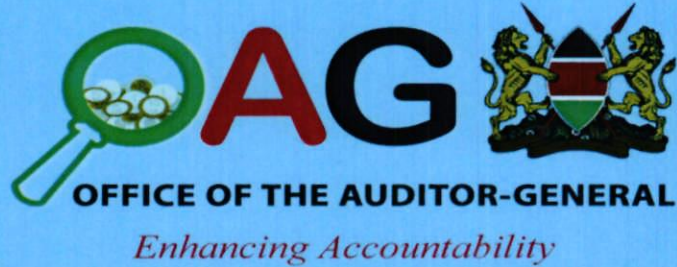


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REPORT

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THE AUDITOR-GENERAL

ON

**KERICHO WATER AND SANITATION
COMPANY LIMITED**

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

PAPERS LAID	
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KERICHO WATER AND SANITATION COMPANY LIMITED



“Maji safi Kila Wakati”

AMENDED ANNUAL REPORTS AND FINANCIAL STATEMENTS

**FOR THE FINANCIAL YEAR ENDING
JUNE 30, 2020**

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

Kericho Water and Sanitation Company Limited
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For the year ended June 30, 2020

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I. KEY ENTITY INFORMATION

Background information

Kericho Water and Sanitation Company Limited (Kewasco Ltd) was established by the Kenyan Companies Act. It was incorporated on 15th October 1997. At cabinet level, KEWASCO Ltd is represented by the Cabinet Secretary for Water. It's represented in the County level by the County Executive in charge of Water and Environment who is responsible for the general policy and strategic direction. Kewasco Ltd is domiciled in Kenya.

Principal Activities

The company continues to provide water and sewerage services within Kericho Municipality and its environs

Directors

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

1. Eng Kipsuge Arap Soi	- Chairman	-Appointed on 1 st July 2017
2. Hon Geoffrey Ruto	- Member	- Appointed on 29 th October 2017
3. Mrs Roselyn Langat Ngeny	- Member	- Appointed on 1 st July 2017
4. Hon.CPA Dr. Patrick Mutai	- Member	- Appointed in 19 th December 2016
5. Mrs Joyce Mutai	- Member	- Appointed in 19 th December 2016
6. Mr. Paul Chepkwony	- Member	-Appointed in 19 th December 2016
7. Mrs Evaline Soi	Member	- Appointed in 19 th December 2016
8. Mrs Charlody Chepkorir	Member	- Appointed in 6 th September 2019
9. Mr Julius Tanui	Member	- Appointed in 6 th September 2019
10.Mr Simon Serem	Member	- Appointed in 6 th September 2019

Corporate Secretary

Equity Registrars and Secretaries,
P.O. Box 18-40107,
Muhoroni

Registered Office

Kericho Water and Sanitation Company Limited
P O Box 1379-20200,
KERICHO.

Corporate Headquarters

Kericho Town,
Temple Road, next to Telkom House
Kericho Water and Sanitation Company Limited
P O Box 1379-20200,
KERICHO.

Corporate Contacts

Telephone: (254) 2020602
E-mail: info@kewasco.co.ke
Website: www.kewasco.co.ke

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Corporate Bankers

1. Cooperative Bank of Kenya,
Kericho Branch,
P o Box 1742-20200,
Kericho
2. Kenya Commercial Bank,
P o Box 1742-20200,
Kericho
3. Family Bank
P o Box 1376,
Kericho
4. Equity Bank
Kericho Branch
Kericho
5. Posta
Kericho Branch

Independent Auditors






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

Principal Legal Advisers





1. The Attorney General
State Law Office
Harambee Avenue
P.O. Box 40112
City Square 00200
Nairobi, Kenya
2. Bett & Company Advocates,
Isan Building,
P. O. Box
Kericho

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II. THE BOARD OF DIRECTORS

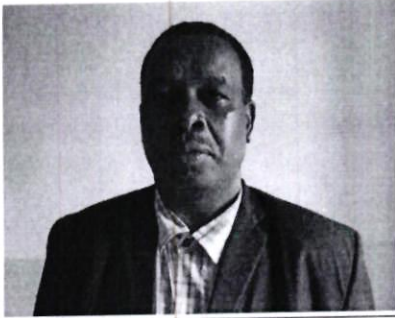
<p>1. Eng. Kipsuge A. Soi</p> 	<p>Eng. Kipsuge A. Soi (65 yrs), an Engineer by profession joined the Board on 1st July 2017 and is the BOD chairman and representing professionals. He holds a Masters of International Business Administration, a Bachelor of Science in Mechanical Engineering. He has over 20 years' experience in Engineering and Business Administration.</p>
<p>2. Hon. Geoffrey Ruto</p> 	<p>Hon. Geoffrey (41 yrs) joined the Board of Directors on 29th October 2017. He has Masters' degree in Environmental management with over 6 years' experience as an environmental advisor. He is representing the shareholder. Hon. Geoffrey Ruto is currently the County Executive Committee member for Water, Environment, Energy, Forestry and Natural Resources. Hon. Geoffrey Ruto also sits in the Board of Directors for Tililbei Water & Sanitation Co. Ltd.</p>
<p>3. Hon.CPA Dr. Patrick Mutai</p> 	<p>Hon. CPA Dr.Patrick Mutai (39 years) is an expert in finance and economic planning. He joined the Board of Directors in December 2013 representing the County Government of Kericho. He has over 7 years' experience in Finance and Operations Management. Currently he is the County Executive in Charge of Finance and Economic Planning/ Head of County Treasury – a critical portfolio in the County Government. Hon. Mutai also sits in the Board of Directors for Tililbei Water & Sanitation Co. Ltd</p>
<p>4. Mrs Joyce Mutai</p> 	<p>Mrs Joyce Mutai (38) joined the Board of Directors in December 2013 representing the shareholder. She is a seasoned professional having served in the not-profit, banking and public sectors. She has over 13 years' experience in leadership positions having worked with World Vision (Kenya), Equity Bank and currently serving as Sub-county administrator in the public service department of the County Government of Kericho.</p>
<p>5. Mr. Paul Chepkwony</p> 	<p>Mr. Paul Chepkwony (67 years), and agronomist by profession joined the Board of Directors in December 2013 representing the Resident Organizations/Consumers. He is a career civil servant with over 25 years in Public Service having rose through the ranks to be a Senior Deputy Director at the Ministry of Agriculture and at one time was the Ag. Managing Director, Horticultural Crops Development Authority (HCDA).</p>

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<p>6. Mrs Evaline Soi</p> 	<p>Mrs. Evaline Soi (42 yrs), an Accountant by profession. She joined the Board of Directors in December 2013 representing the Institutions. She has over 12 years in Accounting and Finance – wealth of experience in Financial Management. She currently works with Kericho Teachers’ Training College in the Finance Department as an Accountant</p>
<p>7. Mrs Roselyn Langat- Ngeny</p> 	<p>Mrs. Roselyn Langat- Ngeny (51years) joined the Board of Directors on 1st July 2017 representing the business and manufacturing community. She holds Masters of Arts degree in Gender, Women and Development Studies. She is a business lady with vast experience in management and leadership having worked as Public relations officer with Kenya Post and Telecommunication Company and TELKOM Kenya Ltd. She has other working experience with Electoral Commission and milling Plants.</p>
<p>6.Ms. Chepkorir Charlody</p> 	<p>Ms.Chepkorir Charlody (28 yrs),She joined the board on 6th September 2019 representing Youth, Women and Person with Disability. She holds a Bachelor in Business Management –Purchasing and Supplies from Moi University She has over 3 years experience in public administration.</p>
<p>8. Mr Simon Serem</p> 	<p>Mr Simon Serem joined the board on 6th September 2019 representing private Institution. He holds a Bachelor of Education from Moi University.</p>

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9. Mr. Julius Tanui



Mr Julius Tanui (49) years, a teacher. Julius joined the board on 6th Septemeber 2019 representing urban consumers. He holds a Bachelor of Education from Egerton University .He has over 20 years' experience in teaching

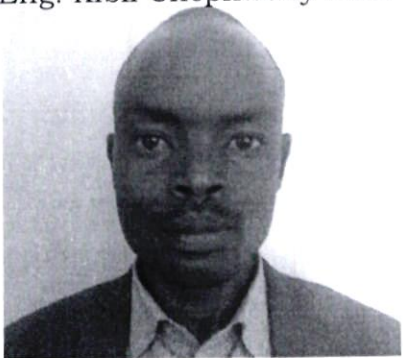



10. Eng Kibii Chepkwony Siele




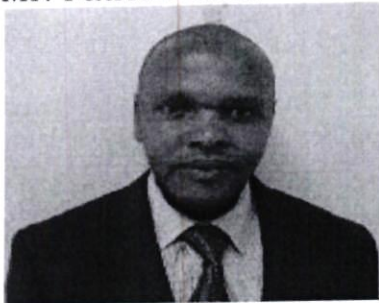

Eng. Kibii Siele is the Managing Director and Secretary to the Board He holds a Bachelor of science degree in Agricultural engineering and a Master of Science in Agricultural Engineering. He has over 10 year work experience in the water sector.

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III. MANAGEMENT TEAM

<p>Eng. Kibii Chepkwony Siele</p> 	<p>Eng. Kibii Siele (39yrs) is the Managing Director and Secretary to the Board He holds a Bachelor of science degree in Agricultural engineering and a Master of Science in Agricultural Engineering. He has over 10 year work experience in the water sector.</p>
 <p>CPA. Philis Chelangat</p>	<p>CPA. Philis Chelangat (36yrs) joined KEWASCO as Commercial and Finance Manager on 2nd October 2017. She holds MBA Finance Option (KU), Bachelors in Business Management accounting option (Moi) and a Diploma in Business Management (KIM). CPA-K and a member of ICPAK. She possesses over 10 years' experience in financial management and 2 years in internal auditing.</p>
<p>Eng. Hillary Ngenoh</p> 	<p>Mr. Hillary Ng'enh (31 years) is a registered graduate engineer with EBK and IEK. He joined KEWASCO on 1st September 2017 as Technical Services Manager. He is a holder of MSc. degree in Water and Environmental Engineering (University of Surrey U.K) and a BSc. (Hons) degree in Civil Engineering (JKUAT). He previously worked with County Government of Kiambu as Assistant Resident engineer for Ndumberi-Githunguri road, Questworks Company Limited as graduate structural engineer, CESP Kenya Ltd as Water and waste water research and development project manager as well as at the University of surrey centre of Environmental Health as a researcher.</p>
<p>Mr Rasto Chepkwony</p> 	<p>Mr. Chepkwony (35 years) joined KEWASCO on 31st November 2014 as the Manager responsible for Information and Communication Technology. He holds a Bachelor of Science degree in Information Technology from Jomo Kenyatta University of Agriculture and Technology and Masters in Distributed Computing Technology from University of Nairobi. Also CISA Certified.</p>

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<p>CPA. Mercy Cherotich</p> 	<p>CPA. Cherotich (38 years) joined KEWASCO on 1st August 2014 as Internal Audit Manager. She holds a Master in Business Administration-Finance, Bachelor of Arts (Economics and Sociology) and also a Certified Public Accountant of Kenya (CPA-K). Mercy has 4 years' experience as internal Audit manager and previously worked with Aga Khan University Hospital and Internal Audit Officer.</p>
<p>Mr. Patrick Korir</p> 	<p>Patrick Korir (43 yrs) was appointed Procurement Manager on 1st September 2015. He holds Bachelor's Degree in Purchasing and Supplies Management from European Business School, Cambridge, England and Masters Master in Business Management (Strategic Mgt option) from University of Kabianga and member of Kenya Institute of Supplies Management. He joined the defunct Municipal Council in 2002 as Clerk. He has Over 15 years' experience In procurement</p>
<p>Mr Robert Korir</p> 	<p>Mr Robert Korir (47yrs) was appointed as the Acting human Resources Manager on 1st April 2019. He holds a Bsc Degree in Statistics and a higher Diplome in Humen Resource Management. He is a practicing member of the Institute of Human Resource Management. Mr Korir has over 20 years' experience in Human resource and administration in the water Sector.</p>

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IV. CHAIRMAN'S STATEMENT

I take immense pleasure to present this financial report for 2019/2020. In the financial year, the operations of the company went on smoothly with minimal water supply interruptions. Additionally during the period, the COVID 19 pandemic hit the country and it largely affected the company day to day operations.

