

REPUBLIC OF KENYA



Enhancing Accountability

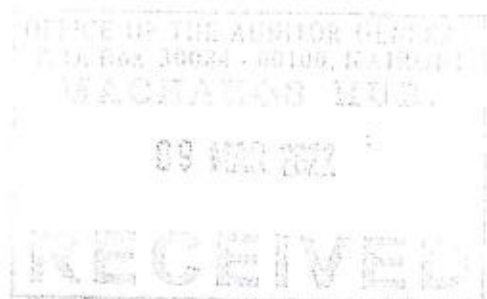
REPORT	
THE NATIONAL ASSEMBLY	
DATE: 15 NOV 2022	DAY: TUESDAY
TABLED BY:	Hon. Silvanus Oloro, MP Chief Whip Majority
CLERK-AT THE TABLE:	Hadiina Suleiman

THE AUDITOR-GENERAL

ON

**KATHIANI WATER AND SANITATION
COMPANY LIMITED**

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



KATHIANI
WATER & SANITATION
COMPANY

KATHIANI WATER AND SANITATION COMPANY LIMITED

ANNUAL REPORTS AND FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED

JUNE 30, 2021

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

 THE NATIONAL ASSEMBLY P. O. BOX 30024, NAIROBI	
DATE: 15 NOV 2022	
DAY: Tuesday	
TABLED BY:	Hon. Silvanus Odingo, MP
CLERK-AT-THE-TABLE:	Chief Whip Majority Halima Suleiman

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I. KEY ENTITY INFORMATION

Background information

The Kathiani Water and Sanitation Company Limited was established by the State Corporations and Water Act 2002 of Parliament on 29th April, 2014. At cabinet level, the Kathiani Water and Sanitation Company Limited is represented by the Cabinet Secretary for Water and Irrigation who is responsible for the general policy and strategic direction of the Kathiani Water and Sanitation Company Limited. The Kathiani Water and Sanitation Company Limited is domiciled in Kenya and has branch in Kathiani Sub- County.

Principal Activities

The principal activity of the Kathiani Water and Sanitation Company Limited is provision of portable water services for the residents of Kathiani and environs.

Directors

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

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

S/No	Name	Designation	Date of Appointment
1.	Franklin M. Makola	Chairman	16 th August, 2018
2.	George K. Wambua	Member	16 th August, 2018
3.	Philip M. Ndolo	Member	16 th August, 2018
4.	Mary S. Kiilu	Member	16 th August, 2018
5.	Florence M. David	Member	16 th August, 2018

Registered Offices

Kathiani Water and sanitation co. ltd
Opposite Deputy Commissioners' office, Kathiani Sub county
Kathiani Town.
P.O Box 38-90105
Kathiani

Corporate Headquarters

Opposite Deputy Commissioners' office
Kathiani Town

Corporate Contacts

Telephone: 0712864617- Managing Director
0733424980- Office
E-mail: kathianiwat@gmail.com

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Corporate Bankers

1. Co-operative Bank
Machakos Branch
Machakos
2. Equity Bank
Machakos Branch
Machakos

Independent Auditors

Auditor General
Kenya National Audit Office
Anniversary Towers, University Way
P.O. Box 30084
GOP 00100
Nairobi, Kenya

Principal Legal Advisers

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

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II THE BOARD OF DIRECTORS

S/NO.	NAME	PROFFESION/ACADEMIC QUALIFICATIONS	WORK EXPERIENCE	AGE
1	 Franklin Musila Makola	Masters in International relations and governance	Business Man / Chair Administration and Human resource committee	53
2	 Johnbosco Nyamai Malelu	Diploma in Water Technology	Civil Servant	54
3	 George Kyalo Wambua	Bachelor of arts, Education	Retired Secondary school Principal / Chair Audit and finance committee	61
4	 Philip Ndolo Mutua	Diploma in Leadership and Management	Business Man	62
5	 Mary Syombungu Kiilu	K.C.E Certificate	Business Lady/ Chair technical committee	62

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6	 Florence Mwikali David	Certificate in Education 'O' Level	Business Lady	62
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III MANAGEMENT TEAM

S/NO.	NAME:	PROFFESION/ACADEMIC QUALIFICATIONS	AREA OF RESPONSIBILITY
1	 Johnbosco Nyamai Matetu	Diploma in Water Technology	Managing Director
2	 Erick Nihenge Kabita	Diploma in Water	Technical Manager
3	 Jane Nzili Muya	Diploma in Procurement	Procurement Officer / Customer care

IV CHAIRMAN'S STATEMENT

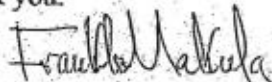
I am pleased to welcome you all to this year financial report and give highlights of our company performance and endeavour's. The year 2020/21 was a year of whereby the company faced challenges that affected the overall performance negatively. During the time under review, the company faced massive pipes theft that resulted to company spending huge amount of money to replace the stolen pipes. The matter of theft is being handled by the

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police in Kathiani after reporting of various incidents. Then covid-19 pandemic which affected customer bill payments all the way to the end of the financial year. Despite all this challenges the staff were commitment to work

On behalf of Board of Directors, I wish to congratulate all staff members and board of directors for hard work in the year under review despite so many challenges. I do acknowledge our well-wishers and stake holders for their support.

Thank you.



FRANKLIN MAKOLA – CHAIRMAN BOARD OF DIRECTORS
KATHIANI WATER & SANITATION CO. LTD

DATE: 3/3/2022

V REPORT OF THE MANAGING DIRECTOR

As the company continue to fulfil its mandate by providing water to the residents of Kathiani sub-County we are also focused on fulfilling the County objective of having piped water in every homestead in our region. The County water programme in infrastructure development ie, drilling of boreholes is a key to helping the Company meet its mandate.

The demand for water in Kathiani continues to increase as the population grows. This has resulted to up-coming of small urban areas leading to urbanization. As a company we are putting more efforts in reduction of Non-Revenue Water (NRW) by increasing efficiency mostly on pipe burst repair, response by all staff whether in management and on field operation and the consumers education to reporting of burst or damaged pipes. In the period under review the company faced challenge in theft of galvanized iron pipes. Given the terrain of Kathiani, the galvanized iron pipes form more than 50% because of rocky area and steepness. The theft caused the company non-revenue water to rise because it was being carried at night when monitoring of pipeline by patrolling is very minimal

While it's clear that utilization of available resources is key, it's key to note that some of the infrastructure in Kathiani Water & Sanitation Co. Ltd (KAWASCO) were done in the year 1984-1987. They have outlived their design period which is normally twenty (20) years from works completion date. This has resulted to high operations and maintenance cost due to periodic burst and at time complete replacement of some lines and replacement of stolen pipes.

This year we have experienced two major challenges that affected the overall performance negatively. The theft of GI pipes as explained above and low customer bills payment due to cash flow challenges brought about by covid-19 pandemic. We had reduced collection resulting to the company not being able to do some of the activities as outlined in the budget. There was also road construction in our area of jurisdiction and vandalism / theft of GI pipes. This has resulted to the Company spending sizable amount of money in replacement of the pipes.

The company has written proposals for funding for rehabilitation of the old infrastructure to curb NRW to various bodies including Water Trust Fund, County Government of Machakos and World Bank but none of the proposals has been considered to date. We hope in the coming financial year some funding will be coming our way.

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Kathiani Water and Sanitation Company Ltd (KAWASCO) would like to congratulate County Government of Machakos for continuously supporting our development by drilling boreholes, partners, stakeholders, our esteemed consumers (Customers) and board directors / staff for making this year successful despite the challenges.



