

REPUBLIC OF KENYA



*Enhancing Accountability*



**REPORT**

**OF**

**THE AUDITOR-GENERAL**

**ON**

**KERICHO WATER AND SANITATION  
COMPANY LIMITED**

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



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# **KERICHO WATER AND SANITATION COMPANY LIMITED**

**ANNUAL REPORT AND FINANCIAL STATEMENTS**

**FOR THE FINANCIAL YEAR ENDED**

**JUNE 30, 2023**

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



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## **1. ACRONYMS AND GLOSSARY OF TERMS**

<i>ICPAK</i>	<i>Institute of Certified Public Accountants of Kenya</i>
<i>IFRS</i>	<i>International Financial Reporting Standards</i>
<i>MD</i>	<i>Managing Director</i>
<i>PFM</i>	<i>Public Financial Management</i>
<i>PSASB</i>	<i>Public Sector Accounting Standards Board</i>
<i>WASREB</i>	<i>Water Services Regulatory Board</i>
<i>KEWASCO</i>	<i>Kericho Water and Sanitation Company Limited</i>
<i>WASREB</i>	<i>Water Services Regulatory Board</i>
<i>NRW</i>	<i>Non-Revenue Water</i>
<i>O &amp; M</i>	<i>Operation and Maintenance</i>
<i>DWQ</i>	<i>Drinking Water Quality</i>
<i>GIS</i>	<i>Geographical Information System</i>
<i>WAN</i>	<i>Wide Area Network</i>
<i>WSDP</i>	<i>Water Sector Development Program</i>
<i>LVSWWDA</i>	<i>Lake Victoria South Water Works Development Agency</i>
<i>KPI</i>	<i>Key Performance Indicator</i>



## **2. KEY ENTITY INFORMATION**

### **Background information**

Kericho Water and Sanitation Company Limited (KEWASCO Ltd) was established by the Kenyan Companies Act. It was incorporated on 15<sup>th</sup> October 1997. At county level, the company is represented the County Executive in charge of Water and Environment who together with the board of directors are responsible for the general policy and strategic direction of the Company. The company is domiciled in Kenya.

KEWASCO took over the operations of Tililbei Water and Sanitation Company on 2<sup>nd</sup> of November 2018 operating is the rural cost centre.

### **Principal Activities**

The company continues to provide water and sanitation services within the licensed service area of Kericho County and its environs.

### **Directors**

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

- |   |   |
|---|---|
| 1. Mrs Roselyn Langat Ngeny - Chairman  | -Appointed on 1 <sup>st</sup> October 2020    |
| 2. Hon Geoffrey Ruto - Member           | - Left on 9 <sup>th</sup> August 2022         |
| 3. Hon Rosemary Rop - Member            | Appointed on 2 <sup>nd</sup> November 2022    |
| 4. Hon Leonard Ngetich -Member          | Appointed on 2 <sup>nd</sup> November 2022    |
| 5. CPA Francis Kipkoech Langat - Member | - Appointed on 1 <sup>st</sup> October 2020   |
| 6. Mr Apollo K. Cheruiyot -Member       | - Appointed on 10 <sup>th</sup> February 2022 |
| 7. Mrs Suzan Cherotich Rero - Member    | - Appointed on 1 <sup>st</sup> October 2020   |
| 8. Mr. Kigen Ronald - Member            | - Appointed on 1 <sup>st</sup> October 2020   |
| 9. Mrs Charlody Chepkorir Member        | - Appointed in 6 <sup>th</sup> September 2019 |
| 10. Mr Julius Tanui Member              | - Appointed in 6 <sup>th</sup> September 2019 |
| 11. Mr Kibii Chepkwony Siele Member     | -Appointed on 1 <sup>st</sup> July 2020       |

### **Corporate Secretary**

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

### **Registered Office**

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

### **Corporate Headquarters**

Kericho Town,  
Temple Road, next to Telkom House

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

**Corporate Contacts**

Telephone: (254) 2020602

E-mail: info@kewasco.co.ke

Website: www.kewasco.co.ke

**Corporate Bankers**

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

**Independent Auditors**




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

**Principal Legal Advisers**

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



### 3. THE BOARD OF DIRECTORS

<p>1. Mrs Roselyn Langat- Ngeny</p> 	<p>Mrs. Roselyn Langat- Ngeny is the board chair. She joined the Board of Directors on 1<sup>st</sup> October 2020 representing the business and manufacturing community. She sits as the Chair of the Board of Directors. She holds Masters of Arts degree in Gender, Women and Development Studies. She is a businessperson with vast experience in management and leadership having worked as Public relations officer with Kenya Post and Telecommunication Company and Telkom Kenya Ltd. She has other working experience with Electoral Commission and milling Plants.</p>
<p>2. Hon. Rosemary Rop</p> 	<p>Hon. Rosemary Rop joined the Board of Directors in November 2022. She is representing the shareholder. Hon. Rosemary Rop is currently the County Executive Committee member for Water, Environment, Energy, Forestry and Natural Resources. Ms. Rop is a member of the Technical Committee of the board.</p>
<p>3. Hon. Leonard Ngetich</p> 	<p>Hon. Leonard Ngetich is an expert in finance and economic planning. He joined the Board of Directors in November 2022 representing the County Government of Kericho. Currently he is the County Executive in Charge of Finance and Economic Planning/ Head of County Treasury – a critical portfolio in the County Government.</p> <p>He sits in the Finance and Administration Committee of the Board</p>
<p>4. CPA Francis Kipkoech Langat</p>	<p>Mr Langat, an accountant by profession joined the board of directors on 1st October 2020. He holds a Masters in Business Administration –finance option and a member of ICPAK. Mr Langat Chairs the Finance and Administration Committee of the Board. He has over 10 years' experience in finance and auditing in the public sector.</p>



### 3. THE BOARD OF DIRECTORS

1. Mrs Roselyn Langat- Ngeny



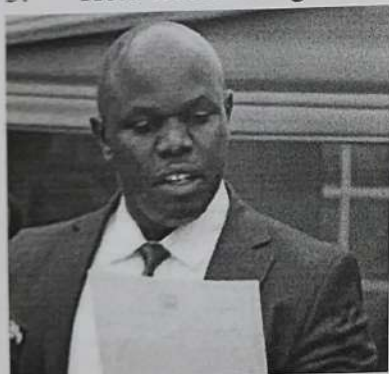
Mrs. Roselyn Langat- Ngeny is the board chair. She joined the Board of Directors on 1<sup>st</sup> October 2020 representing the business and manufacturing community. She sits as the Chair of the Board of Directors. She holds Masters of Arts degree in Gender, Women and Development Studies. She is a businessperson with vast experience in management and leadership having worked as Public relations officer with Kenya Post and Telecommunication Company and Telkom Kenya Ltd. She has other working experience with Electoral Commission and milling Plants.

2. Hon. Rosemary Rop



Hon. Rosemary Rop joined the Board of Directors in November 2022. She is representing the shareholder. Hon. Rosemary Rop is currently the County Executive Committee member for Water, Environment, Energy, Forestry and Natural Resources. Ms. Rop is a member of the Technical Committee of the board.

3. Hon. Leonard Ngetich



Hon. Leonard Ngetich is an expert in finance and economic planning. He joined the Board of Directors in November 2022 representing the County Government of Kericho. Currently he is the County Executive in Charge of Finance and Economic Planning/ Head of County Treasury – a critical portfolio in the County Government.

He sits in the Finance and Administration Committee of the Board

4. CPA Francis Kipkoech Langat

Mr Langat, an accountant by profession joined the board of directors on 1st October 2020. He holds a Masters in Business Administration –finance option and a member of ICPAK. Mr Langat Chairs the Finance and Administration Committee of the Board. He has over 10 years' experience in finance and auditing in the public sector.

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5. **Mr Kigen Ronald**

Mr Kigen, an Agricultural Engineer by profession. He joined the board of Directors on 1st October 2020 as a director representing Rural Customers. He serves as the chair of the Technical Services committee of the Board.



6. **Ms Rero Suzan Cherotich.**

Ms Rero .She joined the board on 1st October 2020 as a director Representing Institutions. She holds a Bachelor of Commerce Accounting option and has a CPA Part 11. She is the chair Audit and Risk Committee.



7. **Ms. Chepkorir Charlody**

Ms. Chepkorir Charlody She joined the board on 6th September 2019 representing Youth, Women and Person with Disability. She holds a Bachelor in Business Management –Purchasing and Supplies from Moi University She has over 3 years' experience in public administration. She is a member of the Finance and Administration Committee of the Board





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### 8. Mr Simon Serem



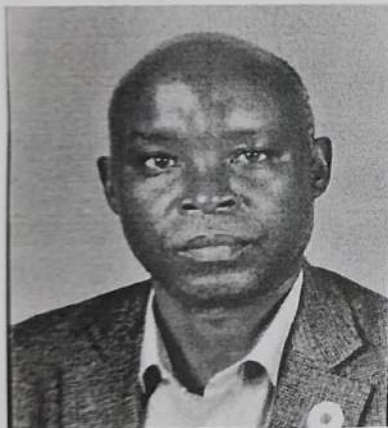
Mr Simon Serem joined the board on 6th September 2019 representing private Institution. He holds a Bachelor of Education from Moi University.  
He sits in the Audit and risk Committee of the Board.

### 9. Mr. Julius Tanui



Mr Julius Tanui, a teacher. Julius joined the board on 6th September 2019 representing urban consumers. He holds a Bachelor of Education from Egerton University .He has over 20 years' experience in teaching.  
He sits in the Technical Committee of the board as well as the Audit And Risk Committee of the Board.

### 10. Mr. Apollo Cheruiyot



Mr Apollo Cheruiyot was appointed to the board of directors on 10<sup>th</sup> February 2022 representing the County Government of Kericho.He is a trained Social Scientist and sustainable development expert from Moi University . He has extensive experience in rural Sociology and economics. Mr Cheruiyot has over 25years experience in both county and national government operations.  
He sits in the Finance and Administration Committee of the Board.

### 11. Eng Kibii Chepkwony Siele



Eng. Kibii Siele is the Managing Director and Secretary to the Board .He holds a Bachelor of science degree in Agricultural Engineering (Egerton University) and a Master of Science in Agricultural Engineering (Egerton University). Prior to his appointment as an MD he served as Regional Manager for KEWASCO rural.  
His work experiences spans from being a part time lecturer at Egerton University, a research assistant on climate change and a lead researcher on renewable energy with Africa Centre of Technology Studies (ACTS ) and East Africa Regional Climate Innovation Network Egerton chapter (EARCIN).In addition, he



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has wide experience in water management matters during his tenure as a sub-county water engineer and later as head of monitoring and evaluation at the department of water services Bomet County. Furtherance, as a technical services manager at Tililbei Water and Sanitation Company where at some point as acting MD

He has over 10 year work experience in the water sector. He is the Board Secretary.

#### 4. KEY MANAGEMENT TEAM

1. Eng. Kibii Chepkwony  
Siele



Eng. Kibii is the Managing Director and Secretary to the Board. He holds a Bachelor of science degree in Agricultural Engineering (Egerton University) and a Master of Science in Agricultural Engineering (Egerton University). Prior to his appointment as an MD he served as Regional Manager for KEWASCO rural. His work experiences spans from being a part time lecturer at Egerton University, a research assistant on climate change and a lead researcher on renewable energy with Africa Centre of Technology Studies (ACTS ) and East Africa Regional Climate Innovation Network Egerton chapter (EARCIN). In addition, he has wide experience in water management matters during his tenure as a sub-county water engineer and later as head of monitoring and evaluation at the department of water services Bomet County. Furtherance, as a technical services manager at Tililbei Water and Sanitation Company where at some point as acting MD

He has over 10 year work experience in the water sector.

2. CPA Philis Chelangat



CPA. Philis Chelangat joined KEWASCO as Commercial and Finance Manager on 2<sup>nd</sup> October 2017. She holds MBA Finance Option (KU), Bachelors in Business Management accounting option (Moi) and a Diploma in Business Management (KIM). CPA-K and a member of ICPAK. Prior to her appointment, she worked as an Accountant at the Salvation Army Territorial Headquarters then as an Internal Audit Manager, Commercial and Finance Manager at Tililbei Water and Sanitation Company and She possesses over 10 years' experience in financial management and 2 years in internal auditing.

3. Eng. Hillary Ngenoh



Mr. Hillary Ng'enh is a registered graduate engineer with EBK and IEK. He joined KEWASCO on 1<sup>st</sup> September 2017 as Technical Services Manager. He is a holder of MSc. degree in Water and Environmental Engineering (University of Surrey U.K) and a BSc. (Hons) degree in Civil Engineering (JKUAT). He previously worked with County Government of Kiambu as Assistant Resident engineer for Ndumberi-Githunguri road, Questworks Company Limited as graduate structural engineer, CESP Kenya Ltd as Water and waste water research and development project manager as well as at the University of surrey centre of Environmental Health as a researcher.



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4. Mr Rasto Chepkwony



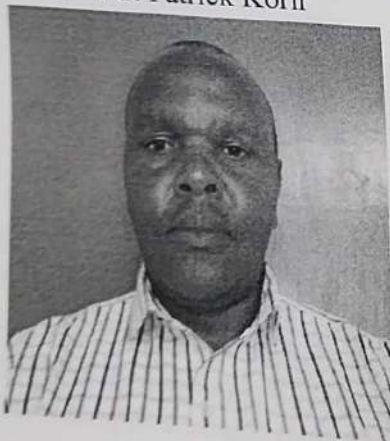
Mr. Chepkwony joined KEWASCO on 31st November 2014 as the Manager responsible for Information and Communication Technology. He is also acting as the Regional Manager in charge of the Rural Cost centre. He holds a Bachelor of Science degree in Information Technology from Jomo Kenyatta University of Agriculture and Technology and Masters in Distributed Computing Technology from University of Nairobi. Also CISA Certified. He has since left the company in the month of March 2023

5. CPA. Mercy Cherotich



CPA. Cherotich joined KEWASCO on 1st August 2014 as Internal Audit Manager. She holds a Master in Business Administration-Finance, Bachelor of Arts (Economics and Sociology) and a Certified Public Accountant of Kenya (CPA-K). Mercy has over 10years' experience as internal Audit manager and previously worked with Aga Khan University Hospital and Internal Audit Officer. She has also worked as an accounts assistant and audit assistant at Nairobi Hospital.

6. Mr. Patrick Korir



Patrick Korir was appointed Procurement Manager on 1st September 2015. He holds Bachelor's Degree in Purchasing and Supplies Management from European Business School, Cambridge, England and Masters in Business Management (Strategic Mgt option) from University of Kabianga and member of Kenya Institute of Supplies Management. He joined the defunct Municipal Council in 2002 as Clerk. He has over 15 years' experience In procurement

7. Mrs Clara Rono



Clara Rono was appointed as the Human Resources and Administration Manager on 1st March 2021. She holds a Master in Business Administration-Human Resources Management and a Bachelor of Business Administration



## 5. CHAIRMAN'S STATEMENT

It is my great joy and honour that I present to you our annual financial report for 2022/2023, I am happy to note that our institution has made significant progress despite having had challenging times. It is equally prudent to mention that this year we have had an improved billings despite that challenges associated with climate change on our river volumes.

Kericho Water and Sanitation Company (KEWASCO) remains steadfast in its endeavour to provide optimal services to its residents commensurate with the tariffs set. During the year under review we have also made significant improvement on our operations with the certification process having been carried out with the help of Germany Bank KfW, this will help the company acquire an ISO Certificate and open more doors for partners and investments.

As a board chair, we have ensured that the requisite policies are put in place to allow management and KEWASCO staff enjoys a good working environment of tranquillity and a second home worth staying. I am equally humbled to note that the impact report number 15 released by Water Services Regulatory Board (WASREB) has shown an improved score rating of the company of 79 points up from the previous 75 points a commendable achievement.

It is on this positive trajectory that KEWASCO has seen and attracted a number of partners willing to invest in our institution. Currently we have projects and programs supported by the donors such as last mile water connection from Kapsoit to Sosiot, Public sanitation facility at Kapkatet, last mile water connectivity in Ainamoi among others. On completion these intervention will see an improved water and sanitation coverage of the company.

It is worth noting that the rural cost centre is still faced with challenges of low water flows from Bomet and often water interruption including disconnections from the County of Bomet, this is majorly due to delay in payment by the county Government of Kericho. In such circumstances our budgetary targets is often not attained.

In addition the subsidy support from the County Government especially on salary harmonization has not been honoured, whereas the support towards bulk water and electricity normally delays leading interruption of water supplies.

The ordinary share capital of Kshs 8, 100,000; Kshs 8,000,000 for urban and Kshs 100,000 for rural cost centres is still outstanding from the shareholder. This has remained an audit query for years

The company has identified possible areas for interventions which include; High Non Revenue Water (NRW), high personnel expenditure as a percentage of O&M and low water coverage.

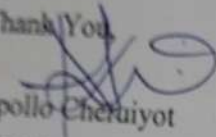
NRW currently averages 53%, our major contributors to high figure is physical losses caused by road construction works, leaking old pipes and illegal water connections.

