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**REPORT**

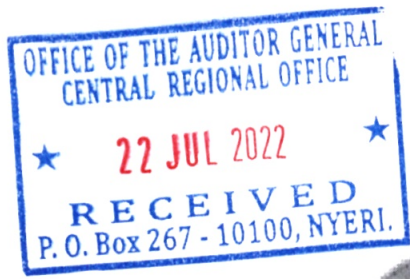
**OF**

**THE AUDITOR-GENERAL**

**ON**

**OTHAYA MUKURWE-INI WATER SERVICES  
COMPANY LIMITED**

**FOR THE YEAR ENDED  
30 JUNE, 2021**



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**OTHAYA MUKURWE-INI WATER SERVICES COMPANY LIMITED**

**ANNUAL REPORTS AND FINANCIAL STATEMENTS**

**FOR THE FINANCIAL YEAR ENDED  
JUNE 30, 2021**

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

# **OTHAYA MUKURWE-INI WATER SERVICES COMPANY**

## **Annual Reports and Financial Statements For the year ended June 30, 2021**

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**For the year ended June 30, 2021**

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**I. KEY COMPANY  
INFORMATION Background  
information**

The company was incorporated in Kenya under the companies Act Cap 486 limited by guarantee on 29<sup>th</sup> may 2006 and started operations on 7<sup>th</sup> July 2006.

**Principal Activities**

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

**Core Values**

OMWASCO is firmly committed to the following core values:

- i. Customer focus
- ii. Corporate responsibility
- iii. Environmental conservation.
- iv. Integrity transparency and accountability
- v. Team work
- vi. Networking
- vii. Response to technology
- viii. Innovation and creativity

**Vision**

A water service provider choice.

**Mission**

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

**Directors**

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

- |                              |                   |                                 |
|------------------------------|-------------------|---------------------------------|
| ● Mr. Moses N N Munyi        | Managing Director | Appointed on 01/09/2019         |
| ● Mr. Arthur Gachugi Mukira  | Board Chairman    | Appointed on 26/06/2018         |
| ● Mr. Robert Mwangi King'ori | Director          | Appointed on 26/05/2017         |
| ● Mr. Grace Iregi            | Director          | Appointed on 26/06/2019         |
| ● Mr. Waithaka Kibaki        | Director          | Appointed on 26/05/2017         |
| ● Ms Rachel Muchunu          | Director          | Appointed on 26/05/2017         |
| ● Mr. Samuel Gichuki Ndiritu | Director          | Appointed on 18/06/2018         |
| ● Mr. Samuel Kago            | Director          | Appointed on 18/06/2018         |
| ● Ms. Pauline Ndegwa         | Director          | Seconded From Nyeri County Govt |
| ● Ms. Hannah Maranga         | Director          | Seconded from Nyeri County Govt |

**Corporate Secretary**

Gikuhi Kiana & Company.

P.O. Box 1271 – 10100

**Nyeri**

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**For the year ended June 30, 2021**

**Registered Office & Corporate Headquarters**

OMWASCO BUILDING

Off Kanyange Road

P. O. Box 482-10106

**Othaya**.Kenya.

**Corporate Contacts**

Telephone: (254) 702145585

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

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

**Bankers**

**1. Kenya Commercial Bank Ltd.**

P. O. BOX 201-10106

Othaya

Kenya

**2. Equity Bank**

P.O. Box 436-10106

Othaya

Kenya.

**3. Co-operative Bank**

P. O. BOX 256-10106

Othaya

**Independent Auditors**

Auditor General

The Office of the Auditor General

Anniversary Towers, University Way




P.O. Box 30084

GPO 00100

Nairobi, Kenya




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**II. THE BOARD OF DIRECTORS**

| Directors  | Details  |
|--|--|
|  <p>Mr. Arthur Mukira,</p>          | <p>He is the Chairman to the board representing Chinga tea factory and a member of the Finance and Administration committee. He holds a B.A degree from USA he has associates in arts Marketing and retailing from Strayer college, an established farmer and former Chairman Chinga Tea factory. He has been a member of board of governance for Chinga Boys, Kiamuya and Kariko secondary</p> <p>He has extensive knowledge in marketing, debt collections, customer relations &amp; environmental management acquired while working with Crown Paints as the manager in charge.</p> |
|  <p>Moses N Mariko Munyi</p>       | <p>Moses N.N. Munyi is the Managing Director and secretary to the Board. He holds a Bsc. Degree in Biosystems Engineering (Water Resources) from University of Nairobi.</p> <p>He is also a Graduate Engineer Registered with Engineers Board of Kenya and has over twelve years' experience in the Water Sector with over six years in senior Management position.</p>  |
|  <p>Mr. Robert Mwangi Kingori</p> | <p>He is a board member representing Karima Catholic Church and member of Audit, Risk and Governance Committee. He has served the country as an administration officer (Chief) for many years before his retirement from Administration.</p>   |




**Annual Reports and Financial Statements**

**For the year ended June 30, 2021**

|   |   |
|---|---|
|    | <p>A Board member representing CDF- Mukurweini and a member of Technical and Planning Committee. He is a holder of a certificate in Mechanical Engineering.</p>   |
|   | <p>She is a businessperson holding a leadership position in Nyeri south sub-county. She is an astute businessperson holding various investments in the county.</p>  |
|  | <p>He is a director appointed to represent special groups. He holds directorships in various public entities in Nyeri South sub-county and is an experienced business man in Nyeri south sub-county. He has certifications in Leadership for change trainer of trainers, and cooperative administration</p> |

# OTHAYA MUKURWE-INI WATER SERVICES COMPANY

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|   |  |
|---|--|
|  <p>Mr. Samuel Kago Githaiga</p> | <p>The director has built his career in the construction industry to the level of site supervisor. He has been a board chair in various education and other institutions spanning years and sub county representative in alcoholic regulations board. He was elected to the board at the 2018 AGM.</p>   |
|  <p>Ms. Hannah Maranga</p>      | <p>She is the Chief Officer Lands, Housing, physical planning and urbanization in Nyeri county Government. She is a registered Physical planner and a senior government officer with over 20 years' experience in land use management. She has held various positions for community development both in the government and private sector. She was seconded from the county government to join the board.</p>  |
|  <p>Ms. Pauline Ndegwa</p>     | <p>She is the chief officer- Water and Irrigation Services with Bachelor of Arts ( Cultural Studies Moi University) 2003 Training she has held various other positions being Chief Officer Governor's office 2018-2019, Chief Officer Public Service Management 2018, Sub County Admin 2015-2018, Ward Administrator 2014-2015, Project Director - Compassion International Kenya 2008- 2014, Social Worker - Compassion International Kenya 2006-2008, BOM teacher Bingwa secondary school 2005-2006 and BOM Teacher Witima Secondary school, Othaya 2003-2004.</p> |



Ms Grace Iregi



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



Richard Kiana Gikuhi  
Company Secretary



He is a member of ICPS(K) registration Certificate No R/NO 285 from ICPSK. He is secretary for various public institutions and a member of FKIM. He holds other directorships in public institutions.

**III. MANAGEMENT TEAM**

|  |                          |
|--|--------------------------|
|  <p>Moses N N Munyi</p>       | <p>Managing Director</p> |
|  <p>Richard Kiana Gikuhi</p> | <p>Company Secretary</p> |

**OTHAYA MUKURWE-INI WATER SERVICES COMPANY**



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|   |  |
|---|--|
|  <p>CPA Peter Ndirangu</p> | <p>Commercial Manager</p>                    |
|  <p>Mary W Kibandi</p>    | <p>Human Resource/Administration Manager</p> |

**OTHAYA MUKURWE-INI WATER SERVICES COMPANY**

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|   |                          |
|---|--------------------------|
|  <p>Duncan Nderi</p>     | <p>Technical Manager</p> |
|  <p>CPA Lydia Njeri</p> | <p>Internal Auditor</p>  |

## **OTHAYA MUKURWE-INI WATER SERVICES COMPANY**

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### **Annual Reports and Financial Statements For the year ended June 30, 2021**

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#### **IV. CHAIRMAN'S STATEMENT**

I am delighted to present our 2020-2021 Annual Report, which shows our journey throughout the year. Like the previous year, our performance as a company was still impacted by the effects of COVID-19 pandemic, further, the massive roll-out of road construction within our region also affected the consistency of water supply especially on the Othaya side as most of the main pipelines are on the road corridor.

#### **IMPLEMENTATION AND REVIEW OF THE STRATEGIC PLAN**

As outlined in our strategic plan, we still focused on our journey towards having at least 35,000 connections. We closed the year at 33,488 connections, an improvement of about 1469 from the previous year. If we fully implement this, the company will move to the next category of very large Water Service Provider.

To fully assess our level of implementation of the plan, we had a midterm review of the strategic plan with the guidance of Kenya School of Government Embu from where we obtained a revised plan and a review report. The report indicates areas of success that we intend to build on as we begin the journey towards developing a fresh 2022-2027 plan. We were also able to document gaps that we intend to fill in the next strategic plan period.

#### **CONDUCTING OUR BUSINESS RESPONSIBLY**

The company prides itself with the history of conducting its business responsibly.

One of the byproducts of water use from our clients' premises is wastewater or sewage. If not handled well, waste water can be a nuisance and harmful to our environment.

In the previous year, we had started in partnership with Water Sector Trust Fund the journey towards developing a Decentralized Treatment Works to serve Mukurweini Town and the environs which at the close of this year was at 80% completion. We also managed to partner with locals in Mukurweini to construct 202 improved toilets.

We also partnered with the Ministry of Water and Irrigation through Tana Water Works Development Agency to extend the sewerage coverage in Othaya Town whereby the intention is to increase the sewer network by 7km and bring on board at least 1500 new sewer connections within the next 15months. By the close of the year, we had laid about 5km of new sewer line.

At the tail end of the year, we acquired an exhauster lorry which we hope to properly roll out in the coming financial year to enhance access to exhauster services within our area of coverage.

The company offered longer debtor days to consumers especially the very vulnerable and aged across the year.

**Annual Reports and Financial Statements  
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**STAKEHOLDER ENGAGEMENT AND GOOD GOVERNANCE PRACTISES**

Regular engagement, dialogue with and feedback from external stakeholders is important to our success and a core element of our business model. Understanding stakeholders' views informs and assists our decision-making processes and helps drive progress towards the achievement of our aims, objectives and strategy. In keeping with the requirements of the Water Sector Regulator WASREB, the company held a stakeholder forum on the 18<sup>th</sup> of June 2021 to get the opinions of the stakeholders on the progress of the company.

An AGM followed on 30<sup>th</sup> of June 2021 whereby the Office of the Auditor General gave a brief of the accounts though they were yet to be finalized and released to us officially.

Closely related to this, the process of retirement of one-third of directors by rotation and replacement of the same with new ones started. In line with the WASREB's guidelines, the minimum level of education of the incoming directors was observed strictly in the advertisement of the same.

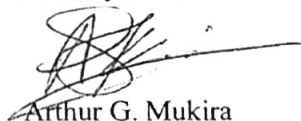
I also wish to appreciate the dedication, skills and professionalism of our employees. Above all, I would like to thank our loyal shareholders for their unwavering support.

During the year, the company has also partnered with Tana Water Works Development Agency to expose the directors to good governance practices through a capacity building tour of the Water Service Providers in the Lake region and rift valley areas.

**CONCLUSION**

Finally, I have served on the Board for about four years, three of those as Chairman, and OMWASCO has progressively delivered on its strategy within that time. While it hasn't been without challenges, we are now in the strongest position that I have seen, which is also reflected in the turnover. We all are committed to continuing to create substantial value for our stakeholders through continuous improvement of water and sanitation services, and I look forward to continual growth of the company.

I thank you all



Arthur G. Mukira

**Chairman Board of Director**

## OTHAYA MUKURWE-INI WATER SERVICES COMPANY

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#### V.REPORT OF THE MANAGING DIRECTOR

##### **Introduction**

The chairman, BOD, stakeholders and members of staff, it is with great pleasure that I present the report of the company performance for the year ended June 30<sup>th</sup> 2021.

I wish to thank the County Government of Nyeri for ensuring that the company has a conducive and enabling environment to serve our clients.

I also want to thank the entire stakeholder body for their unrelenting support that has ensured that the company maintains smooth operations.

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

##### **Operations**

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

*Customer growth:* Within the period under review as also mentioned in the Chairman's remarks, our customers grew by 1469 new consumers. We closed the year with a total number of registered connections 33,488. In addition ,76 sewer accounts were added adding up to a total of 1545 new Connections.

The comparative performance for the last one year is as follows

| <b>Item</b>       | <b>2020/2021</b> | <b>2019/2020</b> | <b>Percentage Change</b> |
|-------------------|------------------|------------------|--------------------------|
| Water Connections | 33,488           | 32019            | 4.59%                    |
| Sewer Connections | 870              | 794              | 9.57%                    |
| Total Connections | 34,358           | 32,813           | 4.71%                    |

*Revenue growth:* Generally, the economy within the year was still heavily impacted by the effects of COVID-19, many consumers still complained of lack of money in their pockets. The year under review, the total turnover was Kshs 155,946,378 compared to Kshs 148,725,142 in a similar period.

The growth was driven mainly by both increase in water sales as well as collection of the old debt owed to the company. We replaced a section of the very old and dilapidated network in the Kihuri area of Othaya that was suspected to be causing earth movements. This greatly improved our water supply in sections of Iriani in addition to reduced maintenance costs at the line. We also finalized on a dedicated line from Gichecheni Tank to Karundu tank as a way of improving water supply in Karundu area and

## OTHAYA MUKURWE-INI WATER SERVICES COMPANY

### **Annual Reports and Financial Statements For the year ended June 30, 2021**

began laying a dedicated line to Ngamwa which we intend to finalize within this financial year to boost water supply in Ngamwa.

The table with comparison of the performance of two financial years is shown below.

| <b>Item</b>            | <b>2020/2021</b> | <b>2019/2020</b> | <b>Percentage change</b> |
|------------------------|------------------|------------------|--------------------------|
| Gross income           | 158,813,385      | 150,082,899      | 5.82%                    |
| Total expenditure      | (159,161,196)    | (140,191,118)    | 13.53%                   |
| <b>Surplus/deficit</b> | <b>(347,810)</b> | <b>9,891,781</b> | <b>-103.52%</b>          |

**Challenges:** During the year the company has faced the following challenges during implementation of strategic and operating objectives.

- Water losses commonly referred to as Non-Revenue Water.
- The dormant connections which may be an indicator of growth of water theft or malpractices.
- Efficient transport has also been identified as challenge in that the staff need to be supported with adequate motorcycles
- Road construction interference leading to physical water losses as well as disruption of water supply.

In view of the above, the company has identified the following measures to address the challenges

1. We intend to embed the NRW reduction plan in the next strategic plan 2022-2027. To be able to have a more focused approach on NRW reduction, we intend to have zonal based NRW reduction exercises with the starting areas being Kanunga, Gakindu, Mumwe and Karima zones where by the focus will be both Physical and commercial loss reductions.
2. Continuous staff engagement on the above issues is key with more targeted training lined up in the coming years as a way of changing our operation culture. We have also heavily focused on staff performance and appraisals as a way of turning around our staff's mindset but we still have a lot to cover
3. The company in the year ended June 2021 acquired 10 new motorbikes from Toyota Kenya to ease staff movements. This will be extended in the subsequent financial period towards meeting and addressing the transport issues.
4. We are heavily engaging all the stakeholders to ensure that henceforth there is very minimal disruption of pipeline network during road construction

#### **Other matters**

The company was a beneficiary of a grant of chemicals from World Bank channeled to water companies us through Water sector Trust fund to cushion us against the financial decline that came with COVID-19 (Chlorine 2295kgs and Aluminum Sulphate coagulant 11300kgs).

**OTHAYA MUKURWE-INI WATER SERVICES COMPANY**

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**Annual Reports and Financial Statements  
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**Conclusion**

Finally, I wish to thank the National Government, County Government of Nyeri, company's board of Directors, stakeholders and staff in general once again for their contribution in holding the company together in one of the most trying moments of the Country when we are battling a deadly virus COVID-19. Together we shall overcome the pandemic and return to normal operations.

Yours Faithfully,



Moses N. N. Munyi

**Managing Director**

## OTHAYA MUKURWE-INI WATER SERVICES COMPANY

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#### VI. STATEMENT OF PERFORMANCE AGAINST PREDETERMINED OBJECTIVES FOR FY 2020/2021

Section 81 Subsection 2 (f) of the Public Finance Management Act, 2012 requires the accounting officer to include in the financial statement, a statement of the national government company's performance against predetermined objectives.

