

REPUBLIC OF KENYA



Enhancing Accountability

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REPORT

PARLIAMENT
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ON

**KWALE WATER AND SEWERAGE COMPANY
LIMITED**

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



**KWALE WATER AND SEWERAGE COMPANY LIMITED
ANNUAL REPORT AND FINANCIAL STATEMENTS**

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

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



**KWALE WATER & SEWERAGE COMPANY LIMITED
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**KWALE WATER & SEWERAGE COMPANY LIMITED
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Key Entity Information

Kwale Water and Sewerage Company Limited is registered under the Company Act 2015 and it is also regulated under the state corporations Act Cap 446. Under devolved function, the company is a County Government Corporation. The water companies were formed under the water Act of 2002 and now regulated in the new Water Act of 2016.

Kwawasco's Managing Director is responsible for the day to day running of the organisation and is answerable to the Board of Directors who guide the governance of the Company. The Board of Directors are responsible for formulation of the strategic plan and policies of the company. A team of managers support the managing director. The Company is domiciled in Kwale and has satellite stations at Ukunda, Kombani, Samburu, Taru, Mariakani, Mazeras, Lungalunga, Msambweni, Mkanda Kinango.

Core Business

The core business of Kwale Water and Sewerage Company (KWAWASCO) is to supply and distribute safe and quality water and provide sewerage services to the resident of Kwale County.

Company Vision

To be a Company of choice in water and sanitation services.

Company Mission

To be committed to providing quality, reliable, safe, adequate, accessible water and efficient sanitation services to the satisfaction of the customer.

Directors

The Directors who served Kwale water and sewerage Company during the year ending 30 June 2022 were as follows:

1. Francis Nzai Mjera - Chairman Expiry 10th July 2022
2. Eric Parmet - Managing Director
3. Rehema Chidzuga - Chairperson Commenced 11th July 2022
4. Helen Njoroge - Member
5. Japhet Mwero - Member
6. Mwanatumu Kadau - Member
7. Joseph Gathua - Member
8. Kassim Ramadhan - Member
9. Alex Onduko - Chief Officer Finance & Economic Planning
10. Musyoki Muthoka - Chief Officer Water Services

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Company Secretary

Lewa and Associates
Off Sauti ya Kenya Road
Ganjoni (Near Jahazi Hotel)
P.O. Box 2937 - 80100
Mombasa

Registered Office and Principal Place of Business

Sida Offices-Off-Kwale-Likoni Road
Kwale Area
P.O. Box 18 - 80403
Kwale

Corporate Contacts

Telephone: (254) 41 2014155
E-mail: info@kwalewater.co.ke
Website: www.kwalewater.co.ke

Company Bankers

1. Kenya Commercial Bank
Ukunda Branch
P.O. Box 150 - 80400
Ukunda
2. Equity Bank
Ukunda Branch
P.O. Box 1476 – 80400
Ukunda

Independent Auditors

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

Principal Legal Advisers

1. County Attorney
Kwale County Government
P.O. Box 4 - 80403
Kwale



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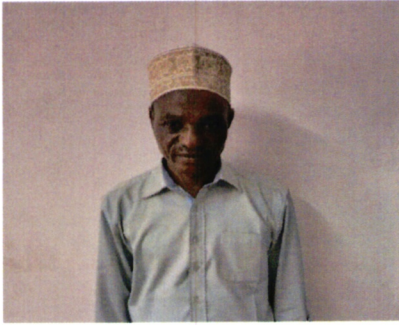
I. THE BOARD OF DIRECTORS

Ref	Name	Directors	Details
1.	Francis Nzai Mjera		Chairman of Board of Directors P.O Box 4 – 80403 KWALE Diploma- School Management at Kenyatta University on going Date of Birth: 15/2/1966
2.	Eric Melibo Parmet		Managing Director KWAWASCO P. O. Box 4 – 80403 Kwale Master in project planning management. BA in Development studies and Business Administration Date of birth: 1976
3.	Alex Onduko		Board Member P. O. Box 4 – 80403 Kwale CPA (K) Holder Holds master of Business Administration (Finance).
4.	Helen Njoroge		Chairperson Audit Committee P.O. Box 4 – 80403 Kwale Diploma in ECDE Retired Head Teacher Date of Birth 30/09/1956

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5.	Japhet Mwero		<p>Chairperson Technical Committee P.O. Box 538 Mariakani O level Retired in civil service as veterinary officer Date of Birth: 1946</p>
6.	Rehema Chidzuga		<p>Chairperson Human Resource Committee P.O. Box 31 Matuga Holds Bachelors of Education Date of Birth 18th April 1957</p>
7.	Joseph Gathua		<p>Board Member P.O. Box 32, Mukurueni O level Accountant. Date of Birth 28/08/ 1957</p>
8.	Munyao Msyoki Muthuka		<p>Board member P. O. Box 4 – 80403 Kwale Holds a master degree in Science and Geology Has extensive experience in managing project.</p>

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9.	Mwanatumu Kadau		Board member P.O. Box 115 LungaLunga O level Date of Birth 21/5/ 1972
10.	Kassim Ramadhan		Board member P.O. Box 18 - 80403 KWALE O level Cooperative College B.M.C Certificate Date of Birth 01/01/1960

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II. MANAGEMENT TEAM

Ref	Name	Management	Details
1.	Eric Melubo Parmet		Managing Director KWAWASCO P. O. Box 4 – 80403 Kwale Master in project planning management. BA in Development studies and Business Administration Date of birth: 1976
2.	William Jefwa		Finance Manager. Bachelor of Business Administration - Accounting CPA (K), Member of ICPAK MBA- Ongoing
3.	Bismark Isaiah Odede		Head of Technical Civil and Environment Engineering(Egerton University) Master in project planning and management(UoN) Computer application:auto cad &archcad,gis leadership training.member EBK
4.	Susan Mlamba		Human Resource Manager. Bachelor of Arts & Sociology HR. post graduate Master in Business Administration

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5.	Hussein Mwavadu		<p>Commercial Manager Degree in Information and Technology. Diploma in IMIS Master Degree on going</p>
6.	Steven Safari		<p>Internal Auditor. Bachelor of Commerce (Accounting Option) CPA (K), Member of ICPAK Registered member of IIA</p>
7.	Swaleh Kidzuga		<p>Technical Manager. Diploma In water Engineering Higher Diploma in Building and Civil Works Member of Engineering Registration Board of Kenya</p>
8.	Hamisi Nzimo		<p>Procurement Officer Master Degree Project Planning & Management (UoN) Bachelor of Commerce Procurement & S.C (UoN) Registered member KISM</p>

III. BOARD CHAIR STATEMENT

Technical Activities

Key Projects and Investment decisions Kwawasco is planning / implementing

Kwale water and Sewerage Company in pursuing its mandate of supplying water of safe quality and sufficient quantities to the residents of Kwale County, has continuously worked closely with development partners in the water sector in efforts to secure resources for water infrastructure development.

The Company's water supply jurisdiction currently stands at slightly above 50% of the County's total population standing at 800,000 people based on the last census. Key among these development partners are the World Bank, County Government of Kwale, Water Sector Trust Fund and Coast Water Works Development Agency and the Ministry of Water and Sanitation. The company successfully received (Loan and Grant) funding from World Bank for Water and Sanitation Development Programme (WSDP) targeting Ukunda town and its environs. The project which is currently under implementation at a cost of Ksh. 1.4Billion is expected to be completed in April 2024 with an expected additional 5,000 new connections in Ukunda, Diani, Tiwi and Kombani towns. This is expected to broaden the company's revenue base considering the potential within Ukunda/Diani as tourism Hub and the fast growing town of Kombani which is currently a preferred residential area due to available land and other social amenities.

So far through the World Bank Support, the following have been delivered and are under implementation:-

- Procurement and delivery of Consumer water metres, all critical tools and fittings now available in our store that would address both the high non- revenue water and execute emergency repair within shortest time possible.
- Procurement and delivery of 10 Motorcycles for use within our field stations by the Company meter readers and pipe fitters.
- Construction of a modern meter testing bench with the structure complete awaiting stocking with the accompanying merchandise.
- Procurement of 2 water Boozers and 2 exhausters of capacity 10,000 Litres each.
- Laying of water reticulation system within Ukunda Town and its environs
- Drilling and equipping of 11 boreholes including laying of collector lines and construction of storage reservoirs.
- Construction of 10 No public sanitation blocks 4 in Kwale and 6 in Ukunda

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The foregoing works are to be completed by the end April 2024 with a possibility of extension being granted by the Bank.

The Water Sector Trust Fund (WSTF) under the financial year 2022 approved plans for sanitation improvement within community households under the UBSUP program (Up scaling Basic Sanitation in Urban Poor) basically aimed at improving the sanitation standards within the environs of urban centres. Ukunda urban town was selected for this intervention where 200 toilets doors were constructed at owner cost with the programme eventually offering a subsidy of Ksh 20,000 for each door constructed. Particular toilet model is being promoted that would prevent possible ground water resource pollution as is the case with the normal non-aligned conventional pit Latrines. UBSUP programme also came up with a decentralised treatment facility (DTF) that was constructed within Mabokoni area on a Land dedicated to Kwawasco by County Government of Kwale next to Technical University of Mombasa. Construction of this facility was completed by end March 2022 thus complementing the other component of toilet construction and utilization of the sewerage exhauster trucks. Emptying and effective waste treatment is now being realised at the DTF, accommodating a capacity of 50,000 litres of waste per day. The Company in its effort to reach its customers located within its urban centres and not covered under the existing supply network , has invested using own internal resources to put up extension lines around Kwale town , Gopha areas, Tiwi Maweni areas and KRA Horohoro Offices. Other critical projects being undertaken particularly by CWWDA include the borehole rehabilitation networks around Tiwi aimed at boosting supply to Tiwi, Kombani and Ukunda areas , the Kwale town water improvement works under the Kenya Water Security and Climate Resilience Project targeting Kwale town ,Pemba and Makamini dam projects under CWWDA aimed at improving supply for Kinango Town.

Several projects have been and are being implemented by the County Government in the entire Kwale County resulting in more areas being covered with clean water particularly in the rural areas thus improved hygiene, clean and safe drinking water for productive citizens.