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KEWASCO has develop a robust road map to address this high NRW, the interventions include but not limited to surveillance of our pipeline and improve on response time to leakages and bursts among others. The Board has also approved NRW Policy which act as a company guidelines for interventions on NRW reduction in both rural and urban cost centre

KEWASCO endeavours to live by its core values of Transparency, Integrity, Professionalism, Inovativeness and customer focus which drives us to acheiving our vision ***'To be a leading and self-sustaining water and sanitation service provider in Kenya'***.

Thank You

  
Apollo Cheruiyot  
Director



## **6. REPORT OF THE MANAGING DIRECTOR**

It is my great pleasure and honour to present Kericho Water and Sanitation Company (KEWASCO) financial statement for the year ended 30<sup>th</sup> June 2023. It is my third annual report as a Managing Director of KEWASCO. My experience at the helm of such an important institution which offers essential service and commodity; it has become clearer that water provision is an attractive sector with many challenges and opportunities especially during the.

KEWASCO operates two cost centres namely; Rural and urban cost centres. Each of the cost centre meets its operation and maintenance cost, though rural cost centre relies heavily on subsidies from the county Government of Kericho for the payment of bulk water from Bomet, Electricity bills and Salary harmonization. It is worth mentioning that after clustering KEWASCO has experienced tremendous investment both from the shareholder and other partners including the Germany Bank KfW and Water Fund among others. These investments have resulted to improve in quantity and quality of our services including sanitation. The improvement has equally been shown in the impact annual reports from WASREB

Furthermore our customer satisfaction and perception on our services has gone a positive notch higher, despite all this magnanimous improvement, the company is still faced with challenges of aging work force and high water losses. Cognisant of inherent shortfalls, my endeavour has set out three areas of attention namely: Non-revenue water, Personnel expenditure as a percentage of O&M and Water coverage these priority focused themes will turn around and navigate us to attaining commercial viability.

These three thematic areas require substantive investment; NRW tackling requires an executable road map, in which we have developed as a company, in this regard we are seeking partners to invest in addressing this challenge. The challenge on personnel expenditure as percentage of O&M remains a hard tackle though with the completion of Duka Moja Project this high percentage will come down. For the case of low water coverage a number of projects on water expansion are on course, the completion of water sector development program project will see water coverage in urban cost centre improved at ultimate to 85% from the current 56%.

Our revised strategic plan has a number of areas that have been emphasized, these are but not limited to the following: infrastructural improvement, increased water coverage, increased collection efficiency, prompt response of bursts and leakages, increased metering ratio, upgrade of raw water schemes into fully treated water schemes and increased sanitation coverage so as to realize the five thematic areas namely (i) Water and Sanitation Provision, (ii) Operational efficiency, (iii) Financial sustainability, (iv) Collaboration with Sector players and lastly (v) Customer service.

The core mandate of the merged KEWASCO is to provide Water and Sanitation services to the licensed area of Kericho County. KEWASCO's joint mandated area of coverage is over 644 km<sup>2</sup> while the area currently supplied with water is estimated to be 291 km<sup>2</sup>. The current population being served is over 157,174 persons.



### **1. Staff Establishment**

Our current staff establishment stands at 171 (119 Male and 52 Female). A huge portion of our workforce is above 45 years old, indicating an aging workforce. The company has over time tried to meet a third gender rule. In trying to remedy the challenges associated with the aging work force 46 members have been contracted to support the company.

### **2. Water Distribution And Maintenance**

#### **Bulk water Supply**

During the 2022/2023 Financial Year, Bulk water supply from Bomet has had a myriad of challenges of disconnections due to non-payments and low flows that has consequently resulted to low billings. Low billings have a direct impact on revenue collection that results to delay in payments of salaries.

The formation of a joint interim committee to oversee the challenges of bulk water supply is yet to bear significant fruits as each party has an obligation of infrastructure improvement which requires a budget of over Kenya shillings sixty million yet to be availed.

Bulk water supply challenges have affected our rural cost Centre ability to meet its minimum operations and to a large extend salary payments for the members of staff at the said centre.

### **3. Non-Revenue Water Management**

The Non-Revenue Water (NRW) for the Company is still high at 53% during this financial year. High NRW affects commercial viability of any company as it reduces water available for sale, KEWASCO has identified this as an area that requires intervention especially with the support of the stakeholders. We have a robust roadmap to mitigate this problem in the near future

#### **Other Key Company Achievements**

- ✦ **Licence** – Kewasco has an interim license upto 2025
- ✦ **Tariff Review**- The Company has managed to apply for a new tariff and it was implemented from the month of March 2023.
- ✦ **Clustered Company**- Since the merger in November 2018, huge strides have been achieved in terms of stabilizing the operations of the Company, but this process will take a few years before its full benefits are achieved.
- ✦ **Safe Quality Water** – There has been continuous provision of Safe drinking water to customers. The drinking water quality (DWQ) for the Company has continuously been at the acceptable levels according to the regulator-WASREB.
- ✦ **The finance department**- Has been strengthened by integrating the staff from both cost centres to work together. The Company also has accounting software in which ways of it being integrated with the billing software is being established
- ✦ **Human Resource**- There is timely recruitment of personnel whenever there is a vacancy; streamlining and conducting of appraisals half-yearly and yearly and approval.

- ✦ **Audit-** There has been development and implementation of risk-based audit strategy in accordance with the Standards for the Professional Practice of Internal Auditing, guidelines and best practices. Audits are also planned and executed in all company's systems and business processes are controlled and protected.
- ✦ **ICT-** Establishment of WAN – for rural offices connectivity; Automatic M-PESA integration for rural Cost Centre; Acquisition of new server; Upgrade of Accounting Software; Enhanced utilization of GIS and job cards in areas of operations like water distribution and maintenance; Establishment of mobile meter reading to enhance meter reading accuracy; Establishment of GIS Training Centre in KEWASCO.

#### 4. Development Projects

The table below shows the highlights of the ongoing and recently completed development projects.

Projects	Major Scope	Progress
<p><b>Name:</b> Water Sector Development Program (WSDP-LVS) (Kericho, Kisii, Nyamira, Litein); Long term expansion works: New Kimugu Treatment Works</p> <p><b>Objective:</b> Ensure sufficient, hygienic, economically viable and affordable water and sanitation services to the residents of Kericho</p> <p><b>Name of the Financier:</b> German Development Bank (Kfw)</p> <p><b>Implementing Agency:</b> LVSWWDA</p> <p><b>Commencement Date:</b> March 2014</p> <p><b>Expected date of completion:</b> December 2022</p> <p><b>Consultant:</b> CES and Mangat LB Patel</p> <p><b>Contractor:</b> Nanchang Foreign Engineering Company &amp; Jiangxi Jingtai Water Conservancy and Electrical Power Consumption.</p>	<p>Construction of: - Intake Works on Kimugu River. 7.7Km Raw water Gravity Main. New Water Treatment Works (13,000M<sup>3</sup>). 2.8Km Treated Water Gravity Main. 4.6Km pumping water main to timbilil tank (1,000M<sup>3</sup>). 50Km Distribution main.</p>	<p>Completed and operational</p>

**Table 1: Development Projects**

#### 5. Strategies, Plans and Future Outlook

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

- a) **Financial Recovery Plan (FRP):** The Company having been selected by WASREB to submit FRP for Post-COVID-19 recovery for funding, proposed the following four FRP interventions to realized O & M cost coverage and achieve financial turn-around:

- Procure and replace 9,880 consumer meters (0.5", 0.75" 1" & 2") for replacement from Class B to Class C & D smart metering enabled; as well as 90Nos. bulk meters (3" to 9") and fittings



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and install for complete isolation of DMAs into Sub-DMAs. Complete Isolation will facilitate computation of NRW for all Sub-DMAs. The total cost of this intervention is Kshs. 176,324,363.

- Procure and install for replacement a total of 170KM assorted UPVC Pipe network with HDPE PN 16 of sizes ranging from 15mm to 225mm Dia. The 170KM pipelines are found in areas mapped in GIS has having highest number of bursts and leakages. The total cost of this intervention is Kshs. 127,112,233.

- Pay the outstanding debt as well Current bill for 3 months dues for bulk water supply from Bomet County. The total cost of this intervention is Kshs. 51,926,231.

- Construction of sewer laterals to potential 200 no new sewer connections and Repair 3No. Exhausters. The total cost of this intervention is Kshs. 16,427,400.

b) Last Mile Connectivity: After the Completion of the Long term Expansion project in Duka Moja (C/LOT3) the Company expects additional customers from the project through the last mile connectivity strategy. Already proposals have been submitted for funding to help in connecting more customers (up to about 7,000 connections) from the new project. This shall increase billing and thus financial sustainability of the Company. Additionally, the new project shall help in reducing the Personnel Expenditure as a percentage of O & M. This is because as the O & M costs will increase the Personnel Expenditure will remain constant because the Company is not intending to recruit more staff but rather use the available ones to operate the new water system.

## **6. Challenges Facing the Company**

To continuously improve and to fully and adequately deliver on its mandate, the following indicators and challenges need to be addressed:

- a) High Non-Revenue Water Non-Revenue leading to huge water losses. A Performance Improvement Plan (PIP) has been developed between the Accompanying Measures Consultant and the Company. The areas proposed shall focus on both commercial and physical losses. The taskforce created shall jointly look into the NRW Reduction Plan over the next five years as per the Company's Strategic Plan and what needs to be done.
- b) Bulk water disconnections from Bomet. The main source of revenue for the Rural Cost Centre is Litein and Kapkatet which largely rely on bulk water from Bomet. In cases of disconnections of water supply, the impact on billings and collections is very significant.
- c) Low Water Coverage. The average water coverage for the entire company is 37%. A huge customer base is yet to be served. Infrastructural development is needed to be able to increase the water coverage.
- d) High Personnel Expenditure as compared to O & M costs. This fixed cost is very difficult to reduce, however the Company expects costs of O & M to increase with the new project and will keep the Personnel Expenditure constant.

## **Kericho Water and Sanitation Company Limited**

### **Annual Report and Financial Statements for the year ended June 30, 2023**

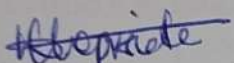
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- e) Outstanding Debts owed to the Company. The main customer being the County Government of Kericho has not been able to clear its bills and this has let the Company not being able to meet its financial obligations.
- f) Outstanding Creditors. The main creditor being staff pension dues, which remains a big challenge.

## **7. CONCLUSION**

The Company has an interim license and a new tariff currently being implement. Subsidy Support from the County Government is required to meet the cost of bulk water, electricity and salary harmonization for the Rural Cost Centre. The Urban Cost Centre is expected to have a consistent supply of water as Water Sector Development Program is Complete and operational and it will address the challenge of low volumes during the dry periods

Support towards last mile connectivity is required to increase coverage.

  
Kibii Chepkwony Siele  
**Managing Director**



Kericho Water and Sanitation Company Limited  
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**7. STATEMENT OF PERFORMANCE AGAINST PREDETERMINED OBJECTIVES FOR  
FY 2022/2023**

KEWASCO has 8 themes that form the core focus within the current Reviewed Strategic Plan 2017-2023 for the next 6 years, these are:

- 1 Non- Revenue Water Management.
- 2 Water and wastewater Infrastructure Development.
- 3 Operational Efficiency.
- 4 Customer Service.
- 5 Pro-poor initiatives.
- 6 Financial Sustainability.
- 7 Institutional Strengthening.
- 8 Corporate Governance

These 8 themes are further grouped into 4 perspectives for the purpose of tracking them in a balanced scorecard.

- a) Financial perspective.
- b) Customer Perspective.
- c) Internal (process) perspective.
- d) Learning and growth (People) perspective

The Company develops its annual work plans based on the above Themes. Assessment of the Board's performance against its annual work plan is done on a half-year basis. To deliver on these strategic themes, KEWASCO identified the following key specific objectives:

- i. To Increase access to water by improving coverage from 55 % in 2019 to 64% in 2025 for urban and 25% in 2018 to 35% in 2025 for rural cost centre.
- ii. To increase number of active connections from 13,539 in 2019 to 15,825 in 2025 for urban and 5,868 in 2019 to 7,215 in 2025 for rural.
- iii. To increase water production from 12,600 m<sup>3</sup> /day in 2019 to 25,600 m<sup>3</sup> /day in 2025 for urban and 3,640 in 2019 to 4,650 in 2025 for the rural cost centre.
- iv. Increase sewerage sanitation access from 17% to 40% by 2025.
- v. To Increase Billing and revenues from Kshs.17 million per month in 2019 to Kshs.21 million per month in 2025 for urban and Kshs 2.6 million in 2019 to 4 million in 2025 for rural.
- vi. To Increase collection efficiency from 60% in 2019 to 90% in 2025 for both urban and rural.
- vii. To Improve O&M cost coverage from 83% in 2019 to 100% in 2025 for urban and 83% in 2019 to 93% in 2025 for rural.
- viii. To reduce NRW from 56% in 2019 to 45% in 2025 for urban and 56% in 2019 to 48% in 2025 for rural.
- ix. To reduce personnel expenditure as a percentage of O&M costs from 65 % in 2019 to 60 % in 2025.
- x. To ensure Regulatory compliance to 100% by 2023.
- xi. To improve level of corporate governance performance from 75% in 2019 to 100% by 2025 and pro-poor from 68% in 2019 to 75% in 2025.

The Company achieved some of its performance targets set for the FY 2022-2023 period for its strategic Table 2: Perspective Areas and Strategic Objectives perspectives, as indicated in Table 2

Strategic	Objective	Key	Activities	Achievements
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# Kericho Water and Sanitation Company Limited

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Perspective		Performance Indicators		
Financial Perspective	Improve water coverage from 55% to 64% for urban and 25% to 35% for rural cost centre.	Water Coverage	Construction of new treatment plants, timely payments of bulk water and electricity bills	Construction of 13,000M <sup>3</sup> plant for Urban.
Pillar/ theme/ issue 1:	Increase sewerage sanitation access from 17% to 40%.	Sewerage Coverage	Construction of at least 5 DTFs, Expansion of Sewer network and connectivity	Construction of Kapsoit DTF
	To Increase Billing and revenues from Kshs.17 million per month to Kshs.21 million per month for urban and Kshs 2.6 million to 4 million for rural.	Billing (Kshs)	Rationing program, last mile connectivity, restoration of water supply, timely payment of bills	Restoration of Kipsolu-Kapteswet water supply infrastructure Ongoing construction of Kapsoit Sosit Water Pipeline Project
	Increase collection efficiency	Collection Efficiency	Part payment agreements, mass disconnections, mass SMSs	Rapid Result Initiatives to collect revenues conducted
	To increase O&M cost coverage to 100%	O & M cost coverage	Increase billing	Construction of 13,000M <sup>3</sup> plant for Urban.
	Reduce Non-Revenue Water (NRW) to 45%	NRW	Meter servicing, Relocation and replacement. Pipeline replacement with HDPE, Smart metering.	145 Meters were relocated and 250 replaced. Procurement of 1100 No water
	Increase the number of active connections	Metering Ratio	Encourage part payment to discourage disconnections, enhance last mile connections	The number of active connections have increased by about 800 over the last financial year and also due to increased water volumes from the New Duka Moja Project
Customer perspective	Increase Hours of Supply	Hours of supply	Adhere to rationing	Construction of 13,000M <sup>3</sup> plant for



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			programs, timely payments of electricity and bulk water bills, restoration of disconnected areas	Urban. Electricity and bulk water bills paid.
	Improve Drinking water Quality	Drinking water quality	Adhere to sampling programs, carry out disinfection	Sampling program developed. DWQ increased from 90% to 93%.
	Timely customer complaint resolution	Customer satisfaction	System reporting and resolution to enhance follow up.	Customer satisfaction at 68%.
Internal (process) perspective	Improve regulatory compliance	Governance	Statutory deductions, licences and permits	Obtained required licences and permits from WASREB, WRA, and NEMA
	Integrate ICT in processes	Billing	Use job cards, cashless system	Use of GIS, and billing system, MPESA.
	Develop policy documents	Corporate Governance	Develop Disaster management plan, Strategic Plan, Business Plan, Metering Policy etc.	Strategic Plan, Metering policy, HR manual. Developed Standard Operating Procedures for all the departments
Learning and Growth Perspective	Develop and implement communication policy	Staff productivity	Formulate communication committee	Communication committee in place
	Establish Performance management plan	Staff productivity	Carry out performance appraisal	Performance appraisals done.
	Continuous staff training	Staff productivity	Develop training plan	Staff trained through project accompanying measures

Each strategic perspective summarized from the strategic themes has objectives and KPIs and are they are tied into implementing actors who are mostly the management team. The performance targets for each member of the management are drawn from the strategic perspectives as per the implementing actors as shown in Table 3. Performance contracts are practised at all level of the Company. The Managing Director signs performance contract with the Board of Directors and then all Heads of Department sign with the Managing Director. This is then cascaded to the second line

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managers and the lower cadre of employees. The objectives of the performance contracts are in line with the Company's strategic Plan.