With the coming in of the rural cost centre, the company depends on the County Government to support through subsidy for electricity and Bulk Water Supply.

The ordinary share capital for the Company is indicated as **Kshs 8,000,000** for the urban Cost centre and **Ksh 100,000** for the Rural Cost Centre which has never been paid for hence a recurring audit query and the shareholder has been requested to deposit this amount in cash as per recommendations of the Auditor General.

Bulk water supply from Bomet Water Company to Bureti Sub County through the Bulk Water Supply Agreement continued though with regular power disconnection due to delayed payment. The bulk volume has often been moderated hence most of the Bureti residents are getting water by rationing. However, the shareholder is expanding five water supply projects in the rural cost centre which will increase water supply coverage once completed.

Non-Revenue Water (NRW) is the greatest challenge facing the company at the moment, with the average NRW ranging between 48% and 52%. Through technology, the Company has identified that the main cause of NRW is physical losses through invisible leakages in the distribution network and service lines. The entire supply network is old and can no longer withstand high pressures. Water theft has also proved to be one of the avenues of water and revenue losses to the Company. A vibrant NRW team was formed, and so far, their performance is commendable. Going forward, the Board has approved development of NRW Policy which shall propose methodological interventions for NRW reduction in both rural and urban cost centers. In case of theft of water, investigations are done professionally and evidence documented with the assistance of law enforcement authorities.

In our strategic Plan 2017-2022, the Company aspires to reduce NRW up to 33% in the next five years. The Board has approved a request of Ksh 20 million from the County Government for pilot replacement of UPVC pipes and installation of pressure release valves in areas with the highest NRW.

Our key focus for the coming year is to minimize wastage in form of Non Revenue Water, reduce costs, increase water storage capacity to ensure sustained water supplies to our consumers.

We will also improve our sanitation coverage through construction of sewerage infrastructure.

I would like to thank the management team and staff for their dedication and hard work during the year. We endeavor to create a business environment that leaves our customers satisfied.

Kericho Water and Sanitation Company Limited
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I also want to sincerely thank my fellow directors, as well as our customers and other business partners, for their continued support and contribution towards the Company's success. We will endeavour to adhere to our core values of Transparency, Integrity, Professionalism, Inovativeness and customer focus.

Thank You,

for Cb.

Roselyn C. Langat Ngeny
Interim Board Chairman

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V. REPORT OF THE MANAGING DIRECTOR

I am pleased to present the Company's financial statement for the year ended 30th June 2020. During this period all operations from the former Tililbei water and sanitation company have been put under KEWASCO, the keys functions being, Finance, Procurement, Audit and administration. The transfer of the said functions come about after a successful merger of 2nd November 2018.

I am happy to report that the clustering process has started yielding positive outcome where synergies have been built amongst staff members, more young and vibrant personnel have been redeployed and in addition the stability of the company is on upward trajectory due to advantages of economies of scale brought about by the merger.

During this period our desire was to improve on the quality of service delivery, improve on water production and increase our sewer coverage especially to areas initially not covered by sewers, in lieu of the aforementioned am happy to report that we have enhanced our response time to leakages and burst which has been beefed up with our NRW team, In terms of water production, Sosiot CFU is at an advance stage and will be commissioned in due time.

The company has successfully constructed a 50m³ Decentralized Treatment Facility(DTF) for Kapsoit which was funded by Water Sector Trust Fund(WSTF), we expect this to increase our sewer coverage since initially Kapsoit had no sewerage facility, the company is also seeking for funds to construct more in areas such as Brooke, Chesinende, Kabianga among others.

Our other keys strategic objective was to tackle the Non-Revenue Water (NRW), though this requires substantial investment due to the need for infrastructural development, my desire is to seek for funds from our partners and mostly from the county Government of Kericho.

The strategic plan 2017-2022 puts great emphasis on the organization's future outlook. These focuses infrastructure improvement, increased water coverage, increased collection efficiency, prompt repairs of bursts and leakages, increased metering ratio, upgrade of raw water schemes into fully treated water schemes and increased sanitation coverage so as to realize the five thematic areas namely (i) Water and Sanitation Provision, (ii) Operational efficiency, (iii) Financial sustainability, (iv) Collaboration with Sector players and lastly (v) Customer service. This will ensure we gear towards increasing water and sewerage coverage and at the same time continue providing water of good quality and quantity.

This report provides highlights on staff establishment, merger of TILWASCO and KEWASCO, status of water distribution and maintenance, NRW management, ongoing development projects, Commercial and Finance matters, challenges and future outlook.

1. MERGER OF TILWASCO AND KEWASCO

Effective 2nd November 2018, KEWASCO and the former Tililbei Water and Sanitation Company Limited (TILWASCO) a rural based scheme that covers Kapkatet/Litein, Sosiot, Kipkelion, Chesinende, Londiani, Fort Ternan, Kipsitet, Bargeiywet and Sigowet were clustered and retained the name KEWASCO. The two are run as cost centres (Urban and Rural) for purposes of monitoring performance.

The core mandate of the merged KEWASCO is to provide Water and Sanitation services to the whole of Kericho County. KEWASCO's joint mandated area of coverage is over 644 km² while the area currently supplied with water is estimated to be 291 km². The current population being served is about 157,174 persons.

2. STAFF ESTABLISHMENT

The number of staff currently stands at 172 (119 Male and 53 Female). These constitutes 54 employees are currently based at the KEWASCO Rural Cost Centre while 118 are working at KEWASCO Urban Cost Centre. About 75% of staff are above 45 years old, indicating an aging workforce. To cover the low staff productivity attributed to the aging workforce, 40 casuals have been engaged.

3. WATER DISTRIBUTION AND MAINTENANCE

The existing water supply system is dependent on the following main water sources:

Timbilil River

This is the main source of water for the Urban Cost Centre. The system produces 8,800 cubic meters of water daily that is stored in 16 water tanks of various capacities and supplied through about 115 km of pipelines of various sizes but majorly made of uPVC.

Other water sources for the Urban include Kimugu River (3,300M³) and Ngecherock Springs (300M³ per day). During the financial year 2019/2020, only Timbilil and Ngecherock system were operational since there was enough water as a result of enough rainfall for supply. Kimugu System is a very expensive pumping system and is only operated during drought to supplement supply from the two other systems.

Bulk water Supply

The Rural Cost Centre relies mainly on about 4,000M³ per day bulkwater received from Bomet County through Bulk Water supply Agreement between Bomet and Kericho Counties. This volume of water mainly serves Kapkatet/Litein scheme, the main scheme of the Rural Cost Centre. Other Schemes have own systems: Sosiot (300M³ per day, treated), Londiani (300M³ per day, treated), Kipkelion (1200M³ per day, treated) and so on.

4. NON REVENUE WATER MANAGEMENT

The Average Non-Revenue Water (NRW) for the Company was high at 50% during the financial year. This is the the greatest challenge to the Company as it is 25% above the 25% recommended by Water Services Regulatory Board (WASREB). The major causes of high NRW in the Company are physical loses and commercial loses. Physical loses are due to leakages, bursts and overflows in the old and dilapidated supply system while commercial loses are mainly due to metering anomalies and illegal connections.

One of the control measures and efforts that have been put in place is creation of District Metered Areas (DMAs) and Sub-DMAs to sub-divide the supply area into small manageable areas for water balance computation. Through this measure, it has been established that there are sub-DMAs with NRW as high as 70% while others as low as 20%. The Company has therefore prioritized reduction measures at the highest NRW areas while ensuring that the ones with low NRW remain stable. The reduction measures undertaken include: carrying out of minimum night flow measurements, installation of pressure reducing valves, active leak detection and repair, termination of cut-off accounts from the mains to curb illegal connections among others. Over the last two years, the sub-DMA with 70% NRW has managed to come down to up to 65% but many efforts are still needed to bring it further down.

Furthermore, the Company has established an NRW Team composed of 8 staff members whose main role is to carry out NRW reduction activities in the NRW Reduction Strategy. This Strategy clearly spells out the reduction measures, timeframes, responsible parties and the associated budget. In this way, it is easier to monitor, track and check the effectiveness of various

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interventions and adjust accordingly where necessary to ensure there is positive progress and the NRW trajectory is brought down.

In this regard, it has been established that the main intervention that will bring significant impact would be replacement of pipes in the identified sections and areas within the infrastructural network. However, this will require huge capital investment. For example for one DMA called DMA D, the Company will require about 20 million Kenya Shillings to replace the old UPVC pipes with HDPE pipes that will ensure minimum physical and commercial losses. Due to financial constraints and cash flow problems that the Company is facing, the Company has developed proposals to various development partners and the County Government of Kericho for funding towards pipe replacement. Furthermore, the Company has also budgeted some amount in its Performance Improvement Plan for the next five years for pipe replacement and other activities to ensure reduction of NRW to 41%.

Similarly, the Company has continuously collaborated with development partners like Vitens Evides International from the Netherlands and Germany's Development Bank, KfW in NRW reduction measures.

OTHER KEY COMPANY ACHIEVEMENTS

- ✦ **Clustered Company-** Since the merger in November 2018, huge strides have been achieved in terms of stabilizing the operations of the Company, but this process will take a few years before its full benefits are achieved.
- ✦ **Safe Quality Water** – There has been continuous provision of Safe drinking water to customers. The drinking water quality (DWQ) for the Company has continuously been at the acceptable levels according to the regulator-WASREB.
- ✦ **The finance department-** Has been strengthened by integrating the staff from both cost centres to work together. The Company also has accounting software in which ways of it being integrated with the billing software is being established.
- ✦ **Human Resource-** There is timely recruitment of personnel whenever there is a vacancy; streamlining and conducting of appraisals half-yearly and yearly and approval and implementation of Collective Bargaining Agreements (CBA) when due.
- ✦ **Audit-** There has been development and implementation of risk-based audit strategy in accordance with the Standards for the Professional Practice of Internal Auditing, guidelines and best practices. Audits are also planned and executed in all company's systems and business processes are controlled and protected.
- ✦ **ICT-** Establishment of WAN – for rural offices connectivity; Automatic M-PESA integration for rural Cost Centre; Acquisition of new server from GIZ; Upgrade of Accounting Software; Enhanced utilization of GIS and job cards in areas of operations like water distribution and maintenance; Establishment of mobile meter reading to enhance meter reading accuracy; Establishment of GIS WASPA Training Centre in KEWASCO.

5. DEVELOPMENT PROJECTS

Table 1 shows the highlights of the ongoing and recently completed development projects.