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

**KRA 1: Water Capacity and Infrastructure**

**KRA 2: Customer Focus**

**KRA 3: Financial Sustainability**

**KRA 4: Institutional Capacity**

OMWASCO develops its annual work plans based on the above four pillars. Assessment of the Board's performance against its annual work plan is done on a quarterly basis. The company achieved its performance targets set for the FY 2020/2021 period for its four strategic pillars, as indicated in the diagram below:

| Strategic Pillar                            | Objective  | Key Performance Indicators   | Activities  | Achievements  |
|---|--|--|---|---|
| Pillar 1: Water Capacity and Infrastructure | <ul style="list-style-type: none"> <li>• To develop, improve and maintain access to sufficient and high quality water service</li> <li>• To facilitate improvement, maintenance and expansion of Infrastructure</li> </ul> | <ul style="list-style-type: none"> <li>• Maintain average water supply hours to covered zones to at least 20 hours per day throughout the year.</li> </ul>                                     | <ul style="list-style-type: none"> <li>• Treat and distribute water at Othaya and Mukurweini</li> </ul> | <ul style="list-style-type: none"> <li>• Water supply was maintained in the company for over 23 hours in the year.</li> </ul>   |
| Pillar 2: Customer Focus                    | <ul style="list-style-type: none"> <li>• To increase the customer base</li> <li>• To increase customer satisfaction</li> </ul>   | <ul style="list-style-type: none"> <li>• Increase active connection from 18,000 active connections to 20,000 connections by 30th June 2021</li> <li>• Gross billed revenue to be an</li> </ul> | <ul style="list-style-type: none"> <li>• Connect 2,000 new customers to the company</li> </ul>          | <ul style="list-style-type: none"> <li>• Active connections increased to 19,949 caused by 1,469 new connections installed in the year, making active connections as at the close of the financial year. Consolidated average revenue from water &amp; sewer is Average</li> </ul> |

**OTHAYA MUKURWE-INI WATER SERVICES COMPANY**

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|                                   |   |   |  |  |
|-----------------------------------|---|---|--|--|
|                                   |   | average of Kshs 12.4M by 30th June 2020   |  | Billed revenue for the period settled at 12.6 up from 11.8M in the previous year.  |
| Pillar3 :Financial Sustainability | <ul style="list-style-type: none"> <li>To improve efficient supply of water.</li> <li>To improve timely and accurate billing of water &amp; sewerage</li> <li>To improve efficient collection of revenue</li> <li>To improve capital based financing</li> </ul>   | <ul style="list-style-type: none"> <li>The projected income and expenditure statement based on the principal assumptions above indicates an income of Kshs.156,773,179 against an expenditure of Kshs. 56,247,247</li> <li>The billing for water will improve to an average of Kshs.12.8 million on a monthly basis and the company will strive to collect old debts by 95% efficiency.</li> </ul>  | <ul style="list-style-type: none"> <li>Bill all active connections</li> <li>Identify illegal connections and surcharge</li> <li>Meter high consumer flat rates</li> <li>Maintain revenue collection efficiency of 95%</li> <li>disconnect all unpaid accounts on time</li> <li>Reconnect all paid up accounts on time</li> <li>enter into part payment agreements</li> </ul> | <ul style="list-style-type: none"> <li>During the year 19,500 accounts were billed on a monthly basis</li> <li>The company collected a consolidated income of Kshs 155.8 M</li> <li>monthly collections at the company add up to 104% collection efficiency.</li> <li>167 commitments made and serviced in the period</li> </ul>   |
| Pillar4 :Institutional Capacity   | <ul style="list-style-type: none"> <li>To strengthen human capital</li> <li>To promote good corporate governance</li> <li>To integrate ICT in OMWASCO operations</li> <li>To operationalize policies to address cross cutting issues in compliance with relevant acts</li> <li>To operationalize policies to</li> </ul> | <ul style="list-style-type: none"> <li>Technology deployment and usage - implement technical solutions to enhance work quality and efficiency, and project the image of a high-tech workforce.</li> <li>Human resources development - harness and maintain an efficient and committed workforce.</li> <li>Adopting and maintaining a customer-oriented approach in the service delivery.</li> <li>Prepare a staffing plan and adequately staff the company to comply</li> </ul> | <ul style="list-style-type: none"> <li>Install ERP at the company</li> <li>Recruit substantive holders to management positions</li> <li>Submit tariff proposal and negotiate new tariff</li> <li>Revise HRAM manual, undertake strategic plan midterm review and Debt management proposal.</li> </ul>  | <ul style="list-style-type: none"> <li>HR development through recruitment of qualified staff. The company reviewed the terms of employment for contract staff to attract and maintain qualified staff.</li> <li>The company has implemented the customer relationship module which captures the customer issues and gives timelines for resolutions.</li> <li>The company through the HR department has been proactive in effective management of the resource by undertaking training for capacity building, compliance with OSH Act and culture change.</li> </ul> |

## OTHAYA MUKURWE-INI WATER SERVICES COMPANY

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|  |   |   |  |   |
|--|---|---|--|---|
|  | address cross cutting issues in compliance with relevant acts | with regulatory requirements.<br><ul style="list-style-type: none"> <li>• Review and implement tariff</li> <li>• Continually review the existing strategies in line with the company, county and national goals.</li> </ul> |  | <ul style="list-style-type: none"> <li>• The management tabled before the Board a revised HRAM manual, Debt management manual, undertook technical evaluation of its billing to classify the customers &amp; undertook issue of targets.</li> <li>• The company internally is in the process of carrying out a tariff study and submitted a WASREB tariff proposal together with the study but completion was hindered by Covid-19 pandemic.</li> </ul> |
|--|---|---|--|---|

### VII. CORPORATE GOVERNANCE STATEMENT

Under this section, include the number of Board meetings held and the attendance to those meetings by members, succession plan, existence of a board charter, process of appointment and removal of directors, roles and functions of the Board, induction and training, board and member performance, conflict of interest, board remuneration, ethics and conduct as well as governance audit.) OMWASCO is committed to operating under a clear governance framework and strongly adheres to sound management and control practices. During the year the company undertook a

OMWASCO is committed to ensuring compliance with the provisions of the water Act 2016 and the Service Provision Agreement signed with Tana Water Services Board among other regulatory and supervisory corporate governance requirements.

during the financial year the board held seven meetings and board attendance was as follows;

| DIRECTOR NAME                              | NO OF BOARD MEETING | MEETING ATTENDED |
|--|---------------------|------------------|
| • Mr. Moses N N Munyi Managing Director    | 7                   | 7                |
| • Mr. Arthur Gachugi Mukira Board Chairman | 7                   | 7                |
| • Mr. Robert Mwangi King'ori               | 7                   | 7                |
| • Ms. Grace Iregi                          | 7                   | 7                |
| • Mr. Waithaka Kibaki                      | 7                   | 7                |
| • Ms Rachel Muchunu                        | 7                   | 7                |

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|                      |   |   |
|----------------------|---|---|
| • Mr. Samuel Gichuki | 7 | 7 |
| • Mr. Samuel Kago    | 7 | 7 |
| • Ms. Pauline Ndegwa | 7 | 2 |
| • Ms. Hannah Maranga | 7 | 2 |
| • Mr. Vincent Kachi  | 7 | 3 |

#### Company performance

The board shall ensure that:

1. The company adheres to minimum service level guarantee in the Service Provision Agreement and produces quarterly reports on those indicators
2. The company issues a performance guarantee as advised by WASREB to ensure that the specified risks are covered.
3. The company issues a performance evaluation report to its shareholders and stakeholders at the end of year.

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

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

**Succession planning;** during the financial year the board in exercise of its mandate recognizes the role of a stable company in the achievement of the strategic goals of the company. To effectively plan and execute a seamless implementation of the board mandate, the board in the financial year implemented a number of measures including; NRW review, Review of Memorandum of Association, Articles of Association, directors' retirement and Annual General Meeting.

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

The company memorandum and articles of association have defined the process of appointment and removal of directors. The MOA and AOA recognizes the role of stakeholders in effective appointment and retirement of directors. As a policy the company recognizes the need for gender balance in appointment of board. During the year then ended the company advertised to fill the position of the board of directors where women and persons with disability are normally encouraged to apply. Two Directors retired by rotation and were not eligible for re-election.

**Annual Reports and Financial Statements**

**For the year ended June 30, 2021**

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**Roles and functions of the board,**

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

Our key mandate is;

- a) To maintain the assets in serviceable conditions according to good utility practice.
- b) To implement appropriate Asset Management Techniques
- c) To develop an Asset Management Plan and Procedures
- d) To manage the assets in an economical, efficient and sustainable manner.
- e) To foresee any improvements and demands of water services within the area.
- f) To connect, disconnect and reconnect and charge for water services to the consumers

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

**Induction and training,** board and member performance, the company board is inducted on the various matters of importance with the board. During the year the board was taken through corporate governance that covered the following topics; corporate governance, role of the board and management. To effectively equip the board in its mandate, the company during the year partially assisted by TWWDA visited 5 WSPs to appreciate various progress reports and were able to gain insight on the following:

- Customer identification survey (CIS)
- PickPay ERP system
- Working relations with the county government
- GIS adoption in the water system
- Pro-poor initiatives
- Non-revenue management
- ICT and innovation
- Corporate social responsibility
- Governance and Board evaluation
- ICT and Automations
- Customer Service and adoption of toll-free number, USSD code.

The company has budgets to implement some of the outcomes including, USSD code, GIS section, Pick pay ERP, board evaluation, CSR, Customer service week, & CIS.

**Conflict of interest;** the board of directors is cognizant of the requirement to be free from any interest and where there is real or perceived interest, the board members are obligated to declare the interest. The board has opened a register of interest to record any member interest at the agenda tabled in committee and board meetings. During the financial year ended June 30, 2021 there was no interest admitted in any sitting of the committee or the board.

**Board remuneration,** the company operates in a regulated sector. The cost attributed to the board is capped to 1.52% of the O&M costs. During the year the board costs for the various engagements with the stakeholders amount to Kshs 2,337,600 which is 1.48% of the O&M costs. The board will continue to maintain all costs within the capping costs associated with the company.

**Ethics and conduct;** The Board has identified internal and external stakeholders on which they agree in policy on how to relate to them especially relation to appointing the Directors and monitoring the performance of the company

## OTHAYA MUKURWE-INI WATER SERVICES COMPANY

### Annual Reports and Financial Statements

For the year ended June 30, 2021

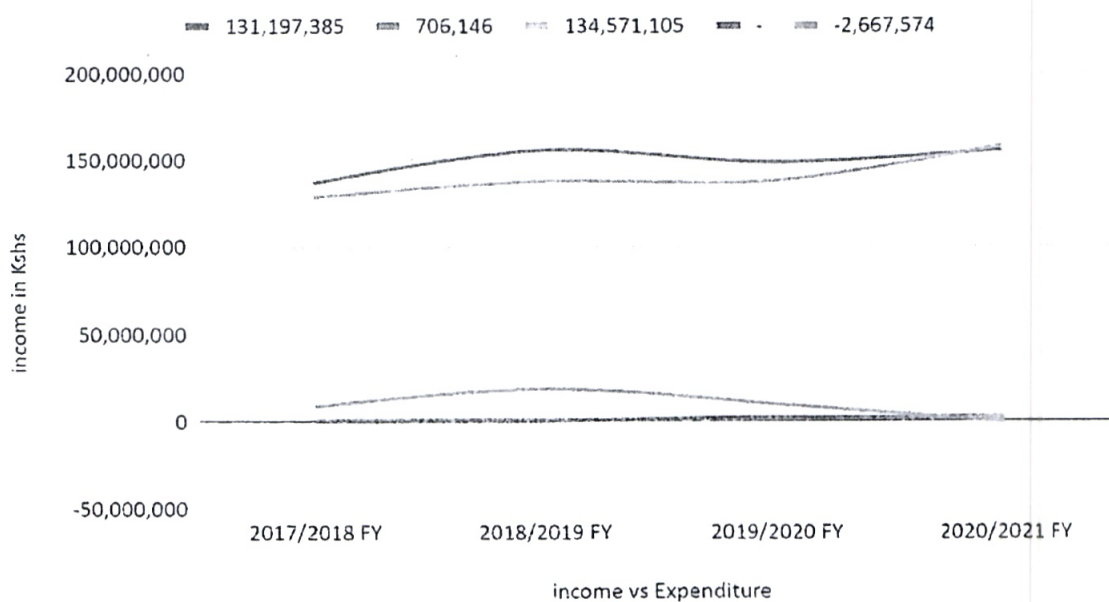
#### VIII. MANAGEMENT DISCUSSION AND ANALYSIS

##### • Operational and Financial Performance 5yrs

The company has over the five years experienced an increase in gross revenue in view of the harsh economic environment aggravated by Covid 19 in the last two years. This has enabled the company sustainability to meet its short and midterm obligations as they fall due. The table below shows a comparative company growth.

| NOTE                  | 2016/2017<br>FY | 2017/2018<br>FY | 2018/2019<br>FY | 2019/2020<br>FY | 2020/2021<br>FY |
|-----------------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| Operating Income      | 131,197,385     | 136,981,496     | 155,853,191     | 148,725,142     | 155,946,378     |
| Interest incomes      | 706,146         | 833,073         | 994,169         | 1,357,757       | 2,867,007       |
| Operating Expenditure | 134,571,105     | 128,850,852     | 137,855,017     | 137,933,222     | 158,301,093     |
| Taxation              | -               | 249,922         | 396,184         | 2,257,895       | 860,102         |
| Surplus (deficit)     | -2,667,574      | 8,713,795       | 18,596,159      | 9,891,781       | -347,810        |

131,197,385, 706,146, 134,571,105, - and -2,667,574



**OTHAYA MUKURWE-INI WATER SERVICES COMPANY**

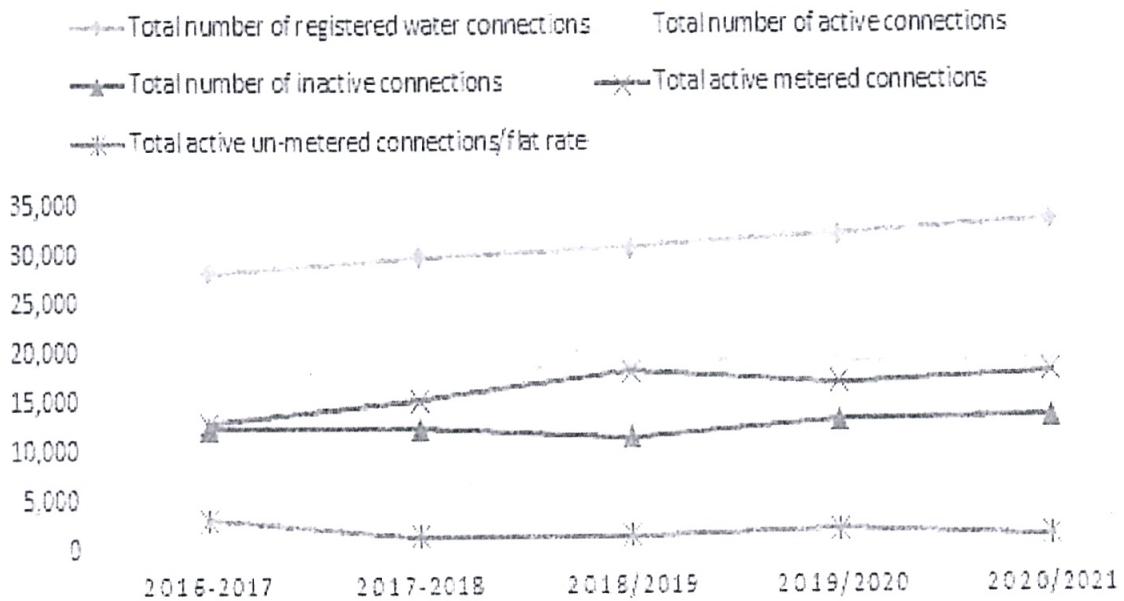
**Annual Reports and Financial Statements  
For the year ended June 30, 2021**

• Customer Growth

The company has experienced growth in customer connections over the five-year period as per the table below. The company is on target to join the Large WSP category in customer connections per table below.

| DETAILS                                       | 2016/17 | 2017/18 | 2018/19 | 2019/20 | 2020/21 |
|---|---------|---------|---------|---------|---------|
| Total number of registered water connections  | 28,172  | 29,723  | 30,692  | 32,019  | 33,225  |
| Total number of active connections            | 15,881  | 17,151  | 19,389  | 18,930  | 19,274  |
| Total number of inactive connections          | 12,291  | 12,253  | 11,303  | 13,089  | 13,361  |
| Total active metered connections              | 12,799  | 15,229  | 17,994  | 16,936  | 17,920  |
| Total active un-metered connections/flat rate | 3,082   | 1,421   | 1,395   | 1,994   | 1,354   |

**CUSTOMER CONNECTION STATUS**



## OTHAYA MUKURWE-INI WATER SERVICES COMPANY

### Annual Reports and Financial Statements For the year ended June 30, 2021

- **Key Projects or Investments**

During the year the company invested in the following major projects

| No | project  | Description  | Value      |
|----|--|--|------------|
| 1  | Rehabilitation of Samkai line and Gatundu line(3750 meters)                                      | The project involved replacement of existing lines with HDPE class pipes   | 1,048,065  |
| 2  | Rehabilitation of Gakindu zone pipelnesKM 15.9KM   | The project involved replacement of existing lines with HDPE class pipes, meter relocation and bucket meter test financed by internally generated funds.   | 4,281,950  |
| 3  | Rehabilitation of Mumwe Zone 13.7 KM   | The project involved replacement of existing lines with HDPE class pipes, meter relocation and bucket meter test financed by internally generated funds.   | 3,327,080  |
| 4  | Rehabilitation of Kihuri 5, pipeline subject to bursts caused by high water pressure 2600 meters | The project involved replacement of existing lines with HDPE class pipes, installation of PRVs and control ball valves   | 2,050,580  |
| 5  | Enhanced water supply in Ngamwa 4 KM   | We also finalized on a dedicated line from Gichecheni Tank to Karundu tank as a way of improving water supply in Karundu area and began laying a dedicated line to Ngamwa which we intend to finalize within this financial year to boost water supply in Ngamwa | 2,711,900  |
| 6  | Procurement of motorbikes  | The company procured 10NO motorbikes to ease employee movement and hence services  | 1,058,240  |
| 7  | Office and other tools   | The company procured the equipment to ease operations and enhance efficient systems by procurement of meter reading phones, Projector, Cisco switch, Smart UPS 1.5KV, Photocopier, UPS 800VA APC. LaserJet printer.  | 1,082,849  |
| 8  | DTF construction works   | The company funded by WSTF embarked on construction of DTF to enable waste management in Mukurweini. The project is ongoing and is nearing completion  | 10,082,544 |

