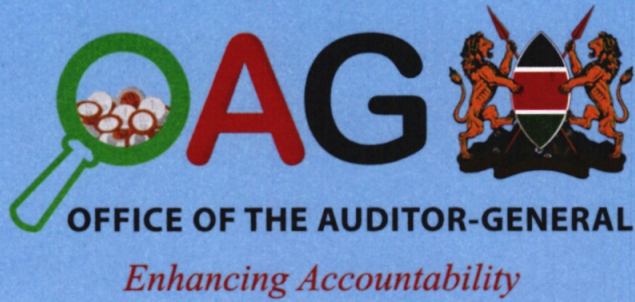


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REPORT

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**KITUI WATER AND SANITATION COMPANY
LIMITED**

**FOR THE YEAR ENDED
30 JUNE, 2023**

OFFICE OF THE AUDITOR GENERAL
P. O. Box 30084 - 00100, NAIROBI
MACHAKOS HUB.

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KITUI WATER AND SANITATION COMPANY LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED

JUNE 30, 2023

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

Kitui Water and Sanitation Company Limited
Annual Report and Financial Statements for the year ended June 30, 2023

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1. Acronyms and Glossary of Terms

Below are the Acronyms and glossary of terms appearing in this annual report and financial statements.

<i>ICPAK</i>	<i>Institute of Certified Public Accountants of Kenya</i>
<i>IIA</i>	<i>Institute of Internal Auditors</i>
<i>IFRS</i>	<i>International Financial Reporting Standards</i>
<i>Ag. MD</i>	<i>Acting Managing Director</i>
<i>PFM</i>	<i>Public Finance Management</i>
<i>PSASB</i>	<i>Public Sector Accounting Standards Board</i>
<i>WASREB</i>	<i>Water Services Regulatory Board</i>
<i>KITWASCO</i>	<i>Kitui Water and Sanitation Company Limited</i>
<i>WSTF</i>	<i>Water Sector Trust Fund</i>
<i>WRA</i>	<i>Water Resource Authority</i>
<i>SPA</i>	<i>Service Provision Agreement</i>

2. Key Entity Information

Background information

Kitui Water and Sanitation Company is a company limited by guarantee and was incorporated on 10th April 2006 by the then defunct Kitui Municipal Council. It is currently wholly owned by the County Government of Kitui in line with the Water Services Regulatory Board (WASREB) Corporate Governance Guidelines 2018, section 3.3.1 (5) which provides that “Where companies were limited by guarantee and the main guarantors were the defunct local authorities it is clear that even before those memorandum and articles of association are amended, the county government is a bona fide member taking up the place of the defunct local authorities as a guarantor”.

The Company has the core mandate of providing water and sanitation services to Kitui Municipality, its environs and part of Machakos County where the main (*producing 90% of the water supplied by KITWASCO*) water source Masinga dam is located. Other sources are boreholes of Ithookwe, Matinyani, Ilusya, Mbooni, Mutune, Kanyangi and several subwells. The completion of Umaa Dam and Kangukangu water project will supplement water supply and ease water rationing during dry seasons.

The Company covers a total area of approximately 733Km² (*representing 54% serving a population of 232,420*) and serves the following seven (7) sub counties with piped water: Masinga (*Machakos County*) and Kitui West, Kitui Rural, Kitui Central, Kitui South, Kitui East and parts of Mwingi West (*Kitui County*). Kitui County consumes 66% of the water produced from Masinga Dam while Machakos County consumes 34%.

Principal Activities

The principal activity of the Kitui Water and Sanitation Company is to provide sustainable, safe and adequate water services for domestic, industrial and commercial use in a cost-effective manner and effectively manage the resultant waste water with a committed and motivated human resource.

Vision

To be a reputable provider adequate, reliable, safe water and sewerage services.

Mission

To provide sustainable, safe and adequate water and sewerage services to our customers in a cost-effective manner.

Kitui Water and Sanitation Company Limited
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Core Values

Our core values include transparency and accountability, integrity, professionalism, teamwork and creativity and innovation.

KITWASCO Mandate

The mandate of the Company is; -

- To ensure that it possesses and retains all the necessary expertise necessary to fulfil the technical, commercial, financial and administrative functions.
- To provide the services within the KITWASCO's defined Service Area.
- To meet all the required standards, guidelines and provisions of the SPA.
- To obtain all necessary licenses, permits and warranties necessary to carry out its obligations in accordance with statutes in force.
- To maintain the assets in good working order and not to dispose of any assets without the authorization of Tanathi Water Services Board.
- To fulfil the performance targets set in performance contract signed and achieve them within the set timelines
- To come up with proposals for improvement of the assets so as to enhance service delivery.
- To carry out connection and disconnection of services to properties for non-payment for water and sanitation services.
- To take legal action for breach of obligations by customers and others causing damage or adversely affecting the services.
- To ensure that appropriate measures for the protection of the environment are adhered to in line with appropriate legislations.
- To maintain, exercise all statutory powers within the area, in relation to works, assets, pipe work and appurtenances of the water supply and sanitation systems.

Directors

The Directors who served the Kitui Water and Sanitation Company Limited during the year/period were as follows:

- | | | | |
|----|---------------------------|------------------------|------------------------------------|
| 1. | John Muthui | - Chairman | - Appointed in November 2023 |
| 2. | Harrison Maluki Nyumu | - Chairman | - Appointed in March 2023 |
| 3. | Geoffrey Kiita | - Managing Director | - Appointed March 2018 to Feb 2023 |
| 4. | June Mawia Munyao | -Ag. Managing Director | - Appointed in March 2023 |
| 5. | Stanley Shadrack Mang'eli | -Member | - Appointed in March 2021 |
| 6. | Queen Moli Masila | -Member | - Appointed in March 2021 |

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7.	Gustus James Mumo	-Member	- Appointed in March 2021
8.	Dr Grace Mutia	- Member	- Appointed in March 2021
9.	Nathan Kasamba Vungo	- CO Water	-Appointed in August 2022
10.	Patrick Munuve	- CO Treasury	-Appointed in August 2022

Company Secretary

N/A

Registered Office

Kyangwithya- Misewani Rd,
Opposite Governor's office
P.O Box 341-90200 Kitui Kenya

Corporate Headquarters

Kyangwithya- Misewani Rd,
Opposite Governor's office
P.O Box 341-90200 Kitui Kenya

Corporate Contacts

Telephone: (254)701545554, (254)73233330

E-mail:kitwasco@gmail.com

Website: www.go.ke

Corporate Bankers

Kenya Commercial Bank
P.O Box 683-90200

KITUI

Co-operative Bank.
P.O Box 668-90200

KITUI

Kenya Post Office Saving Bank
P.O Box 668-90200

KITUI





Independent Auditor

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



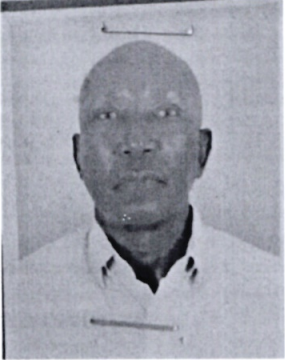
Principal Legal Advisers

The Attorney General
State Law Office, Harambee Avenue
P.O. Box 40112
City Square 00200
Nairobi, Kenya


3. The Board of Directors

Ref	Directors	Details
1.	 John Muthui	Born in 1974 Bachelor of Commerce-Finance Option He is an Accountant by profession He is the chair to the Board
2.	 Harrison Maluki Nyumu	Born in 1960 Bachelor of Education (Arts) Retired Teacher He is the chair to the Board- March 2021 to August 2023
3.	 Stanley Shadrack Mang'eli	Born in 1962 Diploma in County Management Former Chairman County Council of Machakos Non-executive member
4.	 Queen Moli Masila	Born in 1976 KCSE Business Non-executive member

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<p>4</p>	 <p>Dr Grace Mumbi Mutia</p>	<p>Born in 1974 PHD in Aquatic Sciences Lecturer Seku University Non-executive member</p>
<p>5.</p>	 <p>CPA (16172) Geoffrey Kiita B. Com MBA(Finance) CPAK, CPSK& CIFA</p>	<p>Managing Director (March 2018 – Feb 2023)</p>
<p>6.</p>	 <p>Gustus James Mutio</p>	<p>Born in 1952 TTC P1 Certificate Retired Teacher Non-executive member</p>




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7.	 <p>CPA June Mawia Munyao MBA(Strategic Management), Bcom CPA(K)</p>	<p>Acting Managing Director (Appointed in March 2023) Secretary to the Board</p>
----	--	--

4. Key Management Team

Manager's passport-size photo and name and key profession/academic qualifications	Responsibility
 <p>CPA June Mawia Munyao MBA(Strategic Management), Bcom CPA(K)</p>	<p>Acting Managing Director (Appointed in March 2023)</p>
 <p>CPA (16172) Geoffrey Kiita B.Com MBA(Finance) CPAK, CPSK& CIFA</p>	<p>Managing Director (March 2018 – Feb 2023)</p>
 <p>Martin Muthoka Wambua Diploma in Project Management</p>	<p>Operations Manager</p>

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 <p>CPA Clement Muinde BBA, MBA - Finance, CPA (K), IIA</p>	<p>Internal Audit Manager</p>
 <p>CPA Victor Muimi B. Com (Accounting) and CPA(K),</p>	<p>Commercial Manager</p>
 <p>Urbanus Mutisya BA Public Administration HND – HRM Certified HR Consultant</p>	<p>Human Resource and Administration Manager</p>

Kitui Water and Sanitation Company Limited
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 <p>Francis Muendo Mutunga BBA - Purchasing and Supply</p>	<p>Head of Supply Chain Management</p>
 <p>CPA (26682) John Mwangangi Bcom-Finance, CPAK</p>	<p>Company Accountant</p>

5. Chairman's Statement



On behalf of the Board of Directors of Kitui Water and Sanitation Company Ltd, I have the pleasure to present the financial results and annual statements for the Year ended 30th June 2023 as follows: -

Review of Operations

The Company operated under turbulent economic conditions. Due to financial constraints brought about by the fluctuating economic trends, the Company employed austerity measures cutting across all her operations. As a result, the Company was able to meet its administrative costs and partly operational expenses which were subsidized by County Government of Kitui to the tune of Kshs 67,179,527. Additionally, the Company received a grant of Kshs 12,456,929 from Water Sector Trust Fund (WSTF) and Kshs 991,875 from County Government of Kitui. During the year, Kshs 4,414,300 for Kalundu Public Sanitation Facility and Kshs 3,949,892 for Ilimukuyu Earth dam projects were utilized.

To support the company's operations, the Board continued to oversee the full implementation of the Strategic plan for the period 2017 – 2022 whose Core Objectives were (i) Water and sewerage infrastructure development, (ii) Operational efficiency and customer satisfaction, (iii) Financial sustainability, (iv) Institutional development and strengthening and (v) Effective corporate governance. The company is in the process of developing another strategic plan after the current one expired.

Conclusion

On behalf of the Board of Directors, I hereby extend my deepest appreciation to the County Government of Kitui, our esteemed Stakeholders, Management and the Staff for the continued support and significant contribution towards driving the growth of the company. I wish to assure the stakeholders that the Board of Directors has implemented appropriate strategies as outlined in the strategic plan to boost and sustain improved performance geared towards self-sustainability. We anticipate better performance in the coming years.


