 | 491,022 |
| Audit fee | 464,000 | 464,000 |
| Bank Charges | 116,583 | 124,924 |
| Compensation for damages | 5,500 | 8,000 |
| Conference meetings | 1,157,800 | 841,950 |
| Corporate Social Responsibility | 154,130 | 518,178 |
| Customer Service Week | 545,065 | 221,640 |
| Electricity | 396,505 | 335,327 |

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| | 2022-2023 | 2021-2022 |
|---|------------|------------|
| Description | Kshs | Kshs |
| Electricity for Production | 1,552,878 | 1,013,352 |
| General Insurance | 1,197,053 | 716,945 |
| General Office expenses | 416,600 | 276,562 |
| Insurance Medical | 4,189,738 | 3,774,877 |
| Internet services | 441,060 | 408,000 |
| Journals and Newspaper | 45,840 | 41,740 |
| Kenya forest | 480,240 | 480,240 |
| Laboratory Reagents & Equipment | 633,301 | 146,370 |
| Lease | 615,100 | 491,900 |
| Lease fee & Regulatory levy | 7,140,495 | 6,739,177 |
| Legal & professional | 847,965 | 1,801,991 |
| Membership/Subscription fees | 250,400 | 229,900 |
| Milk Cost, Standby & Holiday expense | 1,076,400 | 832,600 |
| Motor Vehicle/Cycle Fuel and Lubricants | 6,070,310 | 4,801,570 |
| OSHA Compliance | 562,616 | 708,910 |
| Permits and licences | 301,944 | 76,050 |
| Postage and Delivery | 872,677 | 829,010 |
| Provision for Bad and Doubtful debts (General and Specific) | 44,456,761 | 23,524,650 |
| Public participation | 590,486 | - |
| Security | 2,868,000 | 2,680,000 |
| Sports | 194,464 | 1,737,325 |
| Staff end year party | 962,000 | 372,000 |
| Staff Uniforms | 490,300 | 405,740 |
| Staff welfare | - | 123,539 |
| Stationery & Printing | 892,285 | 624,088 |
| Strategic Plan Review | 1,960,904 | 3,005,708 |
| Telephone | 1,103,600 | 983,000 |
| Token of appreciation | 100,000 | 300,000 |
| Training costs board | - | 1,247,992 |
| Training staff | 2,361,829 | 3,513,945 |
| Travel & Subsistence | 3,110,551 | 3,626,010 |
| Water Abstraction Fee (WARMA) | 2,243,160 | 2,243,160 |

| | 2022-2023 | 2021-2022 |
|---------------------------|--------------------|-------------------|
| Description | Kshs | Kshs |
| Water Treatment Chemicals | 11,147,092 | 7,895,101 |
| WRUA Subscription | 20,000 | 20,000 |
| WSTF Appropriation | - | 8,500 |
| Total | 103,520,500 | 79,246,549 |

13) Board Expenses

| | 2022-23 | 2021-22 |
|-----------------------------|------------------|------------------|
| Description | KShs | KShs |
| Chairman Honoraria | 342,852 | - |
| Sitting allowances | 2,616,862 | 2,830,207 |
| Induction and Training | 3,618,606 | 2,125,797 |
| Total Board Expenses | 6,578,320 | 4,956,004 |

14) Maintenance Expenses

| | 2022-2023 | 2021-2022 |
|--|-------------------|-------------------|
| Description | Kshs | Kshs |
| Maintenance of Software | 708,430 | 701,680 |
| GIS costs | 154,600 | - |
| Motor Vehicles/cycles | 1,589,863 | 1,537,051 |
| Repairs and maintenance buildings | 1,214,561 | 611,385 |
| Repairs Computers & Computer accessories | 85,720 | 274,240 |
| Environment Conservation | 62,600 | 58,000 |
| Intake Maintenance | 282,630 | 845,230 |
| Minor Works | 13,144,582 | 3,390,490 |
| New connection Installation | 3,771,552 | 2,682,190 |
| Non-Revenue Management costs | 9,944,429 | 7,237,441 |
| Maintenance water system | 16,219,405 | 17,076,983 |
| Sewer System Maintenance | 431,123 | 487,496 |
| Total Maintenance Expenses | 47,609,495 | 34,902,186 |

Notes to the financial statements (continued)

15) Depreciation and Amortisation Expenses

| Description | Insert Current FY | Insert Comparative FY |
|--|----------------------|--------------------------|
| | KShs | KShs |
| Property, plant, and equipment | 3,960,160 | 4,764,989 |
| Intangible assets | 241,402 | 2,897,100 |
| Total Depreciation and Amortisation | 4,201,562 | 7,662,089 |

16) Finance costs

| | 2022-23 | 2021-22 |
|---------------------------|----------|----------|
| Description | Kshs | Kshs |
| Interest expense on loans | - | - |
| Total | - | - |

The company did not have any financial obligations in the period.