**OTHAYA MUKURWE-INI WATER SERVICES COMPANY**

**Annual Reports and Financial Statements**

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• **Major Risks Facing the Organization,**

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

| No.   | RISK FACTOR               | LEVEL OF RISK | MITIGATION MEASURE   |
|-------|---------------------------|---------------|--|
| (i)   | Inadequate resources      | High          | <ul style="list-style-type: none"> <li>• Efficiency in resource utilization through Proper annual work plans &amp; budgets</li> <li>• Documentation and reporting on resource utilization</li> <li>• Enhance Public Private Partnership (PPP) to support capacity building, technical assistance and exchange programs</li> <li>• Increase generation and collection efficiency</li> </ul>                   |
| (ii)  | Staff turnover            | Medium        | <ul style="list-style-type: none"> <li>• Build Capacity</li> <li>• Enhance staff incentive programs</li> <li>• Improvement working environment</li> </ul>  |
| (iii) | Consumers with huge debts | High          | <ul style="list-style-type: none"> <li>• Negotiate with customers on payment modalities</li> <li>• Timely disconnection of defaulters to manage accumulation of debts</li> <li>• Engage debt collectors</li> <li>• Listing of defaulters with Credit Reference Bureau</li> <li>• Liaison with other agencies e.g., Nyeri County Government, Lands Board</li> <li>• Adhere to approved Debt policy</li> </ul> |
| (iv)  | Landslides/ mudslide      | Medium        | <ul style="list-style-type: none"> <li>• Rerouting of pipelines</li> <li>• Anchoring on high-risk areas</li> <li>• Change of pipe materials</li> <li>• Installation of Pressure Reducing Valves</li> <li>• Timely repair of leaks</li> </ul>   |
| (v)   | Wildlife menace           | Low           | <ul style="list-style-type: none"> <li>• Engage KWS</li> <li>• Reroute pipelines</li> </ul>  |

**OTHAYA MUKURWE-INI WATER SERVICES COMPANY**

**Annual Reports and Financial Statements  
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|        |   |        |  |
|--------|---|--------|--|
| (vi)   | Destructive land use practices in water catchment areas | High   | <ul style="list-style-type: none"> <li>● Rehabilitation of catchment areas</li> <li>● Public awareness</li> <li>● Liaising with the KFS to plant trees</li> </ul>  |
| (vii)  | Conflict over the competing uses of the water resources | High   | <ul style="list-style-type: none"> <li>● Conduct public awareness</li> <li>● Engage Water Resources Management Authority</li> </ul>  |
| (viii) | Climate Change  | High   | <ul style="list-style-type: none"> <li>● Build storage facilities</li> <li>● Participation in Conservation of the environment</li> <li>● Create public awareness</li> </ul>  |
| (ix)   | Corruption  | High   | <ul style="list-style-type: none"> <li>● Good corporate governance</li> <li>● Building strong ethical practices</li> <li>● Enforce/ invoke the law</li> </ul>  |
| (x)    | Irrigation, boreholes and wells                         | High   | <ul style="list-style-type: none"> <li>● Creation of public awareness</li> <li>● Provision of reliable treated water supply.</li> </ul>  |
| (xi)   | Quality risk  | medium | <ul style="list-style-type: none"> <li>● Specification</li> <li>● Reporting &amp; Inspections</li> <li>● Monitoring</li> </ul>   |
| (xii)  | Safety of valves installations                          | Medium | <ul style="list-style-type: none"> <li>● Secure the valves by cementing.</li> <li>● Sensitize the community on the need of ownership</li> </ul>  |
| (xiii) | Non-delivery of goods risk                              | Low    | <ul style="list-style-type: none"> <li>● Enhance inspection committee</li> <li>● Fill the bin card immediately after issue and delivery of items</li> <li>● Stores management system</li> </ul>  |
| (xiv)  | Not using riding gear                                   | High   | <ul style="list-style-type: none"> <li>● Construct staff storage cabinets</li> <li>● To follow traffic rules</li> <li>● Training of riders</li> <li>● Provide helmets</li> <li>● Allocation of Motor bikes to individual riders</li> </ul> |
| (xv)   | Indiscipline  | Medium | <ul style="list-style-type: none"> <li>● Team Building</li> <li>● Warning letters</li> <li>● Use of Disciplinary procedures</li> <li>● Evaluation of performance</li> </ul>  |

**OTHAYA MUKURWE-INI WATER SERVICES COMPANY**

**Annual Reports and Financial Statements  
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|         |                            |        |  |
|---------|----------------------------|--------|--|
| (xvi)   | Communication breakdown    | High   | <ul style="list-style-type: none"> <li>• Enhance communication</li> <li>• Regular open staff meetings</li> <li>• Cultivate the good culture</li> </ul>   |
| (xvii)  | Evaluation risks           | Medium | <ul style="list-style-type: none"> <li>• Set the performance targets</li> </ul>  |
| (xviii) | Virus, hacking, cybercrime | High   | <ul style="list-style-type: none"> <li>• Antivirus, restricted administration rights</li> <li>• Remote backup</li> </ul>   |
| (xix)   | Burglary of offices        | Medium | <ul style="list-style-type: none"> <li>• Install CCTV</li> <li>• Insure office</li> <li>• Fencing of offices</li> </ul>  |
| (xx)    | Fire outbreak              | Medium | <ul style="list-style-type: none"> <li>• Insurance</li> <li>• Install fire extinguishers, water Bowsers &amp; Hydrants</li> <li>• Smoke detectors</li> <li>• Trap doors</li> </ul>                               |
| (xxi)   | Legal and compliance risk  | High   | <ul style="list-style-type: none"> <li>• Compliance</li> <li>• engage legal service</li> </ul>   |
| (xxii)  | Covid 19 Pandemic          | High   | <ul style="list-style-type: none"> <li>• Comply With covid prevention measures</li> <li>• Review work conditions for high-risk staff</li> <li>• align working office with acceptable OSH requirements</li> </ul> |

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

The company has no arrears in statutory obligations as at the close of the financial year. All obligations under VAT, PAYE, NSSF, NHIF are settled as they fall due.

• **Review of the Economy,**

The company registered and domiciled in Kenya under the company act to offer water and sewer services as an agent of the Nyeri County Government. The country's economy is pegged to achieve the global Water coverage for areas served by regulated utilities declined from 59% in 2018/19 to 57% in 2019/20 mainly as a result of population growth surpassing growth in access. In absolute terms, there were an additional 854,514 people served against a population increase in the service area of 2,229,267. Similarly, sewer coverage declined from 17% recorded in 2018/19 to 15% in the current period WASREB Impact 13. There has been increased Global water demand until 2050, accounting for an increase of 20% to 30% above the current level of water use, mainly due to rising demand in the industrial and domestic sectors.

## **OTHAYA MUKURWE-INI WATER SERVICES COMPANY**

### **Annual Reports and Financial Statements**

#### **For the year ended June 30, 2021**

The company in the period is learning the lessons relating to economic impact arising from ravages of COVID-19 pandemic is that:

- The services provided by WSPs are key in any public health emergency.
- The guidelines issued by the government requiring sustained water services and eliminating shut offs for unpaid bills, will result in delinquencies mainly from high unemployment rates, reductions in non-residential water demands and associated revenues offset by increases in residential consumption and reduced customer growth.
- In view of the advent of COVID-19 in mid-March 2020, the Government of Kenya requested citizens to adhere to guidelines on handwashing, hygiene and social distancing. To support the prevention and containment of the pandemic in these areas, the government issued a directive and pronounced measures requiring public Water Services Providers (WSPs) to ensure continuous and accessible supply of water and hygiene services. As a follow up to the above efforts and cognizant of the impact posed by COVID-19 pandemic in the provision of water and sanitation services across the country, the Government through the Ministry of Water, Sanitation and Irrigation (MWSI), invested Kshs. 1.62 billion to drill and equip 193 boreholes and construct 193 elevated steel water tanks to supply 33 million liters per day of water to enable 1,600,000 residents access water in the informal settlements in Nairobi. In addition, the World Bank moved to allocate the Ministry Kshs. 6.9 billion early 2021 for the implementation of a Conditional Liquidity Support Grant (CLSG) Program with the objective to provide short-term liquidity support to Water Service Providers (WSPs) to maintain operations and service levels during the COVID-19 crisis. The company became a contracted beneficiary of the CLSG, and Chemical grant.

- **Review of the Sector,**

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

| <b>Tariff Benchmark</b> | <b>Key measurement</b>   | <b>Company Performance</b> |
|-------------------------|--|----------------------------|
| Water Coverage          | Number of people served with water services/ Population in Service area. During the period the company had a total of 33,488 connections covering a total of 120,557 in population.  | 79%.                       |
| Drinking Water Quality  | This metric compares the company water quality in terms of Compliance with residual Chlorine standards, bacteriological standards and Drinking Water Quality The company had a near perfect score on the water water quality evaluated in the categories of Residual Chlorine 100% Bacteriological Quality (100%) and overall drinking water quality of 93%. We shall endeavor to maintain high water quality standards on all water supplied to our system. | 93%                        |

## OTHAYA MUKURWE-INI WATER SERVICES COMPANY

### Annual Reports and Financial Statements For the year ended June 30, 2021

|  |   |          |
|--|---|----------|
| Hours of Supply                                    | Weighted average of all registered zones,   | 23 hours |
| Personnel Expenditure as a Percentage of O&M Costs | Sum of personnel expenditures incurred during the reporting period compared with the Total O+M as a percentage  | 47%      |
| Operation and Maintenance Cost Coverage            | IT compares the sum of billing for water, sewerage and other services and the sum total of "Total operating expenditures B" "Sum of expenses on personnel, BoD, General admin, direct operations, maintenance and levies and fees.  | 99%      |
| Revenue Collection Efficiency                      | This comprises the total of all bills on water and sewerage services during the reporting period and total billing for other services.  | 104%     |
| Non-Revenue Water                                  | NRW comprises of water from Unauthorized consumption (e.g., illegal connections) + Customer meter reading inaccuracies, Estimates and Data Handling errors "Physical Losses B" Leakages on transmission and /or distribution pipes + Leakages and overflows at utility storage tanks + Leakage on service connections up to the point of customer use | 41.19%   |
| Metering Ratio                                     | (Total number of active metered connections/Total number active of connections) *100  | 93%      |
| Staff Productivity                                 | The total number of staff divided by the total number of connections within the WSP service area per thousand connections   | 5        |

- **Future Developments**

The company has in its plans envisioned the following key projects aimed at sustaining and improving delivery of services to its consumer; Dedicated supply line to witima, completion of Karundu Ngamwa pipeline, metering of all flat rate connections, replacement of dilapidated pipelines in urban sections.

## OTHAYA MUKURWE-INI WATER SERVICES COMPANY

### Annual Reports and Financial Statements

For the year ended June 30, 2021

#### IX. ENVIRONMENTAL AND SUSTAINABILITY REPORTING

OMWASCO exists to supply clean and accessible water to the residents of Nyeri South and Mukurweini water sub counties. This is our purpose; the driving force behind everything we do. It's what guides us to deliver our strategy, which is founded on four pillars: putting the customer/Citizen first, delivering clean water services, and improving operational excellence. Below is a brief highlight of our achievements in each pillar

##### 1. Sustainability strategy and profile -

The company makes policies in line with the internal and macroeconomic business environment. During the period the company budget was to increase the customer base by installing new connections in its area of supply as well as NRW reduction in the company. In response to the changing business environment and adjusting its operations in line with the changes. During the year the company focused on pipeline rehabilitations at Gakindu and Mumwe zones targeting 2300 connections where new customers increased by 1,469 new connections.

##### 2. Environmental performance

The company has focused on environmental conservation by a plan to plant 5,000 trees annually. The company has a target to increase sewer connections in Othaya urban and also makes it possible to use exhauster services. During the period a total 76 of sewer connections were installed thereby increasing sewer treatment. The company treatment suffers from high COD/BOD during the dry seasons due to insufficient sewer to treat and accumulation of sludge at the maturation ponds. The company has been funded by the ADB last mile project to construct additional sewer lines and drying bends which is currently ongoing. This will help improve sanitation in future while giving the company additional revenues. Further the company is in the process of completing a DTF facility in mukurweini that will contribute to the increased revenues and sanitation services.

##### 3. Employee welfare

The company HR manual is dynamic to allow competitive recruitment of staff. During the year the company competitively advertised to fill the position of TO, GIS officers which were filled. The company management comprises three men and two ladies. A review of the existing HR manual was concluded. The company undertook continued staff capacity building by training of staff in cross cutting issues. The organization policy on safety and compliance with Occupational Safety and Health Act of 2007, (OSHA) is currently under implementation

##### 4. Marketplace practices-

Product stewardship- The company has taken efforts to safeguard consumer rights and interest through stakeholder engagements, tariff revision, union representation membership with WASPA, WASCO and FKE.

##### 5. Community Engagements-

During the year the company undertook the following CSR activities.

a) Sponsored the following activities in the year.

|    |  |        |         |
|----|--|--------|---------|
| 1. | Paying water bill for needy customers    | 008064 | 118,705 |
| 2. | Nyewasco MD financial assistance (WASPA) | 001766 | 30,000  |

**OTHAYA MUKURWE-INI WATER SERVICES COMPANY**

**Annual Reports and Financial Statements  
For the year ended June 30, 2021**

**X. REPORT OF THE DIRECTORS**

The Directors submit their report together with the audited financial statements for the year ended June 30, 2021 which show the state of OMWASCO affairs.

**i) Principal activities**

The principal activities of the entity are to provide water services to residents of Mukurwe-ini and Nyeri south Sub-Counties.

**ii) Results**

The results of the entity for the year ended June 30, 2021 are set out on page 35 below is a summary of the profit or loss made during the year.

|                            | 2020/2021   | 2019/2020   |
|----------------------------|-------------|-------------|
| Total income               | 155,946,378 | 148,725,142 |
| Total Operating Expenses   | 158,301,093 | 137,933,223 |
| Interest Income            | 2,867,007   | 1,357,757   |
| Net surplus after Taxation | (347,810)   | 9,891,781   |

**iii) Dividends**

The company registered by guarantee operates with a non profit orientation and the company does not pay dividends.


**iv) Directors**

The members of the Board of Directors who served during the year are shown on page 4. In accordance with Regulation 47 of the OMWASCO Articles of Association, Mr Waitthaka Kibaki and Mr.Robert Kingori retire by rotation and the directors have served full terms and are not eligible for re-election.

**v) Auditors**

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

By Order of the Board

RICHARD K. GIUWHI  27/09/2021  
Name Signature Date  
Corporate Secretary/Secretary to the Board

**OTHAYA MUKURWE-INI WATER SERVICES COMPANY**

**Annual Reports and Financial Statements  
For the year ended June 30, 2021**

**XI. STATEMENT OF DIRECTORS' RESPONSIBILITIES**

Section 81 of the Public Finance Management Act, 2012 and section 157 of the Company ACT cap 486 require the Directors to prepare financial statements in respect of that entity, which give a true and fair view of the state of affairs of the entity at the end of the financial period and the operating results of the entity for that period. The Directors are also required to ensure that the entity keeps proper accounting records which disclose with reasonable accuracy the financial position of the entity. The Directors are also responsible for safeguarding the assets of the entity.

The Directors are responsible for the preparation and presentation of the entity's financial statements, which give a true and fair view of the state of affairs of the entity for and as at the end of the financial period ended on June 30, 2021. 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 entity; (v) selecting and applying appropriate accounting policies; and (vi) Making accounting estimates that are reasonable in the circumstances.

The Directors responsibility for the entity's financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity with International Financial Reporting Standards (IFRS), and in the manner required by the PFM Act, 2012 and the Company ACT Cap 486.

The Directors are of the opinion that the entity's financial statements give a true and fair view of the state of the entity's transactions during the financial year ended June 30, 2021, and of the entity's financial position as at that date. The Directors further confirm the completeness of the accounting records maintained for the entity, which have been relied upon in the preparation of the entity's financial statements as well as the adequacy of the systems of internal financial control.

Nothing has come to the attention of the Directors to indicate that the entity will not remain a going concern for at least the next twelve months from the date of this statement.

**Approval of the financial statements**

The entity's financial statements were approved by the Board on 27/09/ 2021 and signed on its behalf by:

Signature

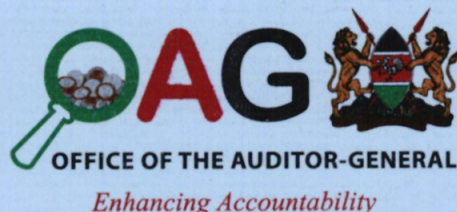
Arthur G Mukira  
Chairperson of the Board

Signature

Moses N N Mutyi  
Accounting officer

# REPUBLIC OF KENYA

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NAIROBI

## **REPORT OF THE AUDITOR-GENERAL ON OTHAYA MUKURWE-INI WATER SERVICES COMPANY LIMITED FOR THE YEAR ENDED 30 JUNE, 2021**

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### **PREAMBLE**

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

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

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

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

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

#### **Qualified Opinion**

I have audited the accompanying financial statements of Othaya Mukurwe-ini Water Services Company Limited set out on pages 33 to 78, which comprise the statement of financial position as at 30 June, 2021, and the statement of profit or loss and other

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

In my opinion, except for the effect of the matters described in the Basis for Qualified Opinion section of my report, the financial statements present fairly, in all material respects, the financial position of the Othaya Mukurwe-ini Water Services Company Limited as at 30 June, 2021, 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 Public Finance Management Act, 2012 and the Water Act, 2016 .

