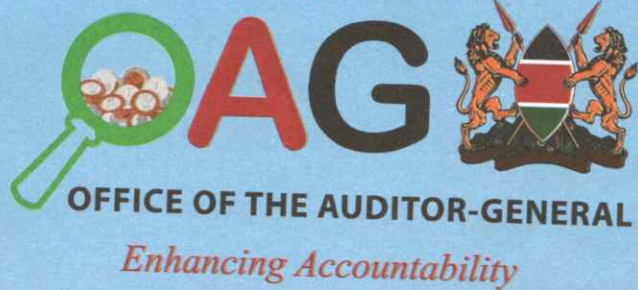


REPUBLIC OF KENYA



REPORT

OF

THE AUDITOR-GENERAL

ON

**NAKURU RURAL WATER AND SANITATION
COMPANY LIMITED**

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

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NAKURU RURAL WATER AND SANITATION COMPANY LIMITED
ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED
JUNE 30, 2023

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

Nakuru Rural Water and Sanitation Company Limited
Annual Reports and Financial Statements For the year ended June 30, 2023

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1. Acronyms and Glossary of Terms

ICPAK	<i>Institute of Certified Public Accountants of Kenya</i>
IFRS	<i>International Financial Reporting Standards</i>
MD	<i>Managing Director</i>
PFM	<i>Public Financial Management</i>
PSASB	<i>Public Sector Accounting Standards Board</i>
WASREB	<i>Water Services Regulatory Board</i>
SRWDA	<i>South Rift Water Development Agency</i>
AFDB	<i>African Development Bank</i>
WSTF	<i>Water service Trust Fund</i>
WRA	<i>Water Resources Authority</i>
KENHA	<i>Kenya National Highway Authority</i>
NAWASCO	<i>Nakuru Water and Sanitation Company</i>
VEI	<i>Vitens Evide International</i>
PPE	<i>Property Plant and Equipment</i>
DOD	<i>Department of Defence</i>
VAT	<i>Value Added Tax</i>
KRA	<i>Kenya Revenue Authority</i>
NITA	<i>National Industrial Training Authority</i>
NSSF	<i>National Social Security Fund</i>
NHIF	<i>National Hospital Insurance Fund</i>
WIP	<i>Work in Progress</i>
CPF	<i>County Pension Scheme</i>
NWPSC	<i>National Water Pension Scheme</i>

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2. Key Entity Information

Background information

Nakuru Rural Water and Sanitation Company (NARUWASCO) was incorporated under Companies Act, Cap 486 of the Laws of Kenya and is fully owned by the County Government of Nakuru responsible for provision of water and sanitation services within the rural parts of Nakuru County covering an approximate service area of 7,000 km². The Company began operations in April 2007 and its core mandate is derived from section 78, 83 & 94 of the Water Act 2016.

NARUWASCO provides water and sewerage services to its customers and intends to provide advisory and technical assistance services in the future. The Company has 29,000 registered customers that includes, households, water kiosks, institutions, markets, and the construction industry. NARUWASCO is governed by Board of Directors (BOD) through various committees and supported by a skilled Core Management Team (CMT), who oversee the day-to-day operations.

Principal Activities

NARUWASCO provides water and sanitation services to its customers.

Vision and Mission Statements

The corporate vision for NARUWASCO is:

Potable Water and Dignified Sanitation in Every Household

NARUWASCO's Mission is:

To Provide Adequate Quality Water and Sanitation Services in an Economic and Environmentally Sustainable Manner to the Satisfaction of our Stakeholders

Core Values

Core values are principles that guide an organization in the pursuit of its mandate and development of the culture. It defines the conduct that employees should uphold. The following values abbreviated "PIPES" shall guide NARUWASCO's as it discharges services to customers.

Core Value	Description
Professionalism	Demonstrating high levels of competence and skills to achieve quality and efficiency.
Integrity, Innovation & Inclusivity	Honesty in service delivery, continuous improvement of solutions & ensuring equal access to opportunities and resources
Passion	Devotion to serve
Equity & Environmental Sustainability	Being fair & caring for the environment

Synergy	Commitment to teamwork
---------	------------------------

Core business/mandate

The Company's core mandate is derived from section 78, 83 & 94 of the Water Act 2016. In addition, the Company's objectives (as provided for in the Memorandum and Articles of Association) define the extent of the Company's core business.

Thus, NARUWASCO's core mandate is as follows:

- i. Provide water services within the area specified in the licence.
- ii. Develop county assets for water service provision.
- iii. Hold the county or national public water services assets on behalf of the public.
- iv. Develop investment plans for rural water service provision.

Directors

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

Mr. Charles Njuru	- Chairman –Re-appointed 17 th June 2020
Ms. Mary Mburu	- Vice-Chairperson – Re-appointed 17 th June 2020
Mr. Muriithi Kiogora	- Member – appointed 1 st February 2021
Mr. Kipng'etich Cherono	- Member –Re- appointed 17 th June 2020
CPA Virginia Kimani	- Member – appointed 14 th April 2020
Mr. Gabriel Chepkwony	- Member – appointed 14 th April 2020
Mr. Benson Nguyo	- Member – appointed 14 th April 2020
CPA Hussein Mohammed	- Member – appointed 1 st February 2022
Eng. Margaret Kinyanjui	- Member- Appointed 16 th January 2023
Mr. Joseph Malinda	- Member-Appointed 10 th February 2023
FCPA. Reuben K Korir	- Managing Director – Re-appointed 1 st October 2020

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Corporate Secretary

CS Gikuhi Kiana

P.O. Box 1271, 10100

Nyeri.

Registered Office

P O Box 386 – 20100

NARUWAS CO PLAZA

Stanley Mathenge Road off Nakuru - Eldoret Highway

Nakuru, Kenya

Corporate Headquarters

P O Box 386 – 20100

NARUWASCO PLAZA

Stanley Mathenge Road off Nakuru - Eldoret Highway

Nakuru, Kenya

Corporate Contacts

Telephone: (254) 51 2 213 214, 721 344 898,

E-mail: info@naruwasco.co.ke

Website: www.naruwasco.co.ke

Corporate Bankers

Kenya Commercial Bank

P.O. Box 18-20100,

Nakuru, Kenya

Family Bank

P. O. Box 4145-20100

Nakuru, Kenya

Post Bank

P. O. Box 4199 -20100

Nakuru, Kenya

Cooperative Bank

P.O. Box 2982

Nakuru, Kenya

Independent Auditor
Auditor General

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

Nairobi, Kenya

Principal Legal Advisers

The County Attorney,

County Government of Nakuru

P O Box 14797 -20100





Nakuru County Commissioner's Office, Club Rd

Nakuru, Kenya

3. The Board of Directors

Directors	Details
 <p>Chairman – Charles Njuru Board Chairperson</p>	<p>DOB: 1958</p> <p>Independent Director.</p> <p>Charles Njuru has a wealth of experience in teaching and management having been a head teacher in various schools. He is an educationist.</p> <p>He represents Molo Sub- County at the Board and currently serves as the Chairman of the Board having previously served as the Chair of Finance and General-purpose committee.</p>
 <p>Mary Mburu</p>	<p>DOB: 00/00/ 1969</p> <p>Independent Director</p> <p>Ms. Mary M Mburu has a wealth of experience in project management and banking. She serves the Board as the Chair of the Technical committee of the Board. She represents professionals at the Board</p>
 <p>Kipngetich Cherono (CHRP)</p>	<p>DOB:31/12/1962</p> <p>Independent Director</p> <p>Mr. Kipngetich Cherono has a wealth of experience in senior management. He works in Egerton University as an administrator.</p> <p>He currently serves the Board as the chair of the Finance and General-purpose committee. He represents Rongai Sub-County at the Board.</p>
 <p>Gabriel Chepkwony</p>	<p>DOB: 16/09/1956</p> <p>Independent Director</p> <p>Gabriel Chepkwony is career manager having served in telecommunication sector. He is currently a Trustee of Telposta Pension scheme. He is a member of the Audit and Risk Management committee of the board. He represents greater Kuresoi sub-county.</p>

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 <p align="center">Benson Nguyo</p>	<p>DOB:09/03/1989</p> <p>Independent Director.</p> <p>Benson Nguyo is an accountant by profession and a director in one of the major Sacco. He represents Njoro sub-county and currently member of the Finance and General-Purpose Committee of the Board.</p>
 <p align="center">Mureithi Kiogora</p>	<p>DOB: 1971</p> <p>Executive Director.</p> <p>Mureithi Kiogora is an environmentalist and serves as the chief officer of water in Nakuru County. He represents the County Government of Nakuru in the Board. He is a member of both Technical and Finance and Technical committees of the Board.</p>
 <p align="center">CPA Virginia Kimani</p>	<p>DOB: 27/04/1977</p> <p>Independent Director.</p> <p>CPA Virginia Kimani is an accountant by profession and currently serves as a finance officer in a major e-payment service provider firm. She currently serves as the Chair of the Audit, Governance and Risk management committee of the Board.</p>
 <p align="center">CPA Hussein Mohamed</p>	<p>DOB: 28/12/1987</p> <p>Executive Director.</p> <p>CPA Hussein Mohamed is an accountant by profession and currently serves as the Chief Officer Economic Planning at the County Government of Nakuru. He represents CEC Finance and Economic Planning at the Board of NARUWASCO. He is a member of the Audit, Governance and Risk Management Committee.</p>



 <p>Eng. Margaret Kinyanjui</p>	<p>D.O.B: 4/11/1984</p> <p>Executive Director</p> <p>Eng. Margaret Kinyanjui is an Engineer by profession and currently serves as the Chief Officer Water and Sanitation at the County Government of Nakuru. She represents CEC Water at the Board of NARUWASCO. She is a member of the Finance and Technical Committees of the Board.</p>
 <p>Joseph Malinda</p>	<p>D.O.B:</p> <p>Executive Director.</p> <p>Mr. Joseph Malinda is a Lawyer by profession and currently serves as the Chief Officer Finance at the County Government of Nakuru. He represents CEC Finance and Economic Planning at the Board of NARUWASCO. He is a member of the Audit and Risk Management Committee of the Board</p>
 <p>FCPA Reuben K Korir</p>	<p>DOB: 29/09/1969</p> <p>Managing Director</p> <p>FCPA Reuben K Korir is an Accountant by profession, with 26 years' experience in the water sector and 5 years working with the Auditor - General. He is currently the MD/CEO.</p>

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4. Key Management Team

Managers	Details
 FCPA Reuben K Korir	CEO/MD BCOM (Accounting), CPA (K)
 John Okioga	Ag. Technical Services Manager B(Tech)
 CPA Benjamin Maundu	Commercial Manager BCom (Accounting) CPA (k)
 Gladys Cheruiyot	Ag. Human Resource and Administration Manager BBA (HR)
	Finance Manager BCom (Accounting) CPA (K)

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CPA Teresia Ng'ang'a	
 <p align="center">CPA Mary Njoroge</p>	<p>Senior Internal Auditor Bcom (Finance) CPA (K)</p>
 <p align="center">Gilbert Chelule</p>	<p>Snr. IT Systems Administrator BSc. IT</p>

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5. Chairman's statement

It is my pleasure to present the Annual Report and Financial Statements of Nakuru Rural Water and Sanitation Company Limited (NARUWASCO) for the year ended 30th June 2023. During the year, the company has continued to play its key role in providing water services within its area of jurisdiction as defined and mandated by the Water Act 2016 and the license from Water Services Regulatory Board (WASREB).

