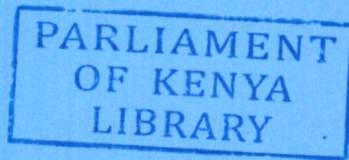


REPUBLIC OF KENYA



**REPORT**



**OF**

**THE AUDITOR-GENERAL**

**ON**

**NAROMORU WATER AND SANITATION  
COMPANY LIMITED**

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

PAPERS LAID	
DATE	23.03.2023.
TABLED BY	Majority Leader
COMMITTEE	—
CLERK AT THE TABLE	Abdirahman Mwalim.





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**NAROMORU WATER AND SANITATION COMPANY  
LIMITED  
ANNUAL REPORT & FINANCIAL STATEMENTS  
FOR THE YEAR ENDED  
30 JUNE, 2022**

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



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<b>Table of Contents</b>	<b>Page</b>
I. Key Entity Information.....	iv
II. The Board of Directors.....	vii
III. Management Team.....	ix
IV. Chairman’s Statement.....	x
V. Report of the Managing Director.....	xii
VI. Statement of Performance against Predetermined Objectives for FY 2021/2022.....	xiv
VII. Corporate Governance Statement.....	xvi
VIII. Management Discussion and Analysis.....	xix
IX. Environmental and Sustainability Reporting.....	xxi
v. Corporate Social Responsibility.....	xxii
X. Report of the Directors.....	xxiv
XI. Statement of Directors’ Responsibilities.....	xxv
XII. Report of the Independent Auditors.....	xxvii
XIII. Statement of Profit or Loss & Other Comprehensive Income For The Year Ended 30 June 2022.....	1
XIV. Statement of Financial Position as at 30 June 2022.....	2
XV. Statement of Changes in Equity for the Year Ended 30 June 2022.....	3
XVI. Statement of Cash Flows for the Year Ended 30 June 2022.....	4
XVII. Statement of Comparison of Budget & Actual Amounts for the Period Ended 30 June 2022.....	5
XVIII. Notes to the Financial Statements.....	6

## I. Key Entity Information

### Background information

Naromoru Water and Sanitation Company was established by the Companies Act of Parliament Cap (486) on 30<sup>th</sup> July 2012. At County level, the Company is represented by the County Executive Member responsible for water and sanitation, who together with the board of Directors are responsible for the general policy and strategic direction of the Company. The Company is domiciled in Kenya and has one office in Naromoru Town, in Kieni-East District in Nyeri County.

### Principal Activities

The principal activity of the Company is to provide Water and Sanitation Services to residents of Naromoru Town and its immediate environs in Nyeri County and lower parts of Lamuria Location in Tigithi Sub-Location in Laikipia County.

### Directors

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

<u>Name</u>		<u>Status</u>		<u>Date of Appointment</u>
1. Mr Samuel Mbutu Mwaura	-	Chairman	-	15 <sup>th</sup> January, 2015
2. Rev. Francis Nderitu Wothaya	-	Director	-	15 <sup>th</sup> May, 2016
3. Mrs. Naomi Waitherero Githinji	-	Director	-	15 <sup>th</sup> May, 2016
4. Mr. Rachael Wangui Muturi	-	Director	-	15 <sup>th</sup> March, 2019
5. Ms. Pauline W Ndegwa	-	Director	-	19 <sup>th</sup> October, 2019
6. Mr Simon Ndirangu Gachunia	-	Director	-	7 <sup>th</sup> July, 2018
7. Mr. David Wambugu Gathuku	-	Director	-	7 <sup>th</sup> July, 2021
8. Ms. Gladys Njeri Warugongo	-	Managing Director	-	30 <sup>th</sup> July, 2021
9. Richard Gikuhi Kiana	-	Company Secretary	-	

**Corporate Secretary**

Gikuhi Kiana & Company

Kimathi Street, Kang'aru Annex Building

P.O Box 1271-10100

Nyeri.

KENYA

**Registered Office**

Naromoru Town, Kanyua Building

P. O. Box 234-10105

Naromoru,

Nyeri County

KENYA.

E-mail: [narowasco@gmail.com](mailto:narowasco@gmail.com)

Mobile : 0791151094

**Bankers**

KCB Bank Ltd Naromoru Branch

P. O. BOX 393 -10105

Naromoru.

KENYA

**Independent Auditors**

Auditor General

The Office of the Auditor General

Anniversary Towers, University Way

P.O. Box 30084GPO 00100

Nairobi, Kenya

**Principal Legal Advisor**

The Attorney General

State Law Office, Harambee Avenue

P.O. Box 40112

City Square 00200



Nairobi, Kenya

## II. The Board of Directors

No.		
1.		<p><b>Mr Mbutu Mwaura</b></p> <p>Mbutu Mwaura is an Economist with Master’s degree from University of Nairobi, Kenya (1998) and a Water and Sanitation Services Practitioner with International Executive Masters in Water Supply and Sanitation Services Management from AgroParisTech Institute, France (2018). He is currently pursuing (cleared course work and now on Thesis phase entitled ‘Productivity analysis among Water Service Providers in Kenya’) PhD in Economics at Kenyatta University, Kenya. He has over 20 years of professional work experience in both public and private sectors in the fields of policy analysis, planning, research, development finance and monitoring and evaluation.</p> <p>Mbutu Mwaura is currently, since 2008, the Corporate Planning, Monitoring and Evaluation Manager with Nairobi City Water and Sewerage Company Ltd. Previously, he worked with Fineline Systems and Management Consulting firm (1999 – 2002), Kenya Union of Savings and Credit Cooperatives (KUSCCO) Ltd. (2002 – 2003) and Kenya Institute for Public Policy, Research and Analysis (2004 – 2008).</p> <p>On governance and leadership facets, Mbutu Mwaura is the Chairman, Board of Management for St. Peters Kambura-ini Secondary School and a member of Board of Directors (and Chairman of Finance, Human Resources and Administration Committee and a member of Technical Committee) of Naromoru Water and Sanitation Company Ltd., both in Nyeri County, Kenya. He is also an Associate member of Kenya Institute of Management (KIM).He represents Professional Group Stakeholders in Narowasco</p>
2.		<p><b>David Wambugu Gathuku</b></p> <p>Holds a Bachelor of Arts (Economics)from Egerton University (1991), Post Graduate Diploma (PGDE)- Catholic University of East Africa (1996) Diploma in Senior Management (KEMI-2009)</p> <p>Has over 30 years’ experience in the Education Sector as Curriculum Implementer and Administrator.</p> <p>He is currently The School Principal at Matu Secondary School in Murang’a.</p>
3.		<p><b>Revered Francis Wothaya Nderitu</b></p> <p>Holds a Diploma in Bible and Theology from Machakos College of Theology. Currently, he is the Revered in-charge Africa Inland Church-Naromoru. He is the Chairman of Pastor’s Fellowship in Naromoru.</p>

4.		<p><b>Mrs Naomi Githinji</b> She is an “A” level holder at Star Sea High School. Holds a Diploma in Electrical Engineering at Kiambu Institute of Science and Technology. Currently, she is a businesswoman running an electrical workshop in Naromoru.</p>
5.		<p><b>Ms Pauline W. Ndegwa</b> Holds Bachelor of Arts (Cultural Studies Moi University) 2003 work experience; Chief officer- Water and Irrigation Services 2019-2020, Chief Officer Governor's office 2018-2019, Chief Officer Public Service Management 2018, Sub County Admin 2015-2018, Ward Administrator 2014-2015, Project Director - Compassion International Kenya 2008- 2014, Social Worker - Compassion International Kenya 2006-2008, BOM Teacher Bingwa secondary school 2005-2006, BOM Teacher Witima Secondary school, Othaya 2003-2004</p>
6.		<p><b>Mr Simon Ndirangu Gachunia</b> He holds a Masters of Arts in Internal Relations from United States International University (USIU). He has a Post Graduate Degree in Cross Cultural Communications and International Works from the Hald Internasjonale Senter, Norway. Holds Bachelor of Education’s Art (Mathematics and Business Studies) from Kenyatta University. He is the current chairman of Choice Microfinance Bank and B.O.M chairman of St. Gregory Karima Secondary School. He represents the Governor in the Board of NAROWASCO</p>
7.		<p><b>Ms Rachael Wangui Muturi</b> Holds a Diploma in Farm Management from Egerton University, 2006. Has worked as a Divisional Environment and Land Management Officer in Kieni East and as an Agricultural officer in Kieni East Sub-County since 2010. She is currently serving as a Ward Agricultural in charge of Thegu River Ward. She represents women group in the Board of NAROWASCO.</p>
8.		<p><b>Ms Gladys Njeri Warugongo</b> Holds Bachelor’s degree in Business Administration (Finance) from Kenya Methodist University She also holds a Professional Certificate in Certified Public Accountants (CPA) by KASNEB Has worked in Tetu Aberdare Water &amp; Sanitation Company (TEAWASCO) as an Accountant Assistant for seven (7) years and has worked with NAROWASCO as the Commercial Manager and Head of Commercial Department for (7) years. Currently she is the Managing Director for Naromoru Water &amp; Sanitation Company.</p>

### III. Management Team

	<p><b>Ms Gladys Njeri Warugongo</b> Holds Bachelor's degree in Business Administration (Finance) from Kenya Methodist University She also holds a Professional Certificate in Certified Public Accountants (CPA) by KASNEB Has worked in Tetu Aberdare Water &amp; Sanitation Company (TEAWASCO) as an Accountant Assistant for seven (7) years and has worked with NAROWASCO as the Commercial Manager and Head of Commercial Department for (7) years. Currently she is the Managing Director for Naromoru Water &amp; Sanitation Company.</p>
	<p><b>Ms Lydiah Wangu Kiara</b> Holds a Diploma in Water Engineering from Kenya Water Institute. Has worked in the Northern Water Services Board as an Engineering Assistant in the office of Planning &amp; Design for 2 years, Project Manager Likii Water Resources Users Association for Community Development Trust Fund for 3 years. Previously worked as a Road Inspector for Kieni East and West Sub- County in Nyeri County for 4 years. Has also been a Private Consultant in the Water Sector for a period of 1 year She is currently the Technical Services Manager for NAROWASCO</p>

#### IV. Chairman's Statement

I am happy to report that 2021/2022 was a successful year for the company despite the company losing its founder General Manager Mr. David Gitonga on 26<sup>th</sup> July, 2021.