Program/Project	Scope	Development Partner	Status

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Water Development Program Long term expansion, New Kimugu Treatment Works	Sector works:	Construction of: - Intake Works on Kimugu River, Raw water Gravity Main, New Water Treatment Works (13,000M ³), Kapsirgong Tank (1,000M ³) and 50Km Distribution Pipe.	KFW Bank-Germany and Government of Kenya	Ongoing -15 % progress expected to be complete in April 2021
Lake Victoria Water and Sanitation (LVWATSAN) Initiative Phase II (Kericho, Keroka and Isebania).		Kericho Sewerage Improvement, CBD Trunk main Sewer line, CBD South Trunk main Sewer line.	African Development Bank (AfDB) and Government of Kenya	98% Complete
Up-scaling of Basic Sanitation for the Urban Poor (UBSUP)		Construction of Decentralized Waste water Treatment Facility at Kapsoit	Water Sector Trust Fund (WSTF)	Complete

Table 1: Development Projects

6. STRATEGIES, PLANS AND FUTURE OUTLOOK

The mid-term and long term strategies required to improve the performance of the Company include:

- A. To reduce Non Revenue Water (NRW) from the current 50% to 42% by 2022 through:
 - Seeking finance support from development partners to help in replacement of the identified uPVC pipes with HDPE pipes so as to minimize physical water loses.
 - Minimize illegal use of water by using the avenue of law to prosecute those stealing water.
 - Training staff on NRW Management
- B. To increase water coverage to 80% by 2030 through:
 - Construction of 13,000 M³ water treatment plant in Kericho town; a new Kipkobob treatment plant in Litein and expansion of Sosiot Treatment plant.
 - Last Mile connectivity to areas without water.
 - Upgrading of raw water schemes to treated water schemes.
- C. To increase sewerage coverage
 - Construction of decentralized treatment facilities at towns like Kapsoit, Brooke, Kapsuser, Sosiot, Litein and Kapkatet.
 - Construction of a 790M³ capacity sewerage plant in Londiani.

7. CHALLENGES FACING THE COMPANY

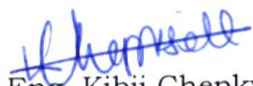
The main challenges facing KEWASCO are:

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- a) High Non-Revenue Water (50%) leading to huge water losses. This is caused by old and dilapidated water pipelines. Huge Investments is required for pipe replacements into the latest HDPE pipes that are robust and not prone to leaks and bursts.
- b) High Electricity costs for the pumping schemes in the Rural Cost Centre. To cushion this, hydro-power needs to be developed within the schemes.
- c) Low sewerage especially in urban centres.
- d) Raw water schemes like Sigowet and Kipsitet which need to be converted into treated water schemes

8. CONCLUSION

Despite these challenges, the Company continues to improve in its performance. Out of these challenges lies potential opportunities that would help the Company generate the necessary revenues for sustainability. For example reducing NRW would ensure more available water for supply to reach more customers (increasing coverage), thus more revenues available for operations.



Eng. Kibii Chepkwony Siele
Managing Director

VI. REVIEW OF KERICHO WATER AND SANITATION COMPANY PERFORMANCE

Kericho Water and Sanitation Company (KEWASCO), has 6 strategic pillars within its Strategic Plan for the FY 2018/2019- 2022/2023 with objectives, activities, implementing actors expected outputs, budget and timeframes. These strategic pillars are as follows:

1. Non-Revenue Water (NRW) Management
2. Water and Sanitation infrastructure
3. Operational efficiency
4. Financial Sustainability
5. Customer Focus
6. Institutional Restructuring

The company develops annual work plans and budget based on the 6 pillars in its Strategic Plan. An assessment of the management performance against the annual work plan is done on a quarterly basis. The Company achieved its performance targets set for the FY 2019/2020 period for its 6 strategic pillars, as indicated in Table 2.

Table 2: KEWASCO's Strategic Pillars, the objectives under each pillar, the KPIs being targeted, the Activities to achieve the Objectives and the Achievement during the Financial Year.

Strategic Pillar	Objective	Key Performance Indicators	Activities	Achievements
Non Revenue Water (NRW) Management	To reduce the non-revenue water. To increase metering Ration	i. Metering Ratio from 70% to 100% ii. NRW from 52% to 30%	i. Staff Training on NRW. ii. Creation of Sub-DMAs for water balance and easy management. Iii.Addressing metering issues. iv. Minimizing illegal use of water. v.Replacement of uPVC with HDPE pipes	i. 250 number of illegal connections napped, penalized and terminated. ii. 3Km uPVC replaced with HDPE. Iii.Metering Ratio Increased from70% to 89%. NRW reduced from 52% to 50%.
Water and Sanitation Infrastructure	To increase water production from 16,000 m ³ per day to 32,000 m ³ per day by 2022. To expand sanitation	i. Water coverage ii. Sewerage Coverage iii. Sanitation Coverage iv. Drinking Water Quality (DWQ)	I.Construction of sewerage treatment plant in Londiani. ii.Construction of 13,000m ³ water treatment plant. iii. Extension of sewer network in Kericho town.	i.Final design done for Londiani Sewerage, funds allocated awaiting tendering. ii.Ongoing construction of new treatment plant (15% progress)

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Strategic Pillar	Objective	Key Performance Indicators	Activities	Achievements
	coverage from 40% to 55% by 2022 To increase water and Sanitation coverage in Low Income Areas (LIAs) annually by 10%		iv. Construction of Decentralized Treatment Facilities (DTF) in satellite towns. v. Upgrade raw water to treated water schemes	iii. Completion of DTF at Kapsoit town. iv. Completion of 3km trunk main sewerline at CBD South in Kericho town. iv. Improved DWQ to 92%. v. Additional 303 toilets completed for LIAs.
Operational Efficiency Financial Sustainability	To ensure that there is continuous provision of water and sanitation services with minimal interruptions	Hours of Supply (Hours/Day) Staff productivity (number of staff per 1000 connections)	i. Timely response to bursts and leaks. ii. Implementation of job cards ii. Implementation of partial rationing programs. iv. Having standby pumpsets. v. Adherence to preventative maintenance schedule. vi. Embracing and using ICT in core processes. vii. Reduction in Lateness and idleness. viii. Timely payment of electricity bills and bulkwater bills	i. Proper job descriptions for all staff have been prepared. ii. Performance appraisals have been conducted for all staff. iii. 2 new Pumpsets have been purchased. iv. Mapping of job cards in GIS has been implemented. v. There is timely settling of bills/honouring agreements with KPLC and Bomet County. vi. Hours of supply increased from 17 to 20 Hours. vii. Staff productivity at 8 staff per 100 connections (acceptable level)
Financial Sustainability	To increase revenue from Kshs 204 million in 2018 to Kshs 400 million by 2023	Revenue Collection Metering Ratio Operation and Maintenance Cost Coverage	i. Enhance meter reading efficiency to manage commercial losses ii. Optimize billing efficiency iii. Timely review of tariff.	i. Mobile meter reading implemented to reduce meter reading anomalies. ii. Metering ratio is at 97% and 63% for urban and rural cost centres respectively.

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Strategic Pillar	Objective	Key Performance Indicators	Activities	Achievements
			<ul style="list-style-type: none"> iv. Continuous supply of water v. Metering all customers. vi. Timely addressing of meter reading anomalies 	<ul style="list-style-type: none"> iii. 2,187 No new customers and enhanced customer meters for year ending. iv. New Tariff application process has started.
	To improve collection efficiency from 92 % in 2018 to 98% by 2023	Collection Efficiency(CE)	<ul style="list-style-type: none"> i. Appoint debt recovery teams. ii. Entering part payment agreement with customers with huge debts. iii. Mass disconnection after SMS alerts. iv. Strict adherence to 7 day payment grace period. v. Enhance intergrity in revenue collection section. vi. Enlist defaulters with Credit Reference Bureau(CRB) 	<ul style="list-style-type: none"> i. Overall CE was 84% mostly affected by COVID-19 pandemic ii. Intergrity been enhanced, those found culpable have been subjected to disciplinary process. iii. Debt recovery team has been established. iv. Part payments for some have been encouraged. v. Demand letters have been issued for defaulters vi. Disconnection notices and SMS have continually been sent to customers
	To implement Cost reduction measures	Personnel expenditure as percentage of O & M costs	<ul style="list-style-type: none"> i. Reduction of non-core expenditures ii. Ensure 100% adherence to budget. iii. Reduction in personnel and operation and maintenance costs 	<ul style="list-style-type: none"> i. There is strict adherence of budget, No expenditure outside budget. ii. Personnel expenditure as percentage of O&M reduced from 66% to overall 41%
Customer Focus	To increase customer satisfaction by 10% annually	Hours of Supply Drinking water quality	<ul style="list-style-type: none"> i. Revise and implement customer service charter ii. Conduct customer 	<ul style="list-style-type: none"> i. open days are being conduct quarterly as per calendar. ii. Customer satisfaction survey

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Strategic Pillar	Objective	Key Performance Indicators	Activities	Achievements
			sensitization forums iii. Hold stakeholder forums, open days to address customer issues iv. Timely response to customer complaints v. Carry out customer satisfaction survey	has been conducted. iii. 485 serious customer complaints were resolved in the FY. iv. a stakeholder forum was conducted to address customer issues
Institutional Restructuring	To have a qualified, experienced, motivated workforce	Staff productivity	i. Develop and administer questionnaires. ii. Prioritize training needs areas and prepare a budget iii. Source for trainers/institutions	i. Training Needs Assessment Report ready for implementation.
	Operationalization of the merged KEWASCO	Overall Ranking of the KEWASCO as one utility based on: Water Coverage, NRW, Staff productivity, personnel expenditure, O&M cost coverage, Hours of Supply, Metering ratio, Collection Efficiency, Drinking water Quality	i. Amending of MoU and Articles of Association(AA) ii. Preparation of subsidy proposal iii. Stakeholder engagement iv. Preparation of harmonized tariff v. Application of Joint Licence. vi. Disolution of TILWASCO vii. Operationalize recommended organizational structure	i. Dissolution of TILWASCO in progress. ii. Tariff and Licence has been applied. iii. MoU and AA have been amended. iv. The Company was been ranked as one Company in Impact 11 report by WASREB. The overall ranking was 37 out of 92

Each strategic pillar has expected outcome and output indicator. Furthermore, they are tied into implementing actors as shown in Table 3. Most of the implementing actors are the management team. The performance targets for each member of the management are drawn from the strategic pillars as per the implementing actors. Performance contracts are practised at all level of the Company. The Managing Director signs performance contract with the Board of Directors and then all Heads of Department sign with the Managing

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Director. This is then cascaded to the second line managers and the lower cadre of employees. The objectives of the performance contracts are in line with the Company's strategic Plan.

Table 3: Extract from Strategic Plan showing how strategic pillars are tied to implementing actors' performance.

Strategic pillar	Expected Outcome (s)	Output Indicator (s)	Implementing Actors
Non-Revenue Water (NRW) Management	Reduction of NRW to 30% by 2022	Approved and implemented NRW Policy	Board of Directors & Managing Director
		<ul style="list-style-type: none"> • 80% metering in 2yrs • 90% in 3 yrs • 100% in 5 years 	Commercial and Finance Manager & Technical Services Manager
		10% replacement of assorted HDPE and PRP pipes annually	Management Team, County Government of Kericho, and Strategic Partners
		Reduced response time from 12 hrs to 8 hrs	Technical Services Manager
		<ul style="list-style-type: none"> • Isolation of sub DMAs in areas A, B, D and E of Kericho Water within 2years • Litein and Kapkatet towns within 2 years • The others within 5 years plan period 	Technical Services Manager & GIS Officer

VII. CORPORATE GOVERNANCE STATEMENT

KEWASCO operates within good corporate governance standards as stipulated in the Water Services Regulatory Board (WASREB) corporate government guidelines for the water services sector. These guidelines are in line with 'MWONGOZO'-The Code of Governance for State Corporations. The Characteristics of KEWASCO Board is explained by the following sub-headings:

No of Board Meetings and Attendance

The Board of Directors meet at least four times a year. These full board meetings are each held on quarterly basis to discuss Company performance reports and minutes as presented by each of the three Board Committees. The Committees meet four times to discuss departmental reports and make recommendations for the Full Board's considerations. At times the Chair of the Board may convene some special Full Board meetings to discuss urgent company issues or to recruit some members of the management. Board meetings cannot proceed without quorum and for those members who are not able to attend send apologies. For cases of the County Government representative, if the County Executive Committee Member (CECM) is not able to attend, he or she sends the Chief Officer (CO) to attend on behalf as per the guidelines.

