

PARLIAMENT  
OF KENYA  
LIBRARY

# REPORT

OF

**THE AUDITOR-GENERAL**

ON

PAPERS LAID	
DATE	23/02/2022
TABLED BY	Sml
COMMITTEE	-
CLERK AT THE TABLE	GETRUDE

**KARURI WATER AND SANITATION  
COMPANY LIMITED**

**FOR THE YEAR ENDED  
30 JUNE, 2020**

# KARURI WATER AND SANITATION COMPANY LIMITED

OFFICE OF THE AUDITOR GENERAL  
CENTRAL HUB

**08 APR 2021**

**RECEIVED**  
P. O. Box 267-10100, NYERU



## ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED

**30<sup>th</sup> JUNE 2020**

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

<b>Table of Contents</b>	<b>Page</b>
Key Entity Information .....	iii-iv
Board of Directors .....	v-viii
Management Team .....	ix-x
Chairman’s Statement .....	xi
Report of the Managing Director .....	xii
Corporate Governance Statement .....	xiii-xiv
Management Discussion and Analysis .....	xv-xvi
Corporate Social Responsibility Statement .....	vii-xviii
Report of the Directors .....	xix
Statement of Directors’ Responsibilities .....	xx
Report of the Independent Auditor/Auditor General .....	xxi
Statement of Profit or Loss & other Comprehensive Income .....	1
Statement of Financial Position .....	2
Statement of Changes in Equity .....	3
Statement of Cash Flows .....	4
Statement of Comparison of Budget and Actual .....	5
Explanatory Notes to the Financial Statements .....	6-25
Appendix I: Progress on follow up of Auditors Recommendations .....	26-30
Appendix II: Projects Implemented by the Entity .....	31
Appendix III: Inter-Entity Transfers .....	32
Appendix IV: Recording of Transfers from Other Government Entities .....	33

## KEY ENTITY INFORMATION

### Background Information

Karuri Water and Sanitation Company Limited is a public company (herein referred to as KAWSCO) which was registered under the Companies Act on 24<sup>th</sup> April 2007 and in accordance with the Water Act 2002. The Company started its operations on 1<sup>st</sup> June 2008 and had its first board meeting on 4<sup>th</sup> November 2008. The company has seven directors and its core function is water delivery within Kiambaa Sub-County's area of jurisdiction which covers five administrative wards namely Kiambaa, Muchatha, Ndenderu, Cianda and Kihara. The County Government of Kiambu is the shareholder of the company. During the period under review, the company had nineteen (19) permanent staff and nineteen (19) staff under contract.

### Principal Activities

The principal activity of the company is to distribute water from our sources to individual and commercial consumers within our jurisdiction.

### Directors

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

- |                               |                   |                     |
|-------------------------------|-------------------|---------------------|
| 1. Prof. Eng. Bernard Njoroge | - Chairman        | - Appointed in 2018 |
| 2. Eng. Philip Gichuki        | - Chief Executive | - Appointed in 2018 |
| 3. Emma Nganga                |                   | - Appointed in 2018 |
| 4. Eng. Andrew Muigai         |                   | - Appointed in 2018 |
| 5. Dominic Ichugu Gachanja    |                   | - Appointed in 2018 |
| 6. Bishop Solomon Waweru      |                   | - Appointed in 2018 |
| 7. Samuel Gatama              |                   | - Appointed in 2018 |
| 8. Ndungu Wa Munywe           |                   | - Appointed in 2018 |
| 9. Prof. Stephen Njuguna      |                   | - Appointed in 2018 |
| 10. James Muriuki             |                   | - Appointed in 2018 |

### Corporate Secretary

Josephine Muritu  
P.O. Box 2344-00900  
Kiambu

### Registered Office

Davekon Palace  
Banana-Limuru Road  
P.O Box 818-00219,  
Karuri, KENYA

**Karuri Water & Sanitation Company Ltd**  
**Annual Reports and Financial Statements**  
**For the year ended June 30, 2020**

---

**Corporate Contacts**

Telephone: (254) 0727484139

Email: [info@karuriwater.co.ke](mailto:info@karuriwater.co.ke)

Website: [www.karuriwater.co.ke](http://www.karuriwater.co.ke)

**Corporate Bankers**

Post Bank- Karuri branch

Head Office

P.O. Box 30311-0100

Nairobi, Kenya

Family Bank- Banana branch

Head Office

P.O. Box 74145-00200

Nairobi, Kenya

Co-operative bank-Ruaka Branch

Head Office

P.O. Box 48231 - 00100,

NAIROBI

Equity Bank-Ruaka Branch

Head Office

P.O. Box 75104-00200

Nairobi, Kenya

Safaricom M-Pesa money transfer service

Paybill No. 544500

**Independent Auditors**

Auditor General

Kenya National Audit Office

Anniversary Towers, University Way




P.O Box 30084

GPO 00100

NAIROBI, Kenya

**BOARD OF DIRECTORS**





The core functions of the board of directors are to formulate policies to ensure sustainability of the company, effective and efficient management of the company's resources geared towards equitable supply of water within the company's area of jurisdiction.

<p><b>Prof. Eng. Bernard Njoroge</b> Chairman</p> 	<p><b>DoA:</b> 2018</p> <p><b>Qualification:</b> Ph.D Duke University (U.S.A); M.Sc. New Castle Upon Tyne (U.K); B.Sc.(U.O.N.), Civil Engineering Eng.; M.I.E.K.</p> <p><b>Work Experience:</b> DVC Finance University of Nairobi, U.O.N Professor Faculty of Engineering from year 2002</p>
<p><b>Mr John Mwivithi Mutie</b> Chief Officer Water and Director</p> 	<p><b>DoA:</b> 1st March 2019</p> <p><b>Qualification:</b> LLB (UoN); CPS(K)</p> <p><b>Work Experience:</b> Worked with the defunct local Authorities as town clerk/County Clerk in various Local Authorities. Served as County Assembly Clerk/ Secretary to County Assembly of Kiambu. Currently on secondment to County Executive as Chief Officer Department of Water, Environment, Energy and Natural Resources. Also assignment Department of Administration and Public Service as the Acting Chief Officer</p>
<p><b>Josphine W. Muritu</b> Company Secretary</p> 	<p><b>DoA:</b> 2018</p> <p><b>Qualification:</b> LLB (UoN)</p> <p><b>Work Experience:</b> Worked with Kiambu County Government Senior Legal Counsel, Assistant Director (Quality Assurance, compliance and Accreditation), Assistant Commission Secretary (Legal Affairs), Assistant Counsel Mwaniki &amp; Company Advocates, Counsel Musyimi &amp; Company Advocates</p>





Karuri Water & Sanitation Company Ltd

Annual Reports and Financial Statements

For the year ended June 30, 2020


<p><b>Prof Steven Njuguna</b> Director</p> 	<p><b>DoA :</b> 2018</p> <p><b>Qualification:</b> Phd, Msc, Bsc(1<sup>st</sup> Class Hons) Environmental Science, Diploma in Education</p> <p><b>Work Experience:</b> Kenyatta University, Faculty of Environmental Studies</p>
<p><b>Mr. James Gitau Muriuki</b> Director</p> 	<p><b>DoA :</b> 2018</p> <p><b>Qualification:</b> Bachelor of Science in Chemistry/Biochemistry, Msc. Environmental Health Engineering</p> <p><b>Sector:</b> Representative of Water Consumers</p> <p><b>Work Experience:</b> Ministry of Water and Irrigation, Technical Consultant on Water and Waste water Treatment and Quality Analysis; Environmental Audits, Environmental Impact Assessments (EIA).</p>
<p><b>Mr Samuel Gatama</b> Director</p> 	<p><b>DoA :</b> 2018</p> <p><b>Qualification:</b> Business man, S 1 Teacher</p> <p><b>Work Experience:</b> Retired teacher over 30Years Experience</p>
<p><b>Eng. Andrew Muigai</b> Director</p> 	<p><b>DoA :</b> 2018</p> <p><b>Qualification:</b> Bsc Civil Engineering UON</p> <p><b>Work Experience:</b> Director Kenya Industrial Research and Development Institute</p> <p>Entrepreneur Engineer and Management Consultant</p>

**Karuri Water & Sanitation Company Ltd**  
**Annual Reports and Financial Statements**  
**For the year ended June 30, 2020**

<p><b>Emma Waithera Ng'ang'a</b> Director</p> 	<p><b>DoA :</b> 2018</p> <p><b>Qualification:</b> Msc Corporate Entrepreneurship</p> <p><b>Work Experience:</b> 40 years' experience in Business and Marketing</p>
<p><b>Mr Ndung'u Wa Munywe</b> Director</p> 	<p><b>DoA :</b> 2018</p> <p><b>Qualification:</b> Bachelor of Arts, Advanced Public Administration</p> <p><b>Work Experience:</b> Worked with UON as Senior Administration Assistant. Ministry of Water and Ministry of Commerce</p>
<p><b>Dominic Gachanja</b> Director</p> 	<p><b>DoA :</b> 2018</p> <p><b>Qualification:</b> Doctor in Pharmacy</p> <p><b>Work Experience:</b> Businessman Thika, Board Member Land Control Board</p>
<p><b>Bishop Solomon Waweru</b> Director</p> 	<p><b>DoA :</b> 2018</p> <p><b>Qualification:</b> Retired Public Officer</p> <p><b>Work Experience:</b> Bishop of A Church Representative of NGOs</p>