**Table 3:** Example showing how strategic perspectives are linked to performance management system.

Strategic Perspective	Objective	Performance Target	Implementing Actors
Financial Perspective	Increase Water Coverage	Last mile connectivity to target areas.	Board of Directors & Managing Director
		Restoration of water supply infrastructure.	Commercial and Finance Manager & Technical Services Manager
		Adherence to rationing programs	Technical Services Manager

For the financial year 2022-2023, the Company had focused on three key areas and set some targets to achieve and a Performance Improvement Plan focussing on the Urban Cost Centre was developed. The Plan intended to focus on these Key Performance Indicators (KPIs):

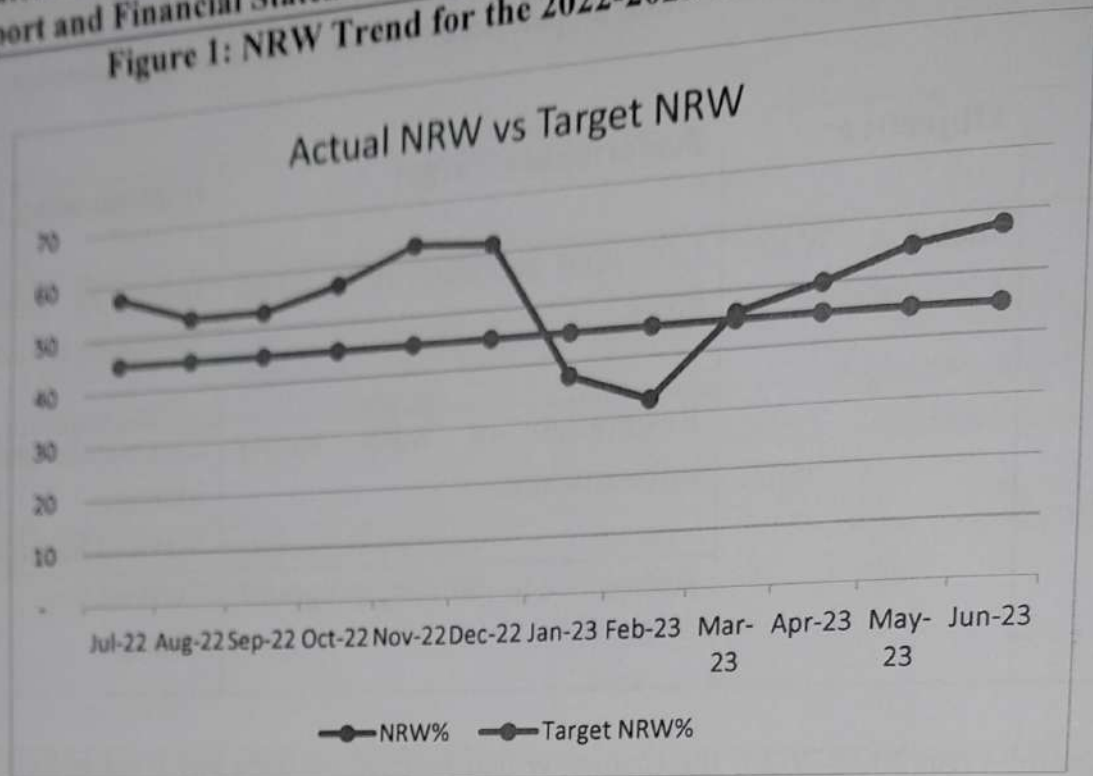
- Non-Revenue Water (NRW).
- Water Coverage.
- Personnel expenditure as a percentage of Operation and Maintenance Cost.

A number of activities were proposed and a budget for the same drawn. Out of these three, the Company managed to meet the short-term target for Water Coverage in the urban cost centre. However, NRW and Personnel expenditure as a percentage of Operation and Maintenance Cost were not achieved. These have since been planned for the long-term basis.



Kericho Water and Sanitation Company Limited  
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Figure 1: NRW Trend for the 2022-2023 Financial Year.



## 8. CORPORATE GOVERNANCE STATEMENT

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

### No of Board Meetings and Attendance

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

### Succession plan

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

### Board Charter

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

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

### Process of Appointment and Removal of Directors

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

### Roles and functions of Board

The roles and functions of the Board of Directors are stipulated in the Code of Ethics signed by each Board Member. The Board of Directors exercises all the powers of the company subject only to the



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limitations contained in the law and the Memorandum and Articles of Association. Some of the functions that the Board of Directors fulfils include:

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

### **Induction and Training**

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

### **Board Member performance**

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

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

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

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

### **Conflict of Interest**

Each Board member is expected to declare conflict of interest if any on company matters according to Chapter six of the Constitution. A Conflict of Interest Book is signed at every time the Board convenes to conduct the Company Business.

### **Board Remuneration**

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

### **Ethics and Conduct**

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

### **Governance audit**

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



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## 9. MANAGEMENT DISCUSSION AND ANALYSIS

### SECTION A:

The company's operational and financial performance.

The volume of water produced for the financial year 2022/2023 increased to 3.8 million cubic meters from 3.6 million cubic metres in the previous year.

The average Non Revenue Water (NRW) remained at 53%, still off the target of 45% for the next five years. Huge investment is needed to fund the activities proposed in the Company's NRW Reduction Plan.

In terms of Drinking Water Quality (DWQ), the Company managed to increase the number of tests to surpass the required number of test based on the water produced. This was to ensure that the DWQ compliance tends towards 100%.

In terms of Revenues, the Company had projected a billing of Kshs. 243.3 million for the year in consideration that the new tariff will be effective at the beginning of the financial year 2022/2023 but it delayed up to March 2023.

With this low revenue collection, the Company was not able to meet some of the budgetary obligations like the need to reduce on creditor balances especially those related to staff. Therefore, payment of statutory deductions i.e. PAYE, Pension, lease fees continue to be a challenge. Furthermore, the County Government of Kericho has not been able to fully honour subsidy support agreement for the rural cost centre for salary harmonization, payment of bulk water supply and electricity bills.

### SECTION B:

#### Company's compliance with statutory requirements

The company strives to ensure that it has fully complied with all the statutory requirements. The Company has received a two-year licence and started using a new tariff from the month of March 2023.

### SECTION C:

#### Key projects and investment decisions the entity is planning/implementing

The continuing projects are :

- Water Sector Development Program (WSDP-LVS) Long term expansion works in Kericho funded by KFW from Germany and Government of Kenya. This water project upon completion is expected to serve additional 200,000 people in Kericho County.
- Accompanying Measures Initiative to strengthen managerial performance of KEWASCO. This project is being undertaken in line with KFW Long term expansion works for Kericho Town.
- Kapsoit-Sosiot Water Pipeline Project funded by Water Fund. This project will increase coverage.
- Kapkatet Public Sanitation Facility funded by Water Fund. It will improve on sanitation

coverage

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

- Ainamoi water pipeline Project, which is to be funded by SK Kawanishi and JICA. The project will also improve on coverage.

## SECTION D:

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

### Operational Risk

This is the risk faced in the normal operations when carrying out business. The major risks include high NRW, unreliable water sources due to drought, and power cut/outage, dilapidated infrastructure and high cost of chemicals. Other risks in this category are include inadequate Human Resource Integrated, and personnel safety risk, machine safety risks.

### Financial Risk

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

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

## SECTION E

### Material Arrears in Statutory/Financial obligations

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

- Retirement Benefit Obligations
- Pay As You Earn
- Payments to Lake Victoria South Water Works Development Agency.
- Water Resource Management
- Water Services Regulatory Board
- Staff salaries and deductions

## SECTION F

### The company's financial probity and serious governance issues

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



## 10. ENVIRONMENTAL AND SUSTAINABILITY REPORTING

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

### i. Sustainability strategy and profile -

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

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

### ii. Environmental performance

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

### iii. Employee welfare

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



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

In an effort to improve skills of its employees, the Company has developed a training calendar of its staff to attend trainings, workshops and benchmarking exercises both locally and internationally. Training Needs Assessment is conducted annually to establish gaps in skills and knowledge among employees. The Company also has Safety Committee that ensures compliance on safety as per Occupational Safety and Health Act of 2007,

**iv. Market place practices-**

The Company practices best market practices through the following efforts:

*a) Responsible competition practice.*

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

*b) Responsible Supply chain and supplier relations-*

All procurement procedures in the Company are done as per Public Procurement and Asset Disposal Act 2015, its regulations, Constitution of Kenya 2010 and relevant legal frameworks. These stipulated practices ensure that the Company maintains good business practices and relationship with all the suppliers and contractors. In terms of honouring payments to suppliers, the Company strives to promptly pay them even in the midst of cash flow challenges..

*c) Responsible marketing and advertisement-*

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

*d) Product stewardship-*

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



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v. **Corporate Social Responsibility/Community Engagements-**

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

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

## 11. REPORT OF THE DIRECTORS

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

### i) Principal activities

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

### ii) Results

The results of the company for the year ended June 30, 2023 are set out on page 1-6. Below is summary of the profit or loss made during the year.

### iii) Dividends

The company has not declared dividends for the year ended June 30, 2023 due to the deficit the company has made.

### iv) Directors

The members of the Board of Directors who served during the year are shown on page vii In accordance with Regulation of the company's Articles of Association.

### v) Auditors

The Auditor General is responsible for the statutory audit of the Company in accordance with Article 229 of the Constitution of Kenya and the Public Audit Act 2015 to carry out the audit of the Company for the year/period ended June 30, 2023.

By Order of the Board

Name Kabar Choguny Sele  
Signature [Signature]  
Date 15/06/2024  
Secretary to the Board



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NAIROBI

## REPORT OF THE AUDITOR-GENERAL ON KERICHO 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 Kericho water and sanitation Company Limited set out on pages 1 to 41, which comprise of the statement of financial position as at 30 June, 2023, the statement of profit and loss and other comprehensive income, statement of changes in equity, statement of cash flows and statement of comparison of budget and actual amounts for the year then ended and a summary of



significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, 2015. I have obtained all the information and explanations which to the best of my knowledge and belief, were necessary for the purpose of the audit.

In my opinion, except for the effect of the matters described in the Basis for Qualified Opinion section of my report, the financial statements present fairly, in all material respects, the financial position of Kericho 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 the Accrual Basis under the International Financial Reporting Standards (IFRS) and comply with the Companies Act, 2015, the Water Act, 2016 and the Public Finance Management Act, 2012.

### **Basis for Qualified Opinion**

#### **1. Undisclosed Material Uncertainty Relating to Going Concern**

The statement of profit or loss and other comprehensive income for the year ended 30 June, 2023 revealed that the Company recorded a loss of Kshs.44,596,875 which increased the retained earnings balance from negative Kshs.110,440,251 to a negative Kshs.154,514,478. Further, the current liabilities balance of Kshs.317,522,782 exceed the current assets balance of Kshs.250,704,283 resulting in a negative working capital of Kshs.67,860,690. The Company therefore is technically insolvent and unable to meet its financial obligations as and when they fall due.

In the circumstances, this is an indicator of financial challenge facing the Company which raises significant doubt on its ability to continue to operate as a going concern.

#### **2. Presentation of the Financial Statements**

The Company submitted the financial statements for audit during the year under review which had the following anomalies:

- i. Two Board of Directors whose term in office ended on 30 June, 2022 which relates to the previous financial year were included among the Directors.
- ii. The financial statement was not signed by one of the Directors who is not the chairman of the Company.
- iii. Note 19 does not include the reconciliation of impairment allowance for trade receivables.
- iv. Appendix III and VI for recording of transfers from other Government entities have not been disclosed.

In the circumstances, the Company did not comply with the approved template by the Public Sector Accounting Standards Board (PSASB) and the National treasury closing year guidelines.



### **3. Inaccuracies in the Financial Statements**

#### **3.1 Statement of Changes in Equity**

The statement of changes in equity reflects total equity of negative amount of Kshs.72,034,065 which is at variance with re-casted amount of Kshs.71,992,920 resulting to unexplained and unreconciled variance of an amount of Kshs.240,752. Further, the statement reflects negative retained earnings of an amount of Kshs.154,514,478 which is at variance with re-casted amount of Kshs.154,755,229 resulting to unexplained and unreconciled variance of Kshs.240,751.

In addition, the statement includes negative amount of Kshs.1,811,863 and an amount of Kshs.281,897 in respect of transfer of depreciation/amortization from capital funds retained and prior year adjustments on PPE respectively which was not supported with journal entries.

In the circumstances, the accuracy and completeness of the amounts in the statement of changes in equity could not be confirmed.

#### **3.2 Statement of Cash Flows**

The statement of cash flows reflects an amount of Kshs.17,260,967 in respect of cash and cash equivalents. Review of notes to the statement of cash flows reflects an amount of Kshs.17,614,025 in respect of cash generated from (used in) operations and as disclosed in Note 30 to the financial statements. However, re-casting the accuracy of Note 30 revealed an amount of Kshs.17,655,170 resulting to unexplained and unreconciled variance of Kshs.41,145. Further, review of Note 30 to the financial statements reflects working capital changes of an amount of Kshs.2,390,579, Kshs.1,094,378 and Kshs.33,436,436 in respect of provision, customer deposits and trade and other payables respectively which was at variance with the re-casted amount of Kshs.5,831,030, Kshs.6,365,600 and Kshs.28,165,214 resulting to unexplained and unreconciled variance of Kshs.3,440,454, Kshs.5,271,222 and Kshs.5,271,222 respectively. The increase in capital reserves and non-current benefit obligations of Kshs.9,799,554 and Kshs.13,143,036 respectively are incorrectly added to operating activities.

In the circumstances, the accuracy and completeness of the amounts in the statements of cash flows could not be confirmed.

#### **3.3 Unreconciled Water Billing Data with Operating Revenue Balance**

The statement of profit or loss and other comprehensive income reflects an amount of Kshs.193,463,965 in respect of operating revenue and as disclosed in Note 6 to the financial statements. However, review of billing records and invoice bills generated from the Majics system revealed an amount of Kshs.190,956,975 resulting to unexplained and unreconciled variance of Kshs.2,506,991 as detailed below.



Revenue Source	Balance as per Financial Statement (Kshs.)	Billings/Invoices from System (Kshs.)	Variance (Kshs.)
Water Sales	143,143,655	148,085,784	(4,942,129)
Sewerage Services	33,810,615	33,983,442	(172,827)
Billings for Other Services	16,509,696	8,887,749	7,621,947
	<b>193,463,966</b>	<b>190,956,975</b>	<b>2,506,991</b>

In the circumstances, the accuracy and completeness of the operating revenue of an amount Kshs.193,463,965 could not be confirmed.

#### 4. Billing of Non-Metered Customers

The statement of profit or loss and other comprehensive income reflects operating revenue of an amount of Kshs.193,463,965 which includes an amount of Kshs.143,143,655 in respect of water sales and as disclosed in Note 6 of the financial statements. However, review of the Company billing records revealed that urban and rural cost centers had 11,719 and 14,396 billed customers respectively who did not have water meter numbers for identification and accountability in which the urban and rural non-metered customers generated income of Kshs.3,831,697.50 and Kshs.2,358,646 respectively.

In the circumstances, the accuracy and completeness of the disclosed water sales of an amount of Kshs.143,143,655 could not be confirmed.

#### 5. Water Customers Accounts with Duplicate Meters

The statement of profit or loss and other comprehensive income reflects operating revenue of an amount of Kshs.193,463,965 which includes an amount of Kshs.143,143,655 in respect of water sales and as disclosed in Note 6 of the financial statements. However, review of the billing records for urban and rural centers revealed that seven thousand one hundred and twenty (7,120) and three hundred and eighty-two (382) water customers respectively who were having duplicate meter numbers with revenue totalling to Kshs.8,536,690 and Kshs.195,519 respectively were collected. From the duplication of meter numbers there is a possibility that only one account was billed on a monthly basis and the other duplicate account not billed resulting to loss of revenue.

In the circumstances, the accuracy and completeness of the disclosed water sales of an amount of Kshs.143,143,655 could not be confirmed.

#### 6. Failure to Bill Sewerage Charges

The statement of profit or loss and other comprehensive income reflects operating revenue of an amount of Kshs.193,463,965 which includes an amount of Kshs.33,810,615 in respect of sewerage services and as disclosed in Note 6 of the financial statements. However, review of the billing records revealed that seven thousand one hundred and forty-two (7,142) customers with sewer connections were not billed sewerage charges resulting to the Company losing revenue totalling to Kshs.3,435,939.



Further, the Company failed to collect sewerage services contrary to the Kenya Gazette approved tariff of 21 August, 2015 1.1 Sewerage Tariff (a) stating that sewerage charged at 75 per cent of the water billed for all customers with sewer connection.

In the circumstances, the accuracy and completeness of the sewerage services of an amount of Kshs.33,810,615 could not be confirmed and the Management was in breach of the law.

## **7. Failure to Implement New Rental Market Rates**

The statement of profit or loss and other comprehensive income reflects other income of an amount of Kshs.1,074,624 which includes an amount of Kshs.507,700 in respect of rental income and as disclosed in Note 8 to the financial statements. However, review of the supporting documents including the rental rates charged revealed that valuation of the rental houses owned by the Company was carried out by a registered and licensed valuation surveyors/estate agent which submitted their report on 16 December, 2014 in respect of rents prevailing market rates which has never been implemented. This is an indication that the Company uses old rental rates which may impact negatively on the Company profitability. Further, the tenants register and the amount deducted and remitted from the staff payrolls were not provided for audit review.