17) Income Tax Expense/(Credit)

Current taxation

| | 2022-23 | 2021-22 |
|---|------------------|----------------|
| | Kshs | Kshs |
| Current taxation based on the adjusted profit for the year at 30% | 1,445,192 | 870,131 |
| Current tax: prior year under/(over) provision | - | - |
| Current year deferred tax charge | - | - |
| Prior year under-provision for deferred tax | - | - |
| Total | 1,445,192 | 870,131 |

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

| | 2022-23 | 2021-22 |
|---|---------------------|------------------|
| | Kshs | Kshs |
| Loss before taxation | (68,520,395) | (276,083) |
| Tax at the applicable tax rate of 30% | (20,556,119) | (82,825) |
| Tax effect on expenses not deductible for tax | 1,321,983 | 9,422,757 |
| Tax effect on Incomes not deductible for tax | (1,648,105) | (10,377,754) |
| Tax effect on excess capital allowances | (2,194,904) | (2,450,045) |
| Deferred Tax prior year overprovision | - | - |

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| | 2022-23 | 2021-22 |
|--|---------------------|--------------------|
| | Kshs | Kshs |
| Tax effect on losses B/F net of loss C/F | (5,018,766) | (3,842,645) |
| Total | (96,616,306) | (7,606,595) |
| | | |
| Tax provision B/f | 435,066 | 430,050 |
| Reviewed assessment | 2,280,955 | |
| Tax Charge for the year | 1,445,192 | 870,131 |
| Payment in the year | (1,370,590) | - |
| WHT on interest | (337,720) | (865,115) |
| | 2,452,903 | 435,066 |
| Reported As: | | |
| Payable to related Party | 1,345,431 | - |
| Tax Provision in the year | 1,107,472 | 435,066 |
| | 2,452,903 | 435,066 |

The tax charge on the customer has been derived from interest income from fixed deposits held at commercial banks.

18) Earnings Per Share

The company is registered under the company act 2016 by guarantee. The company does not pay dividends. Surplus income is ploughed back to carry out asset renewal and extension works in subsequent financial periods.

19) Dividend Per Share

There are no proposed dividends to be accounted for as the company has no share capital. The company holds AGM where books are tabled before stakeholders and appointment of board members from interest groups.

Notes to the financial statements (continued)

20) Property, Plant and Equipment

| ASSETS | Furniture and Fittings | Computers and Accessories | Water meters and Distribution Pipelines | Motorecycle/ Vehicle | Water Tanks & Buildings | Laboratory Equipment & Loose tools | Work in Progress | Totals | Capital Grant |
|---------------------------------------|------------------------|---------------------------|---|----------------------|-------------------------|------------------------------------|------------------|--------------------|-------------------|
| | Kshs. | Kshs. | Kshs. | Kshs. | Kshs. | Kshs. | Kshs. | Kshs. | Kshs. |
| | 12.50% | 33.30% | 20% | 25% | 2.50% | 12.50% | | | 2.50% |
| Bal b/f (cost) at 017.22 | 3,086,658 | 11,079,426 | 94,769,696 | 7,477,240 | 7,590,350 | 3,414,873 | 0 | 127,418,243 | 8,201,900 |
| Additions during the year | 404,100 | 337,018 | | | 2,378,320 | 1,870,660 | 0 | 4,990,098 | 2,004,294 |
| Total Assets | 3,490,758 | 11,416,444 | 94,769,696 | 7,477,240 | 9,968,670 | 5,285,533 | 0 | 132,408,341 | 10,206,194 |
| Accumulated Dep. at 017.22 | 1,429,745 | 8,337,248 | 86,276,371 | 6,204,612 | 1,421,703 | 1,712,216 | 0 | 105,381,894 | 0 |
| Depreciation Charge for the year | 257,627 | 1,025,372 | 1,698,665 | 318,157 | 213,674 | 446,665 | 0 | 3,960,160 | 255,155 |
| Total Accumulated Depreciation | 1,687,372 | 9,362,620 | 87,975,036 | 6,522,769 | 1,635,377 | 2,158,880 | 0 | 109,342,053 | 255,155 |
| NBV. AT 306.23 | 1,803,386 | 2,053,824 | 6,794,660 | 954,471 | 8,333,293 | 3,126,653 | 0 | 23,066,288 | 9,951,039 |

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| ASSETS | Furniture and Fittings | Computers and Accessories | Water meters and Distribution Pipelines | Motorcycle/ Vehicle | Water Tanks & Buildings | Laboratory Equipment & Loose tools | Work in Progress | Totals | Capital Grant |
|---------------------------------------|------------------------|---------------------------|---|---------------------|-------------------------|------------------------------------|------------------|--------------------|------------------|
| | Kshs. | Kshs. | Kshs. | Kshs. | Kshs. | Kshs. | Kshs. | Kshs. | Kshs. |
| | 12.50% | 33.30% | 20% | 25% | 2.50% | 12.50% | | | 2.50% |
| Bal B/f (cost) at 017.21 | 1,950,473 | 8,796,865 | 94,769,696 | 6,862,240 | 4,163,211 | 3,048,873 | 3,946,707 | 123,538,065 | |
| Additions during the year | 1,136,185 | 2,282,561 | | 615,000 | 3,427,139 | 366,000 | - | 3,880,178 | 8,201,900 |
| Total Assets | 3,086,658 | 11,079,426 | 94,769,696 | 7,477,240 | 7,590,350 | 3,414,873 | 0 | 127,418,243 | 8,201,900 |
| | | | | | | | | | |
| Accumulated Dep. at 017.21 | 1,193,043 | 6,968,214 | 84,153,040 | 5,780,402 | 1,053,227 | 1,468,979 | 0 | 100,616,905 | |
| Depreciation Charge for the year | 236,702 | 1,369,034 | 2,123,331 | 424,210 | 368,476 | 243,237 | 0 | 4,764,989 | |
| Total Accumulated Depreciation | 1,429,745 | 8,337,248 | 86,276,371 | 6,204,612 | 1,421,703 | 1,712,216 | 0 | 105,381,894 | 0 |
| | | | | | | | | | |
| NBV. AT 306.22 | 1,656,913 | 2,742,178 | 8,493,325 | 1,272,629 | 6,168,647 | 1,702,657 | 0 | 22,036,349 | 8,201,900 |