**Karuri Water & Sanitation Company Ltd**  
**Annual Reports and Financial Statements**  
**For the year ended June 30, 2020**

---

<p><b>Dr. Martin Njogu Mbugua</b> Director</p> 	<p><b>DoA :</b> 2018</p> <p><b>Qualification:</b> Doctor of Philosophy - Chemistry</p> <p><b>Work Experience:</b> Lecturer and researcher, Department of Chemistry/UoN</p>
--	--

**MANAGEMENT STAFF**




The management staff during the year was as follows:

<p>1</p>	<p><b>Mr John P. Karioki-</b>  <b>Managing Director</b></p>  <p>Dip. Ground Water          Technology</p>	<p>He is responsible for: Coordinating the day to day management of the Company</p> <p>Monitoring and assessing management’s performance</p> <p>Ensuring that the company complies with the legal and governance framework of the company</p> <p>Ensuring institutional transformation in accordance with corporate strategy</p>
<p>2</p>	<p><b>Mr James Njoroge -</b>  <b>Technical Manager</b></p>  <p>BSC Environmental          Health</p>	<p>He is responsible for all the technical aspects of water production and distribution. He is also tasked with overseeing field operations and ensuring that the Company progressively increases coverage to the underserved areas.</p> <p>He is also responsible for ensuring that the company keeps the non-revenue water (NRW) within acceptable standards.</p>

**Karuri Water & Sanitation Company Ltd**

**Annual Reports and Financial Statements**

**For the year ended June 30, 2020**

3	<p><b>Ms Esther Muthoni –</b> Commercial Manager</p>  <p>BCOM &amp; CPAK</p>	<p>She is responsible for all the commercial activities and tasks of the company.</p> <p>This includes meter reading, billing and new connections so as to ensure that the company maximises its produced volumes.</p> <p>She also ensures that the metering ratio of the company remains at 100%.</p>
4	<p><b>Ms Monica Kimani –</b> Procurement Officer</p>  <p>BBA Supplies &amp; Purchasing</p>	<p>She is responsible for making all purchases for the company in line with the Public Procurement and Asset Disposal Act, 2015 as well as the regulations thereof.</p> <p>She also supervises the issuing and accounting of store items.</p>
5	<p><b>Mr Cyrus M. Maina –</b> Senior Accountant</p>  <p>BED Arts &amp; CPA1</p>	<p>He is in charge of the finance department that is entrusted with accounting and finance functions of the company.</p> <p>He oversees the preparation of financial statements according to the Public Finance Management Act 2012 as well as International Financial Reporting Standards (IFRS).</p> <p>He is also in charge of Revenue collection which entails disconnections and reconnections.</p>

## **CHAIRMAN'S STATEMENT**


Karuri Water and Sanitation Co. Ltd has had a relatively challenging financial year, our main challenge continues to be the lack of high yielding and cost-effective gravity sources of water.

However, as far as water sources are concerned, the county Government of Kiambu in the year under review together with the company laid down 11.7km, DN160 HDPE pipeline line from Limuru Water's Tigoni Treatment works to Karuri's Gachorue Tank in a bulk water arrangement. This is expected to gravitate about 1000 m<sup>3</sup> per day. The Ruaka Dam project has been taken over by the National Water Corporation and they are in the process of looking into the project design afresh.

The Kiambu-Ruaka Sewer project is another project expected to increase revenue for the company it involves Installation of DN450, 21.388km Trunk sewers, DN300, 18.8km Lateral sewers and connection of 1000 households as well as laying of DN90, 2.4km pipes and DN50, 6.5km. However, survey and Design of sewer lines is pending an approval to undertake survey in Karura Forest.

Satisfying our customers and creating stakeholder value remain our cherished goals. As we look into the future, our resolve is to remain focused to achieve these goals through securing adequate water supply, distribution capacity, reducing losses, increase in coverage and expansion of our customer base. We are also expanding our social responsibility by providing our services to the low income areas through maintenance of water kiosks where water is affordable to residents who don't have individual household connections in those areas.

The single biggest challenge in the year under review, like in past years, has been the rising cost of water operations. Our highest expenditure remains electricity and the purchase of Bulk Water from Nairobi Water Co. Ltd accounting for 21% and 24% of our total expenditure respectively. These and other operating costs have led to a deficit in the year which we hope to reverse with an upward tariff adjustment as well as cheaper sources of water.



**Chairman of the Board**

## REPORT OF THE MANAGING DIRECTOR

The financial year ending 30<sup>th</sup> June 2020 has had both challenges and achievements, it has seen us continue to implement our core mandate of water distribution in Kiambaa Sub-County and hopefully in future we shall also begin providing sewer services.

### Achievements

The company welcomes the gravity water from Tigoni Treatment Works and hopes that the additional water will help meet demand in some key zones where we had halted new connections due to acute strain on the current production; it will also supplement bulk water purchase from Nairobi Water off-takes which has greatly reduced in recent months.

As at 30<sup>th</sup> June 2020, the company had 10,206 registered connections. Of these 7,310 were active while 2,896 were inactive. During the year, 136 new customers were connected against a target of 1,000 new connections. We missed the target largely due to Nairobi Water reduced supply days from the initial two days a week to one day as well areas served by boreholes have also been experiencing prolonged rationing with some zones getting supply twice in a month, consequently the company has also stopped new connections in such areas until we get new water sources.

The average annual meter reading efficiency for the year was 94.4% while the annual billing efficiency was 91%.

The collection efficiency was 90% against a target of 96%, this was due to the COVID-19 pandemic effect on the collections of the fourth quarter. The average number of paying customers for the year stood at 76%.

### Challenges

The company has reported a loss of Kshs. 7,048,924 compared to a loss of Kshs. 6,224,909 for last year. This has been occasioned by increased cost of doing business which grew in the year under review coupled with the negative effects of the Covid-19 pandemic in the last part of the year under review.

The company continues to pay the largest portion of its revenue to operation costs specifically electricity and purchase of bulk water, in the year ended 30<sup>th</sup> June 2020 the company incurred Kshs. 23,861,493 and Kshs. 15,411,870 on these two items respectively. This represents 46% of the total expenditure in the year.

Managing Director,



John P. Karioki

## **CORPORATE GOVERNANCE STATEMENT**

The Company regards good corporate governance as crucial to the success of the business and is committed to practice it so that it remains a sustainable and viable business. This Statement sets out the main corporate governance practices and structures in the Company.

The following Corporate governance guidelines and principles are applied in the Company to govern the Board and the staff. WASREB guidelines on Corporate Governance for Water companies specify best corporate governance principles and others like the Code of Ethics for directors and the Public Officer Ethics Act, 2003 that applies to public officers.

Directors exercise independent judgment and professional competencies for effective governance of the Company as set out in their terms of reference which clearly spells out important governance arrangements covering appointment of directors.

The Directors' Code of Conduct sets out rules that govern the conduct of individual directors in order to enable the Board to operate effectively and in the best interests of the Company. The Code of Conduct sets out rules for directors to among others: act honestly, in good faith and for the best interest of the Company, exercise duty with care and diligence, avoidance and management of conflict of interest, maintain confidentiality of information about the Company, showing commitment to and attend to Company's business and respect to fellow directors.

### **Conflict of Interest**

Directors are required to make a written disclosure of any transaction in which they have interest and which would constitute a conflict of interest and to abstain from voting when such matters are being considered. Business transactions with all parties, directors or their related parties are carried out at arms' length.

### **Role and Responsibilities of the Board**

The Board provides leadership and strategic direction to the Company. Their main responsibilities are:

- Establishing the short and long-term goals of the Company and strategic plans to achieve those goals.

- Ensuring preparation of the annual, half-year and quarterly financial statements.
- Approval and review of the annual budgets.
- Setting and periodically reviewing key performance indicators and management performance.
- Ensuring that the Company has adequate systems of internal controls.
- Ensuring that the Company has adequate risk management plans to ensure business continuity.

#### **Role of Chairman of the Board of Directors**

The Chairman is primarily responsible for providing leadership to the Board, Chairing Board meetings and general meetings of members. The chairman also ensures that the Board is supplied with timely and sufficient information to enable it to discharge its duties effectively.

#### **Managing Director**

The Managing Director is the Chief Executive Officer of the company responsible for the day to day management of the Company. He is also the secretary of the board.

#### **Directors Training and Development**

The Company recognizes the importance of having a well informed and fully empowered Board of Directors. In this regard, relevant training and capacity development opportunities are organized to equip directors with skills and knowledge necessary to effectively perform their responsibilities when funds are available.

#### **Board Work plan and Meetings**

A work plan and schedule of meetings is prepared annually in advance. The Board meets at least once in a quarter or more depending on the requirements of the business. Directors receive adequate notice for meetings and detailed papers on issues to be discussed

## **MANAGEMENT DISCUSSION AND ANALYSIS**

The following is an analysis of the key highlights in the financial quarter under review in the following categories:

1. Key implemented, ongoing and proposed projects
2. Compliance with statutory requirements

### **1) KEY IMPLEMENTED, ONGOING AND PROPOSED PROJECTS**

#### **A. Implemented Projects**

##### **Supply from Limuru Water and Sewerage Co. Ltd**

The county Government of Kiambu funded a line from Tigoni Water Works which is under Limuru Water and Sewerage Co. to Karuri. This was substantially complete by the end of year and is expected to supply 1000 m<sup>3</sup> of water daily.