JOHNBOSCO MALELU

MANAGING DIRECTOR

Date: 2/2/2022

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

Kathiani Water and Sanitation Company Limited has 6 strategic pillars/ themes/issues and objectives within the current Strategic Plan for the FY 2021- FY 2024. These strategic pillars/ themes/ issues are as follows:

S/NO	PILLAR	THEME	ISSUES
1	Rehabilitation of water source	Muoni dam rehabilitation	-Removal of silt in the reservoir area -Embankment increase by 2m
2	Repair and maintenance of existing infrastructure	Maintenance of existing infrastructure	-Maintain treatment works -Maintain pumps and accessories -Maintain pipelines -Maintain storage tanks -Maintain office and buildings and furniture's
3	Argumentation of treatment works	Treatment works improvement.	-Rehabilitate existing treatment works -Acquire land for expansion of treatment works -Construct new horizontal full treatment works

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4	Pipeline extension	Connection to new consumers	-DN 80 mm diameter to Kauti area 2.5km -DN 100 mm to Ngiini area 4km -DN 100mm to Misumi area 4.5km
5	Argumentation of existing infrastructure	Improvement of existing pipeline	-Change main distribution line from 6" to 10" diameter -Change Lubwa line from 3" to 6" 8km -Change all pipeline from GI to HDPE, PPR to avoid periodic vandalism of metallic pipes to scape metal dealers.
6	ICT	Improvement of accounting and billing system	Change from manual to system aided

Kathiani Water and Sanitation Company Limited develops its annual work plans based on the above pillars/Themes/Issues. Assessment of the Board's performance against its annual work plan is done on a quarterly basis. The company achieved its performance targets set for the FY 2020/2021 period for its 2nd strategic pillars, as indicated in the diagram below:

Strategic Pillar/Theme/Issues	Objective	Key Performance Indicators	Activities	Achievements
Repair and maintenance of existing infrastructure	Maintenance of existing infrastructure	-Maintained and working pipeline, treatment works, office block	-Maintain treatment works -Maintain pumps and accessories -Maintain	People of Kathiani were able to get wholesome water during the period of 2020- 2021

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			pipelines -Maintain storage tanks -Maintain office and buildings and furniture's	
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VII CORPORATE GOVERNANCE STATEMENT

In the year under review, the company managed held four board meeting. In all these meetings all board members were in attendance. The board members were all appointed by his Excellency, the Governor for Machakos County, Dr. Alfred N. Mutua on 16th August, 2018 for a serving period of three (3) years. The appointing authority has the power to remove any board members who breaches the laid down conduct.

The roles and functions of the board members include but not limited to policy formulation of the company, direct the management on finance, human resources recruitment, projects to be under taken, etc.

The board of directors have advised the management team well, hence improving the company performance.

Board members remunerations are based on the meetings attendance. These include board meetings, committee meeting, visit to project's sites, and meetings called by the County Government (Governor or County Executive Member of Water and Chief Officer, Water). In all these meetings they are entitled to Ksh. 10,000 for members of Board and Ksh. 12,000 for the Board chairman.

JOHNBOSCO MALELU

MANAGING DIRECTOR



Date: 2/2/2022

VIII MANAGEMENT DISCUSSION AND ANALYSIS

In the year under review, we managed to operate fairly well given the challenges we underwent. We managed to produce 100541 cubic meters of water at a cost of Ksh 14,211,553. Billed 70381 cubic meters which amounted to Ksh. 9,559,672. The amount of water lost through leaks and commercial losses amounted to 30160 cubic meters. The total collection for the year 2020/2021 was Ksh. 8,353,221.

In the financial year, 2020 / 2021, the company didn't have special projects. We only concentrated on maintenance of water supply system and operations.

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Major risks facing our organization include the following:

- a) Siltation of Muoni dam which is the only source of water for Kathiani water supply
- b) Vandalism of pipeline / water meters theft resulting to replacement requirement that are not planned for.
- c) Increased population which demands expansion of the pipeline system, treatment works and storage tanks

We have prepared proposal for funding and send to relevant bodies; County Government, National Government and other donor agencies but to date none of the agencies has responded positively.

On statutory obligation, the Kathiani Water and Sanitation Company Limited continued to pay as required for pay as you earn (PAYE) for the company employees, NSSF, and NHIF.

IX ENVIRONMENTAL AND SUSTAINABILITY REPORTING

Kathiani Water and Sanitation Company Limited exists to transform lives. This is our purpose; the driving force behind everything we do. It's what guides us to deliver our strategy, putting the customer/Citizen first, delivering relevant goods and services, and improving operational excellence. Below is an outline of the organisation's policies and activities that promote sustainability.

i) Sustainability strategy and profile -

Kathiani Water and Sanitation Company Limited has over the years preserved the existing forest downstream of our water source and planted more tree. The county Government of Machakos has provided seedlings to the community for planting during rain season to improve on the existing forest cover.

ii) Environmental performance

Kathiani Water and Sanitation Company Limited has endeavoured to conserve environment. This is evident from the thick forest cover maintained in our water source area of Muoni dam. The challenges being experience while conserving the environment include cutting down of trees by unknown community people at night, cultivation on the river banks leading to dam siltation and soil erosion on the river banks. The county government of Machakos has embarked of weir construction across the streams, a process which is improving the amount of water in the streams and check on soil erosion. This has improved the quality of water reaching the dam hence reducing on chemical uptake in the treatment works

iii) Employee welfare

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Kathiani Water and Sanitation Company Limited guiding policy in hiring workers is of fairness to all. Opportunities when they arise are advertised and interviews are called to all who apply and are conducted in broad day light. Gender ratio is also taken into consideration whenever opportunities are filled.

During public sensitization meeting the local communities are reminded to apply for any opportunity that arises and are adequately consulted and involved. Advertisement are posted in the community notice board, in market centres and in chief's offices.

Workers are always reminded to keep safety of each. The motorbike is insured to ensure the riders safety are taken care of during working hours.

iv) Market place practices-

a) Responsible competition practice.

Kathiani Water and Sanitation Company Limited ensures it follows the gazetted water rates apply to all its customers. The managing directors telephone number is on all water bill to ensure the customers can complain directly whenever an issue arises. We don't align to any political movement and we serve all customers equally. Political activities are kept out of company activities. All other water stakeholder are free to operate so long as they are registered with the company for quality compliance.

b) Responsible Supply chain and supplier relations

Kathiani Water and Sanitation Company Limited has had good working relations with our suppliers. We only buy what the company can effectively pay in time. We pay our suppliers in time and whenever we cannot we explain to them the expected date of payment.

c) Responsible marketing and advertisement

Kathiani Water and Sanitation Company Limited advertises annually for goods and services required. Suppliers are selected based on their quotations for each and awarded accordingly with an eye on product market value.

d) Product stewardship

Corporate Social Responsibility / Community Engagements

Kathiani Water and Sanitation Company Limited safeguards consumer right by ensuring water supplied is treated distributed safely to consumers via pipelines. Any burst or pipe destruction is repaired to ensure no contamination during delivery. Water at consumer point is sampled and tested for compliance.

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Water is sold in the water kiosk to consumers who cannot afford house connection. This ensures water is available to all at affordable rates. The 20 liter jerrican is sold at 3/-

JOHNBOSCO N. MALELU
MANAGING DIRECTOR

Date:

X REPORT OF THE DIRECTORS

The Directors submit their report together with the audited financial statements for the year ended June 30, 2021 which show the state of the Kathiani Water and Sanitation Company Limited affairs.

Principal activities

The principal activities of the entity are (continue to be) provision of portable water services for the residents of Kathiani and environs.

Results

The results of the entity for the year ended June 30, 2021 are set out on pages i. Below is summary of the profit or loss made during the year. In the year under review the company made a profit of Kshs 1,625,537

Dividends

The Directors do not recommend the payment dividends for the year 2020/2021

Directors

The members of the Board of Directors who served during the year are shown on page vi. All board members are serving their first term of appointment, hence none of them retired in the year under review.

Auditors

The Auditor General is responsible for the statutory audit of the Kathiani Water and Sanitation Company Limited in accordance with Article 229 of the Constitution of Kenya and the Public Audit Act 2015.