Notes to the financial statements (continued)

Other Assets

The company does not have ownership for the land and buildings on which it operates as the properties are held by TWWDA which had responsibility for asset development, in addition the company does not have ownership over productions and distribution works developed by TWWDA which had the original mandate of asset development. Transfer of ownership has not been implemented. The company has not recognised the assets in its books.

Valuation

The Company does not have title for the land on which the buildings are located since the 2002 water act from which the company was established did not have provisions for asset ownership. The subsequent legislation i.e. water act 2016 allowed the company to have assets but the transfer process has not been completed. No valuation has been carried on the land and buildings.

Property, Plant and Equipment at Cost

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

| | Cost | Accumulated Depreciation | NBV |
|---|--------------------|--------------------------|-------------------|
| | Kshs | Kshs | Kshs |
| Furniture and Fittings | 3,490,758 | 1,687,372 | 1,803,386 |
| Computers and Accessories | 11,416,444 | 9,362,620 | 2,053,824 |
| Water meters and Distribution Pipelines | 94,769,696 | 87,975,036 | 6,794,660 |
| Motorcycle/ Vehicle | 7,477,240 | 6,522,769 | 954,471 |
| Water Tanks & Buildings | 18,170,570 | 1,840,424 | 8,333,293 |
| Laboratory Equipment & Loose tools | 5,285,533 | 2,158,880 | 3,126,653 |
| Work in Progress | - | - | - |
| | 132,408,341 | 109,342,053 | 23,066,288 |

Notes to the financial statements (continued)

21) Software

| | 2022-23 | 2021-22 |
|-----------------------|---------------------|---------------------|
| | Kshs | Kshs |
| Cost | | |
| At July 1 | 10,362,628 | 10,362,628 |
| Additions | 698,114 | - |
| Disposals | - | - |
| At June 30 | 11,060,742 | 10,362,628 |
| Amortisation | | |
| At July 1 | (10,353,928) | (7,456,828) |
| Charge for the year | (241,402) | (2,897,100) |
| Disposals | - | - |
| Impairment loss | - | - |
| At June 30 | (10,595,330) | (10,353,928) |
| Net book value | | |
| At June 30 | 465,412 | 8,700 |

Intangible assets relate to asset software procured for company operations which include Pick Pay ERP, and Sophos software application.

22) Deferred Asset

| Grants from the Government | 2022-23 | 2021-22 |
|--|------------------|------------------|
| | Kshs | Kshs |
| Bal b/d | 8,201,900 | 3,946,707 |
| Grants | 2,004,294 | 4,255,193 |
| Transfer of depreciation/amortisation from capital fund to retained earnings | (255,155) | - |
| Total | 9,951,039 | 8,201,900 |
| Classified as: | | |
| Deferred Current Asset | 248,776 | - |
| Deferred Non-Current Asset | 9,702,263 | - |
| | 9,951,039 | 8,201,900 |

The company acquired a grant to carry out capital asset development. In the previous financial period, the works were under construction and no allocation was made to the company. The government grant was recognised on the basis of IAS 20 after ensuring that there is reasonable assurance that (a) the Company will comply with any conditions attached to the grant and (b) the grant has been received. The grant is recognised as income over the period necessary to match them with the related costs, for which they are intended to compensate, on a systematic basis.

Notes to the financial statements (continued)

23) Inventories

| | 2022-23 | 2021-22 |
|--------------------------------|-------------------|-------------------|
| | Kshs | Kshs |
| General stores | 176,304 | 85,290 |
| Chemicals & Laboratory items | 1,379,153 | 1,183,300 |
| Water fittings and Accessories | 8,931,300 | 5,170,200 |
| Motor vehicle spare parts | 158,498 | 278,940 |
| Stationery and general stores | 248,494 | - |
| Finished goods | 1,580,000 | 3,339,669 |
| Water Inventory | 358,960 | |
| Total | 12,832,709 | 10,057,399 |

The stocks relate to stores held at the close of the financial period valued at cost.

24) Trade and Other Receivables

| | 2022-23 | 2021-22 |
|---|--------------------|--------------------|
| | KShs | KShs |
| Trade Receivables (24 a) | 233,561,580 | 236,983,968 |
| Other Receivables (24c) | 3,143,836 | 3,143,836 |
| VAT Recoverable (24d) | (284,650) | 68,510 |
| Staff Insurance Medical Cover | - | - |
| Gross Trade & Receivables | 236,420,766 | 240,196,314 |
| Provision for bad and doubtful receivable (24b) | (50,575,555) * | (71,095,190) |
| Specific Provisions for bad debts | (64,976,396) ** | |
| Net trade and other receivables | 120,868,815 | 169,101,124 |

*The provision for bad and doubtful debt Kshs. 50,575,555 has reduced over previous period due to accounts identified and a specific provision made.