#### **B. Ongoing Projects**

##### **Kiambu-Ruaka Sewer project**

This project involves the following components:

- Installation of DN450, 21.388km Trunk sewers, DN300, 18.8km Lateral sewers and connection of 1000 households
- Laying of DN90, 2.4km pipes and DN50, 6.5km.

Survey and Design of sewer lines is pending due to a delay in approval to undertake survey in Karura Forest, however, Installation of water pipes ongoing. 6.7km out of 8.9km span of pipes already installed. This is being implemented by Athi Water Works Development Agency.

#### **C. Proposed Projects to Increase Water Supply**

##### **Karuri-Rwaka Water supply Proposal**

The project with an estimated project cost of Kshs. 508,319,416 is earmarked to serve Karuri and Rwaka Sub-locations with a production capacity of 4,600m<sup>3</sup>/day. The funding proposal request was submitted to Kenya Pooled Water Fund (KPWF). KPWF consultants carried out Technical evaluation of the project on November 2017 and were positive on its feasibility. Further financial evaluation of the project by the KPWF Investment committee is currently ongoing and communication is expected in due time.

##### **Gathiri-Kambara Project**

The above named project is expected to have the following components:

**Karuri Water & Sanitation Company Ltd**  
**Annual Reports and Financial Statements**  
**For the year ended June 30, 2020**

---

-Operationalization of Gathiri and Kambara springs

-Laying 9.6km pipeline of assorted sizes ranging from DN110 to DN40

Athi Water Works Development Agency has identified a contractor who has visited the site to familiarize with areas to lay the pipes. Installation of pipes is expected to start before the end of July 2020.

**3) Compliance with Statutory Requirements**

The company was in compliance with most of the statutory requirements except a few as detailed below

	<b>Statutory Requirement</b>	<b>Status</b>
1	Licence Fees and Administration Fees	As at the end of the year we owed WASREB and AWSB Ksh. 8,034,756 and Ksh. 27,092,744 respectively.
2	Pay As You Earn (PAYE)	The company was up to date with the said payments and filing of returns.
3	National Hospital Insurance Fund (NHIF)	The company was up to date with these payments.
4	National Social Security Fund (NSSF)	
5	CPF (LapTrust)-Pension Provider	
6	Water Resources Authority	The outstanding amount with WRA was Ksh. 318,660

## CORPORATE SOCIAL RESPONSIBILITY STATEMENT/ SUSTAINABILITY REPORTING

KAWASCO exists to transform lives which is our purpose; the driving force behind everything we do. It's what guides us to deliver our strategy, which is founded on three pillars: putting the customer first, delivering relevant goods and services, and improving operational excellence.

Below is a brief highlight of our achievements in each pillar:

### 1. Sustainability strategy and profile

To ensure sustainability of water sources in our area, the company had planned to fence the Ite dam to discourage encroaching by the community.

### 2. Environmental performance

To improve our environment the company plans to continue in tree planting exercises especially in primary schools because this encourages the younger generation in taking up the habit.

### 3. Employee welfare

The company is an equal opportunity employer and encourages women and the disabled to apply for vacant positions.

The company has an OSH committee in place which is operational.

### 4. Market place practices:

#### a) Responsible competition practice:

The organization ensures responsible competition practices and upholds the principles of anti-corruption, responsible political involvement, fair competition and respect for competitors in its procurement practices in line with the PPDA ACT and set out guidelines. .

#### b) Responsible Supply chain and supplier relations:

The organization maintains good business practices, treats its own suppliers responsibly by honoring contracts and respecting payment practices.

#### c) Responsible marketing and advertisement:

We ensure that our marketing and customer awareness efforts are ethical and true as well as timely.

#### d) Product stewardship:

Our main product which is water is sampled and tested for safety at source and random consumer points to ensure it is safe for consumption and in line with WASREB guidelines.

**5. Community Engagements-**

- The company in collaboration with the County Government of Kiambu's Water Environment and Natural Resources department planted tree seedlings in several primary schools in our jurisdiction during the rainy season.
- The company also has water connections that are under the pro-poor program. These are connections being used by vulnerable members of society in our area of jurisdiction. These customers are exempted from paying water bills as long as they restrict consumption to below 6 units per month.

## **REPORT OF THE DIRECTORS**

The Directors submit their report together with the audited financial statements for the year ended June 30, 2020 which show the state of KAWSCO 's affairs.

### **Principal activities**

The principal activities of KAWSCO are to distribute water from our sources to individual and commercial consumers within our jurisdiction.

### **Results**

The results of KAWSCO for the year ended June 30, 2020 are set out on pages 17-44

### **Dividends**

Subject to the approval of the shareholders, the Directors do not recommend the payment any dividend since the company is still making losses.

### **Directors**

The members of the Board of Directors who served during the year are shown on pages 5-7.

### **Auditors**

The Auditor General is responsible for the statutory audit of KAWSCO in accordance with the Section 5 of the Public Finance Management (PFM) Act, 2012, which empowers the Auditor General to nominate other auditors to carry out the audit on his behalf.

**By Order of the Board,**



**Josephine Muritu**

**Company Secretary**

**Date:** 07/04/21

## **STATEMENT OF DIRECTORS' RESPONSIBILITIES**

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

The Directors are responsible for the preparation and presentation of KAWSCO's financial statements, which give a true and fair view of the state of affairs of KAWSCO for and as at the end of the financial year (period) ended on June 30, 2020. 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 KAWSCO;
- (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 KAWSCO;
- (v) Selecting and applying appropriate accounting policies; and
- (vi) Making accounting estimates that are reasonable in the circumstances.


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

The Directors are of the opinion that KAWSCO's financial statements give a true and fair view of the state of the Company's transactions during the financial year ended June 30, 2020, and of KAWSCO's financial position as at that date. The Directors further confirm the completeness of the accounting records maintained for KAWSCO, which have been relied upon in the preparation of KAWSCO's financial statements as well as the adequacy of the systems of internal financial control. Nothing has come to the attention of the Directors to indicate that KAWSCO 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 *entity's* financial statements were approved by the Board on 28<sup>th</sup> September 2020 and signed on its behalf by:

  
**Chairman of the Board**

  
**Managing Director**

# REPUBLIC OF KENYA

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



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

## **REPORT OF THE AUDITOR-GENERAL ON KARURI WATER AND SANITATION COMPANY LIMITED FOR THE YEAR ENDED 30 JUNE, 2020**

---

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

#### **Qualified Opinion**

I have audited the accompanying financial statements of Karuri Water and Sanitation Company Limited set out on pages 1 to 30, which comprise of the statement of financial position as at 30 June, 2020, statement of profit or loss and other comprehensive income, statement of changes in equity, statement of cash flows and the statement of comparison of budget and actual amounts for the year then ended, and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, 2015. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

In my opinion, except for the effects of the matter described in the Basis for Qualified Opinion section of my report, the financial statements present fairly, in all material respects, the financial position of the Karuri Water and Sanitation Company Limited as at 30 June, 2020, and of its financial performance and its cash flows for the year then ended, in accordance with the International Financial Reporting Standards and comply with the Water Act, 2016, the Companies Act, 2015, and the Public Finance Management Act, 2012.

#### **Basis for Qualified Opinion**

##### **1. Property, Plant and Equipment**

As disclosed in Note 11 to the financial statements, the statement of financial position reflects property, plant and equipment net book value of Kshs.25,135,109. However, as reported in the previous year, other fixed assets with undetermined value and comprising land, water pipes and vehicles were not included in the balance. Further, during the year under review, the company purchased additional assets worth Kshs.5,171,401 which were not included in the approved expenditure budget for the year.

Consequently, the accuracy, completeness and validity of property, plant and equipment net book value of Kshs.25,135,109 reflected statement of financial position as at 30 June, 2020 could not be confirmed.

##### **2. Failure to Disclose Material Uncertainty in Relation to Going Concern**

The statement of profit or loss and other comprehensive income reflects a loss of Kshs.7,048,924 (2019: a loss of Kshs.6,224,909). The operating loss depleted further the retained earnings from a negative balance of Kshs.34,414,471 as at 30 June, 2019 to negative balance of Kshs.41,463,395 as at 30 June, 2020. Further, the Company's

current liabilities balance of Kshs.102,480,658 exceeded its current assets balance of Kshs.36,859,658 resulting in a negative working capital amounting to Kshs.65,621,000 as at 30 June, 2020.

The precarious financial situation is an indication of the existence of a material uncertainty which may cast a significant doubt on the Company's ability to continue as a going concern and to meet its obligations as and when they fall due. The financial statements have been prepared on a going concern basis on the assumption that the Company will continue to receive financial support from County Government of Kiambu and its creditors. However, this material uncertainty in relation to going concern and any mitigating measures put in place by the Company's directors to reverse the undesirable precarious financial position have not been disclosed in the notes to the financial statements.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the Karuri 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 Matters**

In the audit report of the previous year, several issues were raised. However, the Management has not resolved the issues or given any explanation for failure to adhere to the provisions of the Public Sector Accounting Standards Board templates and The National Treasury and Planning Circular reference No. AG.4/16/3 Vol.1(9) dated 24 June, 2020.