### **Basis for Qualified Opinion**

The following balances reflected in the financial statements have not been supported with sufficient evidence:

#### **1. Unconfirmed Balances**

##### **1.1 Trade and Other Receivables**

The statement of financial position reflects trade and other receivables totalling Kshs.194,184,277 which is net of provision totalling Kshs.47,570,540 made in the year under review as disclosed in Note 20 to the financial statements. As similarly reported in the previous year, debts totalling Kshs.214,182,042 inherited from the National Water and Pipeline Corporation were outstanding for over eight (8) years as at 30 June, 2021. Further, the gross trade and other receivables balance was not supported with the list of the debtors. Although recoverability of the debts is uncertain, Management's provision for bad and doubtful debts totalling Kshs.47,570,540 appeared inadequate given the large debts balance and the long period of time the debts were outstanding.

In the circumstances, the accuracy, validity and recoverability of trade and other receivables balance totalling Kshs.194,184,277 as at 30 June, 2021 could not be confirmed.

##### **1.2 Property, Plant and Equipment**

The statement of the financial position reflects property, plant and equipment totalling Kshs.22,921,161 as further disclosed in Note 17 to the financial statements. However, the following anomalies were noted in relation to the balance:

- (i) The fixed asset register did not indicate the estimated useful life and the residual values of the respective assets.
- (ii) The assets were not tagged for identification and verification of their respective locations.

- (iii) The summary of significant accounting policies at Note 4(d) to the financial statements does not disclose the depreciation rate for water meters and distribution pipelines.
- (iv) The balance includes buildings and water tanks with a book value of Kshs.4,163,211. However, the Company did not own the land on which the assets were located and the respective lease agreements or ownership documents for the buildings and the water supply infrastructure were not provided for audit.
- (v) The total asset balance amounting to Kshs.22,921,160 does not include the value of other water infrastructure owned by the Company.

In the circumstances, the accuracy, completeness, ownership and safe custody of the property, plant and equipment totalling Kshs.22,921,160 as at 30 June, 2021 could not be confirmed.

### **1.3 Lease Fees**

The statement of financial statements reflects creditors and prepayments totalling Kshs.74,549,114 as further disclosed in Note 24 to the financial statements. The Note reflects Kshs.74,549,114 in respect of creditors, prepayments, and accruals which include lease fees totalling Kshs.44,470,699 owed to Tana Water Services Board for the financial years 2013/2014 to 2018/2019. Further, as previously reported, the Company deposited the unpaid lease fees in a special account under the instructions of the County Government of Nyeri even though the action was not supported by any legislation.

In the circumstances, the validity, accuracy and completeness of the creditors, prepayments, and accruals balance totalling Kshs.74,549,114 as at 30 June, 2021 could not be confirmed.

## **2. Undisclosed Outstanding Loan**

The Kenya Government in 2009 secured a credit No. P-KE-E00-007 under Small Towns, Rural Water Supply and Sanitation Project from the African Development Bank to develop water infrastructure for various regions in Kenya. The Company through Tana Water Works Development Agency was a beneficiary to the loan and the respective project was completed in 2013 at a cost of Kshs.971,825,824 under Credit No. TWSB/ADF/001/2011-2012 - Small Towns and Rural Water Supply and Sanitation Program. The principal loan instalments and interest at 3% were to be repaid semi-annually by each beneficiary Water Service Provider (WSP) with effect from 30 April, 2013. However, the loan was still outstanding as at 30 June, 2021 but was not disclosed in the books of the Company.

In the circumstances, the financial statements may not reflect a true and fair view of the liabilities of the Company. Further, the Company may face litigation for recovery of the loan and the interest accrued.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the Othaya Mukurwe-ini Water Services

Company Limited Management in accordance with ISSAI 130 on Code of Ethics. I have fulfilled other ethical responsibilities in accordance with the ISSAI and in accordance with other ethical requirements applicable to performing audits of financial statements in Kenya. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

### **Key Audit Matters**

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

### **Other Matter**

### **Unresolved Prior Year Issues**

In the report of the previous year, several issues were raised under Report on the Financial statements and Report on Lawfulness and Effectiveness in Use of Public Resources. Although the Management has indicated that some of the issues have been resolved, the actual status of the issues will be confirmed after they are discussed by the legislature.

### **Other Information**

Management are responsible for the other information, which comprises Key Company Information, Chairman's statement, Report of the Chief Executive Officer, Corporate Governance Statement, Management Discussions and Analysis, Environmental and Sustainability Reporting, Report of the Directors and the Statement of Directors' Responsibilities. The other information does not include the financial statements and my auditor's report thereon.

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

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

### **Conclusion**

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

### **Basis for Conclusion**

#### **1. Excessive Non-Revenue Water**

Water production records indicated that during the year under review the Company produced 6,461,280 cubic meters (M<sup>3</sup>) of water. However, out of this volume, only

3,799,968 cubic meters were billed to customers. The balance totalling 2,661,312 M<sup>3</sup> or approximately 41.19% of the production was denoted as Non-Revenue Water which was 16.9 percentage points above the allowable loss of 25% prescribed in guidelines issued by the Water Services Regulatory Board (WASREB). The NRW may have resulted in loss of sales estimated at Kshs.93,649,189 despite the Company having spent Kshs.2,616,100 on measures to reduce the losses.

In the circumstances, the significant level of Non-Revenue Water negatively impacted the Company's profitability and may pose a major risk to sustainability of its services.

## **2. Lack of Ethnic Diversity**

The Company had ninety-six (96) staff members out of whom, ninety-two (92) or 96% were drawn from the dominant ethnic group in Nyeri County. This was contrary to Section 7(2) of the National Cohesion and Integration Act, 2008 which states that no public establishment shall have more than one third of its staff from the same ethnic community.

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

## **3. Irregular Expenditure on Kenya Forest Way-Leave**

Note 11 to the financial statements reflects direct expenses totalling Kshs.20,313,359 which includes way-leave fees totalling Kshs.414,000 paid to the Kenya Forest Services (KFS) contrary to Section 131(2) of the Water Act, 2016. The law provides that a licensed water services provider shall not be required to pay any fees for the use of public assets for the provision of water services other than the repayment of loans acquired for the development of those assets.

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

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

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

### **Conclusion**

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

## **Basis for Conclusion**

The audit was conducted in accordance with ISSAI 2315 and ISSAI 2330. The standards require that I plan and perform the audit to obtain assurance about whether effective processes and systems of internal controls, 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, proper books of account have been kept by the Company, so far as appears from the examination of those books; and
- (iii) The Company's financial statements are in agreement with books of account.

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

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

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

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

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

The Board of Directors is responsible for overseeing the financial reporting process, reviewing the effectiveness of how the entity monitors compliance with relevant legislative and regulatory requirements, ensuring that effective processes and systems are in place

to address key roles and responsibilities in relation to governance and risk management, and ensuring the adequacy and effectiveness of the control environment.

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

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

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

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

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

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

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

I communicate with 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**

**15 July, 2022**

**OTHAYA MUKURWE-INI WATER SERVICES COMPANY**

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**XIII. STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME  
FOR THE YEAR ENDED 30 JUNE 2021.**

| <b>REVENUES</b>                        | Note | <b>2020-2021</b>   | <b>2019-2020</b>   |
|--|------|--------------------|--------------------|
|  |      | <b>Kshs</b>        | <b>Kshs</b>        |
| Operating Revenue                      | 6    | 141,919,679        | 134,769,607        |
| Other Operating Income                 | 7    | 8,816,860          | 6,966,413          |
| Grant Income                           | 8    | 5,209,839          | 6,989,122          |
| <b>Total income</b>                    |      | <b>155,946,378</b> | <b>148,725,142</b> |
| <b>OPERATING EXPENSES</b>              |      |                    |                    |
| Administration Expenses                | 9    | 29,667,427         | 25,388,149         |
| Personnel Costs                        | 10   | 71,863,851         | 65,054,426         |
| Direct Expenses                        | 11   | 20,313,359         | 20,456,724         |
| Water Supply Operation and Maintenance | 12   | 34,118,856         | 22,470,844         |
| Board Expenses                         | 13   | 2,337,600          | 4,563,080          |
| <b>Total Operating Expenses</b>        |      | <b>158,301,093</b> | <b>137,933,223</b> |
| <b>Gross Operating Income</b>          | 14   | <b>(2,354,715)</b> | <b>10,791,919</b>  |
| <b>Finance Income</b>                  |      |                    |                    |
| Interest Income                        | 15   | 2,867,007          | 1,357,757          |
|  |      | <b>2,867,007</b>   | <b>1,357,757</b>   |
| <b>Surplus before Taxation</b>         |      | <b>512,292</b>     | <b>12,149,676</b>  |
| Provision for Taxation                 | 16   | 860,102            | 2,257,895          |
| <b>Net surplus after Taxation</b>      |      | <b>(347,810)</b>   | <b>9,891,781</b>   |

**OTHAYA MUKURWE-INI WATER SERVICES COMPANY**

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**XIV. STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2021**


| ITEMS                               | Note | 2020-2021<br>Kshs  | 2019-2020<br>Kshs  |
|-------------------------------------|------|--------------------|--------------------|
| <b>NON-CURRENT ASSETS</b>           |      |                    |                    |
| Plant Property and Equipment        | 17   | 22,921,161         | 20,465,213         |
| Software                            | 18   | 2,905,800          | 5,802,900          |
| <b>TOTAL NON-CURRENT ASSETS</b>     |      | <b>25,826,961</b>  | <b>26,268,113</b>  |
| <b>CURRENT ASSETS</b>               |      |                    |                    |
| Inventories                         | 19   | 4,841,627          | 6,763,355          |
| Trade & Other Receivables           | 20   | 194,184,277        | 198,020,554        |
| Short Term Deposit                  | 21   | 44,309,055         | 42,847,826         |
| Cash and Bank Balances              | 22   | 9,983,146          | 8,937,041          |
| <b>TOTAL CURRENT ASSETS</b>         |      | <b>253,318,104</b> | <b>256,568,776</b> |
| <b>CURRENT LIABILITIES</b>          |      |                    |                    |
| Consumer deposits                   | 23   | 24,261,399         | 22,201,583         |
| Creditors, Prepayments and Accruals | 24   | 74,549,114         | 83,981,142         |
| Provision for Tax                   | 25   | 2,339,386          | 2,257,895          |
| Other Provisions                    | 26   | 1,764,000          | 1,764,000          |
| <b>TOTAL CURRENT LIABILITIES</b>    |      | <b>102,913,899</b> | <b>110,204,620</b> |
| <b>NET CURRENT ASSETS</b>           |      | <b>150,404,205</b> | <b>146,364,156</b> |
| <b>TOTAL ASSETS</b>                 |      | <b>176,231,166</b> | <b>172,632,269</b> |
| <b>FINANCED BY;</b>                 |      |                    |                    |
| <b>Equity &amp; Reserves</b>        |      |                    |                    |
| Capital Grant                       | 27   | 3,946,707          |                    |
| Revenue Reserves                    | 28   | 172,284,459        | 172,632,269        |
|                                     |      | <b>176,231,166</b> | <b>172,632,269</b> |
| <b>ACCUMULATED FUNDS</b>            |      | <b>176,231,166</b> | <b>172,632,269</b> |

The financial statements were approved by the Board on 27/09 2021 and signed on its behalf by:

**Managing Director**

  
Moses N N Munyi

**Head of Finance**

  
Peter N Gakuru  
ICPAK M/NO:12592

**Chairman of the Board**

  
Arthur G Mukira

**OTHAYA MUKURWE-INI WATER SERVICES COMPANY**

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**XV. STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 JUNE 2021**

|                      | Retained earnings | Total       |
|----------------------|-------------------|-------------|
| As at 01.07.2019     | 162,740,486       | 162,740,486 |
| Surplus for the year | 9,891,781         | 9,891,781   |
|                      |                   |             |
| AS AT 30.06.2020     | 172,632,267       | 172,632,267 |
|                      |                   |             |
| As at July 1, 2020   | 172,632,267       | 172,632,267 |
| Profit for the year  | (347,810)         | (347,810)   |
| As at June 30, 2021  | 172,284,457       | 172,284,457 |

**Note:**

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

**OTHAYA MUKURWE-INI WATER SERVICES COMPANY**

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**For the year ended June 30, 2021**

**XVI. STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2021**

|   | Note     | 2020-2021          | 2019-2020           |
|---|----------|--------------------|---------------------|
|   |          | Kshs               | Kshs                |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>                   |          | (2,354,715)        | 10,791,920          |
| <b>CASH GENERATED FROM/(USED IN) OPERATIONS</b>               |          | (2,385,558)        | 10,791,920          |
| Income Tax paid   | 16       | (778,611)          | (646,106)           |
| Depreciation  | 17       | 4,341,378          | 4,592,325           |
| Amortization  | 18       | 2,897,100          | 2,897,100           |
| Provisions for bad debts                                      | 11       | (797,447)          | 3,310,076           |
| Other Provisions  | 26       | 1,764,000          | 1,764,000           |
| Amortization of capital grants                                | 27       | -                  | (3,092,397)         |
| Provisions  | 26       | (1,764,000)        | (1,764,000)         |
| Decrease in Trade and Receivables                             | 20a      | 3,987,233          | (16,550,380)        |
| Decrease other receivables                                    | 20(b, c) | 646,491            | 4,796,807           |
| Decrease in Inventories                                       | 19       | 1,921,728          | 240,356             |
| Increase in Consumer deposits                                 | 23       | 2,059,816          | 1,730,000           |
| Decrease in Creditors   | 24       | (9,432,028)        | 15,130,490          |
| Increase in provisions  | 26       |                    | 498,220             |
| <b>NET CASH GENERATED FROM/(USED IN) OPERATING ACTIVITIES</b> |          | <b>2,490,945</b>   | <b>23,698,410</b>   |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>                   |          |                    |                     |
| Purchase of Property Plant & Equipment                        | 17       | (6,797,326)        | (2,881,231)         |
| Purchase of Software  | 18       | -                  | (8,700,000)         |
| <b>NET CASH GENERATED USED IN INVESTING ACTIVITIES</b>        |          | <b>(6,797,326)</b> | <b>(11,581,231)</b> |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>                   |          |                    |                     |
| Interest Income   | 15       | 2,867,007          | 1,357,757           |
| Grant in aid  | 28       | 3,946,707          | -                   |
| <b>NET CASH GENERATED FROM/(USED IN) FINANCING ACTIVITIES</b> |          | <b>6,813,714</b>   | <b>1,357,757</b>    |
| <b>INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS</b>       |          | <b>2,507,334</b>   | <b>13,474,935</b>   |
| <b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>         |          | <b>51,784,866</b>  | <b>38,309,931</b>   |
| Effects of foreign exchanges rate fluctuations                |          | 0                  | 0                   |
| <b>CASH AND CASH EQUIVALENTS AT END OF THE YEAR</b>           |          | <b>54,292,200</b>  | <b>51,784,866</b>   |

**OTHAYA MUKURWE-INI WATER SERVICES COMPANY**

**Annual Reports and Financial Statements  
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**XVII. STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS FOR THE PERIOD ENDED 30 JUNE 2021**

|  | Original budget    | Adjustments      | Final budget       | Actual on comparable basis | Performance difference | % of utilisation |
|--|--------------------|------------------|--------------------|----------------------------|------------------------|------------------|
|  | 2020-2021          | 2020-2021        | 2020-2021          | 2020-2021                  | 2020-2021              | 2020-2021        |
|  | Kshs               | Kshs             | Kshs               | Kshs                       | Kshs                   | %                |
| <b>Revenue</b>                         |                    |                  |                    |                            |                        |                  |
| Operating Revenue                      | 142,932,000        |                  | 142,932,000        | 141,919,679                | -1,012,321             | -0.71%           |
| Bottling Income                        | -                  |                  | -                  | -                          | -                      |                  |
| Other Incomes                          | 4,796,940          | 2,435,000        | 7,231,940          | 7,428,083                  | 196,143                | 3%               |
| Interest Income                        | 1,499,400          | 900,000          | 2,399,400          | 2,867,007                  | 467,607                | 19%              |
| Grant Income                           |                    | 4,209,839        | 4,209,839          | 4,209,839                  | -0.20                  | 0%               |
| <b>Total income</b>                    | <b>149,228,340</b> | <b>7,544,839</b> | <b>156,773,179</b> | <b>156,424,608</b>         | <b>-348,571</b>        | <b>0%</b>        |
| <b>Expenses</b>                        |                    |                  |                    |                            |                        |                  |
| Motor vehicle running cost             | 5,660,000          | 185,000          | 5,845,000          | 5,780,224                  | -64,776                | 1%               |
| Administration Expenses                | 7,120,317          | (1,124,133)      | 5,996,184          | 5,969,678                  | -26,506                | 0%               |
| General Expenses                       | 10,594,794         | 2,019,879        | 12,614,673         | 12,700,207                 | 85,534                 | -1%              |
| Personnel Costs                        | 81,005,844         | (410,467)        | 80,595,377         | 77,081,169                 | -3,514,208             | 4%               |
| Direct Expenses                        | 8,313,964          | (20,000)         | 8,293,964          | 8,646,674                  | 352,710                | -4%              |
| Water Production Cost                  | 8,198,040          | (928,657)        | 7,269,383          | 7,235,599                  | -33,784                | 0%               |
| Water Supply Operation and Maintenance | 9,984,792          | 9,703,254        | 25,085,656         | 25,118,540                 | 32,884                 | 0%               |
| Board Expenses                         | 3,143,370          | -                | 3,143,370          | 2,337,600                  | -805,770               | 26%              |
| NRW Management                         | 6,203,640          | -                | 6,203,640          | 6,455,454                  | 251,814                | -4%              |
| Other Costs                            | 8,995,000          | (3,800,000)      | 5,195,000          | 5,796,751                  | 601,751                | -12%             |
| <b>Total Expenditure</b>               | <b>149,219,761</b> | <b>5,624,876</b> | <b>160,242,247</b> | <b>157,121,896</b>         | <b>-3,120,351</b>      | <b>2%</b>        |
| <b>Surplus for the period</b>          | <b>8,579</b>       | <b>1,919,963</b> | <b>(3,469,068)</b> | <b>(697,288)</b>           | <b>2,771,780</b>       | <b>80%</b>       |

## OTHAYA MUKURWE-INI WATER SERVICES COMPANY

### Annual Reports and Financial Statements For the year ended June 30, 2021

**Note:** PFM Act section 81(2) ii and iv requires a National Government company to present appropriation accounts showing the status of each vote compared with the appropriation for the vote and a statement explaining any variations between actual expenditure and the sums voted. IFRS does not require entities complying with IFRS standards to prepare budgetary information because most of the entities that apply IFRS are private entities that do not make their budgets publicly available.