##### **International Scene**

World real GDP contracted by 4.2 per cent in 2020 compared to a growth of 2.7 per cent in 2019. The contraction was mainly attributed to slowdown in economic activities due to emergence of the Coronavirus Disease 2019 (COVID-19). Real GDP in Advanced Economies is estimated to have contracted by 5.8 per cent in the period under review compared to 1.7 per cent growth in 2019. This was due to accelerated collapse in economic activity driven by sharp declines in demand and supply of services. Sub Saharan Africa economies contracted by 1.9 per cent in 2020 compared to a real GDP growth of 3.2 per cent in 2019. East African Community (EAC) real GDP contracted by 0.2 per cent in 2020 compared to a growth of 6.2 per cent recorded in 2019.

Global inflation eased from 3.5 per cent in 2019 to 3.2 per cent in 2020 largely due to significant decline in oil prices. World trade volume contracted by 10.3 per cent in 2020 compared to 1.0 per cent growth in 2019, a reflection of pronounced weakness in aggregate demand. The decline in trade volume was as a result of lockdowns and restriction of movements coupled with border closures that notably constrained consumption of a wide variety of goods. World current account surplus as a percentage of GDP narrowed from 0.5 per cent in 2019 to 0.2 per cent in 2020. This was mainly attributed to weak external demand and decline in oil prices. Global employment levels deteriorated substantially during the review period. Unemployment rate stood at 6.5 per cent in 2020 from 5.5 per cent in 2019.

##### **Economic Performance**

Real Gross Domestic Product (GDP) is estimated to have contracted by 0.3 per cent in 2020 compared to a growth of 5.0 per cent in 2019. The contraction was spread across all sectors of the economy but was more dismal in accommodation and food serving activities, education, professional and administrative service activities. Agriculture, Forestry and Fishing activities were however more vibrant in 2020 despite a contraction in global demand in 2020. The sector grew by 4.6 per cent in 2020 compared to 2.3 per cent growth in 2019. Manufacturing sector growth slowed down from 2.8 per cent in 2019 to 0.2 per cent in 2020. Despite most sectors recording contraction in growths, the economy was somewhat supported by accelerated growths in agricultural production (4.8 per cent), construction activities (11.8 per cent), financial and insurance activities (5.6 per cent) and health services activities (6.7 per cent).

In the review period, monetary policy was premised on the need to cushion the economy from the adverse effects of the COVID-19 pandemic containment measures, supporting liquidity and credit access. Central Bank Rate (CBR) was reviewed downwards from 8.50 per cent in November 2019 to 8.25 per cent in January 2020 and maintained 7.00 per cent until the end of 2020. The weighted average interest rates for commercial bank loans and advances declined from 12.24 per cent in 2019 to 12.02 per cent in 2020.

Agriculture remained the dominant sector, accounting for 23.0 per cent of the total value of the economy in 2020. Industry related activities accounted for 17.1 per cent of the total contribution in GDP growth in the same period. Nominal GDP increased from KSh 10,255.7 billion in 2019 to KSh 10,753.0 billion in 2020. Similarly, gross domestic expenditure at current prices increased from KSh 11,123.0 billion in 2019 to KSh 11,667.7 billion in 2020. Gross National Disposable Income increased from KSh

### Water and Sanitation Subsector Overview

Access to safe water and sanitation is a human right. Governments are the duty bearers of the progressive realization of this right in their jurisdictions. Kenya, under Sustainable Development Goal 6, has committed itself to achieve by 2030 universal and equitable access to safe and affordable water for all; access to adequate and equitable sanitation and hygiene for all and an end to open defecation, paying special attention to the needs of women, girls and those in vulnerable situations. Against the above background, the 2019/2020 Water Service Regulatory Board (WASREB) *impact* report issue no.13 indicates that at the national level, sanitation coverage improved from 81% in 2018/19 to 88% in 2019/20 but water and Sewerage coverage declined from 59% to 57%, from 17% to 15% respectively.

As is typical in depressed economies, disposable incomes in the whole world continued to decline resulting in reduced consumers spending. This greatly constrained our volumes and hindered growth in turnover during the year under review. Despite the very difficult economic conditions the Company water billing increased from Kshs **12,029,850** in 2020-2021 to Kshs **13,126,100** in 2021-2022.

The company will strive to provide a 24 hours Water and Sanitation Service and I believe this position shall be achieved in our expansion programmes.

Our effort to grow and improve as a company would not be possible without the leadership of the County Government of Nyeri, Board of Directors, Tana Water Works Development Agency, the Management, our esteemed customers, Sub County Water Officer- Kieni East and Water Sector Trust Fund (WSTF).

The results presented in this report would not have been achieved without the support of the directors and for this I wish to thank my colleagues in the board.

On behalf of the board, I wish to record our gratitude to our consumers for their continued loyalty and support and to all our employees in the company for their hard work and dedication without which the results would not have been possible.

We urge all the stakeholders to maintain and enhance the support and collaboration with our clarion call being **'Water for All'** with respect to access and **'All for Water'** from responsibility point of view.



Mr. Mbutu Mwaura

**CHAIRMAN –NAROWASCO**

## V. Report of the Managing Director

One of the main principles of the Water Act 2002 and Water Act 2016 was that Water and Sanitation Services were to be managed at the lowest level possible. In line with this principle the Ministry of Water, Natural Resources and Irrigation transferred the provision of Water and Sanitation Services to Water Services Boards with effect from July 2005. The Water Act 2002 stipulates that the Water Service Boards shall contract agents, known as Water Service Providers, (WSP) for provision of Water and Sanitation Services. Under the new constitutional dispensation and Water Act 2016, Water and Sanitation services are functions of the County Government. Therefore, Narowasco is an agent of County Government of Nyeri.

### History and Legal Establishment

In compliance with the above Water Sector Reforms Act, Naromoru residents registered Naromoru Water and Sanitation Company. The Company was incorporated under the Companies Act (Cap.486) and that the Company is limited by Guarantee on 30<sup>th</sup> July 2012 (Certificate of Incorporation for the Company No. CPR/2012/79833.) The Company's mandate is to be responsible for the provision of Water and Sanitation Services in Naromoru and its environs as mandated under Water Service Provision Agreement in accordance with section 113 of the Water Act 2002 by Tana Water Works Development Agency.

NAROWASCO as a Company has been given the responsibility to take charge of the Management of all the assets that were previously under the Management of both Ministry of Water and Irrigation and County Council of Nyeri. Over the years all the existing water systems handed over to the Company have passed their ultimate design period, and in the process they have been dilapidated and outlived their economic life. Hence, they need to be rehabilitated and augmented.

In order to be able to achieve sustainability there is need to develop and implement the infrastructure involving various components. However, these undertakings requires huge amount of money which is beyond the capability of the Company to generate internally, therefore demanding external funding.

In view of the above, the company is working closely with Nyeri County Government, Tana Water Works Development Agency, Water Sector Trust Fund and Sub County Water Office in developing capital works.

### Development Plans

The Company has earmarked to undertake the following activities in our future development programmes.

- √ Improvement of water quality by completing a conventional treatment plant which is almost to completion
- √ Constructing of storage facilities/reservoirs including rehabilitation and augmentation of existing water systems.
- √ Water Catchment conservation and protection programme.
- √ Construction of office block.
- √ Construction of sewerage system for waste water disposal

### **Project Proposal**

For the purpose of improving service delivery at the same time achieve sustainability there is an urgent need to augment the existing systems through development of the infrastructure by implementing the activities outlined in the company's project proposal document.

### **Water Catchment Conservation**

The company has joined hands with other stakeholders concerned in planting indigenous trees in the water Catchment area.

### **Financial Status.**

In the financial year 2021/2022 the total turnover for water sales was **Kshs 13,126,100** and operating profit of **Kshs 1,268,259**

### **Staff**

The company has 27 employees: - All are recruited by the Board of Directors. The company aims to develop policies to enable it recruit its own staff guided by the transfer plan. The ultimate goal is to make the company an enterprising entity. In this regard the company has in place Human Resource Policy and Procedure manual that includes health and safety, work injury benefits HIV/Aids awareness to enable staff deliver services.

### **Gratitude**

I would like to take this opportunity to thank County Government of Nyeri, Tana Water Works Development Agent, Sub County Water Officer Kieni East Sub County, Water Sector Trust Fund and NAROWASCO Board of Directors for their support during the year, also our esteemed customers and our suppliers who were all instrumental to our success this year. I am also grateful to our staff for their commitment and effort in striving to ensure the company meets its objectives.

### **Conclusion**

With the implementation of Vision 2030 there is great demand for water supply in all sectors contributing to economic development. This is a great opportunity for the company's bright future that depicts a company as a going concern. The company therefore, strives to meet the ever growing water service demand.



Ms. Gladys Njeri Warugongo  
**MANAGING DIRECTOR**

## VI. Statement of Performance against Predetermined Objectives for FY 2021/2022

Naromoru Water and Sanitation Company has strategic pillars/ themes/issues and objectives within the current Strategic Plan for the FY 2021-2022 FY. These strategic pillars/ themes/ issues are as follows:

- Metering
- Revenue Collection
- Non- Revenue Water
- Water Coverage

Naromoru Water and Sanitation Company develops its annual work plans based on the above 4 pillars/Themes/Issues. Assessment of the Board's performance against its annual work plan is done on a quarterly basis. The company achieved its performance targets set for the FY 2021-2022 period for its 4 strategic pillars, as indicated in the diagram below:

Strategic Pillar	Objective	Key Performance Indicator	Activities	Achievements
Metering	100% metering	Increase Revenue	Metering programme Procured customer meters 50 No worth <b>Kshs.81,500.00</b>	100%
Revenue Collection	95% and Above	Meet Obligations when they fall due.	Collection efficiency	100.5%
Non-Revenue Water	Reduce NRW	To attain the sector Benchmark of below 25%	<ol style="list-style-type: none"> <li>1. Procurement of meters for new water connection and replacing malfunctioning ones.</li> <li>2. Recruitment of NRW Staff.</li> <li>3. Application of GIS in mapping our infrastructure network.</li> <li>4. Training and bench marking with other companies-NYEWASCO</li> </ol>	Attained 29% NRW.

Water Coverage Area	Increase area of water service coverage	To attain 100% coverage	Pipeline Extensions in Kandara Ngutik Scheme	Attained 60%
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## VII. Corporate Governance Statement

Naromoru Water and Sanitation Company limited is committed to operating under a clear governance framework and strongly adheres to sound management and control practices.