Generally, all these developments will ultimately have a positive impact on Kwawasco as a company transforming it to a self-sustainable status in the future.



.....
Rehema Chidzuga
CHAIRPERSON

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IV. REPORT OF THE MANAGING DIRECTOR

Kwale Water and Sewerage Company Limited (KAWASCO) was incorporated on the 26th September 2005. The company's mandate is to efficiently and effectively provide quality, reliable and adequate water services to the residents of Kwale County in accordance with interim licence issued by the WASREB, sector regulator.

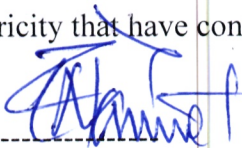
The Company has got 10 board members representing the County Government of Kwale, Water User Association, hotel industry, professional's representative and farming community gender representation and all 5 Sub Counties represented. The population within KAWASCO's service area is about 800,000 people based on the last census by the Kenya National Bureau of Statistics while the company's estimated population served is about 52%. Kwale Water and Sewerage Company receive bulk water from Coast Water Works Development Agency (Bulk Unit) from its various sources namely Marere Springs, Mzima Springs and Tiwi Boreholes.

KAWASCO also operates water schemes in Msambweni, Lungalunga and Vanga all of which are served by boreholes from Msambweni, Mwalewa, Tsuini and Kikwezani respectively.

KAWASCO is headed by a Managing Director and has four (4) Administrative departments namely; Technical department, Commercial and Business Development, Finance and Administration and Human Resource. In efforts to take services closer to the people and improve on the company performance and service delivery, the company has the following area offices across the county which are headed by Zonal Managers. These are;

Station	Zones	Zonal Office
1	Tiwi/Ukunda	Ukunda
2	Msambweni/Mkanda	Msambweni
3	Kwale/Kinango	Kwale
4	Mzima	Mariakani

The company is currently operating with an interim 2 year licence issued by WASREB in December 2021. In conclusion, the company is in the process of undertaking a tariff to accommodate inflation rate especially on the critical aspects like pipes and fittings, water treatment chemicals and cost of electricity that have continued to escalate every year.



Eric Parmet
Managing Director

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**V. STATEMENT OF PERFORMANCE AGAINST PREDETERMINED OBJECTIVES FOR
FY 2021/2022**

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

Kwale Water and Sewerage Company have 13 strategic pillars/ themes/issues and objectives within the current Strategic Plan for the FY 2021- FY 2022. These strategic pillars/ themes/ issues are as follows:

Pillar /theme/issue 1:

Pillar/theme/issue 2

KWAWASCO develops its annual work plans based on the above 13 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 13 strategic pillars, as indicated in the diagram below:

Strategic Pillar/Theme/Issues	Objective	Key Performance Indicators	Activities	Achievements
Pillar 1:	Increase Revenue by 50%	<ul style="list-style-type: none"> Automation of billing system and meter reading Water clinics 	<ul style="list-style-type: none"> Improve revenue collection efficiency Improve billing accuracy. Increase connection by 25% of current. 	Revenue increased by 28.4%
Pillar 2:	Increase Customer satisfaction to 30% by 2025	<ul style="list-style-type: none"> Customer care desk every station Recording 	<ul style="list-style-type: none"> Evaluate customer satisfaction. Manage customer expectation. Restructure 	Customer Satisfaction increased to 25%

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		of customer complain on daily basis	customer's complaint management system.	
Pillar 3:	Establish a robust ICT infrastructure	<ul style="list-style-type: none"> • Installation of internet to all station • Issuance of Computer/ Laptops to station in charge 	<ul style="list-style-type: none"> • Internet connectivity in all outer station to enhance communication with HQ for faster inquiries and response 	ICT infrastructure across the company increased by 40%
Pillar 4:	Improve fiscal health by 50% by 2022	<ul style="list-style-type: none"> • Proper book keeping 	<ul style="list-style-type: none"> • Keeping proper Assets register. • Cleaning of the uncollectable debts. 	Fiscal health increased by 30%
Pillar 5:	Establish an Integrated Financial and Information Management System for the company	<ul style="list-style-type: none"> • Operational IMS. • Training schedule 	<ul style="list-style-type: none"> • Acquiring an IMS. • Staff capacity building. 	Achieved 10%
Pillar 6:	Improve the supply chain management to effectively enhance service delivery.	Time Cost of production and Compliance	<ul style="list-style-type: none"> • Staff and Supplier Attitude change. • Embrace e-procurement. 	Achieved 20%

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Pillar 7:	Establish Inclusive, transparent and accountable water governance structures at all levels.	Composition of BOD	<ul style="list-style-type: none"> • Develop and strengthen institutional mechanisms for effective stakeholder participation in the management of water resources. • Identify and reduce barriers to participation. • Create forums for discussions/suggestions. • Streamlining operations with devolved governance structures. 	Achieved 80%
Pillar 8:	Enhance staff productivity and service delivery	Staff trainings , Bench marking, Mentorship programmes	<ul style="list-style-type: none"> • Develop and maintain open and effective horizontal vertical communication. • Training and development. • Motivate and retain employees. 	Achieved 50%
Pillar 9:	Enhance employee satisfaction	Conduct employee survey	<ul style="list-style-type: none"> • Team building • Mentorship programmes 	Achieved 40%

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			<ul style="list-style-type: none"> • Competitive remuneration • Recognition and reward 	
Pillar 10:	Increase supply of quality piped water by 20% every year.	Water treatment and replacement of dilapidated pipelines	<ul style="list-style-type: none"> • Install new metered connections to Households and institutional clients. • Extend Network coverage. • Develop new water sources. • Improve quality and safety of piped water. • Improve water storage management practices. 	Achieved 80%
Pillar 11:	Increase supply coverage by 20% by 2022	Pipeline Extension	<ul style="list-style-type: none"> • Revive cut offs due to Big debts by negotiations and agreements on payment plans. • Connects new clients on projected projects. 	Achieved 40%
Pillar 12:	Reduce non-revenue water by 50% by 2022.	Replacement of dilapidated pipelines	<ul style="list-style-type: none"> • Establish DMAs • Establish and equip rapid response team. • Carry out meter reading Audits. 	Achieved 6% decrease

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			<ul style="list-style-type: none"> • Replace non-working meters. • Minimise water losses and unaccounted for water. • Strengthen internal control systems and accounting. • Staff and consumer attitude change. • Operationalize Kwale County water Act. 	
Pillar 13:	Develop efficient sanitation services to 30%coverage in urban areas by 2022.	Construction of Decentralised Treatment Facility	<ul style="list-style-type: none"> • Initiate establishment of sewer system and waste water treatment. • Establish Decentralize treatment Facility in urban areas. • Create awareness on sanitation needs within urban areas. • Purchase sewer trucks for exhaustion. 	Achieved 20%

VI. CORPORATE GOVERNANCE STATEMENT

Corporate governance is the process and structure by which companies are directed, controlled and held accountable in order to achieve long-term value to shareholders taking cognisance of the interest of the other shareholders. The Board of Directors of KWAWASCO is responsible for the governance of the corporation and is accountable to the shareholders in ensuring that the corporation complies with the laws and the highest standards of business ethics and corporate governance.

Accordingly, the Board attaches very high importance to the generally accepted corporate governance practices and has embraced the internationally developed principles and code of best practice of good corporate governance and is guided by the corporate governance guidelines as set by the sector regulator WASREB.

Board of Directors

The roles and functions of the Chairman and the Managing Director are distinct and their respective responsibilities are clearly defined within the Company. The Company's Board comprises of Nine (9) directors who are non-executive directors including the Chairman. To maintain the integrity of internal procedures of the company, the board of KWAWASCO has established an Audit committee (which is mandatory). Due to the volume of issues to be dealt with on a continuous basis and which cannot be adequately dealt with by the Board itself, The Finance and Administration Committee of the board, Technical Committee of the board were also established as outlined in WASREB Governance regulations.

The Board defines the Company's strategies, objectives and values and ensures that procedures and practices are set in place to ensure effective control over strategic, financial, operational and compliance issues. Except for direction and guidance on general policy, the Board delegates authority of its day-to-day business to the Management through the Managing Director. The Board nonetheless is responsible for the stewardship of the Corporation and assumes responsibilities for the effective control over the Company.

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Board Meetings

The Board holds meetings on a quarterly basis while special meetings are called when it is deemed necessary to do so. The Board held four (4) regular and no special meetings during the year under review. As the Corporation is a State Corporation, the Inspector General of State Corporations is expected to attend meetings of the Board and Board Committees for oversight and advisory purposes in accordance with the State Corporations Act.

Committees of the Board

Board has set up the following principal Committees that meet under well-defined terms of reference set by the Board. This is intended to facilitate efficient decision making of the Board in discharging its duties and responsibilities.

a) Audit and Risk Management Committee

Membership of the Audit Committee is comprised of:

1. Helen Njoroge - Chairperson
2. Joseph Gathua - Member
3. Mwanatumu Kadau - Member

The Committee assists the Board in fulfilling its corporate governance responsibilities and in particular to:

- Review financial statements before submission to the Board focusing on changes in accounting policies, compliance with International Financial Reporting Standards and legal requirements.
- Strengthen the effectiveness of the internal audit function.
- Maintain oversight on internal control systems.
- Review and make recommendations regarding the Company's budgets, financial plans and risk management.
- Liaise with the external auditors.

The Committee held three regular meeting and no special meetings in the year under review.

b) Human Resource, Finance and Administrations Committee

The membership of the Finance and Administration Committee is comprised of:

1. Rehema Chidzuga - Chairperson
2. Alex Onduko - Member
3. Helen Njoroge – Member

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The Committee reviews and provides recommendations on issues relating to all human resources matters including, career progression, performance management, training needs, job transfers, staff recruitment, staff placements, promotions, demotions, discipline and staff welfare. The Committee assists the Board in fulfilling its oversight responsibilities relating to the Corporation's finance, information and technology, procurement, investment strategies, policies, projects and related activities.

The Committee held four (4) regular meetings and no special meeting in the year under review.

c) Technical and Commercial committee


1. Japhet Mwero -Chairperson
2. Muthuka Musyoki -Member
3. Kassim Ramadhan - Member

Shareholding

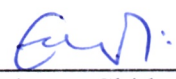
The company recently reviewed its strategic plan and aligned to the realistic operational environment and whereby the mission and vision, core values were revised to take into this account.