In the circumstances, the accuracy and completeness of the disclosed rental income of an amount of Kshs.507,700 could not be confirmed and the Company may have not received value for money from the valuation.

## **8. Unsupported Medical Insurance Scheme**

The statement of profit or loss and other comprehensive income reflects staff cost of an amount of Kshs.159,916,213 which includes an amount of Kshs.6,367,759 in respect of medical insurance scheme and as disclosed in Note 10 to the financial statements. However, the supporting documents including the approved medical scheme structure was not provided for audit.

In the circumstances the accuracy and completeness of the expenditure in respect of medical insurance schemes of an amount of Kshs.6,367,759 could not be confirmed.

## **9. Unaccounted for Fuel Expenditure**

The statement of profit and loss and other comprehensive income reflects general expenses amounting to Kshs.69,437,612. Included in this amount is fuel, oil, lubricants and gases expenditure of Kshs.7,753,504. Review of the procurement records including Local Purchase Orders (LPOs) and contract agreement revealed that fuel, oil and lubricants were procured using framework agreements. The Company did not maintain a fuel register and the consumed fuel requisitions and supplier's invoices were issued on the same date but the LPO was prepared much later at the point of payment to supplier.

Further, three (3) motor vehicles KBZ751G, KBZ749G and KCK077C which did not have ownership documents and work tickets drew fuel on various dates in the year. Further, the work ticket for KCR011J was not provided for audit review but consumed fuel amounting to Kshs.537,610.



In addition, it was noted that the motor vehicle registration KCR 011J consumed fuel between two (2) and four (4) times a day on various dates with an averaging of Kshs.23,647 and Kshs.33,884.

In the circumstances the accuracy and completeness of the fuel, oil, lubricants and gases expenditure of Kshs.7,753,504 could not be confirmed.

#### 10. Unutilized Insurance Cover for Grounded Vehicles

The statement of profit or loss and other comprehensive income reflects general and operational expenses of an amount of Kshs.69,506,997 which includes an amount of Kshs.1,857,704 in respect of insurance and as disclosed in Note 11 to the financial statements. However, the insurance contract agreements were not provided for audit review. Further review of the financial records revealed that the insurance premium totalling to Kshs.159,781 were paid in respect of five (5) grounded vehicles as detailed below.

Registration No.	Last Date of Operation as per Work Ticket	Insurance Premium (Kshs.)
KAL 981U	17 May, 2021	8,000
KBQ 247V	31 August, 2022	15,930
GKB 088R	31 March, 2022	115,200
KBG 901C	31 March, 2023	16,151
KAV 998V	(Grounded before Merger) No Work-Ticket Provided	4,500
<b>Total</b>		<b>159,781</b>

The Company did not notify the insurer to suspend the insurance cover for the grounded vehicles until the motor vehicles become operational.

In the circumstances the accuracy and completeness of the expenditure in respect of insurance of an amount of Kshs.1,857,704 could not be confirmed.

#### 11. Bank and Cash Balance

##### 11.1 Overstatement of Customer Deposits Bank Balances

The statement of financial position and as disclosed in Note 28 to the financial statements reflects customer deposits balance of Kshs.34,926,189. However, review of bank and cash balance details in Note 20 to the financial statements revealed total balance of Kshs.5,367,123 in respect of customer deposits held in three different local bank accounts resulting to overstatement of balance of Kshs.29,559,066 as details below.

Bank Account Description	Amount (Kshs.)
Co-operative Bank of Kenya - Deposit Account	3,631,419
Kenya Commercial Bank - Deposit Account	1,275,838
Equity Bank - Deposit Account	459,866
<b>Total</b>	<b>5,367,123</b>



Further review of the three bank statements in respect to customer deposits revealed withdrawals amounting to Kshs.24,426,945 from the respective bank accounts whose purposes was not explained. The withdrawals should only be done at the request of the customer who wishes to withdraw his or her deposits which were not provided for audit review.

In the circumstances, regularity of the customer deposits amounting to Kshs.24,426,945 withdrawn from the three accounts, and the completeness of the recorded customers deposits could not be confirmed.

## **11.2 Frozen Bank Accounts**

The statement of financial position and as disclosed in Note 20 to the financial statements reflects a balance of Kshs.17,260,968 in respect of bank and cash balances. However, bank balances amounting to Kshs.5,669,743 in three (3) Kenya Commercial Bank accounts were frozen due to litigation. The operations of the Company were hindered during the year under review as the amount was not available to the Company.

In the circumstances, the ownership and recoverability of the indicated bank balances amounting to Kshs.5,669,743 could not be confirmed.

## **12. Unsupported Provisions**

The statement of financial position reflects provisions balances under non-current and current liabilities of Kshs.3,434,717 and Kshs.7,464,932 respectively, as disclosed under Note 25, which includes additional provisions for leave and gratuity of Kshs.3,829,646 and Kshs.3,635,286 respectively and provisions utilized for leave and gratuity of Kshs.4,143,743 and Kshs.930,610 respectively. The ledger in support of the provisions utilized was not provided for audit. Further, contrary to IFRS 19, the current provisions could not be traced to leave and gratuity liabilities related to terminations and obligations to be settled within 12 months of the closure of the financial year.

In the circumstances, the accuracy and completeness of the provisions balance of Kshs.3,434,717 and Kshs.7,464,932 in respect of non-current and current liabilities could not be confirmed.

## **13. Long Outstanding Trade Receivables**

The statement of financial position reflects of trade and other receivables balance of Kshs.228,568,319 and as disclosed in Note 19 to the financial statements. However, review of the supporting schedule revealed balance of Kshs.234,870,816 in respect of trade receivables resulting to unexplained and unreconciled variance of Kshs.6,302,497. Further, the age analysis reflected in Note19(a) indicates that balance of Kshs.209,179,586 had remained uncollected for long and the Management did not provide any evidence of any attempts made towards recovery of the debts.

In the circumstances, the recoverability of the trade and other receivables balance of Kshs.209,179,586 is in doubt.



#### **14. Unsupported and Doubtful Other Receivables**

The statement of financial position reflects trade and other receivables balance of Kshs.228,568,319 and as disclosed in Note 19 to the financial statements which includes VAT recoveries, staff receivables and other receivables balance of Kshs.8,782,552, Kshs.616,741 and Kshs.11,940,652 respectively. However, as reported in prior year audit report, the amount in respect of VAT was not supported with any documentation from Kenya Revenue Authority (KRA) and Kshs.8,100,000 out of the reported Kshs.11,940,652 relates to purchase of share capital by the County Government of Kericho which had not been paid for and has not been supported by share certificate and an undertaking from the County Government to pay the amount.

In the circumstances, the accuracy and completeness and recoverability of the reported VAT recoverable, staff receivables and other receivables balance of Kshs.8,782,552, Kshs.616,741 and Kshs.11,940,652 respectively could not be confirmed.

#### **15. Long Outstanding Trade and Other Payables**

The statement of financial position reflects of trade and other payables balance of Kshs.252,979,912 and as disclosed in Note 27 to the financial statements. However, the age analysis reflected in Note 27 includes balance of Kshs.194,843,505 which had remained unpaid for long and the Management did not provide any evidence of any attempts made towards payments. The Management therefore runs the risk of incurring significant and unquantified interest costs and penalties associated with delays in settling the invoiced bills. Failure to clear accounts payable in the year to which they relate distorts the budget of the following year as they constitute a first charge on the budget.

In the circumstances, the accuracy, completeness and fair statement of trade and other payable balance of Kshs.252,979,912 could not be confirmed.

#### **16. Unpaid Capital for Ordinary Shares**

The statement of financial position reflects ordinary share capital balance of Kshs.8,100,000 of 405,000 ordinary shares of Kshs.20 par value each and as disclosed in Note 21 to the financial statements. However, the shares were issued and not paid contrary to Section 360(1)(2) of the Company Act, 2015(1) which states that a subscriber to the memorandum of a public company who takes shares of the company as a result of an undertaking given in the memorandum shall pay for the shares, and any premium on the shares, in cash. A subscriber to the memorandum of a public company who fails to pay for shares of the company, or any premium on the shares, otherwise than in accordance with Sub-Section (1), commits an offence and on conviction is liable to a fine not exceeding two hundred thousand shillings. Further, Part 3 of CR29 annual returns by KEWASCO to Business Registration Service (BRS) dated 30 July, 2020 indicates that the Company holds 400,000 ordinary shares of Kshs.20 each totalling to an authorized share capital of Kshs.8,000,000 resulting to unexplained and unreconciled variance of 5,000 ordinary shares totalling to Kshs.100,000.



In the circumstances, the accuracy and completeness of the ordinary share capital could not be confirmed and ownership of shares in the Company by the County Government may be challenged legally.

#### **17. Failure to Disclose Donated Assets**

The statement of financial position reflects property, plant and equipment balance of Kshs.81,974,505 and as disclosed in Note 16 to the financial statements. However, the assets did not include donated assets comprising of forty-one (41) motor vehicles with a historical cost value of Kshs.97,308,917, and twenty-three (23) buildings, fourteen (14) plants consisting pumps, motors and control panels, twenty-nine (29) hydraulic structures, two (2) laboratory equipment, thirty-five (35) office equipment and eight (8) computer and computer accessories all of Nil value. However, the Management has not provided a disclosure in the financial statements for the donated assets including those with Nil values.

In addition, the motor vehicles log books provided indicated that they are owned by Lake Victoria South Water Services Board (Donor). The dates and values of the donated assets have not been recorded in the fixed assets register and were not supported by documentation from the donor.

In the circumstances, completeness and accuracy of the property, plant and equipment balance of Kshs.81,974,505 could not confirm.

#### **18. Unsupported Water Meters**

The statement of financial position reflects property, plant and equipment balance of Kshs.81,974,505 which includes an amount of Kshs.27,035,719 in respect of water meters and as disclosed in Note 16 to the financial statements which includes balance of Kshs.6,121,958 in respect of additions and purchases of new water meters. However, the additions were not supported with payment vouchers, procurement documents list of customer applications for new meters and replacement and distributions for connections. Further, the new water meters had not been disclosed in the fixed assets register.

In the circumstances, the accuracy and completeness of the water meters property, plant and equipment of Kshs.27,035,719 could not be confirmed.

#### **19. Unsupported Property, Plant and Equipment**

The asset register developed and maintained by the Company revealed that asset details such as department, user, issuer, netbook value, identifier details such as number plates, plot number and house number were not provided contrary to the requirement by The National Treasury Guidelines on Asset and Liability Management in the Public Sector, March, 2020. Additionally, the fixed assets register is not organized to show a specific class of assets whereby they should be individually disclosed as each class has its own unique identifiers as seen in Appendix 6 of the National Treasury Guidelines on Asset and Liability Management in the Public Sector, March, 2020.

Further, the assets have not been clearly and uniquely identified with a permanent identification of unique codes to specific assets so as to facilitate their identification,



accountability and monitoring. The donated assets did not have important information, such as Serial Number, Tag Number, Make & Model, Date of Donation, Original Location, Current Location, Replacement Date (if applicable), Acquisition Cost, Depreciation Rate, Annual Depreciation, Accumulated Depreciation, Net Book Value, Date of Disposal, Disposal Value, Responsible Officer, Asset Condition and Notes contrary to Regulation 143(1) of Public Finance Management Regulations, 2015.

In addition, a generator and automatic change-over switch branded KWBC.ADM. EQ.004.51 and KWSC.ADM. EQ.004.52 respectively both of unknown values were installed in the Company premises but had not been recorded in the fixed assets register.

In the circumstances, the ownership and existence of the property, plant and equipment balance of Kshs.81,974,505 as at 30 June, 2022 could not be confirmed.

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

### **Emphasis of Matter**

#### **Budgetary Control and Performance**

The statement of comparison of budget and actual amounts for the period ended 30 June, 2023 reflects revenue budget and actual revenue of Kshs.313,695,287 and Kshs.210,998,979 respectively resulting to an underfunding of Kshs.102,696,308 or 33% of the budget. Similarly, the Company incurred recurrent and capital expenditure of Kshs.271,310,165 against an approved budget of Kshs.312,060,353 resulting to an under-expenditure of Kshs.40,750,188 or 13% of the budget.

My report is not modified in respect of this matter.

### **Key Audit Matters**

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

### **Other Matter**

#### **Unresolved Prior Year Matter**

The eight (8) Prior year audit issue remained unresolved as at 30 June, 2023. Management presented ten (10) issue which are not relevant to previous year 2021/2022 audited financial statements and details of the issues raised are not presented. Management did not provide reasons for the delay in resolving the prior year audit issues contrary to the approved template by the Public Sector Accounting Standards Board and firmed by The National Treasury's Circulars.



# REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCE

## Conclusion

As required by Article 229(6) of the Constitution and based on the audit procedures performed, except for the matter(s) described in the Basis for Conclusion, 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. Unbalanced Budget

The statement of comparison of budget and actual amounts for the year ended 30 June, 2023 reflects a final revenue budget of Kshs.313,695,287 and an expenditure final budget of Kshs.312,060,353 resulting in a variance of Kshs.1,634,934. The budget imbalance is contrary to the provisions of Section 31(c) of the Public Finance Management (County Government) Regulations, 2015 which states that 'budget revenue and expenditure appropriation shall be balanced.

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

### 2. Non-Revenue Water Management

Review of water production records revealed that the Company produced a total of 3,920,762 cubic meters ( $m^3$ ) of water out of which 1,824,693 cubic meters was billed to customers for a total of Kshs.143,143,655. The balance of 2,096,069 cubic meters ( $m^3$ ) or approximately 53% of the total volume produced representing non-revenue water which was 28% over the allowable loss of 25% in the guidelines issued by the Water Services Regulatory Board (WASREB). The significant level of non-water of 1,097,813 cubic meters ( $m^3$ ) at an average billing rate of Kshs.72 per ( $m^3$ ) may have resulted in loss of sales estimated at Kshs.79,042,562 which has a negative impact on the company's profitability.

In the circumstances, the significant level of non-revenue water may negatively impact on the Company's profitability and long-term sustainability.

### 3. Billing of Customers Using Out-of-Date Tariff

During the year under review, the Company used the approved tariff structure dated 21 August, 2015 for previous financial years 2015/2016 to 2017/2018 to bill their customers from July, 2022 to February, 2023.

In the circumstances, failure to apply for review of the tariff structure in line with the economic status of the county may have caused the Company unquantified amounts of revenue.

### 4. Use of Outdated Tariff Structure

Review of the Company tariff structure in use relates to the period between 21 August, 2015. However, the water company has continued using the tariffs despite



having lapsed seven (7) years ago contrary to Section 72 of Water Act, 2016 which requires Water Services Regulatory Board (WASREB) to evaluate and recommend water and sewerage tariffs to the County water services providers and approve the imposition of such tariffs in line with consumer protection standards.

In the circumstances, the Management was in breach of the law and may have been irregularly subsidizing for the cost of water supplies to consumers.

#### **5. Non-Compliance to Fiscal Responsibility Principles**

The statement of profit or loss and other comprehensive income reflects an amount of Kshs.159,916,211 in respect of staff cost and as disclosed in Note 10 to the financial statements approximately 76% of the total revenue of Kshs.210,998,979 which is in 46% excess of the set limit as per Section 25(1)(b) of the Public Finance Management (County Government) Regulations, 2015 which requires the limit on the County Governments expenditure on wages and benefits for its public officers at 35% of the water company's total revenue.

In the circumstances, Management was in breach of the law and the wage bill may not be sustainable unless adequate measures are put in place to contain the rising wage bill.

#### **6. Unpaid Salaries for Rural Water Staff**

The statement of financial position reflects trade and other payables balance of Kshs.252,979,812 which includes balance of Kshs.76,550,642 in respect of employee payables and as disclosed in Note 27 to the financial statements. However, review of the supporting schedule revealed that the payables in relations to unpaid salaries for rural staff which remained unpaid for nine (9) months. Further, review of the expenditure returns and unpaid salaries revealed that despite the fact that the rural cost center employees did not receive their net salaries during the period, the Management had promptly remitted their statutory deductions in respect of PAYE totalling to Kshs.2,252,938. No explanation was provided by the Management for not paying the staff for rural despite their counter parts at urban being paid.

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

#### **7. Unremitted Statutory Deductions**

The statement of financial position reflects trade and other payables balance of Kshs.252,979,812 which includes balance of Kshs.76,550,642 in respect of employee payables and as disclosed in Note 27 to the financial statements. However, review of the supporting schedule revealed that the payables includes unremitted Pay As You Earn tax of Kshs.16,945,977, NSSF Kshs.349,704, NHIF Kshs.407,420, NITA Kshs.240,345 and other deductions including Saccos and bank loans of Kshs.23,377,755. The Management indicated that failure to submit the statutory deductions was occasioned by lack of funds.

In the circumstances, failure to pay statutory deductions is breach of the law and it continues to attract penalties, which continues to increase liabilities to Company.