The Company is committed to ensuring compliance with the provisions of Water Act 2002 and Service Provision Agreement granted by Tana Water Works Development Agency among other regulatory and supervisory corporate governance requirements.

In ensuring that corporate governance is enhanced and that the power of Naromoru Water and Sanitation Company limited is exercised in the stewardship of the company total portfolio of assets and resources with the objective of maintaining stakeholder value, the Boards of Directors have constituted the following committees:

- **Finance, Administration And Human Resources**
- **Risk And Audit Committee**
- **Technical Committee**

**These committees met in the year under review on the following occasions:**

S. No	Date	Meeting Description	No. Of Members
1.	30/07/2021	SPECIAL BOARD MEETING	5
2.	26/08/2021	FINANCE,ADMN&HUMAN RESOURCE COMMITTEE	4
3.	3/09/2021	FULL BOARD MEETING	7
4.	29/10/2021	FULL BOARD MEETING	7
5.	3/12/2021	M.D SHORTLISTING MEETING	5
6.	17/12/2021	M.D INTERVIEW MEETING	6
7.	20/12/2021	SPECIAL BOARD MEETING	9
8.	4/01/2022	M.D INTERVIEW MEETING	10
9.	7/03/2022	FINANCE,ADMN&HUMAN RESOURCE COMMITTEE	4
10.	16/03/2022	FULL BOARD MEETING	7
11.	23/05/2022	FINANCE,ADMN&HUMAN RESOURCE COMMITTEE	5
12.	27/05/2022	TECHNICAL COMMITTEE	4
13.	10/06/2022	FULL BOARD MEETING	5
14.	24/06/2022	SPECIAL BOARD MEETING	8

### **Succession planning;**

To effectively plan and execute a seamless implementation of the board mandate, the board in the year under review implemented recruitment of substantive HR and Administration Manager.

The company has implemented the board charter, which defines the roles of the board. The board undertakes an annual evaluation of the board performance in line with the Charter and realigns itself to meet its mandate.

The company Memorandum and Articles of Association have defined the process of appointment and removal of directors. The MAA recognizes the role of stakeholders in effective appointment and retirement of directors. As a Policy the company recognizes the need for gender balance in appointment of board. The company undertook a review of the MAA to align it with the changes of the company ACT 2015 and Water Act 2016. This is stressed in the advertisement & filling the position of the Board of Directors where women and Persons Living with Disability are encouraged to apply.

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

The major roles of the BOD is to protect and promote the interest of the organization and this includes:

1. Taking due care of asset and liabilities of the organization.
2. Oversight role: the BOD is responsible for policy matters and major undertakings.
3. The Board of Directors have a fiduciary relationship to treat the organization as its own and take prudent measures to grow the organization

### **Process of Appointment & Removal of Directors**

1. Board appointments are transparent and competitive so as to ensure the public served has an opportunity to participate in decision making in service delivery that affects them.
2. Vacant positions are advertised in the media and on the website of the company and the criteria set out by WASREB is used.
3. An ad hoc nominating committee of the board of directors comprising county and select committee from two or three primary/key stakeholders normally assess applications and ensure that not only is the Leadership and Integrity criteria met but shall perform a background check to ensure the candidates add value to the entity.
4. The select committee receives the applications, vet them to ensure that they comply to the Fit and Proper Test plus the eligibility criteria and where necessary conduct interviews.
5. The Report of the selection committee is submitted to the stakeholders who is required as stakeholders and function owner to ensure that only persons who add value to the company are appointed.
6. The Fit and Proper Test Form must be filled by all applicants and appointees.
7. The copy of the Fit and Proper Test Forms of each of the appointed directors is sent to WASREB.
8. A letter of appointment issued by the county secretary that adheres to the articles of association of the company is given after ratification of names of the accepted directors at annual general meeting by the stakeholder.

9. The letter contain a termination clause on poor performance and misconduct and ensure that it captures that unless the board is retired due to poor performance a third of the members shall retire every year from the third year.
10. Board members serve a maximum of six (6) years based on the approval of the stakeholder and on performance issues.
11. Before a board member begins to serve he must be inducted in governance training customized for the water services sector and sign a code of ethics based on the Leadership and Integrity Act 2012 and the Public Officer Ethics Act 2003.
12. The list of ratified board members and the stakeholder group they represent shall be maintained on the website of the company and shall be communicated to WASREB.

### **Roles and Functions of the Board of Directors**

1. Appointment of the CEO
2. Formulation of Strategy and Values
3. Evaluating the company performance
4. Ensuring Balance of Power
5. Enhancing a smooth relationship with Stakeholders

### **Induction and training**

During the year 2021/2022 that is under review, Induction of the Board of Directors was held from 2<sup>nd</sup> to 4<sup>th</sup> August 2021.

### **Conflict of interest**

During the financial year, ended June 30, 2022 there was no interest declared or registered in any of the committee or the Board of Directors.

### **Board remuneration**


The company operates in a regulated sector. To provide efficiency and act as an incentive to improve performance at oversight level, the limit for sitting allowance and other expenditure of the Board of Directors and its committees is capped at the higher of 5% of the turnover or Kshs 4 million per annum.

### **Ethics and conduct**

The Board of Directors has identified Internal and External stakeholders on which they agree in policy on how to relate to them especially relation to appointing the Directors and monitoring the performance of the company. All directors are signatories to the code of conduct that guides them in operations.

By order of the Board

For and on its behalf

  
.....  
Ms. Gladys Njeri Warugongo  
**MANAGING DIRECTOR**  
**NAROMORU WATER AND SANITATION COMPANY**

**Date** .....

### VIII. Management Discussion and Analysis

The Management's Discussion and Analysis of Financial condition and result of operating provides information that management believes is relevant to an assessment and understanding of the financial condition and results of operations of Naromoru Water and Sanitation Company Limited. This MD & A should be read in conjunction with the Company's Financial Statements and related notes for the year ended 30<sup>th</sup> June 2022, which are prepared in accordance with International Financial Reporting Standards (IFRS). Policies and best practices.

The company has complied with statutory requirements including Pension, NHIF, NSSF and payment of taxes. The taxes remitted to KRA includes Withholding and corporation taxes.

#### NAROWASCO's Billing, Revenue and Debt position

Year	Total Billing	Total Revenue collection	Outstanding debts
2017/2018	9,477,979	9,948,369	1,894,606
2018/2019	11,623,368	12,354,260	2,106,298
2019/2020	11,376,646	10,489,578	2,360,177
2020/2021	12,180,835	12,880,033	3,303,487
2021/2022	13,126,100	13,972,878	2,910,784

CONNECTION	Registered connections	Active connection	Inactive connection	New water connections
Year				
2017/2018	1625	1460	165	414
2018/ 2019	1865	1661	204	240
2019/ 2020	2000	1792	208	135
2020/2021	2199	2019	180	199
2021/2022	2464	2190	274	265

### Challenges Faced During the Year

During the year the company experienced the following challenges during implementation of the financial management process;

Area of operation	Challenges	Interventions
Transport	Lack of enough medium of Transportation of employees and materials	The Company requested for a motor vehicle from Tana Water Works Development Agency.
Drought	Lack of enough water for supplying to the customers.	Equitable water distribution was employed to ensure the little commodity was shared among all consumers

Major risks facing the organisation; the following matrix represents the risks facing the company and the mitigating factors.

No.	Risk	Factor	Level Of Risk	Mitigation Measure
(i)	Inadequate resources		Medium	Efficiency in resource utilization through Proper annual work plans & budgets. Documentation and reporting on resource utilization. Increase generation and collection efficiency
(ii)	Staff turnover		Medium	<ul style="list-style-type: none"> <li>· Build Capacity-Trainings, Personal development</li> <li>· Enhance staff incentive programs like payment of bonuses.</li> <li>· Improvement of working environment</li> <li>-Commendation letters and certificates</li> </ul>
(iii)	Consumers huge debts	with	High	<ul style="list-style-type: none"> <li>· Negotiate with customers on Part payment modalities</li> <li>Timely disconnection of defaulters to manage accumulation of debts</li> <li>· Engage debt collectors</li> <li>· Liaison with other agencies e.g. County Government of Nyeri.</li> <li>Debt policy</li> </ul>
(iv)	Climate Change		High	<ul style="list-style-type: none"> <li>· Build storage facilities</li> <li>· Participation in Conservation of the environment</li> <li>Create public awareness</li> </ul>
(v)	Corruption		Low	<ul style="list-style-type: none"> <li>· Good corporate governance</li> <li>· Building strong ethical practices</li> <li>· Enforce/ invoke the law</li> </ul>
(vi)	Irrigation, boreholes wells	and	Medium	<ul style="list-style-type: none"> <li>· Creation of public awareness</li> <li>· Provision of reliable treated water supply.</li> </ul>
(vii)	Safety of installations	valves	Medium	<ul style="list-style-type: none"> <li>· Secure the valves by cementing.</li> <li>· Sensitize the community on the need of ownership</li> </ul>
(ix)	Communication breakdown		Medium	<ul style="list-style-type: none"> <li>· Enhance communication through improving medium /channels of communication</li> <li>· Regular open staff meetings</li> <li>· Cultivate the good culture through sticking to the chain of command.</li> </ul>
(x)	Evaluation overall risks	of	Medium	<ul style="list-style-type: none"> <li>· Set the performance targets</li> </ul>

## **IX. Environmental and Sustainability Reporting**

### **i. Sustainability Strategy and Profile**

The Company main goal is to be self-sustaining; this can only be achieved through collection of revenue at optimal level to cater for operations and maintenance, personnel costs and any other incidental costs that may occur during day to day running of the Company. Strategies must be put in place for a Company to continue being a going concern. During the year under review the company budget was to increase the customer base by installing 255 new connections, in its area of supply. The Company equally has to consider cost benefit analysis while coming up with methods of collecting revenue and cost of supplying water services to the customers.

The Company introduced cashless mode of Revenue Collection, which is effective and reliable. Provision of water is through gravity, which is very economical since no power is required, equally water is abstracted from Aberdare forest where pollution is minimal.

### **ii. Environmental Performance**

Environmental Performance indicators condense data into relevant information that allows monitoring, target setting, tracing performance improvements, benchmarking and reporting. Environmental Performance indicators supply the operational level as well as top management with the information required for decision-making. The Company has been conserving the environment through planting trees to protect water catchment areas and preventing soil erosion. The Company has also constructed gabions along the intake to preserve our abstraction point from landslides and erosion.