However, for public sector entities, the PSASB has considered the requirements of the PFM Act, 2012 which these statements comply with, the importance that the budgetary information would provide to the users of the statements and the fact that the public entities make their budgets publicly available and decided to include this statement under the IFRS compliant financial statements.

Budget notes: Provide explanation of differences between actual and budgeted amounts (10% over/ under) Provide an explanation of changes between original and final budget indicating whether the difference is due to reallocations or other causes. Where the total of actual on a comparable basis does not tie to the statement of financial performance totals due to differences in accounting basis (budget is cash basis, statement of financial performance is accrual) provide a reconciliation.

- **Interest Income:** during the year the company interest income increased beyond the budgeted due to monetary adjustments relating to Withholding Tax on interest income at the rate of 15% for the interest earned.
- **Board Expenses:** The company had anticipated to spend on induction for board members after the AGM. During the year the company did not spend on the item since the AGM was held late in the year and the anticipated costs were not absorbed.
- **Other Costs:** The company had costs relating to the cost of procurement of 6 Laptops, 10 Motorbikes & GPS devices were not absorbed in the year due to major variations in prices quoted for the assets relative to the budget.

## **OTHAYA MUKURWE-INI WATER SERVICES COMPANY**

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#### **XVIII. NOTES TO THE FINANCIAL STATEMENTS**

##### **1. General Information**

OMWASCO is established by and derives its authority and accountability from Company Act Cap 486. The company is wholly owned by the Government of Kenya and is domiciled in Kenya. The company's principal activity is provision of water and sewerage services to Mukurweini and Nyeri south sub counties.

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

##### **2. Statement of Compliance and Basis of Preparation**

The financial statements have been prepared on an Accrual cost basis except for the measurement at revalued amounts of certain items of property, plant and equipment, marketable securities and financial instruments at fair value, impaired assets at their estimated recoverable amounts and actuarially determined liabilities at their present value. The preparation of financial statements in conformity with International Financial Reporting Standards (IFRS) allows the use of estimates and assumptions. It also requires management to exercise judgement in the process of applying the company's accounting policies. The areas involving a higher degree of judgement or complexity, or where assumptions and estimates are significant to the financial statements, are disclosed in Note 4.

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

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

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**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 2021.**

| <b>Title</b>  | <b>Description</b>   | <b>Effective Date</b>  |
|---|--|--|
| IAS 39-Financial Instruments: Recognition and Measurement | IAS 39 "Financial Instruments: Recognition and Measurement" outlines the requirements for the recognition and measurement of financial assets, financial liabilities, and some contracts to buy or sell non-financial items. Financial instruments are initially recognized when a company becomes a party to the contractual provisions of the instrument and are classified into various categories depending upon the type of instrument, which then determines the subsequent measurement of the instrument (typically amortized cost or fair value). Special rules apply to embedded derivatives and hedging instruments. | The amendments are effective for annual periods beginning on or after January 1, 2020. Earlier application is permitted. |
| IFRS 4-Insurance Contracts (Superseded)                   | IFRS 4 "Insurance Contracts" applies, with limited exceptions, to all insurance contracts (including reinsurance contracts) that a company issues and to reinsurance contracts that it holds. In light of the IASB's comprehensive project on insurance contracts, the standard provides a temporary exemption from the requirements of some other IFRSs, including the requirement to consider IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors" when selecting accounting policies for insurance contracts.  | The amendments are effective for annual periods beginning on or after January 1, 2020. Earlier application is permitted. |
| IFRS 7-Financial Instrument Disclosures                   | IFRS 7 "Financial Instruments: Disclosures" requires disclosure of information about the significance of financial instruments to a company, and the nature and extent of risks arising from those financial instruments, both in qualitative and quantitative terms. Specific disclosures are required in relation to transferred financial assets and a number of other matters.   | The amendments are effective for annual periods beginning on or after January 1, 2020. Earlier application is permitted. |
| IFRS 16-Leases  | IFRS 16 specifies how to recognize, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring the recognition of assets and liabilities for all leases, unless the lease term is 12 months or less or the underlying asset has a low value. Lessor accounting however remains largely unchanged from IAS 17 and the distinction between operating and finance leases is retained.  | The amendments are effective for annual periods beginning on or after January 1, 2020. Earlier 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 not be a significant impact on the company's financial statements.

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

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

**ii. New and amended standards and interpretations in issue but not yet effective in the year ended 30 June 2021.**

| Title  | Description   | Effective Date  |
|--|---|---|
| IAS 1 —<br>Presentation of<br>Financial<br>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.  |
| IAS 12 —<br>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 company'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. | Earlier application is permitted. The amendments are effective for annual reporting periods beginning on or after January 1, 2023. Early adoption is permitted. |
| IAS 16 —<br>Property, Plant<br>and Equipment             | IAS 16 "Property, Plant and Equipment" outlines the accounting treatment for most types of property, plant and equipment. Property, plant and equipment is initially measured at its cost, subsequently measured either using a cost or revaluation model, and depreciated so that its depreciable amount is allocated on a systematic basis over its useful life.  | The amendments are effective for annual periods beginning on or after January 1, 2022. Early application is permitted.  |
| IAS 37 —<br>Provisions,<br>Contingent<br>Liabilities and | IAS 37 "Provisions, Contingent Liabilities and Contingent Assets" outlines the accounting for provisions (liabilities of uncertain timing or amount), together with contingent assets (possible assets) and contingent liabilities  | The amendments are effective for annual periods beginning on or after January 1, 2022. Early application is permitted.  |

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**Annual Reports and Financial Statements**

**For the year ended June 30, 2021**

|   |   |   |
|---|---|---|
| Contingent Assets   | (Possible obligations and present obligations that are not probable or not reliably measurable).  |   |
| IFRS 1 — First-time Adoption of International Financial Reporting Standards | IFRS 1 "First-time Adoption of International Financial Reporting Standards" sets out the procedures that a company must follow when it adopts IFRS for the first time as the basis for preparing its general purpose financial statements. The IFRS grants limited exemptions from the general requirement to comply with each IFRS effective at the end of its first IFRS reporting period.  | The amendments are effective for annual periods beginning on or after January 1, 2022.<br><br>Early application is permitted.   |
| IFRS 3 — Business Combinations  | IFRS 3 "Business Combinations" outlines the accounting when an acquirer obtains control of a business (e.g., an acquisition or merger). Such business combinations are accounted for using the 'acquisition method', which generally, requires assets acquired and liabilities assumed to be measured at their fair values at the acquisition date.   | The amendments are effective for annual periods beginning on or after January 1, 2022. Early application is permitted if a company also applies all other updated references (published together with the updated Conceptual Framework) at the same time or earlier.  |
| IFRS 17 — Insurance Contracts   | IFRS 17 establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts within the scope of the standard. The objective of IFRS 17 is to ensure that a company provides relevant information that faithfully represents those contracts. This information gives a basis for users of financial statements to assess the effect that insurance contracts have on the company's financial position, financial performance and cash flows. | The IASB tentatively decided to defer the effective date of IFRS 17, Insurance Contracts to annual periods beginning on or after January 1, 2022. [The IASB has also published 'Extension of the Temporary Exemption from Applying IFRS 9 (Amendments to IFRS 4)' to defer the fixed expiry date of the amendment also, to annual periods beginning on or after January 1, 2023.] |

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

**iii. Early adoption of standards**

The company did not early – adopt any new or amended standards in year 2020/2021

**Annual Reports and Financial Statements**

**For the year ended June 30, 2021**

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

**4. Summary of Significant Accounting Policies**

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

**a) Revenue recognition**

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

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

**b) In-kind contributions**

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

**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 revalued amounts, being their fair value at the date of revaluation less any subsequent accumulated depreciation and impairment losses. Where re-measurement at revalued 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 revaluation 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 recognized in profit or loss in the income statement.

- 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 costs of ongoing but incomplete works on buildings and other civil works and installations.

## **OTHAYA MUKURWE-INI WATER SERVICES COMPANY**

### **Annual Reports and Financial Statements**

**For the year ended June 30, 2021**

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

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

Depreciation on property, plant and equipment is 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:

| <b>ASSET</b>           | <b>DEPRECIATION RATE</b> |
|------------------------|--------------------------|
| Buildings and Tanks    | 2.5%                     |
| Furniture & Fittings   | 12.5%                    |
| Laboratory Equipment   | 12.5%                    |
| Computer & Accessories | 33.3%                    |
| Motorcycle             | 25%                      |

A full year's depreciation charge is recognized 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 recognized so that the asset is written down immediately to its estimated recoverable amount.

#### **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) Amortization and impairment of intangible assets**

Amortization 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 recognized 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.

**Annual Reports and Financial Statements**

**For the year ended June 30, 2021**

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**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 company incurs an obligation for costs to dismantle and remove a leased asset, restore the site on which it is located or restore the underlying asset to the condition required by the terms and conditions of the lease, a provision is recognized and measured under IAS 37. To the extent that the costs relate to a right-of-use asset, the costs are included in the related right-of-use asset, unless those costs are incurred to produce inventories. Right-of-use assets are depreciated over the shorter period of lease term and useful life of the underlying asset. If a lease transfers ownership of the underlying asset or the cost of the right-of-use asset reflects that the company expects to exercise a purchase option, the related right-of-use asset is depreciated over the useful life of the underlying asset. The depreciation starts at the commencement date of the lease. The right-of-use assets are presented as a separate line in the consolidated statement of financial position.

**i) Inventories**

Inventories are stated at the lower of cost and net realizable value. Cost comprises direct materials and, where applicable, direct labor 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.

**j) 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.

**k) Taxation**

**i) Current income tax**

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

**Annual Reports and Financial Statements**

**For the year ended June 30, 2021**

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

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**Summary of Significant Accounting Policies**

**l) 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 is 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.

**m) 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 authorized public officers and/or institutions which were not surrendered or accounted for at the end of the financial year.

**n) Borrowings**

Interest bearing loans and overdrafts are initially recorded at fair value being received, net of issue costs associated with the borrowing. Subsequently, these are measured at amortized cost using the effective interest rate method. Amortized cost is calculated by taking into account any issue cost and any discount or premium on settlement. Finance charges, including premiums payable 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 capitalized as part of the cost of the project.

**o) Trade and other payables**

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

**p) Retirement benefit obligations**

The company operates a defined contribution scheme for all full-time employees from July 1, 2016. The scheme is administered by CPF services and is funded by contributions from both the company and its employees. The company also contributes to the statutory National Social Security Fund (NSSF). This is a defined contribution scheme registered under the National Social Security Act. The company's obligation under the scheme is limited to specific contributions legislated from time to time and is currently at Kshs.200 per employee per month.

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**For the year ended June 30, 2021**

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

**Summary of Significant Accounting Policies**

**q) Provision for staff leave pay**

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

**r) Exchange rate differences**

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

**s) Budget information**

The original budget for FY 2020-2021 was approved by the BoD in June 2020. Subsequent revisions or additional appropriations were made to the approved budget in accordance with specific approvals from the Bod. The additional appropriations are added to the original budget by the company upon receiving the respective approvals in order to conclude the final budget.

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

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

**a) Service concession arrangements**

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

**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.

## OTHAYA MUKURWE-INI WATER SERVICES COMPANY

### Annual Reports and Financial Statements

For the year ended June 30, 2021

### NOTES TO THE FINANCIAL STATEMENTS (Continued)

#### Summary of Significant Accounting Policies

##### 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, 2021.

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

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

##### Estimates and assumptions

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

##### a) 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 Company
- The nature of the asset, its susceptibility and adaptability to changes in technology and processes
- The nature of the processes in which the asset is deployed
- Availability of funding to replace the assets

##### b) Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions is included in Note 26 of the financial statements.

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, included in the provisions are Provision for 2018/2019 AGM & stakeholders meeting and Provision for Audit Services 2020/2021.

##### 6. Revenue

|                     | 2020/2021          | 2019/2020          |
|---------------------|--------------------|--------------------|
|                     | Kshs               | Kshs               |
| Water sales-Billing | 141,919,679        | 134,660,477        |
| Bottled Water Sales |                    | 109,130            |
| <b>Total</b>        | <b>141,919,679</b> | <b>134,769,607</b> |

**OTHAYA MUKURWE-INI WATER SERVICES COMPANY**

**Annual Reports and Financial Statements  
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**NOTES TO THE FINANCIAL STATEMENTS (Continues)**

The company is recovering from post covid depression in revenue collection mainly due to missed revenues mainly from schools and commercial establishments not operating in the 2019-20 FY. The company closed the bottling plant and hence missed revenues during the year.

**7. Other Operating Income**

|                                     | 2020/2021        | 2019/2020        |
|-------------------------------------|------------------|------------------|
|                                     | Kshs             | Kshs             |
| Disposal of assets                  | 153,820          | 32,600           |
| Exhauster                           | 135,000          | 54,500           |
| Reconnection fee                    | 2,256,200        | 2,535,950        |
| Connection Charges                  | 2,931,300        | 2,712,500        |
| Other income                        | 1,951,763        | 1,630,863        |
| Compensation for loss of value      | 591,330          |                  |
| Decrease in provision for bad debts | 797,447          |                  |
| <b>Total</b>                        | <b>8,816,860</b> | <b>6,966,413</b> |

There has been significant increase in revenues from Disposal of assets mainly from sale of unused bottles in the period. The company also increased controls in exhauster services resulting in increased revenues for the period. During the year the company received incomes as compensation for damages caused on the pipelines, during road upgrades. The company further was able to recover aged debts to revenues resulting in reduction in provisions during the year.

**8. Grants from National Government**

|              | 2020/2021        | 2019/2020        |
|--------------|------------------|------------------|
|              | Kshs             | Kshs             |
| Grants       | 5,209,839        | 3,896,725        |
|              |                  | 3,092,397        |
| <b>Total</b> | <b>5,209,839</b> | <b>6,989,122</b> |

During the year the company received a second disbursement from WSTF under UBSurp project, whereas further funds were received from TWWDA to build capacity in the sewerage sector as part of last mile connectivity program.

| Name of the Company sending the grant | Amount recognized in the Statement of Comprehensive Income KShs | Amount deferred under deferred income Kshs | Amount recognized in capital fund. Kshs | Total grant income during the year Kshs | 2020-2021 Kshs   |
|---------------------------------------|---|--|---|---|------------------|
| Water services Trust Fund             | 4,209,839   |  | 3,946,707.0                             | 8,156,546                               | 8,156,546        |
| TWWDA                                 | 1,000,000   |  |   |   | 1,000,000        |
| <b>Total</b>                          | <b>5,209,839</b>  |  | <b>3,946,707.0</b>                      | <b>8,156,546</b>                        | <b>9,156,546</b> |

**OTHAYA MUKURWE-INI WATER SERVICES COMPANY**

**Annual Reports and Financial Statements  
For the year ended June 30, 2021**

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

**9. Administration Costs**

|  | 2020/2021         | 2019/2020         |
|--|-------------------|-------------------|
| Item                                     | Kshs              | Kshs              |
| Motor Vehicles/cycles service            | 1,750,967         | 1,962,977         |
| Motor Vehicle/Cycle Fuel and Lubricants  | 4,029,257         | 3,761,590         |
| Advertisement                            | 647,253           | 239,500           |
| Electricity                              | 236,848           | 289,513           |
| General Insurance                        | 576,676           | 596,226           |
| Maintenance of Software                  | 664,470           | 328,520           |
| Postage and Delivery                     | 934,495           | 803,383           |
| Repairs and maintenance buildings        | 315,403           | 473,763           |
| Repairs Computers & Computer accessories | 278,018           | 245,260           |
| Staff welfare                            | 410,350           | 1,045,889         |
| Stationery & Printing                    | 538,949           | 613,172           |
| Telephone                                | 456,200           | 437,000           |
| AGM Costs                                | 1,132,985         | 1,300,000         |
| Audit fee                                | 464,000           | 464,000           |
| Bank Charges                             | 91,445            | 116,514           |
| Compensation for damages                 | 355,960           | -                 |
| conference meetings                      | 629,561           | 673,138           |
| Corporate Social Responsibility          | 218,723           | 105,030           |
| General Office expenses                  | 315,500           | 334,433           |
| Insurance Medical                        | 2,974,053         | 4,026,100         |
| Internet services                        | 408,000           | 554,100           |
| OSHA Compliance                          | 600,360           | -                 |
| Journals and Newspaper                   | 47,760            | 43,560            |
| Legal & professional                     | 846,437           | 610,902           |
| Membership/Subsription fees              | 275,400           | 201,400           |
| Permits and licenses                     | 2,294,625         | 238,800           |
| Public participation                     | 223,867           | 622,202           |
| Security                                 | 2,438,000         | 2,250,000         |
| Sports                                   | -                 | 1,065,286         |
| Staff Uniforms                           | 221,490           | 350,401           |
| Governance & Strategy                    | 3,678,950         | -                 |
| Token of appreciation                    | -                 | 111,785           |
| Travel & Subsistence                     | 1,611,425         | 1,523,705         |
| <b>Total</b>                             | <b>29,667,427</b> | <b>25,388,149</b> |

- Advertisement: The company expenditure increased in the year arising from, EIA advertisement, AGM stakeholder engagement, and job advertisement.
- Maintenance of Software: The company incurred costs relating to costs of annual ERP software maintenance as per SLA contract.