## **8. Unremitted Retirement Benefit Obligation**

The statement of financial position reflects retirement benefit obligation balance of Kshs.104,212,196 which includes balance of Kshs.84,387,197 and Kshs.19,824,999 in respect of non-current benefit obligation and current benefit respectively and as disclosed in Note 26 to the financial statements. However, review of the supporting schedule revealed that the Company had not remitted employee retirement deductions.

In the circumstances, failure to pay statutory deductions is breach of the law and it continues to attract penalties, which continues to increase liabilities to Company. Non-Remittance of retirement benefit obligation also denies the retirees the due benefit exposing them to unwarranted suffering.

## **9. Non-Compliance with the Third Rule on Basic Salary**

Review of the payroll for the month of June, 2023 revealed that twenty-one (21) officers were earning net salary less than one third of their respective basic pays. This is contrary to Section 19(3) of the Employment Act, 2012 and Section C.1(3) Human Resource Policies and Procedures Manual for the Public Service, 2016 which provides that the total amount of all deductions which may be made by an employer from the wages of his or her employee at any one time shall not exceed two-thirds of such wages or such additional or other amounts as may be prescribed.

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

## **10. Non-Compliance with Law on Ethnic Composition**

During the year under review, the total number of employees of the company was one hundred and seventy-one (171) out of which one hundred and sixty-five (165) or 96% of the total number were members of the dominant ethnic community in the County. This is contrary to Section 7(1) and (2) of the National Cohesion and Integration Act, 2008 which states that, all public officers shall seek to represent the diversity of the people of Kenya in the employment of staff and no public institution shall have more than one-third of its establishment from the same ethnic community.

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

## **11. Irregular Engagement of Casuals**

The statement of profit or loss and other comprehensive income reflects staff cost of an amount of Kshs.159,916,211 which includes an amount of Kshs.6,589,063 in respect of casual workers' wages and as disclosed in Note 10 to the financial statements. However, the casual employees were engaged for periods exceeding three months continuously contrary to Section 37 of The Employment Act, 2007.

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

## **12. Regularity of Human Resources Management Practices**

Review of the regularity of Human Resources Management practices revealed that the salary scale for the Company is defined for Grades 1 to 5. However, the occupied



Grades 6, 7, 8 and CMT are not defined but in use in the Company. Also, the human resources plan and skills inventory of the Company's employees were not provided for audit review.

In the circumstances, we could not confirm the strategies the training needs, skills gaps and other emerging staff issues are addressed by the Company.

### 13. Irregular Appointment of Board of Directors

Review of the appointments of eleven (11) Board of Directors revealed that the appointments of the Directors were not formally done through a Gazette Notice. The appointment letters for three (3) Directors representing (a) Urban Consumers, (b) Women, Youth and Persons with Disability, and (c) Private Institutions indicated that their appointment ended between 30 June, 2022 and 05 September, 2022. However, review of the financial statement and board minutes revealed that directors still participate in decision making of the Company even though their appointments expired and were not renewed.

Further, review of the board appointment revealed that the County Government of Kericho had three (3) Directors instead of the required two (2) Directors who regularly attended the Board of Directors' meetings and their appointments were not supported with appointment letters contrary to Paragraph 1.1.(12) of the Mwongozo Code of Governance of State Corporations, 2015 which states that the board members shall be appointed by name, and shall sit on board in their individual capacity with no power to appoint alternates.

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

### 14. Irregular Payment of Board Sitting Allowance

Review of board attendance register, board minutes and internal payment vouchers revealed that the board of directors whose appointments had expired and the ones who had not been formally appointed were irregularly paid sitting allowances, transport, night outs and lunch allowances amounting to Kshs.822,000 during the year under review. The payments are detailed in the table below:

SNo.	Board of Director's Name	Amount (Kshs.)
1	Simeon Kipngetich Serem	186,800
2	Julius K. Tanui	254,000
3	Charlody Chepkorir	209,200
4	Rosemary Rop	119,600
5	Leonard Ngetich	52,400
<b>Total</b>		<b>822,000</b>

This was contrary to Paragraph 1.1.(11) and Paragraph 1.5.(1) of the Mwongozo Code of Governance of State Corporations, 2015.

In the circumstances, the propriety and regularity of the expenditure of Kshs.822,000 could not be confirmed and Management was in breach of the law.



## 15. Loan Obtained without County Treasury Approval

The statement of financial position reflects borrowings balance of Kshs.1,577,458 which includes balance of Kshs.7,816,376 and Kshs.6,238,918 in respect of borrowing and repayment and as disclosed under Note 24 to the financial statements. However, the loans ledger account was not provided for audit review.

Further, review of the full Board meeting held on 30 August, 2022 approved an unspecified amount of Insurance Premium Financing (IPF) to cater for medical cover and general insurance services from the most responsive bank that would be later determined. The Company obtained two Insurance Premium Financing (IPF) loans from a local bank on 03 October, 2022 amounting to Kshs.7,816,376 following IPF agreements dated 23 September, 2022. However, the procedure of identifying the most responsive bank, the approval of the loan amount and terms, the confirmation of approval and limits of the facility from the County Treasury, the acknowledgement of payments from payees and insurance policy documents were not provided for audit.

In addition, the loan borrowed was not authorized by County Treasury Regulations (7) of the Public Finance Management (County Government) Regulations, 2015 which states that no official County Government bank account shall be overdrawn, nor shall any advance or loan be obtained from a bank account for official purposes beyond the limit authorized by the County Treasury in line with Section 119(4) of the Act.

In the circumstances, the regularity of borrowings amounting to Kshs.7,816,376 could not be confirmed.

## 16. Irregular Procurement, Award and Extension of Contract

Review of financial transaction revealed that the construction of Kapsoit-Sosiot water project was financed by Water Services Trust Fund (WSTF) at a contract sum of Kshs.14,651,285 and was awarded to a local company on 05 December, 2022 for a six months period ending on 05 May, 2023. However, audit verification of the project on 08 February, 2024 revealed that the construction of water pipeline and 150m<sup>3</sup> masonry tank were completed as certified and the remaining 30% of the contract was not complete and the contract period being extended four (4) times contrary to Section 139 of the Public Procurement and Asset Disposal Act, 2015 as follows:

Date	Letter Reference No.	Extension Period/Contract End Date
27 March, 2023	KWSC/WSTF/48/Vol.1	4 months/31 July, 2023
03 May, 2023	-	1 month/06 July, 2023
27 July, 2023	KWSC/WSTF/48.Vol.1	2 months/31 December, 2023
22 December, 2023	KWSC/WSTF/48/Vol.1	3 months/31 March, 2024

In addition, the contractor's performance security bond was not provided for audit review.

In the circumstances, the County residence of Kericho may not obtain value for money and the expected benefits from the projects to the residents of Kericho County may not be realized.



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, because of the significance of the matters discussed in the Basis for Adverse Opinion and Basis for Conclusion on Effectiveness of Internal Controls, Risk Management Governance sections of my report, based on the audit procedures performed, I confirm that internal controls, risk management and governance were not effective.

### Basis for Conclusion

#### 1. Failure of Audit Committee to Meet as Required

During the year under review, the audit committee held two (2) meetings on 21 December, 2022 and 22 May, 2023 contrary to Article 88 of the Memorandum of Understanding requires that the Committees shall not have more than four (4) sittings in a financial year, unless the meetings and agenda are communicated and agreed by the Board.

In the circumstances, the audit committee failed to adhere to the statutory requirements.

#### 2. Registration of the Company

The background information of the Company and Report of the Managing Director states that Kericho Water and Sanitation Company Limited (KEWASCO) merged with defunct Tililbei Water and Sanitation Company (TILILWASCO) on 02 November, 2018 to form a new Company with two costs centres namely rural and urban cost centers to represent TILILWASCO and KEWASCO respectively. However, the certificate of incorporation, memorandum of association, registered articles of association, statement of capital and initial shareholdings for the new Company were not provided for audit review.

Further, the financial statements shows that the share capital of the KEWASCO has been revised to include additional shares for TILILWASCO that have not been filed with the registrar of companies contrary to Section 125 of the Companies Act No.17 of 2015.

In the circumstances, it was not possible to confirm the shareholdings of Kericho Water and Sanitation Company Limited (KEWASCO).

#### 3. Outdated Human Resource and Administration Manual

Review of human resource instruments revealed that KEWASCO's Human Resource and Administration Manual lapsed in 2019. Further, the draft policy submitted for audit review



is yet to be approved by the Board in contravention of the conditions of the license issued by the regulator.

In the circumstances, it was not possible to confirm compliance to Clause 7 of the conditions of the license referenced WASREB/LSA/ILIO/78.

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 the 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 going concern basis of accounting unless Management is aware of the intention to liquidate the Company or to cease operations.

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

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

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

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a



basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Management.
- Conclude on the appropriateness of the Management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in the auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my audit report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information and business activities of the Company to express an opinion on the financial statements.
- Perform such other procedures as I consider necessary in the circumstances.

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

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

  
FCPA Nancy Gathungu, CBS  
**AUDITOR-GENERAL**

Nairobi

08 May, 2024

**13. STATEMENT OF PROFIT OR LOSS & OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 30 JUNE 2023.**

	Note	2022/2023	2021/2022
		Kshs	Kshs
<b>Revenue</b>			
Operating Revenue	6	193,463,965	178,468,455
Grants Income	7	16,460,389	76,838,621
Other Income	8	1,074,624	1,035,800
Other gains/(losses)	9	-	1,344,942
<b>Total Revenue</b>		<b>210,998,979</b>	<b>257,687,818</b>
<b>Expenses</b>			
Staff Costs	10	159,916,211	163,953,017
General and Operations expenses	11	69,437,612	63,322,838
Board Expenses	12	2,517,460	2,911,000
Maintenance Expenses	13	18,241,162	11,619,499
Depreciation and Amortization expenses	14	5,309,400	8,789,206
Finance Costs	15	174,009	290,252
<b>Total Expenses</b>		<b>255,595,853</b>	<b>250,885,811</b>
<b>Profit/(Loss) Before Taxation</b>		<b>(44,596,875)</b>	<b>6,802,006</b>
<b>Profit/(Loss) After Taxation</b>		<b>(44,596,875)</b>	<b>6,802,006</b>
<b>Other Comprehensive Income</b>			
<b>Profit/ (Loss) After Taxation</b>		<b>(44,596,875)</b>	<b>6,802,006</b>
Surplus Or Deficit On Revaluation Of PPE			7,665,670
<b>Total Comprehensive Income For The Year</b>		<b>(44,596,875)</b>	<b>14,467,676</b>



Kericho Water and Sanitation Company Limited  
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14. STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2023

	Note	2022/2023 Kshs	2021/2022 Kshs
<b>ASSETS</b>			
Non-Current Assets	16	81,974,505	71,059,263
Property, plant and equipment	17	913,736	1,142,170
Intangible assets		82,888,241	72,201,434
Total Non-Current Assets			
Current Assets			
Inventories	18	4,874,997	6,091,670
Trade and receivable	19	228,568,319	217,008,449
Bank and cash balances	20	17,260,967	13,501,900
Total Current Assets		250,704,283	236,602,020
<b>TOTAL ASSETS</b>		<b>333,592,527</b>	<b>308,803,454</b>
<b>EQUITY AND LIABILITIES</b>			
Capital and Reserves			
Ordinary share capital	21	8,100,000	8,100,000
Revaluation reserve	22	7,665,670	7,665,670
Capital Reserve		66,996,639	57,197,085
Retained earnings	23	(154,514,478)	(110,440,251)
Total Capital and Reserves		(71,752,168)	(37,477,496)
Non-Current Liabilities			
Retirement Benefits	26	84,387,197	71,244,161
Provisions	25	3,434,717	6,875,168
Total Non-Current Liabilities		87,821,914	78,119,329
Current Liabilities			
Borrowings	24	1,577,458	-
Provisions	25	7,464,932	1,633,902
Retirement benefit obligations	26	19,824,999	13,143,036
Trade and other payables	27	252,979,812	224,814,598
Refundable Deposits and Prepayments	28	34,926,189	28,560,589
Deferred Income	29	749,392	9,497
Total Current Liabilities		317,522,782	268,161,623
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>333,592,527</b>	<b>308,803,454</b>

The financial statements were approved by the Board on 28<sup>th</sup> September 2023 and signed on its behalf by:

Apollo Cheruiyot  
Director

Kibii Chepkwony Siele  
Managing Director

Philis Chelangat

ICPAK M/No 11585 Commercial & Finance Manager

15. STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 JUNE 2023

	Ordinary share capital	Revaluation reserve	Capital Reserves	Retained earnings	Total
<b>As at July 1, 2021</b>	8,100,000		39,692,614	(117,242,257)	(69,449,643)
Revaluation gain		7,665,670			7,665,670
Profit for the year				6,802,006	6,802,006
Capital/Development grants received during the year			19,435,650		19,435,650
Transfer of depreciation/amortisation from capital fund to retained earnings			(1,931,179)		(1,931,179)
<b>As at July 1, 2022</b>	8,100,000	7,665,670	57,197,085	(110,440,251)	(37,477,496)
Profit for the year				(44,596,875)	(44,596,875)
Capital/Development grants received during the year			11,611,417		11,611,417
Transfer of depreciation/amortisation from capital fund to retained earnings			(1,811,863)		(1,811,863)
Prior year adjustment on PPE				281,897	281,897
<b>As at June 30, 2023</b>	8,100,000	7,665,670	66,996,639	(154,514,478)	(71,752,168)



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16. STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2023

	Note	2022-2023	2021-2022
		Kshs	Kshs
<b>OPERATING ACTIVITIES</b>			
Cash generated from/(used in) operations	30	17,614,025	16,319,429
Net cash generated from/(used in) operating activities		17,614,025	16,319,429
<b>INVESTING ACTIVITIES</b>			
Purchase of property, plant and equipment	16	(15,432,415)	(19,612,040)
Purchase of Intangible Asset			-
Net cash generated from/(used in) investing activities		(15,432,415)	(19,612,040)
<b>FINANCING ACTIVITIES</b>			
Proceeds from issues of new share capital			
Proceeds from borrowings			
Repayment of borrowings		7,816,376	
Net cash generated from/(used in) financing activities		(6,238,918)	( 852,693)
<b>INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS</b>		1,577,457	( 852,693)
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>	20	3,759,067	(4,145,304)
<b>CASH AND CASH EQUIVALENTS AT END OF THE YEAR</b>	20	13,501,900	17,647,205
		17,260,967	13,501,900

17. 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
	2022/2023	2022/2023	2022/2023	2022/2023		
<b>Revenue</b>	<b>Kshs</b>	<b>Kshs</b>	<b>Kshs</b>	<b>Kshs</b>	<b>Kshs</b>	<b>Xxx%</b>
Operating Revenue	243,381,947		243,381,947	193,463,965	49,917,982	79
Grants Income	68,361,640		68,361,640	16,460,389	51,901,251	24
Other Income	1,951,700		1,951,700	1,074,624	877,076	55
<b>Total Revenue</b>	<b>313,695,287</b>	<b>-</b>	<b>313,695,287</b>	<b>210,998,979</b>	<b>102,696,308</b>	<b>67</b>
<b>Expenses</b>						
Staff Costs	163,646,001		163,646,001	159,916,211	3,729,790	98
General and Operations expenses	89,958,502		89,958,502	69,437,612	20,520,890	77
Board Expenses	3,342,400		3,342,400	2,517,460	824,940	75
Maintenance Expenses	20,050,986		20,050,986	18,241,162	1,809,824	91
Depreciation and Amortization expenses			-	5,309,400	-	
Finance Costs	220,000		220,000	174,009	45,991	79
<b>Total Recurrent Expenditure</b>	<b>277,217,889</b>	<b>-</b>	<b>277,217,889</b>	<b>255,595,853</b>	<b>21,622,036</b>	<b>92</b>
<b>Profit or Loss</b>	<b>36,477,398</b>	<b>-</b>	<b>36,477,398</b>	<b>-</b>	<b>81,074,273</b>	
Capital Expenditure	34,842,464		34,842,464	15,714,312	19,128,153	45
<b>Total Expenditure</b>	<b>312,060,353</b>	<b>-</b>	<b>312,060,353</b>	<b>271,310,165</b>	<b>40,750,188</b>	<b>87</b>

**Budget notes:**

- Operating revenue was not achieved due to bulk Water Supply disconnection and power disconnections in the rural cost centre and drought period in the urban cost centre during the financial year
- Grant income was not achieved due to non-remittance of bulk water supply, electricity and salary arrears for the rural cost centre.
- General operations and maintenance expenses were also not achieved because of disrupted operation due to the disconnections that affected water supply.



## 18. NOTES TO THE FINANCIAL STATEMENTS

### 1. General Information

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

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

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

The financial statements have been prepared on a historical cost basis except for the measurement at re-valued amounts of certain items of property, plant and equipment, marketable securities and financial instruments at fair value, impaired assets at their estimated recoverable amounts and actuarially determined liabilities at their present value. The preparation of financial statements in conformity with International Financial Reporting Standards (IFRS) allows the use of estimates and assumptions. It also requires management to exercise judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or where assumptions and estimates are significant to the financial statements, are disclosed in *Note 5*.