The Memorandum & Articles of Association of the company was registered and deposited with the Registrar of Companies having shareholding portfolio as stated hereunder;

Town Council of Kwale	1998 shares
Chairman Town Council of Kwale	1 share
Town Clerk- Town Council	1 share
Total	2000 shares



Eric Parmet
MANAGING DIRECTOR



Rehema Chidzuga
CHAIRPERSON

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VII. MANAGEMENT DISCUSSION AND ANALYSIS

(a) Staffing

During the end of the financial year, the number of staff stood at 143 as shown in table 1

Table 1

NO. OF STAFF	QUARTER 1	QUARTER 2	QUARTER 3	QUARTER 4
Permanent	57	57	57	57
Contract	74	75	83	83
Management Contract	3	3	3	3
TOTAL	134	135	143	143

b) Production, billed volume, NRW, Billed amount CWWDA and Billed Revenue Amount.

During the year under review, the company received 5,085,218 m³ of water from CWWDA compared to the previous year's 4,521,589 m³ of water. This represents 13 % increase in bulk water production and purchase. The comparable yearly bulk water purchase/production translates to cost of water/sales of Kshs 101,704,360 and Kshs 90,431,780 for the years 2022 and 2021 respectively. The company registered an increase in volume of water it billed its customers from 1,666,974 m³ in 2021 to 2,178,882 m³ in 2022; an increase of approximately 16.3%.

Non-Revenue water decreased from 62% in 2021 to 57% in 2022. The reduction of NRW from 62% to 57% a decrease by 5% was due to introduction of Company NRW day. (Management meeting once a week). Among notable causes of high NRW as noted by management was high estimated bills slapped to the water utility by Coast Water Works Development Agency. The long-standing issue of water production billed on Kwale Water and Sewerage Company but consumed by Mombasa water and Kilifi Water Companies, increased number of stopped meters which are not giving the correct readings. Old and dilapidated water supply infrastructure has resulted to frequent leaks and bursts.

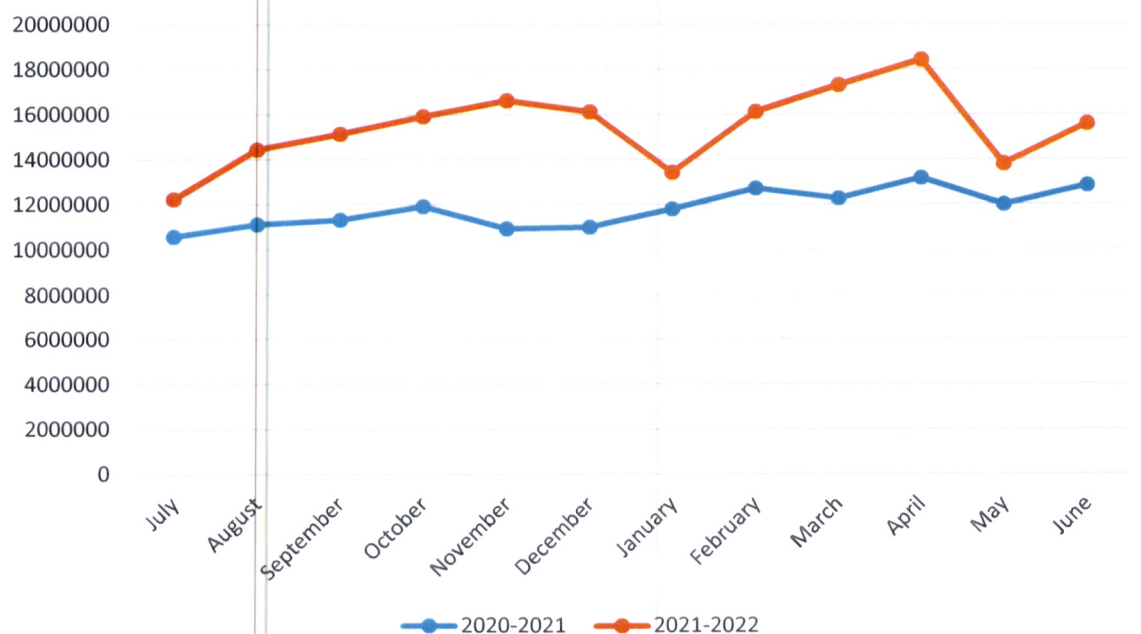
The company has requested for a reconciliation of the bulk water purchase figures so that the figures in the company's books are in harmony with those held by Coast Water Works Development Agency. For more details, refer to table 2.

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Table 2: Water Production versus billings Summary

Months	Production in m3		Billed Vol. m3		NRW		Billed Amount (Kshs)		Water Sale (Kshs)	
	2020-2021	2021-2022	2020-2021	2021-2022	2020-2021	2021-2022	2020-2021	2021-2022	2020-2021	2021-2022
July	389,998	407,174	124,458	144,077	265,540	263,097	7,799,960	8,143,480	10,579,015	11,975,160
August	443,480	465,210	130,891	170,037	312,589	295,173	8,869,600	9,304,200	11,125,735	14,181,761
September	412,445	415,871	133,179	178,099	279,266	237,772	8,248,900	8,317,420	11,320,130	14,867,030
October	354,268	432,066	140,166	187,337	214,102	244,729	7,085,360	8,641,320	11,914,195	15,652,261
November	370,586	455,151	128,746	195,556	241,840	259,595	7,411,720	9,103,020	10,943,325	16,350,875
December	310,790	391,863	129,475	189,713	181,315	202,150	6,215,800	7,837,260	11,005,375	15,854,221
January	363,212	398,289	138,914	157,909	224,298	240,380	7,264,240	7,965,780	11,807,760	13,150,880
February	434,955	438,722	149,606	189,861	285,349	248,861	8,699,100	8,774,440	12,716,510	15,866,801
March	293,384	465,678	144,293	203,676	149,091	262,002	5,867,680	9,313,560	12,264,820	17,041,075
April	432,084	434,331	154,977	216,700	277,107	217,631	8,641,680	8,686,620	13,173,130	18,148,116
May	368,407	383,193	141,170	162,509	227,237	220,684	7,368,140	7,663,860	11,999,450	13,541,880
June	347,980	397,670	151,099	183,408	196,881	214,262	6,959,600	7,953,400	12,843,380	15,318,295
	4,521,589	5,085,218	1,666,974	2,178,882	2,854,615	2,906,336	90,431,780	101,704,360	141,692,825	181,948,355
					62%	57%				

Revenue graph



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c) Number of Connections (Active Billed)

During the year under review, the company recorded an overall average growth of 11% in customer base when compared to the financial year ending 2021. KWAWASCO had the following water connection movement as illustrated below.

Year	No. of Connections		Change in No. of connections	% Change
	2020-2021	2021-2022	Per Qtr.	
Average Qtr1	18,844	19,505	661	4%
Average Qtr2	19,505	19,871	366	2%
Average Qtr3	19,871	20,681	810	4%
Average Qtr4	20,681	20,896	215	1%

d) Risks

i) Sustainability

The major risk facing the company is lack of sustainability. This challenge is a function of many factors, a few among many, being high cost of operations including increased pumping power & fuel cost, high Non-Revenue Water (Water loss) through leaks and bursts, illegal water use, being billed for water consumed by other neighbouring water utilities. The management has put in place cost cutting measures to reduce on cost to drive the company to sustainability. Among the measures and strategies management is putting in place to ensure sustainability of the firm include carrying out an investment grade energy audit to identify energy saving opportunities, carrying out a customer identification survey to clean up the customer data base, intensifying on NRW reduction activities, putting a caveat on staff employment, enhance budgetary controls among others.

ii) Going Concern of KWAWASCO

Reported loss and other comprehensive income is Ksh. (15,283,795) resulting to accumulated deficit of Ksh. 135,810,786. The current liabilities balance is Ksh. 420,946,139 while total current assets balance is Ksh. 414,887,985 resulting into a negative working capital of Ksh. 6,058,154. When compared to the previous financial statement (2020/2021) which reported negative working capital of Ksh. 75,158,273 there is a significant improvement. This implies that the issue of material uncertainty of the company to continue as a going concern is highly eroded implying that soon the company will be able to meet its obligation as and when they fall due.

VIII. ENVIRONMENTAL AND SUSTAINABILITY REPORTING

a) Sustainability Strategy and Profile

The company has diversified and increased the number of water sources including 11 boreholes to be drilled under Ukunda Urban Water Supply Project (Phase 1). This is directly increasing the water supply to counter the ever increasing demand especially in the tourism and Hotel sector. Close partnership with the County Government and the National Government has made it possible to access resources from the World Bank for more investments. There has been a devoted effort of increasing the area specific staff to monitor and report the uncounted waster (physical and financial losses) for prompt response and reconnections. This is also supported by the above project in replacing the old pipeline with the new pipelines as well as increasing the customer base through new proposed connections as well as customer care and the adoption of water treatment for borehole/underground water. There has been increase in customer base. Some of the key challenges have been leakages especially in pristine areas (forest) where access is challenging thus the response time is longer than expected thus leading to losses.

b) Environmental Performance

The organization has hired Environment & Social Safeguard Specialist whose Terms and Reference include the preparation of the Environment Policy. However, the organization does abide by Good International Industry Practices in management of biodiversity, waste management and efforts to reduce environmental impacts related to day to day activities. The organization undertakes due-diligence include detailed Environmental and Social Impact Assessment for the new project case in point the Ukunda Urban Water Supply Project and the proposed Office Complex Building. Project specific Waste management Plans, Biodiversity Management Plans are prepared by the contractor before site hand over and start of the project.

c) Employee Welfare

In line with Work Injury Benefits Act, 2007, the organization has taken appropriate WIBA cover for all staff members. Other additional measures in line with Occupational Health and Safety Act, 2007 include:

- i. Acquisition of the personal protective equipment for the staff including but not limited to:
Gumboots, safety boots, motor cycle riders' reflector jackets, among others,
- ii. Provision of masks and sanitizers
- iii. Fumigation of vehicles after every two weeks,

d) Market place practices

i) Responsible Competing Practices

The organization is guided by the following core values:

- Customer Focus
- Quality
- Results Oriented
- Professionalism & Ethical Conduct
- Innovation
- Transparency & Accountability

All new staff members are properly oriented to appreciate the intent of this core values for the organization to guarantee responsible competition practices in issues like anti-corruption, responsible political involvement, fair competition and respect for competitors.