### **iii. Employee Welfare**

The Company operates one defined retirement benefit schemes for its employees; which is the NSSF for its staff.

### **iv. Market Place Practices**

The Company's major objective is to gain return on its investments and therefore benefit financially by achieving the maximum value while leaving the customers with the feeling that they are definitely receiving their money's worth in service and quality. To do this the Company offers service at a price consistent with the customers' perception of the value received which is friendly.

In the industry the Company is also involved with other providers in provision of quality services. Water supplied is of high quality having undergone through full treatment to the required standards in the Sector.

### **v. Corporate Social Responsibility**

Naromoru Water And Sanitation Company Ltd practices Corporate Social Responsibility within its area of jurisdiction. Consumer within its area of jurisdiction, the community in liaison with the office of the assistant chief has identified persons living with disabilities.

The company has connected such identified persons with water.

The work involves:-

1. Free cost of installation for metered service lines.

2. Free water consumption.
3. Free maintenance of such connections.

Due to COVID 19 pandemic, the Company managed to install 4no hand washing points within its area of jurisdiction which included, bus stage, mitumba market, food stuff market and the last one at Huruma area.

The company too undertook sponsorship of public health projects with Nyeri Hospice. This is targeted for Cancer Patients and focuses on quality of life thereby turning the end of life into an important time of living.

#### **vi. Community Engagements**

Community is a broad term used to define groups of people whether they are stakeholders, interest groups or citizen groups. A community may be a geographic location (community of place), a community of similar interest (community of practice), or a community of affiliation or identity such as an industry.

The Company has been engaging the community through various forums, which include public barazas, holding clinic days and open days for customers, and the engaging the community through CSR.

There are other activities where the Company engages the Community, they include;-

- Public participation on project proposals
- Stakeholders Conferences
- Conservation of catchment areas
- Demonstrating and encouraging rain water harvesting
- Customer clinic days
- Provision of Hand washing points

## X. Report of the Directors

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

### i. Principal activity

The principal activity of the Company is to provide Water and Sanitation Services to residents of Naromoru Town in Nyeri County and its immediate environs and lower parts of Lamuria Location in Tigithi Sub-Location in Laikipia County.

### ii. Results

The results of Naromoru Water and Sanitation Company for the year ended June 30, 2022 are set out on page 18-39

### iii. Dividends

The company is limited by guarantee and does not pay dividends. Any surplus realised is ploughed back to finance capital expenditure.

### iv. Directors

The members of the Board of Directors who served during the year are shown on page four. In accordance with Regulation of the company's Articles of Association, retire by rotation and that eligible offer themselves for re-election.

### v. Auditors

The Auditor General is responsible for the statutory audit of the Company in accordance with Article 229 of the Constitution of Kenya and the Public Audit Act 2015 for the year ended June 30, 2022, in accordance to section 23 of the Public Audit Act, 2015 which empowers the Auditor General to appoint an auditor to audit on his behalf.

By Order of the Board

Name..... Richard Gikhi .....

Signature.....  .....

Date..... 30/09/2022 .....

Corporate Secretary

### **Statement of Directors' Responsibilities**

Section 81(i) of the Public Finance Management Act, 2012 and public Audit Act, require the Directors to prepare financial statements in respect of Public Institutions, which give a true and fair view of the state of affairs of the Company at the end of the financial year 2021-2022 and its operating results for that year 2021-2022. Thus the Naromoru Water and Sanitation Company Board of Directors are also required to ensure that the company, keeps proper accounting records which disclose with reasonable accuracy the financial position. The Directors are also responsible for safeguarding the assets of the company.

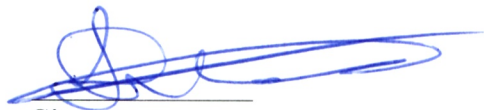
The Directors are responsible for the preparation and presentation of the Company's financial statements, which give a true and fair view of the state of affairs of the company for and as at the end of the financial year ended on June 30, 2022. This responsibility includes: (i) maintaining adequate financial management arrangements and ensuring that these continue to be effective throughout the reporting period; (ii) maintaining proper accounting records, which disclose with reasonable accuracy at any time the financial position of the company; (iii) designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of the financial statements, and ensuring that they are free from material misstatements, whether due to error or fraud; (iv) safeguarding the assets of the company; (v) selecting and applying appropriate accounting policies; and (vi) making accounting estimates that are reasonable in the circumstances.

The Directors accept responsibility for the company financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgments and estimates, in conformity with International Financial Reporting Standards (IFRS), and in the manner required by the Public Finance Management (PFM) Act and the State Corporations 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, 2022, 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**

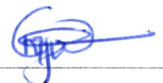
Naromoru Water and Sanitation Company financial statements were approved by the Board on 28<sup>th</sup> September 2022 and signed on its behalf by:



**Signature**

Mr. Mbutu Mwaura

**Chairperson of the Board**



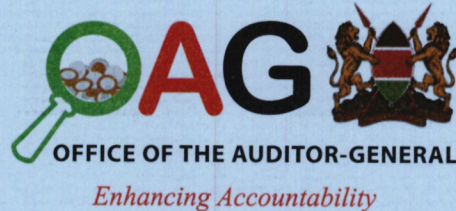
**Signature**

Ms. Gladys Njeri Warugongo

**Managing Director**

# REPUBLIC OF KENYA

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Website: www.oagkenya.go.ke



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

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

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### **PREAMBLE**

I draw your attention to the contents of my report which is in three parts:

- A. Report on the Financial Statements that considers whether the financial statements are fairly presented in accordance with the applicable financial reporting framework, accounting standards and the relevant laws and regulations that have a direct effect on the financial statements.
- B. Report on Lawfulness and Effectiveness in Use of Public Resources which considers compliance with applicable laws, regulations, policies, gazette notices, circulars, guidelines and manuals and whether public resources are applied in a prudent, efficient, economic, transparent and accountable manner to ensure Government achieves value for money and that such funds are applied for intended purpose.
- C. Report on Effectiveness of Internal Controls, Risk Management and Governance which considers how the entity has instituted checks and balances to guide internal operations. This responds to the effectiveness of the governance structure, the risk management environment, and the internal controls, developed and implemented by those charged with governance for orderly, efficient and effective operations of the entity.

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

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

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

#### **Opinion**

I have audited the accompanying financial statements of Naromoru Water and Sanitation Company Limited set out on pages 1 to 41, which comprise the statement of financial

position as at 30 June, 2022, 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, the financial statements present fairly, in all material respects, the financial position of Naromoru Water And Sanitation Company Limited as at 30 June, 2022, and of its financial performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards and comply with the Water Act, 2016, the Companies Act, 2015 and the Public Finance Management Act, 2012.

### **Basis for Opinion**

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

### **Key Audit Matters**

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

### **Other Matter**

### **Unresolved Prior Year Audit Issues**

The progress on follow up on Auditor's recommendations section of the financial statements reflects that most of the issues raised in previous year's audit report have been resolved as at 30 June, 2022. However, the report has not been discussed by the County Assembly and the Senate and hence the issues remain unresolved.

### **Other Information**

The Directors are responsible for the other information. The other information comprises Key Entity Information, Chairman's Report, Report of the Managing Director, Statement of Performance Against Predetermined Objectives, Corporate Social Responsibility, Management Discussion and Analysis, Environmental and Sustainability Reporting and the Statement of the Directors Responsibilities. The other information does not include the financial statements and my auditor's report thereon.

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

## REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

### **Conclusion**

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

### **Basis for Conclusion**

#### **1. Operating Without a License**

As previously reported, the Company was incorporated in 2012 and has been operating without a license from the regulator, Water Services Regulatory Board (WASREB). This is contrary to Section 72(1)(c) and (d) of the Water Act, 2016 which gives the Water Services Regulatory Board (WASREB) powers and functions to set License conditions and accredit water services providers, monitor and further regulate licensees and enforce license conditions.

In the absence of the license, it was not possible to confirm whether the Company met conditions and standards required to operate as a Water Service Provider. Further, the Management was in breach of the law.

#### **2. Non-Revenue Water**

The Company produced 320,789 cubic meters (M<sup>3</sup>) of water during the year under review. However, only 228,069 cubic meters (M<sup>3</sup>) was billed to customers at Kshs.13,126,100 with the balance of 92,720 cubic meters (M<sup>3</sup>) of water or twenty-nine (29%) percent of the total production of water being Non-Revenue Water which is above the sector recommended threshold of 25% as set by Water Services Regulatory Board.

In the circumstances, the Company may have lost revenue through Non-Revenue Water. In addition, Management was in breach the law.

#### **3. Staff Ethnic Diversity**

Review of personnel records revealed that the Company had twenty-one (21) staff members during the year ended 30 June, 2022. However, all the staff members were from one dominant ethnic community contrary to provisions of Section 65(e) of the County Government Act, 2012 which requires County Governments to ensure that at least thirty

percent of the vacant posts at entry level are filled by candidates who are not from the dominant ethnic community in the county.

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

#### **4. Lack of Water Charging Tariff**

The company has been charging water tariffs adopted from another Water Services Provider. However, a review of the tariff structure revealed that it expired in 2012 and the tariffs has not been reviewed or regularized by WASREB contrary to provisions of Section 72(1)(a) of Water Act, 2016 which states that the power and functions of Regulatory Board shall be to evaluate and recommend water and sewerage tariffs to the County Water Services Providers and approve the imposition of such tariffs in line with consumer protection standards.

In the circumstances, the tariff levied by the Company has outlived its economical effectiveness. In addition, the Management was in breach of the law.

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

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

#### **Conclusion**

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

#### **Basis for Conclusion**

##### **1. Lack of an Internal Audit Function**

The Company did not have an Internal Audit Function contrary to requirements of Section 155 of the Public Finance Management Act, 2012 which states that a County Government entity should have appropriate arrangement for conducting internal audit according to the guidelines issued by the Public Sector Accounting Standards Board.

In the circumstances, the Company lacks internal assurance mechanism and may experience weak internal control systems which poses risk to effective management of public funds.

## **2. Lack of Risk Management Policy and Framework**

The Company did not have a Risk Management Policy and Framework during the year under review, contrary to requirement of Regulation 165(1) (a) and (b) of Public Finance Management (County Government) Regulations, 2015, which provides that the Accounting Officer shall ensure that the government entity develops risk management strategies, which include fraud prevention mechanism and a system of risk management and internal control that builds robust business operations. Further, the Company did not carry out regular risk assessments and did not maintain an up to date risk register.