The new constitution recognizes access to water as a basic human right to all citizens. In this regard, the Board has put in place measures to ensure that the goal of increasing access to water and sanitation is attained. Accordingly, the company has continued to source and engage partner support, in implementing various programs/projects within its service area aimed at increasing access to water. Among our current main partners are, County Government of Nakuru, WSTF, WASREB, Vitens Evides International (VEI), GATSBY AFRICA, CRVWWDA).

During the year under review, our revenue performance increased from Kshs 341,780,190.00 to Kshs 366,420,035.50 compared to the previous year 2022/2023 income. This was majorly achieved through enhanced billing and revenue activities and focused NRW management/investments. In addition, the company successfully completed development of its new strategic plan for period 2023-2027.



Mr. Charles Njuru

Chairman

Date: _____

24/1/2024

Nakuru Rural Water and Sanitation Company Limited
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6. Report of the Chief Executive Officer/MD

The financial year ended 30th June 2023 was the seventeenth year of the company's existence since its establishment in April 2007. During the year under review, below are the company financial highlights:

Income

Total income for the financial year 2022/2023 amounted to **Kshs 324,529,078** against **Kshs 341,780,190.00** for the previous year 2021/2022.

The increment resulted from:

- intense inspections thus unearthing many illegal connections that were surcharged accordingly.
- Implementation of disconnection through the system where a customer is automatically penalized upon disconnection.
- Increased billing and revenue monitoring activities.
- Increased metering

Current ratio:

2022/2023	2021/2022
0.55	0.53

Required – 1:1

Target 2023/2024 – 1:1

NB: the current liabilities include an amount of **Kshs 214,025,320.00** accruing to CRVWDA in relation to the operationalisation of the Water Act 2002 which has been repealed. An appeal for write-off has been initiated.

Balance sheet:

2022/2023	2021/2022
Kshs 737,443,178	Kshs 728,669,883

Non-Revenue Water:

The company has continued reduction of NRW over time and closed the year with an NRW of 45%.

2018/2019	2019/2020	2020/2021	2021/2022	2022/2023
58	55	54	49	45

Among the interventions made to reduce NRW are:

Physical losses - leaks & bursts.

- i. Intensive patrolling,
- ii. Leak detection- using flow meters,
- iii. Pressure management using PRV's & BPT

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- iv. Minimal night flow measurements
- v. Quick Response to Bursts And leaks.
- vi. Use of quality materials/pipes and fittings e.g., HDPE
- vii. Use of GIS for mapping and reporting of leaks
- viii. Formation of zones & DMAs for easy monitoring

Organizational improvement

- i. Formation of NRW unit
- ii. Budget support on NRW activities

Unauthorized consumption (illegal connections)

- i. Community sensitization
- ii. Locating meter at a strategic position to minimize the risk of being tampered with.
- iii. Punitive penalties to those involved in illegal activities.

Metering inaccuracies, Tampering and Data handling errors.

- i. Choice of meter selection and installation standards
- ii. Regular meter reading and generation of exceptional meter reading reports
- iii. Sealing of all customer meters.
- iv. Calibration of bulky meters using UFM
- v. Address Data handling Errors in meter reading and billing system.

New water Tariff:

During the year under review, the company successfully completed the review of its water tariff. The tariff was gazetted in August 2023 for implementation. This shall aid the company in meeting most of its financial needs.

Staff matters.

Capacity building of Staff - trainings

To motivate and build capacity of our staff to be able to face new technological advances in the water sector, we continued training and development programs for staff through sponsorship to attend various courses related to their lines of duty. The total training expenditure for the financial year was **Kshs 3,819,580.00**.

WASCO Games:

The company during the year participated in WASCO games held in Kisumu competing in two disciplines namely, Pool Table and Darts. Our pool table team come out second overall.

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During the homecoming celebration at Head Office, the team was promised recognition, accordingly an award and recognition policy was developed and approved by the Board.

Corporate affairs:

i. Board evaluation:

During the year under review, the company trained board members and members undertake self-evaluation as prescribed in the corporate guidelines.

ii. Stakeholders Conference/Meeting:

As a sector requirement, we held a successful stakeholder meeting with our customers and the public. The engagement was around disseminating information to the customers in addition to receiving complaints and compliments. Our stakeholders pledged to continue supporting the company as it endeavours to provide and expand services to unreached areas and customers.

Benchmarking:

Following our sustained improvement in performance, the company has become a bench-marking destination for other WSPs and institutions within the sector. During the period under review, we received/hosted several WSPs on benchmarking.

Donors/Partners

During the year, we continued implementation of the WWX project (a partnership program with the Netherlands) through VEI. This is a 15-year partnership with the Dutch government and its WSPs under a program called WaterWorX, focusing majorly on capacity building and network extension to provide improved access to clean water and sanitation services to 10 million people by the year 2030.

We also implemented Kasarani Kaloleni last mile connectivity project through WSTF and received a donation from Gatsby Africa for purchase of meters.


FCFA Reuben K Korir

Managing Director

Date: 24/1/2024

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

NARUWASCO has 8 strategic objectives within the current Strategic Plan for the FY 2017- FY 2022. These strategic objectives are as follows:

1. Increase access to water and sanitation services.
2. Continuously implement financial management controls
3. Ensure financial sustainability.
4. Ensure efficient utility management, economic utilization of available water resources.
5. Strengthen institutional capacity.
6. Leverage on ICTs and other technologies
7. Ensure adequate and competent human resources.
8. Promote high levels of employee performance.

NARUWASCO develops its annual work plans based on the above 8 strategic objectives. Assessment of the Board's performance against its annual work plan is done on an annual basis. The company achieved its performance targets set for the FY 2022/2023 period for its 8 strategic pillars, as indicated in the diagram below:

Strategic pillar	Strategic Objective	Key Performance Indicators	Activities	Achievements
Social Equity	Increase access to water and sanitation services	Number of dormant accounts No. of funded proposals	Increase active accounts. Lobby and solicit for funding from governments and other partners.	Active connections marginally increased. Received funding from donors (VEI, WaterWorX, GATSBY Africa)
Economic Efficiency	Continuously implement financial management controls	Working capital ratio Liquidity ratio Acid test ratio Cash ratio Debt ratio Asset coverage ratio Cost volume profit analysis	Adhere to budget and cost controls Rationalize expenditure	Budget adhered to and any changes experienced during the year factored in the reviewed budget. Expenditure within the budget.
Economic Efficiency	Ensure financial sustainability	Amount collected Amount billed Total arrears	Improve on billing and collection	Billing and collections marginally increased

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			Reduce arrears	compared to the last financial year
Economic Efficiency	Ensure efficient utility management, economic utilization of available water resources	<p>Metering ratio</p> <p>Number of inspections carried out per month</p> <p>Random checks on account connections in all area</p> <p>Unearthed illegal connections</p> <p>DMAs created</p> <p>Water balance – real losses</p> <p>Water balance – commercial losses</p> <p>Infrastructure rehabilitated</p> <p>Metering –</p> <p>Production meters</p> <p>Metering- DMA meters</p> <p>Data clean up</p> <p>Certificates issued (For Inspections on Quality of pipes and fittings)</p> <p>Number of pressure zones</p> <p>Serviced and calibrated meters</p> <p>Response time to leaks and bursts</p>	<p>Increase the Number of consumer meters installed</p> <p>Undertake monthly and quarterly audit and inspections in all regions</p> <p>Reduce of Non-revenue water</p>	<p>Improved metering ratio targeting to 100% .</p> <p>Programs on inspections adhered to and reports submitted to the board of directors on quarterly basis.</p> <p>Non-revenue water gradually reducing.</p> <p>Illegal connections unearthed and culprits surcharged accordingly.</p> <p>Continued Infrastructure renewal and new extensions to open new areas.</p> <p>DMAs continually done.</p> <p>Tickets acted upon immediately.</p>
Good governance	Strengthen institutional capacity	Staff computer/device ratio	Improve staff productivity	Capacity building has continuously been done to staff

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		Number of staff with basic IT proficiency Capacity of users to utilize ERP System Systems Up time	Maintain efficiency in service delivery	with a sufficient budget allocation.
Economic efficiency	Leverage on ICTs and other technologies	Number of Automated production meters Number of Automated water kiosks Number of Customer self-service channels (Apps, USSD, Portal) Improved ERP modules IP phones installed in regions and Head Quarters.	Expand automation of operations and services Enhance customer service experience Upgrade existing systems Adopt new relevant technologies	All water kiosks automated. Customers are able to communicate through various platforms. E.g. Bill query etc. ERP continually being upgraded to catch up with the emerging trends. All area offices automated.
Trained staff	Ensure adequate and competent human resources	Number of skills appraisals for staff and BOD Roles: Shadow employees Training efficiency index Training hours/employee % Of staff meeting or above target Staff Productivity (Number of staff per 1000 connections)	Identify skills gaps for Staff and BODs Implement training and development programmes	Staff and BOD appraised annually. Continuous training through annual training plans.
Motivated Staff	Promote high levels of	%ge of employees rewarded	Implement effective	HR tools for performance

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	employee performance	Number of policies reviewed or implemented	performance management monitoring Develop and implement an employee reward system. Provide a conducive and safe working environment	management in place. WASREB target on staff productivity achieved. Reward tool developed and approved. Policies governing company operations are in place and updated regularly
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8. Corporate Governance Statement

The Board of Directors of the NARUWASCO has the responsibility of enhancing corporate governance practices to bring the level of governance in line with the best practices and International Standards. The essence of good corporate governance practice is to promote and protect stakeholders' interests, among them are Nakuru County Government, CRVWWDA, WSTF, WASREB, WRA, development Partners, Communities, and water consumers.

The Board of Directors exercise leadership, enterprise, integrity, and judgment in directing the company and acts in its best interest in a transparent, accountable, and responsible way. All the board of directors have been trained on corporate governance and have signed the code of conduct as prescribed by the regulator (WASREB).

To ensure the efficient running of the Board's operations, the company has established three standing Committees which meet and make recommendations to the full Board on issues delegated to them. Each committee of the Board has a charter clearly stating its roles. During the year under review the company had the following Board Committees in place.