By Order of the Board



JOHNBOSCO N. MALELU
MANAGING DIRECTOR

Date: 23/06/2022

XI STATEMENT OF DIRECTORS' RESPONSIBILITIES

Section 81 of the Public Finance Management Act, 2012 and Section 81 of the Public Finance Management Act, 2012 and (section 14 of the State Corporations Act, require the Directors to prepare financial statements in respect of that Company, which give a true and fair view of the state of affairs of the Company at the end of the financial year/period and the operating results of the Company for that year/period. The Directors are also required to ensure that the Company keeps proper accounting records which disclose with reasonable accuracy the financial position of the Company. The Directors are also responsible for safeguarding the assets of the Company.

The Directors are responsible for the preparation and presentation of the Company's financial statements, which give a true and fair view of the state of affairs of the Company for and as at the end of the financial year (period) ended on June 30, 2021. This responsibility includes: (i) maintaining adequate financial management arrangements and ensuring that these continue to be effective throughout the reporting period; (ii) maintaining proper accounting records, which disclose with reasonable accuracy at any time the financial position of the entity; (iii) designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of the financial statements, and ensuring that they are free from material misstatements, whether due to error or fraud; (iv) safeguarding the assets of the Company; (v) selecting and applying appropriate accounting policies; and (vi) making accounting estimates that are reasonable in the circumstances.

The Directors accept responsibility for the Company's financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity with International Financial Reporting Standards (IFRS), and in the manner required by the PFM Act, 2012 and the State Corporations Act. The Directors are of the opinion that the Company's financial statements give a true and fair view of the state of Company's transactions during the financial year ended June 30, 2021, and of the Company's financial position as at that date. The Directors further confirm the completeness of the accounting records maintained for the Company, which have been relied upon in the preparation of the Company's financial statements as well as the adequacy of the systems of internal financial control.

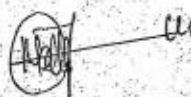
Nothing has come to the attention of the Directors to indicate that the Kathiani Water and Sanitation Company Limited will not remain a going concern for at least the next twelve months from the date of this statement.

Approval of the financial statements

The Kathiani Water and Sanitation Company Limited financial statements were approved by the Board on 11th October, 2021 and signed on its behalf by:



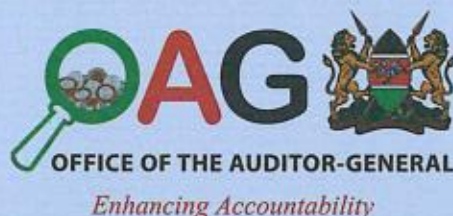
Philip Ndolo Mutua
Chairman Board of Director



Johnbosco N. Malelu
Managing Director

REPUBLIC OF KENYA

Telephone: +254-(20) 3214000
E-mail: info@oagkenya.go.ke
Website: www.oagkenya.go.ke



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

REPORT OF THE AUDITOR-GENERAL ON KATHIANI WATER AND SANITATION COMPANY LIMITED FOR THE YEAR ENDED 30 JUNE, 2021

PREAMBLE

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

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

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

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

REPORT ON THE FINANCIAL STATEMENTS

Adverse Opinion

I have audited the accompanying financial statements of Kathiani Water and Sanitation Company Limited set out on pages 1 to 39, which comprise of the statement of financial

position as at 30 June, 2021, and the statement of profit or loss and other comprehensive income, statement of changes in equity, statement of cash flows and statement of comparison of budget and actual amounts for the year then ended, and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, 2015. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

In my opinion, because of the significance of the matters discussed in the Basis for Adverse Opinion section of my report, the financial statements do not present fairly, in all material respects, the financial position of the Kathiani Water and Sanitation Company Limited as at 30 June, 2021, and of its financial performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards and do not comply with the Public Finance Management Act, 2012, the Companies Act, 2015 and the Water Act, 2016.

Basis for Adverse Opinion

1.0 Non-Compliance with the Public Sector Accounting Standards Board (PSASB) Template

Review of the financial statements presented for audit revealed the following errors:

- i. The financial statements include two statements of changes in equity for the year ended 2021. Both statements have the same closing balance of Kshs.138,000,328. Further, the second statement relate to the year ended 30 June, 2022.
- ii. The table of contents is incomplete as it does not include the statement of cash flows for the year ended 30 June, 2021 although the statement is included in the financial statements. Further, there is a mismatch between the pages indicated on the table of contents and actual page numbers.
- iii. Appendix 1 on progress on follow up of auditor's recommendations is blank despite several audit issues having been raised in the previous year's audit report.
- iv. The statement of Directors' responsibilities refers to Section 81 of the Public Finance Management Act, 2012 instead of Section 164 which is the applicable Section for County Government entities.
- v. The statement of financial position does not indicate the Institute of Certified Public Accountants of Kenya (ICPAK) membership number of the Head of Finance.

In the circumstances, the presentation of the financial statements do not comply with the International Financial Reporting Standards (IFRS) and the Public Sector Accounting Standards Board (PSASB) template.

2.0 Inaccuracies in the Financial Statements

Review of the financial statements revealed the following unsatisfactory matters:

2.1 Statement of Profit or Loss and Other Comprehensive Income

The statement of profit or loss and other comprehensive income reflects Nil balance on remeasurement of net defined benefits liability (increase in provision for doubtful debt) comparative balance. However, Note 12 to the financial statements reflects an amount of Kshs.1,395,151 for the same item. Further, the statement and Note 10(a) to the financial statements reflects a balance of Kshs.373,521 relating to provision for bad debts during the year. However, Note 12(a) to the financial statements indicates that the provision decreased by Kshs.1,021,630 from the reported amount of Kshs.1,395,151, in the previous year to Kshs.373,521 in the current year. The decrease in provisions has not been recognized as income in the financial statements. Further, the statement reflects a deferred revenue balance of Kshs.2,451,280 which does not have a corresponding disclosure Note and was also not supported with relevant documents.

2.2 Statement of Financial Position

The statement of financial position reflects a balance of Kshs.140,433,885 for total non-current assets which has combined balances for both the current and non-current assets. Further, the statement reflects total assets balance of Kshs.140,433,885 and corresponding total equities and liabilities balance of Kshs.144,436,870 resulting to an unexplained variance of Kshs.4,002,985. In addition, the statement reflects a balance of Kshs.135,961,645 in respect of capital grants which does not have a disclosure Note and was not supported with relevant documents.

2.3 Statement of Cash Flows

During the year under review the Company recorded a trade receivables balance of Kshs.8,940,864 (2020:-Kshs.9,479,602). However, the statement of cash flows reflects a decrease in trade receivables balance of Kshs.638,738 instead of a re-computed balance of Kshs.538,738 resulting to an unexplained variance of Kshs.100,000. Similarly, the Company recorded trade payables balance of Kshs.8,810,063 (2020:-Kshs.6,428,629). However, the statement reflects a balance of Kshs.366,898 relating to decrease in trade and other payables while the re-computed amount is Kshs.381,433 resulting to an unexplained variance of Kshs.14,546.

Further, the statement reflects a balance of Kshs.2,374,351 in respect to cash and cash equivalents at the end of the year while the statement of financial position reflects a balance of Kshs.724,247 for the same item resulting to an unexplained variance of Kshs.1,650,104.

In addition, the statement of profit or loss and other comprehensive income reflects amount of Kshs.1,999,058 while Note 19 to the financial statements reflects profit before tax of Kshs.230,386 for the same item resulting to an unexplained variance of Kshs.1,768,672. Note 19 to the financial statements also reflects an amount of Kshs.2,457,280 relating to depreciation charge while the statement of profit or loss and

other comprehensive income reflects an amount of Kshs.2,451,280 resulting to an unexplained variance of Kshs.6,000.

2.4 Statement of Comparison of Budget and Actual Amounts

The statement of comparison of budget and actual amounts reflects actual expenditure of Kshs.8,270,678 in respect to use of goods and services. However, this expenditure could not be traced to the statement of profit or loss and other comprehensive income. In addition, the statement reflects total expenditure amount of Kshs.13,014,178 while the statement of profit or loss and other comprehensive income reflects an amount of Kshs.11,418,648 resulting to an unexplained variance of Kshs.1,595,530.