Various stakeholders are involved at different levels of implementation. The key stakeholders include; our Customers, Government Ministries, Departments, Agencies, Civil Society, Development Partners and the Media, to ensure transparency and ownership. The engagements are in form of open dialogues with the various key players and entails building synergies, improving effectiveness of the institutional activities.

The organization has taken effort to prequalify service providers, nationwide circulation of the advertisement for open tendering, with special categories including the women, youth and people with disabilities getting opportunities for Business with KWAWASCO.

The organization is open in market practices with the private water service providers local CBOs through support training in operation and maintenance of their borehole and treatment plants, provision of chemical to other water service providers when there is scarcity at the County Government to ensure compliance on quality.

ii) Product Stewardship

Safety of water is guaranteed in the following ways:

Monthly sampling and testing of the physiochemical properties including but not limited to the turbidity, E-coli, among others

IX. CORPORATE SOCIAL RESPONSIBILITY / COMMUNITY ENGAGEMENTS

Kwale Water and Sewerage Company is the only registered Water Service Provider in Kwale County. The Company operations cover all the sub counties with service lines in all major towns in the county including Mackinon, Taru, Samburu, Mazeras, Mariakani, Kinango, lutsangani /Tsunza, Kwale, Kombani, Ukunda/ Diani, Msambweni, Lungalunga and Vanga towns. The Company also operates other rural schemes mainly on Mzima line and Mkanda dam serving areas of Kasemeni, Mwavumbo ,Dzombo and Kikoneni areas respectively . The Company as at June 30, 2022 has a total of 20,896 connections mainly registered on domestic tariff and a few connections on commercial tariff.

The Company has within the reporting period undertaken CSR initiatives together with other partners in the County, including County Government of Kwale, Red Cross, Base Titanium and Civil Society Organizations.

The advent of Covid-19 and subsequent travel restrictions and containment measures dealt a blow to the company's main revenue stream being the beach hotels and cottages. The same had a ripple effect since hotels and the tourism sector laid-off staff for a long period of time, who happen to be a majority of the Company's customers on domestic tariff, mainly in Ukunda /Diani.

The containment measures imposed by the Ministry of Health required concerted efforts by all stakeholders at County level. Initial steps undertaken include ensuring sufficient/ uninterrupted supply of water to all customers, installation of hand washing- points at all public spaces and water trucking to major markets and bus parks. As a member of the County Covid-19 response committee, KWAWASCO is tasked with the mandate of ensuring availability of water within the service areas. In addition the company undertake water trucking to all major markets and towns in Kwale County. With a Grant from Water Sector Trust Fund (WSTF), the company installed 27 hand washing points across the County, mounted with 3000 litre tanks. The Company has continued to supply water to these points and other hand washing points in the county that were installed by other partners including County Government and Base Titanium.

The Company also invest in extension of supply lines within Kwale, Kinango and Ukunda towns to reach informal settlements/ urban poor with water supply. In addition the company has periodically delivered free water to institutions that have identified as critical including Kwale Prisons, Kwale Police Station, Kwale school for the Mentally handicapped and Kwale School for the deaf.

The Company also avails transport to the County Government for delivery of relief food supplies and critical consignments to hospitals within Kwale County.

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KWAWASCO has also partnered with the County Government to supply water to ECD centres, rural dispensaries and far flung areas affected by drought that resulted in the drying up water sources like dams, wells and boreholes.

X. REPORT OF THE DIRECTORS

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

Principal activities of the company

- Provide quality and economical water services to consumers.
- Billing for water and ensure timely collection of dues.
- Routinely maintain water services and infrastructure.
- Ensure that standards and licensing requirements are complied with as stipulated in the license by the water Service Regulatory Board (WASREB).

Results of operations

The results of the company for the year ended 30th June, 2022 as set out on page One (1) to Five- (5)

Directors

The members of the Board of Directors who served during the year are shown on page (iv) to page (vi). In accordance with the entity's Memorandum and Articles of Association, the number is supposed to be nine.

Management Team

The management team that served in the organization during the period are set out on page (Vii) to page (Viii)

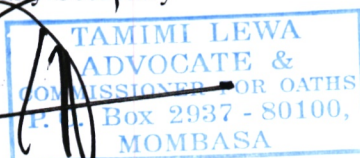
Auditors

The Auditor General is responsible for the statutory audit of the company in accordance with Article 229 of the Constitution of Kenya, 2010 and the Public Audit Act 2015.

By Order of the Board

Lewa and Associates Advocates, Company Secretary

Mombasa



Date... 17th February, 2023

XI. STATEMENT OF DIRECTORS' RESPONSIBILITIES

Section 14 of the State Corporation Act, Cap 446 require the Directors to prepare financial statements in respect of KWAWASCO, which give a true and fair view of the state of affairs of the Company at the end of the financial year/period and the operating results of KWAWASCO for that year/period. The Directors are also required to ensure that KWAWASCO keeps proper accounting records which disclose with reasonable accuracy the financial position of the Company. The Directors are also responsible for safeguarding the assets of KWAWASCO.

The Directors are responsible for the preparation and presentation of KWAWASCO'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 entity;
- (iii) Designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of the financial statements, and ensuring that they are free from material misstatements, whether due to error or fraud;
- (iv). Safeguarding the assets of the Company;
- (v) Selecting and applying appropriate accounting policies;
- (vi). Making accounting estimates that are reasonable in the circumstances.

The Directors responsibility for the Company's financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity with International Financial Reporting Standards (IFRS), and in the manner required by the PFM Act 2012, the State Corporations Act and the PSASB Reporting Template

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STATEMENT OF DIRECTORS' RESPONSIBILITIES (Continued)

The Directors are of the opinion that KWAWASCO's financial statements give a true and fair view of the state of the Company's transactions during the financial year ended June 30, 2022, and of KWAWASCO'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 KWAWASCO'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 KWAWASCO will not remain a going concern for at least the next twelve months from the date of this statement.

Approval of the financial statements

KWAWASCO's financial statements were approved by the Board on 17th Feb 2023 and signed on its behalf by:

Signature



Name: Rehema Chidzuga

Chairperson of the Board

Signature

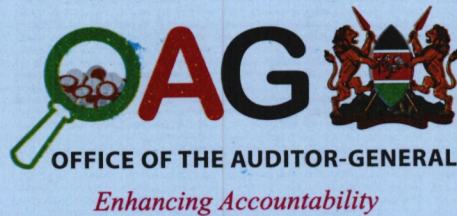


Name: Eric Melubo Parmet

Managing Director

REPUBLIC OF KENYA

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NAIROBI

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

PREAMBLE

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

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

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

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

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of Kwale Water and Sewerage Company Limited set out on pages 1 to 46, which comprise of the statement of financial position and the statement of profit or loss and other comprehensive income, statement

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

In my opinion, except for the effect of the matters described in the Basis for Qualified Opinion section of my report, the financial statements present fairly, in all material respects, the financial position of Kwale Water and Sewerage 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 Companies Act, 2015, the Water Act, 2016 and the Public Finance Management Act, 2012.

Basis for Qualified Opinion

1. Unsupported Capital Reserves

The statement of financial position reflects capital reserves of Kshs.36,719,864 as disclosed in Note 20 to the financial statements. However, a schedule showing details of the capital reserve was not provided for audit review.

In the circumstances, the accuracy and completeness of the capital reserves balance of Kshs.36,719,864 as at 30 June, 2022 could not be confirmed.

2. Going Concern

The statement of profit or loss and other comprehensive income reflects an operating loss after tax of Kshs.15,283,795 (2021: a loss of Kshs.15,088,834). Further, the total current liabilities balance was Kshs.420,946,039 while total current assets balance was Kshs.414,887,984, resulting in negative working capital of Kshs.6,058,055. This is an indication that the Company may not be able to settle its obligation as and when they fall due.

These conditions indicate the existence of a material uncertainty, which may cast doubt on the Company's ability to continue as a going concern, and further implies that the Company's existence is dependent on continued support from the County Government of Kwale, shareholders and creditors. Management did not disclose the material uncertainty related to going concern or measures taken to mitigate this assumption.

In the circumstances, the company's ability to continue as a going concern could not be confirmed.

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

Emphasis of Matter

Budgetary Control and Performance

The statement of comparison of budget and actual amounts reflects a final revenue budget and actual on comparable basis of Kshs.1,083,439,512 and Kshs.663,501,544 respectively, resulting in a revenue shortfall of Kshs.419,937,968 (or 39%) of the budget. Similarly, the statement reflects final expenditure budget and actual on comparable basis of Kshs.1,081,714,138 and Kshs.681,085,339 respectively, resulting in an under expenditure of Kshs.400,628,799 (or 37%) of the budgeted amount.

Key Audit Matters

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

Other Matter

Unresolved Prior Year Matters

Prior year audit issues remained unresolved as at 30 June, 2022. Management has not provided reasons for the delay in resolving the prior year audit issues. Further, the unresolved prior year issues disclosed under the progress on follow up of auditor's recommendations section of the financial statements have not been discussed by the oversight Committee.

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. Water Tariff Structure Expiry

Review of tariffs approved by the Water Services Regulatory Board revealed that, tariffs in use by the entity during the financial year ended 30 June, 2022 expired on 30 June, 2020. This was contrary to Section 72(1)(b) of the Water Act, 2016 which provides that the powers and functions of the regulatory board includes to evaluate and recommend water and sewerage tariffs to the County Water Service Providers and approve the imposition of such tariffs in line with consumer protection standards.

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

2. Non-Revenue Water

The statement of profit or loss and other comprehensive income reflects revenue of Kshs.181,948,355 as disclosed in Note 6 to the financial statements. However, Management Discussion and Analysis section of the annual report and financial statements indicates that the Company's total quantity of bulk water received amounted to 5,085,218 cubic meters, out of which only 2,178,882 cubic meters or 43% were billed to customers for Kshs.181,948,355 at Kshs.83.50 per cubic meter.