**The company has been carrying out debt authentication in select areas. As at the close of the period, a total of 8,277 accounts in the area were not captured during the exercise of customer identification survey carried out. No phone number or coordinate has been picked to assist identification and therefore the collectability of the debt seems doubtful. The debt authentication exercise is ongoing.

Notes to the financial statements (continued)

a. Trade Receivables

| | 2022-23 | 2021-22 |
|--|--------------------|--------------------|
| | Kshs | Kshs |
| Gross trade receivables | 233,561,580 | 236,983,968 |
| Less specific provisions | (64,696,396) | |
| Receivables Net-of specific provisions | 168,585,184 | 236,983,968 |
| Provision for doubtful receivables | (50,575,555) | (71,095,190) |
| Net trade receivables | 118,009,629 | 165,888,777 |
| As at June 30, the ageing analysis of the gross trade receivables was as follows: | | |
| 1 month | -1,848,888 | 12,531,813 |
| 3 months | 14,194,737 | 6,554,035 |
| 6 months | 11,991,407 | 4,748,277 |
| 1yr | 4,246,820 | 3,662,526 |
| 2 Year | 1,397,555 | 209,487,318 |
| 3 Year | 725,226 | |
| 4 Year | 202,854,723 | |
| Total | 233,561,580 | 236,983,969 |

The ageing list has been revised to indicate the nature of aged debts at the company.

b. Reconciliation of Impairment Allowance for Trade Receivables

| Description | 2022-23 | 2021-22 |
|---------------------------------------|-------------------|-------------------|
| | KShs | KShs |
| At the beginning of the year | 71,095,190 | 47,570,540 |
| Additional provisions during the year | - | 23,524,650 |
| Recovered during the year | (20,519,635) | - |
| Written off during the year | - | - |
| At the end of the year | 50,575,555 | 71,095,190 |

Notes to the financial statements (continued)

c. Other Receivables

| | 2022-23 | 2021-22 |
|-------------------------|------------------|------------------|
| | Kshs | Kshs |
| Balance on TWSB account | 3,138,836 | 3,138,836 |
| Safaricom Ltd | 5,000 | 5,000 |
| | 3,143,836 | 3,143,836 |

d. VAT Recoverable

| Description | 2022-23 | 2021-22 |
|---------------------|----------------|-----------------|
| | KShs | KShs |
| VAT b/f | (68,510) | (758,281) |
| Debits | 1,755,461 | 1,552,134 |
| Credits | (1,182,383) | (862,276) |
| VAT Payment | (231,868) | |
| Adjustment credited | 11,949 | (87) |
| VAT C/F | 284,650 | (68,510) |

During the period, the company increased VAT charges due to increased metering resulting in higher vatable revenue as at the close of the period. The company was in a VAT payable position.

25) Short Term Deposits

| | 2022-23 | 2021-22 |
|---------------------------|-------------------|-------------------|
| | Kshs | Kshs |
| Commercial banks | | |
| Equity Bank | 10,000,000 | 20,000,000 |
| Cooperative Bank of Kenya | 10,000,000 | 10,000,000 |
| | 20,000,000 | 30,000,000 |

These relate to customer deposits held by the company in a call deposit account. The average effective interest on the call deposit as at June 30, 2023 was 7% (2022 6%)

Notes to the financial statements (continued)

26) Bank and Cash Balances

| | 2022-23 | 2021-22 |
|--|-------------------|-------------------|
| | Kshs | Kshs |
| Cash at Bank (KCB) | 3,218,315 | 2,991,281 |
| Cash at Bank (Equity Bank Development) | 337,596 | 3,611,368 |
| M-PESA Account | 536,761 | 458,360 |
| Cash at Bank-Equity Eazzy 24/7 | 329,911 | 95,574 |
| Cash at Bank (Coop Bank) Collection AC | 1,840,146 | 8,617,458 |
| Cash at Bank KCB (CLSG)-Closed | -* | 2,880 |
| Cash at Bank KCB(WSTF)-DTF | 853 | 853 |
| Cash at Bank KCB (ESCROW Account) | -* | - |
| Kenya Commercial Bank-Customer Deposit Account | 17,782,284 | 16,026,625 |
| Cash at Bank (Equity Bank)-TWWDA payment Account | 22,031,657 | 10,623,051 |
| Cash at Bank (Coop Bank)-County Settlement Account | 1,979,596 | 1,969,569 |
| | 48,057,119 | 44,397,019 |

*During the year the company closed CLSG held at KCB bank upon completion of WSTF support through CLSG funding program.

*In the same period, the company opened an escrow account with the same bank as a condition for consideration of a conditional grant for developmental purposes. The funds had not been released as at the close of the period.