- i. Finance and General Purposes Committee,
- ii. Technical Committee,
- iii. Audit, Governance and Risk Management Committee.

To ensure that the board expenses are within the approved budget for 2022/2023 financial year and regulatory levels, a calendar of the Board meetings was developed and adhered to.

Board meetings held during the year:

Board Committee	Meetings held in the year	Members
Full Board & Special	10	All board members
Finance & General Purpose	7	✓ Mr. Kipnetich Cheron - Chairperson ✓ Mr. Benson Nguyo ✓ Mr. Muriithi Kiogora ✓ Eng. Margaret Kinyanjui
Audit, Governance & Risk Management	5	✓ CPA Virginia Kimani - Chairperson ✓ CPA. Hussein Mohammed ✓ Mr. Gabriel Chepkwony ✓ Mr. Joseph Malinda
Technical Services	4	✓ Ms. Mary Mburu - Chairperson ✓ Mr. Muriithi Kiogora ✓ CPA. Hussein Mohammed

		✓ Eng. Margaret Kinyanjui
--	--	---------------------------

The Board of Directors are paid sitting allowance for every meeting attended as well as accommodation allowance while on Board duty as per Government and regulatory guidelines. The Chairman is paid a monthly honorarium.

9. Management Discussion and Analysis

NARUWASCO's Operational Framework

The Ministry of Water & Irrigation is responsible for policy formulation to create an enabling environment for efficient operation and growth of the water sector. It sets the strategic direction and provides a long-term vision for all institutions in the sector. Water services is a devolved function hence the county government has a major stake in the company. The power of monitoring and inspection is performed by the county government.

The company's broad mandate is provided for by the Water Act 2016 sections 78, 83 & 94 thus:

- i. provision of water services within the area specified in the license,
- ii. development of county assets for water service provision, and
- iii. to hold the County or National public water services assets on behalf of the public,
- iv. Support the county government in planning and developing measures for the provision of water services to rural areas which are considered not commercially viable for the provision of water services.

To fulfill her mandate, NARUWASCO works closely in partnership with other institutions in the sector. Some of the institutions that partner with NARUWASCO in the water sector include Water Services Regulatory Board (WASREB) that exercises national regulatory powers, Water Resource Authority (WRA) which has the authority to manage the catchment areas and sources of water, Water Sector Trust Fund (WSTF) mobilizes grants and cheap finances for the water companies mainly on pro-poor areas, Water Appeals Board (WAB) with mandate of dispute resolution relating to water issues.

Company Governance and Management Structure

The company is governed by a Board of Directors comprising various stakeholders among Constituency/sub-county representatives and the County Government (shareholder). The Board has two roles: oversight, strategy, and policy direction roles on management of NARUWASCO. The top management of NARUWASCO is led by the Managing Director (MD) and supported by senior managers heading specific functions.

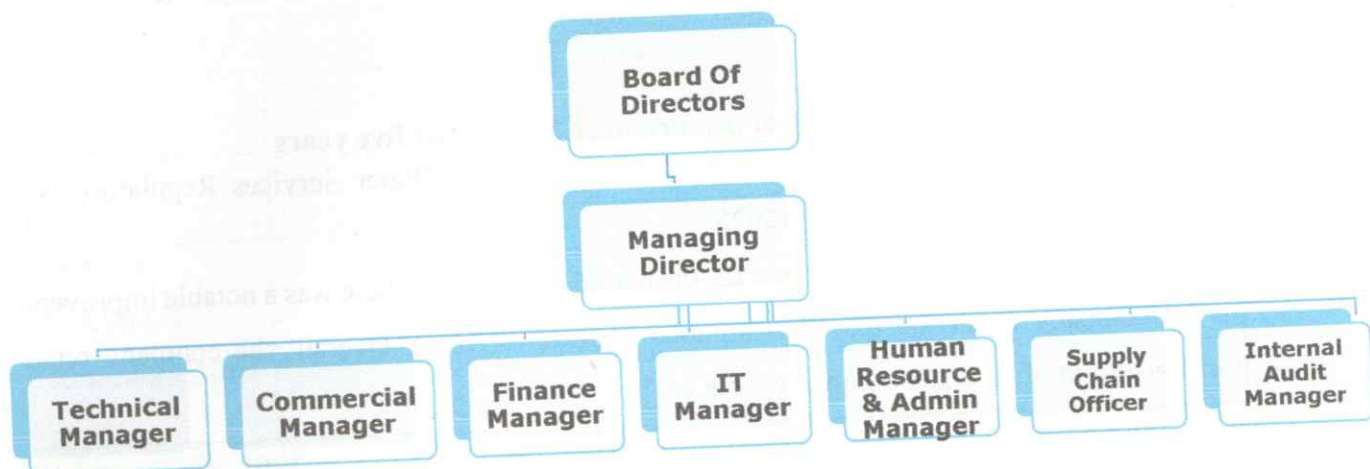


Figure: Company Organisation Structure.

Financial strategy

Our financial strategy is to be able to generate sufficient revenues to meet company operational and developmental requirements. Partnership with donors to enable the company to solicit for grants/finances to enable financing for long term sustenance of the infrastructure is also key.

Compliance with statutory requirements

The organization's financial statements have been prepared in accordance with the provisions of the PFM Act and have also complied to public sector accounting standards of Kenya and the approved IFRS templates.

The company is a going concern and have no ongoing or potential court cases that may expose to potential contingent liabilities.

Major Risks Facing the entity

There is no major risk facing the entity during the financial year. The improved revenue is an indicator that the going concern is not doubtful.

Material arrears in statutory deductions

The main debt in statutory deductions is the pension where there is an agreement between the two parties on how to settle the same. The agreement has henceforth been honored.

Financial and governance issues

There is no major financial improbity reported by the internal audit, the audit and risk management committee, or any other oversight body during the financial year. Additionally, NARUWASCO

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does not have any governance issue among the board of directors or the corporate management team.

Report on operational and financial performance for the last five years

Below is the operational and financial performance as per Water Services Regulatory Board (WASREB) Sector Report for 2021/2022

WASREB released its Impact 15 report for the period 2021/2022. There was a notable improvement by the company in all the Key Performance Indicators (KPIs). Overall, the company retained position 18 out of 88 water companies in Kenya.

Indicator	Progress on Sector KPIs ¹ overtime				
	2018/ 2019	2019/2020	2020/2021	2021/2022	2022/2023
Water Coverage (%)	62	71	75	83	85
Drinking Water Quality (%)	95	99	93	93	99
Hours of Supply (hrs/day)	12	19	18	18	20
Non- Revenue Water (%)	58	55	54	49	45
Metering Ratio (%)	60	71	86	91	97
Staff Productivity (Staff per 1000 Connections)	10	8	6	5	5
Personnel expenditure as % of O+M Costs (%)	40	52	53	50	45
Revenue Collection Efficiency (%)	99	98	103	97	100
O+M Cost Coverage (%)	102	108	113	102	105

¹ Reference - WASREB Impact Reports45

Nakuru Rural Water and Sanitation Company Limited
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Governance (%)	60	73	78	-	85
Pro-Poor (%)	-	64	62	63	85
Credit Worthiness Index	-	B	B	B	BB
Overall WASREB Ranking (Out of 88)	42	25	25	18	Top 10

Key Projects

The following are the key projects implemented during the financial year.

- i. Kasarani Kaloleni Matuiku water project funded by WSTF for implementation of water infrastructure and last mile connectivity in Elburgon township.
- ii. Mutirithia water project funded by VEI for water infrastructure in Molo.
- iii. Relocation of water and sewerage infrastructure along the PPP project road Gilgil Weighbridge – Njoro turn Mausummit funded by KeNHA.

10. Environmental and Sustainability Reporting

NARUWASCO exists to transform lives through provision of portable water to its customers across the defined service area. 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 portable water and improving operational excellence for efficiency and effectiveness. Below is an outline of the organisation's policies and activities that promote sustainability.

i) Sustainability strategy and profile -

Management has put in place measures to ensure sustainability of our service provision that meets the highest standards. The company top management has the capacity to take the company to the next level of excellence both financially and operationally. The company has aligned its operations and strategies to the county and national water strategies.

ii) Environmental performance

The company is actively involved in environmental protection activities, we have an annual tree planting event in our calendar. The event involves engaging partners in environmental conservation activities aimed at reversing climate change trends. During the period under review, the company held a tree planting event at Nguso springs.

iii) Employee welfare

Human capital is the key factor in provision of the company services hence the company is keen on employee welfare and that it has passed several policies towards ensuring employees welfare is attended to. During the period under review, among others the company approved a staff welfare fund policy to cushion staff during medical emergencies and bereavement.

The company has ensured compliance to relevant laws on gender ration (NGEC act) and safety at workplace (OSHA). In addition, the company has in place Human resource management tools and manuals that guides promotions, reward systems, and appraisal.

iv) Market place practices-

a) Responsible competition practice.

Explain how the organisation ensures responsible competition practices with issues like anti-corruption, responsible political involvement, fair competition and respect for competitors. The company has a fraud and anti-corruption policy in place.

b) Responsible Supply chain and supplier relations

The company maintains good business practices and treats its own suppliers responsibly by honouring contracts and respecting payment practices.

c) Responsible marketing and advertisement

Outline efforts to maintain ethical marketing practices.

d) Product stewardship

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The company is regulated by WASREB and one of the key performance indicators (KPIs) is on customer relations and service hours. Accordingly, the company strives to better its service provision always.

Corporate social responsibility/community engagements

During the year under review, the company engaged in several CSR activities to impact positively on the society. Among the activities was participation in the tree planting activity at Itare dam (500 indigenous tree seedlings donated).

Sanitary pads to Elburgon DEB and Sokoro primary schools.

11. Report of the Directors

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

Principal activities

During the year under review, the company continued with its core mandate of water and sanitation services provision.

Results

During the year under review, the company realised total income of Kshs **345,438,002** against Kshs **341,780,190.00** for the previous year 2021/2022, this shows an increase.

Dividends

As provided for in the Water Act 2016, no dividends shall be paid by a WSP until universal coverage is met.

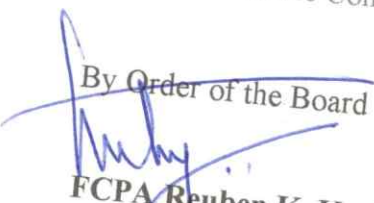
Directors

The members of the Board of Directors who served during the year are shown on page (iv) above.

Auditors

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

By Order of the Board


FCPA Reuben K. Korir
Secretary to the Board
Date:

Nakuru Rural Water and Sanitation Company Limited
Annual Reports and Financial Statements For the year ended June 30, 2023

12. Statement of Directors' Responsibilities

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

The Directors 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 NARUWASCO financial statements give a true and fair view of the state of the company's transactions during the financial year ended June 30, 2023, and of the company's financial position as at that date. The Directors further confirm the completeness of the accounting records maintained for NARUWASCO, which have been relied upon in the preparation of the company 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 NARUWASCO will not remain a going concern for at least the next twelve months from the date of this statement.