Succession plan

KEWASCO has avoided situations where all Board members retire at the same time. This has ensured that there is institutional memory. One third of the Members other than those from the County are allowed to retire from office by rotation every year starting from the third year after appointment.

Board Charter

The Charter has been adopted by the Company's Board of Directors, to assist the Board and its commitment in exercising their responsibilities. The Board of Directors review the Charter every three years and if appropriate revise it from time to time. The Charter spells out the following:

- The Purpose of the Board
- General roles and mandate
- The Composition
- Meetings
- Board Calender

Process of Appointment and Removal of Directors

The process of appointment of directors has been transparent and competitive. Advertisement are usually made in print media and the Company website.

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Roles and functions of Board

The roles and functions of the Board of Directors are stipulated in the Code of Ethics signed by each Board Member. The Board of Directors exercises all the powers of the company subject only to the limitations contained in the law and the Memorandum and Articles of Association. Some of the functions that the Board of Directors fulfils include:

- Ensure that through a managed and effective process, board appointments are made that provide a mix of proficient director, each of whom is able to add value and bring independent judgment to bear on the decision-making process.
- Monitor and evaluate the implementation of strategies, policies, management business plans.
- Ensure that company complies with all the relevant laws, regulations and Codes of best business practice.
- Serve the legitimate interests of the shareholders and other stakeholders and agree on a policy, or policies determining how the corporation should relate to them.
- Regularly review processes and procedures to ensure the effectiveness of its internal systems of control, so that its decision-making capability and the accuracy of its reporting and financial results are maintained at a high level at all times.
- Regularly assess its performance and effectiveness as a whole, and that of the individual Directors, including the CEO/MD.
- Appoint the CEO/MD and at least participate in the appointment of senior management, ensure the motivation and protection of intellectual capital intrinsic to the company, ensure that there is adequate training in the company for management and employees, and a succession plan for senior management.
- Identify key risk areas and key performance indicators of the business and monitor these factors.

Induction and Training

All Company Directors receive formal training on their roles, duties, responsibilities and obligations as well as Board practices and procedures. There are also subsequent trainings involving understanding water service sector operations, deepening oversight skills in financial management different compliance requirements that are critical to the company's business.

Board Member performance

Board Members evaluate themselves through self-evaluation once every year in three sections:

Section A: Contains evaluation of the Board by all members and includes: Board responsibility, Board Operations, Board Effectiveness

Section B: Contains and evaluation format of the Chairperson by other members of the Board.

Section C: Contains an evaluation format of individual members of the Board by the Chairman

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Conflict of Interest

Each Board member is expected to declare conflict of interest if any on company matters according to Chapter six of the Constitution.

Board Remuneration

For efficiency and act as an incentive to improve performance at oversight level, KEWASCO Board allowances and remuneration do not exceed 2 % of operation and maintenance costs.

Ethics and Conduct

Each Board member signs Code of Ethics stipulating responsibilities of each Board Member in ensuring good corporate governance in the Company. These include setting and evaluation of performance targets of management and approve all organizational systems, policies and procedures that are in line with the set organizational goals. Each Board Member signs the Code having read, understood the Code of ethics and undertake to be bound by the Ethics in his or her performance of duties as a director

Governance audit

The Company plans to conduct governance audit in the next financial years. However, the Company has been participating in the Champions of Governance organised by Institute of Certified Public Secretaries for two years now and it has performed very well.

VIII. MANAGEMENT DISCUSSION AND ANALYSIS

SECTION A:

The company's operational and financial performance.

Despite the Corona Virus Pandemic that hit the Country in March the total volume water produced and received as bulk water during the Financial Year was 4.98 million cubic metres (3.65 for Urban Cost Centre and 1.33 for Rural). This represented a total Increase of 0.63 million cubic metres from the previous financial year.

The total number of water connections at the end of Financial Year was 30,362 metered connections out of which 5,466 were sewer connections. In terms of Non Revenue Water, the average loss for both Cost Centres was 50%. This water loss remains one of the greatest challenges and the Company is working hand in hand with other development partners to manage Non Revenue Water.

In terms of Drinking Water Quality (DWQ), the Company has managed to upgrade one scheme from raw water scheme to treated water scheme. The Company managed to increase the number of samples for residual chlorine and bacteriological tests. In this way it is expected that the DWQ shall increase from 92% from last financial year to about 95% this year.

The Company made huge strides in offering sewerage services. There was full take over for operation of CBD Sewer trunk mains constructed from Lake Victoria Water and Sanitation (LVWATSAN) Initiative Phase II project. This managed to solve some of the notorious cases of blockages in Majengo, New KCC Depot and Site and Service.

In terms of Revenue Collection, the Company was hard hit by the effects of COVID 19 Pandemic. The Company was unable to meet its collection target. The billing for the period was Kshs. 219.47 Million out of which Kshs. 187.6 Million was collected.

In this regard, the Company was not able to meet some of the budgetary obligations like the need to reduce on creditor balances especially those related to staff. Therefore, payment of statutory deductions i.e. PAYE, Pension, lease fees continue to be a challenge as well.

SECTION B:

Company's compliance with statutory requirements

The company strives to ensure that it has fully complied with all the statutory requirements. The Company during the Financial Year submitted a joint application for both Licence and Tariff to Water Services Regulatory Board.

SECTION C:

Key projects and investment decisions the entity is planning/implementing

The continuing projects are :

- Water Sector Development Program (WSDP-LVS) Long term expansion works in Kericho funded by KFW from Germany and Government of Kenya. This water project upon completion is expected to serve additional 200,000 people in Kericho County.
- Up scaling of Basic Sanitation for the Urban Poor (UBSUP Phase 3). This is a project financed by Water Sector Trust Fund (WSTF) through the company to increase access to improved sanitation in the low income areas in its service provision area.
- Lake Victoria Water and Sanitation (LVWATSAN) Initiative Phase II (Kericho). This involves the rehabilitation of sewerage treatment plant and construction of sanitation facilities for Kericho Town. This project will enhance effluent wastewater quality and will bring additional 200 sewer connections from Kericho CBD South area.
- Accompanying Measures Initiative to strengthen managerial performance of KEWASCO. This project is being undertaken in line with KFW Long term expansion works for Kericho Town.

Some of the upcoming projects that the Company is and other development partners is planning to implement include:

- UBSUP 8th Call- Which will be funded by Water Sector Trust Fund (WSTF). This shall include construction of a Public Sanitation Facility in Kapkatet and a water tank in Ainamoi.
- Proposed sanitation Works for Kericho
- Proposed Sewerage Treatment Plant in Londiani

SECTION D:

The company's operations exposes it to the following types of risk

Operational Risk

This is the risk faced in the normal operations when carrying out business. The major risk is the power cut/outage risk and reduced production during the month of January to March which majorly affects the operations of the company. Other risks in this category are workplace and personnel safety risk, machine safety risks.

Financial Risk

The major financial risk is the **debt default** by our customers, loss of revenue through illegal connections, bursts and leakages leading to non revenue water.

Lastly is the **legal risk**. This is the risk that creditors may take the company to court for non payment.

SECTION E

Material Arrears in Statutory/Financial obligations

The company faces financial challenges such that it has not been able to clear its outstanding debts.. The statutory obligations relates to

- Retirement Benefit Obligations
- Pay As You Earn
- Payments to Lake Victoria Services Board

SECTION F

The company's financial probity and serious governance issues

Currently the Company has complied with the corporate governance guidelines as set out by the Water Services Regulatory Board.

IX. CORPORATE SOCIAL RESPONSIBILITY STATEMENT/SUSTAINABILITY REPORTING

Kericho Water and Sanitation Company exists to transform lives through provision of safe drinking water and proper/improved sanitation services. Our core business is supply of drinking water and offering sanitation services. The mission of the Company is to efficiently provide sustainable water and sanitation services to the customers in a safe, reliable, adequate and affordable manner. This is our purpose and driving force in everything that we do. Customer focus is one of our five core values. As a Company and a business, our services directly affect the lives of the people who are our customers. Any activity that we undertake must therefore put the customers' needs and expectations first into consideration. This principle of customer focus is what guides us to deliver our mandate; putting the customer first in supplying water and sanitation services and improving operational excellence. Below is a brief highlight of our achievements in this regard:

1. Sustainability strategy and profile -

The Company strives to meet the water demand of the population in service provision area with the insufficient supply obtained from an environment facing challenges of degradation and pollution brought about by climate change as well as human activity. We abstract a portion of raw water for treatment ensuring the rest of water in the river is available for the downstream flora and fauna. The infrastructural losses are minimized to ensure maximum available supply for optimal revenue for realization of financial obligations avoiding dependence on donations and subsidies. Most importantly we have ensured through compliance monitoring that our overall activities do not adversely affect the environment.

The top management especially the accounting officer should make reference to sustainable efforts, broad trends in political and macroeconomic affecting sustainability priorities, reference to international best practices and key achievements and failure.

2. Environmental performance

Though the Company does not have its own environmental policy, it is being regulated by Water Resources Authority (WRA) and National Environmental Management Authority (NEMA). These two organizations issue annual licences only after certain requirements are met by the Company. For instance to get an Effluent Discharge Licence (EDL), the Company must conduct Environmental Impact Assessment and demonstrate that its system is able to treat wastewater to discharge standards which will not cause pollution to the receiving environment. The Company has a valid EDL which is renewed annually. One of the major challenges with regard to management of wastewater is absence of pre-treatment system from industries, hospitals and other premises as requirement by NEMA. This presents negative effects to the performance of the our sewerage system thus may lead to pollution of the environment by effluent not meeting discharge requirements. The advantage of our sewerage system is that it has a tertiary treatment stage involving lagoons just to improve the quality of effluent to meet the standards.

3. Employee welfare

KEWASCO is one of the Companies in the Country whose employees is better paid and have substantively good packages and rewards. The Company implements negotiated Collective Bargaining Agreements every two years.

The hiring process takes into account qualifications, experience and gender ratio as per its Human Resource manual which is reviewed once every five years. Promotions from one scale to the other and other rewards are done based on performance appraisal system.

In an effort to improve skills of its employees, the Company has developed a training calendar of its staff to attend trainings, workshops and benchmarking exercises both locally and internationally. Training Needs Assessment (TNA) is conducted annually to establish gaps in skills and knowledge among employees. For instance in 2019/2020 financial year, TNA report established 8 thematic fields which the Company needs to focus on and train its employees on. The Company also has Safety Committee that ensures compliance on safety as per Occupational Safety and Health Act of 2007, (OSHA).