John Muthui
Chairman

6. REPORT OF THE MANAGING DIRECTOR



1.0 INTRODUCTION

KITWASCO is as a result of the Water Act 2002 which was the culmination of the agitation for the need to reform water services with a view to improving service delivery. The company became operational in April 2006. It has shareholding by guarantee and is now 100% held by County Government of Kitui. The people are represented in this forum by appointed stakeholder representatives.

I am delighted to present my report on the performance of the company for the financial year 2022-2023.

2.0 PERFORMANCE REPORT

2.1 Water Production

During the year the company produced 3,178,825 cubic meters of water being an average production of 8,685 cubic meters daily against design capacity of 18, 000 Cubic meters daily. With the current production the company continues to ration its customers. It's my hope that the production will improve with the rehabilitation of Masinga – Kitui Water pipeline under the Last Mile Connectivity Programme funding by African Development bank through Tanathi and Athi water works Development Agencies.

2.2 Sewerage coverage

The sewer demand in Kitui town is very high and sewerage system is only 5% operational particularly in the pro-poor areas of Kitui town. We expect to connect more customers in the coming years which will improve revenues in the near future. We have a Contractor on the ground under the same Last Mile Connectivity Programme funded by African Development Bank targeting 2500 households and 40km distribution lines in Kitui town.

2.3 Financial performance

The Company has been operating under a subsidized water tariff. Application has already been submitted to WASREB for the tariff review and discussions are underway to realize it. During the year, the Company received an amount totalling to Kshs 67,179,527 as subsidy from County Government of Kitui. Additionally, the Company received a grant of Kshs 12,456,929 from Water Sector Trust Fund (WSTF) and Kshs 991,875 from County Government of Kitui. During the year, Kshs 4,414,300 for Kalundu Public Sanitation Facility and Kshs 3,949,892 for Ilimukuyu Earth dam projects were utilized.

The company sales turnover was Kshs 233,543,124 against Kshs. 356,360,655 reported in the previous year which is a 34% drop. The total expenses incurred in the year were Kshs. 276,342,920 compared to Kshs. 319,113,805 reported in the previous year.

The company made a deficit of Kshs. 42,799,796 during the year which is a decrease compared to a surplus of Kshs. 37,246,850 in the previous year. The deficit resulted from the non-payment of the full subsidy support by the County Government of Kitui as budgeted.

Energy costs continue to be a threat to sustainability and took Kshs 120,636,003 which is approximately 76% of total revenues of Kshs 157,999,405 from water sales compared to 65% in the previous year.

2.4 Non-Revenue Water Reduction

We have managed to sustain levels of Non-Revenue Water at 49% in the 2022/2023 financial year. Avenues have been identified and mitigating measures budgeted for in the coming financial year. We acknowledge the importance of reducing NRW. We have therefore among others: Established a robust Non-Revenue Water management unit, budget allocation for NRW reduction programs enhanced, disciplinary actions taken on errant employees, constant raids and arrests of illegal water users, enhanced trainings, inspection and surveillance and the introduction of mobile meter reading.

The management will continue to invest in emerging technologies and materials with a view to alleviate the effects of high levels of NRW.

3.0 CHALLENGES

Water Resources

- Declining capacity of water resources; climate change and destruction of wetlands continue to be a major challenge.

Kitui Water and Sanitation Company Limited
Annual Report and Financial Statements for the year ended June 30, 2023

- Water use demands are quickly exceeding the dry weather water flows demand.

Sewerage

- Since majority of the customers are yet to be connected to the sewer line, water related diseases remain a risk.

Water supply pipeline

- Inadequate funds to finance proposed pipe line extensions to serve areas not yet served.
- Old dilapidated pipeline and infrastructure that is prone to burst and leakages leading to water losses
- Water assets ownership is yet to be determined and this poses a challenge to accounting treatment of such assets as well as their bearing on borrowing leverage.

CONCLUSION

On behalf of the entire Management, I extend my sincere appreciation to all staff, customers, development partners, County Government of Kitui and other stakeholders for their support. It is my hope that the same enabling environment shall continue to prevail as we soldier on towards self-sustainability.



June Mawia Munyao
Ag, Managing Director

7. Statement of Performance against Predetermined Objectives for FY 2022/2023

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

KITWASCO has five strategic pillars and objectives within its Strategic Plan for the FY 2017/2018-2021/2022. These strategic pillars are as follows:

Pillar 1: Water and sewerage infrastructure development.

Pillar 2: Operational efficiency and customer service

Pillar 3: Financial sustainability

Pillar 4: Institutional Capacity Strengthening

Pillar 5: Corporate Governance

KITWASCO develops its annual work plans based on the above five pillars. Assessment of the Board’s performance against its annual work plan is done on a quarterly basis. KITWASCO achieved its performance targets set for the FY 2022/2023 period for its five strategic pillars, as indicated in the diagram below:

Strategic Pillar	Objective	Key Performance Indicators	Activities	Achievements
Pillar 1:	a) Increased water supply. b) Increased Sanitation.	-Increased Production -Water Distribution -Rehabilitation of pipelines -Increased sewer connections.	New pump Line extension Rehabilitation of existing line Connecting of households.	- Billing from Ksh 10.3M to 13M per month. -Distribution line from 1450km to 1500KM Rehabilitated 31.2km Upgraded 1km
Pillar 2:	a) Reduce NRW b) Operation efficiency c) Customer satisfaction.	-Reduce water leakage -Meter reading efficiency -Improving field operations	-Line patrols -Automation -Purchase of more M/cycles	-Reduced NRW from 55% to 47%. -Automation of meter reading.

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		-Quick response to customer complains.	-Platform to receive complains.	-increased patrols and surveillance operations -undertaken several Customer Outreach & Education forums
Pillar 3:	<ul style="list-style-type: none"> a) O & M Coverage b) Increase billing. c) Reduce debt levels d) Robust financial management system 	<ul style="list-style-type: none"> -Grow sales from 8M to 42M per month. -Push for cost reduction measures. -New water tariff. -Increase collection efficiency. -Formulation of debt policy -Acquire ERP. 	<ul style="list-style-type: none"> -Automation of billing activities. -Adherence to PPOA procedures. -Engagement of collection agents. 	<ul style="list-style-type: none"> -Increased revenue from 10M to 13M. -O & M coverage from 83% to 93% -Acquired robust ERP. -procured services of an external debt collector.
Pillar 4:	<ul style="list-style-type: none"> a) Staff alignment b) Strengthen human capital. c) Employee satisfaction level. d) Company image. 	<ul style="list-style-type: none"> -New organization structure. -Staff rationalization. -New human resource manual -Performance management policy -Staff trainings -Organizational culture change 	<ul style="list-style-type: none"> -Developing organizational structure. -Staff placement in New scheme of service. -Organizing regular staff trainings. 	<ul style="list-style-type: none"> -Implemented new scheme of service -All staff on performance management -Established a training calendar targeting all the staff.
Pillar 5:	<ul style="list-style-type: none"> a) BOD trainings b) Improving stakeholder's relations 	<ul style="list-style-type: none"> -Strengthening BOD capacity. -Developing instruments of good corporate governance 	<ul style="list-style-type: none"> -Organizing for trainings. -Holding BOD meetings as per guidelines 	<ul style="list-style-type: none"> -BOD meeting done as per guidelines -AGM held annually.

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		-Developing risk mgt strategy.	-Holding AGM regularly	
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8. Corporate Governance Statement

The corporate governance structure ensures that we act with high standards of corporate behaviour and in the best interest of our stakeholders. The Board of Directors has the authority to perform the functions and determine the policies that control the entities activities.

The structure of the Board is as per the corporate governance guidelines issued by the Water Services Regulatory Board.

- The Board of Directors comprises 7 members nominated by respective stakeholder institutions.
- The Managing Director sits in the board as a full-time director and as a secretary.
- The Directors have a broad range of qualifications, skills and experience.
- The Board has four committees namely; Technical committee, Finance and Procurement, Human Resource and General Purpose committee, and Audit Committee.
- Any issue(s) outside the scope of the above committees may be handled by specially constituted adhoc committee made by a resolution of the Board of Directors including its membership.
- The Board in consultation with the management develops strategic direction for annual and long-term period.
- The board also prepares for the Annual General Meeting and determines the agendas in which the annual audited accounts are presented.

At its regular meetings, the Board considerations include;

- Technical and financial progress quarterly reports.
- Audit reviews and quarterly reports.

To effectively carryout governance responsibilities, the Board has established four board committees with specific delegated mandates. The membership is summarized as follows;

1. Technical committee

The composition of the committee is as follows;

- Gustus Mutio-Chair
- Dr Grace Mutia-Member
- Augustus Nding'o-Member
- Stanley Mang'eli-Member

The committee secretary is the Technical Manager. Each member of the committee has a general familiarity with the technical aspects of the water and sanitation industry necessary to undertake the

Kitui Water and Sanitation Company Limited

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committee's responsibilities to oversee the company's technical activities. The functions and responsibilities of the committee are as follows;

- Advises the Board in monitoring and reviewing any project(s) development and major asset acquisition.
- Review and make recommendations to the Board of Directors on matters relating to the infrastructure assets of the company including master plans, capital plans etc.

2. Audit committee

The composition of the Audit Committee is as follows;

- Gustus Mutio – Member
- Queen Masila – Member
- Martin Mumo – Member

The Committee Secretary is the Internal Audit Manager. Each member of the committee has a general familiarity with the duties and responsibilities of all members of the committee.

The functions and responsibilities of the Audit committee are to provide oversight and advice in the following areas:

- Internal control systems.
- Governance structures
- Risk management
- Financial statements
- Compliance requirements
- External and Internal audit including approval of annual work plans
- Review of entity's performance

The committee meets quarterly and presents its reports to the full Board of Directors meeting.

3. Finance, Commercial & Procurement Committee

The composition of the Committee is as follows;

- Martin Mumo – Chair
- Queen Moli- Member
- Dr Grace Mutia

The Committee Secretary is the Commercial Manager. Each member of the committee has a general familiarity with the duties and responsibilities of all members of the committee.

The functions and responsibilities of the committee are as follows:

- Review and approve budget estimates

Kitui Water and Sanitation Company Limited
Annual Report and Financial Statements for the year ended June 30, 2023

- Review procurement system, procedures and structures to ensure compliance with all laws and regulations
- Approve and oversee the operationalization of procurement plans
- Monitor on quarterly basis the financial performance of the company

The committee meets quarterly and presents its reports to the full Board of Directors meeting

4. Human Resource and General Purpose Committee

The composition of the Committee is as follows;

- Augustus Nding'o – Chair
- Stanley Mang'eli-Member
- Queen Moli- Member
- Dr. Grace Mutia-Member

The Committee Secretary is the Human Resource Manager. Each member of the committee has a general familiarity with the duties and responsibilities of all members of the committee.

The functions and responsibilities of the committee are as follows:

- Continually review the company's structure, co-functions and optimum establishment
- Examine policy and procedures on employment and staff promotion
- Review the Collective bargaining agreement (CBA) and make recommendations
- Review the company's Human resource policies and recommend to the Board any amendments for approval.