Nakuru Rural Water and Sanitation Company Limited
Annual Reports and Financial Statements For the year ended June 30, 2023

Approval of the financial statements

NARUWASCO's financial statements were approved by the Board on **21st September 2023** and signed on its behalf by:



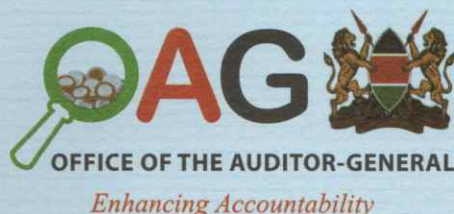
Signature:
Charles Njuru
Chairperson of the Board



Signature:
FCPA Reuben K Korir
Accounting officer

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 NAKURU RURAL WATER AND SANITATION COMPANY LIMITED FOR THE YEAR ENDED 30 JUNE, 2023

PREAMBLE

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

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

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

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

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of Nakuru Rural Water and Sanitation Company Limited set out on pages 1 to 46, which comprise of the statement of financial position as at 30 June, 2023 and the statement of profit or loss and other comprehensive income, statement of changes in equity, statement of cash flows and statement of comparison of budget and actual amounts for the year then ended and a

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

In my opinion, except for the effect of the matters described in the Basis for Qualified Opinion section of my report, the financial statements present fairly, in all material respects, the financial position of Nakuru Rural Water and Sanitation Company Limited as at 30 June, 2023 and of its financial performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards and comply with Companies Act, 2015 and the Water Act, 2016.

Basis for Qualified Opinion

1. Unsupported Expenditure on Bulk Water Purchase

The statement of profit or loss and other comprehensive income reflects production cost amounting to Kshs.69,989,483. The amount includes bulk water purchase costs of Kshs.9,471,460 as disclosed in Note 10 to the financial statements. However, the expenditure was not supported with invoices and contract agreement between the company and Nakuru Water and Sanitation Company.

In the circumstance, the accuracy and propriety of production cost amounting to Kshs.69,989,483 could not be confirmed.

2. African Development Bank (AFDB) Loan

The statement of profit or loss and other comprehensive income reflects African Development Bank (AFDB) loan amounting to Kshs.7,085,934 relating to loan repayment which is not recurrent expenditure in nature and was not budgeted. Further, as previously reported, the principal loan amounting to Kshs.178,529,739 was offered to the Rift Valley Water Services Board to undertake various infrastructure projects. However, none of the infrastructure assets were handed over to the Company. Further, the interest payable is not supported by way of contractual or agreement.

In the circumstances, the accuracy, and validity of the AFDB Loan amounting to Kshs.7,085,934 could not be confirmed.

3. Unsupported Inventories Balance

Statement of financial position reflects inventories balance of Kshs.1,873,186 as disclosed in Note 29 to the financial statements. However, the balance was not supported by stores ledger cards, bin cards, stock taking instructions and stock taking sheets. Further, the water stock in the tanks and pipelines at the closure of the financial year has not been incorporated in the balance.

In the circumstances, the accuracy and fair statement of the inventories balance of Kshs.1,873,186 could not be confirmed.

4. Receivables Balance

The statement of financial position reflects receivables balance of Kshs.189,127,557 as disclosed in Note 30 to the financial statements. The aging analysis of the receivables reflects negative receivables amounting Kshs.7,801,609 aged is less than sixty (60) days as disclosed in Note 30(a) to the financial statements. The negative balances has not been explained. Further, analysis of the movements of trade receivables during the period revealed unexplained variance of Kshs.2,794,234. In addition, the receivables amounting to Kshs.190,371,454 have been outstanding for over 180 days.

In the circumstances, the accuracy, and recoverability of trade and receivables balance of Kshs.189,127,557 could not be confirmed.

5. Unsupported Share Capital Balance

The statement of financial position reflects share capital balance of Kshs.500,000 as disclosed in Note 34 to the financial statements. Review of the Articles of Association revealed that the share capital of the Company is Kshs.500,000 divided into five thousand (5000) shares with a par value Kshs.100. However, documentary evidence in support issues and payment of issued shares was not provided for audit. Further, share certificates for issued and paid for shares were not provided.

In the circumstances, the accuracy and ownership of the share capital amounting to Kshs.500,000 could not be confirmed.

6. Trade and Other Payables Balance

The statement of financial position reflects trade and other payables balance of Kshs.381,033,262 as disclosed in Note 38 to the financial statements. The following anomalies were noted;

- i. The balance includes an amount of Kshs.214,025,320 owed to Central Rift Valley Water Works Development Agency. However, the amount has not been disclosed as a receivable in the Agency financial statements and has been outstanding for too long.
- ii. The balance includes unremitted statutory deduction and other payroll deductions totaling to Kshs.56,113,787 recovered from employees but not remitted to various institutions. Management did not provide an explanation for non-remittance of the deductions to the respective institutions.
- iii. In addition, trade other payables balance include amounts of Kshs.41,870,546 and Kshs.15,296,307 in respect to regulatory fee to Water Services Regulatory Board and Water Resources Management Authority respectively. The amount has accumulated over the years and no explanation was provided for non-remittance of the levies.
- iv. The balance includes Africa Finance Development Bank loan payable to Central Rift Valley Water Works Development Agency amounting to Kshs.42,515,603. Review of records revealed that the loan was utilized by Rift Valley Water Works Development

Agency to develop various infrastructure projects on behalf of Nakuru Rural Water and Sanitation Company Limited. However, the infrastructural assets were not handed over to Nakuru Rural Water and Sanitation Company Ltd. Further, the loan agreement was not provided for audit. In addition, the loan amount has not been disclosed as a receivable in the financial statements of the water works agency for the year ended 30 June, 2023.

In the circumstances, the accuracy and fair statement of trade and other payables balance of Kshs.381,033,262 could not be confirmed.

7. Inaccuracies of Consumer Deposits

The statement of financial position reflects consumer deposits amounting to Kshs.42,999,093 as disclosed in Note 39 to the financial statements. However, the amount differs with the deposit bank account balance of Kshs.20,024,766 resulting to a variance of Kshs.22,974,327. This is an indication that the Company had spent customer deposits without authority. Further, the deposits bank reconciliation statement for the month of June, 2023 revealed consumer deposits amounting to Kshs.19,973,804 which were not credited in the bank account. No explanation was provided for the variance. In addition, the deposits ledger was not provided for audit verification.

In the circumstances, the accuracy and completeness of the consumer deposits balance of Kshs.42,999,093 could not be confirmed.

8. Unsupported Prepayment Income

The statement of financial position reflects prepayment income balance of Kshs.9,106,820 as disclosed in Note 40 to the financial statements. The balance includes domestic liability from the Company amounting to Kshs.7,593,016 which was not supported.

In the circumstances, the accuracy and completeness of the prepayment income balance of Kshs.9,106,820 could not be confirmed.

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

Emphasis of Matter

1. Budgetary Control and Performance

The statement of comparison of budget and actual amount reflects a total revenue budget amounting to Kshs.401,221,655 against actual receipts of Kshs.354,671,780 resulting to revenue shortfall of Kshs.46,549,876 or 12% of the targeted revenue.

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

The budget under performance negatively affected service delivery to the residents of Nakuru.

2. Material Uncertainty Relating to Going Concern

The statement of financial position reflects current assets balance of Kshs.243,676,831 against current liabilities balance of Kshs.435,577,175 resulting to negative working capital of Kshs.191,900,344. Further, statement of profit or loss and other comprehensive income reflects a deficit of Kshs.41,950,879 a deterioration of Kshs.34,264,540 from the prior year deficit of Kshs.7,869,339 diminishing the revenue reserved further to negative Kshs.421,819,545. The unfavorable performance and weak financial position denotes the existence of material uncertainty on the Company's ability to meet its financial obligations and the sustainability of services. However, this fact has not been disclosed while the Company's sustainability is heavily dependent on continued support by the County Government of Nakuru, creditors and other stakeholders.

My opinion is not modified in respect of these matters.

Key Audit Matters

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

Other Matter

Unresolved Prior year Matters

In the audit report of the previous year, several issues were raised under the Report on Lawfulness and Effectiveness in Use of Public Resources and Report on Effectiveness of Internal Controls, Risk Management and Governance which have remained unresolved as at 30 June, 2023

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

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

Basis for Conclusion

1. Delayed Hand-over of Relocation of Water and Sewerage Infrastructure Project

A contractor was awarded the tender to execute the contract for the relocation of the water supply and sewerage infrastructure along the Gilgil weigh bridge to Barnabas and

Njoro turnoff to Total Mau Summit at a contract price of Kshs 314,674,519 for a duration of 9 months (inclusive of defects notification period). The contract agreement was signed 7 May, 2021. A review of records revealed that Kshs.223,919,164 has been paid to date out of the contract price of Kshs.314,674,519. However, 3 years since commencement of the project: the company has not taken over the project; the contractor had not been issued with the certificate of completion and final payments had not been made.

In the circumstances, value for project works and services was not achieved in the implementation of the project.

2. Excessive Non- Revenue Water

The statement of profit or loss and other comprehensive income reflects water sale amounting to Kshs.303,760,293 as further disclosed in Note 6 to the financial statements. Review of records revealed that the Company produced a total of 7,482,581 cubic meters (M³) of water out of which, 4,080,087 Cubic Metres (M³) was billed to customers for Kshs.303,760,293 while the balance of 3,402,494 Cubic Metres (M³) or approximately 45.5% of the total volume of water produced represents non-revenue water. The non-revenue water of 45.5% was over and above the allowable loss of 25% set by the Water Services Regulatory Board (WASREB) guidelines by 20.5%. Further, the non-revenue water amounting to 3,402,494 cubic meters (M³) resulted in loss sales amounting to Kshs.235,112,335 at the rate of Kshs.69 per M3 minimum water sale tariff.

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

3. Non-Compliance with Metered Connection

The statement of profit or loss and other comprehensive income reflects water sale amounting to Kshs.303,760,293. The amount relates to sale of 4,080,087 Cubic Metres of water. Review of records revealed that the Company has connected 31,420 customers, however, 10,523 of the connections were not metered contrary to Part III of the Water Service Regulatory Board (WASREB) Model Water Service Regulation on unmetered connections which states that where on the commencement of these Regulations consumers have an un-metered supply of water from the water service provider, the consumer shall pay the water bills charged by the water service provider in accordance tariffs approved by the Regulator. The water service provider shall ensure that all connections shall be metered within one year and shall provide a report to the water service Board and the Regulator on the progress with the provisions of this regulation charge.