4. Market place practices-

The Company practices best market practices through the following efforts:

a) *Responsible competition practice.*

- For all entrepreneurs that seek to provide similar services within the Company's Service Provision Area, the Company gives them a letters of 'no objection' as per Water Resources Authority requirements.
- The Company has anti-corruption policy and whistle-blower policy to ensure best practices in the market.
- The Company does not involve itself in political activities and the County Government being the owner, does not interfere with the affairs of the Company. However, from time to time is summoned by the Count Government or the County Assembly to respond to no-political queries pertaining to its performance.

b) *Responsible Supply chain and supplier relations-*

All procurement procedures in the Company are done as per Public Procurement and Asset Disposal Act. These stipulated practices ensure that the Company maintains good business practices and relationship with all the suppliers and contractors. In terms of honouring payments to suppliers, the Company strives to promptly pay them even in the midst of cash flow challenges.

c) *Responsible marketing and advertisement-*

The Company source for advertising firms competitively. The Company promotes its goods, services and activities in a responsible manner and customers get full information. Advertisement and marketing is usually done through print media, Company website, open days among others. Water and Sanitation Services are regulated by Water Services Regulatory Board (WASREB). Additionally, the Company involve its stakeholders in all major decisions that will affect them.

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d) Product stewardship-

The Company strives to ensure that all its products and services meet the consumer standards by customers. This is the reason why there is regulation by WASREB to ensure that whatever the customers receive at the line of the supply pipe is of good quantity and quality since its their right enshrined in article 43 of the Constitution and stipulated in the Sustainable Development Goal number 6.

5. Community Engagements-

The Company usually engages the Community in a number of ways:

- Training-the Company offers free training to primary school, high school and tertiary institutions students who visit its facilities to learn.
- The Company also offers industrial attachment to the students in colleges and universities. These trainings equip the beneficiaries with the hands-on experience required for employment.
- The Company also offer technical advice to community development water projects like river springs and boreholes.

X. 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 the company's affairs.

Principal activities

The principal activities of the entity is to provide water and sewerage services within Kericho County

Results

The results of the entity for the year ended June 30, 2020 are set out on page 20-41 Below is summary of the profit or loss made during the year.

Dividends

The Directors do not recommend the payment of dividend for the year.

Directors

The members of the Board of Directors who served during the year are shown on page 4 In accordance with Regulation of the company's Articles of Association, a third of the board members other than those from the County Governments shall retire from office by rotation after every three years. The retiring members shall be determined on the basis of those who have served longest and, if they have served for the same time, then the retirement will be determined by lot.

Auditors

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

By Order of the Board

Equity Registrars and Secretaries,
P.O. Box 18-40107,
Muhoroni

XI. STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

The Directors are responsible for the preparation and presentation of the company's financial statements, which give a true and fair view of the state of affairs of the company for and as at the end of the financial year (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 the entity; (iii) designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of the financial statements, and ensuring that they are free from material misstatements, whether due to error or fraud; (iv) safeguarding the assets of the company; (v) selecting and applying appropriate accounting policies; and (vi) making accounting estimates that are reasonable in the circumstances.

The Directors accept responsibility for the company's financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity with International Financial Reporting Standards (IFRS), and in the manner required by the PFM Act, 2012 and the Companies Act. The Directors are of the opinion that the company's financial statements give a true and fair view of the state of company's transactions during the financial year ended June 30, 2020, and of the company's financial position as at that date. The Directors further confirm the completeness of the accounting records maintained for the company which have been relied upon in the preparation of the company'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 the *company* will not remain a going concern for at least the next twelve months from the date of this statement.

Approval of the financial statements

Kewasco's financial statements were approved by the Board on 24th September 2020 and signed on its behalf by:



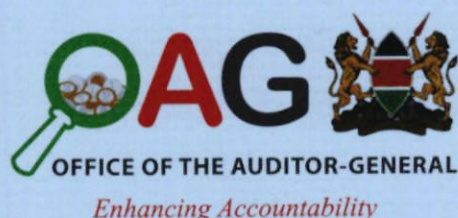
Roselyn C. L. Ngeny, Director



Eng Kibii Chepkwony Siele, Managing Director

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NAIROBI

REPORT OF THE AUDITOR-GENERAL ON KERICHO 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 Kericho Water and Sanitation Company Limited set out on pages 34 to 66, which comprise the statement of financial position as at 30 June, 2020, and the statement of profit or loss and other comprehensive income, statement of changes in equity, statement of cash flows and statement of comparison of budget and actual amounts for the year then ended, and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, 2015. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

In my opinion, except for the effect of the matters described in the Basis for Qualified Opinion section of my report, the financial statements present fairly, in all material respects, the financial position of the Kericho 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 International Financial Reporting Standards and comply with the Company's Act, 2015 and the Public Finance Management Act, 2012.

Basis for Qualified Opinion

1. Inaccuracies in Opening Balances

The statement of financial position reflects trade payables comparative opening balances which differ with the audited balances of previous year as reflected below;

Item	Opening Balance 2019/2020 (Kshs.)	Audited Financial Statements 2018/2019 (Kshs.)	Variance (Kshs.)
Trade Payables	91,689,414	102,409,381	(10,719,967)
Related Party Payables	99,187,737	102,222,068	(3,034,331)

Consequently, the accuracy of the comparative balances for trade payables and related party payables in the financial statements as at 30 June, 2020 could not be confirmed.

2. Anomalies in Bank and Cash Balance

The statement of financial position reflects bank and cash balance of Kshs.19,952,692 and as disclosed in Note 20. However, the following anomalies were noted:

2.1 The bank balance of Kshs.19,952,692 includes Kshs.5,637,446 held at Kenya Commercial Bank as deposit, revenue and expenditure accounts and registered in the name of Chemosit Water and Sanitation Company Limited. The Management of Chemosit Water Company (formerly a sister company serving Sotik-Kericho area) was put under the administration of Tililbei Water and Sanitation Company which merged with Kericho Water and Sanitation Company in the year 2018. The accounts of Chemosit Water Company were frozen by the high court in the year 2013 as per Case No. 1623 of 2013 and a determination was made in favour of Lake Victoria South Water Services Board on 9 July, 2018.

However, this matter is not disclosed as a contingent liability in the financial statements of the Company. Further, Section 68 of the Water Act, 2016 states that the Regulatory Board can order the transfer of water services functions from a defaulting water services provider to another licensee.

2.2 The bank balances also includes an overdrawn Post Bank account of Kshs.(371,961) which was not supported by certificate of bank balance, cash book and a bank statement. Further, the bank and cash balance is understated by overdraft of negative Kshs.371,961 as disclosed in Note 20.

Consequently, the accuracy, validity and completeness of bank and cash balance of Kshs.19,952,692 as at 30 June, 2020 could not be confirmed.

3. Long Outstanding Trade and Other Payables

Note 25 of the financial statements reflects trade and other payables balance of Kshs.236,038,217 which also includes related party balance of Kshs.106,788,200 as at 30 June, 2020. The following issues were noted from the trade payables:

3.1 Included in related party payables balance of Kshs.106,788,200 is Kshs.68,772,041 due to Lake Victoria South Water Services Board (LVSWSB) and has remained long outstanding as a brought forward balance from the previous years.

3.2 Included in trade and other payables balance of Kshs.237,601,408 is trade payables balance of Kshs.122,703,382 out of which Kshs.16,553,677 is Pay as You Earn balance that has been long outstanding for a long time. In addition, possible penalties and interest have not been provided in these financial statements as at 30 June, 2020.

3.3 The trade and other payables balance of Kshs.237,601,408 includes deferred income of Kshs.2,517,495 which was not supported by documentary evidence.

Consequently, the accuracy, validity and completeness of trade and other payables balance of Kshs.236,038,217 as at 30 June, 2020 could not be confirmed.

4. Unsupported Deferred Liability

The statement of financial position reflects deferred liability balance of Kshs.17,007,359 as disclosed in Note 24 to the financial statements that has remained the same over years. The Management did not support the balance with relevant documents.

Consequently, the accuracy, validity, and completeness of the deferred liability balance of Kshs.17,007,359 as at 30 June, 2020 could not be confirmed.

5. Un-Refunded Customer Deposits

Note 23 of the statement of financial position as at 30 June, 2020 reflects customer deposits as Kshs.26,127,932. However, the bank statements balance indicates that the customer deposits totalled Kshs.6,289,097. The variance of Kshs.19,838,835 are borrowings approved by the Board from the account and which have not been refunded.

Consequently, the validity, accuracy, and existence of the deposit balance of Kshs.26,127,932 as at 30 June, 2020 could not be confirmed.

6. Unsupported Trade and Other Receivables

The statement of financial position as at 30 June, 2020 reflects Kshs.193,206,427 in relation to trade and other receivables. However, the following issues were noted.

6.1 VAT receivables of Kshs.8,782,552 were not supported with documents such as invoices to show the VAT input and output computations.

6.2 The provision for bad and doubtful of Kshs.12,148,095 under administration cost is charged in the statement of profit or loss and other comprehensive income. However, there was no evidence provided for audit to confirm Board's approval on the debtors' policy and as a result, it is not possible to confirm how the computations were arrived at.

Consequently, the accuracy, validity and completeness of the receivables balance of Kshs.193,206,427 as at 30 June, 2020 could not be confirmed.

7. Property, Plant and Equipment

The statement of financial position as at 30 June, 2020 reflects property, plant and equipment balance of Kshs.52,418,831. However, the fixed assets register showing details of the assets acquired by the Company was not provided for audit review. In addition, Note 13 to the financial statements reflects fully depreciated items including land of Kshs.800,000. It is not clear how land is part of fully depreciated assets.

Consequently, the accuracy, validity and completeness of property, plant and equipment balance of Kshs.52,418,831 as at 30 June, 2020 could not be confirmed.

8. Material Uncertainty Related to Going Concern

The statement of comprehensive income reflects operating loss of Kshs.15,195,788 (2019: loss of Kshs.19,970,658). The loss resulted to accumulated and depleted retained earnings of negative Kshs.124,100,180 as at 30 June, 2020 (/2019-negative: Kshs.108,904,393). The current liabilities of Kshs.299,321,864 also exceeded current assets of Kshs.216,026,802 resulting to a negative working capital of Kshs.83,295,062 as at 30 June, 2020 demonstrating that the Company is unable to meet its financial obligations as and when they fall due. This state of affairs is an indicator of an acute financial challenge facing the Company which raises significant doubts on its ability to operate as a going concern.

The Company is therefore technically insolvent and its continued existence as a going concern is dependent upon the financial support from its creditors and the County Government of Kericho.

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

Budgetary Control and Performance

The summary statement of comparison of budget and actual amount reflects final receipts budget and actual on comparable basis of Kshs.382,368,869 and Kshs.272,625,532 respectively resulting to an under-funding of Kshs.109,743,337 or 29% of the budget. Similarly, the Company spent Kshs.297,498,044 against an approved budget of Kshs.382,779,729 resulting to an under-expenditure of Kshs.85,281,685 or 22% of the budget. The underfunding and underperformance affected the planned activities and may have impacted negatively on service delivery to the stakeholders.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

As required by Article 229(6) of the Constitution, based on the audit procedures performed, except for the matters described in the Basis for Conclusion on Lawfulness and Effectiveness in Use of Public Resources section of my report, I confirm that nothing else has come to my attention to cause me to believe that public resources have not been applied lawfully and in an effective way.

Basis for Conclusion

1. Exceeded Non-Revenue Water

A review of water production records revealed that the Company produced 4,980,000 m³ equivalent to Kshs.333,660,000 at Kshs.67 per cubic metre of water out of which 2,490,000 m³ equivalent to Kshs.166,830,000 was billed to customers. The balance of 2,490,000 m³ cubic meters or approximately 50% represents non-revenue water totalling to Kshs.166,830,000 which was 25% over and above the allowable loss of 25% prescribed in Water Services Regulatory Board guidelines which may have resulted in a loss of sales of the same amount.