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>The Company does not issue insurance contracts</p>	Effective for annual periods beginning on or after 1 <sup>st</sup> 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>(The will be no effect of amendments on the financial statements for the year ended 30<sup>th</sup> June 2023.)</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 <b>material</b> accounting policy information rather than their <b>significant</b> accounting policies.</p> <p><i>(Entity to state whether this has brought about changes to the accounting policies disclosed)</i></p>	The amendments are effective for annual periods beginning on or after January 1, 2023.
Amendments to IAS 12 titled Deferred Tax Related to Assets and Liabilities arising from a Single Transaction (issued in May 2021)	<p>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.</p>	The amendments are effective for annual periods beginning on or after January 1, 2023.



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(The Directors have assessed the applicable standards and amendments. Based on their assessment of impact of application of the above, they do not expect that there will be a significant impact on the company's financial statements. )

**ii. New and amended standards and interpretations in issue but not yet effective in the year ended 30 June 2023.**

<b>Title</b>	<b>Description</b>	<b>Effective Date</b>
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**

The company did not early – adopt any new or amended standards in year under review

## NOTES TO THE FINANCIAL STATEMENTS (Continues)

### 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 recognised 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 recognised 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 recognised in profit or loss on a time proportion basis using the effective interest rate method.
- iv) **Dividend income** is recognised in the income statement in the year in which the right to receive the payment is established.
- v) **Rental income** is recognised in the income statement as it accrues using the effective interest implicit in lease agreements.
- vi) **Other income** is recognised as it accrues.

#### 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,



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all items in an asset category are re-valued through periodic valuations carried out by independent external valuers.

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

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

Item	Rates
Buildings and civil works	10%
Infrastructure works	2.5%
Plant and machinery	20%
Motor vehicles, including motor cycles	25%
Computers and related equipment	30%
Office equipment, furniture and fittings	12.5%

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

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

**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 at 20% per annum basis. Intangible assets with indefinite useful lives that are acquired separately are carried at cost less accumulated impairment losses.

**f) Amortisation and impairment of intangible assets**

Amortisation is calculated on a reducing balance at 20% per annum. All intangible assets are reviewed annually for impairment. Where the carrying amount of an intangible asset is assessed as greater than its estimated recoverable amount, an impairment loss is recognised so that the asset is written down immediately to its estimated recoverable amount.

**g) Inventories**

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

**h) Trade and other receivables**

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

**i) Taxation**

**i) Current income tax**

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

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

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

**j) 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.

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

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

**k) 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.

**l) 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. For the purposes of these financial statements, cash and cash equivalents also include short term cash imprests and advances to authorised public officers and/or institutions which were not surrendered or accounted for at the end of the financial year.

**m) Borrowings**

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

**n) Trade and other payables**

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

**o) Retirement benefit obligations**

The Company operates a defined contribution scheme for all full-time employees from July 1, 1995. The scheme is administered by a pension Fund 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. 1080 per employee per month.

**p) Provision for staff leave pay**

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

**q) Budget information**

The original budget for FY 2022-2023 was approved by the Board of Directors on 26<sup>th</sup> October 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 did not record additional appropriations. 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 financial performance, whereas the budget is prepared on a cash basis. The amounts in the financial statements were recast from the accrual basis to the cash basis and reclassified by presentation to be on the same basis as the approved budget. A comparison of budget and actual amounts, prepared on a comparable basis to the approved budget, is then presented in the statement of comparison of budget and actual amounts. In addition to the Basis difference, adjustments to amounts in the financial statements are also made for differences in the formats and classification schemes adopted for the presentation of the financial statements and the approved budget. A statement to reconcile the actual amounts on a comparable basis included in the statement of comparison of budget and actual amounts and the actuals as per the statement of Comprehensive income has been presented under section 18 of these financial statements.

**r) 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.

**s) Comparative figures**

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

**t) 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.

**a) Estimates and assumptions**

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

**b) Useful lives and residual values**

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

- The condition of the asset based on the assessment of experts employed by 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. 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. Provisions are made for gratuity and bad debts.

**6. Operating Revenue**

	2022-2023	2021-2022
	Kshs	Kshs
Water sales	143,143,655	130,468,879
Sewerage Services	33,810,615	30,128,322
Billing for other services*	16,509,696	17,871,253
<b>Total</b>	<b>193,463,965</b>	<b>178,468,455</b>

Billing for other services refers to income generated from services such as reconnection fees, sales of sludge, and water analysis samples among others

**7. Grants Income**

	2022-2023	2021-2022
	Kshs	Kshs
Recurrent/operational grants from other agencies	573,963	43,093,442
Capital grants amortized	1,811,863	1,931,179
Donations from County Government	14,074,564	31,814,000



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	16,460,389	76,838,621
<b>Total</b>		

A detailed analysis of grants received from the Government in the table below:

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	2021-2022 KShs
Water Fund CLSG	573,963	1,906,366	11,611,417	14,091,746	62,538,589
County Government of Kericho	14,074,564			14,074,564	31,814,000
<b>Total</b>	<b>14,648,527</b>	<b>1,906,366</b>	<b>11,611,417</b>	<b>28,166,309</b>	<b>94,352,589</b>

## 8. Other Income

	2022-2023	2021-2022
	Kshs	Kshs
Fine and penalties	566,924	439,500
Rental income	507,700	596,300
<b>Total</b>	<b>1,074,624</b>	<b>1,035,800</b>

## 9. Other gains/(losses)

	2022-2023	2021-2022
Description	Kshs	Kshs
Decrease in Provision for bad and doubtful debts	0	1,344,942
<b>Total</b>	<b>0</b>	<b>1,344,942</b>

## 10. Staff Costs

Description	2022-2023	2021-2022
	Kshs	Kshs
Gross Salary and Allowances	125,410,733	128,083,248
Casual workers' Wages	6,589,063	7,042,131
Medical insurance schemes	6,367,759	6,832,649
Employer's contributions to social security schemes	1,141,406	529,480
Employer's contributions to pension scheme	11,903,917	12,743,542
Internship/Attachment allowance	729,000	264,000
Gratuity provisions	3,635,286	3,926,292
Salary Arrears	3,242,635	3,723,344

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Staff welfare	373,734	285,653
Other allowances	522,678	522,678
<b>Total</b>	<b>159,916,211</b>	<b>163,953,017</b>
The average number of employees during the year	171	179

## 11. General and Operations Expenses

Description	2022-2023 (Kshs)	2021-2022 (Kshs)
Chemicals	2,280,664	2,260,076
Electricity	6,467,165	6,702,981
Fuel, oil, lubricants, and gases	7,753,504	6,810,710
Bulk water Costs	13,357,350	9,914,980
Office supplies	935,271	1,476,648
Uniform and protective clothing	2,400	12,720
Telecommunication	1,668,357	1,461,149
Postage and courier	143,416	124,453
Insurance	1,857,704	2,563,943
Rent and Rates		7,000
Domestic Traveling and subsistence	4,437,275	4,722,188
Staff training and development	510,130	882,499
Bank Charges	897,437	1,001,833
Security services	7,890,351	7,956,000
Publicity and advertising	226,682	331,644
Audit fees	600,000	580,000
Legal fees	300	295,800
Consultancy fees	182,300	450,337
Licensing and levies	11,789,984	9,488,194
Sports and recreation	-	93,800
Stakeholders' expenses	223,860	1,022,272
Donations/CSR	47,640	10,000
Hospitality expenses	2,621,780	2,021,582
Provision for doubtful debts	2,243,051	-
Training Levy	76,650	100,450
Christmas Awards	1,929,800	2,201,400
Subscriptions	198,400	380,200
Quality Testing	367,000	449,980
WSTF Expenses	729,142	



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Description	2022-2023 (Kshs)	2021-2022 (Kshs)
Total	69,437,612	63,322,838

<b>12. Board Expenses</b>		
Description	2022-2023 Kshs	2021-2022 Kshs
	480,000	480,000
Chairman Honoraria	1,140,600	1,233,400
Sitting allowances		-
Induction and Training		1,077,100
Travel and accommodation	685,100	120,500
Other allowances	211,760	
<b>Total Board Expenses</b>	<b>2,517,460</b>	<b>2,911,000</b>

<b>13. Maintenance Expenses</b>		
Description	2022-2023 Kshs	2021-2022 Kshs
Plant and Equipment	779,988	1,094,154
Buildings	192,010	95,990
Infrastructural networks	12,369,083	3,735,725
Grounds	52,700	6,810
Motor vehicles	3,103,266	4,249,707
Software	911,889	1,598,329
ICT	283,816	385,004
Water Meter		12,000
Access roads	548,410	441,780
<b>Total Maintenance Expenses</b>	<b>18,241,162</b>	<b>11,619,499</b>

**14. Depreciation and Amortization Expenses**

Description	2022-2023 Kshs	2021-2022 Kshs
Property, plant, and equipment	5,080,966	8,503,663
Intangible assets	228,434	285,543
<b>Total Depreciation and Amortization</b>	<b>5,309,400</b>	<b>8,789,206</b>

**15. Finance costs**

Description	2022-2023 Kshs	2021-2022 Kshs
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Interest expense on loans	174,009	290,252
<b>Total</b>	<b>174,009</b>	<b>290,252</b>



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**16. Property, Plant and Equipment**

2021/2022	Land	Buildings	Heavy duty Tractor	Computer & Related Equipment	Motor Vehicles	Furniture and fittings	Meters	Septic Tank	DTF	Water /Sewer Pipeline	Total
<b>COST OR VALUATION</b>											
As at 1 July 2021	800,000	8,538,424	5,471,624	8,070,179	32,349,095	27,587,626	17,803,547	4,363,853	9,845,399		114,829,748
Additions		98,850		77,540	6,423,500		7,756,100			5,256,050	19,612,040
Transfers			1,203,758		8,957,964						10,161,722
Revaluation			(5,471,624)		(18,349,096)						23,820,720
As at 30 <sup>th</sup> June 2022	800,000	8,637,274	1,203,758	8,147,719	29,381,463	27,587,626	25,559,647	4,363,853	9,845,399	5,256,050	120,782,790
<b>DEPRECIATION</b>											
At July 1, 2021	-	1,691,375	5,430,857	7,057,058	23,978,642	20,454,401	3,398,638	278,507	246,135		62,535,614
Acc depreciation on Revaluation			(5,430,857)		(15,884,893)						(21,315,750)
Charge for the year		694,590	240,752	327,198	5,321,928	891,653	554,025	102,134	239,982	131,401	8,503,663
Impairment loss											-
As at 30 <sup>th</sup> June 2022	-	2,385,965	240,752	7,384,257	13,415,678	21,346,054	3,952,663	380,640	486,117	131,401	49,723,527
<b>NET BOOK VALUE</b>											
At June 30, 2022	800,000	6,251,309	963,006	763,463	15,965,785	6,241,572	21,606,984	3,983,213	9,359,283	5,124,649	71,059,263

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2022/2023	Land	Buildings	Plant Machinery and equipment	Computer & Related Equipment	Motor Vehicles	Furniture and fittings	Water Supply Infrastructure				Capital Work In progress	Total
							Meters	Septic Tank	DTF	Water /Sewer Pipeline		
As at 1 July 2022	800,000	8,637,274	1,203,758	8,147,719	29,381,463	28,659,168	25,559,647	4,363,853	9,845,399	5,256,050		121,854,332
Additions		218,363		32,016		18,430	6,121,958				9,323,545	15,714,312
Transfers												-
Revaluation												-
As at 30 <sup>th</sup> June 2023	800,000	8,855,637	1,203,758	8,179,735	29,381,463	28,677,598	31,681,605	4,363,853	9,845,399	5,256,050	9,323,545	137,568,644
DEPRECIATION												
At July 1, 2022	-	2,385,965	240,752	7,384,257	13,415,678	21,346,054	3,952,663	380,640	486,117	131,401		49,723,527
Acc depreciation						789,645						789,645
Charge for the year		646,967	80,251	238,644	2,139,180	817,737	693,224	99,580	233,982	131,401		5,080,966
Impairment loss												-
As at 30 <sup>th</sup> June 2023	-	3,032,932	321,002	7,622,900	15,554,858	22,953,437	4,645,887	480,221	720,099	262,803		55,594,138
NET BOOK VALUE												
At June 30, 2023	800,000	5,822,704	882,756	556,835	13,826,605	5,724,161	27,035,719	3,883,633	9,125,301	4,993,248	9,323,545	81,974,505

- Capital Work in Progress relates to the cost of ongoing Tank and pipeline construction funded by WSTF Kapsoit-Sosiot



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

**Valuation**

No asset was valued in the financial year.

**17. Intangible Assets**

<b>COST</b>	<b>Computer Software</b>
As at 1st July 2022	9,199,172
Additions	
Disposals	
At June 30 2023	9,199,172
<b>AMORTISATION</b>	
As at 1st July 2022	8,057,002
Charge for the year	228,434
Prior Year adjustment	
Disposals	
Impairment loss	
At June 30,2023	8,285,436
<b>NET BOOK VALUE</b>	
At June 30, 2023	913,736

The Computer Software consists of software for Payroll, meter reading, fleet management

**18. Inventories**

	<b>2022-2023</b>	<b>2021-2022</b>
	<b>Kshs</b>	<b>Kshs</b>
Cleaning Materials	80,752	103,568
Uniforms and protective Clothing	32,796	153,281
Computer Consumables	465,737	474,001
Pipes and Fittings	2,342,607	3,315,948
Stationery and general stores	241,334	249,723
Tools	80,422	99,957
Water Chemicals	196,206	1,156,993
Water Meters	1,435,144	538,200
<b>Total</b>	<b>4,874,997</b>	<b>6,091,670</b>

19. a). Trade and Other Receivables

	2022-2023	2021-2022
	Kshs	Kshs
Trade receivables (note (19b))	216,233,385	203,290,201
Prepayments	471,675	
VAT recoverable	8,782,552	8,782,552
Staff receivables	616,741	228,679
Other receivables	11,940,652	11,940,652
<b>Gross trade and other receivables</b>	<b>238,045,005</b>	<b>224,242,084</b>
Provision for bad and doubtful receivable	9,476,686	7,233,635
<b>Net trade and other receivables</b>	<b>228,568,319</b>	<b>217,008,449</b>

19 (b) Trade Receivables

	2022-2023	2021-2022
	Kshs	Kshs
Gross trade receivables	238,045,005	224,242,084
Provision for doubtful receivables	9,476,686	7,233,635
<b>Net trade receivables</b>	<b>228,568,319</b>	<b>217,008,449</b>
Less than 30 days	12,798,345	8,967,648
Between 30 and 60 days	6,696,615	6,053,161
Between 61 and 90 days	5,320,131	2,830,418
Between 91 and 120 days	4,050,328	3,134,958
Over 120 days	209,179,586	203,255,899
<b>Total</b>	<b>238,045,005</b>	<b>224,242,084</b>

20. Bank and Cash Balances

	2022-2023	2021-2022
	Kshs	Kshs
Cash at bank	16,682,113	13,339,774
Mobile money account	578,854	162,126
	<b>17,260,967</b>	<b>13,501,900</b>



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**Detailed analysis of the cash and cash equivalents**

		2022-2023	2021-2022
Financial institution	Account number	Kshs	Kshs
<b>a) Current account</b>			
Co-operative Bank of Kenya - Revenue Account	01136053726801	2,381,517	106,333
Co-operative Bank of Kenya - Deposit Account	01136053726800	3,631,419	5,204,374
Co-operative Bank of Kenya - GIZ funding Account	01136053726803	16,182	9,210
Co-operative Bank of Kenya-8TH CALL KAPSOIT SOSIOT	01136053726810	395,079	
Co-operative Bank of Kenya-8TH CALL KAPKATET PSF	01136053726809	2,994,760	
Family Bank Limited - Exhauster Account	220000004636	89	221,602
Kenya Commercial Bank Limited - Refuse Account	01103618563	610,156	610,156
KCB - KCB Deposit	01104926946	1,275,838	1,275,838
KCB Revenue	01104927179	3,297,418	3,297,418
KCB Expenditure	01108396682	1,096,487	1,096,487
Post Bank Collection A/c	74413011171	223,639	116,740
Posta Collection A/c	KCHO-001		-
Equity Bank - Holding A/c	0280299023589	125,535	89,799
Equity Bank-Revenue	0530199886550	10,450	14,150
Equity Bank-Deposit	0530199886579	459,866	1,278,501
Equity Bank-Expenditure	0530299886559	154,179	9,668
Equity Bank-CLSG	0280280626407	9,497	9,497
<b>Sub- total</b>		<b>16,682,113</b>	<b>13,339,774</b>
<b>d) Others(specify)</b>			
MPESA Collection-Urban	803600	24,086	46,413
MPESA A/c charges	803600	-	307
Mpesa MMF	803600	164,553	-
MPESA Collection Kericho Rural	830590	390,215	116,020
<b>Sub- total</b>		<b>578,854</b>	<b>162,126</b>
<b>Grand total</b>		<b>17,260,967</b>	<b>13,501,900</b>

**21. Ordinary Share Capital**

	2022-2023	2021-2022
	Kshs	Kshs
<b>Authorized:</b>		
405,000ordinary shares of Kshs20 par value each	8,100,000	8,100,000
<b>Issued and fully paid:</b>		
All shares were issued and not paid		