## OTHAYA MUKURWE-INI WATER SERVICES COMPANY

### Annual Reports and Financial Statements For the year ended June 30, 2021

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

- Staff welfare; The company opted to give leave days in place of payment for weekend standby and hence the company did not incur costs on the weekend standby allowances.
- Compensation for damages: During the year the company was taken to court for compensation of assessed damages caused on a private property by a pipe burst.
- Insurance Medical; The company costs of medical reduced in the period due to change of insurer, from enhanced cover by NHIF to Britam insurance.
- OSHA Compliance: The company incurred costs relating to OSH Act compliance in procurement of gas chamber, training on first Aid and procurement of PPEs.
- Legal & professional: The costs relate to settlement of court decrement, legal costs for consultancy and professional; costs incurred in preparation of staff PCs.
- Permits and licenses: During the financial year the company paid performance guarantee during the application for license renewal. The costs are not annual but incurred during license application.
- Public participation: The company during the year did not engage with its internal stakeholders for license application as the cost had been incurred in prior financial year.
- Sports: During the year the company did not incur the costs since the anticipated WASCA games did not materialize.
- Governance and strategy: The company costs relate to midterm review of the strategic plan. The company also carried out a board and management tour to internalize the operationalization and commercialization of DTF and sewer in line with the extensions being carried out by TWWDA as part of last mile connectivity.

#### 10. Personnel Costs

| Description   | 2020/2021<br>Kshs | 2019/2020<br>Kshs |
|---|-------------------|-------------------|
| Salaries  | 59,860,572        | 57,335,099        |
| NSSF  | 242,400           | 257,000           |
| Pension   | 5,025,666         | 4,878,647         |
| Gratuity  | 2,992,922         | 2,065,560         |
| Contract Employees  | 2,616,100         | 0                 |
| Staff end year party  | 114,000           | 99,320            |
| Training staff  | 1,012,191         | 418,800           |
| <b>Total</b>  | <b>71,863,851</b> | <b>65,054,426</b> |
| The average number of employees at the end of the year was, |                   |                   |
| Permanent employees-Management                              | 4                 | 5                 |
| Permanent employees-Unionisable                             | 89                | 92                |
| Temporary and Contract Employee                             | 7                 | 4                 |
| Interns   | 1                 | 1                 |
|   | <b>101</b>        | <b>102</b>        |

- Salaries: The cost increase arose from implementation of CBA and contract staff salary reviews implemented during the year.
- Contract Employees; The company paid wages to staff engaged in short term contracts.

## OTHAYA MUKURWE-INI WATER SERVICES COMPANY

### Annual Reports and Financial Statements For the year ended June 30, 2021

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

- Training staff: The company increased investment in staff training to ensure staff productivity and update on technological changes during the year.

#### 11. Direct Expenses

| Description                          | 2020/2021<br>Kshs | 2019/2020<br>Kshs |
|--------------------------------------|-------------------|-------------------|
| Amortization                         | 2,897,100         | 2,897,100         |
| Kenya forest                         | 414,000           | 414,000           |
| Provision for Bad and Doubtful debts | -                 | 3,310,076         |
| Water Abstraction Fee (WARMA)        | 2,243,160         | 2,319,930         |
| Provision for Depreciation           | 4,341,378         | 4,592,325         |
| Lease fee & Regulatory levy          | 5,969,514         | 5,672,041         |
| WSTF Appropriation                   | 4,428,207         | 1,251,252         |
| WRUA Subscription                    | 20,000            | -                 |
| <b>Total Direct Expenses</b>         | <b>20,313,359</b> | <b>20,456,724</b> |

- WSTF Appropriation: The costs relate to costs of construction of 200 toilets and the administrative costs as per the grant contract between the company and WSTF as the donor.

#### 12. Water supply operation and maintenance

| Description                                  | 2020/2021<br>Kshs | 2019/2020<br>Kshs |
|--|-------------------|-------------------|
| Electricity for Production                   | 1,321,862         | 1,175,255         |
| Environment Conservation                     | 39,000            | -                 |
| Intake Maintenance                           | 481,100           | 521,323           |
| Minor Works                                  | 11,231,070        | 1,178,610         |
| Non-Revenue Management costs                 | 6,455,454         | 7,968,261         |
| Maintenance water system                     | 8,843,333         | 5,819,743         |
| Sewerage Expenses                            | 353,400           | 142,800           |
| Water Bottling Expense                       | -                 | 61,516            |
| Laboratory Reagents & Equipment              | 138,780.0         | -                 |
| Water Treatment Chemicals                    | 5,254,857         | 5,603,336         |
| <b>Total Repairs &amp; Maintenance Costs</b> | <b>34,118,856</b> | <b>22,470,844</b> |

- Minor Works: The company during the year has experienced increased damage to distribution and service pipelines arising from road grading. The company has invested in procurement and replacement of pipes at Gakindu and Mumwe zones as a measure to reduce NRW and replacement of destroyed pipe network.
- Non-Revenue Management costs: The company has procured PN250 meters for installation to new connections and NRW zoning during the year where a total of 2,000 consumer meters were procured and installed.

## OTHAYA MUKURWE-INI WATER SERVICES COMPANY

### Annual Reports and Financial Statements

For the year ended June 30, 2021

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

- Maintenance water system: The company procured fittings for maintenance of the service lines, hire of butt fusion machine, procurement of pipes, tangit and connectors. In addition, due to the need to ensure quality of procured meters, samples of 10% of every batch of meters purchased were taken through quality test at Nyewasco
- Sewerage Expenses: The company in the year procured sewer rods to service the lines and assist in unblocking of the sewer systems.
- Water Bottling Expense: The company did not incur costs for bottling since operations were stopped.
- Laboratory Reagents & Equipment: The company undertook the calibration of lab equipment to ensure compliance with KEBBS standards.

#### 13. Board Expenses

|                          | 2020/2021        | 2019/2020        |
|--------------------------|------------------|------------------|
| Description              | Kshs             | Kshs             |
| Sitting Allowance        | 2,337,600        | 2,282,800        |
| Training costs board     | -                | 2,280,280        |
| <b>Total Board Costs</b> | <b>2,337,600</b> | <b>4,563,080</b> |

During the year the company did not incur any cost on induction since there were no new directors at the company in the financial year.

#### 14. Interest Income

|   | 2020/2021        | 2019/2020        |
|---|------------------|------------------|
| Description   | Kshs             | Kshs             |
| Interest from commercial banks and financial institutions | 2,867,007        | 1,357,757        |
| <b>Total</b>  | <b>2,867,007</b> | <b>1,357,757</b> |

#### 15. Operating profit/ (loss)

|  | 2020/2021          | 2019/2020          |
|--|--------------------|--------------------|
|  | Kshs               | Kshs               |
| <b>The operating profit/(loss) is arrived at after charging/(crediting):</b> |                    |                    |
| Administration and General Expenses  | 29,667,427         | 25,388,149         |
| Personnel Costs  | 71,863,851         | 65,054,426         |
| Direct Expenses  | 20,313,359         | 20,456,723         |
| Water Supply Operation and Maintenance                                       | 34,118,856         | 22,470,844         |
| Board Expenses   | 2,337,600          | 4,563,080          |
| <b>Total</b>   | <b>158,301,093</b> | <b>137,933,222</b> |

**OTHAYA MUKURWE-INI WATER SERVICES COMPANY****Annual Reports and Financial Statements****For the year ended June 30, 2021****NOTES TO THE FINANCIAL STATEMENTS (Continued)****16. Income Tax Expense/(Credit)****(a) Current taxation**

|   | 2020/2021      | 2019/2020        |
|---|----------------|------------------|
|   | Kshs           | Kshs             |
| Current tax based on adjusted profit at 30% | 860,102        | 2,257,895        |
| <b>Total</b>                                | <b>860,102</b> | <b>2,257,895</b> |

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

|   | 2020/2021        | 2019/2020        |
|---|------------------|------------------|
|   | Kshs             | Kshs             |
| Profit before Taxation                        | 512,292          | 12,613,676       |
| Tax at applicable rate 30%                    | 153,688          | 3,784,103        |
| Tax effect on expenses not deductible for tax | 2,171,543        | 3,239,850        |
| Tax effect on incomes not deductible for tax  | (2,123,054)      | (2,504,064)      |
| Tax effects on Capital allowance              | (2,217,862)      | (2,347,693)      |
| Tax on Interest Income                        | 860,102          | 407,327          |
|   | <b>860,102</b>   | <b>31,951</b>    |
| Tax charge for the year                       | 860,102          | 2,257,895        |
| Bal B/d                                       | 2,257,895        | 646,106          |
| Withholding tax on interest                   | (430,051)        |                  |
| Tax Paid                                      | (348,560)        | (646,106)        |
| <b>Total</b>                                  | <b>2,339,385</b> | <b>2,257,895</b> |

The company is in an overall loss position but is due to pay income tax on interest income earned during the year at 30% this being a separate tax surplus.

**OTHAYA MUKURWE-INI WATER SERVICES COMPANY**

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For the year ended June 30, 2021

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

**17. Property, Plant and Equipment**

| 2021                                   | Furniture and Fittings | Computers and Accessories | Water meters and Distribution Pipelines | Motorcycle/ Vehicle | Water Tanks & Buildings | Water Tanks & Buildings | WIP              | Totals             |
|--|------------------------|---------------------------|---|---------------------|-------------------------|-------------------------|------------------|--------------------|
| <b>COST OR VALUATION</b>               | Kshs.                  | Kshs.                     | Kshs.                                   | Kshs.               | Kshs.                   | Kshs.                   |                  | Kshs.              |
|  | 12.50%                 | 33.30%                    | 20.00%                                  | 25.00%              | 2.50%                   | 12.50%                  |                  |                    |
| At July 1, 2020                        | 1,938,473              | 7,726,016                 | 94,322,696                              | 5,804,000           | 4,163,211               | 2,786,343               |                  | 116,740,739        |
| Additions                              | 12,000                 | 1,070,849                 | 447,000                                 | 1,058,240           |                         | 262,530                 | 3,946,707        | 6,797,326          |
| <b>At June 30, 2021</b>                | <b>1,950,473</b>       | <b>8,796,865</b>          | <b>94,769,696</b>                       | <b>6,862,240</b>    | <b>4,163,211</b>        | <b>3,048,873</b>        | <b>3,946,707</b> | <b>123,538,065</b> |
| <b>DEPRECIATION</b>                    |                        |                           |   |                     |                         |                         |                  |                    |
| At July 1, 2020                        | 1,084,839              | 6,055,259                 | 81,498,876                              | 5,419,789           | 973,484                 | 1,243,280               | -                | 96,275,527         |
| Charge for the year                    | 108,204                | 912,955                   | 2,654,164                               | 360,613             | 79,743                  | 225,699                 | -                | 4,341,378          |
| <b>At June 30, 2021</b>                | <b>1,193,043</b>       | <b>6,968,214</b>          | <b>84,153,040</b>                       | <b>5,780,402</b>    | <b>1,053,227</b>        | <b>1,468,979</b>        | <b>-</b>         | <b>100,616,905</b> |
| <b>NET BOOK VALUE At June 30, 2021</b> | <b>757,430</b>         | <b>1,828,651</b>          | <b>10,616,656</b>                       | <b>1,081,838</b>    | <b>3,109,984</b>        | <b>1,579,894</b>        | <b>3,946,707</b> | <b>22,921,160</b>  |
| <b>2020</b>                            |                        |                           |   |                     |                         |                         |                  |                    |
| <b>COST OR VALUATION</b>               |                        |                           |   |                     |                         |                         |                  |                    |
| As at 1 July 2019                      | 1,874,357              | 6,262,936                 | 93,618,481                              | 5,804,000           | 4,060,211               | 2,239,523               | -                | 113,859,508        |
| Additions                              | 64,116                 | 1,463,080                 | 704,215                                 | -                   | 103,000                 | 546,820                 | -                | 2,881,231          |
| <b>As at 30<sup>th</sup> June 2020</b> | <b>1,938,473</b>       | <b>7,726,016</b>          | <b>94,322,696</b>                       | <b>5,804,000</b>    | <b>4,163,211</b>        | <b>2,786,343</b>        | <b>-</b>         | <b>116,740,739</b> |
| <b>DEPRECIATION</b>                    |                        |                           |   |                     |                         |                         |                  |                    |
| At July 1, 2019                        | 962,891                | 5,221,133                 | 78,292,921                              | 5,291,718           | 891,696                 | 1,022,842               |                  | 91,683,201         |
| Charge for the year                    | 121,948                | 834,126                   | 3,205,955                               | 128,071             | 81,788                  | 220,438                 |                  | 4,592,325          |
| <b>As at 30<sup>th</sup> June 2021</b> | <b>1,084,839</b>       | <b>6,055,259</b>          | <b>81,498,876</b>                       | <b>5,419,789</b>    | <b>973,484</b>          | <b>1,243,280</b>        |                  | <b>96,275,526</b>  |
| <b>NET BOOK VALUE At June 30, 2020</b> | <b>853,634</b>         | <b>1,670,757</b>          | <b>12,823,820</b>                       | <b>384,212</b>      | <b>3,189,727</b>        | <b>1,543,063</b>        |                  | <b>20,465,213</b>  |

Capital Work in Progress relates to the DTF plant under construction in Mukurweini for enhancement of sewer treatment at Mukurweini town.

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

**17 (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              |
| Furniture and Fittings                  | 1,950,473          | 1,193,043                | 757,430           |
| Computers and Accessories               | 8,796,865          | 6,968,214                | 1,828,651         |
| Water meters and Distribution Pipelines | 94,769,696         | 84,153,040               | 10,616,656        |
| Motorcycle/ Vehicle                     | 6,862,240          | 5,780,402                | 1,081,838         |
| Water Tanks & Buildings                 | 4,163,211          | 1,053,227                | 3,109,984         |
| Lab equipment & loose tools             | 3,048,873          | 1,468,979                | 1,579,894         |
| Work in progress                        | 3,946,707          |                          | 3,946,707         |
|   | <b>123,538,065</b> | <b>100,616,905</b>       | <b>22,921,160</b> |

The company uses reducing balance method of depreciation hence no asset has zero depreciation

**18. Intangible Assets**

|                       | 2020/2021          | 2019/2020          |
|-----------------------|--------------------|--------------------|
|                       | Kshs               | Kshs               |
| <b>COST</b>           |                    |                    |
| At July 1             | 10,362,628         | 1,662,628          |
| Additions             |                    | 8,700,000          |
| Disposals             | (-)                | (-)                |
| At June 30            | <b>10,362,628</b>  | <b>10,362,628</b>  |
| <b>AMORTISATION</b>   |                    |                    |
| At July 1             | (4,559,728)        | (1,662,628)        |
| Charge for the year   | (2,897,100)        | (2,897,100)        |
| Disposals             | (-)                | (-)                |
| At June 30            | <b>(7,456,828)</b> | <b>(4,559,728)</b> |
| <b>NET BOOK VALUE</b> | <b>2,905,800</b>   | <b>5,802,900</b>   |

**19. Inventories**

|             | 2020/2021        | 2019/2020        |
|-------------|------------------|------------------|
|             | Kshs             | Kshs             |
| Inventories | 4,841,627        | 6,763,355        |
|             | <b>4,841,627</b> | <b>6,763,355</b> |