Further, the statement reflects actual expenditure on compensation of employees amount of Kshs.3,461,616 while Note 10(b) reflects Kshs.1,927,862 for the same item resulting to an unexplained variance of Kshs.1,533,754. No explanation has been provided for variances of more than 10% as required by the reporting template.

In the circumstances, the accuracy and completeness of the financial statements for the year ended 30 June, 2021 could not be confirmed.

3. Unsupported Trade and Other Payables

The statement of financial position and the corresponding disclosure Note 18 to the financial statements reflects trade and other payables balance of Kshs.6,810,063. However, Management did not provide for audit a ledger and invoices to support the balance. Further, the balance includes an amount of Kshs.4,104,704 owed to the Tanathi Water Works Development Agency which has been outstanding since 2016.

In the circumstances, the accuracy and completeness of the trade and other payables balance could not be confirmed.

4. Long Outstanding Trade and Other Receivables

The statement of financial position reflects trade and other receivables balance of Kshs.8,940,864 which differs with a balance of Kshs.10,336,015 reflected in Note 12(a) to the financial statements resulting to an unexplained variance of Kshs.1,395,151. The balance of Kshs.10,336,015 is net of provision for bad and doubtful debt of Kshs.373,521. However, the computation for the provision and explanations for the decrease in provisions was not provided for audit verification. Further, Note 12(b) indicates that debts outstanding for over 120 days increased to Kshs.8,843,359 from the previous year balance of Kshs.6,975,754 representing an increase of Kshs.1,876,605 which implies that the provision for the bad debts and doubtful debts should have been increased to reflect a fair level of impairment on debts. Also, some of these debts have been outstanding for a long time and required a specific provision or be write-off from the books of the Company.

In addition, the balance of Kshs.8,843,359 includes an amount of Kshs.4,229,660 debt owed by Kathiani Level 4, Hospital the bulk of which had been outstanding for over 120 days. It has not been explained why the County Government of Machakos has failed to

pay the debts. Further, Management has not demonstrated any efforts taken to recover the long outstanding debts.

In the circumstances, the recoverability of the trade and other receivables balance of Kshs.10,336,015 could not be confirmed.

5. Unaccounted for Customer Deposits

The statement of financial position reflects trade and other payables balance of Kshs.6,810,063 which includes an amount of Kshs.467,100 in respect to customer deposits. However, Note 18 to the financial statements reflects a Nil comparative balance for customer deposits despite the fact that the Company has been in operation since 2014 and had connected undisclosed number of customers over the years each of whom was required to pay connection deposits of between Kshs.2,800 and Kshs.5,000. The reported customers deposit only reflects amounts received during the year under review. Further, the bank account for customer deposits had a balance of Kshs.5,592 as at 30 June, 2021 resulting to an unexplained and an unreconciled variance of Kshs.461,508.

In the circumstances, the accuracy, completeness and accountability of the customers' deposits balance of Kshs.467,100 could not be confirmed.

6. Property, Plant and Equipment

The statement of financial position and as disclosed in Note 11 to the financial statements reflects property, plant and equipment (PPE) balance of Kshs.130,768,774 which is net of depreciation charge for the year of Kshs.2,451,280. However, the property, plant and equipment schedule reflected in Note 11 to the financial statements was not prepared in accordance with the Public Sector Accounting Standard Board's financial reporting templates. The net book balances brought forward from the previous year have been reflected as cost values while the accumulated depreciation have not been included in the schedule.

Further, the property, plant and equipment balance includes an amount of Kshs.100,000,000 in respect to freehold land but no title deed was provided to confirm ownership and no document was provided to indicate when and how the value of the land was determined. In addition, the fixed asset register provided for audit was not updated and did not have details on individual assets such as date of acquisition, costs and depreciation charge.

In the circumstances, the fair statement, disclosure and ownership of property, plant and equipment balance of Kshs.130,768,774 could not be confirmed.

7. Unsupported Administration Costs

The statement of profit or loss and other comprehensive income and as disclosed in Note 10(a) to the financial statements reflects an amount of Kshs.4,817,202 in respect to administration costs. This expenditure includes general administrative expenses totalling to Kshs.2,889,340 which in turn includes an amount of Kshs.418,990 in respect of

transportation, travelling and subsistence which was not supported by imprest warrants, imprests register and surrender documents.

Further, expenditure amounting to Kshs.210,390 was not supported with user requisition, supplier's invoices, inspection reports for goods delivered, stock sheets, request for quotations, local purchase orders, delivery notes and copies of attendance registers for meetings held.

In the circumstances, the accuracy and completeness of general administrative expenses amounting to Kshs.418,990 could not be confirmed.

8. Misstatement of Staff Costs

The Statement of profit or loss and other comprehensive income reflects staff costs amount of Kshs.4,817,202 which, as disclosed in Note 10(a) to the financial statements includes an amount of Kshs.1,411,500 in respect to salaries and allowances paid to permanent employees. However, the payroll provided in support of the expenditure indicated a total of Kshs.1,200,500 resulting to an unexplained variance of Kshs.211,000.

In the circumstances, the accuracy and completeness of the salaries and allowances expenditure of Kshs.1,411,500 could not be confirmed.

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

Key Audit Matters

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

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

As required by Article 229(6) of the Constitution, because of the significance of the matters discussed in the Basis for Adverse Opinion and Basis for Conclusion on Lawfulness and Effectiveness in Use of Public Resources sections of my report, I confirm that, public resources have not been applied lawfully and in an effective way.

Basis for Conclusion

1. Late Submission of the Financial Statements

The financial statements of the Company for the year ended 30 June, 2021 were submitted to the Auditor-General on 4 January, 2022, more than three months after the

statutory deadline. This is contrary to Section 149(2)(k) of the Public Finance Management Act, 2012 which stipulates that Accounting Officer of a County Government entity shall not later than three months after the end of each financial year, prepare annual financial statements for that financial year and submit them to the Auditor-General for audit.

Consequently, Management was in breach of the law.

2. Non-Revenue Water

During the year under review, the Company produced 100,541 cubic meters (M³) of water out of which only 70,381 M³ were billed to customers. The difference of 30,160 M³ or 30% represented Non-Revenue Water (NRW) worth Kshs.3,166,800 (at a rate of Kshs.105 per M³). The NRW exceeded the threshold of 25% set in the Water Services Regulatory (WASREB) Guidelines by 5%. Further, Management did not demonstrate any tangible effort to address the loss from Non-Revenue Water.

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

3. Undisclosed Ownership of the Company

The background information to the financial statements indicate that Kathiani Water and Sanitation Company Limited was established as a limited company on 29 April, 2014. However, Note 14 to the financial statements indicate that the Company has an authorized share capital of Kshs.100,000 comprising of 1000 Ordinary Shares of Kshs.100 per value each. The Management did not provide share certificates to confirm the shareholders of the Company.

In the circumstances, it has not been possible to ascertain the ownership of the Company and its compliance with the requirements of the Water Act, 2016 and the Companies Act, 2015.

4. Non-Competitive Appointment of the Board Chair

During the year under review, the County Government of Machakos appointed the Chairperson of the Company in April 2021 through Gazette Notice. However, there were no documents to confirm that a competitive process was undertaken as required under Section 2(2) of the First Schedule of Water Act of 2016 which states that the Chairperson and Members shall be identified for appointment through an open competitive process.

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

5. Lack of Approved Water Sales Tariff

The statement of profit or loss and other comprehensive income and as disclosed in Note 6 to the financial statements reflects water sales amounting to Kshs.9,559,672. However, the water tariff used in billing had not been approved by WASREB and was not gazetted as required.

In the circumstances, the regularity of the water tariff applied by the Company for the water billing could not be confirmed.