The balance of 2,906,336 (57%) cubic meters or Kshs.242,679,056 was gross Non-Revenue Water (NRW), which is higher than 25% loss allowable by the Water Service Regulatory Board (WASREB) guidelines. After allowing for the allowable loss by WASREB of 25%, the estimated net NRW amounts to Kshs.58,223,474 or (32%) of water sales of Kshs.181,948,355.

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

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

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

Basis for Conclusion

Undisclosed Current Ownership of the Company

The Company's Articles of Association indicates that Kwale Water and Sewerage Company Limited is owned by the Town Council of Kwale (1,998 Shares), The Honorable Chairman of the Town Council of Kwale (1 share) and the Town Clerk of the Town Council of Kwale (1 share). However, the Articles do not reflect the current ownership of the Company by the County Government of Kwale.

In the circumstances, the articles of association do not reflect the current ownership status of the Company.

The audit was conducted in accordance with ISSAI 2315 and ISSAI 2330. The standards require that I plan and perform the audit to obtain assurance about whether effective processes and systems of internal control, risk management and overall governance were

operating effectively, in all material respects. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

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

- (i) I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of my audit;
- (ii) In my opinion, adequate accounting records have been kept by the Company, so far as appears from the examination of those records;
- (iii) The Company's financial statements are in agreement with those records and returns.

Responsibilities of Management and Board of Directors

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

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

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

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

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

Auditor-General's Responsibilities for the Audit

The audit objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion in accordance with the provisions

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

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

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

Because of its inherent limitations, internal controls may not prevent or detect misstatements and instances of noncompliance. 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 policies and procedures may deteriorate.

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Management.
- Conclude on the appropriateness of the Management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material

uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in the auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my audit report. However, future events or conditions may cause the Company to cease as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information and business activities of the Company to express an opinion on the financial statements.
- Perform such other procedures as I consider necessary in the circumstances.

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

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


CPA Nancy Gathungu, CBS
AUDITOR-GENERAL

Nairobi

31 March, 2023

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XIII. STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30 JUNE 2022.

	Note	2021-2022	2020-2021
		Kshs	Kshs
REVENUES			
Revenue	6	181,948,355	141,692,825
Cost of sales	7	(102,565,177)	(86,902,063)
Gross profit		79,383,178	54,790,762
Other Income			
Grants	8	79,099,550	57,920,534
Other Income	9	15,774,307	14,616,600
TOTAL OPERATING INCOME		174,257,035	127,327,896
OPERATING EXPENSES			
Administration Costs	10	149,187,509	117,203,462
Depreciation of property, plant and equipment	14	42,442,817	25,133,264
Amortization of Intangible Assets	15	210,504	80,004
TOTAL OPERATING EXPENSES		191,840,830	142,416,730
PROFIT/(LOSS) BEFORE TAXATION		(17,583,795)	(15,088,834)
INCOME TAX EXPENSE/(CREDIT)		-	-
PROFIT/(LOSS) AFTER TAXATION		(17,583,795)	(15,088,834)
OTHER COMPREHENSIVE INCOME			
Gains On Property Revaluation		2,300,000	
Corporate tax		-	-
Net gain on property revaluation		2,300,000	
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		(15,283,795)	(15,088,834)

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FOR THE YEAR ENDED JUNE 30, 2022**

XIV. STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2022

	Note	2021-2022	2020-2021
		Kshs	Kshs
ASSETS			
Non-Current Assets			
Property, plant and equipment	14	399,975,643	157,033,721
Intangible assets	15	411,172	186,676
Total Non-Current Assets		<u>400,386,815</u>	<u>157,220,397</u>
Current Assets			
Prepayments (Advance payment)	16	99,822,769	-
Trade and other receivables	17	261,546,166	240,942,074
Accrued interest receivable	17 (b)	93,899	-
Bank and cash balances	18	53,425,150	30,238,199
Total Current Assets		<u>414,887,984</u>	<u>271,180,273</u>
Total Assets		<u>815,274,799</u>	<u>428,400,670</u>
EQUITY AND LIABILITIES			
Capital and Reserves			
Ordinary share capital	19	2,000,000	2,000,000
Capital reserve	20	36,719,864	36,719,864
Revaluation Reserve		2,300,000	-
Retained earnings/ Accumulated Deficit	23	(135,810,786)	(129,296,522)
Capital and Reserves		<u>(94,790,922)</u>	<u>(90,576,658)</u>
Non-Current Liabilities			
Borrowings/ World Bank (WSDP) Loan	24	464,666,981	152,230,081
Customer Deposit	25	24,452,701	20,408,701
Total Non-Current Liabilities		<u>489,119,682</u>	<u>172,638,782</u>
Current Liabilities			
Deffered Income (IDA Grant)		74,242,432	-
Trade and other payables	27	324,567,142	313,991,695
Gratuity Payable	29	18,802,403	16,557,617
Tax payable	28	3,334,062	15,789,234
Total Current Liabilities		<u>420,946,039</u>	<u>346,338,546</u>
TOTAL EQUITY AND LIABILITIES		<u>815,274,799</u>	<u>428,400,670</u>

The financial statements were approved by the Board on 17th Feb 2023 and signed on its behalf by:

.....
Managing Director

Name: Eric Parmet

.....
Finance Manager

Name: William Jefwa

ICPAK M/NO: 12660

.....
Chairperson of the Board

Name: Rehema Chidzuga

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XV. STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 JUNE 2022

	notes	Ordinary share capital	Capital reserve	Revaluation Reserve	Retained earnings/ Reserve Deficit	Capital/ Development Grants/Fund	Total
As at July 1, 2020		2,000,000	36,719,864	-	(135,300,717)	-	(96,580,853)
Profit for the year/ Loss		-	-	-	(15,088,834)	-	(15,088,834)
Adjustments on Debtors and Tax					21,093,029		21,093,029
Capital/Development grants received during the year		-	-	-	-	-	-
As at June 30, 2021		2,000,000	36,719,864	-	(129,296,522)	-	(90,576,658)
As at July 1, 2021		2,000,000	36,719,864	-	(129,296,522)	-	(90,576,658)
Profit/Loss for the year		-	-	-	(17,583,795)	-	(17,583,795)
Revaluation reserve				2,300,000			2,300,000
Adjusted Income tax		-	-	0	11,069,531	-	11,069,531
At June 30, 2022		2,000,000	36,719,864	2,300,000	(135,810,786)	-	(94,790,922)

Note:

P.A.Y.E adjustment of Ksh. 11,069,531

Re-evaluation of motor vehicle Ford Ranger KCE 778D to Ksh. 2,300,000

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XVI. STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2022

	Note	2020-2022	2020-2021
		Kshs	Kshs
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash generated from operations	31	19,850,126	19,378,338
NET CASH GENERATED FROM/(USED IN) OPERATING ACTIVITIES		-	-
CASH FLOWS FROM/Used in INVESTING ACTIVITIES			
Purchase of property, plant and equipment	14	(283,084,738)	(128,943,577)
Purchase of intangible assets	15	(435,000)	(266,680)
Advance Payments used in Acquisition of Assets	16	(99,822,770)	
NET CASH GENERATED FROM/(USED IN) INVESTING ACTIVITIES		(383,342,508)	(129,210,257)
CASH FLOWS FROM FINANCING ACTIVITIES			
WSDP Loan		312,436,900	107,214,641
WSDP Grant		74,242,433	0
Fujita		-	4,831,936
Ubsup		-	7,057,780
Covid-19		-	3,984,000
NET CASH GENERATED FROM/(USED IN) FINANCING ACTIVITIES		386,679,333	123,088,357
INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		23,186,951	13,256,438
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		30,238,199	16,981,761
CASH AND CASH EQUIVALENTS AT END OF THE YEAR		53,425,150	30,238,199

Note: KWAWASCO prepares its cash flow using indirect method as the entity reports under IFRS Accrual basis.

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XVII. STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS FOR THE PERIOD ENDED 30 JUNE 2022

	Original budget	Adjustments	Final budget	Actual on comparable basis	Performance difference	% of utilisation
	2021-2022	2021-2022	2021-2022	2021-2022	2021-2022	2021-2022
	Kshs	Kshs	Kshs	Kshs	Kshs	%
Revenue						
Sale of services	187,632,597	-	187,632,597	181,948,355	(5,684,242)	-3.0%
Transfers from County Government and other Agencies	79,099,550	-	79,099,550	79,099,550	-	-
Other income	16,707,365	-	16,707,365	15,774,307	(933,058)	-5.5%
Total income	283,439,512	-	283,439,512	276,822,212	(6,617,300)	-2.05%
Loan from WSDP	-	800,000,000	800,000,000	386,679,332	(413,320,668)	0
Total receipts	283,439,512	800,000,000	1,083,439,512	663,501,544		
Expenses						
Compensation of employees	64,368,834	-	64,368,834	63,202,377	1,166,457	1.8%
Direct Cost	102,768,970	(-)	102,768,970	102,565,177	203,793	0.19%
Other payments	114,576,334	19,206,575	133,782,909	128,638,453	5,144,456	3.8%
Capital Expenditure from WSDP	-	780,793,425	780,793,425	386,679,332	(413,320,668)	0
Total Payments	281,714,138	800,000,000	1,081,714,138	681,085,339	-	0
Surplus for the period	1,725,374	-	1,725,374	(17,583,795)		

The Kshs. 19,206,575 is a recurrent portion in the WSDP and put reported under the other payments vote.

XVIII. NOTES TO THE FINANCIAL STATEMENTS

1. General Information

Kwale Water and Sewerage Company Ltd is established by and derives its authority and accountability from Companies Act. The entity is wholly owned by the County Government of Kwale and is domiciled in Kenya. The Company principal activity is to provide quality and sufficient water and sewerage services in a reliable and sustainable manner to the residents of Kwale, Kinango, Lungalunga and Msambweni Subcounties.

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

2. Statement of Compliance and Basis of Preparation

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

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

The financial statements have been prepared in accordance with the PFM Act, the State Corporations 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)

3. 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

Title	Description	Effective Date
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 recognise 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	The amendment, applicable to annual periods beginning on or after 1	The amendments are effective for annual

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Title	Description	Effective Date
titled Fees in the '10 per cent' Test for Derecognition of Financial Liabilities	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.	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....