The committee meets quarterly and presents its reports to the full Board of Directors meeting

Committee and Full Board meetings attendance

The attendance of the various directors is as tabulated below;

	Director	Full Board	Board Committee	Special Board
1	Harrison Nyumu	4	0	2
2	Grace Mutia	4	8	2
3	Stanley Mangeli	4	7	2
4	Gustus Mutio	4	4	2
5	Martin Mumo	2	5	1
6	Queen Masila	4	7	2
7	Augustus Ndingo	2	5	1
8	Nathan Vungo	1	1	1
9	Patrick Munuve	2	1	1

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9. Management Discussion and Analysis

During the year under review the company operational performance remained fairly moderate with a slight drop in revenues amid tough economic times. In general, the resiliency of our operations was evident throughout the financial year.

The company received financial support from the County Government of Kitui through payment of electricity bills for Masinga treatment works to a tune of Kshs 67,179,527. Additionally, the Company received a grant of Kshs 12,456,929 from Water Sector Trust Fund (WSTF) and Kshs 991,875 from County Government of Kitui. During the year, Kshs 4,414,300 for Kalundu Public Sanitation Facility and Kshs 3,949,892 for Ilimukuyu Earth dam projects were utilized.

Water sector trust fund through the EU-Climate Proof fed Infrastructure Program for arid areas is financing the Ilimukuyu water project, which is ongoing. Upon completion the project will serve the residents of Endau market one of the areas adversely affected by drought.

The Last Mile Connectivity Project funded by The World bank through Athi and Tanathi water works development agencies is ongoing. Upon completion the project will reduce frequent burst and increase water supply in Kitui town and other areas. This also reduces the level of non-revenue water which has been a major challenge for company. This is expected to double the billing per month thus improving the liquidity level for the organization.

The same contractor is expected to connect most of building in town to our sewer mainline. The revenue for sewer is likely to increase thus growing the profitability of the organization while improving the level of sanitation in Kitui town.

In the year under review, our own source revenue dropped from ksh 181,341,741 to ksh 157,999,405.

In the area of compliance to statutory obligation, we managed to clear all our taxes and other payroll deductions. However, we have made arrangements to settle all other outstanding regulatory levies.

Our major risk remains the high cost of energy i.e. pumping water from Masinga to Kitui town and its environments. Our monthly electricity bill on average is Ksh12, 000,000. This cost used to be paid in full by the County Government of Kitui as subsidy which has been partially reduced with the company having to pay part of the bill. The other risk is the high Non –revenue water (water loss).

We have managed to sustain a reduction of the levels of Non-Revenue Water from 55% in 2021/2022 to 49% in 2022/2023 financial year. We acknowledge the importance of reducing NRW. As such avenues have been identified and mitigating measures budgeted for in the coming financial year. We have therefore among others: Established a Non-Revenue Water management unit, budget allocation for NRW reduction programs enhanced, disciplinary actions taken on errant employees, constant raids and arrests, enhanced trainings, inspection and Surveillance and the introduction of mobile

Kitui Water and Sanitation Company Limited
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meter reading. The management will continue to invest on emerging technologies and materials with a view to alleviating the effects of high levels of NRW.

11. Environmental and Sustainability Reporting

KITWASCO exists to transform lives. This is our purpose, the driving force behind everything we do. It's what guides us to deliver our strategy, which is founded on three pillars: putting the Citizen first, delivering water and sewer services, and improving operational excellence. Below is a brief highlight of our achievements in each pillar

i) Sustainability strategy and profile

Kitui water and Sanitation Company has managed to ensure that the people of Kitui are getting water seven days per week with minimal water rationing. With the support of the County Governor Hon. Julius Malombe, we have managed to extend our water supply system to a large population. We have also been handed over many boreholes powered by solar from County Government of Kitui.

ii) Environmental performance

We are in the process of developing our Environmental policy but this does not mean we are not doing anything. We have ensured that all our wastes are well managed and disposed in the best way possible. With some of the best sewer pods in the country, we have ensured all the waste from connected customer is well disposed.

iii) Employee welfare

The recruitment process in Kitui Water and Sanitation Company is well guided by the human resource manual which ensures the aspects of gender, ethnicity etc. are taken into account. We also provide an adequate budget for staff trainings. The company organizes for benchmarking trips in other water service providers to learn and acquaint with the best practices. A performance management tool for appraising all the staff on annual basis is in place and the best employees are awarded. The company is in the process of procuring the service of consultant to formulate our policy on health and safety at workplace.

iv) Market place practices

a) Responsible competition practice.

Our operations are guided by the best procedures and policies. Our policies and manuals are frequently reviewed to accommodate the emerging issues. The procurement department is guided by Public Procurement and Asset Disposal Act 2015 and regulations 2020.

b) Responsible Supply chain and supplier relations

We normally ensure that our service providers are paid in time and thus the supply of goods and services are not interrupted.

c) Responsible marketing and advertisement

The company while publicizing its products ensures our marketing and advertising campaigns are conducted using fair language, are morally upright and adhere to other fair advertising and marketing practices.

The entity is in the process of formalizing responsible marketing and advertisement policy.

d) Product stewardship

The Company is committed to provide sustainable, safe and adequate water services to her customers in a cost effective manner and effectively manage the resultant waste water in compliance with the water regulator's set guidelines and standards.

v) Corporate Social Responsibility / Community Engagements

Water is life. We ensure that the charitable organizations in our area of operation occasionally get free water. The company also deliver free water on request to all burial ceremonies in Kitui County.

Kitui Water and Sanitation Company Limited
Annual Report and Financial Statements for the year ended June 30, 2023

12. Report of the Directors

The Directors submit their report together with the audited financial statements for the year ended June 30, 2023 which shows the state of the Kitwasco's affairs.

i) Principal activities

The principal activities of the Company are;

- ✓ To provide and distribute constant supply of water for commercial, industrial and domestic purpose within its area of jurisdiction within Kitui County and its environs.
- ✓ To be responsible for provision and maintenance of water and sewerage services within Kitui County and its environs.

ii) Results

The results of the company for the year ended June 30, 2023 are set out on page 1. Below is a summary of the profit or loss made during the year.

iii) Directors

The members of the Board of Directors who served during the year are shown on page vii and viii in accordance with Regulation of the Kitui Water and Sanitation Ltd Articles of Association.

iv) Auditors

The Auditor General is responsible for the statutory audit of the Company in accordance with Article 229 of the Constitution of Kenya and the Public Audit Act 2015 to carry out the audit of the Company for the year/period ended June 30, 2023, or in accordance with section 23 of the Public Audit Act, 2015 which empowers the Auditor General to appoint an auditor to audit on his behalf.

By Order of the Board



.....
June Mawia Munyao
Secretary to the Board

Date: 9/02/2024

13. Statement of Directors' Responsibilities

Section 164 of the Public Finance Management Act, 2012 and companies Act 2015 require the Directors to prepare financial statements in respect of that Company, which give a true and fair view of the state of affairs of the Company at the end of the financial year/period and the operating results of the Company for that year/period. The Directors are also required to ensure that the KITWASCO keeps proper accounting records which disclose with reasonable accuracy the financial position of KITWASCO. The Directors are also responsible for safeguarding the assets of KITWASCO.

The Directors are responsible for the preparation and presentation of KITWASCO financial statements, which give a true and fair view of the state of affairs of the Company for and as at the end of the financial year (period) ended on June 30, 2023. This responsibility includes: (i) Maintaining adequate financial management arrangements and ensuring that these continue to be effective throughout the reporting period; (ii) maintaining proper accounting records, which disclose with reasonable accuracy at any time the financial position of the entity; (iii) Designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of the financial statements, and ensuring that they are free from material misstatements, whether due to error or fraud; (iv) Safeguarding the assets of the Company; (v) Selecting and applying appropriate accounting policies; and (vi) Making accounting estimates that are reasonable in the circumstances.

The Directors take responsibility for KITWASCO 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, Water act 2016 and Companies Act 2015.

Kitui Water and Sanitation Company Limited
Annual Report and Financial Statements for the year ended June 30, 2023

Statement of Directors' Responsibilities (Continued)

The Directors are of the opinion that KITWASCO's financial statements give a true and fair view of the state of KITWASCO's transactions during the financial year ended June 30, 2023, and of KITWASCO's financial position as at that date. The Directors further confirm the completeness of the accounting records maintained for the KITWASCO, which have been relied upon in the preparation of the KITWASCO 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 KITWASCO 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 company financial statements were approved by the Board on 9/02/ 2024 and signed on its behalf by:

Signature.....*J. Muthui*.....

John Muthui
Chairperson of the Board

Signature.....*J. Mawia*.....

June Mawia Munyao
Ag. Managing Director

REPUBLIC OF KENYA

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Anniversary Towers
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P.O. Box 30084-00100
NAIROBI

REPORT OF THE AUDITOR-GENERAL ON KITUI WATER AND SANITATION COMPANY LIMITED FOR THE YEAR ENDED 30 JUNE, 2023

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 the Government achieves value for money and that such funds are applied for the intended purpose.
- C. Report on the 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, risk management environment and 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 Kitui Water and Sanitation Company Limited set out on pages 1 to 52, which comprise of the statement of financial position as at 30 June, 2023 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

Report of the Auditor-General on Kitui Water and Sanitation Company Limited for the year ended 30 June, 2023

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 Kitui Water and Sanitation Company Limited as at 30 June, 2023, and of its financial performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards and comply with Public Finance Management Act, 2012, the Companies Act, 2015 and the Water Act, 2016.

Basis for Qualified Opinion

1. Unconfirmed Asset Ownership

The statement of financial position reflects property, plant and equipment balance of Kshs.23,982,313 which includes Kshs.1,828,141 in respect of motorcycles as disclosed in Note 15 to the financial statements. The motorcycles balance includes Kshs.934,989 for twenty-five (25) motorcycles registered in the name of third parties. The Management did not indicate measures being taken to register the motorcycles in the name of the company.

In the circumstances, the ownership of the motorcycles valued at Kshs.934,989 could not be confirmed.

2. Long outstanding Trade and Other Receivables

The statement of financial position and as disclosed in Note 18 to the financial statements reflects trade and other receivables balance of Kshs.239,499,073. Review of supporting schedules and the aging analysis indicated that receivables amounting to Kshs.173,827,729 have remained outstanding for a period of more than one hundred and twenty (120) days and the Company may not recover the same. Further, Deferred Tax, Value Added Tax recoverable, water bowser and Kitui County Government other receivables balances of Kshs.10,255,221, Kshs.30,469,204, Kshs.8,402,070 and Kshs.12,304,545 respectively had no significant movements in the year. The Management has not demonstrated tangible efforts being made to recover the outstanding debts.

In the circumstances, the accuracy and fair statement of the reported trade and other receivables balance of Kshs.239,499,073 could not be confirmed.