6. Irregularities in Procurement Process

Review of procurement process of the Company revealed instances of non-compliance with the Public Procurement and Asset Disposal Act, 2015 on the procurement of goods, works and services as detailed below:

- i. The approved procurement plan for the year did not indicate the specific methods of procurement as stipulated in the Public Procurement and Asset Disposal Act, 2015.
- ii. There were no user requisitions provided for audit and it was not possible to confirm how procurements were initiated.
- iii. There were no records to confirm that the Accounting Officer appointed to various Procurement Committees such as the Tender/Quotation Opening, Evaluation and Inspection and Acceptance Committees.
- iv. The professional opinions issued for procurements undertaken during the year were not provided for audit.
- v. Documentary evidence on the inspection of goods and services and copies of receipt vouchers (S13) to confirm that purchased goods were taken on charge were not provided for audit verification.
- vi. There was no segregation of duties since the Company had only one procurement officer who also acted as a Customer Care Officer.

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

7. Statement of Comparison of Budget and Actual Amounts

Review of the statement of comparison of budget and actual amounts for the year ended 30 June, 2021 revealed that the budget estimates were approved by the Board on 10 September, 2021, which was more than two months after commencement of the year to which the budget relates. In addition, Management did not provide documents confirming approval of the budget by the County Government of Machakos.

Further, the statement reflects budgeted expenditure on use of goods and services of Kshs.7,335,000 against actual amount incurred during the year of Kshs.8,270,678 resulting to unauthorized over expenditure of Kshs.935,678 or 12%. This is contrary to Regulation 43(2) of the Public Finance Management (County Governments) Regulations, 2015 which states that County government entities shall execute their approved budgets based on the annual appropriation legislation, and the approved annual cash flow plan with the exception of unforeseen and unavoidable spending dealt with through the County Emergency Fund, or supplementary estimates.

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

The audit was conducted in accordance with ISSAI 4000. The standard requires that I comply with ethical requirements and plan and perform the audit to obtain assurance

about whether the activities, financial transactions and information reflected in the financial statements are in compliance, in all material respects, with the authorities that govern them. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

As required by Section 7(1)(a) of the Public Audit Act, 2015, 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 and Governance sections of my report, based on the audit procedures performed, I confirm that, internal controls, risk management and overall governance were not effective.

Basis for Conclusion

1. Lack of an Internal Audit Function and Audit Committee

Review of the Company's internal control structure revealed that the Company had no Internal Audit Function or an alternative and appropriate arrangements for conducting internal according to the guidelines issued by the Public Sector Accounting Standards Board (PSASB). Further, the Company did not have an Audit Committee.

In the circumstances, the existence of an effective internal control and risk management system could not be confirmed.

2. Lack of a Risk Management Policy and a Disaster Recovery Plan

During the year under audit, the Company did not have a Risk Management Policy and did not develop risk management strategies to identify, prevent and mitigate risks and disasters to ensure that its operations are not interrupted in case of unforeseen events. In addition, the Company did not maintain a risk register and did not have a Disaster Recovery and Business Continuity Plan

In the circumstances, the existence of an effective risk management system could not be confirmed.

3. Lack of a Human Resource Policy Manual and an Approved Staff Establishment

Review of records revealed that the Company did not have an approved Human Resource Policy Manual, staff establishment and a Scheme of Service to guide the operations of human resource function. The basis of employment and remuneration of staff was therefore not clear. In addition, the Company was understaffed in key Departments such as finance and administration and lacked the required checks and balances for a functional internal controls. Failure to formulate Human Resources Policy Manuals implies that the Company lacks basis for determination of staffing needs, recruitment, remuneration and management of employees for effective delivery of water services to the customers.

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

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

As required by the 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 not been kept by the Company, so far as appears from the examination of those records; and
- iii. The Company's financial statements are not in agreement with the accounting records and returns.

Responsibilities of Management and the Board of Directors

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

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

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

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

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

Auditor-General's Responsibilities for the Audit

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

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

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

Because of its inherent limitations, internal control may not prevent or detect misstatements and instances of non-compliance. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the Company's 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 continue as a going concern or cease to sustain its services.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information and business activities of the Company to express an opinion on the financial statements.
- Perform such other procedures as I consider necessary in the circumstances.

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

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


CPA Nancy Gathungu, CBS
AUDITOR-GENERAL

Nairobi

08 August, 2022

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

	Notes	2020-2021	2019-2020
		Kshs	Kshs
REVENUES			
Revenue	6	9,559,672	7,446,777
Cost of sales	7	(618,909)	0
Other Income			
Grants from the County Government	8	1,397,754	1,526,380
Other Income (Survey of new line)	9	9,000	11,980
Differed Revenue	11	2,451,280	4,212,929
TOTAL REVENUES		12,798,797	13,198,066
OPERATING EXPENSES			
Administration Costs	10(a)	4,817,202	6,670,052
Operating cost	10(c)	3,531,257	2,001,939
Depreciation charge		2,451,280	4,212,929
TOTAL OPERATING EXPENSES		10,799,739	12,884,920
PROFIT/(LOSS) BEFORE TAXATION		1,999,058	313,146
PROFIT/(LOSS) AFTER TAXATION		1,999,058	313,146
Earnings per share – basic and diluted		0	0
Dividend per share		0	0
OTHER COMPREHENSIVE INCOME			
Profit/ (Loss) after taxation		1,999,058	313,146
Surplus or deficit on revaluation of PPE		0	0
Remeasurement of net defined benefit liability(increase in provision for doubtful debt)	12	(373,521)	0
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		1,625,537	313,146

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STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2021

		2020-2021	2019-2020
		Kshs	Kshs
ASSETS			
Non-Current Assets			
Property, plant and equipment	11	130,768,774	133,220,054
Total Non-Current Assets		130,768,774	133,220,054
Current Assets			
Trade and other receivables	12(a)	8,940,864	9,479,602
Bank and cash balances	13	724,247	103,764
Total Non-Current Assets		140,433,885	142,803,420
EQUITY AND LIABILITIES			
Capital and Reserves			
Ordinary share capital	14	100,000	100,000
Capital Grants		135,961,645	135,961,645
Retained earnings	17	1,938,683	313,146
Capital and Reserves		138,000,328	136,374,791
Current Liabilities			
Trade and other payables	18	6,810,063	6,428,629
Provisions (increase in provision for doubtful debts)	12	(373,521)	0
Total Current Liabilities		6,436,542	6,428,629
TOTAL EQUITY AND LIABILITIES		144,436,870	142,803,420

The financial statements were approved by the Board on 11th October 2021 and signed on its behalf by:



Managing Director

Name: JOHN B. S. MATHIA



Head of Finance

Name:

ICPAK



Chairman of the Board

M/NO:

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

	Notes	Ordinary share capital	Revaluation reserve	Fair value adjustment reserve	Retained earnings	Proposed dividend	Capital/ Development Grants Fund	Total
As at July 1, 2020		100,000	0	0	313,146	0	135,961,645	136,374,791
New capital issued		0						0
Revaluation gain		-	0	-	-	-	-	0
Transfer of excess depreciation on revaluation		-	0	-	0	-	-	-
Deferred tax on excess depreciation		-	0	-	-	-	-	0
Fair value adjustment on quoted investments		-	-	0	-	-	-	0
Profit for the year		-	-	-	1,625,537	-	-	1,625,537
Capital/Development grants received during the year		-	-	-	-	-	0	0
Transfer of depreciation/amortisation from capital fund to retained earnings		-	-	-	0	-	0	-
Dividends paid – prior year		-	-	-	-	0	0	0
Interim dividends paid – current year		-	-	-	-	0	-	0
Proposed final dividends		-	-	-	0	0	0	-
As at June 30, 2021		100,000	0	0	1,938,683	0	135,961,645	138,000,328

