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OF

THE AUDITOR-GENERAL

ON

**MAVOKO WATER AND SEWERAGE COMPANY
LIMITED**

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

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

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MAVOKO WATER AND SEWERAGE COMPANY LIMITED

ANNUAL REPORTS AND FINANCIAL
STATEMENTS

FOR THE FINANCIAL YEAR ENDING
JUNE 30, 2023

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

Mavoko Water and Sewerage Company Limited
Annual Reports and Financial Statements
For the year ended June 30, 2023

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1. ACRONYMS

- WSP Water Service Provider
- MAVWASCO Mavoko Water and Sewerage Company Limited
- IFRS International Financial Reporting Standards
- MD Managing Director
- PFM Public Financial Management
- PSASB Public Sector Accounting Standards Board
- ICPAK Institute of Certified Public Accountants of Kenya
- WASREB Water Services Regulatory Board
- WSTF Water Sector Trust Fund
- WASH Water Sanitation and Hygiene
- WRA Water resources Authority
- KRA Kenya Revenue Authority
- NG National Government
- MWI Ministry of Water and Irrigation
- CGM County Government of Machakos
- CECM County Executive Committee Member
- TANATHI WWDA Tanathi Water Works Development Authority
- NSSF National Social Security Fund
- NHIF National Hospital Insurance Fund
- PAYE Pay as You Earn
- VAT Value Added Tax
- WHT Withholding Income Tax
- JICA Japan International Cooperation Agency
- WASH-FIN Water, Sanitation and Hygiene Finance
- SDG 6 Sustainable Development Goal Number 6
- CWIS Citywide Inclusive Sanitation
- WASUP Water and Sanitation for the Urban Poor
- CLSG Conditional Liquidity Support Grant
- QSQF Quick Start Quick Finish
- NRW Non-Revenue Water

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2. KEY ENTITY INFORMATION

Background information

MAVWASCO was established by the Company Act Cap 486 (now Company's Act 2015 of Parliament) in 2007 and fully owned by CGM. At County level, the Company is represented by the Chief Officer responsible for water and sanitation and Chief Officer in-charge of County Finance who together with the Board of Directors are responsible for the general policy and strategic direction of the Company. The Company is domiciled in Kenya and located in Athi River Town

Principal Activities. The principal activity of MAVWASCO is mandated to provide Water and Sewerage Services to residents of Mavoko Sub-County.

A. Core business is

1. Sourcing and distributing of water within its area of operation. Our main sources of water are
 - Bulk Water supply from Nairobi City Water and Sewerage Company
 - Portland Dam (Kasuitu)
 - Stoni Athi Dam
 - Boreholes – Mavoko Tanks, Makadara, Syokimau, Githuguri, Kiasa, Kinanie, Mlolongo
2. Provide sewerage services to the residents of Mavoko
3. Bill and collect revenue from the customers; and
4. Build, maintain and extend water and sewerage infrastructure.

B. Vision

Quality, affordable and sustainable water and sewerage services within Mavoko Sub-County.

C. Mission

To provide high quality water and sewerage services in a timely, efficient and reliable way to the satisfaction of our customers.

D. Core Values

- i) **Integrity**- our company is zero tolerance to unethical business. We strive to be honest and fair in everything we do
- ii) **Transparency and Accountability** – We will be accountable for our actions and decisions and accept responsibility for them and report in a transparent manner to our stakeholders
- iii) **Teamwork** – We work together towards a shared vision and recognize that teams accomplish more than individuals.
- iv) **Professionalism** – We exercise high levels of professionalism in our work and in our interactions with partners and stakeholders
- v) **Customer Focus** – We are focussed on understanding the customer's needs, commit to attaining the highest standards in service delivery to all customers and stakeholders

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- vi) **Creativity and Innovation** – We endeavour to be a learning organization that embraces change and continuously enhances creativity and innovation in its process towards provision of services.

Directors

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

- | | | |
|--------------------------------|--|---|
| 1. Ms. Florence Kathoki Kivevo | Chairperson | - Appointed on 13 th Sept 2021 |
| 2. Mr. Michael Mang'eli | Manging Director, Secretary to the Board | |
| 4. Mr. James Gitonga Muhuhu | | - Appointed on 13 th Sept 2021 |
| 5. Mr. Walter Matini Mochoge | | - Appointed on 13 th Sept 2021 |
| 6. Rev. Felix Mualuko Daniel | | - Appointed on 13 th Sept 2021 |
| 7. Ms. Hakima Ibrahim Mohamud | | - Appointed on 13 th Sept 2021 |
| 8. Ms. Jerusa Susan Omari | | -Appointed on 13 th Sept 2021 |

Registered Office

LR TOL: NO 5,
Mavoko Road; off Namanga Road,
Opposite Athi River Railway Station,
Next to the Co-operative Bank,
P.O. Box 582 - 00204, ATHI
RIVER.