#### **Other Information**

The Directors are responsible for the other information. The other information comprises the report of Directors as required by the Companies Act, 2015, and the statement of the Directors' responsibilities which are obtained prior to the date of this report, and the annual report which is expected to be made available after that date.

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

In connection with the audit of the financial statements, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or the knowledge obtained in the audit, or otherwise appears to be materially misstated. Based on the work I have performed on the other information obtained prior to the date of this auditor's report, if I conclude that there is material misstatement of this other information, I am required to report that fact. I have nothing to report in this regard.

## 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. Unaccounted for Water (UFW)**

During the financial year under review, the Company produced 1,279,139 cubic meters (M<sup>3</sup>) of water out of which, only 872,057 M<sup>3</sup> of water was billed to the customers. The balance of 407,082 M<sup>3</sup> or approximately 31.8% of the total volume of water produced represented unaccounted for water (UFW) which is over and above the allowable water loss of 25% as per the Water Service Regulatory Board guidelines. The UFW of 31.8% may have resulted in loss of sales estimated at Kshs.32,491,055 (2019: estimated loss of sales Kshs.26,300,459).

Consequently, the Management was in breach of regulation.

#### **2. Long Outstanding Trade and Other payables**

As reported in the previous year, as disclosed in Note 19 to the financial statements, the statement of financial position reflects trade and other payables balance of Kshs.85,249,888. The balance includes fees payable to Athi Water Service Board, Water Service Regulatory Board, Thika Water and Sewerage Company, Limuru Water and Nairobi Water and Sewerage Company amounting to Kshs.27,092,744, Kshs.8,034,756, Kshs.960,365, Kshs.2,065,300 and Kshs.29,642,290 respectively, that have been outstanding for long. Further the balance includes long outstanding audit fees amounting to Kshs.960,000. No explanations were given for the failure to remit the outstanding amounts to the respective organizations. In addition, the Management had not established creditors' policy.

In the circumstances, I am unable to confirm whether there was effective management of public resources at the Company.

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

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

### **Conclusion**

As required by Section 7(1)(a) of the Public Audit Act, 2015, based on the audit procedures performed, except for the matter described in the Basis for Conclusion on Effectiveness of Internal Controls, Risk Management and Governance section of my

report I confirm that, nothing else has come to my attention to cause me to believe that internal controls, risk management and overall governance were not effective.

## **Basis for Conclusion**

### **Failure to Appoint Board of Directors**

As reported in the previous year, the Board of Directors was dissolved in March, 2018. This was due to a proposed re-organization and merging of the Water Companies by the County Government of Kiambu. As a result, there has been a lack of formulation of new policies, procedures and execution of the functions of the Board contrary to section 79(1) of the Water Act, 2016. Further, the Company did not hold an Annual General Meeting as required by the Companies Act, 2015.

In the circumstances, general oversight of the Company's functions could not be confirmed.

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 records.
- (iii) The Company's financial statements are in agreement with those records and returns.

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

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

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

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

In addition to the responsibility for the preparation and presentation of the financial statements described above, Management is also responsible for ensuring that the

activities, financial transactions and information reflected in the financial statements are in compliance with the authorities which govern them, and that public resources are applied in an effective way.

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

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

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

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

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

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

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

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

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

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

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

**Nairobi**

**08 February, 2022**


**STATEMENT OF PROFIT OR LOSS & OTHER COMPREHENSIVE  
INCOME FOR THE YEAR ENDED 30<sup>TH</sup> JUNE 2020**

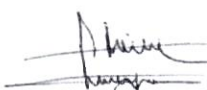
	Note	Comparative Period	
		2020	2019
		Kshs	Kshs
<b>REVENUES</b>			
Sales	6	69,602,810	79,698,353
Other Income	7	9,472,598	1,450,920
<b>TOTAL REVENUES</b>		<b>79,075,408</b>	<b>81,149,273</b>
<b>OPERATING EXPENSES</b>			
Operations Expenses	8	72,349,477	70,306,397
Administrative Expense	9	13,159,598	16,488,147
Finance Cost	10	615,257	579,638
<b>TOTAL OPERATING EXPENSES</b>		<b>86,124,332</b>	<b>87,374,182</b>
<b>OPERATING PROFIT/(LOSS)</b>		<b>(7,048,924)</b>	<b>(6,224,909)</b>
<b>PROFIT/(LOSS) BEFORE TAXATION</b>		<b>(7,048,924)</b>	<b>(6,224,909)</b>
<b>INCOME TAX EXPENSE/(CREDI</b>	11	-	-
<b>PROFIT/(LOSS) AFTER TAXATION</b>		<b>(7,048,924)</b>	<b>(6,224,909)</b>

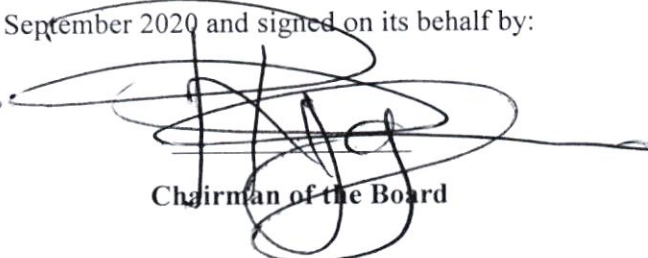
**STATEMENT OF FINANCIAL POSITION FOR AS AT 30<sup>TH</sup> JUNE 2020**

	Note	2020 Kshs	Comparative Period 2019 Kshs
<b>ASSETS</b>			
<b>Non-Current Assets</b>			
Property, plant and equipment	11	25,135,109	20,479,880
<b>Total Non-Current Assets</b>		<b>25,135,109</b>	<b>20,479,880</b>
<b>Current Assets</b>			
Inventories	13	3,628,405	1,739,471
Trade and other receivables	14	21,400,517	18,456,076
Bank and cash balances	15	11,830,736	8,011,536
<b>Total Current Assets</b>		<b>36,859,658</b>	<b>28,207,083</b>
<b>TOTAL ASSETS</b>		<b>61,994,767</b>	<b>48,686,963</b>
<b>EQUITY AND LIABILITIES</b>			
<b>Capital and Reserves</b>			
Ordinary share capital	16	40	40
Retained earnings	17	(41,463,395)	(34,414,471)
Capital Reserve	18	977,464	977,464
<b>Capital and Reserves</b>		<b>(40,485,891)</b>	<b>(33,436,967)</b>
<b>Current Liabilities</b>			
Trade and other payables	19	85,249,888	65,368,660
Customer Refundable Deposits	20	17,230,770	16,755,270
<b>Total Current Liabilities</b>		<b>102,480,658</b>	<b>82,123,930</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>61,994,767</b>	<b>48,686,963</b>

The financial statements were approved by the Board on 28<sup>th</sup> September 2020 and signed on its behalf by:

  
 Managing Director

  
 Head of Finance

  
 Chairman of the Board

**STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30<sup>TH</sup>  
 JUNE 2020**

	Ordinary Share Capital	Retained Earnings	Capital Reserve	Total
	Kshs	Kshs	Kshs	Kshs
Balance Brought Forward as at July 1, 2018	40	(28,189,562)	977,464	(27,212,058)
Total comprehensive income	-	(6,224,909)	-	(6,224,909)
Balance Carried down at June 30, 2019	40	(34,414,471)	977,464	(33,436,967)
Balance Brought Forward as at July 1, 2019	40	(34,414,471)	977,464	(33,436,967)
Total comprehensive income	-	(7,048,924)	-	(7,048,924)
Balance Carried down as at June 30, 2020	40	(41,463,395)	977,464	(40,485,891)

\*Capital reserve: Refer to Summary of Significant Accounting Policies (page 32) note xvi

**STATEMENT OF CASH FLOW FOR THE YEAR ENDED 30<sup>th</sup> JUNE 2020**

	Note	2020	Prior Year
		2020	2019
		Kshs	Kshs
<b>OPERATING ACTIVITIES</b>			
Cash generated from/(used in) operations	21	11,291,569	2,656,343
<b>Net cash generated from/(used in) operating activities</b>		<b><u>11,291,569</u></b>	<b><u>2,656,343</u></b>
<b>INVESTING ACTIVITIES</b>			
Purchase of property, plant and equipment	11	(7,477,101)	(6,019,980)
Proceeds from Lost Meter Reading Phones		4,732	7,753
<b>Net cash generated from/(used in) investing activities</b>		<b><u>(7,472,369)</u></b>	<b><u>(6,012,227)</u></b>
<b>INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS</b>		<b>3,819,200</b>	<b>(3,355,884)</b>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>	15	8,011,536	11,367,420
<b>CASH AND CASH EQUIVALENTS AT END OF THE YEAR</b>	15	<b><u>11,830,736</u></b>	<b><u>8,011,536</u></b>

**STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS  
 FOR THE YEAR ENDED 30<sup>TH</sup> JUNE 2020**

	<i>Original 2019- 2020 Budget</i>	<i>Adjustments</i>	<i>Final Budget</i>	<i>Actual on Comparable basis</i>	<i>Performance difference</i>
<b>Revenue</b>	<b>115,300,000</b>	<b>(28,600,000)</b>	<b>86,700,000</b>	<b>79,075,408</b>	<b>7,624,592</b>
<b>EXPENDITURE:</b>					
Operations Cost	88,814,000	(22,020,000)	66,794,000	72,349,477	(5,555,477)
Administrative Expenses	22,540,748	(6,884,348)	15,656,400	13,159,598	2,496,802
Finance Cost	630,000	130,000	760,000	615,257	144,743
<b>TOTAL EXPENSES</b>	<b>111,984,748</b>	<b>(28,774,348)</b>	<b>83,210,400</b>	<b>86,124,332</b>	<b>(2,913,932)</b>
<b>Surplus / (Deficit)</b>	<b>3,315,252</b>	<b>174,348</b>	<b>3,489,600</b>	<b>(7,048,924)</b>	

PFM Act section 81(2) ii and iv requires a National Government entity to present appropriation accounts showing the status of each vote compared with the appropriation for the vote and a statement explaining any variations between actual expenditure and the sums voted. IFRS does not require entities complying with IFRS standards to prepare budgetary information because most of the entities that apply IFRS are private entities that do not make their budgets publicly available. However, for public sector entities, the PSASB has considered the requirements of the PFM Act, 2012 which these statements comply with, the importance that the budgetary information would provide to the users of the statements and the fact that the public entities make their budgets publicly available and decided to include this statement under the IFRS compliant financial statements.

## NOTES TO THE FINANCIAL STATEMENTS

### 1. GENERAL INFORMATION

Karuri Water and Sanitation Co. Ltd is established by and derives its authority and accountability from the Water Act 2016. The entity is wholly owned by the County Government of Kiambu and is domiciled in Kenya. The entity's principal activity is distribution of water from our sources to individual and commercial consumers within our jurisdiction.

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

### 2. STATEMENT OF COMPLIANCE AND BASIS OF PREPARATION

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

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

The financial statements have been prepared in accordance with the PFM Act, the State Corporations Act, Water Act 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) **Relevant new standards and amendments to published standards effective for the year ended 30 June 2020**

##### ***IFRS 16: Leases***

The new standard, effective for annual periods beginning on or after 1st January 2019, introduces a new lessee accounting model, which requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of

**Karuri Water & Sanitation Company Ltd**  
**Annual Reports and Financial Statements**  
**For the year ended June 30, 2020**

---

low value. A lessee is required to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments.

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 3. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) (Continued)

#### i) Relevant new standards and amendments to published standards effective for the year ended 30 June 2020(Continued)

Application of IFRS 16 requires right-of-use assets and lease liabilities to be recognised in respect of most operating leases where the Company is the lessee.

#### *IFRIC 23: Uncertainty Over income tax treatments*

The interpretation addresses the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates, when there is uncertainty over income tax treatments under IAS 12. It specifically considers:

- Whether tax treatments should be considered collectively
- Assumptions for taxation authorities' examinations
- The determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates
- The effect of changes in facts and circumstances

#### *Amendments to IFRS 9 titled Prepayment Features with Negative Compensation (issued in October 2017)*

The amendments, applicable to annual periods beginning on or after 1 January 2020, allow entities to measure prepayable financial assets with negative compensation at amortised cost or fair value through other comprehensive income if a specified condition is met.

#### *Amendments to IAS 28 titled Long-term Interests in Associates and Joint Ventures (issued in October 2017)*

The amendments, applicable to annual periods beginning on or after 1st January 2020, clarify that an entity applies IFRS 9, rather than IAS 28, in accounting for long-term interests in associates and joint ventures.

#### *Amendments to IFRS 3 - Annual Improvements to IFRSs 2015–2017 Cycle, issued in December 2017.*

The amendments, applicable to annual periods beginning on or after 1st January 2020, provide additional guidance on applying the acquisition method to particular types of business combination.

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 3. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) (Continued)

i) **Relevant new standards and amendments to published standards effective for the year ended 30 June 2020(Continued)**

*Amendments to IFRS 11 - Annual Improvements to IFRSs 2015–2017 Cycle, issued in December 2017*

The amendments, applicable to annual periods beginning on or after 1st January 2020, clarify that when an entity obtains joint control of a business that is a joint operation, it does not re-measure its previously held interests

*Amendments to IAS 12 - Annual Improvements to IFRSs 2015–2017 Cycle , issued in December 2017*

The amendments, applicable to annual periods beginning on or after 1st January 2020, clarify that all income tax consequences of dividends should be recognised when a liability to pay a dividend is recognised, and that these income tax consequences should be recognised in profit or loss, other comprehensive income or equity according to where the entity originally recognised the transactions to which they are linked.

*Amendments to IAS 23 - Annual Improvements to IFRSs 2015–2017 Cycle , issued in December 2017*

The amendments, applicable to annual periods beginning on or after 1st January 2020, clarify that the costs of borrowings made specifically for the purpose of obtaining a qualifying asset that is substantially completed can be included in the determination of the weighted average of borrowing costs for other qualifying assets.

*Amendments to IAS 19 titled Plan Amendment, Curtailment or Settlement (issued in February 2019)*

The amendments, applicable to plan amendments, curtailments or settlements occurring on or after the beginning of the first annual reporting period that begins on or after 1st January 2020, requires an entity to use updated actuarial assumptions to determine current service cost and net interest for the remainder of the annual reporting period after the plan amendment, curtailment or settlement when the entity re-measures its net defined benefit liability (asset) in the manner specified in the amended standard.

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 3. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) (Continued)

#### *Amendments to IAS 1 and IAS 8 Definition of material*

The amendments are intended to make the definition of material in IAS 1 easier to understand and are not intended to alter the underlying concept of materiality in IFRS Standards. The concept of 'obscuring' material information with immaterial information has been included as part of the new definition. The threshold for materiality influencing users has been changed from 'could influence' to 'could reasonably be expected to influence'. The definition of material in IAS 8 has been replaced by a reference to the definition of material in IAS 1. In addition, the IASB amended other Standards and the Conceptual Framework that contain a definition of material or refer to the term 'material' to ensure consistency. The amendments are applied prospectively for annual periods beginning on or after 1 January 2020, with earlier application permitted

*(The organisation should assess the impact of the above standards and amendments and state the impact of their application on their financial statements based on their specific facts and circumstances and make appropriate disclosures.)*

#### ii) **New and amended standards and interpretations in issue but not yet effective in the year ended 30 June 2020**

##### *IFRS 17 Insurance Contracts (Issued 18 May 2017)*

IFRS 17 requires insurance liabilities to be measured at a current fulfillment value and provides a more uniform measurement and presentation approach for all insurance contracts. These requirements are designed to achieve the goal of a consistent, principle-based accounting for insurance contracts. IFRS 17 supersedes IFRS 4 *Insurance Contracts* as of 1 January 2021.

##### *Amendments to References to the Conceptual Framework in IFRS Standards (Issued 29 March 2019- Applicable for annual periods beginning 1 January 2020)*

Together with the revised *Conceptual Framework* published in March 2019, the IASB also issued *Amendments to References to the Conceptual Framework in IFRS Standards*. The document contains amendments to IFRS 2, IFRS 3, IFRS 6, IFRS 14, IAS 1, IAS 8, IAS 34, IAS 37, IAS 38, IFRIC 12, IFRIC 19, IFRIC 20, IFRIC 22, and SIC-32. Not all amendments, however, update those pronouncements with regard to references to and quotes from the framework so that they refer to the revised *Conceptual Framework*. Some pronouncements are only updated to indicate which version of the framework they are referencing to (the IASB framework adopted by the IASB in 2001, the IASB framework of 2010, or the new revised framework of 2019) or to indicate that definitions in the standard have not been updated with the new definitions developed in the revised *Conceptual Framework*.

*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.*

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

**3. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) (Continued)**

**iii) Early adoption of standards**

The entity did not early – adopt any new or amended standards in year 2019.

#### 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

##### i. Revenue Recognition

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

- (a) **Revenue from the sale of goods and services** is recognised in the year in which KAWSCO delivers products to the customer, the customer has accepted the products and collectability of the related receivables is reasonably assured.
- (b) **Grants from National Government** are recognised in the year in which KAWSCO actually receives such grants.
- (c) **Finance income** comprises interest receivable from bank deposits and investment in securities, and is recognised in profit or loss on a time proportion basis using the effective interest rate method.
- (d) **Other income** is recognised as it accrues.

##### ii. In-Kind Contributions

In-kind contributions are donations that are made to KAWSCO in the form of actual goods and/or services rather than in money or cash terms. These donations may include vehicles, equipment or personnel services. Where the financial value received for in-kind contributions can be reliably determined, KAWSCO 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.

##### iii. Property, Plant And Equipment

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

Increases in the carrying amounts of assets arising from re-valuation are credited to other comprehensive income. Decreases that offset previous increases in the carrying amount of the same asset are charged against the revaluation reserve account; all other decreases are charged to profit or loss in the income statement.