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

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

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

Title	Description	Effective Date
IAS 1 — Presentation of Financial Statements	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.
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 material accounting policy information rather than their significant accounting policies	The amendments are effective for annual periods beginning on or after January 1, 2023. Earlier application is permitted.

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Title	Description	Effective Date
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.

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

ii. 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 measured based on the consideration to which the entity expects to be entitled in a contract with a customer and excludes amounts collected on behalf of third parties. The entity recognizes revenue when it transfers control of a product or service to a customer.

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Summary of Significant Accounting Policies

b) In-kind contributions

In-kind contributions are donations that are made to the Kwawasco 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, the Kwawasco 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

All categories of property, plant and equipment are initially recorded at cost less accumulated depreciation and impairment losses.

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

Increases in the carrying amounts of assets arising from re-valuation are credited to other comprehensive income. Decreases that offset previous increases in the carrying amount of the same asset are charged against the revaluation reserve account; all other decreases are charged to profit or loss in the income statement. Gains and losses on disposal of items of property, plant and equipment are determined by comparing the proceeds from the disposal with the net carrying amount of the items, and are recognised in profit or loss in the income statement.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Summary of Significant Accounting Policies

d) Depreciation and impairment of property, plant and equipment

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

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

Freehold Land	Nil
Buildings and civil works	40 years or the unexpired lease period
Plant and machinery	12.5 years
Motor vehicles, including motor cycles	4 years
Computers and related equipment	3 years
Office equipment, furniture and fittings	12.5 years
Loose tools	3 years

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

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Summary of Significant Accounting Policies

e) Intangible assets

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

f) Amortisation and impairment of intangible assets

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

g) Investment property

Investment property, which is property held to earn rentals and/or for capital appreciation (including property under construction for such purposes), is measured initially at cost, including transaction costs. Subsequent to initial recognition, investment property is measured at fair value. Gains or losses arising from changes in the fair value of investment property are included in profit or loss in the period in which they arise. An investment property is derecognized upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from the disposal. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the period in which the property is derecognized.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Summary of Significant Accounting Policies

h) Right of Use Asset

The right-of-use assets comprise the initial measurement of the corresponding lease liability, lease payments made at or before the commencement day, less any lease incentives received and any initial direct costs. They are subsequently measured at cost less accumulated depreciation and impairment losses. Whenever the entity incurs an obligation for costs to dismantle and remove a leased asset, restore the site on which it is located or restore the underlying asset to the condition required by the terms and conditions of the lease, a provision is recognized and measured under IAS 37. To the extent that the costs relate to a right-of-use asset, the costs are included in the related right-of-use asset, unless those costs are incurred to produce inventories. Right-of-use assets are depreciated over the shorter period of lease term and useful life of the underlying asset. If a lease transfers ownership of the underlying asset or the cost of the right-of-use asset reflects that the entity expects to exercise a purchase option, the related right-of-use asset is depreciated over the useful life of the underlying asset. The depreciation starts at the commencement date of the lease. The right-of-use assets are presented as a separate line in the consolidated statement of financial position.

i) Fixed interest investments (bonds)

Fixed interest investments refer to investment funds placed under Central Bank of Kenya (CBK) long-term infrastructure bonds and other corporate bonds with the intention of earning interest income upon the bond's disposal or maturity. Fixed interest investments are freely traded at the Nairobi Securities Exchange. The bonds are measured at fair value through profit or loss.

j) Quoted investments

Quoted investments are classified as non-current assets and comprise marketable securities traded freely at the Nairobi Securities Exchange or other regional and international securities exchanges. Quoted investments are stated at fair value.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Summary of Significant Accounting Policies

k) Unquoted investments

Unquoted investments stated at cost under non-current assets, and comprise equity shares held in other Government owned or controlled entities that are not quoted in the Securities Exchange.

l) Inventories

Inventories are stated at the lower of cost and net realizable value. Cost comprises direct materials and, where applicable, direct labour costs and those overheads that have been incurred in bringing the inventories to their present location and condition. Cost is calculated using the weighted average cost method. Net realizable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution.

m) Trade and other receivables

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Summary of Significant Accounting Policies

n) Taxation

i) Current income tax

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

Current income tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting date in the area where the Entity operates and generates taxable income.

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

o) Deferred tax

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Summary of Significant Accounting Policies

Deferred Tax

Deferred tax liabilities are recognized for all taxable temporary differences, except in respect of taxable temporary differences associated with investments in controlled entities, associates and interests in joint ventures, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future. Deferred tax assets are recognized for all deductible temporary differences, the carry forward of unused tax credits and any unused tax losses. Deferred tax assets are recognized to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilized, except in respect of deductible temporary differences associated with investments in controlled entities, associates and interests in joint ventures, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Unrecognized deferred tax assets are re-assessed at each reporting date and are recognized to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered. Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Summary of Significant Accounting Policies

p) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. To the extent that variable rate borrowings are used to finance a qualifying asset and are hedged in an effective cash flow hedge of interest rate risk, the effective portion of the derivative is recognized in other comprehensive income and reclassified to profit or loss when the qualifying asset impacts profit or loss. To the extent that fixed rate borrowings are used to finance a qualifying asset and are hedged in an effective fair value hedge of interest rate risk, the capitalized borrowing costs reflect the hedged interest rate. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization. All other borrowing costs are recognized in profit or loss in the period in which they are incurred.

q) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and cash at bank, short-term deposits on call and highly liquid investments with an original maturity of three months or less, which are readily convertible to known amounts of cash and are subject to insignificant risk of changes in value. Bank account balances include amounts held at the Central Bank of Kenya and at various Commercial Banks at the end of the reporting period. For the purposes of these financial statements, cash and cash equivalents also include short term cash imprests and advances to authorised public officers and/or institutions which were not surrendered or accounted for at the end of the financial year.

r) Borrowings

Interest bearing loans and overdrafts are initially recorded at fair value being received, net of issue costs associated with the borrowing. Subsequently, these are measured at amortised cost using the effective interest rate method. Amortised cost is calculated by taking into account any issue cost and any discount or premium on settlement. Finance charges, including premiums payable of settlement or redemption are accounted for on accrual basis

and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise. Loan interest accruing during the construction of a project is capitalised as part of the cost of the project.

s) Trade and other payables

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

t) Retirement benefit obligations

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

u) Provision for staff leave pay

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

v) Exchange rate differences

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Summary of Significant Accounting Policies

w) Budget information

The original budget for FY 2021-2022 was approved by the BOD on 15th March 2021.

There has been no additional appropriation made to the approved budget in accordance with specific approvals from appropriate authorities. The additional appropriations are added to the original budget by the entity upon receiving the respective approvals in order to conclude the final budget. Accordingly, the company did not record additional appropriations on the 2021-2022 budgets following the governing body's approval.

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

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

NOTES TO THE FINANCIAL STATEMENTS (Continues)

a) Service concession arrangements

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

b) Comparative figures

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

c) Subsequent events

There have been no events subsequent to the financial year end with a significant impact on the financial statements for the year ended June 30, 2022.

5. Significant Judgments and Sources of Estimation Uncertainty

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

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

NOTES TO THE FINANCIAL STATEMENTS (Continues)

a) Estimates and assumptions

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

b) Useful lives and residual values

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

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

c) Provisions

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

Provisions are measured at the management's best estimate of the expenditure required to settle the obligation at the reporting date, and are discounted to present value where the effect is material.

(include provisions applicable for your organisation e.g provision for bad debts, provisions of obsolete stocks and how management estimates these provisions)

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NOTES TO THE FINANCIAL STATEMENTS (Continues)

6. Revenue

	2021/2022	2020/2021
	Kshs	Kshs
Minor water sales	171,245,915	130,228,365
Major water sales	10,702,440	11,464,460
Total	181,948,355	141,692,825

There was an increase in revenue from Ksh 141,692,825 to Ksh 181,948,355

7. Cost of Sales

	2021/2022	2020/2021
	Kshs	Kshs
WASREB/WARMA	7,963,804	6,270,553
Cost of Bulk Electricity	50,464,848	43,354,650
Cost of Bulk water	41,660,240	37,276,860
Water treatment chemicals	2,476,285	-
Total	102,565,177	86,902,063

WASREB levy is at 4% of water sales and does not include meter rent as per the gazette notice issued on 4th November 2018 and charge for WARMA being ksh. 216,000

**KWALE WATER & SEWERAGE COMPANY LIMITED
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NOTES TO THE FINANCIAL STATEMENTS (Continued)

8. Grants

	2021/2022	2020/2021
	Kshs	Kshs
Fujita Corporation	-	14,584,674
WSTF Ubsup	-	9,351,860
Covid-19 Mitigation	-	3,984,000
Recurrent grants received from County Government	20,000,000	30,000,000
Conditional Grant (CLGS)	59,099,550	
Total	79,099,550	57,920,534

Note: KWAWASCO received grant from County Government of Kwale of Ksh.20, 000,000, Ksh. 10,000,000 being amount used for Resettlement for Affected People under the Water and Sanitation Development Project (WSDP) and Ksh. 10,000,000 settled bulk electricity bills. Conditional grant Ksh. 59,099,550 advanced to cushion the WSP during the times of Covid.

9. Other Incomes

	2021/2022	2020/2021
Description	Kshs	Kshs
Meter Charge	11,746,450	10,513,100
Connection	3,493,950	4,103,500
Sewerage	440,000	-
Accrued Interest from Fixed deposit	93,899	-
Earned Interest from Equity Collection Account	8	-
Total	15,774,307	14,616,600

Accrued interest from fixed deposit of ksh. 2,347,469 in Equity bank at the rate of 6% prorated for 8 month as the amount was deposited on 26th October 2021.