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Notes to the financial statements (continued)

Detailed analysis of the cash and cash equivalents

| | | 2022-23 | 2021-22 |
|--|-----------------|-------------------|-------------------|
| Financial institution | Account number | KShs | KShs |
| a) Current account | | | |
| Cash at Bank (KCB) | 1101548886 | 3,218,315 | 2,991,281 |
| Cash at Bank (Equity Bank Devt) | 80290363165 | 337,596 | 3,611,368 |
| Sub- total | | 3,555,911 | 6,602,649 |
| b) Collection Accounts | | | |
| M-PESA Account | Pay bill 968200 | 536,761 | 458,360 |
| Cash at Bank-Equity Eazzy 24/7 | 802299032536 | 329,911 | 95,574 |
| Cash at Bank (Coop Bank) Collection AC | 1148509804000 | 1,840,146 | 8,617,458 |
| Sub- total | | 2,706,819 | 9,171,392 |
| c) Fixed deposits account | | | |
| Cash at Bank KCB (CLSG)-Closed | 1266914587 | - | 2,880 |
| Cash at Bank KCB(WSTF)-DTF | 1282412965 | 853 | 853 |
| Cash at Bank KCB (Escrow Account) | 1315339897 | - | - |
| Sub- total | | 853 | 3,733 |
| d) Others(specify) | | | |
| Kenya Commercial Bank-Customer Deposit Account | 1118358708 | 17,782,284 | 16,026,625 |
| Cash at Bank (Equity Bank)-TWWDA payment Account | 80290289364 | 22,031,657 | 10,623,051 |
| Cash at Bank (Coop Bank)-County Settlement Account | 1100509955300 | 1,979,596 | 1,969,569 |
| Sub- total | | 41,793,537 | 28,619,245 |
| Grand total | | 48,057,119 | 44,397,019 |

Notes to the financial statements (continued)

27) Deferred Current Asset

| Grants from the Government | 2022-23 | 2021-22 |
|--|------------------|------------------|
| | Kshs | Kshs |
| Bal b/d | 8,201,900 | 3,946,707 |
| Grants | 2,004,525 | 4,255,193 |
| Transfer of depreciation/amortisation from capital fund to retained earnings | (255,161) | - |
| Total | 9,951,264 | 8,201,900 |
| Classified as: | | |
| Deferred Current Asset | 248,782 | - |
| Deferred Non-Current Asset | 9,702,483 | - |
| | 9,951,264 | 8,201,900 |

28) Revenue Reserves

| Revenue Reserves | 2022-2023 | 2021-2022 |
|----------------------------------|--------------------|--------------------|
| | Kshs | Kshs |
| Brought Forward | 171,138,246 | 172,284,459 |
| Revision due to TWWDA adjustment | 20,488,542* | - |
| Surplus (loss) | (50,382,224) | (1,146,213) |
| | 141,244,564 | 171,138,246 |

*The revenue reserves represent amounts available for distribution to the Company's shareholders. Undistributed retained earnings are utilised to finance the Company's business activities. During the period, the retained earnings were adjusted due to prior year effects of revision of provisions for TWWDA fees.

29) Capital Grants

| | 2022-2023 | 2021-2022 |
|--|------------------|------------------|
| | Kshs | Kshs |
| Bal b/d | 8,201,900 | 3,946,707 |
| Grants | 2,004,525 | 4,255,193 |
| Transfer of depreciation/amortisation from capital fund to retained earnings | (255,161) | - |
| Total | 9,951,264 | 8,201,900 |

Notes to the financial statements (continued)

30) Trade & Other Payables

| | Kshs | Kshs |
|-------------------------|-------------------|-------------------|
| Trade payables | 1,297,997 | 779,297 |
| Dues to related Parties | 46,814,490 | 50,680,508 |
| Adjustments to TWWDA | (20,488,542) | - |
| Total | 27,623,945 | 51,459,805 |

The company during the period carried out a joint reconciliation for the amounts owed to TWWDA. This resulted in a restated balance as at the close of the period. The company has restated the noncurrent trade receivables in the year of recognition and revised the retained earnings. The value has also been separated as it relates to a period longer than one year.

31) Consumer Deposit

| Consumer Deposits | 2022-2023 | 2021-2022 |
|-------------------------|-------------------|-------------------|
| Balance Brought forward | 25,982,159 | 24,261,399 |
| Deposits for the year | 1,816,625 | 1,748,820 |
| Refund | (17,500) | (28,060) |
| | 27,781,284 | 25,982,159 |

Consumer deposits net of refunds are analysed as follows

| | Insert Current FY | % of the total | Insert Comparative FY | % of the total |
|----------------|----------------------|-------------------|-----------------------------|-------------------|
| Under one year | 1,816,625 | 6.54% | 1,748,820 | 6.73% |
| 1-2 years | 1,748,820 | 6.29% | 2,076,816 | 7.99% |
| 2-3 years | 2,076,816 | 7.48% | 1,740,000 | 6.70% |
| Over 3 years | 22,139,023 | 79.69% | 20,416,523 | 78.58% |
| Total | 27,781,284 | | 25,982,159 | |

Notes to the financial statements (continued)

32) Creditor Prepayments and Accruals

| Creditors Prepayments and Accruals | 2022-2023 | 2021-2022 |
|------------------------------------|-------------------|-------------------|
| Related Parties | 10,454,808 | 6,858,542* |
| Staff Costs | 1,146,010* | 5,383,858 |
| Creditors | 13,582,353 | 12,138,692* |
| Prepaid Accounts | 1,885,911 | 1,727,735 |
| | 27,069,082 | 26,108,827 |

*Related party figures have been revised to reflect change in payables relating to over 1 year.

*Staff costs related to accruals for the payments not settled at the close of the financial year.

*Creditors amount has been reviewed to indicate current values accrued in the year.