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

The audit was conducted in accordance with the International Standards for Supreme Audit Institutions (ISSAI) 4000. The Standard requires that I comply with ethical requirements and plan and perform the audit to obtain assurance about whether the activities, financial transactions and information reflected in the financial statements comply, in all material respects, with the authorities that govern them. I believe that the

audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

REPORT ON THE EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

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

Basis for Conclusion

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

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

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

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

Responsibilities of Management and 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 controls as Management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error and for its assessment of the effectiveness of internal controls, risk management and 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 sustainability of services 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 are 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 controls may not prevent or detect misstatements and instances of non-compliance. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies and procedures may deteriorate.

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

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

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

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


FCPA Nancy Gathungu, CBS
AUDITOR-GENERAL

Nairobi

21 March, 2024

Nakuru Rural Water and Sanitation Company Limited
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14. Statement of Profit or Loss & Other Comprehensive Income for the Year Ended 30 June 2023.

	Notes	2022-2023	2021-2022
		Kshs	Ksh
Revenue			
Water sale	6	303,760,293	279,080,161
Other incomes:	7	20,768,785	29,267,845
Grants	8	-	34,018,692
Billing adjustments	9	-	(586,508)
Total revenue		324,529,078	341,780,190
Operating Expenses			
Production cost	10	69,989,483	48,169,955
Administrative costs	11	46,608,263	47,890,579
Staff costs	12	155,655,344	150,470,460
Bank Charges	13	454,026	254,020
Contracted professional services	14	12,551,639	11,534,413
Hire of Transport, Plant & Machinery	15	861,600	747,770
Training Expenses	16	3,819,580	4,259,060
Regulatory fee	17	13,472,961	12,311,624
Water Users/Permit fees	18	3,725,852	3,956,763
Honoraria	19	780,000	770,000
Repairs & Maintenance	20	5,985,800	8,263,668
Board Expenses	21	5,489,300	4,863,300
Depreciation	22	33,642,265	41,469,442
Amortization	23	5,390,090	7,071,541
Audit fees	24	348,000	348,000

Nakuru Rural Water and Sanitation Company Limited
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AFDB LOAN	25	7,085,934	7,085,934
Provision for bad debts	26	619,820	-
Total Expenses		366,479,957	349,466,529
Surplus (Deficit)		(41,950,879)	(7,686,339)

Nakuru Rural Water and Sanitation Company Limited
Annual Reports and Financial Statements For the year ended June 30, 2023

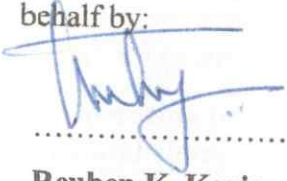
15. Statement of Financial Position As of 30 June 2023

	Notes	2022-2023	2021-2022
		Kshs	Kshs
Assets			
Non-Current assets			
Property Plant & Equipment	27	482,278,297	465,243,361
Intangible assets	28	11,488,051	16,878,141
Total Non-current assets		493,766,347	482,121,502 ®
Current Assets			
Inventories	29	1,873,186	2,612,759
Receivables	30	189,127,557	197,595,899
Deposits (Electricity)	31	4,707,500	4,699,000
Bank and Cash balances	32	43,362,839	37,034,974
KRA VAT Refund	33	4,605,749	4,605,749
Current assets		243,676,831	246,548,381
Total Assets		737,443,178	728,669,883
Equities and Liabilities			
Capital and Reserves			
Share capital	34	500,000	500,000
Capital Reserve	35	228,709,738	228,709,738
Revenue Reserve	36	(421,819,545)	(400,777,590)
Grants	37	494,475,811	446,307,853
Capital & Reserves		301,866,004	274,740,001
Current Liabilities			
Trade and other Payables	38	381,033,262	403,802,490
Consumer Deposits	39	42,999,093	38,558,643


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Prepayment income	40	9,106,820	8,830,749
Accruals (provision for Audit fees)	41	2,438,000	2,738,000
Total Current Liabilities		435,577,175	453,929,882 ®
Total Liabilities		737,443,179	728,669,883 ®


The financial statements were approved by the Board on 21st September 2023 and signed on its behalf by:



Reuben K. Korir
Managing Director



Terry M. Nganga
Head of Finance
ICPAK M/No:17256



Charles N. Njuru
Chairman of the Board

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

	Share Capital	Capital Reserve	Reserve Reserve	Grants	Totals
As at 1 July 2022	500,000	228,709,738	(400,777,590)	446,307,853	274,740,001
Surplus (Deficit) for the year	-	-	(41,950,879)	-	(41,950,879)
Grants - Water worx/WSTF /GATSBY	-	-	-	51,375,528	51,375,528
Adjustment (Tax amnesty)	-	-	20,908,924	-	20,908,924
Grant amortization	-	-	-	(3,207,570)	(3,207,570)
As at 30th June 2023	500,000	228,709,738	(421,819,545)	494,475,811	301,866,003

Note:

Adjustment on revenue reserves relates to tax amnesty on finance bill 2023 where an entity is entitled to it if principal amount is cleared.

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

	Notes	Current year	Actual Audited Prior year
Cash Flows from Operating Activities			
Operating profit/(loss)		(41,950,879)	(7,686,339)
Depreciation	22	33,642,265	41,469,442
Amortization	23	5,390,090	7,071,541
Operating profit/(loss) before working capital changes		(2,918,525)	40,854,644
Working capital changes			
(Increase)/decrease in inventories		739,573	(1,916,259)
(Increase)/decrease in trade and other receivables		8,468,342	(16,700,980)
Increase/(decrease) in trade and other payables		(22,769,228)	46,324,503
(Increase)/decrease in prepayments		-	2,300,000
(Increase)/decrease in electricity deposits		(8,500)	(3,503,000)
Increase/(decrease) in consumer deposits		4,440,450	6,692,001
Increase/ decrease in VAT refunds		-	-
Increase/(decrease) in prepayment income		276,071	52,458
Increase/(decrease) in accruals		(300,000)	(1,005,520)
Net Cash Flows from Operating Activities		(12,071,817)	73,097,847
Cash flows from investing activities			
Fixed assets acquired	42	(43,568,777)	(311,085,446)
Intangible assets acquired	42	-	(7,788,136)
Net Cash flows from investing activities		(43,568,777)	(318,873,582)
Cash flows from financing activities			

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Adjustment on revenue reserve	36	20,908,924	-
Receipts from KeNHHA	37	25,000,000	262,694,139
Receipts from WSTF	37	12,559,534	-
Receipts from GATSBY	37	3,500,000	-
Net Cash flows from financing activities		61,968,458	262,694,139
Increase (decrease) in cash and cash equivalents		6,327,864	16,918,404
Cash and cash equivalent at the beginning of the year		37,034,974	20,116,570
Cash and cash equivalent at the end of the year		43,362,839	37,034,974

Note: Adjustment in capital reserves is added back to the cashflow statement since it affects the decrease in trade payables.

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

Item Description	Original budget	Adjustments	Final budget	Actual on comparable basis	Performance difference	% Variance
Income						
Revenue	315,000,000		315,000,000	303,760,293	11,239,707	96
Other incomes:	30,000,000		30,000,000	20,768,785	9,231,215	69
WSFT Grant	16,484,389		16,484,389	12,559,534	3,924,855	76
GATSBY Africa			3,500,000	3,500,000	-	-
Mutirithia - Molo			32,000,000	10,334,945	21,665,055	32
Western NRW	2,440,000		4,237,266	3,748,223	489,043	88
Total revenue	363,924,389		401,221,655	354,671,780	46,549,875	88
Expenses						
Production cost	53,750,000	13,286,000	67,036,000	69,989,483	-2,953,483	104
Administrative costs	47,104,200	375,800	47,480,000	46,608,263	871,737	98
Staff costs	156,059,597	231,638	156,291,236	155,655,344	635,892	100
Bank Charges	200,000	300,000	500,000	454,026	45,974	91

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Contracted professional services	13,260,000	160,000	13,420,000	12,551,639	868,361	94
Hire of Transport, Plant & Machinery	700,000	200,000	900,000	861,600	38,400	96
Training Expenses	5,000,000	(1,300,000)	3,700,000	3,819,580	-119,580	103
Regulatory fee	11,000,000	1,400,000	12,400,000	13,472,961	-1,072,961	109
Water Users/Permit fees	7,200,000	(3,400,000)	3,800,000	3,725,852	74,148	98
Honoraria	780,000	-	780,000	780,000	-	-
Repairs & Maintenance	7,000,000	(1,201,503)	5,798,497	5,985,800	-187,303	103
Board Expenses	5,296,000	180,000	5,476,000	5,489,300	-13,300	100
AFDB LOAN	7,085,934	(7,085,934)		7,085,934	-7,085,934	-
Capital Expenditure	49,488,658	34,151,265	83,639,923	53,884,771	29,755,152	64
Total	363,924,389	37,297,266	401,221,655	380,364,553	20,857,102	95

Notes:

Income from grants was not achieved due to funds release from donors since the project was ongoing.
Capital expenditure underutilisation is as a result of donor funded projects that are ongoing.

19. Notes to the Financial Statements

1. General Information

NARUWASCO is established by and derives its authority and accountability from the PFM Act. NARUWASCO is wholly owned by the County Government of Nakuru and is domiciled in Kenya. Its principal activity is provision of water and sanitation services. For Kenyan Companies Act reporting purposes, the balance sheet is represented by the statement of financial position and the profit and loss account by the statement of profit or loss and other comprehensive income in these financial statements.

2. Statement of Compliance and Basis of Preparation

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

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

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

Notes to the financial statements (continued)

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

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

Title	Description	Effective Date
IFRS 17 Insurance Contracts (issued in May 2017)	The new standard establishes principles for the recognition, measurement, presentation, and disclosure of insurance contracts issued. It also requires similar principles to be applied to reinsurance contracts held and investment contracts with discretionary participation features issued. The objective is to ensure that entities provide relevant information in a way that faithfully represents those contracts. The Company does not issue insurance contracts.	Effective for annual periods beginning on or after 1 st January 2023.
IAS (International Accounting Standards) 8- Accounting Policies, Errors, and Estimates	The amendments, applicable to annual periods beginning on or after 1st January 2023, introduce a definition of 'accounting estimates' and include other amendments to IAS 8 to help entities distinguish changes in accounting policies from changes in accounting estimates.	The amendments are effective for annual reporting periods beginning on or after January 1, 2023.
Amendments to IAS 1 titled Disclosure of Accounting Policies (issued in February 2021)	The amendments, applicable to annual periods beginning on or after 1st January 2023, require entities to disclose their material accounting policy information rather than their significant accounting policies.	The amendments are effective for annual periods beginning on or after January 1, 2023.
Amendments to IAS 12 titled Deferred Tax Related to Assets and Liabilities arising from a Single Transaction (issued in May 2021)	The amendments, applicable to annual periods beginning on or after 1st January 2023, narrowed the scope of the recognition exemption in paragraphs 15 and 24 of IAS 12 (recognition exemption) so that it no longer applies to transactions that, on initial recognition, give rise to equal taxable and deductible temporary differences.	The amendments are effective for annual periods beginning on or after January 1, 2023.