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

**iv. Depreciation and Impairment of Property, Plant and Equipment**

Depreciation on property, plant and equipment is recognised in the income statement on a straight-line method on a pro-rata basis. The annual rates in use are:

Office equipment-computers	33%
Motor Vehicles & Motor Cycles	25%
Plant Equipment	10%
Furniture and fittings	10%
Water meters	10%
Computer Software	30%
Buildings	2.5%
Pipeline	2.5%

**v. Inventories**

Inventories are stated at the lower of cost and net realisable value. The cost of inventories comprises purchase price, import duties, transportation and handing charges, and is determined on the moving average price method.

**vi. Trade and other Receivables**

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

**vii. Taxation**

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the tax authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantially enacted as at the reporting date. Current income tax relating to items recognised directly in equity is recognised in equity and not in the income statement.

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

Through the notice issued by treasury on 30 November 2010 the company is required to pay taxes on their profit or surplus. However, since the company made losses, it has not made any provision for taxes.

**viii. Cash and Cash Equivalents**

Cash and cash equivalents comprise cash on hand and cash at bank. Bank account balances include amounts held at various commercial banks at the end of the financial year. For the purposes of these financial statements, cash and cash equivalents also include short term cash imprests and advances to authorised public officers and/or institutions which were not surrendered or accounted for at the end of the financial year.

**ix. Comparative Figures**

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

**x. Budget information**

The original budget for FY 2019-2020 was approved by the Board of Directors on 19<sup>th</sup> July 2019. Subsequent revisions were made to the approved budget in accordance with specific approvals from the appropriate authorities. The additional revisions were added or subtracted to the original budget by the entity upon receiving the respective approvals in order to conclude the final budget. Accordingly, the entity recorded net adjustments of (174,348) on the 2019-2020 budget following the governing body's approval.

The entity's budget is prepared on accrual basis as the actual income and expenditure disclosed in the financial statements. 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.

A statement to reconcile the actual amounts on a comparable basis included in the statement of comparison of budget and actual amounts and the actuals as per the statement of financial performance has been presented under page 5 of these financial statements.

**xi. 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, 2020.

**xii. 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 Karuri Water & Sanitation Co. Ltd or not, less any payments made to the suppliers.

**xiii. Customer Deposits**

Customer deposits are recognized as the amount paid by the consumer before service can begin less any refunds made to the customer. Water deposits are refunded when water service is disconnected on customer request and all outstanding bills are paid or when a construction work is completed. The amount required as deposit in respect of existing service agreements may from time to time be reviewed by WASREB as they review the water tariffs. As at the close of the reporting period the following are the categories of deposits made by customers:

- Kshs 1,500 for domestic connections
- Kshs 10,000 for connections that have more than one single dwelling
- Kshs. 10,000 for construction connections
- Kshs. 10,000 for connections made to an Institution
- Kshs. 50,000 for major construction connections

The deposits amounts are held in a separate account in one of the commercial banks as required by the regulator.

**xiv. Provisions**

Provisions are recognized when a company has a legal or constructive obligation as a result of past events and it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate of the amount can be made. Provision for bad and doubtful debts is provided at 5% of the trade debtors.

**xv. Capital Reserve**

Capital reserve comprises of the amounts inherited from the municipal council during the transition when the company was incorporated.

**xvi. Retirement Benefit Obligation**

Employees on both permanent employment as well as contract basis contribute to a defined contribution scheme (Laptrust Retirement Fund) at the rate of 7.5% of Gross Salary while the company contributes 10% of Gross Salary per person per month.

The company also contributes to the statutory National Social Security Fund (NSSF) for employees on a 3 months fixed term contracts. This is a defined contribution scheme registered under the National Social Security Act. The company's obligation under the scheme is limited to specific contributions legislated from time to time and is currently at Kshs.200 per employee per month.

## **5. SIGNIFICANT JUDGMENTS AND SOURCES OF ESTIMATION UNCERTAINTY**

In the application of the Company's accounting policies, which are described above, the directors are required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis.

Revisions to accounting estimates are recognized in the period in which the estimates are revised if the revision affects only that period or in the periods of the revision and future periods if the revision affects both current and future periods.

### **Critical Judgments in Applying Accounting Policies**

In the process of applying the Company's accounting policies, management has made the following judgments, apart from those involving estimations, which have the most significant effect on the amounts recognized in the financial statements:

#### *Revenue recognition*

Water revenue includes an assessment of water supplied to customers between the date of the last meter reading and the year end. The water sales is estimated using historical consumption patterns taking into account the total water usage by the customer.

#### *Water deposits*

Money received from water customers as deposit is held as a non-current liability because the Company will continue to offer services to the customers for the foreseeable future and the customers are not expected to discontinue their use of water in the short run.

### **Key Sources of Estimation Uncertainty**

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the statement of financial position date that has a significant risk of causing material adjustment to the carrying amounts of assets and liabilities within the next financial year:

#### *Property Plant & Equipment*

Critical estimates are made by the Directors in determining depreciation rates of property plant & equipment. Property and equipment is depreciated over its useful life taking into account residual values, where appropriate.

*Provision for doubtful debts*

The estimated provision for doubtful debts is based on the period for which the debt was outstanding. General provisions are established where full recovery of the principal is considered doubtful which is made against finalized customer accounts net of deposits.

*Useful lives and residual values*

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

- The condition of the asset based on the assessment of experts employed by KAWSCO.
- 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
- Changes in the market in relation to the asset

Karuri Water & Sanitation Company Ltd  
Annual Reports and Financial Statements  
For the year ended June 30, 2020

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

	2020	Comparative 2019
	Kshs	Kshs
<b>6 SALES</b>		
Customer Billing	69,602,810	79,698,353
	<b>69,602,810</b>	<b>79,698,353</b>
<b>7 OTHER INCOME</b>	<b>2020</b>	<b>2019</b>
New Connection Fees	435,080	1,122,520
Reconnection Fees	71,000	244,500
Disconnection on Request	47,800	48,900
Fines	15,000	35,000
Decrease in Provision for Bad Debts		
Interest Income on Fixed deposit	2,768	-
Compensation for Pipeline Relocation Due to Road Constr	8,216,880	-
Insurance Compensation	684,070	
	<b>9,472,598</b>	<b>1,450,920</b>
<b>8 OPERATIONS COSTS</b>	<b>2020</b>	<b>2019</b>
<b>8a Staff costs</b>		
Salaries	19,500,351	19,150,001
Wages	621,559	784,490
Staff Bonus	-	-
Pension- Employer's Contribution	1,713,408	1,763,436
N.S.S.F Employer's Contribution	33,800	10,400
Staff Medical Cover	1,607,245	1,855,100
Leave Allowance	-	-
	<b>23,476,363</b>	<b>23,563,427</b>
<b>8b Operational expenses</b>	<b>2020</b>	<b>2019</b>
Electricity -Operations	23,861,493	17,803,371
Water Use Charges (WARMA)	510,129	675,495
Maintenance of Water System	5,876,638	3,294,616
Maintenance of Building	-	-
O & M Buildings	-	-
Water Quality Testing	308,460	371,900
Water Sources Management	-	-
Chemicals	-	-
Planning & Design	87,265	73,560
Fuels & Lubricants	1,753,181	1,661,746
Vehicle Maintenance	687,139	678,073
Bulk Water Expenditure	15,411,870	21,805,710
Billing & Other Support Services	376,939	378,499
	<b>48,873,114</b>	<b>46,742,970</b>
<b>Total Operations Cost</b>	<b>72,349,477</b>	<b>70,306,397</b>

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

<b>9 ADMINISTRATION COST</b>		
<b>9a) Administrative Expenses</b>	<b>2020</b>	<b>2019</b>
Rent and Rates	1,391,544	1,397,568
Electricity - office	-	-
Advertising Expenses	-	-
General Office Running Expenses	383,682	332,761
Office Repairs & Maintenance	3,280	-
Stationery, Printing and Photocopies	168,192	137,165
Telephone Expenses	672,926	542,452
Staff Training and Workshops	178,800	1,727,999
Postage	9,450	20,158
Staff Welfare	253,830	292,950
Audit expenses & Professional Fees	114,000	116,000
Staff Protective Gear & Uniforms	82,731	207,400
Travelling, Accommodation & Subsistence	1,352,923	1,113,257
Security	317,454	313,200
AGM Expenses	-	145,000
Depreciation	2,817,140	2,024,022
Membership to Professional Association	25,400	96,200
Increase(decrease) in provision of bad debts	176,285	150,691
Contribution to Merger Fund	143,000	-
Environmental Conservation	155,000	-
Performance Reward Systems	-	-
Corporate Social Responsibility	166,933	25,000
Legal fees, compensation & fines	18,000	-
Sports - WASCO	561,990	-
Insurance	163,448	149,415
IT Costs(maintenance of computers, Internet costs)	1,196,722	1,004,846
	<b>10,352,730</b>	<b>9,796,084</b>
<b>9b) Board Expenses</b>	<b>2020</b>	<b>2019</b>
Capacity Building	-	-
Travel & Accommodation	-	-
Board Honorarium	-	-
Medical Expenses	-	-
Board Allowances	-	96,200
	-	96,200
<b>9c) Lease and regulatory fee</b>	<b>2020</b>	<b>2019</b>
Lease Fee to AWSB	-	4,188,492
Regulatory Fee to WASREB	2,806,868	2,407,371
	<b>2,806,868</b>	<b>6,595,863</b>
<b>Total Administrative Cost</b>	<b>13,159,598</b>	<b>16,488,147</b>
<b>10 Finance Cost</b>	<b>2020</b>	<b>2019</b>
Bank Charges	373,477	579,638
Mpesa Charges	241,780	-
	<b>615,257</b>	<b>579,638</b>
<b>Total Finance Cost</b>	<b>615,257</b>	<b>579,638</b>
<b>TOTAL EXPENSES</b>	<b>86,124,332</b>	<b>87,374,182</b>