Consequently, the Management is in breach of water regulatory guidelines.

2. Non-Compliance with Law on Ethnic Composition

A review of the staff establishment and documents provided revealed that over 96% of the one hundred and sixty-eight (168) staff employed by the Company are from one dominant community within the County. This is contrary to the provisions of Section 7(1) and (2) the National Cohesion & Integration Act, 2008 which states that all public establishments shall seek to represent the diversity of the people of Kenya in the employment of staff and that no public establishment shall have more than one third of its staff from the same ethnic community.

Consequently, the Management is in breach of the law.

3. Non-Compliance with the One Third of Basic Salary Rule

During the year ended 30 June, 2019, five (5) employees earned a net salary of less than a third (1/3) of the basic salary contrary to Section C.1(3) of the Public Service Commission (PSC) Human Resource Policies, 2016. The Management has not given explanation for failure to comply with the policy.

In the circumstances, the Company contravened Section C.1(3) of the Public Service Commission (PSC) Human Resource Policies, 2016 as this may expose the staff to pecuniary embarrassment.

Basis for Conclusion

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

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

Basis for Conclusion

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

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

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

- i. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit; and,
- ii. In my opinion, proper books of account have been kept by the Company, so far as appears from my examination of those books; and,
- iii. The Company's statement of financial position and statement of comprehensive income is in agreement with the books of account.

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 the 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 also 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 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

11 February, 2022

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**XIII. STATEMENT OF PROFIT AND LOSS AND OTHER
COMPREHENSIVE INCOME**

	Note	2020	2019
		Kshs	Kshs
REVENUES			
Sales	6	204,745,793	186,658,084
Cost of Sales	7	(90,783,962)	(96,115,048)
Gross Profit		113,961,831	90,543,036
Grants	8	53,159,674	37,730,523
Other Income	9	14,720,066	20,105,024
TOTAL REVENUES		181,841,570	148,378,583
OPERATING EXPENSES			
Administration Costs	10	151,732,280	125,221,629
Operation and Maintenance Costs	11	36,332,293	33,266,654
Depreciation of property, plant and equipment	13	7,287,956	8,135,635
Amortisation of Intangible Assets	16	446,160	527,482
TOTAL OPERATING EXPENSES		195,798,689	167,151,400
OPERATING PROFIT/(LOSS)		(13,957,119)	(18,772,818)
Finance Income			
Finance Costs	17	1,238,669	1,197,840
PROFIT/(LOSS) BEFORE TAXATION		(15,195,788)	(19,970,658)
INCOME TAX EXPENSE/(CREDIT)			
PROFIT/(LOSS) AFTER TAXATION	-	(15,195,788)	(19,970,658)

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XIV. STATEMENT OF FINANCIAL POSITION

	Note	2020 Kshs	2019 Kshs
ASSETS			
Non-Current Assets			
Property, plant and equipment	13	52,418,831	41,050,420
Intangible assets	16	1,784,641	2,109,930
Total Non-Current Assets		54,203,472	43,160,350
Current Assets			
Inventories	18	2,660,297	1,726,304
Trade and other receivables	19	193,206,427	173,568,969
Prepaid Payables	25	207,386	516,069
Bank and cash balances	20	19,952,692	17,038,613
Total Current Assets		216,026,802	192,849,955
TOTAL ASSETS		270,230,274	236,010,304
EQUITY AND LIABILITIES			
Capital and Reserves			
Ordinary share capital	21	8,100,000	8,100,000
Capital Reserve		39,692,614	39,692,614
Retained earnings	22	(124,100,180)	(108,904,393)
Total Capital and Reserves		(76,307,566)	(61,111,779)
Non-Current Liabilities			
Customer Deposits	23	26,127,932	24,347,755
Deferred Liability	24	17,007,359	17,007,359
Borrowings(asset Finance)	25	1,563,191	3,183,260
Deferred Income	25	2,517,495	13,754,299
		47,215,977	58,292,674
Current Liabilities			
Trade payables	25	122,703,382	91,689,414
Related party	25	106,788,200	99,187,737
Prepaid Receivables	19	5,023,183	3,866,011
Retirement benefit obligations	26	60,777,958	38,240,854
Staff Gratuity	25	4,029,140	5,845,393
Total Current Liabilities		299,321,864	238,829,409
TOTAL EQUITY AND LIABILITIES		270,230,274	236,010,304

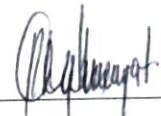
The financial statements were approved by the Board on 24th September 2020 and signed on its behalf by:

for 

Roselyn Langat Ngeny,
Director



Eng Kibii Chepkwony Siele
Managing Director



Philis Chelangat
ICPAK M/No 11585
Commercial & Finance Manager

XV. STATEMENT OF CHANGES IN EQUITY

	Ordinary share capital	Capital Reserves	Retained earnings	Total
At July 1, 2018	8,000,000	(2,429,375)	(51,197,738)	(45,627,113)
Balances from the rural cost centre	100,000	31,421,989	(37,735,997)	(6,214,008)
Motor vehicle grant		10,700,000		10,700,000
Total comprehensive income			(19,970,658)	(19,970,658)
At June 30, 2019	8,100,000	39,692,614	(108,904,393)	(61,111,779)
Total comprehensive income			(15,195,788)	(15,195,788)
At June 30, 2020	8,100,000	39,692,614	(124,100,180)	(76,307,566)

XVI. STATEMENT OF CASH FLOWS

	Note	2020 Kshs	2019 Kshs
OPERATING ACTIVITIES			
Cash generated from/(used in) operations	28	23,311,386	34,636,620
Net cash generated from/(used in) operating activities		23,311,386	34,636,620
INVESTING ACTIVITIES			
Purchase of property, plant and equipment	13	(9,555,852)	(18,789,102)
Purchase of Intangible Asset	16	(120,782)	
WIP decentralised Treatment Facility		(9,100,514)	
Net cash generated from/(used in) investing activities		(18,777,238)	(18,789,102)
FINANCING ACTIVITIES			
Proceeds from issues of new share capital			
Proceeds from borrowings			
Repayment of borrowings		(1,620,070)	(2,096,640)
Net cash generated from/(used in) financing activities		(1,620,070)	(2,096,640)
INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		2,914,079	13,750,878
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	20	17,038,613	3,287,735
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	20	19,952,692	17,038,613

XVII. STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS

Code	INCOMES	Budgeted 2019/2020	Actual 2019/2020	Performance difference
01	Sales	229,101,808	204,745,793	24,356,015
02	Grants	130,201,094	53,159,674	77,041,420
3	Other Income	23,065,967	14,720,066	8,345,902
	Total	382,368,869	272,625,532	109,743,337
	Personnel Expenses			
01	Staff Expenses	135,907,095	121,672,262	14,234,833
02	Wages/ Casuals	7,284,960	6,392,270	892,690
03	Training expenses	3,162,000	1,441,665	1,720,335
04	Salary arrears	13,287,576	12,833,352	454,224
05	Staff Medical Insurance	6,592,230	6,314,120	278,110
	Total Personnel Expenses	166,233,861	148,653,668	17,580,193
Code				
01	Hired Labour	300,000		300,000
02	Travelling and Night-out allowances	7,842,000	6,093,861	1,748,139
03	Staff Welfare	9,697,700	8,129,666	1,568,034
04	Office meals / Conferences	1,234,000	284,760	949,240
05	Board Expenses	3,699,400	3,024,552	674,848
06	Printing and Stationery	2,359,000	1,843,458	515,542
07	Publicity and advertisement	1,685,000	450,405	1,234,595
08	Telephones and Postages	2,652,000	1,894,509	757,491
09	Ground Maintenance	314,000	182,890	131,110
10	Electrical Appliances	650,000	157,946	492,054
11	Water Chemicals	4,126,000	3,500,076	625,924
12	Testing reagents	700,000	168,131	531,869
13	Cleaning materials	570,000	541,110	28,890
14	Repairs/Maintenance of buildings	1,592,000	423,433	1,168,567

16	Electricity and water	15,934,000	9,319,243	6,614,757
17	Bulk Water Supply	42,000,000	36,066,780	5,933,220
19	Fuel, Oils and Lubricants	8,099,000	7,051,144	1,047,856
20	Vehicle repair & maintenance	5,150,000	3,722,605	1,427,395
21	Pipeline repair materials & servicing	7,635,000	5,608,720	2,026,280
22	Tools & Equipment repairs/Serviceing	1,340,000	190,873	1,149,127
23	Repair of office equipment	470,000	30,000	440,000
24	NEMA	340,000	200,000	140,000
25	Software/licences	3,235,000	1,330,293	1,904,707
26	Subscription CSR & Donations	1,830,000	324,200	1,505,800
27	Levies	12,016,650	10,139,621	1,877,029
28	Lease fees	650,000	766,286	- 116,286
29	Interest on Loan	947,000	757,704	189,296
30	Audit Fee	600,000	600,000	-
31	Professional fees	1,500,000	185,000	1,315,000
32	Insurance	2,300,000	2,258,659	41,341
33	Security	8,800,000	8,241,665	558,335
34	Bank Charges	1,500,000	1,238,669	261,331
35	Rent Expense	80,000	72,000	8,000
36	WSTF Toilet subsidies	5,000,000	4,487,181	512,819
37	Statutory Arrears	24,813,518		24,813,518
	Depreciation and Amortization		7,734,117	- 7,734,117
	Provision for bad debts		12,148,095	- 12,148,095
	Total O&M	181,661,268	139,167,652	42,493,616
	TOTAL RECURRENT EXPENDITURE	347,895,129	287,821,320	60,073,809
	CAPITAL EXPENSES			
Code				
01	Computer Hardware	2,740,000	157,500	2,582,500
02	Computer Software	2,810,000	120,872	2,689,128
03	Meters	6,752,000	4,535,500	2,216,500
04	Pipeline/ wate distribution equipment	2,750,000		2,750,000

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05	Mineral Water Packaging Plant	2,000,000		2,000,000
06	Land	2,000,000		2,000,000
07	TV Set/Video			-
08	Furniture & Fittings	447,000		447,000
09	Tools & Equipment	2,022,000		2,022,000
10	Buildings	750,000	320,000	430,000
11	Vehicle - Asset Finance	2,613,600	199,000	2,414,600
12	Decentralised Treatment Facility/Septic Tank	10,000,000	4,343,852	5,656,148
	TOTAL CAPITAL EXPENSES	34,884,600	9,676,724	25,207,876
	GRAND TOTAL	382,779,729	297,498,044	85,281,685

XVIII. NOTES TO THE FINANCIAL STATEMENTS

1. GENERAL INFORMATION

Kericho Water and Sanitation Company Ltd was established under the Companies Act Cap 486 and derives its authority and accountability from Water Act. The entity is wholly owned by the County Government of Kericho and is domiciled in Kenya. The entity's principal activity is to provide water and sewerage services.

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 company'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

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

The financial statements have been prepared in accordance with the PFM Act, the Companies 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 (IFRS) STANDARDS

- 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 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.

1. 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.

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.

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 assessment of the potential impact of application of the above amendment will not have a significant impact on the company's financial statements.

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.