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	Ordinary share capital	Revaluation reserves	Fair value adjustment reserve	Retained earnings	Proposed dividends	Capital Development Grants Fund	Total
As at July 1, 2021	100,000	0	0	1,938,683	0	135,961,645	138,000,328
Issue of new share capital	0	0	0	0	0	0	0
Revaluation gain	-	0	-	-	-	-	0
Transfer of excess depreciation on revaluation	-	0	-	0	-	-	-
Deferred tax on excess depreciation	-	0	-	-	-	-	0
Fair value adjustment on quoted investments	-	-	0	-	-	-	0
Profit for the year	-	-	-	0	-	-	0
Capital/Development grants received during the year	-	-	-	-	-	0	0
Transfer of depreciation/amortisation from capital fund to retained earnings	-	-	-	-	-	-	-
Dividends paid – prior year	-	-	-	-	0	0	0
Interim dividends paid – current year	-	-	-	0	-	-	0
Proposed final dividends	-	-	-	0	0	0	-
At June 30, 2021	100,000	0	0	1,938,683	0	0	138,000,328

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2021

	Note	2020/2021	2019/2020
		KShs	KShs
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit / loss for the period		1,625,537	313,146
Depreciation	11	2,451,280	4,212,929
Deferred revenue	11	(2,451,280)	(4,212,929)
Provision for bad debts	12	373,210	1,395,462
Cash before operating activities		1,998,747	1,708,608
Operating activities			
Increase / Decrease in Trade Receivable	12	638,738	612,714
Increase / Decrease in Trade Payables	18	(366,898)	483,363
NET CASH GENERATED FROM/(USED IN) OPERATING ACTIVITIES		2,270,587	1,096,077
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		103,764	103,764
CASH AND CASH EQUIVALENTS AT END OF THE YEAR		2,374,351	103,764

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**STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS FOR THE
PERIOD ENDED 30 JUNE 2021**

	Original budget	Adjustments	Final budget	Actual on comparable	Performance variance Percentage
	2020-2021	2020-2021	2020-2021	2020-2021	2020-2021
Revenue	Kshs	Kshs	Kshs	Kshs	Kshs
Sale of goods	11,000,000	-	11,000,000	9,559,672	13
Sale of services	0	0	0	0	0
Transfers from the Government	1,500,000	0	1,500,000	1,397,754	6
Donations in kind	0	0	0	0	0
Other Income	0	0	0	9000	9,000
Other income (Earlier collection)	1,956,000	0	1,956,000		
Total income	14,465,000	0	14,465,000	10,966,426	24.1
Expenses					
Compensation of employees	3,630,000	-	3,630,000	3,461,616	4
Use of goods and services	7,335,000	0	7,335,000	8,270,678	12
Finance cost	0	0	0	0	0
Rent paid	0	0	0	0	0
Taxation paid	0	0	0	0	0
Other payments (Levies + Board)	1,500,000	-	1,500,000	1,281,884	14.5
Grants and subsidies paid	0	-	0		-
Total expenditure	14,465,000	0	14,465,000	13,014,178	10

NOTES TO THE FINANCIAL STATEMENTS

1. General Information

Kathiani water and sanitation company ltd is established by and derives its authority and accountability from 2002 water Act. Kathiani water and sanitation company ltd is wholly owned by the County Government of Machakos and is domiciled in Kenya. Kathiani water and sanitation company ltd principal activity is provision of water services to Kathiani Sub-County

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

2. Statement of Compliance and Basis of Preparation

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

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

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

i. New and amended standards and interpretations in issue effective in the year ended 30 June 2021.

Title	Description	Effective Date
IAS 39-Financial Instruments: Recognition and Measurement	IAS 39 "Financial Instruments: Recognition and Measurement" outlines the requirements for the recognition and measurement of financial assets, financial liabilities, and some contracts to buy or sell non-financial items. Financial instruments are initially recognized when an entity becomes a party to the contractual provisions of the instrument and are classified into various categories depending upon the type of instrument, which then determines the subsequent measurement of the instrument (typically amortized cost or fair value). Special rules apply to embedded derivatives and hedging instruments.	The amendments are effective for annual periods beginning on or after January 1, 2020. Earlier application is permitted.
IFRS 4- Insurance Contracts (Superseded)	IFRS 4 "Insurance Contracts" applies, with limited exceptions, to all insurance contracts (including reinsurance contracts) that an entity issues and to reinsurance contracts that it holds. In light of the IASB's comprehensive project on insurance contracts, the standard provides a temporary exemption from the requirements of some other IFRSs, including the requirement to consider IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors" when selecting accounting policies for insurance contracts.	The amendments are effective for annual periods beginning on or after January 1, 2020. Earlier application is permitted.
IFRS 7- Financial	IFRS 7 "Financial Instruments: Disclosures" requires disclosure of	The amendments are effective for

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Title	Description	Effective Date
Instrument Disclosures	information about the significance of financial instruments to an entity, and the nature and extent of risks arising from those financial instruments, both in qualitative and quantitative terms. Specific disclosures are required in relation to transferred financial assets and a number of other matters.	annual periods beginning on or after January 1, 2020. Earlier application is permitted.
IFRS 16- Leases	IFRS 16 specifies how to recognize, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring the recognition of assets and liabilities for all leases, unless the lease term is 12 months or less or the underlying asset has a low value. Lessor accounting however remains largely unchanged from IAS 17 and the distinction between operating and finance leases is retained.	The amendments are effective for annual periods beginning on or after January 1, 2020. Earlier application is permitted.

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

Title	Description	Effective Date
IAS 1 — Presentation of Financial Statements	IAS 1 "Presentation of Financial Statements" sets out the overall requirements for financial statements, including how they should be structured, the minimum requirements for their content and overriding concepts such as going concern, the accrual basis of accounting and the current/non-current distinction. The standard requires a complete	The amendments are effective for annual periods beginning on or after January 1, 2023. Earlier application is permitted.

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Title	Description	Effective Date
	set of financial statements to comprise a statement of financial position, a statement of profit or loss and other comprehensive income, a statement of changes in equity and a statement of cash flows.	
IAS 12 — Income Taxes	IAS 12, "Income Taxes" implements a so-called 'comprehensive balance sheet method' of accounting for income taxes which recognizes both the current tax consequences of transactions and events and the future tax consequences of the future recovery or settlement of the carrying amount of an entity's assets and liabilities. Differences between the carrying amount and tax base of assets and liabilities, and carried forward tax losses and credits, are recognized, with limited exceptions, as deferred tax liabilities or deferred tax assets, with the latter also being subject to a 'probable profits' test.	Earlier application is permitted. The amendments are effective for annual reporting periods beginning on or after January 1, 2023. Early adoption is permitted.
IAS 16 — Property, Plant and Equipment	IAS 16 "Property, Plant and Equipment" outlines the accounting treatment for most types of property, plant and equipment. Property, plant and equipment is initially measured at its cost, subsequently measured either using a cost or revaluation model, and depreciated so that its depreciable amount is allocated on a systematic basis over its useful life.	The amendments are effective for annual periods beginning on or after January 1, 2022. Early application is permitted.
IAS 37 — Provisions, Contingent Liabilities and Contingent Assets	IAS 37 "Provisions, Contingent Liabilities and Contingent Assets" outlines the accounting for provisions (liabilities of uncertain timing or amount), together with contingent assets (possible assets) and	The amendments are effective for annual periods beginning on or after January 1, 2022. Early application is