33) Provision for Tax

| Tax Provision | 2022-2023 | 2021-2022 |
|---|---------------------|--------------------|
| Loss before taxation | (68,315,348) | (276,083) |
| Tax at the applicable tax rate of 30% | (20,494,604) | (82,825) |
| Tax effect on expenses not deductible for tax | 1,260,469 | 9,422,757 |
| Tax effect on Incomes not deductible for tax | (1,648,105) | (10,377,754) |
| Tax effect on excess capital allowances | (2,194,904) | (2,450,045) |
| Deferred Tax prior year overprovision | - | - |
| Tax effect on losses B/F net of loss C/F | (5,018,766) | (3,842,645) |
| Total | (96,411,258) | (7,606,595) |
| | | |
| Tax Charge for the year | 1,445,192 | 870,131 |
| Payment in the year | (337,720) | (865,115) |
| Total | 1,107,472 | 447,555 |

34) Other Provisions

| Other Provision | 2022-2023 | 2021-2022 |
|--|----------------|----------------|
| Provision for Audit Services 2021/2022 | 464,000 | 464,000 |
| | 464,000 | 464,000 |

Notes to the financial statements (continued)

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Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions is included in Note 31.

The provision made in the year include;

- Provisions for audit fee
- Provisions for bad debts

| Description | Leave Provision | Bonus Provision | Gratuity provisions | Other Provisions | Total |
|---|-----------------|-----------------|---------------------|------------------|-----------|
| | KShs | | KShs | KShs | KShs |
| Balance at the beginning of the year | - | - | - | 464,000 | 464,000 |
| Additional Provisions | - | - | - | 464,000 | 464,000 |
| Provision utilised | - | - | - | 464,000 | (464,000) |
| Change due to discount and time value for money | - | - | - | - | - |
| Balance at the end of the year | - | - | - | 464,000 | (464,000) |

35) Retirement Benefit Obligations

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 6% per employee per month.

Other than NSSF the Company also has a defined contribution scheme operated by CPF Services Pension Fund. Employees contribute 7.5% while employers contribute 15% of basic salary. Employer contributions are recognized as expenses in the statement of financial performance within the period they are incurred

Notes to the financial statements (continued)

36) Notes to The Statement of Cash Flows

| | Insert Current FY | Insert Comparative FY |
|---|----------------------|-----------------------------|
| | Kshs | Kshs |
| (a) Reconciliation of operating profit/(loss) to cash generated from/ (used in) operations | | |
| Receipts | | |
| Operating Receipts | 177,315,367 | 168,653,368 |
| Capital Grants Income | 2,004,294 | 0 |
| Operating Grants Income | 5,493,682 | 31,692,078 |
| Finance Income | 4,817,306 | 2,900,435 |
| Other Income-compensation and recoveries | 9,977,008 | 1,748,820 |
| Customer Deposits | 1,816,625 | 1,727,735 |
| Total Receipts | 201,424,282 | 206,722,436 |
| Payments | | |
| Staff Costs | 84,630,518 | 74,061,415 |
| General and Operation Expenses | 59,063,739 | 56,482,722 |
| Board Expenses | 6,578,320 | 4,956,004 |
| Maintenance Expenses | 47,609,495 | 34,902,186 |
| Payment of income tax | 1,708,310 | 865,115 |
| Refund Of Customer Deposits | 17,500 | 28,060 |
| Payment to suppliers | 463,794 | 3,240,037 |
| Total Payments | 200,071,676 | 174,535,539 |
| Net Cash From/ (Used In) Operating Activities | 1,352,606 | 32,186,897 |
| (b) Analysis of cash and cash equivalents | | |
| Short term deposits | 20,000,000 | 30,000,000 |
| Cash at bank | 48,057,119 | 44,397,019 |
| Balance at end of the year | 68,057,119 | 74,397,019 |
| (c) Analysis of cash used in investments | | |
| Purchase of Property, Plant and Equipment (PPE) | (4,990,098) | (12,082,078) |
| Purchase of Asset under Grant | (2,004,294) | - |
| Proceeds from Disposal of PPE | - | (12,082,078) |
| Purchase of Intangible Assets | (698,114) | |
| Purchase of Property, Plant and Equipment (PPE) | (7,692,506) | (12,082,078) |

Notes to the financial statements (continued)

37) Other Disclosures

i). Related Party Disclosures

County Government of Nyeri

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

Other related parties include:

- The County Department in charge of Water
- Tana Water Works Development Agency
- WASREB (Water Services Regulatory Board)
- WARMA
- Water Sector Trust Fund
- Key management
- Board of directors
- Kenya Forest
- KCGWU

Transactions with related parties

| | 2022-23 | 2021-22 |
|---|-------------------|-------------------|
| | Kshs | Kshs |
| Sales to related parties | | |
| Water sales to Govt. agencies | 35,474,971 | 9,966,792 |
| Total | 35,474,971 | 9,966,792 |
| b) Purchases from related parties | | |
| Training and conference fees paid to govt. agencies | 212,000 | 823,350 |
| Purchases of electricity from KPLC | 1,949,383 | 1,558,710 |
| Levies by govt service providers | 9,403,655 | 8,212,674 |
| Total | 11,565,038 | 10,594,734 |
| Grants from the Government | | |
| Grants from National Govt Agencies | 2,004,525 | 8,156,546 |
| Grants from County Government | 5,493,682 | - |
| Total | 7,498,207 | 8,156,546 |