**OTHAYA MUKURWE-INI WATER SERVICES COMPANY**

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

**20. Trade and Receivables**

|   | Buildings          | Plant              |
|---|--------------------|--------------------|
|   | Kshs               | Kshs               |
| Trade Receivables (20 a)  | 237,852,700        | 241,839,933        |
| Other Receivables (20 b)  | 3,143,836          | 3,143,836          |
| VAT Recoverable (20 c)  | 758,281            | 1,404,772          |
| Staff Insurance Medical Cover   | -                  | -                  |
| Gross Trade & Receivables   | <b>241,754,817</b> | <b>246,388,541</b> |
| Other provision for Bad & Doubtful debts  | (47,570,540)       | (48,367,987)       |
| Trade and Receivables   | <b>194,184,277</b> | <b>198,020,554</b> |
| <b>a. Trade Receivables</b>   |                    |                    |
| <b>Debtors</b>  | 237,852,700        | 241,839,933        |
| Less Provisions for bad & doubtful debts  | (47,570,540)       | (48,367,987)       |
| Net trade & Receivables   | <b>190,282,160</b> | <b>193,471,946</b> |
| <b>Increase (Decrease) in provisions</b>  | <b>(797,447)</b>   |                    |
|   | <b>237,852,700</b> | <b>241,839,933</b> |
| <b>As at June30, the aging analysis of gross trade receivables was;</b>   |                    |                    |
| Less than 30days  | 5,361,908          | 10,954,237         |
| Between 30-60 Days  | 6,122,082          | 7,525,319          |
| Between 61-90 Days  | 6,649,679          | 7,832,827          |
| Between 91-120 Days   | 5,536,989          | 8,760,195          |
| Over 120 Days   | 214,182,042        | 206,767,355        |
|   | <b>237,852,700</b> | <b>241,839,933</b> |
| Accounts over 120 days represent debts received from National water & pipeline corporation most of which are not traceable to the consumers. There are registered complaints relating to billing with no water during the years 2007-2014 when ADB project was completed that resulted in improved water supply in the company. At the close of the period 11951 (2019;11780) accounts were disconnected. |                    |                    |
| <b>b. Other Receivables</b>   |                    |                    |
| Balance on TWSB account   | 3,138,836          | 3,138,836          |
| Safaricom Ltd   | 5,000              | 5,000              |
|   | <b>3,143,836</b>   | <b>3,143,836</b>   |
| <b>C. VAT Recoverable</b>   |                    |                    |
| VAT b/f   | 1,404,772          | 2,175,479          |
| Debits  | 716,284            | 947,525            |
| Credits   | (1,722,092)        | (1,718,232)        |
| Adjustment credited   | 359,317            | -                  |
| <b>VAT C/F</b>  | <b>758,281</b>     | <b>1,404,772</b>   |

**OTHAYA MUKURWE-INI WATER SERVICES COMPANY**

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

**21. Short Term Deposit**

|  | 2020/2021         | 2019/2020         |
|--|-------------------|-------------------|
|  | Kshs              | Kshs              |
| <b>Short Term Deposit</b>  |                   |                   |
| Cash At Bank   | 44,309,055        | 42,847,826        |
|  | <b>44,309,055</b> | <b>42,847,826</b> |
| <b>Financial Institution</b>   |                   |                   |
| a) Call Deposit Account  |                   |                   |
| Kenya Commercial Bank  | 14,309,055        | 12,847,826        |
| Fixed deposit Equity bank  | 20,000,000        | 20,000,000        |
| Fixed deposit Coop bank  | 10,000,000        | 10,000,000        |
| These relate to customer deposits held by the company in a call deposit account. The average effective interest on the call deposit as at June 30, 2021 was 6.5% (June 2020, 6%) | <b>44,309,055</b> | <b>42,847,826</b> |

**22. Bank and Cash Balance**

|  | 2020/2021        | 2019/2020        |
|--|------------------|------------------|
|  | Kshs             | Kshs             |
| <b>Bank and Cash Balance</b>           |                  |                  |
| <b>Current Account</b>                 | 9,435,614        | 7,401,373        |
| <b>Others</b>                          | 547,533          | 1,535,668        |
|  | <b>9,983,146</b> | <b>8,937,041</b> |
| <b>Financial Institution</b>           |                  |                  |
| a) <b>Current Account</b>              |                  |                  |
| Cash At Bank (KCB)                     | 1,367,520        | 98,747           |
| Cash At Bank (Equity Bank Development) | 1,105,067        | (21,136)         |
| Cash At Bank (Coop Bank)               | 1,959,496        | 1,959,496        |
| Cash At Bank (Coop Bank) Collection AC | 250,163          | 1,566,872        |
| Cash At Bank (Equity Bank)             | 3,420,708        | 1,151,921        |
| Cash At Bank KCB(WSTF)                 | 1,328,340        | 2,645,473        |
| Cash At Bank KCB(CLSG)                 | 4,320            | -                |
|  | <b>9,435,614</b> | <b>7,401,373</b> |

**OTHAYA MUKURWE-INI WATER SERVICES COMPANY****Annual Reports and Financial Statements  
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|                                | 2020/2021        | 2019/2020        |
|--------------------------------|------------------|------------------|
|                                | Kshs             | Kshs             |
| <b>b) Others</b>               |                  |                  |
| Cash at Hand                   | 12,630           | 3,940            |
| M-Pesa Account                 | 476,577          | 642,751          |
| Cash at Bank-Equity Eazzy 24/7 | 58,326           | 888,977          |
|                                | 547,533          | 1,535,668        |
| <b>Grand Total</b>             | <b>9,983,146</b> | <b>8,937,041</b> |

**23. Consumer deposit**

|                         | 2020/2021         | 2019/2020         |
|-------------------------|-------------------|-------------------|
|                         | Kshs              | Kshs              |
| Balance Brought forward | 22,201,583        | 20,471,583        |
| Deposits for the year   | 2,076,816         | 1,740,000         |
| Refund                  | (17,000)          | (10,000)          |
|                         | <b>24,261,399</b> | <b>22,201,583</b> |

During the year the company mobilized new connections, whereas deposit refunds were Kshs17,000.

**24. Creditors Prepayments and Accruals**

|                  | 2020/2021         | 2019/2020         |
|------------------|-------------------|-------------------|
|                  | Kshs              | Kshs              |
| Related Parties  | 61,671,574        | 58,462,277        |
| Staff Costs      | 1,356,228         | 2,640,284         |
| Creditors        | 9,791,946         | 21,307,141        |
| Prepaid Accounts | 1,729,366         | 1,539,312         |
| VAT WHT payable  |                   | 32,128            |
|                  | <b>74,549,114</b> | <b>83,981,142</b> |

Related party includes accrued amount payables to TWWDA, OAG, WASPA, WRUA, WRA, KFS being external stakeholders for services.

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

**25. Tax Provision**

|   | 2020/2021        | 2019/2020        |
|---|------------------|------------------|
|   | Kshs             | Kshs             |
| Profit before Taxation                        | 512,292          | 12,613,676       |
| Tax at applicable rate 30%                    | 153,688          | 3,784,103        |
| Tax effect on expenses not deductible for tax | 3,500,006        | 3,239,850        |
| Tax effect on incomes not deductible for tax  | (2,123,054)      | (2,504,064)      |
| Tax effected on Capital allowance             | (2,217,862)      | (2,347,693)      |
| Tax effect on Losses B/f                      | 687,223          | (2,547,572)      |
| Tax on Interest Income                        | 860,102          | 407,327          |
|   | <b>860,102</b>   | <b>31,951</b>    |
| Tax charge for the year                       | 860,102          | 2,257,895        |
| Current Tax;2019/2020 under provision         | -                | -                |
| Bal B/d                                       | 1,909,335        | 646,106          |
| Tax Paid/WHT                                  | (430,051)        | (646,106)        |
|   | -                | -                |
| <b>Total</b>                                  | <b>2,339,386</b> | <b>2,257,895</b> |

Tax charge for the year arose from interest income from fixed deposits.

**26. Other Provision**

|  | 2020/2021        | 2019/2020        |
|--|------------------|------------------|
|  | Kshs             | Kshs             |
| Provision for AGM & stakeholders meeting | 1,300,000        | 1,300,000        |
| Provision for Audit Services 2019/2020   |                  | 464,000          |
| Provision for Audit Services 2020/2021   | 464,000          |                  |
|  | <b>1,764,000</b> | <b>1,764,000</b> |
| <b>Provision for leave</b>               |                  |                  |
| Balance Brought forward                  | (0)              | 10,080           |
| Leave Provision for the year             | 1,267,368        | 1,202,516        |
| Leave taken in the year                  | (1,267,367)      | (1,212,597)      |
|  | <b>0</b>         | <b>(0)</b>       |

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### NOTES TO THE FINANCIAL STATEMENTS (Continued)

#### 27. Grants

|              | 2020/2021        | 2019/2020        |
|--------------|------------------|------------------|
|              | Kshs             | Kshs             |
| Grants       | 3,946,707.0      | 3,896,725        |
| <b>Total</b> | <b>3,946,707</b> | <b>3,896,725</b> |

#### 28. Revenue Reserves

|                 | 2020/2021          | 2019/2020          |
|-----------------|--------------------|--------------------|
|                 | Kshs               | Kshs               |
| Brought Forward | 172,632,269        | 162,740,488        |
| Surplus         | 512,292            | 12,149,676         |
| Tax provision   | (860,102)          | (2,257,895)        |
|                 | <b>172,284,459</b> | <b>172,632,269</b> |

The retained earnings represent amounts available for distribution to the company's shareholders. The company being a company under guarantee does not distribute surpluses to its owners at the close of the period. The business ploughs back its retained earnings to finance the company's business activities.

#### 29. Borrowings

The company did not borrow any financial obligation in the course of the year.

#### 30. Retirement benefit Asset/ Liability

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

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

**31. Notes to The Statement of Cash Flows**

|  | 2020-2021        | 2019-2020        |
|--|------------------|------------------|
|  | Kshs             | Kshs             |
| <b>(a) Reconciliation of operating profit/(loss) to cash generated from/(used in) operations</b> |                  |                  |
| Profit or loss before tax  | 512,292          | 12,149,676       |
| Depreciation   | 4,341,378        | 4,592,325        |
| Amortisation   | 2,897,100        | 2,897,100        |
| Provision for cost   | 1,764,000        | 1,764,000        |
| Decrease/increase in Provisions for bad debts  | (797,447)        | 3,310,076        |
| Operating profit/(loss) before working capital changes   | 8,717,323        | 24,713,177       |
| (Increase)/decrease in inventories   | 1,921,728        | 240,356          |
| (Increase)/decrease in trade and other receivables   | 3,836,277        | (8,443,497)      |
| Increase/(decrease) in customer deposit  | 2,059,816        | 1,730,000        |
| Increase/(decrease) in Creditors, Prepayments and Accruals                                       | (9,432,028)      | 15,130,490       |
| Increase/(decrease) in tax provision   | 81,491           | 1,611,789        |
|  |                  |                  |
| Cash generated from/(used in) operations   | 7,184,607        | 34,982,315       |
|  |                  |                  |
| <b>(b) Analysis of Grant Receipts</b>  |                  |                  |
| <b>Balance at beginning of the year</b>  |                  |                  |
| Capital grant received   | 3,946,707        | 3,896,725        |
|  |                  |                  |
| <b>Balance at end of the year</b>  | <b>3,946,707</b> | <b>3,896,725</b> |
| <b>(c) Analysis of cash and cash equivalents</b>   |                  |                  |
| Short term deposits  | 44,309,055       | 42,847,826       |
| Cash at bank   | 9,435,614        | 7,401,373        |
| Cash in hand   | 547,533          | 1,535,668        |
|  |                  |                  |
| Balance at end of the year   | 54,292,201       | 51,784,867       |

**32. Related Party Disclosures**

**Government of Kenya**

The County Government of Nyeri is the principal shareholder of the company, The company is registered by guarantee held by various institutional stakeholders. The Government of Kenya has provided full guarantees to all long-term lenders of the company, both domestic and external.

Other related parties include:

- i) The Parent Ministry
- ii) County Government of Nyeri
- iii) Key management
- iv) Board of directors

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**NOTES TO THE FINANCIAL STATEMENTS (Continued)****Transactions with related parties**

|   | 2020-2021         | 2019-2020         |
|---|-------------------|-------------------|
|   | Kshs              | Kshs              |
| <b>a) Sales to related parties</b>                          |                   |                   |
| Water sales to Govt. agencies                               | 9,966,792         | 0                 |
| <b>Total</b>  | <b>9,966,792</b>  | <b>0</b>          |
| <b>b) Purchases from related parties</b>                    |                   |                   |
| Purchases of electricity from KPLC                          | 1,558,710         | 1,464,768         |
| Levies by govt service providers                            | 8,212,674         | 7,991,971         |
| Training and conference fees paid to govt. agencies         | 823,350           | 0                 |
| <b>Total</b>  | <b>10,594,734</b> | <b>9,456,739</b>  |
| <b>b) Grants from the Government</b>                        |                   |                   |
| Grants from National Government                             | 8,156,546         | 3,896,725         |
| Grants from County Government                               |                   |                   |
| <b>Total</b>  | <b>8,156,546</b>  | <b>3,896,725</b>  |
| <b>c) Expenses incurred on behalf of related party</b>      |                   |                   |
| Payments of salaries and wages for 101,(2020:102) employees | 71,863,851        | 65,054,426        |
| <b>Total</b>  | <b>71,863,851</b> | <b>65,054,426</b> |
| <b>d) Key management compensation</b>                       |                   |                   |
| Directors' emoluments                                       | 2,337,600         | 2,282,800         |
| Compensation to key management                              | 8,181,357         | 7,017,006         |
| <b>Total</b>  | <b>10,518,957</b> | <b>9,299,806</b>  |

**33. Financial Risk Management**

The company's activities expose it to a variety of financial risks including credit and liquidity risks and effects of changes in foreign currency. The company's overall risk management program 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 company has exposure to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when due. Credit risk arises from cash and cash equivalents, and deposits with banks, as well as trade and other receivables and available-for-sale financial investments.

Management assesses the credit quality of each customer, 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.

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

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

**(NB: The totals column should tie to the individual elements of credit risk disclosed in the company's statement of financial position)**

The customers under the fully performing category are paying their debts as they continue consuming the water. The credit risk associated with these receivables is minimal and the allowance for uncollectible amounts that the company has recognized in the financial statements is considered adequate to cover any potentially irrecoverable amounts. The company has a significant concentration of credit risk on amounts due from coffee companies, deceased consumers.

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.

#### ii) Liquidity risk management

Ultimate responsibility for liquidity risk management rests with the company's directors, who have built an appropriate liquidity risk management framework for the management of the company's short,

medium and long-term funding and liquidity management requirements. The company manages liquidity risk through continuous monitoring of forecasts and actual cash flows.

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

|                             | Less than 1<br>month | Between 1-3<br>months | Over 5<br>months  | Total             |
|-----------------------------|----------------------|-----------------------|-------------------|-------------------|
|                             | Kshs                 | Kshs                  | Kshs              | Kshs              |
| <b>At 30 June 2021</b>      |                      |                       |                   |                   |
| Trade payables              | 7,833,815            | 987,793               | 63,998,139        | 72,819,748        |
| Provisions                  | 1,764,000            | 0                     | 0                 | 1,764,000         |
| Employee benefit obligation |                      |                       |                   |                   |
| <b>Total</b>                | <b>9,597,815</b>     | <b>987,793</b>        | <b>63,998,139</b> | <b>74,583,748</b> |
| <b>At 30 June 2020</b>      |                      |                       |                   |                   |
| Trade payables              | 2,562,007            | 2,058,409             | 16,686,725        | 21,307,141        |
| Prepayments                 | 0                    | 0                     | 1,539,312         | 1,539,312         |
| VAT WHT payable             | 0                    | 0                     | 32,128            | 32,128            |
| Due to related parties      | 711,562              | 2,491,768             | 55,258,947        | 58,462,277        |
| Employee benefit obligation | 2,640,284            | 0                     | 0                 | 2,640,284         |
| <b>Total</b>                | <b>5,913,853</b>     | <b>4,550,177</b>      | <b>73,517,112</b> | <b>83,981,142</b> |

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

##### **(iii) Market risk**

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

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

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

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

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

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

|  | Kshs               | Other currencies | Total              |
|--|--------------------|------------------|--------------------|
|  | Kshs               | Kshs             | Kshs               |
| <b>At 30 June 2021</b>                 |                    |                  |                    |
| <b>Financial assets</b>                |                    |                  |                    |
| Investments                            | 0                  | 0                | 0                  |
| Cash                                   | 54,292,201         | 0                | 54,292,201         |
| Debtors                                | 241,754,817        | 0                | 241,754,817        |
| <b>Financial Liabilities</b>           |                    |                  |                    |
| Trade and other payables               | 149,098,228        | 0                | 149,098,228        |
| Consumer Deposit                       | 24,261,399         | 0                | 24,261,399         |
| Net foreign currency asset/(liability) | <b>122,687,391</b> | <b>0</b>         | <b>122,687,391</b> |

##### **a) Interest rate risk**

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

##### **i) Management of interest rate risk**

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

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

##### ii) Fair value of financial assets and liabilities

###### a) Financial instruments measured at fair value

Determination of fair value and fair values hierarchy

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

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

As at the close of the financial year the company did not have any financial instruments.

There were no transfers between levels 1, 2 and 3 during the year.

###### Financial instruments not measured at fair value

Disclosures of fair values of financial instruments not measured at fair value have not been made because the carrying amounts are a reasonable approximation of their fair values.

##### iv) Capital Risk Management

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

|  | 2020-2021          | 2019-2020          |
|--|--------------------|--------------------|
|  | Kshs               | Kshs               |
| Revaluation reserve                          | 0                  | 0                  |
| Retained earnings                            | 172,253,614        | 172,632,267        |
| Capital reserve                              | -                  | -                  |
| <b>Total funds</b>                           | <b>172,253,614</b> | <b>172,632,267</b> |
| Total borrowings                             | -                  | -                  |
| Less: cash and bank balances                 | (54,292,201)       | (51,784,867)       |
| Net debt/ (excess cash and cash equivalents) | -                  | -                  |
| <b>Gearing</b>                               | <b>0%</b>          | <b>0%</b>          |

Gearing is determined as the **total debt** divided by the **total equity**, then take the ratio and multiply it by 100 to express the ratio as a percentage. The company does not have any debt gearing.