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

11	2019	Plant and Equipment	Motor Vehicles & Cycles	Computers & Office Equipment	Furniture & Fittings	Meters	Computer Software	Buildings	Pipe line	Total
	<b>COST OR VALUATION</b>									
	At July 1, 2018	10,859,047	405,482	2,744,227	1,752,180	4,907,600	650,000	1,826,770	887,806	24,033,111
	Additions	3,713,230	195,050	-	21,700	2,090,000	-	-	-	6,019,980
	Transfers	-	-	-	-	-	-	-	-	-
	Disposals	-	-	(8,450)	-	-	-	-	-	8,450
	<b>At June 30, 2019</b>	<b>14,572,277</b>	<b>600,532</b>	<b>2,735,777</b>	<b>1,773,880</b>	<b>6,997,600</b>	<b>650,000</b>	<b>1,826,770</b>	<b>887,806</b>	<b>30,044,641</b>
	<b>DEPRECIATION</b>									
	At July 1, 2018	3,753,431	272,140	1,509,693	545,943	975,959	416,829	56,378	11,063	7,541,436
	Charge for the year	889,624	64,672	357,438	117,070	467,189	62,468	43,847	21,714	2,024,022
	Impairment loss	-	-	-	-	-	-	-	-	-
	Eliminated on disposal	-	-	(697)	-	-	-	-	-	697
	<b>At June 30, 2019</b>	<b>4,643,055</b>	<b>336,812</b>	<b>1,866,434</b>	<b>663,013</b>	<b>1,443,148</b>	<b>479,297</b>	<b>100,225</b>	<b>32,777</b>	<b>9,564,761</b>
	<b>NET BOOK VALUE</b>									
	<b>At June 30, 2019</b>	<b>9,929,222</b>	<b>263,720</b>	<b>869,343</b>	<b>1,110,867</b>	<b>5,554,452</b>	<b>170,703</b>	<b>1,726,545</b>	<b>855,029</b>	<b>20,479,880</b>

11	2020	Plant and Equipment	Motor Vehicles & Cycles	Computers & Office Equipment	Furniture & Fittings	Meters	Computer Software	Buildings	Pipe Line	Work-in-Progress	Total
	<b>COST OR VALUATION</b>										
	At July 1, 2019	14,572,276	600,532	2,735,777	1,773,880	6,997,600	650,000	1,826,770	887,806	-	30,044,641
	Additions	2,134,017	-	941,704	-	1,974,942	1,044,000	-	-	1,382,438	7,477,101
	Transfers	-	-	-	-	-	-	-	-	-	-
	Disposals	-	-	8,450	-	-	-	-	-	-	(8,450)
	<b>At June 30, 2020</b>	<b>16,706,293</b>	<b>600,532</b>	<b>3,669,031</b>	<b>1,773,880</b>	<b>8,972,542</b>	<b>1,694,000</b>	<b>1,826,770</b>	<b>887,806</b>	<b>1,382,438</b>	<b>37,513,292</b>
	<b>DEPRECIATION</b>										
	At July 1, 2019	4,643,055	336,812	1,866,434	663,013	1,443,148	479,297	100,225	32,777	-	9,564,761
	Charge for the year	1,152,586	65,928	509,276	111,088	627,610	286,112	43,164	21,376	-	2,817,140
	Impairment loss	-	-	-	-	-	-	-	-	-	-
	Eliminated on disposal	-	-	3,718	-	-	-	-	-	-	(3,718)
	<b>At June 30, 2020</b>	<b>5,795,641</b>	<b>402,740</b>	<b>2,371,992</b>	<b>774,101</b>	<b>2,070,758</b>	<b>765,409</b>	<b>143,389</b>	<b>54,153</b>	<b>-</b>	<b>12,378,183</b>
	<b>NET BOOK VALUE</b>										
	<b>At June 30, 2020</b>	<b>10,910,652</b>	<b>197,792</b>	<b>1,297,039</b>	<b>999,779</b>	<b>6,901,784</b>	<b>928,591</b>	<b>1,683,381</b>	<b>833,653</b>	<b>1,382,438</b>	<b>25,135,109</b>

The Company also has (3) motor vehicles and five (5) motor cycles which are the property of Athi Water Works Development Agency. The work-in-progress relates to laid down 11.7km, DN160 HDPE pipeline line from Limuru Water's Tigoni Treatment works to Gachorue Tank in Karuri Zone.

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

	2020	2019
<b>12 Current taxation</b>		
Profit/Loss before taxation	(7,048,924)	(6,224,909)
Expenses not deductible for tax purposes	3,274,358	2,315,713
Income not taxable		
Capital allowances	(5,835,160)	(2,318,665)
	(9,609,726)	(6,227,861)
Previous Year Losses b/f	(20,886,459)	(18,597,927)
<b>Adjusted Profit/Loss</b>	<b>(30,496,185)</b>	<b>(24,825,788)</b>
Current taxation based on the adjusted profit for the year at 30%		
	<b>2020</b>	<b>2019</b>
<b>13 INVENTORIES</b>		
Pipes & Fittings	3,474,328	1,447,117
Stationery	76,230	108,074
Motorbike Spares & Electricals	77,847	184,280
	<b>3,628,405</b>	<b>1,739,471</b>
	<b>2020</b>	<b>2019</b>
<b>14 TRADE AND OTHER RECEIVABLES</b>		
Shareholders	40	40
Prepayment :-Rent Deposit	160,000	160,000
-Electricity Deposit	30,000	30,000
-Bulk SMS Service Deposit	10,000	10,000
-Internet Services Deposit(Fiber)	20,000	20,000
Fast Choice	-	-
Staff Receivable(Training Advance)	-	3,153
		401,811
Fixed Deposit	-	-
Water sales	22,295,239	18,769,549
less provision for bad debts	(1,114,762)	(938,477)
	<b>21,400,517</b>	<b>18,456,076</b>
	<b>2020</b>	<b>2019</b>
<b>15 BANK AND CASH BALANCES</b>		
<b>Cash at Bank</b>		
Post Bank 6116	437,192	371,807
Post Bank 108	79,150	53,670
Family Bank 232 Revenue	6,244,488	28,703
Family Bank 5874 Operation	101,396	(55,889)
Family bank 3050 (Deposit)	3,166,032	7,459,321
Family Bank 10287(Gachie WP)	-	-
Family Bank 10288 Collection	40,721	43,912
Co-op Collection A/c	324,409	71,356
M-Pesa Collection	1,402,161	19,781
Equity Bank	15,412	4,515
<b>Cash in Hand</b>		
Petty Cash	19,775	14,361
	<b>11,830,736</b>	<b>8,011,536</b>

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

<b>16 ORDINARY SHARE CAPITAL</b>	<b>2020</b>	<b>2019</b>
<b>Authorised</b>		
5000 ordinary shares of Ksh. 20 par value each	100,000	100,000
<b>Issued and fully paid</b>		
2 ordinary shares of Kshs. 20 par value each	<b>40</b>	<b>40</b>
<b>17 RETAINED EARNINGS</b>		<b>2019</b>
Opening Balance	(34,414,471)	(28,189,562)
Surplus/Deficit for the period	(7,048,924)	(6,224,909)
	<b>(41,463,395)</b>	<b>(34,414,471)</b>
<b>18 CAPITAL RESERVE</b>	<b>2020</b>	<b>2019</b>
Opening Balance	977,464	977,464
As at year end	<b>977,464</b>	<b>977,464</b>
<b>19 TRADE AND OTHER PAYABLES</b>		<b>2,019</b>
Trade Payables	85,249,888	65,368,660
Debtors with Credit Balances	-	-
	<b>85,249,888</b>	<b>65,368,660</b>
<b>20 CUSTOMER REFUNDABLE DEPOSITS</b>		<b>2019</b>
Opening Balance	16,755,270	14,527,270
Additions	610,000	2,389,000
		-
Less (Refunds)	(134,500)	(161,000)
	<b>17,230,770</b>	<b>16,755,270</b>
<b>21 NOTES TO THE STATEMENT OF CASH FLOWS</b>	<b>2020</b>	<b>2019</b>
<b>Reconciliation of operating profit/(loss) to cash generated from/(used in) operations</b>		
Operating profit/(loss)	(7,048,924)	(6,224,909)
Depreciation	2,817,140	2,024,022
Gain/loss on Disposal of Meter reading Phone	-	-
Operating profit/(loss) before working capital changes	(4,231,784)	(4,200,887)
(Increase)/decrease in inventories	(1,888,934)	309,737
(Increase)/decrease in trade and other receivables	(2,944,441)	(3,237,742)
Increase/(decrease) in trade and other payables	19,881,228	7,557,235
Increase in refundable customer deposits	475,500	2,228,000
Cash generated from/(used in) operations	<b>11,291,569</b>	<b>2,656,343</b>

## 22. FINANCIAL RISK MANAGEMENT

The Company has exposure to the following risks as a result of its financial instruments:

- i. Credit risk
- ii. Liquidity risk
- iii. Capital Management

### i. Credit risk

The Company has exposure to credit risk, which is the risk that a counter party will be unable to pay amounts in full when due. Credit risk mainly arises from water sales receivables and bank balances.