**KWALE WATER & SEWERAGE COMPANY LIMITED
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NOTES TO THE FINANCIAL STATEMENTS (Continued)

10. Administration Costs

Description	2021/2022 Kshs	2020/2021 Kshs
Staff costs (note 10b)	63,202,377	52,763,069
Directors' emoluments	2,124,500	2,186,000
Electricity and water	49,115	96,318
Communication services and supplies	1,290,287	1,322,144
Transportation, travelling and subsistence	22,165,647	11,707,333
Advertising, printing, stationery and photocopying	2,883,701	1,404,865
Subscription	168,290	350,240
Rent expenses	246,000	313,500
Staff training expenses	1,081,431	949,533
Hospitality supplies and services	2,293,970	1,918,534
Insurance costs	909,978	1,388,815
Bank charges and commissions	603,106	444,774
Office and general supplies and services	2,279,865	516,411
Auditors' remuneration	580,000	580,000
Corporate social responsibility	166,500	0
Legal fees	2,095,711	1,064,915
Consultancy fees	1,019,500	505,490
Licenses and permits	84,508	974,182
Repairs and maintenance	6,410,511	3,364,843
Provision for bad and doubtful debts	6,868,030	5,219,309
Other operating expenses	13,457,907	8,280,277
Other operating expenses (WSDP)	19,206,575	21,852,910
Total	149,187,509	117,203,462

The increase in Transport, travelling and subsistence allowance was due to implementation of WSDP Project

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

10b Staff Costs

Description	2021/2022	2020/2021
	Kshs	Kshs
Salaries and allowances of permanent employees	57,546,879	48,159,271
Wages of temporary employees	-	-
Employer's contributions to national social security schemes	337,800	287,400
Employer's contributions to pension scheme	1,040,778	701,712
Leave pay	-	-
Gratuity provisions	4,276,920	3,614,686
Staff welfare	-	-
Total	63,202,377	52,763,069
The average number of employees at the end of the year was:		
Permanent employees – Management	3,729,419	2,625,455
Permanent employees – Unionisable	23,619,646	20,327,077
Temporary and contracted employees	35,853,312	29,810,537
Total	63,202,377	52,763,069

The increase in staff salary and remuneration is a result of truck drivers, operators and procurement officer who were hired during the year by the Company

11. Operating profit/ (loss)

	2021/2022	2020/2021
	Kshs	Kshs
The operating profit/(loss) is arrived at after charging/(crediting):		
Staff costs (note 10b)	63,202,377	52,763,069
Depreciation of property, plant and equipment	42,698,792	24,962,034
Depreciation of right-of-use asset	-	-
Amortisation of intangible assets	210,504	80,004
Provision for bad and doubtful debts	-	5,217,059
Directors' emoluments – fees	2,138,500	2,186,000
- other	-	-
Auditors' remuneration - current year fees	580,000	580,000

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

12. Earnings Per Share

The loss per share of Kshs. (7,791) is calculated by dividing the loss after tax of Kshs. 17,583,795 by the average number of ordinary shares in issue during the year of 2,000. There were not dilutive or potentially dilutive ordinary share as at the reporting date.

13. Dividend Per Share

No proposed dividend for the year ended 30 June 2022

**KWALE WATER & SEWERAGE COMPANY LIMITED
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NOTES TO THE FINANCIAL STATEMENTS (Continued)

14. Property, Plant and Equipment

2021	Buildings & civil works	Plant and machinery	Motor vehicles, including, motor cycles	Computer s & related equipmen t	Office equipmen t, furniture & fittings	Loose Tools	Work In Progress	Total
COST OR VALUATION								
At July 1, 2021	13,875,860	97,251,064	83,617,536	7,996,772	5,042,928	5,692,181		213,476,341
Additions	-	28,281,684	18,740,745	327,500	279,575	-	235,455,234	283,084,738
Revaluation	-	-	2,300,000	-	-	-	-	2,300,000
Disposals	(-)	(-)	(-)	(-)	(-)		(-)	(-)
At June 30, 2022	13,875,860	125,532,748	104,658,281	8,324,272	5,322,503	5,692,181	235,455,234	498,861,079
DEPRECIATION								
At July 1, 2021	346,896	31,513,639	15,324,233	4,555,201	2,994,995	1,707,656		56,442,620
Charge for the year	346,896	14,206,669	24,128,227	1,720,650	332,718	1,707,656		42,442,816
Impairment loss	-	-	-	-	-	-	-	-
Eliminated on disposal	(-)	(-)	(-)	(-)	(-)	(-)	(-)	(-)
At June 30, 2022	693,792	45,720,308	39,452,460	6,275,851	3,327,713	3,415,312		98,885,436
NET BOOK VALUE At June 30, 2022	13,182,068	79,812,440	65,205,821	2,048,421	1,994,790	2,276,869	235,455,234	399,975,643

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TES TO THE FINANCIAL STATEMENTS (Continued)

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Property, Plant and Equipment (Continued)

2020	Buildings & civil works	Plant and machinery	Motor vehicles, including, motor cycles	Computers & related equipment	Office equipment, furniture & fittings	Loose Tools	Capital work in progress	Total
COST OR VALUATION								
As at 1 July 2020	-	61,741,347	12,166,536	5,586,153	5,038,728	-	-	84,532,764
Additions	13,875,860	35,509,717	71,451,000	2,410,619	4,200	5,692,181	-	128,943,577
Transfers	-	-	-	-	-	-	(-)	-
Disposals	(-)	(-)	(-)	(-)	(-)	(-)	(-)	(-)
As at 30th June 2021	13,875,860	97,251,064	83,617,536	7,996,772	5,042,928	5,692,181	-	213,476,341
DEPRECIATION								
At July 1, 2020	-	20,078,402	5,542,385	3,007,443	2,681,126	-	-	31,309,356
Charge for the year	346,896	11,435,237	9,781,848	1,547,758	313,869	1,707,656	-	25,133,264
Impairment loss	-	-	-	-	-	-	-	-
Eliminated on disposal	(-)	(-)	(-)	(-)	(-)	(-)	(-)	(-)
As at 30th June 2021	346,896	31,513,639	15,324,233	4,555,201	2,994,995	1,707,656	-	56,442,620
NET BOOK VALUE								
At June 30, 2021	13,528,964	65,737,425	68,293,303	3,441,571	2,047,933	3,984,525	-	157,033,721

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

14 (b) Property, Plant and Equipment at Cost

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

	Cost	Accumulated Depreciation	NBV
	Kshs	Kshs	Kshs
Land	-	-	-
Buildings	13,875,860	693,792	13,182,068
Plant and machinery	125,532,748	45,720,308	79,812,440
Motor vehicles, including motorcycles	102,358,281	37,152,460	65,205,821
Computers and related equipment	8,324,272	6,275,851	2,048,421
Office equipment, furniture, and fittings	5,322,503	3,327,713	1,994,790
Loose tools	5,692,181	3,415,312	2,276,869
Work in progress	235,455,234	0	235,455,234
	496,561,079	96,585,436	399,975,643

Property plant and Equipment includes the following assets that are fully depreciated. The assets were fully depreciated in the financial year ended 30 June 2022.

	Cost or valuation	Normal Annual Depreciation Charge
Plant and machinery	435,560	-
Motor vehicles, including motor cycles	4,950,000	-
Total	5,385,560	-

Property plant and Equipment excludes the following assets that are fully depreciated:

	Cost or valuation	Normal Annual Depreciation Charge
Plant and machinery	1,157,042	-
Motor vehicles, including motor cycles	-	-
Computers and related equipment	2,696,633	-
Office equipment, furniture and fittings	2,648,350	-
Total	6,502,025	-

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

15. Intangible Assets

	2021/2022	2021/2022
	Kshs	Kshs
COST		
At 1 July, 2021	266,680	-
Additions	435,000	266,680
Disposals	(-)	(-)
At 30 June, 2022	701,680	266,680
AMORTISATION		
At 1 July, 2021	80,004	-
Charge for the year	210,504	80,004
Disposals	(-)	(-)
Impairment loss	(-)	(-)
At 30 June, 2022	290,508	80,004
NET BOOK VALUE		
At 30 June, 2022	411,172	186,676

Additions during the year of Kshs. 435,000 relates to purchase of QuickBooks software

16. Prepayments

Contractor	Description	Amount Paid	Amounts captured in IPC certificate	Prepayments
Mabaany Limited	Construction of administration block	23,103,810.61	16,292,616.29	6,811,194.32
Thomas and Piron	Construction of transmission line and drilling of boreholes	82,465,668.85	38,997,952.75	43,467,716.1
Sobetra Uganda Limited	Laying and distribution lines from Mabokoni	120,811,690.70	71,267,831.26	49,543,859.44
Total Amount		226,381,170.16	126,558,400.30	99,822,769.86

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

17.) Trade and Other Receivables

	2021/2022	2020/2021
	Kshs	Kshs
Trade receivables (note 17 (a))	268,414,196	246,161,383
Deposits and prepayments	-	-
Gross trade and other receivables	268,414,196	246,161,383
Provision for bad and doubtful debts	(6,868,030)	(5,219,309)
Net trade and other receivable	261,546,166	240,942,074

17 (a) Trade Receivables

	2021/2022	2020/2021
	Kshs	Kshs
Gross trade receivables	322,627,039	295,154,917
Adjustment on Debtors	(54,212,843)	(48,993,534)
Net trade receivables	268,414,196	246,161,383
At June 30, the ageing analysis of the gross trade receivables was as follows:		
Less than 30 days	3,283,386	2,653,320
Between 30 and 60 days	5,472,310	4,932,430
Between 61 and 90 days	3,830,617	3,532,621
Between 91 and 120 days	4,104,232	3,805,854
Over 120 days	251,723,651	231,237,158
Total	268,414,196	246,161,383

The provision for doubtful debts is the increase of ksh 27,472,122 from the trade receivables subjected to 25%, making the charge for the year to be ksh.6, 868,030

17 (b) Accrued interest from fixed deposit of Ksh. 2,347,469 amounting to Ksh. 93,899

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

18. Bank and Cash Balances

	2021/2022	2020/2021
	Kshs	Kshs
Cash at bank	53,336,082.00	30,158,623.00
Cash in hand	89,068.00	79,576.00
	53,425,150.00	30,238,199.00

Most of Kwawasco cash is held at Kenya Commercial Bank and Equity bank Ukunda branches