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

**34. Incorporation**

The company is incorporated in Kenya under the Kenyan Companies Act 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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**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. | Issue / Observations from Auditor 2019/2020 Financial year (Draft report)  | Management comments  | Status: (Resolved / Not Resolved) | Timeframe: (Put a date when you expect the issue to be resolved) |
|---------------|--|--|-----------------------------------|--|
| 1             | <p>Non-Compliance with the recommended financial reporting template. A review of the financial statements presented for audit revealed the following observations:</p> <p>i. Notes to the financial statements numbers 1 to 5 have been skipped while title to note 6 is cash and cash equivalents instead of operating revenue</p> <p>ii. Statement of directors' responsibilities on page 35 has not indicated the applicable legislation under which the company is regulated.</p> <p>iii. Appendix III on inter-company transfers has not been signed by the head of accounting unit-Water Sector Trust Fund (WSTF).</p> | <p>Notes 1-5 contain accounting information and are between pages 47-57. Note 6, has been worded to reflect Operating revenue.</p> <p>Statement of directors' responsibility revised to capture water act 2016 as part of the.</p> <p>The intercompany transfers relate to funds issued by WSTF under appendix 3. The financial prepared by Directors of Othaya Mukurweini Water Services Ltd, cannot be signed by a third party. Attached is a transfer amount circularization issued by WSTF on the balance.</p> | Resolved                          | Commercial Manager   |

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|---|--|---|-------------|--------------------|
|   | As a result, the financial statements did not comply with the financial reporting template recommended by the Public Sector Accounting Standards Board (PSASB).  |   |             |                    |
| 2 | <p><b>2. Trade Receivables</b><br/>Disclosed under Note 20 to the financial statements are gross trade receivables totaling Kshs.241,839,933 as 30 June 2020, which includes an amount of Kshs.206,767,355 in respect of debts which have been outstanding for a considerable long period of time. Although the recoverability of these debts is clearly uncertain, the provision for bad and doubtful debts of Kshs.48,367,987 made in the financial statements against the outstanding debts appears inadequate.</p> <p>Consequently, the accuracy and recoverability of trade and other receivables net balance of Kshs.198,020,554 reflected in the statement of financial position as at 30 June 2019 could not be ascertained.</p> | <p>The company made elaborate plans to ensure non increment of the total outstanding debts by undertaking an aggressive campaign for debt payment by;</p> <ul style="list-style-type: none"> <li>• Preparation and approval of debt management policy: The document is under implementation although some sections proved to be impractical and a review is underway.</li> <li>• Zoned administration of company processes to enhance customer outreach; The company was able to have a larger clientele reach and hence improved collection of old debts</li> <li>• Activation of disconnected accounts and collection of old debts through part payments arrangements; a total of 468 commitments were made in the period valued at Kshs. 3,641,448 which are active and being serviced.</li> <li>• Identification and disconnection of long defaulted accounts: Monthly disconnection of defaulters is a continuous exercise.</li> </ul> | IN progress | Commercial Manager |

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|---|---|--|---------|-------------------|
|   |   | <ul style="list-style-type: none"> <li>With the onset of Covid 19 pandemic and the need to keep the community supplied with clean water, the county government issued an order stopping disconnection of defaulters and proposed reconnection of customers. The company was not able to enforce disconnection of accounts between April and August 2020 and also customers were not paying, claiming that the government order was to give free water hence delayed revenue collection.</li> </ul>   |         |                   |
| 3 | <p><b>Unremitted Lease Fees</b></p> <p>The statement of financial position reflects creditors, prepayments, and accruals balance of Kshs.83,981,142 as at 30 June 2020. Included in this balance are lease fees of Kshs.44,470,699.30 owed to Tana Water Services Board for the financial years 2013/2014 to 2018/2019 which had not been remitted as at 30 June 2019. No explanation was provided for continued classification of the unpaid amounts for 2018/2019 and earlier years under current liabilities.</p> <p>Non-payment of lease fees contravenes Section 104(1) of the Water Act, 2002. Further, as previously reported, the Company was depositing the unpaid lease fees in a</p> | <ul style="list-style-type: none"> <li>The management acknowledges the accrued debt owed to TWSB. This was partly caused by consistent demand made by the then existing County Government administration to suspend the payment of the lease fee which led to the company delay in payment of the lease fee.</li> <li>The company was instructed by the county government of Nyeri in 2015 not to submit payment of lease fee to Tana water services board as the county government was responsible for payment of salaries for the TWSB staff.</li> <li>The new constitution places water under the county government. As a result, there have been demands that WSPs comply with county</li> </ul> | Pending | Managing Director |

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|   |   |  |         |                      |
|---|---|--|---------|----------------------|
|   | <p>special account under instructions from the County Government of Nyeri although the practice was not supported by any legislation. In addition, the purpose of depositing lease fees in a special account was not explained.</p>   | <p>Executive orders, some of which have a direct impact on the operations.</p> <ul style="list-style-type: none"> <li>The matter has been under discussion between the company, TWSB and Nyeri county government to chat about the way forward. The company will update the matter once the matter is approved.</li> </ul>   |         |                      |
| 4 | <p><b>Intangible Assets</b><br/>The statement of financial position as at 30 June 2020 reflects a balance of Kshs.5,802,900 in respect of software and as indicated in note 18 to the financial statements relates to ERP system procured by the company during the year under review. Review of records revealed that the water company procured a web-based ERP software known as Pick Pay at a sum of Kshs.11,700,000. According to the contract agreement for the ERP software signed on 16<sup>th</sup> August 2019, the system was to be implemented in two (2) phases, with phase one (1) running from 18<sup>th</sup> August 2019 and to be completed within 4 weeks while the second phase was to be implemented on demand. The system was to have a total of Six (6) modules out of which (4) modules</p> | <p>The statement of financial position as at 30th June 2020 includes intangible assets balance of Kshs. 5,802,900. This relates to the cost of Kshs. 8,700,000 less amortization for setup, customize and deployment for the 4 modules in phase 1.<br/>As at the time of audit it was noted that only 3 modules of this ERP software are in use at OMWASCO, they are: Billing software and Revenue Collection, Human Resource and Customer Management modules. The supplier did not adhere to the terms of the contract and has not installed the finance module which is part of phase 1 and the remaining modules in phase 2 as per the contract.<br/>During the year under review the supplier invoice OMWASCO Kshs. 8,700,000 for 4 modules vide invoice no INV125807 out of which OMWASCO has paid Kshs. 2,575,000 to the supplier.</p> | Ongoing | System Administrator |

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|  |   |  |  |
|--|---|--|--|
| <p>would be installed in phase (1) while the remaining two in phase 2.</p> <p>The balance reflected in the statement of financial position as at 30 June 2020 of Kshs. 5,802,900 includes addition of new ERP at Kshs.8,700,000 before depreciation for the year. However, a review of progress of implementation of the system revealed that only (3) modules namely Billing software and Revenue Collection, Human Resource and Customer Management modules of the ERP software identified for phase 1 are in operation. Despite implementing only 3 modules, the company raised an invoice no INV 125807 for phase 1 amounting to Kshs 8,700,000. The water company had paid Kshs. 2,575,000 to the supplier as at the time of the audit.</p> <p>Therefore, there is a breach of the contract since the supplier went against the terms of the contract by invoicing the water company for supply of (4) modules in phase 1 including the finance module which has not been installed, hence risk of paying for services not received.</p> <p>As a result, the validity, accuracy and completeness of the intangible assets as at 30 June 2020 of Kshs. 5,802,900 could not be confirmed.</p> | <p>The statement of financial position as at 30th June 2020 includes intangible assets balance of Kshs. 5,802,900. This relates to the cost of Kshs. 8,700,000 less amortization for setup, customize and deployment for the 4 modules in phase 1.</p> <p>As at the time of audit it was noted that only 3 modules of this ERP software are in use at OMWASCO, they are: Billing software and Revenue Collection, Human Resource and Customer Management modules. The supplier did not adhere to the terms of the contract and has not installed the finance module which is part of phase 1 and the remaining modules in phase 2 as per the contract.</p> <p>During the year under review the supplier invoice OMWASCO Kshs. 8,700,000 for 4 modules vide invoice no INV125807 out of which OMWASCO has paid Kshs. 2,575,000 to the supplier.</p> <p>The statement of financial position as at 30th June 2020 includes intangible assets balance of Kshs. 5,802,900. This relates to the cost of Kshs. 8,700,000 less amortization for setup, customize and deployment for the 4 modules in phase 1.</p> |  |  |
|--|---|--|--|

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|   |   |   |         |                   |
|---|---|---|---------|-------------------|
|   |   | <p>As at the time of audit it was noted that only 3 modules of this ERP software are in use at OMWASCO, they are: Billing software and Revenue Collection, Human Resource and Customer Management modules. The supplier did not adhere to the terms of the contract and has not installed the finance module which is part of phase 1 and the remaining modules in phase 2 as per the contract.</p> <p>During the year under review the supplier invoice OMWASCO Kshs. 8,700,000 for 4 modules vide invoice no INV125807 out of which OMWASCO has paid Kshs. 2,575,000 to the supplier.</p> <p>The software provider further advised that use of the Finance module will only be effective with the procurement module where purchases are booked from the purchase module and hence proper and effective tracking hence delayed implementation. With the advent of Covid, the company could not procure the Procurement module due to financial constraints at the time.</p> |         |                   |
| 5 | <p><b>Non- Revenue Water</b><br/>During the financial year under review, the Company produced a total of 6,461,280 cubic meters of water, out of which only 3,573,746 cubic meters (or about 55%) was billed to customers, leaving a balance of 2,887,534 (or</p> | <p>Non-Revenue Water; There are two types of NRW i.e., the technical losses and commercial losses.</p> <p>The technical losses are caused mainly by leaks and bursts. Company has instituted the following measures to address losses.</p>  | Ongoing | Technical Manager |

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|  | <p>about 45%) of the total volume of water produced as non-revenue water, which is 20% over and above the allowable 25% set by the Water Services Regulatory Board Guidelines. The non-revenue water of 45% resulted in a loss of sales estimated at Kshs.100,456,072. No evidence was provided of any efforts by the Company to address the situation. The significant level of non-revenue water has a negative impact on the Company's profitability and its ability to sustain services.</p> | <ul style="list-style-type: none"> <li>• Major bursts are repaired within 24 hours of identification and for service lines within 6 hours for transmission lines.</li> <li>• The pipe networks are aged especially for Othaya and Mukurweini towns where they were laid in the 60s composed of GI pipes. These GI pipes are buried under the roads, where those the company has managed to expose are corroded. There is a need for overhaul of the whole system. The requirements to undertake overhaul of the pipelines is a capital-intensive exercise that may need external financing. The company has written proposals for funding to TWSB, WORLD Bank to facilitate replacement of the pipelines in Mukurweini and Othaya urban centers, Public Based Financing and Aid on Delivery negotiations are underway.</li> <li>• The company during the year installed pressure reducing valves at Kanunga zone to reduce bursts and Ball valves at Miiri, Kanjuku, and Gaturuturu Tank to reduce on the overflows.</li> <li>• During the financial year the company experienced landslides in various major pipelines that led to weakening of the pipeline hence increased frequency of bursts. The company undertook rehabilitation of Kihuri 5", Munyange 6" and Karundu -Rutune pipelines that were badly hit by the landslide.</li> </ul> |  |  |
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|  |  | <ul style="list-style-type: none"><li>• Development of the GIS system during the financial year has produced maps that are assisting in mapping of critical areas that are prone to frequent bursts and leakages and the management are making plans to replace the weak pipelines.</li></ul> <p>Commercial losses are caused by illegal connections, stalled meters, flat rate connections and meter inaccuracies.</p> <p>To address the causes of the commercial losses the company has done the following: -</p> <ul style="list-style-type: none"><li>• Installation of master meters to fully account for the water produced.</li><li>• Minimum night flow measurement done to evaluate the water supplied against the demand on the Kanunga zone.</li><li>• During the financial year the company identified 268 illegal connections, surcharged and regularized the connections. The management has taken a step to give incentives to staff to encourage reporting of the illegal connections.</li><li>• The company has continuously relocated meters for the old connections from the near the end point to the boundaries of customers. This shall address the issue of meter bypasses. The exercise is ongoing.</li></ul> |  |  |
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|   |  | <ul style="list-style-type: none"> <li>• The company acquired technology-based meter reading software that is ensuring accuracy in meter reading.</li> <li>• The company is undertaking Customer identification survey and GIS exercise which when completed, the coordinates will be integrated with the billing system.</li> <li>• The company continuously disconnects from the main dormant connections across all the zones.</li> <li>• During the year the company metered 299 flat rate connections</li> <li>• During the year the company replaced 270 faulty meters and serviced 494 meters in order to improve the meter accuracies</li> </ul> |         |                    |
| 6 | <p><b>Unmetered Water Connections</b><br/>The income figure of Kshs.123,288,642 reflected in the statement of profit and loss and other comprehensive income includes, as shown under Note 6, revenue totaling Kshs.134,769,607 arising from billing of customers. However, the statement of comparison of budget and actual expenditure indicates that in the year under review, the Company had budgeted to receive revenue totaling Kshs.136,967,107 from billing of customers but realized Kshs.134,660,477 or</p> | <p>The company made elaborate plans to ensure non increment of the total outstanding debts by undertaking an aggressive campaign for debt payment by;</p> <ul style="list-style-type: none"> <li>• Preparation and approval of debt management policy: The document is under implementation although some sections proved to be impractical and a review is underway.</li> <li>• Zoned administration of company processes to enhance customer outreach; The company was able to have a larger clientele reach and hence improved collection of old debts</li> </ul>   | Ongoing | Commercial Manager |

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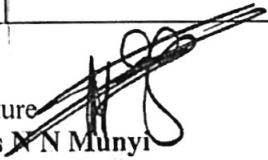
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|  | <p>about 98%. No explanation was provided for the shortfall of Kshs.2,306,630.</p> <p>Further, analysis of customer records indicates that although the Company had a total of 19,217 connections as at 30 June 2020, out of which 1,726 (or about 9%) were not metered, each being charged a flat rate of Kshs.500 per month, irrespective of actual consumption. No explanation was provided for failing to meter all the 19,217 connected customers and charge them according to the actual amount of water consumed to maximize on revenue.</p> | <ul style="list-style-type: none"> <li>• Activation of disconnected accounts and collection of old debts through part payments arrangements; a total of 468 commitments were made in the period valued at Kshs. 3,641,448 which are active and being serviced.</li> <li>• Identification and disconnection of long defaulted accounts: Monthly disconnection of defaulters is a continuous exercise.</li> </ul> <p>With the onset of <b>Covid 19 pandemic</b> and the need to keep the community supplied with clean water, the county government issued an order stopping disconnection of defaulters and proposed reconnection of customers. The company was not able to enforce disconnection of accounts between April and August 2020 and also customers were not paying, claiming that the government order was to give free water hence delayed revenue collection.</p> <p>The company has adopted a policy to meter all the new connections and all the flat rate accounts upon reconnection. During the financial year the company metered 299 flat rates upon reconnection.</p> <p>During the year upon the outbreak of Covid 19 pandemic, there was a directive by the county government of Nyeri to reconnect all the dormant customers. At the time of the pandemic the company experienced a shortage in revenue collection which led to the company activating</p> |  |  |
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|  |  | <p>some of the customers without the meters hence increase in the number of flat rate connections.</p> <p>The company in the current financial year has received a grant through the Water Services Trust Fund which part of the funds have been set aside to meter all the flat rate connections.</p> |  |  |
|--|--|--|--|--|

Signature   
Moses N N Munyi

Date.....27/09/2022.....

**OTHAYA MUKURWE-INI WATER SERVICES COMPANY**

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

**Projects**

Projects implemented by the State Corporation/ SAGA Funded by development partners.

| Project title                  | Project Number                        | Donor | Period/ duration | Donor commitment | Separate donor reporting required as per the donor agreement (Yes/No) | Consolidated in these financial statements (Yes/No) |
|--------------------------------|---------------------------------------|-------|------------------|------------------|---|---|
| DTF construction at Mukurweini | 02HS/TWWDAN YERI/OTHAYA MUKURWEINI/30 | WSTF  | 9MONTHS          | 10,082,544       | YES   | YES   |

**Status of Projects completion**

(Summarize the status of project completion at the end of each quarter, i.e., total costs incurred, stage which the project is etc.)

|   | Project                        | Total project Cost | Total expended to date | Completion % to date | Budget     | Actual       | Sources of funds |
|---|--------------------------------|--------------------|------------------------|----------------------|------------|--------------|------------------|
| 1 | DTF construction at Mukurweini |                    | 10,082,544             | 80%                  | 10,082,544 | 3,946,706.60 | WSTF grant       |

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**APPENDIX III: INTER-COMPANY TRANSFERS**

| ENTITY NAME:  |                    |                            |                      |  |
|---|--------------------|----------------------------|----------------------|--|
| Breakdown of Transfers from the State Department of Water |                    |                            |                      |  |
| FY 2020/21  |                    |                            |                      |  |
| a.  | Development Grants | <u>Bank Statement Date</u> | <u>Amount (Kshs)</u> | <u>Indicate the FY to which the amounts relate</u> |
|   |                    |                            | 7,057,780.80         | 2020-2021 FY                                       |
|   |                    | <b>Total</b>               | <b>7,057,780.80</b>  |  |

The above amounts have been communicated to and reconciled with the parent Ministry.

**Finance Manager**

**Othaya Mukurweini Water Services Ltd**

Sign





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