Credit risk arising from bank balances are low because the counter parties are financial institutions with high credit ratings.

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

	Fully Performing	Past Due	Impaired	Total
<b>As At 30th June 2020</b>				
Trade & Other Receivables	21,537,815	977,464	(1,114,762)	<b>21,400,517</b>
Cash & Bank Balances	11,830,736			<b>11,830,736</b>
<b>As At 30th June 2019</b>				
Trade & Other Receivables	18,417,089	977,464	(938,477)	<b>18,456,076</b>
Cash & Bank Balances	8,011,536			<b>8,011,536</b>

### ii. Liquidity Risk

Liquidity risk is the risk that the Company will not have sufficient financial resources to meet its obligations when they fall due, or will have to do so at excessive cost. This risk can arise from mismatches in the timing of cash flows from revenue and capital and operational outflows.

The objective of the Company's liquidity management is to ensure that all foreseeable operational, capital expansion and loan commitment expenditure can be met under both normal and stressed conditions.

The table below summarizes the maturity profile of the Company's financial liabilities based on the remaining period using 30 JUNE 2020 as a base period to the contractual maturity date:

**Karuri Water & Sanitation Company Ltd**  
**Annual Reports and Financial Statements**  
**For the year ended June 30, 2020**

	Less Than 1 Month	Between 1-3 Months	Between 3-12 Months	Over 1 year	Total
<b>As At 30th June 2020</b>					
Trade & Other Payables	6,781,427	11,311,452	8,142,461	59,014,547	<b>85,249,888</b>
<b>As At 30th June 2019</b>					
Trade & Other Payables	4,500,500	5,844,414	5,536,673	49,487,073	<b>65,368,660</b>

**iii. Capital Management**

The water business is currently in a major expansion phase driven by a rise in demand and Government policy. The funding of additional transmitting and other distribution capacity is to be obtained from cash generated by the business and Government support. The adequacy of water tariffs allowed by WASREB and the level of Government support are key factors in the sustainability of the Company.

**23. RELATED PARTY DISCLOSURES**

**a) Nature Of Related Party Relationships**

Companies and other parties related to the company include those parties who have ability to exercise control or exercise significant influence over its operating and financial decisions. Related parties include management personnel, their associates and close family members.

Karuri Water & Sanitation Co. Ltd is related to:

- (i) The County Government of Kiambu (CGK)
- (ii) Water Service Trust Fund (WSTF)
- (iii) Water Services Regulatory Board (WASREB)
- (iv) Water Resources Management Authority (WARMA)
- (v) Athi Water Services Board (AWSB)
- (vi) Key Management
- (vii) Board of Directors
- (viii) Nairobi Water Company Ltd
- (ix) Limuru Water & Sewerage Company

**Karuri Water & Sanitation Company Ltd**  
**Annual Reports and Financial Statements**  
**For the year ended June 30, 2020**

	<b>2020</b>	<b>2019</b>
	<b>KES</b>	<b>KES</b>
<b>b) Related Party Transactions</b>		
Grants received from related parties	-	-
	-	-
<b>c) Key Management Remunerations</b>		
Directors	-	96,200
Key management compensation	4,108,368	4,108,368
	<b>4,108,368</b>	<b>4,204,568</b>
<b>d) Due to Related Parties</b>		
Due to WASREB	8,034,756	5,227,888
Due to Athi Water Services Board	27,092,744	27,092,744
Due to Nairobi Water	29,642,290	25,587,860
Due to Limuru Water	2,065,300	1,235,000
Due to WARMA	318,660	768,995
	<b>67,153,750</b>	<b>59,912,487</b>

**24. CONTINGENT LIABILITIES & ASSETS**

There were no contingent liabilities & assets in the financial year ended JUNE 2020.

**25. INCOPORATION**

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

**Appendix 1: PROGRESS ON FOLLOW UP OF AUDITORS RECOMMENDATIONS**

The following is the summary of issues raised by the external auditor, and management comments that were provided to the auditor. We have nominated focal persons to resolve the various issues as shown below with the associated time frame within which we expect the issues to be resolved.

Reference No. on the External Audit Report	Issue / Observations from Auditor	Management comments	Focal Point person to resolve the issue (Name and designation)	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
4.1	Non-Existence of Board of Directors	The company is wholly owned by the County Government of Kiambu by virtue of being the only shareholder. The County Government has the intention of merging all the water utilities under its jurisdiction into one entity with a centralized Board of Directors and the Companies to transit to being regional offices. The merger process is yet to be finalized.	John Karioki- Managing Director	Not Resolved	Continuous
4.2	Failure to Disclose Material Uncertainty in relation to Going Concern	The management continues to put measures to ensure that the expenditure remains as reasonable as possible without compromising on service delivery, however, there are a lot of expenditure items that increased due to inflationary factors which	James Njoroge- Technical Manager	On going	Continuous

Karuri Water & Sanitation Company Ltd

Annual Reports and Financial Statements

For the year ended June 30, 2020

Reference No. on the External Audit Report	Issue / Observations from Auditor	Management comments	Focal Point person to resolve the issue (Name and designation)	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
		are outside the control the management.			
4.3	Non-Revenue Water	<p>In order to progressively bring down the NRW, the company has put in place the following measures;</p> <ul style="list-style-type: none"> <li>a) Constituted a dedicated NRW unit comprising of 4 officers.</li> <li>b) The Company is disconnecting accounts from the mains which are more than three months inactive.</li> <li>c) The company is progressively relocating all consumer meters to not more than one meter into the owner's premises.</li> <li>d) Progressive servicing and replacement of</li> <li>e) Rehabilitated 2.5km of pipes destroyed during road constructions</li> </ul>	James Njoroge-Technical Manager	On going	Continuous

Karuri Water & Sanitation Company Ltd  
 Annual Reports and Financial Statements  
 For the year ended June 30, 2020

Reference No. on the External Audit Report	Issue / Observations from Auditor	Management comments	Focal Point person to resolve the issue (Name and designation)	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
		<p>within our area of jurisdiction. We have engaged the County Government so that they inform us of planned road construction so that we plan to minimize the damages and by extension the water wastage.</p> <p>f) Due to limitation of resources, we have requested AWARD for assistance in procurement of consumer and zonal meters. The zonal meters will be used in setting up of DMA's to monitor NRW, while the consumer meters will assist in replacing the identified faulty meters.</p>			

Karuri Water & Sanitation Company Ltd  
 Annual Reports and Financial Statements  
 For the year ended June 30, 2020

Reference No. on the External Audit Report	Issue / Observations from Auditor	Management comments	Focal Point person to resolve the issue (Name and designation)	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
4.4	Under Absorption of Capital Expenditure Budget	Our capital budget was prepared on the basis of expectations of funding from external sources some of which are related parties like the County Government of Kiambu as well as Athi Water Works Development Agency. Proposals were submitted to the said organizations for funding of capital projects; some of these have been considered and others are reportedly at various stages of processing	Cyrus Maina-Snr. Accountant	On-going	Continuous
4.5	Property, Plant and Equipment	While the new Water Act 2016, envisages that assets previously owned by the water boards will revert to the respective counties and water companies, the process to effect this has not been initiated by neither the County Government of Kiambu nor Athi Water Works Development Agency. As a company we shall raise this issue in the	John Kariuki- Managing Director	Not Resolved	Continuous

**Karuri Water & Sanitation Company Ltd**

**Annual Reports and Financial Statements**

**For the year ended June 30, 2020**

Reference No. on the External Audit Report	Issue./ Observations from Auditor	Management comments	Focal Point person to resolve the issue (Name and designation)	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
		different forums we are in with aforementioned organizations			
4.6	Non-Remittance of Regulatory, Lease Fees	The company was unable to remit these fees due to financial challenges, this has been explained to the Athi Water Services Board and to Water Services Regulatory Board. These two institutions are related parties and are aware of the challenges the company is facing, the former is responsible for asset development on behalf of the company and the latter is responsible for approving a cost effective tariff that would ensure the company financial position improves.	Cyrus Maina-Snr. Accountant	On-going	Continuous



Managing Director

Date: 7/4/2021



Chairman of the Board

Date: 07/04/21

**APPENDIX II: PROJECTS IMPLEMENTED BY THE ENTITY**

**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)
1						

**Status of Projects completion**

Project	Total project Cost	Total expended to date	Completion % to date	Budget	Actual	Sources of funds
1						

There were no completed projects in the financial year under review

**APPENDIX III: INTER-ENTITY TRANSFERS**

There were no inter-entity transfers in the year ended 30<sup>th</sup> June 20

**APPENDIX IV: RECORDING OF TRANSFERS FROM OTHER GOVERNMENT ENTITIES**

There were no transfers from other government entities in the year under review