3. Long Outstanding Trade Payables

The statement of financial position reflects trade and other payables balance of Kshs.122,825,624. Included in the balance is abstraction fee-WARMA, KRA Liability, 4% Regulatory fee-WASREB, Lease fee-Tanathi Water Board and provision for audit fee-OAG of Kshs.5,567,383, Kshs.16,093,954, Kshs.24,497,892, Kshs.6,756,164 and Kshs.2,519,988 respectively as disclosed in Note 25 to the financial statements. The

balances have remained outstanding for significantly long period and the Management has not demonstrated efforts being made to settle the liabilities.

The Company is at risk of incurring interest and penalties with the continued delay in settlement of the long outstanding trade payables.

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

Key Audit Matters

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

Emphasis of Matter

1. Budgetary Control and Performance

The statement of comparison of budget and actual amounts reflects final revenue budget and actual on comparable basis of Kshs.277,553,518 and Kshs.233,543,124 respectively, resulting to a short fall of Kshs.44,010,393 or 16% of the budget. Further, the Company incurred Kshs.3,491,610 on capital expenditure against an approved budget of Kshs.11,616,000 resulting to under-expenditure of Kshs.8,124,390 or 70% of the budget.

In the circumstances, the underfunding and underperformance affected the planned activities and programs and may have impacted negatively on service delivery to the residents of Kitui County.

2. Poor Company Performance

The Company realized a deficit of Kshs.42,799,796 during the year under review. The poor performance was attributed to reduced County Government subsidies. Review of the Companies records and operations however, revealed various challenges the Company is experiencing including;

- i. The Company has 18,000 customers but has only connected 8,615 customers. Thus, the Company has not realized its full capacity on service delivery and for more revenue realization.
- ii. Two dams, Umaa and Kangukangu meant to supplement water supply are incomplete.

- iii. The company's water kiosks are operated by vendors who charge Kshs.65 for every cubic meter of water sold to customers and remits Kshs.35 to the Company, denying the Company of the much-needed revenue.
- iv. Underutilization of Masinga dam which has a lot of water.
- v. High electricity bills and failure to solarize the powering of the systems.
- vi. Frequent power disconnection by Kenya Power and Lighting Company due to unpaid bills.
- vii. Delayed completion of Ilimukuyu water project which stalled due to inconsistent design with key and pertinent components like the dam being omitted.
- viii. Free water provision by the County Government through boreholes affecting revenue base for the Company.
- ix. Reduced support from the County Government affecting more water projects undertaking including boreholes and dams.

In the circumstance, the company is not able to effectively carry out its mandate of water and sewerage services provision.

My opinion is not modified in respect of these matters.

Other Matter

Unresolved Prior Year Matters

In the audit report of the previous year, several issues were raised under the Report on Financial statements, Report on Lawfulness and Effectiveness in Use of Public Resources and Report on Effectiveness on Internal Controls, Risk Management and Governance. However, management has not resolved the issues or provided explanation for failure to adhere to the provisions of Public Sector Accounting Standards Board template.

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, 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. Non-Adherence to Ethnic Diversity Provisions

Review of the personnel records revealed that the water Company had a total of one hundred and twenty-nine (129) employees out of which, one hundred and twenty-two (122) or 94.6% of the workforce were from the dominant ethnic community in the County. This is contrary to the provisions of Section 7(1) and (2) of the National Cohesion and Integration Act, 2008 which provides that all public establishments shall seek to represent the diversity of the people of Kenya in the employment of staff and that no public establishment to share more than one third of its staff from the same ethnic community. The management has not demonstrated measures being taken to bridge the ethnic gap.

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

2. Non-Compliance with the Approved Staff Establishment

Review of the personnel records and human resource instruments revealed that the Company had an approved staff establishment of 90 employees while the actual number in position was 129, resulting to an over establishment by 39 officers. The reviewed staff establishment has not been approved by the Board contrary to the requirements of the Company Human Resource Policy Manual. No explanation or authorization was provided to support the over establishment.

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

3. Incomplete Project - Ilimukuyu Dam and Water Supply Project Phase 1

The company signed contract with a firm on 12 January, 2021 for the proposed construction of Ilimukuyu Dam and Water Supply Project Phase 1 at a contract price of Kshs.69,162,160. The contract commenced on 12 January, 2021 for a period of six (6) months to end on 17 July, 2021. The contract period was however, extended eight times with final extension to 28 February, 2023. Review of payment records revealed that the contractor had been paid Kshs.47,372,027 or about 68% of the contract sum. Further, the contractor failed to fully discharge the contract due to various challenges including inconsistent technical design, improper packaging of works, inadequate proficiency of the contractor and lack of proper supervision of construction works. The project design also omitted some requisite and pertinent components like the dam. The Company finally terminated the contract.

In the circumstances, the residents of Kitui did not get value for money for the amount paid of Kshs.47,372,027.

4. Out-Dated Tariff Structure

Review of the tariff structure in force revealed that it was approved by the Water Services Regulatory Board (WASREB) for use from 01 January, 2011 to 30 June, 2013. However, the Company continues to apply the outdated tariff more than ten (10) years after its

expiry, thereby affecting the profitability since the tariff charged are inconsistent with the production costs.

The tariffs in use are not commensurate with the current costs and negatively impact on the Company's profitability effecting the service delivery and sustainability of services to the public.

5. Non-Revenue Water Above the Prescribed Threshold

Review of water sales and production records revealed that the Company produced 3,178,826 cubic meters (M³) of water, out of which 1,560,434 M³ was billed to customers. The balance of 1,548,309 (m³) or 49% of total production represents Non-Revenue Water (NRW) valued at Kshs.65,865,065 (at Kshs.42.54 per M³). The Company's NRW level is above the allowable loss of 25% prescribed by the Water Services Regulatory Board (WASREB) guidelines.

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

6. Failure to Comply with Affirmative Action on Gender Equality

Review of the Company's human resource records and payroll data revealed that it had a total of one hundred and twenty-nine (129) employees, out of which ninety-eight (98) or 76% are male while thirty-one (31) or 24% are female. The positions filled by male employees in the establishment are above the threshold of two thirds (2/3) gender rule as provided for in Part B.22(2) of Public Service Commission Human Resource Policies and Procedure Manual, 2016.

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

7. Failure to Implement Scheme of Service

Review of the scheme of service and the staff monthly payrolls revealed the following anomalies;

- i. The company irregularly pays acting allowance at the rates ranging from 13% to 16% which differs from the 33% and 20% prescribed in the scheme of service and Human Resource Policies and Procedures Manual for the Public Service May, 2016 respectively.
- ii. Employees in job group G9 were paid salaries below the approved minimum entry points.
- iii. There were disparities in payment of house allowance to employees in job group G2.
- iv. The company's structure has positions of Finance Manager and Technical Manager that have not been substantively filled.

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

8. Irregular Payment of Acting Allowance

The statement of profit or loss and other comprehensive income and as disclosed in Note 9 to the financial statements reflects staff costs of Kshs.73,683,116 which includes Kshs.469,225 being acting allowances. Review of the personnel records revealed that the acting allowances were drawn by officers who continued to serve in acting capacity for more than six months, in which some officers have acted since November 2014, without formal extension of the appointment. This is contrary to Section C.14 (1) of Human Resource Policies and Procedure Manual, 2016 which stipulates that acting allowances are not payable to an officer for more than six (6) months.

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

9. Customer Deposits

The statement of financial position and as disclosed in Note 27 to the financial statements reflects customer deposit balance of Kshs.29,386,787 while the deposit account at KCB reflects a balance Kshs.7,322,619 resulting to a variance of Kshs.22,064,168. The difference of Kshs.22,064,168 represents the amount borrowed by the management to finance various activities including Endau Ilimukuyu water project at Kshs.12,054,776 and security for a guarantee of Kshs.3,175,298. However, the amount borrowed totalling Kshs.22,064,168 inclusive of cumulative bank charges of Kshs.11,405 had not been refunded as at 30 June, 2023.

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

The audit was conducted in accordance with the International Standards for Supreme Audit Institutions (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 comply, 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 THE EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

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

Basis of conclusion

1. Masinga Station Site Visit

As previously reported and a review of the situation during audit inspection carried out on 29 January, 2024 at Masinga Dam Station, revealed the following unsatisfactory matters:

- i. Backwash water tank has been leaking leading to unaccounted for water losses.
- ii. Chemical dozers have not been maintained affecting the water treatment at the station
- iii. One of the two master meters has not been functional, thus water production from the station through the faulty meter is on estimates.
- iv. The pen stock/sluice valves at the sedimentation tanks are faulty which may hamper effective cleaning of the system.
- v. Inventory in the stores at the station included expired soda ash that had not been disposed off, thus posing a health hazard.
- vi. The power protection board is faulty and has not been replaced to protect the machines in case of power surge.
- vii. The station is thinly staffed with only four (4) people manning the station all year round.
- viii. The water production station does not have a backup power in case of power outage.
- ix. Staff at the station have not been provided with protective gears to enable them perform their duties effectively. This exposes them to health hazards when discharging their duties.
- x. There was no meter installation for water backwash to determine the correct volume of water reversed.
- xi. The flexible rubber joints for the raw water main were worn out and not replaced.

In the circumstances, the Company's system and operations of the station are ineffective and inefficient.

2. Lack of Updated Strategic Plan

Review of records and the systems revealed that, the company's five-year strategic plan expired during the period ending 30 June, 2022. The Company has however not prepared a new strategic plan for approval and implementation.

In the absence of strategic plan, the company lacks a guide on what to prioritize, resulting in confusion, inconsistent performance, poor use of resources and time management.

3. Lack of Information Communication Technology Policy

Review of records and the systems revealed that the company did not have Information Communication Technology (ICT) policy to guide management on investment and use of the technology and provide confidentiality, integrity and ensure availability of the entity's data.

In the circumstances, the company's data integrity, security on the IT infrastructure, accuracy of information and measures on prevention from possible loss of data could not be confirmed.

4. Accumulated Staff Leave Days

Review of staff records revealed that some employees carried forward more than half (1/2) year's leave entitlement contrary to the provisions of the company's Human Resource Manual, 2010 which allows an employee to carry forward only half of the annual leave. No explanation or approval were provided to justify carry-over of more than designated fifteen (15) unutilized leave days into a new leave year.

In the absence of plausible explanation, it was not possible to confirm justification for carry-over of more than designated fifteen (15) leave days into new year leave.

5. Lack of Approved Non-Revenue Water Policy

Review of the Company operations and records revealed that the entity did not design and implement Non-Revenue Water policy for effective management of Non-Revenue Water as required. This has resulted to high non-revenue water level due to lack of implementable measures to ensure effectiveness and efficiency.

In the circumstances, Management lacks a mechanism to help in reduction of Non-Revenue Water losses.

6. Lack of Production and Distribution Software for Bulk Meter Readings

Review of records provided in support of meter readings from distribution lines showed that the Company did not have a production and distribution software for the treatment plants that would automatically record water supplied to the distribution lines on a daily basis. The company records daily meter readings using manual registers which are prone to human errors.

In the circumstances, the recorded readings could be inaccurate leading to water losses.

7. Lack of a Succession Plan for Board Members

Review of documents and records provided in support of the Company Board revealed lack of succession plan for Board members to ensure more effective recruitment as director's term expire and board vacancies arise. This contravenes the requirements of the code for governance for state corporations.

In the circumstances, there is lack of institutional knowledge among board members and loss of continuity.