In the circumstances, the Company may be exposed to various risks in management of public resources.

## **3. Lack of Information and Communication Technology (ICT) Policy and Strategic Plan**

Review of Information Communication Technology (ICT) controls and Information Management Systems of the Company revealed that, the Company had not developed and implemented an ICT policy and lacked an approved Strategic Plan. Further, there was no training program for the Staff in IT department.

In the circumstances, adequacy and effectiveness of the Company's ICT controls during the year under review could not be confirmed.

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

## **REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS**

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

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

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

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

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

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

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

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

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

In addition to the audit of the financial statements, a compliance audit is planned and performed to express a conclusion about whether, in all material respects, the activities, financial transactions and information reflected in the financial statements are in

compliance with the authorities that govern them and that public resources are applied in an effective way, in accordance with the provisions of Article 229(6) of the Constitution and submit the audit report in compliance with Article 229(7) of the Constitution.

Further, in planning and performing the audit of the financial statements and audit of compliance, I consider internal control in order to give an assurance on the effectiveness of internal controls, risk management and 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 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**

**28 February, 2023**

**XII. Statement of Profit or Loss & Other Comprehensive Income For The Year Ended 30 June 2022.**

	NOTES	2021/2022	2020/2021	
<b>INCOME</b>				
Water Sales	6	13,126,100	12,029,850	
WSTF Grants (CLSG)	7	3,430,413	0	
OTHER INCOMES	8	3,199,833	2,875,174	
<b>Sub-Total</b>		<b>6,630,246</b>	<b>2,875,174</b>	
<b>TOTAL</b>		<b>19,756,346</b>	<b>14,905,024</b>	
<b>OPERATING EXPENSES</b>				
Staff Costs	11	6,914,836	6,368,406	*
General & Operational Expenses	12	5,391,674	4,799,118	**
Board Expenses	13	776,907	244,000	***
Maintenance Expenses	14	4,434,424	1,883,238	****
Depreciation & Amortization Expenses	15	970,246	3,261,557	*****
<b>Sub-Total</b>		<b>18,488,087</b>	<b>16,556,319</b>	
<b>OPERATING PROFIT</b>		<b>1,268,259</b>	<b>(1,651,295)</b>	
<b>NET PROFIT</b>		<b>1,268,259</b>	<b>(1,651,295)</b>	

Key

\*Staff Costs changed from Personnel Costs as per the new template

\*\*General & Operational Expenses changed from Administration Costs as per the new reporting template

\*\*\*Board Expenses previously under Administration Costs are a stand alone in the new reporting template are

\*\*\*\*Maintenance Expenses changed from Distribution & Maintenance Costs as per the new reporting template

\*\*\*\*\* Distribution & Amortization Expenses previously under Distribution & Maintenance Costs are a stand-alone as per the new reporting template.

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

DETAILS	NOTES	2021/2022	2020/2021
<b>ASSETS</b>			
<b>NON-CURRENT ASSETS</b>			
Property, Plant & Equipment	16	22,948,115	22,740,110
		22,948,115	22,740,110
<b>CURRENT ASSETS</b>			
Trade Receivables	18	2,910,784	3,303,487
Cash & Bank Balances	19	1,129,676	1,079,648
Inventories	17	2,857,415	1,357,940
<b>TOTAL CURRENT ASSETS</b>		<b>6,897,875</b>	<b>5,741,075</b>
<b>TOTAL ASSETS</b>		<b>29,845,990</b>	<b>28,481,185</b>
<b>EQUITY AND LIABILITIES</b>			
Retained Earnings		10,391,655	7,237,146
<b>NON-CURRENT LIABILITES</b>			
Deferred Income	24	13,203,749	15,089,999
<b>EQUITY AND LIABILITIES</b>		<b>23,595,404</b>	<b>22,327,145</b>
<b>CURRENT LIABILITIES</b>			
Trade Payable	22	1,908,836	1,883,326
Consumer Deposits	23	2,455,500	2,115,000
Deferred Income	24 b	1,886,250	2,155,714
<b>TOTAL CURRENT LIABILITY</b>		<b>6,250,586</b>	<b>6,154,040</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>29,845,990</b>	<b>28,481,185</b>

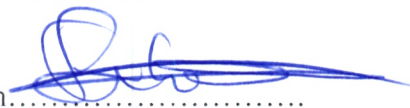
The Financial Statements set out were signed on behalf of the Board of Directors

on 30/09/2022

Managing Director.....



BOD Chairman.....



**XIV. Statement of Changes in Equity for the Year Ended 30 June 2022**

	Ordinary Share capital	Revaluation reserve	Fair value	Retained Earnings	Proposed dividend	Capital development	Total
<b>2020/2021</b>	<b>Ksh</b>	<b>Ksh</b>	<b>Ksh</b>	<b>Ksh</b>	<b>Ksh</b>	<b>Ksh</b>	
<b>As at July 1, 2020</b>	-	-	-	6,732,727	-	-	6,732,727
Loss for the Year	-	-	-	(1,651,295)	-	-	(1,651,295)
Amortisation of Grant						2,155,714	2,155,714
<b>As at June 30, 2021</b>	-	-	-	<b>5,081,432</b>	-	2,155,714	<b>7,237,146</b>
<b>2021/2022</b>							
<b>As at July 1, 2021</b>	-	-	-	<b>5,081,432</b>	-	2,155,714	<b>7,237,146</b>
Profit for the Year	-	-	-	1,268,259	-	-	1,268,259
Amortisation of Grant						1,886,250	1,886,250
<b>As at June 30, 2022</b>	-	-	-	<b>6,349,691</b>	-	<b>4,041,964</b>	<b>10,391,655</b>

*Note:*

- For items that are not common in the financial statements, the entity should include a note on what they relate to – either on the face of the statement of changes in equity/net assets or among the notes to the financial statements.*
- Prior year adjustment should have an elaborate note describing what the amounts relate to. In such instances a restatement of the opening balances needs to be done.*

**XV. Statement of Cash Flows for the Year Ended 30 June 2022**

<b>CASH FLOW FROM OPERATING ACTIVITIES</b>			
<b>Details</b>	<b>NOTES</b>	<b>2021/2022</b>	<b>2020/2021</b>
Net Profit for the year		1,268,259	-1,651,295
Adjustment for depreciation & Amortization	15	970,246	3,261,557
Operating surplus before		<b>2,238,505</b>	<b>1,610,262</b>
<b>working capital adjustments</b>			
Increase/(Decrease in receivables)	18	392,703	-943,310
Increase/Decrease in payable	22	-25,510	302,331
Deposits	23	340,500	325,000
Increase (Decrease) in differed liability		-218,451	5,727,251
Increase in Inventory		-1,499,469	-1,968,385
Prior year Adjustments		<b>0</b>	<b>0</b>
<b>Total working Capital Adjustments</b>		<b>-1,010,227</b>	<b>3,442,887</b>
<b>Net cash generated from operating activities</b>		<b>1,228,278</b>	<b>5,053,149</b>
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>			
Purchase of property, plant& equipment	16	-81,500	-5,828,462
Interest earned			
Grants(WSTF)		-1,096,750	0
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>			
Net increase in cash and cash equivalents		50,028	-775,313
Cash and cash equivalents at the beginning of the year		1,079,648	1,854,961
Cash and cash equivalents at the end of the year	19	<b>1,129,676</b>	<b>1,079,648</b>

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

	Original budget	Adjustments	Final budget	Actual on comparable basis	Performance difference	% of Utilization
	2021-2022	2021-2022	2021-2022	2021-2022	2021-2022	2021-2022
	Kshs	Kshs	Kshs	Kshs	Kshs	
<b>Revenue</b>						
Income	13,655,542	-	13,655,542	13,126,100	-529,442	96.12%
Other Income	2,708,000	-	2,708,000	6,630,246	3,888,127	244.84%
<b>Total income</b>	<b>16,363,542</b>	-	<b>16,363,542</b>	<b>19,756,346</b>	<b>3,358,685</b>	
<b>Expenses</b>						
Personnel & Administration Costs	13,591,542	-	13,591,542	13,054,615	485,501	96.05%
Distribution, Operation & Maintenance Costs	2,252,000	-	2,252,000	5,231,670	-5,088,663	225.96%
<b>Capital Budget</b>						
Procurement of Office Furniture	100,000	-	100,000	0	100,000	0
Purchase of Water Meters	50,000	-	50,000	81,500	-31,500	163%
Production Costs	350,000	-	350,000	91,500	258,500	26.14%
Bank Charges	20,000	-	20,000	28,802	-8,802	144.01%
<b>Total expenditure</b>	<b>16,363,542</b>	-	<b>16,363,542</b>	<b>18,488,087</b>		
<b>Profit for the period</b>			<b>0</b>	<b>1,268,259</b>		

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

### **i. General Information**

Naromoru Water & Sanitation Company Ltd is established by and derives its authority and accountability from Companies Act. The Company is wholly owned by the County Government and is domiciled in Kenya. The Company's principal activity is Water and Sanitation Services Provision. 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.

### **ii. 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, impaired assets at their estimated recoverable amounts and 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 Naromoru Water & Sanitation Company Limited accounting policies.

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

The financial statements have been prepared in accordance with the PFM Act, Company's Act and International Financial Reporting Standards (IFRS). The accounting policies adopted have been consistently applied to all the years presented.