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Notes to the financial statements (continued)

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

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

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

iii. Early adoption of standards

NARUWASCO did not early – adopt any new or amended standards in year under review.

Notes to the financial statements (continued)

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

b) In-kind contributions

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

Notes to the financial statements (continued)

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 recognized in profit or loss in the income statement.

d) Depreciation and impairment of property, plant and equipment

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

Depreciation on property, plant and equipment is recognized in the income statement on 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:

- | | |
|---|-------------|
| i. Buildings | - 4% |
| ii. Plant and machinery | - 12.5 % |
| iii. Motor vehicles, including motor cycles | - 25% years |
| iv. Office equipment, furniture and fittings | - 12.5 % |
| v. Computers and office equipment are depreciated | - 30% |

A full year's depreciation charge is recognized both in the year of asset purchase and none in the year of asset disposal.

Items of property, plant and equipment are reviewed annually for impairment. 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)

e) Intangible assets

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

f) Amortization and impairment of intangible assets

Amortization is calculated on the straight-line basis over the estimated useful life of the intangible asset. All intangible assets are reviewed annually for impairment. Where the carrying amount of an intangible asset is assessed as greater than its estimated recoverable amount, an impairment loss is recognized so that the asset is written down immediately to its estimated recoverable amount. Intangible assets are amortized at the rate of 20%.

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.

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

Notes to the financial statements (continued)

depreciated over the shorter period of lease term and useful life of the underlying asset. If a lease transfers ownership of the underlying asset or the cost of the right-of-use asset reflects that the entity expects to exercise a purchase option, the related right-of-use asset is depreciated over the useful life of the underlying asset. The depreciation starts at the commencement date of the lease. The right-of-use assets are presented as a separate line in the statement of financial position.

i) Fixed interest investments (bonds)

Fixed interest investments refer to investment funds placed under Central Bank of Kenya (CBK) long-term infrastructure bonds and other corporate bonds with the intention of earning interest 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.

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 and when the necessary approval to write off is granted.

Notes to the financial statements (continued)

n) Taxation

i) Current income tax

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

Deferred tax liabilities are recognized for all taxable temporary differences, except in respect of taxable temporary differences associated with investments in controlled entities, associates and interests in joint ventures, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognized for all deductible temporary differences, the carry forward of unused tax credits and any unused tax losses. Deferred tax assets are recognized to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilized, except in respect of deductible temporary differences associated with investments in controlled entities, associates and interests in joint ventures, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

Notes to the financial statements (continued)

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

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

p) Borrowing costs

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

q) Cash and cash equivalents

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

Notes to the financial statements (continued)

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

r) Borrowings

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

s) Trade and other payables

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

t) Retirement benefit obligations

The Company operates a defined contribution scheme for all full-time employees from July 1, 2021. 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 the rate of 7.5 % and 15 % per employee per month.

u) Provision for staff leave pay

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

v) Exchange rate differences

The accounting records are maintained in the functional currency of the primary economic environment in which the entity operates, Kenya Shillings. Transactions in foreign currencies during the year/period are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured.

Notes to the financial statements (continued)

Any foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in profit or loss.

w) Budget information

The original budget for FY 2022-2023 was approved by the Board of Directors on June 2022. Subsequent revisions or additional appropriations were made to the approved budget in accordance with specific approvals from the appropriate authorities. The additional appropriations are added to the original budget by the entity upon receiving the respective approvals in order to conclude the final budget. The Company's budget is prepared on a different basis to the actual income and expenditure disclosed in the financial statements. The financial statements are prepared on accrual basis using a classification based on the nature of expenses in the statement of financial performance, whereas the budget is prepared on a cash basis. The amounts in the financial statements were recast from the accrual basis to the cash basis and reclassified by presentation to be on the same basis as the approved budget. A comparison of budget and actual amounts, prepared on a comparable basis to the approved budget, is then presented in the statement of comparison of budget and actual amounts. In addition to the Basis difference, adjustments to amounts in the financial statements are also made for differences in the formats and classification schemes adopted for the presentation of the financial statements and the approved budget. A statement to reconcile the actual amounts on a comparable basis included in the statement of comparison of budget and actual amounts and the actuals as per the statement of Comprehensive income has been presented under section xiv of these financial statements.

x) Service concession arrangements

The Company analyses all aspects of service concession arrangements that it enters into in determining the appropriate accounting treatment and disclosure requirements. In particular, where a private party contributes an asset to the arrangement, the Company recognizes that asset when, and only when, it controls or regulates the services the operator must provide together with the asset, to whom it must provide them, and at what price. In the case of assets other than 'whole-of-life' assets, it controls, through ownership, beneficial entitlement or both.

Other wise – any significant residual interest in the asset at the end of the arrangement. Any assets so recognized are measured at their fair value. To the extent that an asset has been recognized, the Company also recognizes a corresponding liability, adjusted by a cash consideration paid or received.

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Notes to the financial statements (continued)

y) Comparative figures

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

z) Subsequent events

There have been no events subsequent to the financial year end with a significant impact on the financial statements for the year ended June 30, 2023.

aa) Incorporation

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

ab) Events After the Reporting Period

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

ac) Currency

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

Notes to the financial statements (continued)

5. Significant Judgments and Sources of Estimation Uncertainty

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

a) Estimates and assumptions

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

b) Useful lives and residual values

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

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

c) Provisions

Provisions were raised and management determined an estimate based on the information available. Provisions are measured at the management's best estimate of the expenditure required to settle the obligation at the reporting date, and are discounted to present value where the effect is material.

Notes to the financial statements (continued)

6. Revenue	2022-2023	2021-2022
	Kshs	Kshs
Operating revenue	303,760,293	279,080,161

7. Other incomes	2022-2023	2021-2022
	Kshs	Kshs
Molo Sewer charges	962,003	1,010,749
Penalties, reconnections and others charges	15,520,682	22,778,595
Connections	3,538,050	5,021,001
Tanker	748,050	457,500
Totals	20,768,785	29,267,845

8. Grants (WSTF, GATSBY)	2022-2023	2021-2022
	Kshs	Kshs
	-	34,018,692

9. Billing adjustments	2022-2023	2021-2022
	Kshs	Kshs
	-	(586,508)

10. Cost of Sales	2022-2023	2021-2022
	Kshs	Kshs
Electricity for Production	32,457,623	22,069,132
Supply for Production (Chemicals)	28,060,400	21,299,993
Bulk water purchase	9,471,460	4,800,830
Total	69,989,483	48,169,955

11. Administration	2022-2023	2021-2022
	Kshs	Kshs
Official Entertainment	925,548	1,267,809
Electricity for office	388,950	335,906
Water conservancy	52,096	120,996
Telephone expenses	2,771,460	2,737,605
Internet/Data	1,444,791	1,410,785
Postal and Courier Services	97,093	90,221
Travelling and operation	21,349,750	24,377,985
Publishing and Printing Services	110,490	243,104
Subscriptions	561,890	367,135
Advertisement and Publicity	527,300	687,069

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Rent and Rates	583,500	511,000
Staff welfare	4,029,189	4,401,833
Insurance - motor	922,036	666,470
Supply of Uniforms	539,220	450,758
General Office Supplies	1,265,400	1,702,044
Transport and Operating expenses	10,996,052	8,414,858
Corporate Social Responsibility	43,500	105,000
Total	46,608,263	47,890,579

12. Staff costs		
Salaries and Allowances	118,395,876	119,351,059
Wages -Temporary Employees	20,678,022	17,229,850
Gratuity Provisions	3,109,371	2,587,168
Pension and NSSF contribution	7,592,382	7,045,900
Leave pay	3,294,977	2,812,489
Medical Expenses	474,106	1,148,194
NITA	82,300	86,000
Benevolent	508,200	209,800
Staff Compensation	1,520,110	-
Total	155,655,344	150,470,460

13. Bank charges	2022-2023	2021-2022
	Kshs	Kshs
KCB Revenue account	185,643	95,790
KCB Expenditure Account	198,710	111,148
KCB Contingency Account	12,826	8,790
KCB Deposit Account	12,150	8,550
Family Bank	16,800	22,682
KCB WSTF	1,065	4,660
KCB KENHA	5,382	2,400
Co-operative project	21,450	-
Total	454,026	254,020

14. Contracted professional services	2022-2023	2021-2022
	Kshs	Kshs
Security	3,221,996	3,451,047
Sanitation	46,186	45,818
Legal services	282,700	762,600
Computer Services	4,084,200	3,450,200
Consultancy service	4,916,557	3,824,748
Total	12,551,639	11,534,413

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15. Hire of transport and machinery	2022-2023	2021-2022
	Kshs	Kshs
	861,600	747,770

16. Training	2022-2023	2021-2022
	Kshs	Kshs
	3,819,580	4,259,060

17. Regulatory fees	2022-2023	2021-2022
	Kshs	Kshs
Regulatory fee	13,472,961	12,311,625

18. Water Users/Permit fees	2022-2023	2021-2022
	Kshs	Kshs
Water use fee	3,725,852	3,956,763

19. Honoraria and airtime	2022-2023	2021-2022
	Kshs	Kshs
	780,000	770,000

20. Repairs and Maintenance	2022-2023	2021-2022
	Kshs	Kshs
Maintenance of water supply	3,389,990	6,732,564
maintenance of building and station	306,905	279,430
Maintenance of plant & equipment	2,288,905	1,251,674
Total	5,985,800	8,263,668

21. Board expenses	2022-2023	2021-2022
	Kshs	Kshs
Sitting Allowance	2,460,000	2,167,000
Travel and accommodation	1,502,300	1,544,300
Lunch and Transport	1,470,000	1,083,000
Airtime	57,000	69,000
Total	5,489,300	4,863,300

22. Depreciation	2022-2023	2021-2022
	Kshs	Kshs
Furniture	181,549	296,221
Meters, plant and Equipment	35,206,714	34,385,036
Motorcycles	1,673,300	4,107,260
Computers office equipment	1,299,179	2,476,903
Building	204,023	204,023
Total	38,564,765	41,469,442

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Less Depreciation recovery	4,922,500	-
Net Depreciation	33,642,265	41,469,442

23. Amortization	2022-2023	2021-2022
	Kshs	Kshs
	5,390,090	7,071,541

24. Audit (Provision of Audit fees)	2022-2023	2021-2022
	Kshs	Kshs
Audit fees	348,000	348,000

25. ADB Loan:	2022-2023	2021-2022
	Kshs	Kshs
	7,085,934	7,085,934

26. Bad debts provision	2022-2023	2021-2022
	Kshs	Kshs
	619,820	-

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27. Property plant and equipment.