The audit was conducted in accordance with the International Standards for Supreme Audit Institutions (ISSAIs) 2315 and 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 Companies Act, 2015 I report based on my audit, that:

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

Responsibilities of Management and those Charged with Governance

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

In preparing the financial statements, Management is responsible for assessing the Company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the applicable 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.

Those charged with governance are responsible for overseeing the Company's financial reporting process, reviewing the effectiveness of how Management monitors compliance with relevant legislative and regulatory requirements, ensuring that effective processes

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

Auditor-General's Responsibilities for the Audit

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

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

Further, in planning and performing the audit of the financial statements and audit of compliance, I consider internal control in order to give an assurance on the effectiveness of internal controls, risk management and governance processes and systems in accordance with the provisions of Section 7(1)(a) of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution. My consideration of the internal control would not necessarily disclose all matters in the internal control that might be material weaknesses under the ISSAIs.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to

those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Management.
- Conclude on the appropriateness of the management's use of applicable basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company ability to continue as 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 going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information and business activities of the Company to express an opinion on the financial statements.
- Perform such other procedures as I consider necessary in the circumstances.

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

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


FCPA Nancy Gathungu, CBS
AUDITOR-GENERAL

Nairobi

21 March, 2024

Kitui Water and Sanitation Company Limited**Annual Report and Financial Statements for the year ended June 30, 2023****14. Statement of Profit or Loss & Other Comprehensive Income for the Year Ended 30 June 2023.**

	Note	2022-2023	2021-2022
		Kshs	Kshs
Revenue			Restated
Operating Revenue	6	147,093,978	155,146,526
Grants Income	7	75,543,719	175,018,914
Other Income	8	10,905,428	26,195,215
Total Revenue		233,543,124	356,360,655
Expenses			
Staff Costs	9	73,683,116	72,749,504
General and Operations expenses	10	186,162,807	214,480,447
Board Expenses	11	2,950,573	4,846,688
Maintenance Expenses	12	11,051,929	24,347,626
Depreciation and Amortization expenses	13	2,205,523	2,538,219
Finance Costs	14	288,972	151,321
Total Expenses		276,342,920	319,113,805
Profit/(Loss) Before Taxation		(42,799,796)	37,246,850
Income Tax Expense/(Credit)		-	-
Profit/(Loss) After Taxation		(42,799,796)	37,246,850

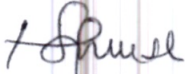
Kitui Water and Sanitation Company Limited
Annual Report and Financial Statements for the year ended June 30, 2023

15. Statement of Financial Position as at 30 June 2023

	Note	2022-2023	2021-2022
		Kshs	Kshs
Assets			Restated
Non-current assets			
Property, plant and equipment	15	23,982,313	22,403,791
Intangible assets	16	1,382,932	1,675,367
Total non-current assets		25,365,245	24,079,158
Current assets			
Inventories	17	3,295,719	4,070,434
Trade and receivables	18	239,499,073	243,704,666
Bank and cash balances	19	27,730,161	32,641,781
Total current assets		270,524,953	280,416,881
Total Assets		295,890,199	304,496,039
Equity and liabilities			
Capital and Reserves			
Capital Fund	20	11,845,658	11,845,658
Retained earnings	23	117,760,091	160,559,887
Total		129,605,749	172,405,545
Non-current liabilities			
Borrowings	24	1,277,941	2,985,733
Total non-current liabilities		1,277,941	2,985,733
Current liabilities			
Trade and other payables	25	122,825,624	93,343,439
Deferred Income	26	12,794,098	7,709,485
Customer Deposit Liability	27	29,386,787	28,051,837
Total current liabilities		165,006,509	129,104,761
Total equity and liabilities		295,890,199	304,496,039

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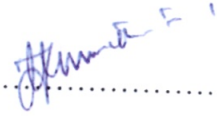
The financial statements were approved by the Board on 9/02/ 2024 and signed on its behalf by:



.....
June Mawia Munyao
Managing Director



.....
John Mwangangi
Head of Finance
ICPAK M/No: 26682



.....
John Muthui
Chairman of the Board

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16. Statement of Changes in Equity for the Year Ended 30 June 2023

	Notes	Capital Fund	Retained earnings	Total
As at July 1, 2021		11,845,658	120,847,279	132,692,937
Deferred tax asset			2,465,758	2,465,758
Profit/(Loss) for the year		-	37,246,850	37,246,850
As at June 30, 2022		11,845,658	160,559,887	172,405,545
As at July 1, 2022		11,845,658	160,559,887	172,405,545
Profit/(Loss) for the year		-	(42,799,796)	(42,799,796)
At June 30, 2023 (Current FY)		11,845,658	117,760,091	129,605,749

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17. Statement of Cash Flows for The Year Ended 30 June 2023

	Note	2022-2023	2021-2022
		Kshs	Kshs
Cash Flows from Operating Activities			Restated
Receipts			
Operating Receipts	6	147,093,978	155,146,526
Grants Income	7	75,543,719	175,018,914
Other Income	8	10,905,428	26,195,215
Total Receipts		233,543,124	356,360,655
Payments			
Staff Costs	9	73,683,116	72,749,504
General And Operation Expenses	10	186,162,807	214,480,447
Board Expenses	11	2,950,573	4,846,688
Maintenance Expenses	12	11,051,929	24,347,626
Finance Costs	14	288,972	151,321
Total Payments		274,137,397	316,575,586
Operating (deficit)/Surplus before working capital changes	28	(40,594,273)	39,785,069
Working Capital Changes			
Decrease/Increase in Inventories	17	774,715	(1,672,429)
Decrease/Increase in Receivables & prepayments	18	4,205,593	(2,780,632)
Decrease/Increase in Payables & Accruals	25&26&27	35,901,747	(23,084,037)
Net Working Capital Changes		40,882,055	(27,537,098)
Net Cash From/ (Used In) Operating Activities	28	287,783	12,247,971
Cash Flows from Investing Activities			
Purchase Of Property, Plant And Equipment (PPE)	15 & 16	(3,491,610)	(5,137,518)
Net Cash From/ (Used In) Investing Activities		(3,491,610)	(5,137,518)
Cash Flows from Financing Activities			
Repayment Of Borrowings-KCB	24	(1,707,792)	(514,267)
Water Sector Trust Fund Projects	26	-	(45,523,933)
Transfer to retained earnings	23	-	2,465,758
Net Cash From/(Used In) Financing Activities		(1,707,792)	(43,572,442)

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	Note	2022-2023	2021-2022
		Kshs	Kshs
Increase/(Decrease) In Cash and Cash Equivalents		(4,911,620)	(36,461,989)
Cash And Cash Equivalents At Beginning Of Year		32,641,781	69,103,767
Cash And Cash Equivalents At End of the Year	19	27,730,161	32,641,781

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18. Statement of Comparison of Budget & Actual Amounts for the Period Ended 30 June 2023

	Original budget	Adjustments	Final budget	Actual on comparable basis	Performance difference	% of utilization
	A	B	c=a+b	D	e= c-d	f=d/c %
	Kshs	Kshs	Kshs	Kshs	Kshs	Xxx%
Revenue						
Operating Revenue	186,580,497	(27,743,690)	158,836,808	147,093,978	11,742,830	93%
Grants Income	98,377,424	10,077,096	108,454,520	75,543,719	32,910,801	70%
Other Income	16,353,386	(6,091,196)	10,262,190	10,905,428	(643,238)	106%
Total Revenue	301,311,307	(23,757,790)	277,553,518	233,543,124	44,010,393	84%
Expenses						
Staff Costs	80,985,008	516,068	81,501,077	73,683,116	7,817,961	90%
Board Expenses	4,744,654	(1,512,000)	3,232,654	2,950,573	282,081	91%
General and operations Expenses	183,242,192	(3,351,632)	179,890,560	186,162,807	(6,272,247)	103%
Depreciation and Amortization	3,644,213	(3,644,213)	-	2,205,523	(2,205,523)	-
Maintenance	28,406,273	(15,818,828)	12,587,445	11,051,929	1,535,516	88%
Finance costs	288,966	52,817	341,783	288,972	52,811	85%
Total Recurrent Expenditure	301,311,307	(23,757,789)	277,553,518	276,342,920	1,210,599	100%
Profit or Loss	-	-	-	(42,799,796)	42,799,796	-
Capital Expenditure	11,616,000	-	11,616,000	3,491,610	8,124,390	30%
Total Expenditure	312,927,307	-	289,169,518	279,834,530	9,334,989	94%

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Budget notes: Provide explanation of differences between actual and budgeted amounts (10% difference 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 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.

	Adjustments	Explanation	Performance difference	% of utilization	Variance Explanation
Revenue	Kshs		Kshs	Xxx%	
Operating Revenue	(27,743,690)	Reallocation	11,742,830	93%	
Grants Income	10,077,096	Reallocation	32,910,801	70%	The County Government of Kitui did not pay full subsidy as budgeted.
Other Income	(6,091,196)	Reallocation	(643,238)	106%	
Total Revenue	(23,757,789)		44,010,393	84%	Mainly due to the unremitted subsidy by the County Government of Kitui.
Expenses					
Staff Costs	516,068	Reallocation	7,817,961	90%	
Board Expenses	(1,512,000)	Reallocation	282,081	91%	
General and operations Expenses	(3,351,632)	Reallocation	(6,272,247)	103%	
Depreciation and Amortization	(3,644,213)	Reallocation	(2,205,523)	-	
Maintenance	(15,818,828)	Reallocation	1,535,516	88%	
Finance costs	52,817	Reallocation	52,811	85%	
Total Recurrent Expenditure	(23,757,789)		1,210,599	100%	
Profit or Loss	-		42,799,796	-	
Capital Expenditure	-		8,124,390		Due to cash flow constraints we could not absorb CAPEX fully.
Total Expenditure	-		9,334,989		

19. Notes to the Financial Statements

1. General Information

Kitui Water and Sanitation Company Ltd is established by and derives its authority and accountability from Company Act. The Company is wholly owned by the Kitui County Government and is domiciled in Kenya. The Company's principal activity is to provide and distribute constant supply of water for commercial, industrial and domestic purpose within the jurisdiction of Kitui County and parts of Machakos County.

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

2. Statement of Compliance and Basis of Preparation

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

The financial statements have been prepared and presented in Kenya Shillings, which is the functional and reporting currency of the Company. The figures are rounded to the nearest Kenyan shilling.

The financial statements have been prepared in accordance with the PFM Act, the State Corporations Act, Water Act 2016 and the Company's Act, and International Financial Reporting Standards (IFRS). The accounting policies adopted have been consistently applied to all the years presented.