**Notes To The Financial Statements (Continued)**

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

**i. New and amended standards and interpretations in issue effective in the year ended 30 June 2022**

<b>Title</b>	<b>Description</b>	<b>Effective Date</b>
Amendments to IAS 16 titled Property, Plant and Equipment: Proceeds before Intended Use (issued in May 2020)	The amendments, applicable to annual periods beginning on or after 1 January 2022, prohibit a company from deducting from the cost of property, plant and equipment amounts received from selling items produced while the company is preparing an asset for its intended use. Instead, a company will recognize such sales proceeds and related cost in profit or loss	The amendments are effective for annual periods beginning on or after January 1, 2022. Early application is permitted.
Amendments to IAS 37 titled Onerous Contracts - Cost of Fulfilling a Contract (issued in May 2020)	The amendments clarify that for the purpose of assessing whether a contract is onerous; the cost of fulfilling the contract includes both the incremental costs of fulfilling that contract and an allocation of other costs that relate directly to fulfilling contracts. They are effective for contracts for which an entity has not yet fulfilled all its obligations on or after 1 January 2022.	The amendments are effective for annual periods beginning on or after January 1, 2022. Early application is permitted
Amendment to IFRS 1 titled Subsidiary as a First-time Adopter	The amendment, applicable to annual periods beginning on or after 1 January 2022, provides a subsidiary that becomes a first-time adopter later than its parent with an exemption relating to the measurement of its assets and liabilities. The exemption does not apply to components of equity.	The amendments are effective for annual periods beginning on or after January 1, 2022. Early application is permitted.
Amendment to IFRS 9 titled Fees in the '10 per cent' Test for Derecognition of Financial Liabilities	The amendment, applicable to annual periods beginning on or after 1 January 2022, to IFRS 9 clarifies the fees that a company includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability.	The amendments are effective for annual periods beginning on or after January 1, 2022. Early application is permitted
Amendment to IAS 41 titled Taxation in Fair Value Measurements (issued in May 2020 as part of the Annual Improvements to IFRS Standards 2018-2020)	The amendment, applicable to annual periods beginning on or after 1 January 2022, to IAS 41 removed the requirement to exclude taxation cash flows when measuring fair value. This amendment aligned the requirements in IAS 41 on fair value measurement with those in other IFRS	The amendments are effective for annual periods beginning on or after January 1, 2022. Early application is permitted.

*The Directors have assessed the applicable standards and amendments. Based on their assessment of impact of application of the above, they do not expect that there will be a significant impact on the company's financial statements or the following has been assessed to be significant for the company and has been addressed as follows...*

**Notes To The Financial Statements (Continued)**

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

**ii. New and amended standards and interpretations in issue but not yet effective in the year ended 30 June 2022.**

	IAS 1 "Presentation of Financial Statements" sets out the overall requirements for financial statements, including how they should be structured, the minimum requirements for their content and overriding concepts such as going concern, the accrual basis of accounting and the current/non-current distinction. The standard requires a complete set of financial statements to comprise a statement of financial position, a statement of profit or loss and other comprehensive income, a statement of changes in equity and a statement of cash flows.	The amendments are effective for annual periods beginning on or after January 1, 2023. Earlier application is permitted.
IAS 1 — Presentation of Financial Statements		
Amendments to IAS 1 titled Classification of Liabilities as Current or Non-current (issued in January 2020)	The amendments, clarify a criterion in IAS 1 for classifying a liability as non-current: the requirement for an entity to have the right to defer settlement of the liability for at least 12 months after the reporting period.	The amendments are effective for annual periods beginning on or after January 1, 2023. Earlier application is permitted.
Amendments to IAS 1 titled Disclosure of Accounting Policies (issued in February 2021)	The amendments, applicable to annual periods beginning on or after 1st January 2023, require entities to disclose their <b>material</b> accounting policy information rather than their <b>significant</b> accounting policies	The amendments are effective for annual periods beginning on or after January 1, 2023. Earlier application is permitted.
IAS 12 — Income Taxes	IAS 12, "Income Taxes" implements a so-called 'comprehensive balance sheet method' of accounting for income taxes which recognizes both the current tax consequences of transactions and events and the future tax consequences of the future recovery or settlement of the carrying amount of an entity's assets and liabilities. Differences between the carrying amount and tax base of assets and liabilities, and carried forward tax losses and credits, are recognized, with limited exceptions, as deferred tax liabilities or deferred tax assets, with the latter also being subject to a 'probable profits' test.	The amendments are effective for annual reporting periods beginning on or after January 1, 2023. Early adoption is permitted.
IAS 8- Accounting Policies, Errors and Estimates	The amendments, applicable to annual periods beginning on or after 1st January 2023, introduce a definition of 'accounting estimates' and include other amendments to IAS 8 to help entities distinguish changes in accounting policies from changes in accounting estimates.	The amendments are effective for annual reporting periods beginning on or after January 1, 2023. Early adoption is permitted.

*The Directors do not plan to apply any of the above until they become effective. Based on their assessment of the potential impact of application*

*i. Early adoption of standards*

The entity did not early – adopt any new or amended standards in year 2021/2022

**Notes to the financial statements (continues)**

**4. Summary Of Significant Accounting Policies**

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

**a. Revenue recognition**

Revenue is recognized when earned to Naromoru Water and Sanitation Co Limited and the revenue can be reliably measured. Revenue is recognized at the fair value of consideration received or expected to be received in the ordinary course of Naromoru Water and Sanitation Co Limited's activities, net of value-added tax (VAT), where applicable and when specific criteria have been met for each of the Naromoru Water and Sanitation Co Limited activities as described below.

**b. In-kind contributions**

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

**c. Property, plant and equipment**

Property plant and equipment are stated at cost less the accumulated depreciation charged. 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 as profit or loss in the income statement.

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

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

Depreciation is charged on reducing balance method using the following rates

Pipes	2.5%
Telephone & computers	30%
Office furniture & equipment	12.5%
Plant and equipment	12.5%
Motor bikes and vehicles	25%

A full year's depreciation charge is recognised in the year of asset purchase

## Notes to the financial statements (continued)

### Summary of Significant Accounting Policies

#### e. Intangible assets

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

#### f. Amortization and impairment of intangible assets

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

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

#### g. Investment property

Buildings, or part of a building (freehold or held under a finance lease) and land (freehold or held under an operating lease) held for long term rental yields and/or capital appreciation, and which are not occupied by the entity, are classified as investment property under non-current assets.

Investment property is carried at fair value, representing open market value determined periodically by independent external values. Changes in fair values are included in profit or loss in the income statement.

#### h. Finance and operating leases

Leases which confer substantially all the risks and rewards of ownership to the entity are classified as finance leases. Upon initial recognition, the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments, and the asset is subsequently accounted for in accordance with the accounting policy applicable to that asset. All other leases are treated as operating leases and the leased assets are recognized in the statement of financial position to the extent of prepaid lease rentals at the end of the year. Payments made under operating leases are recognized in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognized as an integral part of the total lease expense over the term of the lease.

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### Summary of Significant Accounting Policies

#### **i. Inventories**

Inventories are valued at the lower of cost and net realizable value. The cost of inventories comprises purchase price, transportation and handling charges, and is determined on the weighted average price method.

#### **j. Trade and other receivables**

They are recognized and carried at the realizable value less the provision for risk allowance, at currently 10%. 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.

#### **k. Taxation**

##### ***i. Current income tax***

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

##### ***iii. Current income tax (Continued)***

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 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.

##### ***iv. Deferred tax***

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

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### Summary of Significant Accounting Policies

Deferred tax 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.

### **l) Bank and cash equivalents**

Cash and cash equivalents comprise cash in 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 Kenya Commercial Bank at the end of the financial year.

### **m.) 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 amortized cost using the effective interest rate method. Amortized cost is calculated by taking into account any issue cost and any discount or premium on settlement. Finance charges, including premiums payable on settlement or redemption are accounted for on accrual basis and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise. Loan interest accruing during the construction of a project is capitalized as part of the cost of the project.

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### Summary of Significant Accounting Policies

#### n. Trade and other payables

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

#### o) Retirement benefit obligations

The company contributes to National Social Security Fund (NSSF) which is a defined contribution scheme. Contributors are determined by local statute as legislated. The company's contributions to the defined contribution schemes are charged to the income and expenditure account in the year to which they relate.

#### p. Provision for staff leave pay

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

#### q. Budget information

The original budget for FY 2021-2022 was approved by the Board of Directors on 12<sup>th</sup> May 2021. No Subsequent revisions or additional appropriations were made to the approved budget in accordance with specific approvals from the appropriate authorities. No additional appropriations are added to the original budget by the entity upon receiving the respective approvals in order to conclude the final budget. Accordingly, Naromoru Water & Sanitation Company Limited did not record additional appropriations.

Naromoru Water & Sanitation Company Limited 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.

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

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

#### **r. Budget information (Continued)**

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 5 of these financial statements.

#### **s. Service concession arrangements**

Naromoru Water & Sanitation Company Limited 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, Naromoru Water & Sanitation Company Limited 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, Naromoru Water & Sanitation Company Limited also recognizes a corresponding liability, adjusted by a cash consideration paid or received.

#### **t. Comparative figures**

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

#### **u. 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, 2021. The preparation of Naromoru Water & Sanitation Company Limited financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of the reporting period. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods.

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 5. Significant Judgments and Sources of Estimation Uncertainty

#### a. Estimates and assumptions

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

#### b. Useful lives and residual values

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

- The condition of the asset based on the assessment of experts employed by Naromoru Water & Sanitation Company Limited
- 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

#### c. Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions is included in Note 27.

Provisions are measured at the management's best estimate of the expenditure required to settle the obligation at the reporting date, and are discounted to present value where the effect is material. They are recognized and carried at the realizable value less the provision for risk allowance, at currently 10%. 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.

## NOTES TO THE FINANCIAL STATEMENTS (Continues)

### 6. Operating Revenue

	2021-2022	2020-2021-1
	Kshs	Kshs
Water sales	13,126,100	12,029,850
Billing for other services*		
<b>Total</b>	<b>13,126,100</b>	<b>12,029,850</b>

*Billing for other services refers to income generated from services such as reconnection fees*

### 7. Grants Income

	2021-2022	2020-2021-1
	Kshs	Kshs
Conditional Support liquidity grant	3,430,413	0
<b>Total</b>	<b>3,430,413</b>	<b>0</b>

*[Provide a detailed analysis of grants received from the Government in the table below:]*

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

### 8. Other Income

	2021-2022	2020-2021
	Kshs	Kshs
Differed income	2,155,714	2,463,674
Exhauster Revenue	593,500	0
New water connection fees	416,500	411,500
Interest Income	34,119	0
<b>Total</b>	<b>3,199,833</b>	<b>2,875,174</b>

### 9. Finance Income

	2021-2022	2020-2021
Description	Kshs	Kshs
Interest income on savings account	34,119	0
<b>Total</b>	<b>34,119</b>	<b>0</b>

*[Provide short appropriate explanations as necessary]*

### 10. Other Gains and Losses

	2021-2022	2020-2021
Description	Kshs	Kshs
Decrease in provision for Annual General Meeting	0	0
Decrease in Provision for Tax	0	0
Decrease in Provision for Doubtful debts	0	0
<b>Total</b>	<b>0</b>	<b>0</b>