## 22. Revaluation Reserve

In the current financial year, there were no revaluations done

	2022-2023	2021-2022
Description	Kshs	Kshs
Opening Balance	7,665,670	
Motor Vehicles	0	6,493,761
Tractor	0	1,171,909
	7,665,670	7,665,670

## 23. Retained Earnings

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

	2022-2023	2021-2022
	Kshs	KShs
Retained earnings	(154,514,478)	(110,440,251)

## 24. Borrowings

	2022-2023	2021-2022
Description	Kshs	Kshs
<b>Domestic Borrowings</b>		
Balance at beginning of the year	-	852,693
Domestic borrowings during the year	7,816,376	9,055,350
Repayments during the year	( 6,238,918)	( 9,908,043)
<b>Balance at end of the year</b>	<b>1,577,458</b>	<b>-</b>

The analyses of domestic borrowings are as follows:

	2022-2023	2021-2022
	Kshs	KShs
<b>Domestic Borrowings</b>		
Kenya Shilling loan from Family Bank	7,816,376	9,055,350
<b>Total balance at end of the year</b>	<b>7,816,376</b>	<b>9,055,350</b>



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	2022-2023	2021-2022
Description	Kshs	KShs
Short term borrowings (current portion)	7,816,376	9,055,350
Total	7,816,376	9,055,350

**25. Provisions**

Description	Leave Provision	Gratuity provisions	Total
	Kshs	Kshs	Kshs
Balance at the beginning of the year	1,804,128	6,704,942	8,509,070
Additional Provisions	3,829,646	3,635,286	7,464,932
Provision utilised	(4,143,743)	(930,610)	(5,074,353)
Balance at the end of the year	1,490,031	9,409,618	10,899,649

**Provisions details**

Description	2022-2023	2021-2022
	Kshs	Kshs
Current Portion of Provisions	7,464,932	6,875,168
Long-term portion of Provisions	3,434,717	1,633,902
Total	10,899,649	8,509,070

**26. Retirement Benefit Obligations**

Description	Defined benefit plan	2022-2023	2021-2022
	Kshs	Kshs	Kshs
Current benefit obligation	19,824,999	19,824,999	13,143,036
Non-current benefit obligation	84,387,197	84,387,197	71,244,161
Total employee benefits obligation	104,212,196	104,212,196	84,387,197

**Retirement benefit Asset/ Liability**

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 entity's obligation under the scheme is limited to specific contributions legislated from time to time and is currently at Kshs. 1,080 per employee per month. Other than NSSF the entity also has a defined contribution scheme operated by County Pension Fund, Lapfund and National Water Pension Fund. Employees contribute 7.5% while employers contribute 7.5% of basic salary. Employer contributions are recognized as expenses in the statement of financial performance within the period they are incurred

## 27. Trade and Other Payables

	2022-2023	2021-2022
	Kshs	Kshs
Trade payables		
Accrued expenses	42,217,210	37,938,082
Employee payables	569,187	569,187
Other payables	76,550,642	55,678,768
	133,642,772	125,357,339
<b>Total</b>	<b>252,979,812</b>	<b>219,543,376</b>

### Aging Analysis for Trade and Other Payables.

	2022-2023	% of the total	2021-2022	% of the total
	Kshs		Kshs	
0-30 days	25,503,159	10.08	29,532,282	13.45
31-90 days	16,383,440	6.48	10,764,315	4.90
91-150 days	16,249,708	6.42	3,966,632	1.81
Over 180 years	194,843,505	77.02	175,280,147	79.84
<b>Total</b>	<b>252,979,812</b>		<b>219,543,376</b>	

Other payables are relates to amount owed to related government entities ie Water Resources Authority, Water Services Regulatory Board, Lake Victoria Water Works Development Agency, County Government of Kericho and Bomet Water Company.

## 28. Refundable Deposits and Prepayments

	2022-2023	2021-2022
	Kshs	Kshs
Customer deposits	29,794,068	28,560,589
Prepayments by customers	4,199,767	4,974,870
Retention/Contract deposits	932,355	296,352
<b>Total</b>	<b>34,926,189</b>	<b>33,831,811</b>

### Aging Analysis for Refundable Deposits and Prepayments

	2022-2023	% of the total	2021-2022	% of the total
	Kshs		Kshs	
0-30 days	5,483,071	15.70	5,123,370	15.14
31-90 days	165,500	0.47	84,600	0.25
91-150 days	276,000	0.79	197,817	0.58
Over 180 years	29,001,618	83.04	28,426,024	84.02
<b>Total</b>	<b>34,926,189</b>		<b>33,831,811</b>	



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**29. Deferred Income**

	2022-2023	2021-2022
Description	Kshs	Kshs
	749,392	9,497
Water Fund		
Total deferred income	749,392	9,497

**The deferred Income movement is as follows**

	Water Fund(CLSG)	Total
	9,497	9,497
Balance brought forward		
Additions	12,925,275	12,925,275
Transfers to Capital fund	(11,611,417 )	(11,611,417)
Transfers to income statement	(573,963)	(573,963)
Other transfers	-	-
Balance carried forward	749,392	749,392

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

	2022-2023	2021-2022
	Kshs	Kshs
<b>(a) Reconciliation of operating profit/(loss) to cash generated from/(used in) operations</b>		
Profit or loss before tax	(44,596,875)	6,802,006
Depreciation	5,080,966	8,503,663
Amortisation	228,434	285,543
Operating profit/(loss) before working capital changes	(39,287,474 )	15,591,212
<b>Working Capital Changes</b>		
(Increase)/decrease in inventories	1,216,673	( 3,274,369)
(Increase)/decrease in trade and other receivables	(11,559,870)	( 12,997,680)
Increase/(decrease) in capital reserves	9,799,554	17,504,471
Increase/(decrease) in provisions	2,390,579	2,873,271
Increase/(decrease) in trade and other payables	33,436,436	(17,724,124)
Increase/(decrease) in current benefit obligations	6,681,963	
Increase/(decrease) in non-current benefit obligations	13,143,036	13,143,036
Increase/(decrease) in customer deposits	1,094,378	1,185,198
Increase/(decrease) in deferred Income	739,895	9,497
	56,901,500	719,301
<b>Cash generated from/(used in) operations</b>	<b>17,614,025</b>	<b>16,319,429</b>

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	2022-2023	2021-2022
<b>(b) Analysis of changes in loans</b>		
Balance at beginning of the year		852,693
Receipts during the year	7,816,376	9,055,350
Repayments during the year	(6,238,918)	(9,908,043)
Balance at end of the year	1,577,458	-
<b>(c) Analysis of cash and cash equivalents</b>		
Cash at bank	17,260,967	13,501,900
Balance at end of the year	17,260,967	13,501,900

**Other Disclosures**

**31. Related Party Disclosures**

**County Government of Kericho**

The County Government of Kericho is the principal shareholder of the Company, holding 100% of the Company's equity interest. The County of Government of Kericho 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
- County Government of Kericho
- Lake Victoria South Water Works Development Agency
- Water Services Regulatory Board (WASREB)
- Water Resources Authority (WRA)
- Water Sector Trust Fund
- Key management
- Board of directors
- Others (specify)

**Transactions with related parties**

	2022-2023	2021-2022
	Kshs	Kshs
<b>a) Sales to related parties</b>		801,585
Water sales to Govt. agencies	3,857,793	801,585
<b>Total</b>	3,857,793	



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b) Purchases from related parties	13,357,350	9,914,980
Purchase of water from govt service providers		0
Others (specify)	13,357,350	9,914,980
<b>Total</b>		
b) Grants from the Government		43,093,442
Grants from National Govt Agencies	573,963	31,814,000
Grants from County Government	14,074,564	0
Donations in kind		
<b>Total</b>	<b>14,648,527</b>	<b>74,907,442</b>
d) Key management compensation		
Directors' emoluments	2,517,460	2,911,000
Compensation to key management	14,097,396	13,495,200
<b>Total</b>	<b>16,614,856</b>	<b>16,406,200</b>

### 32. 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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<b>b) Purchases from related parties</b>		9,914,980
Purchase of water from govt service providers	13,357,350	0
Others (specify)		<b>9,914,980</b>
<b>Total</b>	<b>13,357,350</b>	
<b>b) Grants from the Government</b>		43,093,442
Grants from National Govt Agencies	573,963	31,814,000
Grants from County Government	14,074,564	0
Donations in kind		<b>74,907,442</b>
<b>Total</b>	<b>14,648,527</b>	
<b>d) Key management compensation</b>		2,911,000
Directors' emoluments	2,517,460	13,495,200
Compensation to key management	14,097,396	<b>16,406,200</b>
<b>Total</b>	<b>16,614,856</b>	

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	Total amount
	Kshs
<b>At 30 June 2023</b>	
Trade Receivables	226,089,640
Other Receivables	11,940,652
Bank balances	17,260,967
<b>Total</b>	<b>255,291,259</b>
<b>At 30 June 2022 (previous Year)</b>	
Receivables	212,301,432
Other Receivables	11,940,652
Bank balances	13,501,900
<b>Total</b>	<b>237,743,984</b>

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.

	Less than 1 month	Between 1-3 months	Over 5 months	Total
	Kshs	Kshs	Kshs	Kshs
<b>At 30 June 2023 current year</b>				42,217,210
Trade payables	3,409,038	5,514,220	33,293,953	1,577,458
Current portion of borrowings		1,577,458		10,899,649
Provisions	272,399	888,930	9,738,320	932,355
Deferred income	932,355			

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Employee benefit obligation	1,019,203	3,046,864	100,146,129	104,212,196
<b>Total</b>	<b>5,632,994</b>	<b>11,027,471</b>	<b>143,178,402</b>	<b>159,838,867</b>
At 30 June 2022 previous year				
Trade payables	4,352,698	7,559,600	25,875,785	37,788,083
Current portion of borrowings				-
Provisions	327,191	981,573	7,200,306	8,509,070
Deferred income			296,352	296,352
Employee benefit obligation	1,831,153	4,580,583	77,975,462	84,387,198
<b>Total</b>	<b>6,511,042</b>	<b>13,121,756</b>	<b>111,347,905</b>	<b>130,980,703</b>

**(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 Committee.

The Internal Audit 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.

**a) Interest rate risk**

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

**i) Management of interest rate risk**

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

**ii) Capital Risk Management**

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



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	<b>2022-2023</b>	<b>2021-2022</b>
	<b>Kshs</b>	<b>Kshs</b>
evaluation reserve	7,665,670	7,665,670
retained earnings	(154,514,478 )	( 110,440,251)
Capital reserve	66,996,639	57,197,085
<b>Total funds</b>	<b>(79,852,168)</b>	<b>( 45,577,496)</b>
Total borrowings	1,577,458	-
Less: cash and bank balances	17,260,967	13,501,900
<b>Net debt/(excess cash and cash equivalents)</b>	<b>(98,690,593)</b>	<b>(59,079,396)</b>

**33. Incorporation**

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

**34. Events After the Reporting Period**

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

**35. Currency**

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

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**19. 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

Issue/ Observations from Auditor	Management comments	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
<p><b>Undisclosed Material Uncertainty Relating to Going Concern</b></p> <p>The statement of profit or loss and other comprehensive income for the year ended 30 June 2022 revealed that the Company recorded a profit before tax of Kshs.6,802,006 which reduced the retained earnings balance from negative Kshs.117,242,257 to negative Kshs.110,440,251. Further, the current liabilities balance of Kshs.268,161,623 exceeded the current assets balance of Kshs.236,602,020 resulting to a negative working capital of Kshs.31,559,603. The Company therefore, technically insolvent and was unable to meet its financial obligations as and when they fall due.</p> <p>In the circumstances, this is an indicator of an acute financial challenge facing the Company which raises significant doubt on its ability to continue to operate as a going concern without support from the creditors and the County Government.</p>	<p>We do acknowledge that the current liabilities balances exceed the current assets balance. It is also evident that the retained earnings balance has reduced in the current financial year and we have made effort to reduce the negative working capital figure of Ksh31, 559,603 as compared to the previous financial year.</p> <p>It is important to note that Kericho Water and Sanitation Company Limited took over the operation of Tiliilbei Water and Sanitation Company and its assets and liabilities were transferred to Kericho Water and Sanitation Company Limited in the year 2018. In addition, when devolution started, Bomet Water Company took over the operations within Bomet County, which was, then under the service area of Tiliilbei Water and Sanitation Company.</p> <p>The company has been operating using two non-cost reflective distinct tariff i.e. for the urban and rural cost centre, which did not cover its costs of operations.</p> <p>Out of the negative retained earnings of Kshs.110,440,251 , a negative retained earnings Kshs 37,735,997 were transferred from Tiliilbei Water and Sanitation Company. In addition, out of the current liabilities Ksh268,161,623, Kshs 100,693,439 were transferred from Tiliilbei Water and Sanitation Company.</p> <p>In the short term we have done the following:</p> <ul style="list-style-type: none"> <li>• In the current financial year, we managed to reduce trade and other payables through a grant Kshs 43,093,442 and also the County Government of Kericho gave a subsidy support totalling Kshs 31,814,000 for bulk water and electricity bills</li> </ul> <p>In the long term we intend to do the following:</p> <ul style="list-style-type: none"> <li>• Follow up on the deed of transfer signed stating the asset and liabilities that were shared by the Bomet Water Company and Tiliilbei Water and Sanitation Company. In the deed of transfer Kshs 25,073,379 of the outstanding liabilities as at 30<sup>th</sup> June 2018 was to be paid by Bomet Water Company. We have issued written reminders to Bomet County in</li> </ul>	Unresolved	Ongoing



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	<p>regards to the outstanding trade and other payables</p> <ul style="list-style-type: none"> <li>In addition, during the takeover of Tililbei Water and Sanitation Company, Water Services Regulatory Board gave several conditions to be undertaken before the takeover and one of them was the County Government of Kericho being the sole shareholder of the two entities to undertake and settle all the liabilities borne by Tililbei Water and Sanitation Company and a subsidy support agreement was signed. Liabilities amounting to Kshs 65,491,846 was to be paid by the county one off and a continuous monthly payment support for bulk water supply and electricity bills for Tililbei Water and Sanitation Company. A reminder to the County Government of Kericho has been issued to remit the subsidy support as per the subsidy support agreement/</li> <li>A tariff review has been done and the company currently has a new tariff which was rolled out in month of March 2023. With the new tariff we expect an increase in operating revenues</li> </ul> <p>Last mile connectivity: With the completion of Duka Moja Project under the CLOT 3 last mile connectivity is key. Proposals on funding have been developed and submitted to various development partners including the embassy of Japan who have signed an agreement to do last mile connectivity at Ainamoi Area and Belgut Technical Training Institute</p>																																					
<p><b>Long Outstanding Debtors</b></p> <p>The statement of financial position and as disclosed in Note 19 (a) to the financial statements reflects Kshs.217,008,449 relating to trade and other receivables. An ageing analysis reflected in Note 19 (b) indicates that out of Kshs.217,008,449, an amount of Kshs.203,255,899 had remained uncollected for a long period and no provision for bad debts has been reported in the financial statements. The Management did not provide any evidence of any attempts made towards recovery of the debts.</p> <p>In the circumstances, the recovery of the long outstanding debts amounting to Kshs.203,255,899 is doubtful.</p>	<p>We have a long outstanding debt of Kshs.203,255,899. The debtors balances comprises of debts for various water supply schemes as shown below.</p> <table border="1"> <thead> <tr> <th>Scheme</th><th>Amount(Kshs)</th><th>Status</th></tr> </thead> <tbody> <tr> <td>Kericho Urban</td><td>69,870,262</td><td>Operational</td></tr> <tr> <td>Chesimende</td><td>3,568,503</td><td>Non-operational</td></tr> <tr> <td>Fortenan</td><td>3,898,110</td><td>Operational</td></tr> <tr> <td>Sossiot</td><td>3,223,944</td><td>Operational</td></tr> <tr> <td>Kipkelion</td><td>1,173,069</td><td>Operational</td></tr> <tr> <td>Kapkatet</td><td>14,880,840</td><td>Operational</td></tr> <tr> <td>Kipsitet</td><td>6,515,347</td><td>Operational</td></tr> <tr> <td>Bargeywet</td><td>2,563,525</td><td>Non-Operational</td></tr> <tr> <td>Londiani</td><td>3,787,307</td><td>Operational</td></tr> <tr> <td>Litein</td><td>27,185,708</td><td>Operational</td></tr> <tr> <td>Sigowet</td><td>212,620</td><td>Non-Operational</td></tr> </tbody> </table>	Scheme	Amount(Kshs)	Status	Kericho Urban	69,870,262	Operational	Chesimende	3,568,503	Non-operational	Fortenan	3,898,110	Operational	Sossiot	3,223,944	Operational	Kipkelion	1,173,069	Operational	Kapkatet	14,880,840	Operational	Kipsitet	6,515,347	Operational	Bargeywet	2,563,525	Non-Operational	Londiani	3,787,307	Operational	Litein	27,185,708	Operational	Sigowet	212,620	Non-Operational	<p>Unresolved</p> <p>Continuous</p>
Scheme	Amount(Kshs)	Status																																				
Kericho Urban	69,870,262	Operational																																				
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Bomet	45,490,212	Non- Operational
Vat Recoverable	8,782,552	
Staff Receivables	163,247	
Other Receivables	11,940,652	
	<b>203,255,899</b>	

From the table above the rural cost centre covers Chesinende , Fortenan, Sosiot ,Kipkelion , Kapkatet ,Kipsitet, bargeywet, Londiani, Litein ,Sigowet and Bomet schemes having a total debt of Kshs 112,499,186 while the urban cost centre has a debt of Kshs 69,870,262.Out of Kshs 112,499,186 of the rural cost centre Kshs 45,490,212 relates to debtors in Bomet County. Sigowet, Bargieywet and Chesinende schemes are no longer operational and have a total debt of Kshs 6,344,648. Included in other receivables is Kshs 8,100,000 debt, which belongs to the County Government of Kericho and Kshs 3,840,652 as Performance Guarantee to the Water Service Regulatory Board.