	Furniture and & Fittings	Meter Plant & Equipment	Building	Motorcycle/ Vehicles	Computer & Equipment	WIP	Total
Cost							
as at 1 July 2022	12.5%	12.5%	4%	25%	30%		
Additions	59,000	22,886,148	-	263,380	1,347,340	29,328,902	53,884,771
Total cost	2,369,765	275,080,287	5,100,575	16,429,038	8,256,344	290,465,040	597,701,050
Rongai project capitalization							
Fully depreciated assets	976,375	16,312,725	-	9,999,218	5,273,088	-	32,561,405
Cost less fully depreciated assets/plus capitalized project	1,452,390	307,314,269	5,100,575	6,693,200	4,330,597	294,133,385	619,024,416
Less Depreciation							
As at 1 July 2022	1,752,551	105,323,920	558,408	16,625,756	8,197,055	-	132,457,690
Depreciation	181,549	35,206,714	204,023	1,673,300	1,299,179	-	38,564,765
Amortization		3,207,570					3,207,570
Over depreciation recovered				4,922,500	-	-	4,922,500
Total depreciation	1,934,100	143,738,204	762,431	13,376,556	9,496,234	-	169,307,524
NBV as at 30th June 2023	494,665	179,888,790	4,338,144	3,315,863	107,451	294,133,385	482,278,297

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	Furniture & Fittings	Meter Plant & Equipment	Building	Motor Vehicle/Cycles	Office Equipment	WIP	Total
	12.5%	12.5%	4%	25%	30%		
	Kshs	Kshs	Kshs	Kshs	Kshs	Kshs	Kshs
COST							
As at 1 July 2021	1,654,325.00	235,938,385.46	4,081,835.76	10,328,918.40	6,841,239.30	21,680,496.74	280,525,200.66
During the year	715,440.00	39,141,901.98	1,018,739.84	6,100,120.00	1,415,105.00	268,784,543.44	317,175,850.26
Total cost	2,369,765.00	275,080,287.44	5,100,575.60	16,429,038.40	8,256,344.30	290,465,040.18	597,701,050.92
Less Depreciation							
As at 1 July 2021	1,456,330.25	709,388,84.22	354,385.19	12,518,496.20	5,720,151.28	-	90,988,247.14
During the year	296,220.63	34,385,035.93	204,023.02	4,107,259.60	2,476,903.29	-	41,469,442.47
Total depreciation	1,752,550.88	105,323,920.15	558,408.21	16,625,755.80	8,197,054.57	-	132,457,689.61
NBV As At 30th June 2022	617,214.13	169,756,367.29	4,542,167.39	(196,717.40)	59,289.73	290,465,040.18	465,243,361.31

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27 (b) Property, Plant and Equipment at Cost

	Cost	Accumulated Depreciation	NBV
	Kshs	Kshs	Kshs
Buildings	5,100,575	762,431	4,338,144
Plant and machinery	323,626,994	143,738,204	179,888,790
Motor vehicles, including motorcycles	16,692,418	13,376,556	3,315,863
Computers and related equipment	9,603,684	9,496,234	107,451
Office equipment, furniture, and fittings	2,428,765	1,934,100	494,665
WIP	294,133,385	-	294,133,385
TOTAL	651,585,821	169,307,524	482,278,297

Property plant and Equipment includes the following assets that are fully depreciated

	Cost
Motor cycles/ Vehicles	9,999,218
Computers and office equipment	5,273,088
Furniture and fittings	976,375
Meter, Plant and equipment	16,312,725
Total	32,561,406

28. Intangible Assets		
	2022/2023	2021/2022
	Kshs	Kshs
COST		
At July 1	35,357,703	25,569,568
Additions	-	9,788,136
At June 30	35,357,703	35,357,704

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Fully depreciated asset	8,407,253	-
	26,950,450	35,357,704
Amortization		
At July 1	18,479,562	11,408,022
Charge for the year	5,390,090	7,071,541
At June 30	23,869,652	18,479,562
Net book value		
At June 30	11,488,051	16,878,141

29. Inventories	2022-2023	2021-2022
	Kshs	Kshs
Aluminum	1,392,940	517,940
Chlorine	265,153	297,540
Soda ash	28,768	25,650
Stationaries	157,525	7,850
Transport Repair	28,800	1,002,765
Water Supply	-	151,580
Building	-	23,689
Minor Alteration	-	42,350
Plant & Equipment	-	543,395
Total	1,873,186	2,612,759

29. (a) Reconciliation of Impairment Allowance for Inventories	2022-2023	2020-2021
	Kshs	KShs
At the beginning of the year	-	-
Additional provisions during the year	-	-

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Recovered during the year	-	-
Written off during the year	-	-
At the end of the year	-	-

30. Trade and Other Receivables	2022-2023	2021-2022
	Kshs	Kshs
DOD	5,777,864	21,874,203
NAWASCO	4,082,000	3,321,520
Other Trade receivables	179,267,692	172,400,175
Total trade receivables (note 32.a)	189,127,557	197,595,899
Electricity/Rent Deposits	4,707,500	4,699,000
VAT refunds	4,605,749	4,605,749
Gross trade and other recivables	198,440,806	206,900,648
Provision for bad and doubtful debts	619,820	-
Net trade and other receivables	197,820,985	206,900,648

30.(a)	2022-2023	2021-2022
	Kshs	Kshs
Gross trade receivables	189,127,557	197,595,899
Provision for doubtful receivables	619,820	-
Net trade receivables	188,507,736	197,595,899

At June 30, the ageing analysis of the gross trade receivables was as follows:		
	2022-2023	2021-2022
Less than 30 days	(3,504,301)	23,412,289
Between 30 and 60 days	(4,297,308)	11,578,262
Between 61 and 90 days	8,119,705	9,002,843
Between 91 and 120 days	7,109,542	7,045,470

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Over 120 days	181,700,548	146,557,666
Total	189,128,186	197,596,529

30. (b) Reconciliation of Impairment Allowance for Trade Receivables		
	2022-2023	2020-2021
	Kshs	KShs
At the beginning of the year	-	-
Additional provisions during the year	-	-
Recovered during the year	-	-
Written off during the year	-	-
At the end of the year	-	-

31. Deposits	2022-2023	2021-2022
	Kshs	Kshs
Bal b/f	4,699,000	4,696,000
Deposits for the year	8,500	3000
Total	4,707,500	4,699,000

32. Bank and cash balance		2022-2023	2021-2022
		Kshs	Kshs
Cash at hand		-	-
Cash at bank		42,880,343	36,731,705
MPESA		482,496	303,269
Total		43,362,839	37,034,974
Detailed analysis of the cash and cash equivalents			
	Account Number	2022-2023	2021-2022
		Kshs	Kshs
Cash in hand		-	-
KCB Deposit account	1,120,914,175	20,024,766	15,585,966

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KCB Revenue	1,108,148,859	167,858	112,166
KCB Expenditure	1,108,149,162	678,147	(7,603,305)
KCB Contingency account	1,139,635,891	295,386	3,212
Family Bank	19,000,038,996	16,479	5,514
Kenya Post Office Saving Bank	744130012558	564,248	125,790
Mpesa	716038	482,496	303,269
WSTF	1,281,804,193	1,622	996
KCB KENHA Account	1,285,173,503	21,043,822	27,305,220
Co-operative Bank	1141883105201	88,015	1,196,146
Total		43,362,839	37,034,974

33. KRA VAT Refund	2022-2023	2021-2022
	Kshs	Kshs
Balance b/f	4,605,749	4,605,749

34. Share Capital	2022-2023	2021-2022
	Kshs	Kshs
Authorized:		
5,000 Ordinary shares of Kshs. 100 each	500,000	500,000
Issued and Fully Paid:		
5,000 ordinary shares of Kshs. 100 each	500,000	500,000

35. Capital Reserve	2022-2023	2021-2022
	Kshs	Kshs
	228,709,738	228,709,738
	228,709,738	228,709,738

36. Revenue Reserve	2022-2023	2021-2022
	Kshs	Kshs

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This item is made up of the following:		
Balance b/f	(400,777,590)	(393,091,250)
Profit (Loss)	(41,950,879)	(7,686,340)
Adjustment (tax amnesty)	20,908,924	-
Total	(421,819,545)	(400,777,590)

37. Grants	2022-2023	2021-2022
	Kshs	Kshs
Balance brought forward	446,307,853	175,523,309
KeNHA	25,000,000	262,694,139
VEI	10,315,994	2,000,000
Water worx	-	6,090,404
GATSBY	3,500,000	-
WSTF	12,559,534	-
Sub total	51,375,528	
Amortization	(3,207,570)	-
Total	494,475,811	446,307,853

38. Trade and Other Payables	2022-2023	2021-2022
	Kshs	Kshs
Trade Payables	11,211,699	57,912,422
Statutory deductions and other deductions	56,113,787	50,142,424
CRWDA	214,025,320	214,025,320
Water Resources Authority	15,296,307	13,760,001
WASREB	41,870,546	32,532,655
AFDB Loan	42,515,603	35,429,669
Total	381,033,262	403,802,490

39. Consumer deposits	2022-2023	2021-2022
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	Kshs	Kshs
Opening balance	38,558,643	31,866,642
Deposits for the year	4,513,950	6,344,501
Deposit Refund	(73,500)	(347,500)
Consumer deposits	42,999,093	38,558,643
40. Prepayment income	2022-2023	2021-2022
	Kshs	Kshs
	9,106,820	8,830,749
41. Accrued audit fees	2022-2023	2021-2022
	Kshs	Kshs
	2,438,000	2,738,000

42. Fixed assets acquired		
PPE	(53,884,771)	(317,175,850)
Less Mutirithia /NRW project paid by donor	(10,315,994)	(6,090,404)
Net amount	(43,568,777)	(311,085,446)
Intangible assets acquired	-	(9,788,136)
Less intangible asset paid by donor	-	(2,000,000)
Net amount	-	(7,788,136)

Collections for the year	2022-2023	2021-2022
	Kshs	Kshs
Q.1	84,340,251	80,418,085
Q.2	80,818,074	70,452,600
Q.3	86,679,885	73,772,321
Q.4	81,184,741	66,452,877
	333,022,951	291,095,883

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43. Contingent Assets and Liabilities

Contingent Assets

	2022-2023	2021-2022
	Kshs	Kshs
Contingent assets		
Insurance reimbursements	-	-
Assets arising from determination of court cases	-	-
Reimbursable indemnities and guarantees	-	-
Receivables from other government entities	-	-
Others (Specify)	-	-
Total	-	-

Contingent Liabilities

	2022-2023	2021-2022
	Kshs	Kshs
Contingent liabilities	-	-
Court case NARUWASCO against the entity	-	-
Bank guarantees in favour of subsidiary	-	-
Contingent liabilities arising from contracts including PPPs	-	-
Others (Specify)	-	-
Total	-	-

In the opinion of the directors, no provision is required in these financial statements as the liabilities are not expected to crystallize.