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	contingent liabilities (possible obligations and present obligations that are not probable or not reliably measurable).	permitted.
IAS 41 — Agriculture	IAS 41 "Agriculture" sets out the accounting for agricultural activity – the transformation of biological assets (living plants and animals) into agricultural produce (harvested product of the entity's biological assets). The standard generally requires biological assets to be measured at fair value less costs to sell.	The amendments are effective for annual periods beginning on or after January 1, 2022. Early application is permitted.
IFRS 1 — First-time Adoption of International Financial Reporting Standards	IFRS 1 "First-time Adoption of International Financial Reporting Standards" sets out the procedures that an entity must follow when it adopts IFRS for the first time as the basis for preparing its general purpose financial statements. The IFRS grants limited exemptions from the general requirement to comply with each IFRS effective at the end of its first IFRS reporting period.	The amendments are effective for annual periods beginning on or after January 1, 2022. Early application is permitted.
IFRS 3 — Business Combinations	IFRS 3 "Business Combinations" outlines the accounting when an acquirer obtains control of a business (e.g. an acquisition or merger). Such business combinations are accounted for using the 'acquisition method', which generally requires assets acquired and liabilities assumed to be measured at their fair values at the acquisition date.	The amendments are effective for annual periods beginning on or after January 1, 2022. Early application is permitted if an entity also applies all other updated references (published together with the updated Conceptual Framework) at the same time or earlier.
IFRS 17 — Insurance Contracts	IFRS 17 establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts within the scope of	The IASB tentatively decided to defer the effective date of IFRS 17, Insurance

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Title	Description	Effective Date
	the standard. The objective of IFRS 17 is to ensure that an entity provides relevant information that faithfully represents those contracts. This information gives a basis for users of financial statements to assess the effect that insurance contracts have on the entity's financial position, financial performance and cash flows.	Contracts to annual periods beginning on or after January 1, 2022. [The IASB has also published 'Extension of the Temporary Exemption from Applying IFRS 9 (Amendments to IFRS 4)' to defer the fixed expiry date of the amendment also to annual periods beginning on or after January 1, 2023.]

The entity did not early-adopt any new or amended standards in year 2020/2021

NOTES TO THE FINANCIAL STATEMENTS (Continues)

4. Summary of Significant Accounting Policies

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

a) Revenue recognition

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

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Summary of Significant Accounting Policies

b) In-kind contributions

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

c) Property, plant and equipment

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Summary of Significant Accounting Policies

d) Depreciation and impairment of property, plant and equipment

Freehold land and capital work in progress are not depreciated. Capital work in progress relates mainly to the costs 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 straight-line basis to write down the cost of each asset or the re-valued amount to its residual value over its estimated useful life. The annual rates in use are:

Freehold Land	Nil
Buildings and civil works	25 years or the unexpired lease period
Plant and machinery	12.5 years
Motor vehicles, including motor cycles	4 years
Computers and related equipment	3 years
Office equipment, furniture and fittings	12.5 years

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

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Summary of Significant Accounting Policies

e) Intangible assets

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

f) Amortisation and impairment of intangible assets

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

g) Investment property

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Summary of Significant Accounting Policies

h) Right of Use Asset

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

i) Fixed interest investments (bonds)

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

j) Quoted investments

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Summary of Significant Accounting Policies

k) Unquoted investments

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

l) Inventories

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

m) Trade and other receivables

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Summary of Significant Accounting Policies

n) Taxation

i) Current income tax

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

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

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

o) Deferred tax

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Summary of Significant Accounting Policies

Deferred Tax

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

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Unrecognized deferred tax assets are re-assessed at each reporting date and are recognized to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

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

Summary of Significant Accounting Policies

p) Borrowing costs

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

q) Cash and cash equivalents

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

r) Borrowings

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

s) Trade and other payables

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

t) Retirement benefit obligations

The entity operates a defined contribution scheme for all full-time employees from July 1, 20XX. The scheme is administered by an in-house team and is funded by contributions from both the company and its employees. The company also contributes to the statutory National Social Security Fund (NSSF). This is a defined contribution scheme registered under the National Social Security Act. The company's obligation under the scheme is limited to specific contributions legislated from time to time and is currently at Kshs.400 per employee per month.

u) Provision for staff leave pay

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

v) Exchange rate differences

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

NOTE*S TO THE FINANCIAL STATEMENTS (Continued)

Summary of Significant Accounting Policies

w) Budget information

The original budget for FY 2020-2021 was approved by the board on . 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.

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

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

NOTES TO THE FINANCIAL STATEMENTS (Continues)

a) Service concession arrangements

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

b) Comparative figures

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

c) Subsequent events

There have been no events subsequent to the financial year end with a significant impact on the financial statements for the year ended June 30, 2021.

5. Significant Judgments and Sources of Estimation Uncertainty

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

NOTES TO THE FINANCIAL STATEMENTS (Continues)

a) Estimates and assumptions

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

b) Useful lives and residual values

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

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

c) Provisions

Provisions were raised and management determined an estimate based on the information available.

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. provision for bad debts, provisions of obsolete stocks and how management estimates these provisions)

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NOTES TO THE FINANCIAL STATEMENTS (Continues)

6. Revenue

	2020/2021	2019/2020
	Kshs	Kshs
Sales of goods	0	0
Sales of services	9,559,672	7,446,777
Total	9,559,672	7,446,777

7. Cost of Sales

	2020/2021	2019/2020
	Kshs	Kshs
Cost of sales on goods	0	0
Cost of sales on services (Chemicals)	618,909	0
Total	618,909	0

Explain significant variances from prior period

8. Grants from County Government

	2020/2021	2019/2020
	Kshs	Kshs
Seconded staff salary	1,397,754	1,526,380
Total	1,397,754	1,526,380

NOTES TO THE FINANCIAL STATEMENTS (Continued)

9. Other Income

Description	2020/2021 Kshs	2019/2020 Kshs
Miscellaneous receipts (new connection survey charge)	9,000	11,780
Total	9,000	11,780

10. (a) Administration Costs

Description	2020/2021 Kshs	2019/2020 Kshs
Staff costs (note 10b)	1,927,862	3,874,628
Directors' emoluments	619,000	528,000
Electricity and water	0	0
Communication services and supplies	153,060	31,340
Transportation, travelling and subsistence	208,600	353,000
Advertising, printing, stationery and photocopying	421,348	197,319
Hospitality supplies and services	25,680	66,308
Insurance costs	5,023	5,023
Bank charges and commissions	43,226	33,964
Office and general supplies and services	327,424	13,663
Auditors' remuneration	75,000	75,000
Legal fees	70,000	50,000
Consultancy fees	70,000	0
Repairs and maintenance	64,800	46,656
Provision for bad and doubtful debts	373,521	1,395,151
Other operating expenses-WASREB	382,387	0
- WARMA	50,271	0
Total	4,817,202	6,670,052

10(b) Staff Costs

Description	2020/2021 Kshs	2019/2020 Kshs
Salaries and allowances of permanent employees	1,411,500	3,193,430
Wages of temporary employees	516,362	645,408
Medical insurance schemes	0	7950
Employer's contributions to national social security schemes	0	27,840
Total	1,927,862	3,874,628

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Description	2020/2021	2019/2020
	Kshs	Kshs
The average number of employees at the end of the year was:		
Permanent employees – Management	3	6
Permanent employees – Unionisable	0	0
Temporary and contracted employees	6	6
Total	9	12

10(c) OPERATING COSTS

Description	2020/2021	2019/2020
	Kshs	Kshs
Repair of plant and Equipment	9,900	0
Motor cycle repair & Maintenance	45,853	8,600
Motor cycle fuel and oil	44,940	44,250
Chemicals	0	417,671
Water metering	161,730	0
Operation and Maintenance	3,268,834	1,531,418
Total	3,531,257	2,001,939

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Earnings Per Share

The earnings per share is calculated by dividing the profit after tax of Kshs.0 (2019-2020): Kshs.0 by the average number of ordinary shares in issue during the year of 1000 (2019-2020:). There were not dilutive or potentially dilutive ordinary share as at the reporting date.