Notes to the financial statements (continued)

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

- i. *New and amended standards and interpretations in issue and effective in the year ended 30 June 2023.*

Title	Description	Effective Date
IFRS 17 Insurance Contracts (issued in May 2017)	<p>The new standard establishes principles for the recognition, measurement, presentation and disclosure of insurance contracts issued. It also requires similar principles to be applied to reinsurance contracts held and investment contracts with discretionary participation features issued. The objective is to ensure that entities provide relevant information in a way that faithfully represents those contracts.</p> <p><i>The Company does not issue insurance contracts. / The company is an insurance company. The adoption of IFRS 17 has had the following effects:</i></p> <p>Xxx Xxx <i>(Amend as appropriate)</i></p>	Effective for annual periods beginning on or after 1 st January 2023.
IAS (International Accounting Standards) 8- Accounting Policies, Errors, and Estimates	<p>The amendments, applicable to annual periods beginning on or after 1st January 2023, introduce a definition of ‘accounting estimates’ and include other amendments to IAS 8 to help entities distinguish changes in accounting policies from changes in accounting estimates.</p> <p><i>(entity to state the effect of amendments on their financial statements for the year ended.)</i></p>	The amendments are effective for annual reporting periods beginning on or after January 1, 2023.
Amendments to IAS 1 titled Disclosure of Accounting Policies (issued in February 2021)	<p>The amendments, applicable to annual periods beginning on or after 1st January 2023, require entities to disclose their material accounting policy information rather than their significant accounting policies.</p>	The amendments are effective for annual periods beginning on or after January 1, 2023.

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Title	Description	Effective Date
	<i>(Entity to state whether this has brought about changes to the accounting policies disclosed)</i>	
Amendments to IAS 12 titled Deferred Tax Related to Assets and Liabilities arising from a Single Transaction (issued in May 2021)	The amendments, applicable to annual periods beginning on or after 1st January 2023, narrowed the scope of the recognition exemption in paragraphs 15 and 24 of IAS 12 (recognition exemption) so that it no longer applies to transactions that, on initial recognition, give rise to equal taxable and deductible temporary differences.	The amendments are effective for annual periods beginning on or after January 1, 2023.

Assessment of impact of application of the above amendments is applicable effective annual periods beginning on or after January 1, 2023

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 2023.*

Title	Description	Effective Date
Amendments to IAS 1 titled Classification of Liabilities as Current or Non-current (issued in January 2020, amended in October 2022)	The amendments, applicable to annual periods beginning on or after 1st January 2024, clarify a criterion in IAS 1 for classifying a liability as non-current: the requirement for an entity to have the right to defer settlement of the liability for at least 12 months after the reporting period	The amendments are effective for annual periods beginning on or after January 1, 2024. Earlier application is permitted.
Amendment to IFRS 16 titled Lease Liability in a Sale and Leaseback (issued in September 2022)	The amendment, applicable to annual periods beginning on or after 1st January 2024, requires a seller-lessee to subsequently measure lease liabilities arising from a leaseback in a way that it does not recognise any amount of the gain or loss.	The amendments are effective for annual periods beginning on or after January 1, 2024. Earlier application is permitted.
Amendments to IAS 1 titled Non-current Liabilities with Covenants (issued in October 2022)	The amendments, applicable to annual periods beginning on or after 1st January 2024, improve the information an entity provides about liabilities arising from loan arrangements for which an entity's right to defer settlement of those liabilities for at least twelve months after the reporting period is subject to the entity complying with conditions specified in the loan arrangement.	The amendments are effective for annual periods beginning on or after January 1, 2024. Earlier application is permitted.

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

KITWASCO did not early-adopt any new or amended standards in year under review.

Notes to the financial statements (continued)

4. Summary of Accounting Policies

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

a) Revenue recognition

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

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

Notes to the financial statements (continued)

Summary of Accounting Policies

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, utilities 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 but disclosed.

c) Property, plant and equipment

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

Notes to the financial statements (continued)

Summary of Accounting Policies

d) Depreciation and impairment of property, plant and equipment

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

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

Item	Years	Rates
Freehold Land	Nil	Nil
Leasehold Land	Nil	Nil
Buildings and civil works	25 years or the unexpired lease period	4%
Plant and machinery	12.5	8%
Motor vehicles, including motorcycles	4	25%
Computers and related equipment	3	33.3%
Office equipment, furniture and fittings	12.5	8%

A full year's depreciation charge is recognized both in the year of asset purchase and none in the year of asset disposal. Items of property, plant and equipment are reviewed annually for impairment and accounted for in line with the provisions in the standard.

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 reducing balance 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.

Notes to the financial statements (continued)

Summary of Accounting Policies

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 and the asset is written down 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 from 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. [OBJ]

Notes to the financial statements (continued)

Summary of Accounting Policies

h) Right of Use Asset

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

i) Fixed interest investments (bonds)

Fixed interest investments refer to investment funds placed under Central Bank of Kenya (CBK) long-term infrastructure bonds and other corporate bonds with the intention of earning interest. Fixed interest investments are freely traded at the Nairobi Securities Exchange. The bonds are measured at amortized cost or at fair value through profit or loss or at fair value through other comprehensive income (FVOCI). (*Whichever is applicable*).

j) Quoted investments

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

Notes to the financial statements (continued)
Summary of Accounting Policies

k) Unquoted investments

Unquoted investments stated at cost under non-current assets, and comprise equity shares held in other Government owned or controlled entities that are not quoted in the Securities Exchange. These are measured at fair value through profit or loss (FVTPL).

l) Inventories

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

m) Trade and other receivables

Trade and other receivables are recognized at amortized cost 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 and when the necessary approval to write off is granted. A report on losses and write offs is disclosed on page xxx of this report.

Notes to the financial statements (continued)

Summary of Accounting Policies

n) Taxation

i) Current income tax

Current income tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting date in the area where the 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 profit or loss statement. 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. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

o) Deferred tax

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

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

Notes to the financial statements (continued)

Summary of Accounting Policies

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

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

p) Borrowing costs

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

Notes to the financial statements (continued)

Summary of Accounting Policies

q) Cash and cash equivalents

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

r) Borrowings

Interest bearing loans and overdrafts are initially recorded at fair value being received, net of issue costs associated with the borrowing. Subsequently, these are measured at 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.

s) 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 entity or not, less any payments made to the suppliers.

Notes to the financial statements (continued)

Summary of Accounting Policies

t) Retirement benefit obligations

The Company operates a defined contribution scheme for all full-time employees from July 1, 2010. The scheme is administered by an in-house team and is funded by contributions from both the company and its employees. The company also contributes to the statutory National Social Security Fund (NSSF). This is a defined contribution scheme registered under the National Social Security Act. The company's obligation under the scheme is limited to specific contributions legislated from time to time and is currently at Kshs. 15% of the basic salary per employee per month.

u) Provision for staff leave pay

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

v) Exchange rate differences

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

Notes to the financial statements (continued)

Summary of Accounting Policies

w) Budget information

The original budget for FY 2022-2023 was approved by the Board of Directors on 21st June 2022. Subsequent revisions or additional appropriations were made to the approved budget in accordance with specific approvals from the appropriate authorities. The additional appropriations are added to the original budget by the entity upon receiving the respective approvals in order to conclude the final budget. Accordingly, the Company recorded additional appropriations of xxx on the 2022-2023 budget following the governing body's approval. 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 accrual basis using a classification based on the nature of expenses in the statement of profit or loss, 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 Comprehensive income has been presented under section xxx of these financial statements.

Notes to the financial statements (continued)

Summary of Accounting Policies

x) 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.

y) Comparative figures

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

z) 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, 2023.

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.

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

Notes to the financial statements (continued)

Summary of Accounting Policies

a) Estimates and assumptions

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

b) Useful lives and residual values

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

c) Provisions

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

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.

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Notes to the financial statements (continued)

6. Operating Revenue

	<i>2022-2023</i>	<i>2021-2022</i>
	Kshs	Kshs
Water Billing sales	140,368,771	143,564,450
Sewer sales	1,730,566	1,927,365
Water Tanker sales	4,994,641	9,654,711
Total	147,093,978	155,146,526

7. Grants Income

	<i>2022-2023</i>	<i>2021-2022</i>
	Kshs	Kshs Restated
Operational Grant from Kitui County Government	67,179,527	59,673,634
Amortized Grant Income	8,364,192	115,345,280
Total	75,543,719	175,018,914

Name of the Entity sending the grant	Amount recognized in the Statement of Comprehensive Income KShs	Amount deferred under deferred income KShs	Amount recognised in capital fund. KShs	Total grant income during the year KShs	Insert Current FY KShs
Water Sector Trust Fund- WSTF and County Government of Kitui	8,364,192	12,794,098	-	13,448,804	8,364,192
Total	8,364,192	12,794,098	-	13,448,804	8,364,192

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Notes to the financial statements (continued)

8. Other Income

	<i>2022-2023</i>	<i>2021-2022</i>
	Kshs	Kshs
Exhauster sales	799,180	2,176,483
Meter rent	5,071,575	5,388,525
Standing charges	-	5,435,550
New connection fee	3,838,783	4,627,680
Re-connection fee	556,000	1,080,000
Miscellaneous income	-	400,000
Drought Mitigation Fund	-	5,865,977
Rental Income	38,000	86,000
Surcharges and penalties	501,000	1,030,000
Line testing income	100,890	5,000
Line Extension income	-	100,000
Total	10,905,428	26,195,215

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Notes to the financial statements (continued)

9. Staff Costs

Description	2022-2023	2021-2022
	Kshs	Kshs Restated
Basic pay	39,410,012	39,562,037
House allowance	8,098,000	8,344,000
Acting allowance	469,225	302,643
Salary arrears	846,576	-
Leave allowance	3,077,867	3,470,637
Disturbance allowance	769,969	630,162
Commuter allowance	3,012,014	3,140,444
Medical allowance	3,566,490	3,638,532
Gratuity	7,363,037	6,154,321
Nssf Employer contribution	695,380	290,200
Kitwasco Pension Employer contribution	1,976,923	2,574,660
NWC Pension Employer contribution	363,046	486,951
Casual Wages	705,000	1,116,997
Stipend allowance	3,258,500	2,937,000
Entertainment allowance	71,078	100,920
Total	73,683,116	72,749,504
The average number of employees during the year	121	135

Kitui Water and Sanitation Company Limited
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Notes to the financial statements (continued)

10. General and Operations Expenses

	<i>2022-2023</i>	<i>2021-2022</i>
Description	Kshs	Kshs Restated
Staff Welfare	1,703,448	2,170,638
Legal expenses	100,000	1,720,310
Office rent	90,000	81,160
Postal expenses	115,104	129,150
Printing and Stationery	960,327	625,746
Transport expenses	120,850	226,968
Telephone expenses	793,464	708,073
Membership fee	105,000	105,000
Security expenses	11,209,360	12,321,800
Newspaper expense	41,100	150,540
Insurance expense	745,266	751,501
Electricity Expense –Office	414,475	357,472
Staff training	199,180	820,954
Office internet	498,415	461,011
Advertisement	288,760	490,054
Audit fees	231,996	231,996
Abstraction fee-WRA	1,589,413	1,846,192
Fuel and lubricants	9,342,260	8,795,675
Water purchase	236,500	134,130
Wasreb fee	5,796,197	5,810,354
Non-revenue water expenses	209,971	1,795,196
Chemicals	11,239,448	5,848,691
SMS Billing	829,980	567,135
Electricity expenses Masinga	108,117,855	105,723,511
Electricity expenses boreholes	12,518,148	11,755,644
Drought mitigation expenses	-	5,788,479
Water meters	919,200	4,152,175
Generator fuel, lubricants & service	1,448,606	2,214,280
Exhauster expenses	5,000	5,000
Consultancy fee	-	115,328
Bad and doubtful debts	2,725,318	5,454,899
Staff travel and subsistence	4,580,348	5,345,769
Staff Uniform	-	588,000