**Notes To The Financial Statements (Continued)**

**11. Staff Costs**

Description	2021-2022	2020-2021
	Kshs	Kshs
<b>Staff Costs</b>		
Basic pay ,	4,117,616	3,731,606
House Allowance	1,049,000	989,000
Medical Allowance	0	0
Gratuity	0	0
Commuter allowance	808,000	720,000
Pension	0	0
Bonus	0	0
Overtime Allowance	0	0
Leave Allowance	0	0
Wages	940,220	927,800
<b>TOTAL</b>	<b>6,914,836</b>	<b>6,368,406</b>

Notes To The Financial Statements (Continued)

12. General and Operations Expenses

Description	2021-2022	2020-2021
	KShs	KShs
Printing & Stationary	66,819	118,191
Office expenses	129,293	98,439
Office rent	660,000	660,000
Telephone	197,494	164,804
Postage	19,130	890
Internet Connection	82,841	60,000
Travelling & Subsistence	811,725	603,450
Workshop	180,400	214,500
Conference meeting	227,000	63,150
Development of Strategic Plan	75,000	125,225
Chairmen Semi-Annual Meeting	0	116,967
Maintenance of Computer Software	52,000	52,000
Electricity	205,000	18,600
Computer & Copier expenses	79,730	210,200
Advertisement	233,815	78,146
Corporate Social Responsibility	6,900	18,070
Library Expenses	14,460	13,920
9% T.W.W.D.A	180,000	0
1% Wasreb	525,044	487,223
Land Rent	57,114	57,114
WRA	30,000	221,100
Increase in AGM provision	0	0
Provision in Audit	812,000	696,000
Provision in AGM	149,500	150,000
Provision for Stakeholder's forum	150,000	150,000
Professional charges	186,725	326,886
WRUA	44,000	78,000
Insurance	187,591	
Bank Charges	28,092	16,243
<b>TOTAL</b>	<b>5,391,674</b>	<b>4,799,118</b>

### 13. Board Expenses

Description	2021-2022	2020-2021
	KShs	KShs
Training of BOD	474,907	0
Directors Allowances	302,000	244,000
<b>Total</b>	<b>776,907</b>	<b>244,000</b>

### 14. Maintenance Expenses

Description	2021-2022	2020-2021
	KShs	KShs
Motor Bike Repair	48,450	32,600
Pipes & Fittings	179,120	628,730
General Maintenance	578,902	361,985
Office Maintenance	0	13,000
Fuel & Oil	345,000	137,200
Improvement of water supply	443,120	370,868
Maintenance of small lines	287,689	196,240
WSTF C.L.S.G Grant	2,333,663	0
Maintenance of Exhauster	126,980	0
Uniforms & Occupation Safety Health	91,500	143,160
<b>Sub Totals</b>	<b>4,434,424</b>	<b>1,883,238</b>

Notes To The Financial Statements (Continued)

**15. Depreciation and Amortization Expenses**

	<b>2021-2022</b>	<b>2020-2021</b>
<b>Description</b>	<b>Kshs</b>	<b>Kshs</b>
Depreciation	970,246	3,261,557
<b>Total</b>	<b>970,246</b>	<b>3,261,557</b>

NOTES TO THE FINANCIAL STATEMENTS (Continued)

16. Property, Plant and Equipment for the year ended 30<sup>th</sup> June 2022

DETAILS	PIPES	TELEPHONE & COMPUTERS	OFFICE FURNITURES & EQUIPMENTS	PLANT & MACHIN ERY	WIP	TOTAL
<b>FY 2021-2022</b>	<b>2.5%</b>	<b>30%</b>	<b>12.5%</b>	<b>12.5%</b>		
<b>Opening Bal At Cost 1/7/2021</b>	36,073,652	330,248	143,870	4,016,900	0	40,564,670
Additions	0	0	0	1,178,250	0	1,178,250
<b>Closing Bal As At 30/6/2022</b>	<b>36,073,652</b>	<b>330,248</b>	<b>143,870</b>	<b>5,195,150</b>	<b>0</b>	<b>41,742,920</b>
DEPRECIATION						
<b>Opening Bal As 1/7/2021</b>	15,798,718	284,854	36,085	1,704,902	0	17,824,559
Period Charge	506,873	13,618	13,473	436,281	0	970,246
<b>Total Depreciation</b>	<b>16,305,591</b>	<b>298,472</b>	<b>49,558</b>	<b>2,141,183</b>	<b>0</b>	<b>18,794,805</b>
<b>N B V As At 30/6/2022</b>	<b>19,768,061</b>	<b>31,776</b>	<b>94,312</b>	<b>3,053,967</b>	<b>0</b>	<b>22,948,115</b>

Notes To The Financial Statements (Continued)

Property, Plant and Equipment for the year ended 30<sup>th</sup> June 2021

DETAILS	PIPES	TELEPHONE & COMPUTERS	OFFICE FURNITURES & EQUIPMENTS	PLANT & MACHINERY	WIP	TOTAL
<b>FY 2020-2021</b>	<b>2.5%</b>	<b>30%</b>	<b>12.5%</b>	<b>12.5%</b>		
<b>Opening Bal At Cost 1/7/2020</b>	30,654,670	330,248	56,590	3,694,700	0	<b>34,736,208</b>
Additions	5,418,982	0	87,280	322,200	0	5,828,462
<b>Closing Bal As At 30/6/2021</b>	<b>36,073,652</b>	<b>330,248</b>	<b>143,870</b>	<b>4,016,900</b>	<b>0</b>	<b>40,564,670</b>
DEPRECIATION						1,178,250
<b>Opening Bal As 1/7/2020</b>	12,902,299	265,400	20,687	1,374,617	0	14,563,003
Period Charge	2,896,419	19,454	15,398	330,285	0	3,261,557
<b>Total Depreciation</b>	<b>15,798,718</b>	<b>284,854</b>	<b>36,085</b>	<b>1,704,902</b>	<b>0</b>	<b>17,824,560</b>
<b>N B V As At 30/6/2021</b>	<b>20,274,934</b>	<b>45,394</b>	<b>107,785</b>	<b>2,311,998</b>	<b>0</b>	<b>22,740,110</b>

**Notes To The Financial Statements (Continued)**

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

<b>Year 2021/2022</b>				
<b>Item</b>	<b>Depreciation rate</b>	<b>Amount</b>	<b>Amortization</b>	<b>Balance</b>
Pipeline extension	2.5%		506,873	
Telephone & Computers	30%		13,618	
Office Furniture	12.5%		13,473	
Plant & Machinery	12.5%		436,281	
			<b>970,245</b>	

**Notes To The Financial Statements (Continued)**

**17. Inventory**

	<b>2021-2022</b>	<b>2020-2021</b>
	<b>Kshs</b>	<b>Kshs</b>
<b>COST</b>		
	2,847,415	1,357,940
<b>At June 30</b>	<b>2,857,415</b>	<b>1,357,940</b>

**18.) Trade and Other Receivables**

	<b>2021-2022</b>	<b>2020-2021</b>
	<b>KShs</b>	<b>KShs</b>
<b>Trade receivables</b>		
Deposits and prepayments		
Customer unpaid bills (note 18 (b))	2,910,784	3,303,487
Other receivables	0	0
<b>Gross trade and other receivables</b>	<b>2,910,784</b>	<b>3,303,487</b>
Provision for bad and doubtful receivable	0	0
Provision disputed receivables	0	0
<b>Net trade and other receivables</b>	<b>2,910,784</b>	<b>3,303,487</b>

**18 (b). Trade Receivables**

	<b>2021-2022</b>	<b>2020-2021</b>
	<b>Kshs</b>	<b>Kshs</b>
Gross trade receivables	2,910,784	3,303,487
Provision for doubtful receivables	0	0
Provision disputed receivables	0	0
Net trade receivables	<b>2,910,784</b>	<b>3,303,487</b>
<b>at June 30, the ageing analysis of the gross trade receivables was as follows:</b>		
Less than 30 days	1,108,500	1,202,456
Between 30 and 60 days	800,125	987,048
Between 61 and 90 days	45,282	56,650
Between 91 and 120 days	32,580	100,456
Over 120 days	924,297	956,877
<b>Total</b>	<b>2,910,784</b>	<b>3,303,487</b>

Notes To The Financial Statements (Continued)

**19. Bank and Cash Balances**

	2021-2022	2020-2021
	Kshs	Kshs
Cash at bank	1,129,676	1,079,648
Cash in hand		
Mobile money account		
	<b>1,129,676</b>	<b>1,079,648</b>

Detailed analysis of the cash and cash equivalents

		2021-2022	2020-2021
Financial institution	Account number	KShs	KShs
<b>a) Current account</b>			
Commercial banks		52,981	167,988
Others	0	0	0
<b>Sub- total</b>		<b>52,981</b>	<b>167,988</b>
<b>b) Expenditure Account</b>			
Commercial banks		42,856	35,375
others	0	0	0
<b>Sub- total</b>		<b>42,856</b>	<b>35,375</b>
<b>c) Fixed deposits account</b>			
Other Commercial banks		1,032,867	876,285
others	0	0	0
<b>Sub- total</b>		<b>1,032,867</b>	<b>876,285</b>
<b>d) Others(specify)</b>			
WSTF Deposit		972	0
M-pesa	0	0	0
<b>Sub- total</b>		<b>972</b>	<b>0</b>
<b>Grand total</b>		<b>1,129,676</b>	<b>1,079,648</b>

## Notes To The Financial Statements (Continued)

### 20. Revaluation Reserve

The revaluation reserve relates to the revaluation of certain items of property, plant and equipment. As indicated in the Statement of Changes in Equity, this is stated after transfer of excess depreciation net of related deferred tax to retained earnings. Revaluation surpluses are not distributable

### 21. Fair Value Adjustment Reserve

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

Naromoru Water & Sanitation Company Limited also contributes to the statutory National Social Security Fund (NSSF). This is a defined contribution scheme registered under the National Social Security Act. Naromoru Water & Sanitation Company Limited obligation under the scheme is limited to specific contributions legislated from time to time and is currently at Kshs.400 per employee per month. Other than NSSF the entity also has a defined contribution scheme operated by County Pension Fund. Employees contribute 7.5% while employers contribute 15% of basic salary. Employer contributions are recognized as expenses in the statement of financial performance within the period they are incurred

### 22. Trade and Other Payables

	2021-2022	2020-2021
	Kshs	Kshs
Trade payables	1,908,836	1,883,326
Tax payable	0	0
Other payables	0	0
<b>Total</b>	<b>1,908,836</b>	<b>1,883,326</b>

### 23. Customer Deposits

	2021-2022	2020-2021
	Kshs	Kshs
Opening Balance	2,115,000	1,790,000
Add: deposits received during the year	340,500	325,000
<b>Total</b>	<b>2,455,500</b>	<b>2,115,000</b>

### 24. Deferred Income

Description	2021-2022	2020-2021
	KShs	KShs
Grant	1,886,250	2,155,714
<b>Total deferred income</b>	<b>1,886,250</b>	<b>2,155,714</b>

The deferred income movement is as follows:

24 b.