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

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

a) Revenue recognition

Revenue is recognised to the extent that it is probable that future economic benefits will flow to the company 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 the *entity's* activities, net of value-added tax (VAT), where applicable, and when specific criteria have been met for each of the company's activities as described below.

i) **Revenue from water and sewerage services billed** is recognised in the year in which the company delivers products to the customer, the customer has accepted the products and collectability of the related receivables is reasonably assured.

ii) **Grants from the County Government and other partners** are recognised in the year in which the company actually receives such grants.

iii) **Rental income** is recognised in the income statement as it accrues using the effective lease agreements.

iv) **Other income** is recognised as it accrues.

b) 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.

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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.

c) Depreciation and impairment of property, plant and equipment

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

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

Buildings and civil works	25 years or the unexpired lease period
Office equipment, furniture and fittings	12.5 years

The annual depreciation rates in use are:	
Earthmovers/ Tractors	37.5%
Computers and accessories	30%
Motor vehicles	25%
Computer software	20%
Furniture, fittings, tool and equipment	12.5%

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

d) Depreciation and impairment of property, plant and equipment (Continued)

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

e) Intangible assets

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

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f) Amortisation and impairment of intangible assets

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

All computer software is reviewed annually for impairment. Where the carrying amount of an intangible asset is assessed as greater than its estimated recoverable amount, an impairment loss is recognised so that the asset is written down immediately to its estimated recoverable amount.

g) Leases

IFRS 16 introduces new or amended requirements with respect to lease accounting. It introduces significant changes to lessee accounting by removing the distinction between operating and finance lease and requiring the recognition of a right-of-use asset and a lease liability at commencement for all leases, except for short-term leases and leases of low value assets. In contrast to lessee accounting, the requirements for lessor accounting have remained largely unchanged.

h) Inventories

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

i) 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.

j) Taxation

Current income tax

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

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

Deferred tax

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

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

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

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Unrecognized deferred tax assets are re-assessed at each reporting date and are recognized to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

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

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

k) Cash and cash equivalents

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

l) Borrowings

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

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in the period in which they arise. Loan interest accruing during the construction of a project is capitalised as part of the cost of the project.

m) Trade and other payables

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

n) Retirement benefit obligations

The entity operates a defined contribution scheme for all full-time employees from July 1, 1997. The scheme is administered by an in-house team and is funded by contributions from both the company and its employees. The company also contributes to the statutory National Social Security Fund (NSSF). This is a defined contribution scheme registered under the National Social Security Act. The company's obligation under the scheme is limited to specific contributions legislated from time to time and is currently at Kshs.200 per employee per month.

o) Provision for staff leave pay

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

p) Budget information

The original budget for FY 2019/2020 was approved by the board of directors on 25th June 2019. Subsequent revisions or additional appropriations were made to the approved budget in accordance with specific approvals from the appropriate authorities. The additional appropriations are added to the original budget by the entity upon receiving the respective approvals in order to conclude the final budget.

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

In addition to the Basis difference, adjustments to amounts in the financial statements are also made for differences in the formats and classification schemes adopted for the presentation of the financial statements and the approved budget.

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

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q) Service concession arrangements

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

r) Comparative figures

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

s) 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.

5. SIGNIFICANT JUDGMENTS AND SOURCES OF ESTIMATION UNCERTAINTY

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

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

Estimates and assumptions

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

Useful lives and residual values

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

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

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6. SALES

	2020	2019
	Kshs	Kshs
Water Sales	195,998,478	177,625,659
Exhaust Works	8,747,315	9,032,425
	204,745,793	186,658,084

Water sales are the main revenue sales for the company. This comprises billings from water, sewer and meter rent.

7. COST OF SALES

	2020	2019
	KSHS	KSHS
Electricity -Production	8,991,462	13,968,309
Bulk Water Purchase	36,066,780	27,146,400
Staff costs	42,057,513	51,105,659
Water Analysis Expenses	168,131	499,688
Water Chemicals	3,500,076	3,394,991
	90,783,962	96,115,048

8. GRANTS

	2020	2019
	KSHS	KSHS
Deferred Income-wstf	13,341,998	1,714,942
Other Income-Bulk Water-Kericho Rural)	25,000,000	26,602,429
Other Income-Electricity-Kericho Rural)	4,912,743	1,152,765
Other Income-Pipeline relocation and septic Tank	9,904,933	8,260,387
	53,159,674	37,730,523

- Deferred income from WSTF refers to the amounts actually used in the project ie subsidy for toilet construction and other administration cost.
- The Bulk water and electricity subsidy are amounts paid by the County Government of Kericho to our various service providers.

9. OTHER INCOME

	2020	2019
	KSHS	KSHS
Miscellaneous incomes	2,944,527	3,207,420
Connection	1,446,120	2,020,250
Reconnection	1,938,000	2,128,330
Rent Income	431,500	475,400
Tanker Services	3,679,394	7,228,775
Dumping Services	2,943,500	3,297,000
Penalties	1,337,025	1,747,849
	14,720,066	20,105,024

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10. (a) ADMINISTRATION COSTS

	2020	2019
Staff costs (note 10b)	112,699,355	88,481,159
Advertisement	173,540	1,578,560
Audit and accountancy	600,000	600,000
Cleaning	541,110	486,735
General Insurance	2,258,659	1,941,999
Legal, professional & Environment impact assessment fees	185,000	145,980
Newspapers and periodicals	217,140	453,115
Subscription & donations	324,200	537,430
Postage and telephone	1,546,399	1,693,023
Computer expense	1,266,855	1,131,907
Printing and stationery	576,603	918,140
Functions and celebrations	284,760	1,577,858
Travel and nightout allowances	6,093,861	6,643,158
Board meetings & Allowances	3,024,552	2,123,701
Licences Renewal	200,000	129,000
Interest & penalties	757,704	867,333
Rent expense	72,000	72,000
Software Licenses renewal	1,330,293	1,062,552
Ground maintenance	182,890	152,621
Sports	2,026,467	1,186,469
Bulk sms Billing	348,110	727,552
Community Sensitization	59,725	
Electricity admin	327,781	349,554
Wstf expenses	4,487,181	2,153,711
Provision for bad debts	12,148,095	10,208,071
	151,732,280	125,221,629

(b) STAFF COSTS

Staff costs comprise the following items:

Staff salaries and wages	67,601,047	60,574,102
Employer's pension contributions	7,033,007	6,221,575
Temporary labour	3,964,802	3,768,964
Protective clothing	800,970	115,218
Staff Benovolent Fund	216,351	431,526
Staff welfare	1,805,385	1,966,645
Staff training	1,441,665	1,156,210
Acting allowance and honorarium	2,307,651	841,032
Leave allowances	2,053,179	2,261,756
Overtime payments	765,040	497,692

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Staff Medical cover	6,314,120	4,385,665
Training levy	103,950	75,200
Christmas awards	1,806,000	1,806,000
Staff gratuity	2,282,293	4,043,502
staff retirement package	1,370,544	309,004
Salary Arrears	12,833,352	27,068
	112,699,355	88,481,159

The average number of employees at the end of the year was:	2020	2019
Contract employees – Management	5	7
Contract employees – Support staff	9	6
Permanent employees – Unionisable	155	168
Temporary employees- casuals	52	13
	221	194

11. OPERATION AND MAINTENANCE COSTS

	2020	2019
	KSHS	KSHS
Repairs and maintenance	6,253,026	7,808,233
Electrical Expenses	157,946	349,450
Security Services	8,241,665	6,483,805
Vehicle running and maintenance	3,722,605	2,904,472
Fuel	7,051,144	5,741,302
Lease fees	766,286	1,821,653
WASREB Levy	7,657,660	6,207,911
WRMA LEVY	2,216,355	1,881,249
Standard Levy	265,607	68,579
	36,332,293	33,266,654

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12. OPERATING PROFIT/(LOSS)

The operating profit/(loss) is arrived at after charging/(crediting):

	2020	2019
	KSHS	KSHS
Staff costs	112,699,355	88,481,159
Depreciation of property, plant and equipment	7,287,956	8,135,635
Amortisation of intangible assets	446,160	527,482
Provision for bad and doubtful debts	12,148,095	10,208,071
Directors' emoluments - fees	3,024,552	2,123,701
Auditors' remuneration - current year fees	600,000	600,000
	136,206,119	110,076,049

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13. PROPERTY PLANT AND EQUIPMENT

	Land	Buildings	Heavy duty Tractor	Computer & Accessories	Motor Vehicles	Furniture and fittings	Meters	Septic Tank	Decentralized Treatment Facility WIP	Total
COST OR VALUATION										
At June 30, 2018	800,000	7,874,749	5,471,624	6,629,425	18,150,095	25,756,169	2,630,173			67,312,235
NBV as at 30th October from Rural cost centre		4,154		238,642		1,718,846	2,500,503			4,462,145
Additions				375,152	14,000,000	112,611	4,301,339			18,789,102
Transfers										
Disposals										
At June 30, 2019	800,000	7,878,903	5,471,624	7,243,219	32,150,095	27,587,626	9,432,015			90,563,482
Additions	-	320,000	-	157,500	199,000		4,535,500	4,343,852	9,100,514	18,656,366
Transfers										-
Disposals										-
As at 30th June 2020	800,000	8,198,903	5,471,624	7,400,719	32,349,095	27,587,626	13,967,515	4,343,852	9,100,514	109,162,693
DEPRECIATION										
At June 30, 2018	-	312,590	5,341,170	5,880,759	12,574,355	16,939,780	328,772			41,377,426
Charge for the year		315,156	48,920	408,738	4,893,935	1,330,981	1,137,905			8,135,635
Impairment loss										
Eliminated on disposal										
At June 30, 2019	-	627,746	5,390,090	6,289,497	17,468,290	18,270,761	1,466,677			49,513,061
Charge for the year		302,846	30,575	333,367	3,720,201	1,164,608	1,562,605	173,754		7,287,956
Impairment loss										-
Eliminated on disposal										-

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As at 30th June 2020	-	930,592	5,420,666	6,622,864	21,188,491	19,435,369	3,029,281	173,754		56,801,017
NET BOOK VALUE										-
At June 30, 2020	800,000	7,268,311	50,958	777,856	11,160,604	8,152,257	10,938,234	4,170,098	9,100,514	52,418,831
At June 30, 2019	800,000	7,251,157	81,534	953,722	14,681,805	9,316,865	7,965,338	0		41,050,420

- In the financial year, the company mobile phone for meter readers, a container for the NRW Office
- In addition assorted meters were procured
- In the financial year, the company procured a cycle for Kipkelion Scheme and constructed a Septic Tank.

Property, plant and equipment include the following items that are fully depreciated:

	%	Cost or valuation	Normal annual depreciation charge
Land		800,000	
Plant and Buildings	4	8,198,903	302,846
Heavy duty Tractor	37.5	5,471,624	30,575
Computer & Accessories	30.0	7,400,719	333,367
Motor Vehicles	25.0	32,349,095	3,720,201
Furniture and fittings	12.5	27,587,626	1,164,608
Meters	12.5	13,967,515	1,562,605
Septic Tank	4.0	4,343,852	173,754
		100,119,334	7,287,956

Depreciation is charged on a straight line basis and a full year charge is made on all the item purchased.

The company also has motor vehicles that have been given by the Water Services Board and other partners for purposes of service delivery but the ownership is still remains with them.

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14. LAND

The company has acquired full ownership of the land in the books

15. WORK IN PROGRESS

During the financial year, a Decentralised Treatment Facility at Kapsoit was still under Construction. The total cost of the work In Progress is **Kshs 9,100,514**

16. INTANGIBLE ASSETS

This relates to the billing, accounting, payroll, Human resource, GIS and the accounting software that are currently being used by the company.