Dividend Per Share

Proposed dividends are accounted for as a separate component of equity until they have been ratified and declared at the relevant Annual General Meeting (AGM). At the AGM to be held before the end of 2021, a final dividend in respect of the year ended June 30, 2021 of Kshs. 0 (2020: Kshs. 0) for every ordinary share of par value of Kshs.100 is to be proposed. An interim dividend of Kshs. 0 (2020: Kshs 0) for every ordinary share of par value of Kshs.100 was declared and paid during the year. This will bring the total dividend for the year to Kshs.0 (2020: Kshs.0

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

Property, Plant and Equipment

	Freehold land	Buildings & civil works	Plant and machinery	Motor vehicles, including motor cycles	Computers & related equipment	Office equipment, furniture & fittings	Capital work in progress	Total
COST OR VALUATION								
At July 1, 2020	100,000,000	5,350,960	27,748,373	21,334	16,135	83,252	0	133,220,054
Additions	0	0	0	0	0	0	0	0
Transfers	0	0	0	0	0	0	0	0
Disposals	0	0	0	0	0	0	0	0
At June 30, 2021	100,000,000	5,350,960	27,748,373	21,334	16,135	83,252	0	133,220,054
DEPRECIATION								
At July 1, 2020	100,000,000	5,350,960	27,748,373	21,334	16,135	83,252	0	133,220,054
Charge for the year	0	214,038	2,219,870	5,334	5,378	6,660	0	2,451,280
Impairment loss	0	0	0	0	0	0	0	0
Eliminated on disposal	0	0	0	0	0	0	0	0
At June 30, 2021	100,000,000	5,136,922	25,528,503	16,000	10,757	76,592	0	130,768,774
NET BOOK VALUE At June 30, 2021	100,000,000	5,136,922	25,528,503	16,000	10,757	76,592	0	130,768,774

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

Property, Plant and Equipment (Continued)

Notes	Freehold land	Buildings & civil works	Plant and machinery	Motor vehicles including motor cycles	Computers & related equipment	Office equipment, furniture & fittings	Capital work in progress	Total
COST OR VALUATION								
As at 1 July 2019	100,000,000	5,573,917	31,712,426	28,445	23,050	95,145	0	137,432,983
Additions	0	0	0	0	0	0	0	0
Transfers	0	0	0	0	0	0	0	0
Disposals	0	0	0	0	0	0	0	0
As at 30 th June 2020	100,000,000	5,573,917	31,712,426	28,445	23,050	95,145	0	137,432,983
DEPRECIATION								
At July 1, 2019	100,000,000	5,573,917	31,712,426	28,445	23,050	95,145	0	137,432,983
Charge for the year	0	222,957	3,964,053	7,111	6,915	11,893	0	4,212,929
Impairment loss	0	0	0	0	0	0	0	0
Eliminated on disposal	0	0	0	0	0	0	0	0
As at 30 th June 2021	100,000,000	5,350,960	27,748,373	21,334	16,135	83,252	0	133,220,054
NET BOOK VALUE	100,000,000	5,350,960	27,748,373	21,334	16,135	83,252	0	133,220,054
At June 30, 2020	100,000,000	5,350,960	27,748,373	21,334	16,135	83,252	0	133,220,054

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

12 (a) Trade and Other Receivables

	2020/2021	2019/2020
	Kshs	Kshs
Trade receivables (note 12 (b))	10,609,536	10,874,753
Other receivables	100,000	100,000
Gross trade and other receivables	10,709,536	10,974,753
Provision for bad and doubtful receivable	(373,521)	(1,395,151)
Net trade and other receivables	10,336,015	9,479,602

12 (b) Trade Receivables

	2020/2021	2019/2020
	Kshs	Kshs
Gross trade receivables	10,609,536	12,269,904
Provision for doubtful receivables	(373,521)	(1,395,151)
Net trade receivables	10,236,015	10,874,753
At June 30, the ageing analysis of the gross trade receivables was as follows:		
Less than 30 days	691,928	129,610
Between 30 and 60 days	345,964	251,597
Between 61 and 90 days	518,946	381,207
Between 91 and 120 days	209,339	1,108,388
Over 120 days	8,843,359	6,975,754
Total	10,609,536	8,846,556

13. Bank and Cash Balances

	2020/2021	2019/2020
	Kshs	Kshs
Cash at bank	724,247	103,764
Cash in hand	0	0
Total	724,247	103,764

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Detailed analysis of the cash and cash equivalents

Financial institution	Account number	2020/2021	2019/2020
		KShs	KShs
a) Current account			
Cooperative bank	01120550512700	2,216	1,166
Equity Bank	0600278912093	126,004	756
Equity Bank	0600278914480	5,592	14,784
Sub- total	0	133,812	16,526
b) On - call deposits			
Cooperative Bank	01100550512700	37,300	4,573
Equity Bank	0600178912045	529,370	74,024
Sub- total		566,670	78,597
c) Fixed deposits account			
Other Commercial banks			
Sub- total			
d) Staff car loan/ mortgage			
Other Commercial banks			
Sub- total			
e) Others(specify)			
Cash in transit			
cash in hand			0.5
Mobile money account	672853	23,765	8,460
Sub- total		23,765	8,460
Grand total		724,247	103,764

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

14. Ordinary Share Capital

	2020/2021	2019/2020
	KShs	KShs
Authorized:		
1000 ordinary shares of KShs 100 par value each	100,000	100,000
Issued and fully paid:		
1000 ordinary shares of KShs par value each	100,000	100,000

15. Revaluation Reserve

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

16. Fair Value Adjustment Reserve

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

17. Retained Earnings

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

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18. Trade and Other Payables

	2020-2021	2019-2020
	Kshs	Kshs
Chemicals	0	230,608
Electricity	547,940	547,940
WASREB	1,001,360	618,973
Customers Deposit	467,100	0
Employee payables -June 2021 salary	150,150	620,500
TANATHI	4,104,704	4,104,704
WARMA	131,175	80,904
AUDIT FEE -PROVISIONAL	300,000	225,000
NSSF	69,120	0
NHIF	19,200	0
PAYE	19,314	0
Total	6,810,063	6,428,629

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

19. Notes to The Statement of Cash Flows

	2020-2021	2019-2020
	Kshs	Kshs
(a) Reconciliation of operating profit/(loss) to cash generated from/(used in) operations		
Profit or loss before tax	230,386	313,146
Depreciation	2,457,280	4,212,929
(Increase)/decrease in trade and other receivables	538,738	612,714
Increase/(decrease) in trade and other payables	(366,898)	469,547
Cash generated from/(used in) operations	2,859,506	
(b) Analysis of cash and cash equivalents		
Short term deposits	0	0
Cash at bank	724,247	103,764
Cash in hand	0	0
Balance at end of the year	724,247	103,764

20. Related Party Disclosures

Government of Kenya

The County Government of Machakos is the principal shareholder of Kathiani Water and Sanitation Company Limited, holding 100% of the equity interest.

Other related parties include:

- i) The Parent Ministry, Ministry of Water, Sanitation.
- ii) County Government of Machakos
- iii) Ministry of water, Irrigation, Environment and Climate change
- iv) Key management
- v) Board of directors

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Transactions with related parties

	2020-2021	2019-2020
	Kshs	Kshs
a) Sales to related parties		
Water sales to Govt. agencies	3,025,560	2,998,340
Total	3,025,560	2,998,340
b) Grants from the Government		
Grants from National Govt	0	0
Grants from County Government	1,397,754	1,526,380
Total	1,397,754	1,526,380
c) Expenses incurred on behalf of related party		
Payments of salaries and wages for county employees	520,000	450,000
Total	520,000	450,000
Total	4,943,314	4,974,720

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

21. Events After The Reporting Period

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

22. Currency

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

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APPENDICES

APPENDIX 1: PROGRESS ON FOLLOW UP OF AUDITOR RECOMMENDATIONS

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

Reference No. on the external audit Report	Issue/ Observations from Auditor	Management comments	Status (Resolved/ Not Resolved)	Final Status (Date & date when you expect the issue to be resolved)

Guidance Notes:

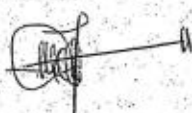
- Use the same reference numbers as contained in the external audit report;
- Obtain the "Issue/Observation" and "management comments", required above, from final external audit report that is signed by Management;
- Indicate the status of "Resolved" or "Not Resolved" by the date of submitting this report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

Accounting Officer

Name **JOHNBOSCO NYAMAI MALELU**

Managing Director

Signature



Date.....