| | 2022-23 | 2021-22 |
|------------------------------------|-------------------|-------------------|
| | Kshs | Kshs |
| Key management compensation | | |
| Directors' emoluments | 2,616,862 | 2,337,600 |
| Compensation to key management | 8,913,600 | 8,181,357 |
| Total | 11,530,462 | 10,518,957 |

ii). Financial Risk Management

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

a. Credit risk

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

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

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

Notes to the financial statements (continued)

| | Total amount Kshs | Fully performing Kshs | Past due but not impaired Kshs | Past due and Impaired Kshs |
|---------------------------------------|----------------------|-----------------------------|--------------------------------------|-------------------------------------|
| At 30 June 2023 | | | | |
| Trade Receivables | 233,561,580 | 98,990,274 | 69,594,911 | 64,976,396 |
| Other Receivables | 2,859,186 | 2,859,186 | 0 | 0 |
| Investments | 0 | 0 | 0 | 0 |
| Bank balances | 68,057,119 | 74,397,019 | 0 | 0 |
| Total | 304,477,885 | 176,246,479 | 69,594,911 | 64,976,396 |
| At 30 June 2022(previous Year) | | | | |
| Receivables | 7,833,815 | 987,793 | 63,998,139 | 72,819,748 |
| Other Receivables | 1,764,000 | 0 | 0 | 1,764,000 |
| Total | 9,597,815 | 987,793 | 63,998,139 | 74,583,748 |

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

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

b. Liquidity risk management

Ultimate responsibility for liquidity risk management rests with the Company's directors, who have built an appropriate liquidity risk management framework for the management of the Company's short, medium and long-term funding and liquidity management requirements. The Company manages liquidity risk through continuous monitoring of forecasts and actual cash flows. The table below represents cash flows payable by the company under non-derivative financial liabilities by their remaining contractual maturities at the reporting date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances, as the impact of discounting is not significant.

Notes to the financial statements (continued)

| | Less than 1 month | Between 1- 3 months | Over months | 5 Total |
|---------------------------------|----------------------|------------------------|-------------------|-------------------|
| | Kshs | Kshs | Kshs | Kshs |
| At 30 June current year | | | | |
| Trade payables | 6,202,824 | 6,206,865 | 2,470,661 | 14,880,350 |
| Current portion of borrowings | - | - | - | - |
| Provisions | 1,571,468 | - | - | 1,571,468 |
| Deferred income | - | - | - | - |
| Employee benefit obligation | 1,146,010 | - | - | 1,146,010 |
| Total | 8,920,302 | 6,206,865 | 2,470,661 | 17,597,828 |
| At 30 June previous year | | | | |
| Trade payables | 7,585,325 | 2,893,807 | 32,677,107 | 43,156,239 |
| Current portion of borrowings | - | - | - | - |
| Provisions | 911,554 | - | - | 911,554 |
| Deferred income | - | - | - | - |
| Employee benefit obligation | - | - | - | - |
| Total | 8,496,879 | 2,893,807 | 32,677,107 | 44,067,793 |

c. Market risk

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

Market risk is the risk arising from changes in market prices, such as interest rate, equity prices and foreign exchange rates which will affect the company's income or the value of its holding of financial instruments.

The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return. Overall responsibility for managing market risk rests with the Audit and Risk Management Committee.

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

Notes to the financial statements (continued)

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

The carrying amount of the Company's foreign currency denominated monetary assets and monetary liabilities at the end of the reporting period are as follows:

| | Kshs | Other currencies | Total |
|--|-------------|---------------------|-------------|
| | Kshs | Kshs | Kshs |
| At 30 June Current Year | | | |
| Financial assets | | | |
| Investments | | | |
| Cash | - | - | - |
| Debtors | 68,057,119 | - | 68,057,119 |
| Financial Liabilities | 101,849,460 | 248,782 | 102,098,241 |
| Trade and other payables | | | |
| Borrowings | 54,693,026 | 29,352,752 | 84,045,779 |
| Net foreign currency asset/(liability) | - | - | - |

The Company manages foreign exchange risk from future commercial transactions and recognised assets and liabilities by projecting for expected sales proceeds and matching the same with expected payments.

| | Kshs | Other currencies | Total |
|--|--------------------|---------------------|--------------------|
| | Kshs | Kshs | Kshs |
| At 30 June Previous year | | | |
| Financial assets | | | |
| Investments | 0 | 0 | 0 |
| Cash | 54,292,201 | 0 | 54,292,201 |
| Debtors | 241,754,817 | 0 | 241,754,817 |
| Financial Liabilities | | | |
| Trade and other payables | 149,098,228 | 0 | 149,098,228 |
| Consumer Deposit | 24,261,399 | 0 | 24,261,399 |
| Net foreign currency asset/(liability) | 122,687,391 | 0 | 122,687,391 |

Notes to the financial statements (continued)

d. Interest rate risk

Interest rate risk is the risk that the Company's financial condition may be adversely affected as a result of changes in interest rate levels. The company's interest rate risk arises from bank deposits. This exposes the company to cash flow interest rate risk. The interest rate risk exposure arises from interest rate movements on the company's deposits.

• Management of interest rate risk

To manage the interest rate risk, management has endeavoured to bank with institutions that offer favourable interest rates.

• Sensitivity analysis

The Company analyses its interest rate exposure on a dynamic basis by conducting a sensitivity analysis. This involves determining the impact on profit or loss of defined rate shifts. The sensitivity analysis for interest rate risk assumes that all other variables, in particular foreign exchange rates, remain constant. The analysis has been performed on the same basis as the prior year.