Litein Water Supply serving Litein and Kapkatet Areas has had inconsistencies in water supply due to frequent disconnections of bulk water supply. Additionally, Londiani, Kipkelion and Sosiot Schemes there has been inconsistencies in water supply due to power disconnections. With inconsistencies in water supply, revenue collection is difficult thus increase in debt.

With frequent damages and destruction of main pipeline network at some sections by road construction activities, the company loses customers and is not to bill and collect outstanding debts Chairman, in the short term in an effort to reduce the outstanding water we have the done the following:

- Development of a debt management policy
- Revenue collection strategies have also been put in place to ensure that debts have reduced. Establishment of revenue teams headed by a team leader is in place. Revenue collection is done as per the work plans developed by the team leaders and this has led to reduction in debt in some zones .
- Disconnection of Customers from the main pipeline for dormant customer accounts.
- Adhering to the rationing program to reduce on no water cases. This will improve water supply consistency which in turn increases collection and billing



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<p><b>Unsupported and Doubtful Other Receivables</b></p> <p>The statement of financial position reflects Kshs.217,008,449 in respect to trade and other receivables which, as disclosed in Note 19 to the financial statements includes VAT recoverable and other receivables balances of Kshs.8,782,552 and Kshs.11,940,652 respectively. However, as reported in the prior year audit report, the Kshs.8,782,552 was not supported with any documentation from Kenya Revenue Authority (KRA) and Kshs.8,100,000 out of the reported Kshs.11,940,652 relates to purchase of share capital by the County Government of Kericho which had not been paid for and has not been supported by share certificate and an undertaking from the County Government to pay the amount.</p> <p>In the circumstances, the recoverability of the reported VAT recoverable and other receivables balance of Kshs.16,882,552 could not be confirmed</p> <p><b>Frozen Bank Accounts</b></p> <p>The statement of financial position and as disclosed in Note 20 to the financial statements, reflects a balance of Kshs.13,501,900 in respect to bank and cash balances. However, bank balances amounting to Kshs.5,669,743 in three (3) Kenya Commercial Bank accounts were in frozen due to litigation. The operations of the Company were hindered during the year under review as the amount was not available to the company.</p> <p>In addition, it is not clear, and management has not indicated when and how the case will be determined.</p> <p>In the circumstances, the recoverability of the indicated bank balances amounting to Kshs.5,669,743 could not be confirmed.</p>	<ul style="list-style-type: none"> <li>• Frequent Rapid Result Initiative to collect revenue which reduced debt.</li> <li>• Restoration of Water Supply. We have managed to restore along Kapteswet –Kipsolu road.</li> </ul> <p>In the long term, we intend to the following:</p> <ul style="list-style-type: none"> <li>• Fully implement the debt management policy</li> <li>• Support the effort by the joint interim on the management of Litein Water Supply to ensure that there is a permanent solution on bulk water disconnections.</li> <li>• Collaborate with roads department to ensure there is budgetary allocation for pipeline restoration in affected areas.</li> </ul> <p>1.</p> <p>The amount of VAT Receivable resulted when water services were VAT exempt and input vat was claimable. Previously claims were done and the same refunded. The VAT Receivable amount is currently in discussion with the KRA Kericho Office</p> <p>On the share capital a reminder letter to the pay share capital has been sent the County Government</p>	<p>Unresolved</p> <p>30<sup>th</sup> June 2024</p> <p>Unresolved</p> <p>Continuous</p>
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Budgetary Control and Performance	The company did not achieve its budget targets in the financial year	Unresolved	Continuous
<p><b>Budgetary Control and Performance</b></p> <p>The statement of comparison of budget and actual amounts reflects a final receipts budget and actual receipts on a comparable basis of Kshs.402,779,269 and Kshs.257,687,818 respectively resulting to an under-funding of Kshs.145,091,451 or 36% of the budget. Similarly, the company expended Kshs.313,591,293 against an approved budget of Kshs.381,898,002 resulting to an under-expenditure of Kshs.68,306,709 or 18% of the budget.</p> <p>Failure to achieve budget implies that the Company was unable to achieve its set targets, which is delivery of service to the people of Kericho.</p>	<p>In the case of receipts, revenue is categorized into three sources i.e. the operating revenue, grants income and other income. Out of the performance difference Kshs 55,968,651, the urban cost centre had a variance of Kshs 35,349,977 while the rural cost centre had a variance of Kshs 19,657,131, while billings for other services contributed Kshs 961,583 out of which reconnection fees had a variance of Kshs 522,800.</p> <p>In the financial year, revenue projects were done in consideration of the already reviewed tariff which was anticipated to take effect in the second quarter of that financial year but it took longer. In addition, the various schemes were affected by the prolonged droughts reducing the water available for sale, bulk water disconnections at Litein and Kapkatet areas, power disconnections at Londiani, Kipkelion and Sisiot schemes.</p> <p>On the other hand expenses realization goes hand in hand with the income budgeted. The whole budget was not realized due to the above factors.</p> <p>To mitigate the variance, a review of the budget will be done mid financial year</p> <p>We acknowledge that NRW is higher than the allowable which is 28% above the 25% recommended by Water Services Regulatory Board (WASREB).</p> <p>The major causes of high NRW in the Company are physical losses and commercial losses. Physical losses are due to leakages, bursts and overflows through the existing old pipeline supply network while commercial losses are mainly due to metering anomalies and illegal connections.</p> <p>We have done the following in an effort to reduce NRW.</p> <p>In the short term we have done the following:</p> <ul style="list-style-type: none"> <li>• Standard Operating Procedures(SOPs): We have developed standard operating procedures for NRW Management.</li> <li>• We have developed NRW reduction plan. (annex plan)</li> <li>• Re-aligned the NRW Unit into two main teams: one dealing with bursts and leaks and the other dealing with meter servicing, meter and pipeline replacements, meter calibration, terminating cut off accounts and illegal connections. This unit is headed by a supervisor</li> <li>• Meter Replacement. The latest being of 1200 Nos. meters for the Sub District Metered Areas (DMAs) –Mortgage, Majengo and the 116 Nos. top consumers. This was done partly through the support of Gatsby Africa</li> <li>• Burst and leaks repairs. Leaks and bursts repairs are being done on time and recorded to enable us prioritize on areas that need pipe replacement.</li> <li>• NRW Interdepartmental Committee: We have also established an NRW Committee which comprises of members selected from all the</li> </ul>		
<p><b>Non-Revenue Water Management</b></p> <p>Review of water production records revealed that the Company produced a total of 3,645,781 cubic meters (m<sup>3</sup>) of water, out of which 1,729,915 m<sup>3</sup> was billed to customers for a total of Kshs.122,901,729. The balance of 1,915,866 m<sup>3</sup> or approximately 53% of the total volume produced represented non-revenue water which was 28% over the allowable loss of 25% in the guidelines issued by the Water Services Regulatory Board (WASREB).</p> <p>The significant level of non-revenue water of 1,004,421 m<sup>3</sup> at an average billing rate of Kshs.72 per m<sup>3</sup> may have resulted in loss of sales estimated at Kshs.72,318,312 which has a negative impact on the Company's profitability.</p> <p>In the circumstances, Management was in breach of the WASREB Guidelines and may not have officially utilized the resources at the Company's disposal.</p>			



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<p><b>Non-compliance with Public Finance Management Fiscal Responsibility Principles</b></p> <p>The statement of profit or loss and other comprehensive income and as disclosed in Note 10 to the financial statements reflects expenditure of Kshs.163,953,017 on staff costs which represents 63.6% of the total revenue of Kshs.257,687,818. This is contrary to Regulation 25(1)(b) of the Public Finance Management (County Governments) Regulations, 2015, which requires the County Governments expenditure on wages and benefits for its public officers to be limited to 35% of the total revenue.</p> <p>In the circumstances, the Company Management was in breach of the law.</p>	<ul style="list-style-type: none"> <li>departments that review and track NRW Reduction activities.</li> <li>We are partnering with the Water Police Unit to deal with defaulters, illegal connections and water theft</li> <li>Carry out Customer Identification Survey( CIS</li> </ul> <p>In the long term, we intend to fully implement the NRW Reduction Plan as follows.</p> <ul style="list-style-type: none"> <li>A meter testing bench shall be procured and delivered under the KFW long term expansion program CLOT 3 . This will be used to ensure that all meters are accurate in line with NRW management SOP.</li> <li>Last Mile connectivity: Implementation of last mile connectivity to Sosit ,Belgut and Ainamoi areas in our service areas . This will increase on billing and reduction of NRW in the Long term</li> <li>Meter Replacement: As a company, we intend to procure 500No meters for replacement every financial year to ensure meter efficiency.</li> </ul>	<p>Unresolved</p>	<p>Continuous</p>
<p><b>Non-Compliance with the One-Third of Basic Salary Rule</b></p> <p>During the year, it was noted that eleven (11) employees earned a net salary of less than a third (1/3) of their respective basic salaries contrary to Section C.1(3) of the Public Service Commission (PSC) Human Resource Policies and Procedures Manual for the Public Service, 2016, which requires that deductions should not exceed a third</p>	<p>We acknowledge that the company has high expenditure on staff costs. Out of kshs 163,953,017 on staff costs kshs 128,083,248 relates to gross salary and allowances for employees and kshs12,743,542 relates to employers contribution to the pension schemes.</p> <p>During the financial year, production was largely affected by disconnections of bulk water supply and power bills and prolonged drought. The use of a non-cost reflective tariff also contributed to the reduced revenue. The company has a collective bargaining agreement in place in regards to staff costs. In addition, most of the staff were inherited from the defunct municipal council and National Water and Pipeline Corporation.</p> <p>In the short term we have always encouraged our staff to go on early retirement. In this financial year, we have had 2No staff request for early retirement.</p> <p>Additionally we are not replacing staff who have retired and minimize on overtime.</p> <p>In addition to the above ,we are working on reducing NRW further which will allow the company to increase its operating revenue. (refer above) The implementation if the new tariff will also largely contribute to operating revenue.</p> <p>Employees are members of savings and credit cooperatives societies (SACCO'S), and the SACCO's approve loans based on guarantors whom the company doesn't have any control over on the a third rule. The same is later sent to the company to deduct which results in the non-compliance.</p>	<p>Unresolved</p>	<p>Continuous</p>

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<p>of the basic pay.</p> <p>In the circumstances, the Management contravened Section C.1(3) of the Public Service Commission (PSC) Human Resource Policies, 2016 and this may expose the staff to pecuniary embarrassment</p>													
<p><b>Non-Compliance with Law on Ethnic Composition</b></p> <p>During the year under review, the total number of employees of the Company was one hundred and seventy-nine (179) out of which one hundred and seventy-three (173) or 96% of the total number were members of the dominant ethnic community in the county. This is contrary to Section 7(1) and (2) of the National Cohesion and Integration Act, 2008 which states that, all public offices shall seek to represent the diversity of the people of Kenya in the employment of staff and that no public institution shall have more than one-third of its staff establishment from the same ethnic community</p>	<p>Staff working at the Company were staff transferred from the defunct Municipal Council of Kericho and the former National Water and Pipeline Corporation and Conservation therefore major recruitment was done before devolved units of Government came into place. However, as we recruit we endeavour to balance the same to reflect the provisions of the National Cohesion and Integration Act 2008</p>												
<p><b>Unremitted Retirement Benefits Obligations</b></p> <p>The statement of financial position and as disclosed in Note 26 to the financial statements reflects a balance of Kshs.13,143,036 on current retirement benefit obligations and a balance of Kshs.71,244,161 on non-current retirement benefit obligations. During the audit it was noted that the Company had not remitted employee retirement deductions amounting to Kshs.84,387,167 as detailed below:</p> <table><tr><th>Details</th><th>Amount (Kshs)</th></tr><tr><td>Provident Fund</td><td>61,760,403</td></tr><tr><td>National Water and Pipeline Corporation</td><td>11,955,943</td></tr><tr><td>Lap Fund</td><td>10,670,821</td></tr><tr><td><b>Total</b></td><td><b>84,387,167</b></td></tr></table> <p>Failure to remit statutory deductions is a breach of the law and may attract penalties and fines to the Company, which will continue to increase liabilities. No provision for the fines and penalties has been factored in these financial statements. Non-remittance of retirement benefit obligation also denies the retirees the due benefit exposing them to unwarranted suffering.</p>	Details	Amount (Kshs)	Provident Fund	61,760,403	National Water and Pipeline Corporation	11,955,943	Lap Fund	10,670,821	<b>Total</b>	<b>84,387,167</b>	<p>We acknowledge that the company has not remitted retirement benefit obligations. The company has been facing financial challenges due to inconsistent water supply and non-cost reflective tariff.</p> <p>Out of Kshs 84,387,167 , Kshs 14,773,017 were inherited from Tililbei Water and Sanitation Company.</p> <p>Currently we are implementing a new tariff and our forecasts would allow us to reduce on the same gradually over time.</p> <p>Lastly we have a request to the County Government of Kericho to support us clear the outstanding amount.</p>		
Details	Amount (Kshs)												
Provident Fund	61,760,403												
National Water and Pipeline Corporation	11,955,943												
Lap Fund	10,670,821												
<b>Total</b>	<b>84,387,167</b>												
<p><b>Unremitted Statutory Deductions</b></p> <p>The statement of financial position reflects trade and other payables balance of</p>	<p>We acknowledge the existence of Employee payables amounting to Kshs55,678,768 in relation to employees' salaries. The company has been facing financial</p>												



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Kshs.224,814,598 which, as disclosed in Note 27 to the financial statements includes employee payables of Kshs.55,678,768 which comprises of unremitted Pay As You Earn tax of Kshs.16,997,425, NSSF Kshs.99,854, NHIF Kshs.439,470, salary arrears Kshs.23,122,985 and other deductions amounting to Kshs.15,321,005 relating to Sacco deductions and loan repayments. Management indicated that failure to submit the statutory deductions was occasioned by lack of funds.  
 Failure to pay statutory deductions is breach of the law and it continues to attract penalties, which continues to increase liabilities to the Company.

challenges due to inconsistent water supply and non-cost reflective tariff.  
 The amounts for NSSF Kshs.99,854, NHIF Kshs.439,470 were for the month of June 2022. The amount in relation to PAYE of Kshs 16,997,425, kshs 1,721,401 is June 2022 salaries. The balance of kshs 15,276,024 relates to the financial year 2012/2013 when a CBA was implemented and the amount was due to accumulated arrears.  
 Other Deductions amounting to Kshs 15,329,005 are loans deductions, insurances, net salaries.  
 Salary arrears of Kshs.23,122,985 resulted from an outstanding Collective Bargaining Agreement which is yet to be implemented.  
 In the short term, the amounts relating to June 2022 PAYE, NSSF, NHIF, Other deductions were paid  
 For the PAYE balance a discussion with KRA on the same on modalities of entering into part payment agreement to clear the same

Name :Kibii Chepkwony Siele

Signature 

Managing Director

Date.....

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**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)
Kapsoit- Sosiot Water Pipeline Project		Water Fund	6months	84%	Yes	Yes
Kapkatet Public Sanitation Facility	08S/KERICHO/KERICHO/20	Water Fund	6months	84%	Yes	Yes

**Status of Projects completion**

	Project	Total project Cost	Total expended to date	Completion % to date	Budget	Actual	Sources of funds
1	Kapsoit- Sosiot Water Pipeline Project	19,348,515	8,892,208	80%	19,348,515	8,892,208	Water Fund and Kewasco
2	Kapkatet Public Sanitation Facility	6,199,219	96,307	1%	6,199,219	96,307	Water Fund and Kewasco



**Appendix III: Recording of Transfers from Other Government Entities**

Name of the County/MDA/Donor 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	
Water Fund	09/03/2023	Development	6,191,525	0	5,714,113	477,412	0	0	0
Water Fund	18/05/2023	Development	1,983,750	573,963	1,149,946	259,841	0	0	0
Gatsby Africa /Donor	11/01/2023	Development	4,750,000	0	4,747,358	2,642	0	0	0
<b>Total</b>			<b>12,925,275</b>	<b>573,963</b>	<b>11,611,417</b>	<b>739,895</b>			

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