COST	Computer Software
At June 30 2018	8,886,604
NBV as at 30th October from Rural cost centre	191,696
Additions	
Disposals	
At June 30 2019	9,078,300
Additions	120,872
Disposals	
At June 30 2020	9,199,172
AMORTISATION	
At June 30,2018	6,440,888
Charge for the year	527,482
Prior Year adjustment	
Disposals	
Impairment loss	
At June 30,2019	6,968,370
Charge for the year	446,160
Prior Year adjustment	
Disposals	
Impairment loss	
At June 30,2020	7,414,531
NET BOOK VALUE	
At June 30, 2020	1,784,641
At June 30, 2019	2,109,930

17. FINANCE COSTS

These are the bank charges that are normally incurred in the day to day operations

Finance Costs	1,238,669	1,197,840
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18. INVENTORIES

	2020	2019
	Kshs	Kshs
Pipes ,stationery and spares	2,660,297	1,726,304
	2,660,297	1,726,304

19. TRADE RECEIVABLES

	2020	2019
	Kshs	Kshs
Trade receivables	192,900,936	169,948,154
Staff receivables	594,217	812,345
VAT Receivables	8,782,552	8,782,552
Other receivables	8,100,000	8,100,000
Gross trade and other receivables	210,377,705	187,643,051
Provision for bad and doubtful receivables	12,148,095	10,208,071
	198,229,610	177,434,980
Prepaid receivables	5,023,183	3,866,011
	193,206,427	173,568,969

20. CASH AND CASH EQUIVALENT

	2020	2019
	Kshs	Kshs
Kenya Commercial Bank	6,247,602	6,247,602
Equity Bank	3,173,126	2,943,983
Family Bank	596,436	188
Cooperative Bank	8,207,408	7,372,864
Post Bank	321,669	14,110
Posta	(371,961)	(344,208)
Mpesa Collection	1,778,413	804,073
	19,952,692	17,038,613

This relates the balances as at 30th June 2020

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Detailed analysis of the cash and cash equivalents is as below:

	2020	2019
	Kshs	Kshs
Bank -cooperative Revenue a/c 01136053726801	1,554,813	(8,824,876)
Bank-cooperative-deposit a/c 01136053726800	4,135,100	2,443,441
Cooperative Bank-GIZ a/c 01136053726803	815,035	10,719,968
Co-operative Bank of Kenya-UBSUP Phase III 01136053726808	1,702,459	3,034,331
Family Bank – Exhauster a/c 022000004636	596,436	188
KCB Bank-refuse 01103618563	610,156	610,156
KCB - KCB Deposit a/c 01104926946	1,275,838	1,275,838
KCB Revenue a/c 01104927179	3,297,418	3,297,418
KCB Expenditure a/c 01108396682	1,064,190	1,064,190
MPESA Collection-Urban paybill no.803600	568,383	433,115
MPESA A/c charges	(3,497)	(2,604)
Mpesa MMF	789,293	285,917
MPESA Collection Kericho Rural paybill no.830590	424,234	87,645
Post Bank Collection A/c 744130011171	321,669	14,110
Posta Collection A/c KR001	(371,961)	(344,208)
Equity Bank a/c 0280299023589	2,063,688	1,546,014
Equity Bank-Revenue 0530199886550	35,205	29,310
Equity Bank-Deposit -0530199886579	856,181	435,601
Equity Bank-Expenditure -0530299886559	218,052	933,058
	19,952,692	17,038,613

21. ORDINARY SHARE CAPITAL

Authorised:

405,000 ordinary shares of Kshs 20 par value each

8,100,000

8,100,000

=====

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Issued and not paid:

All the shares were issued and not paid

22. RETAINED EARNINGS

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

Retained earnings	(124,100,180)	(108,904,393)
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23. CUSTOMER DEPOSITS

Customer Deposits represent amounts paid by customer upon registration of a new connection. The amount is refundable on request by the customer when he or she no longer needs water to be supplied in his/her residence.

Customer Deposits-Urban	17,181,042	15,775,865
Customer Deposits-Kericho Rural	8,946,890	8,571,890
Total	26,127,932	24,347,755

24. DEFERRED LIABILITY

	2020	2019
	KSH	KSH
Due to County Government of Kericho	17,007,359	17,007,359

The deferred liability relates to debtors taken over by the company from the former Municipal Council of Kericho on 1 July 2004

25. TRADE PAYABLES

	2020	2019
Trade payables	122,703,382	91,689,414
Related Parties	106,788,200	99,187,737
Staff Gratuity	4,029,140	5,845,393
	236,038,217	210,476,843
Prepaid Payables	207,386	516,069
Borrowings (asset finance)	1,563,191	3,183,260
Deferred Income	2,517,495	13,754,299

Other payable relates to the payables to related parties i.e. Lake Victoria south Water Services Board, Water Services Regulatory Board, Water Resources Management Authority, County Government of Kericho and Water Services Trust Fund.

26. RETIREMENT BENEFIT OBLIGATIONS

The company operates a defined contribution scheme for all full-time employees from July 1, 1997. The scheme is funded by contributions from both the company and its employees. The balance of the defined contribution scheme is as analysed below.

	2020	2019
Balance at beginning of the year	38,240,854	22,720,447
Balances from Rural cost centre		14,773,017
Contributions during the year	35,778,387	20,013,163
Paid out during the year	- 13,241,283	- 19,265,773
Balance at end of the year	60,777,958	38,240,854

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

27. PROVISION FOR LEAVE PAY

Balance at beginning of the year	1,880,818	1,972,126
Additional provision at end of year	3,032,914	2,170,448
Leave paid out or utilised during the year	- 3,109,604	- 2,261,756
Balance at end of the year	1,804,128	1,880,818

Provision for annual leave pay is based on services rendered by full-time employees up to the end of the year.

28. NOTES TO THE STATEMENT OF CASH FLOW

(a) Reconciliation of operating profit/(loss) to cash generated from/(used in) operations

	2020	2019
	Kshs	Kshs
Operating profit/(loss)	(15,195,788)	(20,381,433)
Provision for bad debts		10,208,071
Depreciation	7,287,956	8,135,635
Amortisation	446,160	527,482
Operating profit/(loss) before working capital changes	(7,461,671)	(1,510,245)
(Increase)/decrease in inventories	(933,993)	1,217,861
(Increase)/decrease in trade and other receivables	(19,637,458)	(89,606,042)
(Increase)/decrease in prepaid payables	308,683	(516,069)
Increase/(decrease) in trade and other payables	31,013,968	67,847,907
Increase/(decrease) in Related Party	7,600,463	37,413,867
Increase/(decrease) prepaid receivables	1,157,172	3,866,011
Increase/(decrease) in staff gratuity	(1,816,253)	3,214,858
Increase/(decrease) in Retirement Benefit Obligation	22,537,104	15,520,407
Increase/(decrease) in customer deposits	1,780,177	9,999,705
Increase/(decrease) in capital reserves		(12,811,641)
	30,773,059	36,146,864
Cash generated from/(used in) operations	23,311,386	34,636,619

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29. NOTES TO THE STATEMENT OF COMPARISON OF BUDGET AND ACTUALS AMOUNTS

- a) Sales: the sales figure is way below the budgeted amount since the company was largely affected by the COVID 19 pandemic as most institution and schools were closed who are the major customers.
- b) Grants: The difference in grant income was as a result of a commitment by the County Government of Kericho to pay the difference in Salaries after the take over as outlined in the deed of transfer to the employees working at the former Tilwasco
- c) Bulk Water Purchase cost: the budget was as a result of the average daily water received, however in the financial year, we received more water than expected resulting in increase in the expenditure on the same.
- d) Most of the expenditure was not incurred largely as a result of the reduction in revenue billing and collections due to the COVID 19 pandemic that started in March 2020.

30. 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.

The Group is related to

- i) County Government of Kericho
- ii) Water Service Trust Fund
- iii) WASREB
- iv) WARMA
- v) Lake Victoria South Water Services Board
- vi) Key management
- vii) Board of directors

Transactions with related parties

a) Key Management Remuneration

	2020	2019
	Kshs	Kshs
Directors Allowances	3,024,552	2,123,701
Key Management Compensation	12,054,000	12,054,000
	15,078,552	14,177,701

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b) Due to other Related parties

	2020	2019
	Kshs	Kshs
Due to Water Resources Managemnet Authority	3,525,399	3,355,255
Due to Water Services Regulatory Board	13,495,533	7,837,873
Due to Lake Victoria South Water Services Board	68,772,041	72,605,755
Due to the County Government of Kericho	20,995,228	15,298,328
Due to the WSTF	1,702,460	3,124,858
	108,490,660	102,222,068

31. FINANCIAL RISK MANAGEMENT

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

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

a) Credit risk

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

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

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

	2020	2019
	Kshs	Kshs
Trade receivables	198,229,610	173,568,968
Bank balances	19,952,692	17,038,613
	218,182,303	190,607,581

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The credit risk associated with these receivables is minimal and the allowance for uncollectible amounts that the company has recognised in the financial statements is considered adequate to cover any potentially irrecoverable amounts.

The company has significant concentration of credit risk on amounts due from Receivables from Bomet County since assets and liabilities have not been shared.

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

b) Liquidity risk management

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

The table below represents cash flows payable by the company under non-derivative financial liabilities by their remaining contractual maturities at the reporting date. The amounts disclosed in the table are the contractual undiscounted cash flows.

	2020	2019
	Kshs	Kshs
Trade payables and other current liabilities	301,839,359	252,583,708

c) Market risk

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

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

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

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

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d) Capital management

Capital managed by the company is the equity attributable to the equity holders. The primary objective of the company's capital management is to ensure that it maintains healthy capital ratio in order to support its business. The company manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the company may adjust the dividend payment to shareholders. No changes were made in the objectives, policies or processes during the years ended 30 June 2015 and 30 June 2016.

	2020	2019
	Kshs	Kshs
Trade and other payables	301,839,359	252,583,708
Less: cash and short-term deposits	19,952,692	17,038,613
Net debt	281,886,666	235,545,094
Equity	8,100,000	8,100,000

The company monitors capital using a gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total of interest bearing loans and borrowings, trade and other payables less cash and cash equivalents.

32. ONGOING PROJECTS

In the financial year, we have had projects done by Lake Victoria South Water Works Development Agency within the company's area namely:

- a) Water Sector Development Program for the construction of Kimugu Treatment works .This project started in April 2019.
- b) Lake Victoria Water and Sanitation (LVWATSAN) Initiative Phase II - Sewerage Treatment works Rehabilitation: the rehabilitation is almost complete.
- c) Kericho UBSUP Phase 3: this is funded by WSTF and is fully implemented by the company. The same is still ongoing.

33. INCORPORATION

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

34. EVENTS AFTER THE REPORTING PERIOD

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

35. CURRENCY

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

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APPENDIX II: PROJECTS IMPLEMENTED BY THE ENTITY

Projects

Projects implemented by the Kericho Water and Sanitation Company funded by development partners

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.Kericho Household Sanitation Project Phase III	OIHS/LVSWSB/KER ICHO/04	Water Sector Trust Fund	12 months	100%		Yes

Status of Projects completion

The funding approval for the project was in the month of October 2018 .The project had two components i.e. construction of toilets and a decentralised treatment facility at Kapsoit Market.

As at the end of the financial year. As at 30th June 2019 303 No toilets had been constructed and completed

	Project	Total project Cost	Total expended to date	Completion % to date	Budget	Actual	Sources of funds
1	UBSUP Phase III	18,143,016	15,059,381.10	85%	17,874,893		Water Sector Trust Fund