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AGM expenses	-	595,500
Corporate Social responsibility	-	74,400
Customer outreach and education	24,955	178,734
Debt collection fee	398,756	333,006
Bank charges	199,916	199,149
Provision for Contingency expense	-	1,327,884
Project Expenses	8,364,192	24,478,942
Total	186,162,807	214,480,447

11. Board Expenses

Description	2022-2023	2021-2022
	KShs	KShs
Directors fees-Board Committee	674,975	1,118,530
Directors fees-Full board	385,700	752,115
Chairman's Honoraria	840,000	840,000
Directors fees-Special	403,060	385,700
Other directors' expenses	646,838	762,864
Training BOD	-	987,479
Total Board Expenses	2,950,573	4,846,688

12. Maintenance Expenses

Description	2022-2023	2021-2022
	Kshs	Kshs Restated
Water system maintenance	5,172,840	13,759,924
Sewer maintenance expenses	127,136	107,247
Motor vehicle & motor cycle running costs	3,656,496	5,335,626
Repairs and maintenance of PPE	849,946	2,148,959
Office maintenance	616,611	1,811,917
Software maintenance expense	600,000	1,070,000
Computer expense	28,900	111,414
Repair of furniture	-	2,540
Total Maintenance Expenses	11,051,929	24,347,626

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Notes to the financial statements (continued)

13. Depreciation and Amortization Expenses

Description	2022-2023	2021-2022
	KShs	KShs
Plant, property and Equipment	1,913,088	2,180,304
Intangible assets	292,435	357,914
Total Depreciation and Amortization	2,205,523	2,538,219

14. Finance costs

	2022-2023	2021-2022
Description	Kshs	Kshs Restated
Interest expense on loans	288,972	151,321
Total	288,972	151,321

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Notes to the financial statements (continued)

15. Property, Plant and Equipment

2022-2023	Motor Cycles	Buildings & civil works	Plant and machinery	Motor vehicles	Computers & related equipment	Office equipment, furniture & fittings	Bicycles	Total
Cost Or Valuation								
At July 1, 2022	5,294,490	10,493,566	4,939,241	9,599,860	5,005,101	2,012,274	38,636	37,383,168
Additions	-	786,220	2,231,040	-	230,000	244,350	-	3,491,610
Transfers	-	-	-	-	-	-	-	-
Disposals	(-)	(-)	(-)	(-)	(-)	(-)	(-)	(-)
At June 30, 2023	5,294,490	11,279,786	7,170,281	9,599,860	5,235,102	2,256,624	38,636	40,874,778
Depreciation								
At July 1, 2022	3,116,210	574,194	995,494	6,455,556	3,067,433	739,246	31,243	14,979,376
Charge for the Year	350,139	101,255	323,717	665,808	373,177	98,077	916	1,913,088
Impairment Loss	-	-	-	-	-	-	-	-
Disposal	(-)	(-)	(-)	(-)	(-)	(-)	(-)	(-)
At June 30, 2023	3,466,349	675,450	1,319,211	7,121,364	3,440,610	837,323	32,159	16,892,466
Net Book Value At June 30, 2023	1,828,141	10,604,336	5,851,070	2,478,496	1,794,492	1,419,301	6,477	23,982,313

Notes to the financial statements (continued)

15. Property, Plant and Equipment (Continued)

2021-2022	Motor Cycles	Buildings & civil works	Plant and machinery	Motor vehicles	Computers & related equipment	Office equipment, furniture & fittings	Bicycles	Total
Cost Or Valuation								
At July 1, 2021	4,331,379	9,705,746	2,999,241	9,599,860	3,946,254	1,624,536	38,636	32,245,651
Additions	963,111	787,820	1,940,000	-	1,058,848	387,738	-	5,137,517
Transfers	-	-	-	-	-	-	-	-
Disposals	(-)	(-)	(-)	(-)	(-)	(-)	(-)	(-)
At June 30, 2022	5,294,490	10,493,566	4,939,241	9,599,860	5,005,101	2,012,274	38,636	37,383,168
Depreciation								
At July 1, 2021	2,706,369	444,230	712,928	5,559,263	2,704,516	641,566	30,199	12,799,071
Charge for the Year	409,841	129,964	282,566	896,292	362,917	97,680	1,044	2,180,304
Impairment Loss	-	-	-	-	-	-	-	-
Eliminated On Disposal	(-)	(-)	(-)	(-)	(-)	(-)	(-)	(-)
At June 30, 2022	3,116,210	574,194	995,494	6,455,556	3,067,433	739,246	31,243	14,979,376
Net Book Value At June 30, 2022	2,178,280	9,919,372	3,943,747	3,144,304	1,937,668	1,273,028	7,393	22,403,792

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Notes to the financial statements (continued)

16. Intangible Assets

	<i>2022-2023</i>	<i>2021-2022</i>
	Kshs	Kshs
Cost		
At July 1	4,202,690	4,202,690
Additions	-	-
Disposals	(-)	(-)
At June 30	4,202,690	4,202,690
Amortization		
At July 1	2,527,322	2,169,408
Charge for the year	292,435	357,914
Disposals	(-)	(-)
Impairment loss	(-)	(-)
At June 30	2,819,758	2,527,322
Net book value		
At June 30	1,382,932	1,675,367

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Notes to the financial statements (continued)

17. Inventories

	<i>2022-2023</i>	<i>2021-2022</i>
	Kshs	Kshs
Pipes and fittings	2,523,377	3,045,631
Motor vehicle spare parts	63,132	24,958
Stationery and general stores	125,398	91,408
Chemicals	559,902	754,434
Fuel and lubricants	23,911	154,003
Total	3,295,719	4,070,434

18. Trade and Other Receivables

	<i>2022-2023</i>	<i>2021-2022</i>
	KShs	KShs
Trade receivables	193,873,716	202,851,285
Deferred Tax	10,255,221	10,255,221
VAT recoverable	30,469,204	30,469,204
Water Bowser	8,402,070	8,402,070
Kitui County Govt other receivables	12,304,545	11,578,670
Kenya Commercial Bank other receivables	3,175,298	-
Postal Corporation of Kenya	3,588,622	-
Staff Receivables/ Advances	7,500	-
Gross trade and other receivables	262,076,176	263,556,450
Provision for bad and doubtful receivable	(22,577,103)	(19,851,785)
Net trade and other receivables	239,499,073	243,704,666

18. (a) Trade Receivables

	<i>2022-2023</i>	<i>2021-2022</i>
	Kshs	Kshs
Gross trade receivables	193,873,716	202,851,285
Provision for doubtful receivables	(22,577,103)	(19,851,785)
Net trade receivables	171,296,613	182,999,500
As at June 30, the ageing analysis of the gross trade receivables was as follows:		
Less than 30 days	7,118,813	6,085,539
Between 30 and 60 days	4,451,306	2,028,513
Between 61 and 90 days	4,356,537	1,014,256
Between 91 and 120 days	4,119,330	811,405
Over 120 days	173,827,729	192,911,572
Total	193,873,716	202,851,285

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Notes to the financial statements (continued)

18 (b) VAT Recoverable

	2022/2023	2021/2022
	Kshs	Kshs
At beginning of the year	30,469,204	30,469,204
At end of the year	30,469,204	30,469,204

18. (c) Staff Receivables

	2022-2023	2021-2022
	Kshs	Kshs
Gross staff loans and advances	7,500	-
Provision for impairment loss	(-)	(-)
Net staff loans	7,500	-

19. Bank and Cash Balances

	2022-2023	2021-2022
	Kshs	Kshs
Cash at bank	27,729,713	32,621,940
Cash in hand	448	19,841
	27,730,161	32,641,781

Notes to the financial statements (continued)

Detailed analysis of the cash and cash equivalents

			2022/2023	2021/2022
Financial institution	Branch	Account number	KShs	KShs
a) Current account				
KCB-Customer Deposit	Kitui	1108997538	7,322,619	9,012,364
KCB-Revenue	Kitui	1106008197	590,427	274,901
KCB-Gratuity	Kitui	1110300336	0.33	67,228
KCB-Drought	Kitui	1205316566	560	560
KCB EXPENDITURE	Kitui	1113757604	1,510,907	1,538,517
KCB-Endau Clts	Kitui	1263502881	847	847
KCB-Endau Earth	Kitui	1261097319	17,199,923	12,267,405
KCB-Kalundu PSF	Kitui	1303370719	961,075	-
KCB-Mutomo Public San	Kitui	1268477567	794	794
Co-op Bank	Kitui	0114130067900	61,378	1,393,843
Post Bank	Kitui	07441300613	11,140	39,505
Post Office	Kitui	1209	-	3,776,423
Conditional Grant	Kitui	1282103876	60	60
Sub- total			27,659,733	28,372,447
b) Others (Specify)				
cash in hand			448	19,841
M pesa		813235	69,980	4,249,492
Sub- total			70,428	4,269,333
Grand total			27,730,161	32,641,781

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Notes to the financial statements (continued)

20. Capital Fund

	2022/2023	2021/2022
	Kshs	Kshs
Authorized:		
Capital Fund	11,845,658	11,845,658
Total	11,845,658	11,845,658

Notes to the financial statements (continued)

21. Revaluation Reserve

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

22. Fair Value Adjustment Reserve

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

23. Retained Earnings

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

	2022-2023	2021-2022
Opening Retained Earnings	160,559,887	120,847,279
Surplus/(deficit) for the period	(42,799,796)	37,246,850
Adjustment to RE – Deferred tax	-	2,465,758
Net Reserve	117,760,091	160,559,887

24. Borrowings

Description	2022-2023	2021-2022
	KShs	KShs
Balance at beginning of the year	2,985,733	3,500,000
Loan repayment in the year	(1,707,792)	(514,267)
Total	1,277,941	2,985,733

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Notes to the financial statements (continued)

25. Trade and Other Payables

	2022-2023	2021-2022
	Kshs	Kshs
		Restated
Trade payables	36,729,152	25,045,332
Accrued expenses	1,400,139	1,468,408
Payroll payable	15,120,723	2,831,923
Withholding VAT (2%)	329,119	7,966
Withholding income tax (5%)	32,575	-
Retention Account	5,368,603	4,559,622
Prior year adjustment	-	2,022,807
Provision for contingencies	8,409,932	8,409,932
Abstraction fee-WARMA	5,567,383	4,377,970
KRA Liability	16,093,954	16,093,954
4% Regulatory fee-WASREB	24,497,892	19,133,141
Lease fee-Tanathi Water Board	6,756,164	6,756,164
Stock liabilities	-	348,227
Provision for Audit fee-OAG	2,519,988	2,287,992
Total	122,825,624	93,343,353

Aging Analysis for Trade and other Payables

	2022-2023	% of the total	2021-2022	% of the total
Under one year	59,806,710	49%	29,353,629	31%
1-2 years	10,999,670	9%	10,960,399	12%
2-3 years	20,759,194	17%	21,769,360	24%
Over 3 years	31,260,050	25%	31,260,050	33%
Total	122,825,624		93,343,353	