44. Retirement benefits obligations

The entity also contributes to the statutory National Social Security Fund (NSSF). This is a defined contribution scheme registered under the National Social Security Act. The entity's obligation under the scheme is limited to specific contributions legislated from time to time. Other than NSSF the entity also has a defined contribution scheme operated by CPF and NWPSC Pension Fund. Employees contribute 7.5% while employers contribute 7.5% and 15% of basic salary. Employer contributions are recognized as expenses in the statement of financial performance within the period they are incurred.

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45. Related parties' disclosures

The **County Government of Nakuru** is the principal shareholder of the *NARUWASCO*, holding 100% of *NARUWASCO*'S equity interest. The **County Government of Nakuru** has provided full guarantees to all long-term lenders of the entity, both domestic and external.

Other related parties include:

- i) Central Rift Water Development Authority
- ii) Water Sector regulatory board
- iii) Key management
- iv) Board of directors
- v) Water Sector Trust Fund

Transactions with related parties

	2022-2023	2021-2022
	Kshs	Kshs
a) Grants from the Government		
Grants from WSTF, KeNHA, Water WorX	51,375,527.70	296,712,831.00
Total	51,375,527.70	296,712,831.00
b) Key management compensation		
Directors' emoluments	6,269,300.00	4,863,300.00
Compensation to key management	12,321,965.00	14,755,918.00
Total	18,591,265.00	19,619,218.00

46. Financial Risk Management

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

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

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(i) Credit risk

The Company has exposure to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when due. Credit risk

arises from cash and cash equivalents, and deposits with banks, as well as trade and other receivables and available-for-sale financial investments.

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

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

	Total amount	Fully performing	Past due but not Impaired	Past due and Impaired
At 30 June 2023				
Trade Receivables	189,127,557	189,127,557	-	
Bank balances	43,362,839	43,362,839	-	-
Total	232,490,396	232,490,396	-	-
At 30 June 2022				
Receivables	197,595,899	197,595,899	-	-
Bank balances	37,034,974	37,034,974	-	-
Total	234,630,873	234,630,873	-	-

The customers under the fully performing category are paying their debts as they continue trading. The credit risk associated with these receivables is minimal and the allowance for uncollectible amounts that the company has recognised in the financial statements is considered adequate to cover any potentially irrecoverable amounts. The company does not have significant concentration of credit risk on amounts due. The board of directors sets the company's credit policies and objectives and lays down parameters within which the various aspects of credit risk management are operated.

ii) Liquidity risk management

Ultimate responsibility for liquidity risk management rests with the Company's directors, who have built an appropriate liquidity risk management framework for the management of the Company's short, medium and long-term funding and liquidity management requirements. The Company manages liquidity risk through continuous monitoring of forecasts and actual cash flows.

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

	Less than 1 month	Between 1-3 months	Over 5 months	Total
At 30 June 2023	Kshs	Kshs	Kshs	Kshs
Trade payables	2,969,945	5,860,698	2,381,056	11,211,699
Total	2,969,945	5,860,698	2,381,056	11,211,699

(iii) Market risk

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

Market risk is the risk arising from changes in market prices, such as interest rate, equity prices and foreign exchange rates which will affect the entity's income or the value of its holding of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return. Overall responsibility for managing market risk rests with the Audit and Risk Management Committee. The company's Department in charge of risk management is responsible for the development of detailed risk management policies (subject to review and approval by Audit and Risk Management Committee) and for the day-to-day implementation of those policies.

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

a) Foreign currency risk

The Company has transactional currency exposures. Such exposure arises through purchases of goods and services that are done in currencies other than the local currency. Invoices denominated

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in foreign currencies are paid after 30 days from the date of the invoice and conversion at the time of payment is done using the prevailing exchange rate.

(iii) Market risk (Continued)

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

	Ksh	Other currencies	Total
	Kshs	Kshs	Kshs
At 30 June 2023 Current Year			
Financial assets			
Investments	-	-	-
Cash	-	-	-
Debtors	-	-	-
Financial Liabilities			
Trade and other payables	-	-	-
Borrowings	-	-	-
Net foreign currency asset/(liability)	-	-	-

The Company manages foreign exchange risk from future commercial transactions and recognised assets and liabilities by projecting for expected sales proceeds and matching the same with expected payments.

	Ksh	Other currencies	Total
	Kshs	Kshs	Kshs
At 30 June 2022 Previous year			
Financial assets			
Investments	-	-	-
Cash	-	-	-
Debtors	-	-	-
Financial Liabilities			
Trade and other payables	-	-	-
Borrowings	-	-	-
Net foreign currency asset/(liability)	-	-	-

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b) Foreign currency sensitivity analysis

The following table demonstrates the effect on the company's statement of comprehensive income on applying the sensitivity for a reasonable possible change in the exchange rate of the three main transaction currencies, with all other variables held constant. The reverse would also occur if the Kenya Shilling appreciated with all other variables held constant.

	Change in currency rate	Effect on Profit before tax	Effect on equity
	Kshs	Kshs	Kshs
2023 Current FY			
Euro	-	-	-
USD	-	-	-
2022 Previous FY	-	-	-
Euro	-	-	-
USD	-	-	-

c) Interest rate risk

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

i) Management of interest rate risk

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

ii) Sensitivity analysis

The Company analyses its interest rate exposure on a dynamic basis by conducting a sensitivity analysis. This involves determining the impact on profit or loss of defined rate shifts. The sensitivity analysis for interest rate risk assumes that all other variables, in particular foreign exchange rates, remain constant. The analysis has been performed on the same basis as the prior year.

iii) Fair value of financial assets and liabilities

Financial instruments measured at fair value

Determination of fair value and fair values hierarchy

IFRS 7 specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from

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independent sources; unobservable inputs reflect the Company's market assumptions. These two types of inputs have created the following fair value hierarchy:

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

The following table shows an analysis of financial and non- financial instruments recorded at fair value by level of the fair value hierarchy:

At 30 June 2023 Current FY	Level 1 Kshs	Level 2 Kshs	Level 3 Kshs	Total Kshs
Financial Assets				
Quoted equity investments	-	-	-	-
Non- financial Assets	-	-	-	-
Investment property	-	-	-	-
Land and buildings	-	-	-	-
	-	-	-	-
At 30 June 2022 Previous FY	-	-	-	-
Financial Assets	-	-	-	-
Quoted equity investments	-	-	-	-
Non- financial Assets	-	-	-	-
Investment property	-	-	-	-
Land and buildings	-	-	-	-
	-	-	-	-

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

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

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iv) Capital Risk Management

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

	2022-2023	2021-2022
	Kshs	Kshs
Revaluation reserve	-	-
Retained earnings	-	-
Capital reserve	-	-
	-	-
Total funds	-	-
Total borrowings	-	-
Less: cash and bank balances	-	-
Net debt/(excess cash and cash equivalents)	-	-
Gearing	-	-

47. Incorporation

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

48. Events After the Reporting Period

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

49. Currency

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

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20. Appendices

Appendix 1: progress on follow up of auditor recommendations.

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

Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
1.	Material Uncertainty Relating to Going Concern	<p><i>During the last five years, the company has witnessed improvements in its finances. Our billing figures have grown from Kshs 158 million five years ago to Kshs 300 Million currently.</i></p> <p><i>Major long outstanding liabilities in our books that negate our financials is the one due to Central Rift Valley Water Works Development Agency (CRVWDA) at Kshs 214,025,320.00 that arose due to operationalization of the Water Act 2002 and SPA thereto. This debt has been reclassified as a long-term liability as per audit recommendations, therefore reducing our current liabilities and improving the current ratio to 1:1.</i></p> <p><i>In addition, our focus on NRW management that includes metering; this shall</i></p>	Not Resolved	

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Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
		<i>lead to higher revenue to the company. From the foregoing, the going concern of NARUWASCO is duly assured.</i>		
4.	Unconfirmed AfDB Loan	<i>AFDB loan was apportioned to the service water providers and therefore recognized as per the tariff and the amortization schedule attached. However, it is not possible to recognize the principal loan amount as a liability due to lack of specific corresponding assets developed. The verification and handing over of assets developed by the loan have not been handed over yet to facilitate recognition in the company books of accounts.</i>	Not Resolved	Dec 2023
8.	Consumer Deposit	The consumer deposits have been utilized for investments to increase metering ratio and management of high NRW. The same is duly refunded to the customer on request without delay.	Resolved	December 2025

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Reuben K Korir

Signature

Managing Director

Date. 24/1/24

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Appendix II: Projects Implemented by the Company
Projects

Projects implemented by the Company Funded by development partners.

Project title	Project Number	Donor	Period/duration	Donor commitment	Separate donor reporting required as per the donor agreement (Yes/No)	Consolidated in these financial statements (Yes/No)
1	08N/NAKURU/NAKURU RURAL/62	WSTF	12 Months	16,484,389	Yes	Yes
2	WFL-KE-20	Water Worx	12 Months	32,000,000	Yes	Yes

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Status of Projects completion

	Project	Total project Cost	Total expended to date	Completion % to date	Budget	Actual	Sources of funds
1	Kasarani, Kaloleni, Matuiku last mile connectivity	19,624,273	16,844,017	86%	19,624,273	16,844,017	WSTF
2	Mutirithia Water Supply and Sanitation Project	32,000,000	10,334,945	32%	32,000,000	10,334,945	Water Worx
3	KeNHA	314,674,520	239,173,333	79%	314,674,520	239,173,333	KeNHA

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Appendix III- Inter-Entity Confirmation Letter

The company did not transfer any funds to another entity during the year.

Confirmation of amounts received by [Insert name of beneficiary entity] as at 30 th June 20xx						
		Amounts Disbursed by [SC/SAGA/Fund] (KShs) as at 30th June 20xx			Amount Received by [beneficiary entity] (KShs) as at 30th June 20xx (E)	Differences (KShs) (F)=(D-E)
Reference Number	Date Disbursed	Recurrent (A)	Development (B)	Inter-Ministerial (C)	Total (D)=(A+B+C)	
	-	-	-	-	-	-
	-	-	-	-	-	-
	-	-	-	-	-	-
Total	-	-	-	-	-	-

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

Head of Accountants department of beneficiary entity:

Name Sign Date

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Appendix IV: Reporting of Climate Relevant Expenditures

The company did not do any climate relevant expenditure during the financial year.

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

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Appendix V: Reporting Disaster Management Expenditure

The company did not do any disaster management expenditure

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

XXX Water Company Ltd *(Indicate actual name of the entity)*
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Appendix VI: Recording of Transfers from Other Government Entities

The company did not have any other transfers from other government entities.

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