Using the end of the year figures, the sensitivity analysis indicates the impact on the statement of comprehensive income if current floating interest rates increase/decrease by one percentage point as a decrease/increase of Kshs 802,884 (2022: Kshs483,406). A rate increase/decrease of 5% would result in a decrease/increase in profit before tax of Kshs 4,014,422 (2022 – Kshs 2,417,02)

iii). Fair value of financial assets and liabilities

Financial instruments measured at fair value

Determination of fair value and fair values hierarchy

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

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

Notes to the financial statements (continued)

iv). Capital Risk Management

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

| | 2022-23 | 2021-22 |
|--|--------------------|--------------------|
| | Kshs | Kshs |
| Revaluation reserve | - | - |
| Retained earnings | 121,866,248 | 171,138,246 |
| Capital reserve | - | - |
| Total funds | 121,866,248 | 171,138,246 |
| Total borrowings | - | - |
| Less: cash and bank balances | (68,057,119) | (74,397,019) |
| Net debt/ (excess cash and cash equivalents) | (68,057,119) | (74,397,019) |
| Gearing | -55.85% | -43.47% |

v). Incorporation

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

vi). Events After the Reporting Period

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

20. Appendices

Appendix 1: Progress on follow up of auditor recommendations.

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

| Reference No. on the external audit Report | Issue / Observations from Auditor | Management comments | Status: (Resolved / Not Resolved) | Timeframe: |
|---|---|---|-----------------------------------|------------|
| 1. Long outstanding trade & Other Receivables | Provisions for bad and doubtful debts made by management of Kshs71,095,190 appear inadequate considering the large debt balance and the long period of time the debts have been outstanding. Validity accuracy and recoverability of trade & trade & another receivable amount of Kshs 169,101,123 could not be confirmed | The management has reviewed the policies made in regard to the debts and taken the following measure. <ul style="list-style-type: none"> • Debt authentication exercise in identified zones. • Specific provisions for accounts not traced on the ground in addition to general provisions. This is an ongoing exercise • Continued review of policies to help debt management and increase collection efficiency. | Ongoing resolution | 2 years |
| 2. Long outstanding lease fees | The amounts owed to related party includes 44,470,699 owed to TWWDA for the period 2018-19 and earlier period. Had not been remitted as at June 2022. The validity accuracy and completeness of the creditors prepayments and accrual could not be confirmed. | The committee has taken the following measures to solve the matter: <ul style="list-style-type: none"> • Reconciliation of the lease fee and agreed upon a figure. • Revision of the lease fee balance as per agreed figures. • Revision of the financial report to reflect actual amount. • The management, TWWDA and the county have reached an agreement on ringfencing of the funds to company area of operation and have agreed on a common project. | Ongoing | 1year |

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| | | | | |
|---|---|--|--------------|--------|
| | | <ul style="list-style-type: none"> Pending submission of the finances upon identification and contracting. | | |
| OTHER MATTERS | | | | |
| 1. Lack of ethnic diversity | The company has 93 staff out of which 87(94%) are from dominant community contrary to law. | The company continues to encourage diversity by advertising for position in the national dailies and encouraging both gender and other communities to apply. | Not resolved | 5years |
| Personnel cost in excess of recommended threshold | The ratio is higher than the limit of 35% as per WASREB guidelines | The management has continued to evaluate the business risk exposure based on the cost. A need to balance between costs and efficiency. The following are the current measures taken by the company. <ul style="list-style-type: none"> To reduce the ratio of staff costs compared to other cost. The company has also submitted a tariff proposal to WASREB that would enable the company run | Continuous | 2025 |
| Failure to update water Tariff | Gazetted tariff in June 2013. The tariff levied may negatively impact the company profitability and sustainability. | The company has submitted a tariff to WASREB and is making follow up for the completion of the exercise | Ongoing | 2023 |
| 4. High Non-revenue water | The company has 39.7% NRW representing 14.7%over and above the threshold of 25% set by WASREB | The company has committed finances towards NRW reduction through meter replacement, pipeline replacement and reorganisation of networks. The company has developed a NRW reduction plan and also anchored the reduction to the 2023-27 strategic plan. | Ongoing | 2027 |

Moses N. N. Munyi
(Managing Director)

Signature.....


Date:.....27/01/2024.....

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Appendix II: Projects Implemented by the Company
Projects

| Project title | Project Number | Donor | Period/duration | Donor commitment | Separate donor reporting required as per the donor agreement (Yes/No) | Consolidated in these financial statements (Yes/No) |
|------------------------------|------------------|-------|-----------------|------------------|---|---|
| Completion of Mukurweini DTF | WSTF/DTF/2019-22 | WSTF | 3YRS | 2,004,525 | NO | YES |

Status of Projects completion

(Summarise the status of project completion at the end of the reporting period, i.e., total costs incurred, stage which the project is etc.)

| | Project | Total project Cost | Total expended to date | Completion % to date | Budget | Actual | Sources of funds |
|---|------------------------------|--------------------|------------------------|----------------------|------------|------------|------------------|
| 1 | completion of Mukurweini DTF | 10,206,425 | 10,206,425 | 100% | 10,206,425 | 10,206,425 | WSTF Grant |