Notes to the financial statements (continued)

26. Deferred Income

	2022-2023	2021-2022
Water Sector Trust Fund	Kshs	Kshs
KALUNDU PUBLIC SANITATION	545,075	-
ENDAU EARTH DAM/COVID 19	12,247,320	7,707,783
ENDAU MALALANI CLTS	847	847
PUBLIC SANITATION FACILITY-MUTOMO	794	794
CONDITIONAL LIQUIDITY GRANT	60	60
Total	12,794,098	7,709,484

27. Refundable Customer Deposit

	2022-2023	2021-2022
	<i>Kshs</i>	<i>Kshs</i> Restated
Opening balance Customer deposits	28,051,837	25,551,487
Additional deposits in the year	1,334,950	2,490,350
Total	29,386,787	28,051,837

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Notes to the financial statements (continued)

28. Notes to The Statement of Cash Flows

	2022-2023	2021-2022
	Kshs	Kshs
(a) Reconciliation of operating profit/(loss) to cash generated from/(used in) operations		
Operating profit/(loss)	(42,799,796)	37,246,850
Depreciation	1,913,088	2,180,304
Amortization	292,435	357,914
Operating profit/(loss) before working capital changes	(40,594,273)	39,785,069
(Increase)/decrease in inventories	774,715	(1,672,429)
(Increase)/decrease in trade and other receivables	4,205,593	(2,780,632)
Increase/(decrease) in trade and other payables	35,901,747	(23,084,037)
Net working capital changes	40,882,055	(27,537,098)
Cash generated from/(used in) operations	287,782	12,247,971
(b) Analysis of changes in loans		
Balance at beginning of the year	2,985,733	3,500,000
Repayment during the year	(1,707,792)	(514,267)
Balance at end of the year	1,277,941	2,985,733
(c) Analysis of cash and cash equivalents		
Cash at bank	27,729,713	32,621,940
Cash in hand	448	19,841
Balance at end of the year	27,730,161	32,641,781

Notes to the financial statements (continued)

Other Disclosures

29. Related Party Disclosures

County Government of Kitui

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

Other related parties include:

- The County Department in charge of Water
- Water works Agencies
- WASREB (Water Services Regulatory Board)
- WRA (Water Resource Authority)
- WSTF (Water Sector Trust Fund)
- Key management
- Board of directors

Transactions with related parties

	2022-2023	2021-2022
	Kshs	Kshs Restated
a) Grants		
Operational Grant from County Government of Kitui	67,179,527	59,673,634
Amortized Grant Income from Water Trust Fund (WSTF)	8,364,192	115,345,280
Total	75,543,719	175,018,914
b) WASREB Regulatory fee	5,796,197	5,810,354
c) WRA Abstraction fee	1,589,413	1,846,192
d) Receivable (From County Government of Kitui -Ilimukuyu Dam)	-	12,054,775
e) Key management compensation		

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	2022-2023	2021-2022
	Kshs	Kshs
		Restated
Directors' emoluments	840,000	840,000
Compensation to the CEO	2,541,810,	3,099,300
Compensation to key management	9,446,712	8,896,820
Total	12,828,522	12,836,120

30. 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 programme focuses on unpredictability of changes in the business environment and seeks to minimise the potential adverse effect of such risks on its performance by setting acceptable levels of risk. The company does not hedge any risks and has in place policies to ensure that credit is only extended to customers with an established credit history. The company's financial risk management objectives and policies are detailed below:

(i) Credit risk

The 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.

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

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	Total amount Kshs	Fully performing Kshs	Past due but not Impared Kshs	Past due and Impaired Kshs
At 30 June 2023				
Trade Receivables	193,873,716	43,359,696	150,514,020	-
Other Receivables	68,202,460	59,800,390	8,402,070	-
Total	262,076,176	103,160,086	158,916,090	-
At 30 June 2022 Previous Year				
Trade Receivables	202,851,285	91,201,231	111,650,054	-
Other Receivables	60,705,165	52,303,095	8,402,070	-
Total	263,556,450	143,504,326	120,052,124	-

Credit Risk (Continued)

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

The 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.

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	Less than 1 month	Between 1-3 months	Over 5 months	Total
	Kshs	Kshs	Kshs	Kshs
At 30 June 2023 current year				
Trade payables	18,600,601	3,322,165	14,806,386	36,729,152
Total	18,600,601	3,322,165	14,806,386	36,729,152
At 30 June 2022 previous year				
Trade payables	13,272,242	3,836,882	7,936,208	25,045,332
Total	13,272,242	3,836,882	7,936,208	25,045,332

(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 entity's income or the value of its holding of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return. Overall responsibility for managing market risk rests with the Audit and Risk Management Committee.

The company's Department in charge of risk management 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.



Notes to the financial statements (continued)

i) 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:

- i)** Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities. This level includes listed equity securities and debt instruments on exchanges.
- ii)** 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).
- iii)** 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.

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Notes to the financial statements (continued)

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's capital structure comprises of the following funds:

	2022-2023	2021-2022
	Kshs	Kshs
Revaluation reserve	-	-
Retained earnings	117,760,091	160,559,887
Capital reserve	11,845,658	11,845,658
Total funds	129,605,749	172,405,545
Total borrowings	1,277,941	2,985,733
Less: cash and bank balances	(27,730,161)	(32,641,781)
Net debt/(excess cash and cash equivalents)	(26,452,220)	(29,656,048)
Gearing	5%	10%

31. Incorporation

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

32. Events After the Reporting Period

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

20. Appendices

Appendix 1: progress on follow up of auditor recommendations.

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

Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
1	Long Outstanding Trade Receivables	The company has engaged a debt collector to assist in collecting long outstanding receivables	Not Resolved	Continuous exercise
2	Inaccuracies in Cash and Cash equivalents	The difference of Kshs 187,791 has been identified and reconciled accordingly.	Resolved	Resolved
3	Long Outstanding Trade Payables	The company is in the process of reviewing tariff since the current one was approved back in 2011 hence not commensurate with the current cost of production. The new tariff will help improve liquidity levels hence pay obligations as and when they fall due.	Not Resolved	By 31 st December 2023
4	Out-Dated Tariff Structure	An application for tariff review has been submitted to Wasreb for consideration.	Not Resolved	By 31 st December 2023
5	Non-Revenue Water	The company has taken measures to reduce non-revenue water from 55% reported in FY 2021/2022 to 47% currently	Not Resolved	Continuous exercise
6	Undisclosed Ownership of the Company	The company has engaged the County Government to regularize the ownership as per the Water Act 2016.	Not Resolved	30 th April 2024

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Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
7	Non-Compliance with National Cohesion and Integration Act 2008	The matter will be resolved progressively through future recruitments	Not Resolved	Continuous exercise
8	Irregular Payment of Acting Allowance	The management took the necessary actions to resolve the matter	Resolved	31 st July 2023
9	Failure to Adhere to the One Third Rule	The management has sensitized its employees on the rule and is subjecting loans/advances to appraisal before approval	Not Resolved	Continuous exercise
10	Staff in Service after Attainment of Mandatory Retirement Age	The management did not renew the contracts of the said staffs.	Resolved	Resolved
11	Non-compliance with the Approved Staff Establishment	The management has noted the matter and action will be taken gradually	Not Resolved	Continuous exercise

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Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
12	Irregular Appointment of Board of Directors	The Board was dissolved and recruitment process is ongoing	In progress	By 31 st October 2023
13	Delayed Construction of Ilimukuyu Earth Dam in Endau Malalani Ward	Phase 1 of the project was closed and advertisement for phase 2 have been done	In progress	By 30 th June 2024

Guidance Notes:

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

June Mawia Munyao

Signature.....

Managing Director

Date.....9/02/2024

Appendix II: Projects Implemented by the Company
Projects

Projects implemented by the Company Funded by development partners.

Project title	Project Number	Donor	Period/ duration	Donor commitment	Separate donor reporting required as per the donor agreement (Yes/No)	Consolidated in these financial statements (Yes/No)
KALUNDU PUBLIC SANITATION FACILITY PROJECT	08S/KITUI/KITUI/44	WSTF	12 MONTHS	84%	YES	YES
ILIMUKUYU WATER PROJECT	RUP/CPI/I/W/015/005	WSTF	11 MONTHS	87%	YES	YES

Status of Projects completion

	Project	Total project Cost	Total expended to date	Completion % to date	Budget	Actual	Sources of funds
1	PSF KALUNDU	6,199,218.90	4,959,375	90%	6,199,218.90	3,998,300	Donor
2	ILIMUKUYU WATER PROJECT	73,583,763	51,959,662	64%	73,583,763	46,814,514	Donor

Appendix III- Inter-Entity Confirmation Letter



[There were no Inter-Entity transactions in the financial year]

The *[insert SC/SAGA/Fund name here]* wishes to confirm the amounts disbursed to you as at 30th June 2023 as indicated in the table below. Please compare the amounts disbursed to you with the amounts you received and populate column E in the table below. Please sign and stamp this request in the space provided and return it to us.

Confirmation of amounts received by [Insert name of beneficiary entity] as at 30th June 2023							
Reference Number	Date Disbursed	Amounts Disbursed by [SC/SAGA/Fund] (KShs) as at 30th June 2023				Amount Received by [beneficiary entity] (KShs) as at 30 th June 2023 (E)	Differences (KShs) (F)=(D-E)
		Recurrent (A)	Development (B)	Inter-Ministerial (C)	Total (D)=(A+B+C)		

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Total							
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In confirm that the amounts shown above are correct as of the date indicated.

Head of Accountants department of beneficiary entity:

Name John Mwangi Sign [Signature] Date 9/2/2024

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Appendix IV: Reporting of Climate Relevant Expenditures

Kitui Water and Sanitation Company
 0701545554
 kitwasco@gmail.com
 June Mawia Munyao

Name and contact details of contact person (in case of any clarifications) June Mawia Munyao 0728672255

Project Name	Project Description	Project Objectives	Project Activities					Source Of Funds	Implementing Partners
				Q1	Q2	Q3	Q4		



Appendix V: Reporting Disaster Management Expenditure

Date: 30/06/2023

Entity: Kitui Water and Sanitation Company

Column I	Column II	Column III	Column IV	Column V	Column VI	Column VII
Programme	Sub-programme	Disaster Type	Category of disaster related Activity that require expenditure reporting (response/recovery/mitigation/preparedness)	Expenditure item	Amount (Kshs.)	Comments

(Attach forms from each transferring Government entity.)

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Appendix VI: Recording of Transfers from Other Government Entities

Name of the County/MDA/Donor or Transferring the funds	Date received as per bank statement	Nature: Recurrent/Development/Others	Total Amount - KES	Where Recorded/recognized					Total Transfers during the Year
				Statement of Comprehensive income	Capital Fund	Deferred Income	Receivables	Others - must be specific	
Ministry/County department of Water	-	Recurrent	-	-	-	-	-	-	-
Ministry/County Department of water.	-	Development	-	-	-	-	-	-	-
USAID	-	Donor Fund	-	-	-	-	-	-	-
name of Development partner/County department etc.	-	Direct Payment	-	-	-	-	-	-	-
			-	-	-	-	-	-	-
Total			-	-	-	-	-	-	-