	2021/2022	2020/2021
Balance brought forward	15,089,999	17,245,713
Additions	0	
Amortisation	(1,886,250)	(2,155,714)
Balance carried forward	13,203,749	15,089,999

## 25. Taxation

		<b>Kshs</b>
Profit before tax		1,268,259
<b>Add</b>		
Depreciation		970,246
Less Differed Income		(1,886,250)
<b>Sub-Total</b>		<b>352,255</b>
Less Depreciation		970,246
<b>Total</b>		<b>(617,991)</b>
Loss brought forward		(10,612,566)
<b>Loss carried forward</b>		<b>(11,230,557)</b>

## Notes To The Financial Statements (Continued)

### Other Disclosures

#### 26. Related Party Disclosures

##### County Government of Nyeri

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

Other related parties include:

- Parent ministry
- Tana Water works Development Agency
- WASREB
- WARMA
- Key management
- Board of directors

#### 27. Financial Risk Management

The company's overall risk management programme focuses on unpredictable changes in the operating environment and seeks to minimize the potential adverse effect of such risks on its performance. Major types of financial risk that may face the company include:

##### i) Currency Risk

The company is currently not exposed to currency risk because it does not trade with foreign countries.

##### ii) Interest Rate Risk

The company has not borrowed money and thus not affected by interest rate risk.

##### iii) Price Risk

The company does not hold investments that would be subject to price risk hence no exposure to price risk.

##### iv) Credit Risk

This is the risk that one party will default on his/her contractual obligation resulting in financial loss to the company.

The company measures, monitors and manages credit risk for each receivable.

This risk is primarily attributable to bank balances, trade and other receivables.

The company developed a debt management policy in order to reduce the customer unpaid bills.

NAROMORU WATER & SANITATION COMPANY LIMITED.  
 ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2022

<b>Credit risk</b>				
	<b>Total amount</b>	<b>Fully performing</b>	<b>Past due</b>	<b>Impaired</b>
As at 30th June 2021				
Customer unpaid bills				
<b>Total</b>	3,303,487	2,023,647	1,279,840	0
As at 30th June 2022				
Customer unpaid bills				
<b>Total</b>	2,910,784	1,797,848	1,112,936	0

**Notes To The Financial Statements (Continued)**

**(i) Credit risk**

The company's overall risk management programme focuses on unpredictable changes in the operating environment and seeks to minimize the potential adverse effect of such risks on its performance.

Major types of financial risk that may face the company include:

**i) Currency Risk**

The company is currently not exposed to currency risk because it does not trade with foreign countries.

**ii) Interest Rate Risk**

The company has not borrowed money and thus not affected by interest rate risk.

**iii) Price Risk**

The company does not hold investments that would be subject to price risk hence no exposure to price risk.

**iv) Credit Risk**

This is the risk that one party will default on his/her contractual obligation resulting in financial loss to the company.

The company measures, monitors and manages credit risk for each receivable.

This risk is primarily attributable to bank balances, trade and other receivables.

The company developed a debt management policy in order to reduce the customer unpaid bills.

<b>Credit risk</b>	<b>Total amount</b>	<b>Fully performing</b>	<b>Past due</b>	<b>Impaired</b>
As at 30th June 2021				
Customer unpaid bills				
<b>Total</b>	<b>3,303,487</b>	<b>2,023,647</b>	<b>1,279,840</b>	<b>0</b>
As at 30th June 2022				
Customer unpaid bills				
<b>Total</b>	<b>2,910,784</b>	<b>1,797,848</b>	<b>1,112,936</b>	<b>0</b>

## Notes To The Financial Statements (Continued)

### *Credit Risk (Continued)*

#### **v). Liquidity Risk**

The company manages liquidity risk by maintaining banking facilities through continuous monitoring of forecast and actual cash flows. The management has also put in place framework for the management of the company's' short, medium- and long-term funding and liquidity management requirements.

The table below represents cash flows payable by the company under non-derivative financial liabilities by their remaining contractual maturities at the reporting date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances, as the impact of discounting is not significant.

#### **28. Incorporation**

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

#### **29. Events After the Reporting Period**

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

#### **30. Currency**

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

### Progress On Follow Up Of Auditor Recommendations

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

Reference No	Issue / Observations from Auditor	Management comments	Status:	Timeframe:
1.	Undisclosed Material Uncertainty in Relation to Going Concern	The company faced challenges with effects of Covid- 19 Pandemic that resulted to shortfall of the targeted revenue expectations. As the company under its formation is not a profit making entity, the negative working capital does not affect the company's sustainability of service.	Resolved	
2.	Unsupported Adjustment in the Statement of Cash flow	This has since been corrected and adjusted in the amended financial statements.	Resolved	
3.	Inaccuracies In Property, Plant and Equipment	This has since been corrected and adjusted in the amended financial statements.	Resolved	
4.	Un-Analysed Trade Receivables	This has since been corrected and adjusted in the amended financial statements.	Resolved	
5.	Budgetary Control and Performance	The company realized an under funding in its Budget due to shortfall in targeted billing. This was attributed to	Resolved	

Reference No	Issue / Observations from Auditor	Management comments	Status:	Timeframe:
		the prolonged dry spell that resulted to the company.		
6.	Un-Resolved Prior Year Audit Issues	The company is currently following up on the matters and hopes to address the issues raised amicably.	Not-Resolved	
7.	Personnel Costs	The company will strive to increase its Operational costs through increase of internally generated revenue and lobbying of funds to other development partners to improve on its total expenditures. The personnel cost is 38% computed from a personnel cost of Kshs. 6,368,076 as a percentage of O&M of Kshs. 16,540,076 as guided by Wasreb Key Indicator Parameters	Resolved	
8.	Failure to Gazette Board of Directors	The company has contracted a Company Secretary who offers advises on matters Company Law. In reference to this Audit finding, the Company Secretary advised that Naromoru Water & Sanitation Company under its current formation (limited by Guarantee) does not require its board of directors to be gazetted.	Resolved	
9.	Lack of Annual Evaluation of	The company had not conducted then Annual Evaluation of Board	Not Resolved	

Reference No	Issue / Observations from Auditor	Management comments	Status:	Timeframe:
	Board Performance	Performance in the year under audit due to Covid-19 restrictions on meetings. This has however been carried out and will be recognized in the current financial year 2021/2022.		
10.	Non- Revenue Water	<p>The company had UFW of 29%. This is also anticipated to reduce to 27% in the financial year 2020/2021 if the Conventional Treatment Works under construction will have been completed and handed over to the company by the County Government of Nyeri. Meanwhile, the following measures have been taken to reduce UFW</p> <ul style="list-style-type: none"> <li>• Rapid Result Initiative was put place for close supervision on servicing of water meters and attendance of bursts and leaks without delay.</li> <li>• Installation of zonal meters</li> <li>• Installation of water strainers</li> <li>• Sealing of all consumer meters</li> <li>• Ensuring 100% metering ratio</li> </ul>	Not-Resolved	
11.	Operation Without a License	The company is in its final stages in the application for License from Water Services Regulatory Board	Resolved	


NAROMORU WATER & SANITATION COMPANY LIMITED.  
ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2022

Reference No	Issue / Observations from Auditor	Management comments	Status:	Timeframe:
		<p>(WASREB) where the regulator has promised to grant the company a 2- year Interim License.</p> <p>The company presented before your office documents to attest to this on the progress it has made on this.</p>		
12.	Lack of a Consumption Based Water Billing System	<p>The company has a Centralized Billing System that it uses to bill its consumers. The 994 Connections that were billed on flat rate consumed 0-6 units and were charged at Kshs. 250 as they belong to that cluster in the Company's Tariff. No revenue was lost as a result.</p>	Resolved	
13.	Lack of Approved Water Charging Tariff	<p>The company after its formation was granted a Service Provision Agreement (SPA) by Tana Water Services Board and issued with a tariff from Othaya Mukurweini Water Services Company (OMWASCO) water and sewerage which was adopted by the Board of Directors of Naromoru Water and Sanitation Company.</p> <p>The amendments made on the deposit charges for consumers were approved by the Board of Directors.</p>	Not-Resolved	

Reference No	Issue / Observations from Auditor	Management comments	Status:	Timeframe:
14.	Failure to file Annual Returns	<p>The company has contracted a Company Secretary who offers advises on matters Company Law. In reference to this Audit finding, the Company Secretary files a return after the every Annual General Meeting for compliance.</p> <p>Due to Covid 19 restrictions on conveyance of meetings, the company did not hold Its AGM in the year 2020 which has led to delays in filing of the returns.</p>	Resolved	
15.	Lack of Staff Ethnic diversity	<p>The company upon filing of a vacant position advertises through the Company's website, County Government website and in the Dailies. Being in a small rural area, the company presumably attracts interest from applicants from nearby towns and surrounding counties who upon interviewing are recruited.</p>	Not-Resolved	
16.	Lack of a Risk Management Policy & Framework	<p>The company has drafted the Risk/Disaster Management Policy which is in the draft stage awaiting Board of Directors approval for adoption. The same document was presented to your office during audit.</p>	Resolved	

NAROMORU WATER & SANITATION COMPANY LIMITED.  
ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2022

Reference No	Issue / Observations from Auditor	Management comments	Status:	Timeframe:
17.	Lack of ICT Policy and Strategic Plan	The company has drafted the IT strategic plan and Policy which is in the draft stage awaiting Board of Directors approval for adoption. The company is in the process of formulating an I.T Committee for compliance of the same.	Resolved	
18.	Lack of Internal Audit Function	The company is in the process of advertising and filling the position of the Internal Auditor. It has also included this allocation in its Personnel Costs in the Budget for Financial Year 2022-2023 and therefore expects to commence the recruitment process as from July 2022.	Resolved	
19.	Lack of an Imprest Register	The company has prepared and is currently maintaining and updating the register. This will be recognized in the coming financial year's audit.	Resolved	

Name *Gladys Njeri Wangango*  
 Signature   
 Managing Director  
 Date... *30/09/2022* .....