Detailed analysis of the cash and cash equivalents

Financial institution	Account number	2021/2022 KShs	2020/2021 KShs
a) Current account (Expenditure)			
Kenya Commercial Bank	1108004733	564,264.97	1,576,336.29
Equity Bank	0440294134905	19,680.72	19,860.72
WSDP Project	1240284225	10,208,127.64	11,212,988.65
KCB CLGS Account	1282342150	328.65	
Sub- total		10,792,401.98	12,809,006.66
b) Collection Accounts			
Kenya Commercial Bank	1108004849	25,699,374.46	6,842,861.26
Equity Bank	0440194134911	14,441.80	14,433.80
Equity Bank Water Boozer	1580281271276	1,824,485.00	-
Equity Bank Sanitation	1580281271321	775,864.00	-
Sub- total		28,314,165.26	6,857,295.06
c) Fixed deposits account			
Equity Bank (Customer Deposit)	0440194134915	11,363,463.38	9,128,578.25
Deposit	1580381739303	2,347,469.00	
Sub- total		13,710,932.38	9,128,578.25
Other Accounts			
Project Accounts (d)		483,832.65	1,342,870.70
Cash		89,068.04	79,576.00
Mpesa		34,750.00	20,872.00
Sub- total		607,650.69	1,443,318.70
Grand total		53,425,150.31	30,238,198.67
d) Other Accounts			
WSTF Ukunda Household San	1268421448	338,332.25	234,055.80
Mgandini Sanitation	1260307670	-	47,182.00

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		2021/2022	2020/2021
Financial institution	Account number	KShs	KShs
Fujita Water project	1273250230	116,613.90	423,007.90
Madibwani Sanitation Project	1259629708	28,886.50	39,689.50
Shimoni P2 Sanitation Project	1257175947	-	19,994.50
Pongwe Sanitation Project	1260307425	-	104,625.00
Egu Sanitation Project	1259628760	-	6,750.00
Majimboni Sanitation Project	1260308057	-	3,114.00
Magombani P2 Sanitation	1260307204	-	128,495.00
Kwawasco Covid-19 Response	1275038174	-	336,007.00
Sub total		483,832.65	1,342,870.70

19. Ordinary Share Capital

	2021/2022	2020/2021
	Kshs	Kshs
Authorized:		
2,000 ordinary shares of KShs 1,000par value each	2,000,000	2,000,000
Issued and fully paid:		
2,000 ordinary shares of KShs 1,000 par value each	2,000,000	2,000,000

20. Capital Reserve

	2021/2022	2020/2021
	Kshs	Kshs
Capital Reserve	36,719,864	36,719,864

Third party takes over balances.

21. 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.

22. 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 sold, the portion of the reserve that relates to that asset is reduced 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.

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

23. Retained Earnings/ Accumulated Deficit

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

As at July 1, 2020	(135,300,717)
Surplus/ deficit for the year	(15,088,834)
Adjusted on Debtors	13,106,491
Adjusted Tax	7,986,538
As at June 30, 2021	(129,296,522)
As at July 1, 2021	(129,296,522)
Surplus/ Deficit for the year	(17,583,795)
Adjusted Tax	11,069,531
As at June 30, 2022	(135,810,786)

24. World Bank (WSDP) Loan

	2021/2022	2020/2021
First & Second Disbursement	152,230,081	152,230,081
Third & Fourth Disbursement	312,436,900	-
Total	464,666,981	152,230,081

25. Customer Deposit

	2021/2022	2020/2021
	Kshs	Kshs
Opening balance	20,408,701	16,510,601
Movement	4,044,000	3,898,100
Customer Deposit	24,452,701	20,408,701

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

26. Deferred Tax Liability

Deferred tax is calculated on all temporary differences under the liability method using the enacted tax rate, currently 30%. The net deferred tax liability at year end is attributable to the following items:

27. Trade and Other Payables

	2021-2022	2020-2021
	Kshs	Kshs
Trade payables	309,115,449	287,078,991
Accrued expenses	483,832	1,342,871
Office of Auditor General	3,980,000	3,400,000
Other payables	10,987,861	22,169,832
Total	324,567,142	313,991,694

28. Tax payable

	2021/2022	2020/2021
Paye	15,789,234	38,841,798
Movement	(12,455,172)	(23,052,564)
Total	3,334,062	15,789,234

29. Gratuity payable

During the year gratuity payable increased by Ksh. 2,244,785 to Ksh. 18,802,402

Description	Defined benefit plan	Post-employment medical benefits	Other Benefits	2021-2022	2020-2021
	KShs	KShs	KHz	KShs	KShs
At the beginning of the year	16,557,617	-	-	16,557,617	13,334,884
Changes during the year	2,244,785	-	-	2,244,785	3,222,733
Total employee benefits obligation	18,802,402	-	-	18,802,402	16,557,617

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

Recognition of Retirement Benefit Asset/ Liability

a) Amounts recognised under other gains/ Losses in the statement of Comprehensive Income

The entity also contributes to the statutory National Social Security Fund (NSSF). This is a defined contribution scheme registered under the National Social Security Act. The entity's obligation under the scheme is limited to specific contributions legislated from time to time and is currently at KShs. 200 per employee per month. Other than NSSF the entity also has a defined contribution scheme operated by CPF Pension Fund. Employees contribute 5% while employers contribute 7% of basic salary. Employer contributions are recognized as expenses in the statement of financial performance within the period they are incurred

30. Provisions

No provision approved by the board on retirement benefit.

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

31. Notes to The Statement of Cash Flows

	Notes	2021-2022	2020-2021
		Kshs	Kshs
(a) Reconciliation of operating profit/(loss) to cash generated from/(used in) operations			
Profit or loss before tax		(17,583,793)	(15,088,834)
Add back: Depreciation	14	42,442,817	25,133,264
Amortisation	15	210,504	80,004
Provision for doubtful debts		6,868,032	5,219,309
Operating profit/(loss) before working capital changes		31,937,560	15,343,743
Changes in Working Capital			
Increase/(Decrease) in customer deposits	25	4,044,000	3,898,100
increase in Gratuity	29	2,244,786	3,222,733
(Increase)/decrease in trade receivables	17(a)	(27,472,123)	(22,063,980)
Increase in Accrued Interest	17(b)	(93,899)	
Increase/(decrease) in trade and other payables	27	10,575,445	42,030,306
Increase/(decrease) in Tax payable	28	(12,455,174)	(23,052,564)
PAYE Adjustment		11,069,531	-
Cash generated from/(used in) operations		19,850,126	19,378,338
(b) Analysis of changes in loans			
Balance at beginning of the year			
		11,212,989	57,023
Receipts during the year		312,436,900	107,214,641
Repayments during the year		(313,441,762)	(96,058,675)
Repayments of previous year's accrued interest		(-)	(-)
Foreign exchange (gains)/losses		-	(-)
Accrued interest		-	-
Balance at end of the year		10,208,127	11,212,989
(c) Analysis of cash and cash equivalents			
Short term deposits		13,710,932	9,128,578
Cash at bank		39,625,150	21,030,044
Cash in hand		89,068	79,576
Balance at end of the year		53,425,150	30,238,199

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

32. Related Party Disclosures

Government of Kenya

The County Government of Kwale is the principal shareholder of the company, holding 99.9% of Kwale water and Sewerage Company's equity interest.

Other related parties include:

- i) The Parent Ministry
- ii) Key management
- iii) Board of directors

Transactions with related parties

	2021-2022	2020-2021
	Kshs	Kshs
a) Grants from the Government		
Grants from County Government	20,000,000	30,000,000
CLSG Grant	59,099,550	-
Total	79,099,550	30,000,000
b) Key management compensation		
Directors' emoluments	2,124,500	2,302,000
Compensation to key management	3,729,419	2,625,455
Total	5,853,919	4,927,455

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

33. Financial Risk Management

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

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

(i) Credit risk

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

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

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

Credit Risk (Continued)

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

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

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

(ii) Market risk

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

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

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

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

a) Foreign currency risk

The entity has transactional currency exposures. Such exposure arises through purchases of goods and services that are done in currencies other than the local currency. Invoices denominated in foreign currencies are paid after 30 days from the date of the invoice and conversion at the time of payment is done using the prevailing exchange rate.

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

iv) Capital Risk Management

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

	2021-2022	2020-2021
	Kshs	Kshs
Share Capital	2,000,000	2,000,000
Retained earnings	(135,810,786)	(129,296,522)
Revaluation reserve	2,300,000	-
Capital reserve	36,719,864	36,719,864
Total funds	(94,790,922)	(90,576,658)
Total borrowings	-	-
Less: cash and bank balances	53,425,150	30,238,199
Net debt/(excess cash and cash equivalents)	(41,365,772)	(43,216,898)
Gearing	130%	116.6%

34. Incorporation

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

35. Events After The Reporting Period

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

36. Currency

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

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XIX. APPENDICES

APPENDIX 1: PROGRESS ON FOLLOW UP OF AUDITOR RECOMMENDATIONS

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

Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
1.	Un-reconciled variance in cost of Bulk water	The difference between the Company figures in the financial statement and CWWDA OF Ksh. 2,430,860 was as a result of erroneous disputed bulk water bill. The management of Kwawasco wrote to claim for credit notes in respect of the accounts which were erroneously billed.	Resolved	15/10/2021
2.	Lack of Receivable Ageing Analysis	The resolved this issue and of now can produce ageing analysis report	Resolved	15/03/2022
3.	Unsupported Trade Payables	Kwawasco management and the management of CWWDA appointed technical teams to undertake the reconciliation which is work on progress.	Not resolved	27/09/2022
4.	Unsupported Capital Reserve	The figure of Ksh. 36,719,864 reflects capital reserve reported at the first audit of Kwawasco when the entity was established.	Resolved	15/03/2022



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Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
5.	Failure to Disclose Material Uncertainty Relating to Going Concern	The current liabilities are Ksh. 346,565,460 against current assets of Ksh. 314,891,970 giving a negative working capital of Ksh. 31,673,490	Disclosed	30/09/2022

Guidance Notes:

- (i) Use the same reference numbers as contained in the external audit report;
- (ii) Obtain the "Issue/Observation" and "management comments", required above, from final external audit report that is signed by Management;
- (iii) Indicate the status of "Resolved" or "Not Resolved" by the date of submitting this report to National Treasury.

Managing Director

Name

Eric Melubo Parmet

Signature

Date.....