Corporate Headquarters

LR TOL: NO 5,
Mavoko Road; off Namanga Road,
Opposite Athi River Railway Station,
Next to the Co-operative Bank,
P.O. Box 582 - 00204, ATHI
RIVER.

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Corporate Contacts

Telephone :(254) 719148866
E-mail: info.mav-water.org
Website: www.mav-water.org

Corporate Bankers

- 1) Co-operative Bank of Kenya,
Mavoko Road; off Namanga Road,
P.O. Box 321,
Athi River, 00204
Machakos, Kenya

- 2) Kenya Post Office Savings Bank
Mavoko Road; off Namanga Road,
P. O. Box 30311 - 00100 Nairobi
Tel: +254 020 2229551-6
Fax +254 020 2229186
Email: info@postbank.co.ke

- 3) Family Bank Limited
Mkorofi House, Mlolongo,
P.O. Box: 30311-00100, Nairobi
Kenya

Independent Auditors

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





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Principal Legal Advisers



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

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3. THE BOARD OF DIRECTORS




| | | |
|---|---|--|
|  | <p>Ms. Florence Kathoki Kivevo Chairperson; Board of Directors</p> | <p>Year of birth 1960</p> <ul style="list-style-type: none"> • Business Lady • Clergy –Redeemed Gospel Church • Councillor- Mavoko Town Council <p>Represents Women</p> |
|  | <p>Mr. James Gitonga Muhuhu Chairperson; Technical Committee</p> | <p>Year of birth 1970</p> <ul style="list-style-type: none"> • A- Levels <p>Experience</p> <ul style="list-style-type: none"> • Operations manager Boma Villa Agencies • Manager Issa Marks hardware Stores <p>Represents Residents Associations</p> |
|  | <p>Mr. Walter Matini Mochoge Chairperson; Finance, Staff & General-Purpose Committee</p> | <p>Year of birth 1962</p> <ul style="list-style-type: none"> • BBM HRM • DIP Business Administration • A –levels <p>Experience</p> <ul style="list-style-type: none"> • Imports & Admin Manager Orbit Chemicals • Imports & Exports Co-ordinator Orbit Chemicals • Vice Chair KAM Lower Eastern Chapter <p>Represents KAM Mavoko Chapter</p> |
|  | <p>Rev. Felix Mualuko Daniel Chairperson; Audit Committee</p> | <p>Year of birth 1986</p> <ul style="list-style-type: none"> • PHD Governance & Leadership- Ongoing • MA Religious Studies • BA Divinity <p>Experience</p> <ul style="list-style-type: none"> • Priest ACK • Part Time Lecturer East African University • Lecturer Carlile College <p>Represents Community Based Organisations</p> |

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| | |
|---|--|
|  <p>Ms. Hakima Ibrahim Mohamud</p> | <p>Year of birth 1982</p> <ul style="list-style-type: none"> • HND/Diploma Information Technology <p>Experience</p> <ul style="list-style-type: none"> • Business lady • Vice Chair LiqourLanagta Sub County • Community Mobilizer • Administrator Garissa Professional Hospital • Assistant Secretary Danida Health NEP <p>Represents Youth</p> |
|  <p>Ms. Jerusa Susan Omari</p> | <p>Year of Birth: 1969</p> <ul style="list-style-type: none"> • Business Lady • Defence Forces Memorial Hospital <p>Represents Low Income Residents</p> |
|  <p>CPA. Michael Mang'eli (MD, Secretary to the Board)</p> | <p>Year of Birth: 1973</p> <ul style="list-style-type: none"> • Bachelors of Commerce (Finance) • Master's In Business Administration. • Member of ICPAK <p>EXPERIENCE</p> <ul style="list-style-type: none"> • Miritini Building Products, • Kenya Shell Ltd. • International Committee of Red Cross |
| <p>CGM Chief Officer or Alternate –Water and Irrigation</p> | |
| <p>CGM Chief Officer or Alternate -Finance and County Treasury</p> | |

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4. MANAGEMENT TEAM

| | |
|---|--|
|  <p>1.CPA. Michael Mang'eli (MD, Secretary to the Board)</p> | <p>Year of Birth: 1973</p> <ul style="list-style-type: none"> • Bachelors of Commerce (Finance) • MBA • Member of ICPAK <p>EXPERIENCE</p> <ul style="list-style-type: none"> • Miritini Building Products • Kenya Shell Ltd. • International Committee of Red Cross |
|  <p>2. Ms. Stella Ndwiga; Commercial Services Manager.</p> | <p>Year of Birth: 1973</p> <ul style="list-style-type: none"> • B Com. (Finance) <p>EXPERIENCE</p> <ul style="list-style-type: none"> • Commercial Manager at MAVWASCO • Accountant at Meru Water and Sewerage Company |
|  <p>3.Eng. Jesse Ambundo; Technical Services Manager</p> | <p>Year of Birth: 1979</p> <ul style="list-style-type: none"> • Bachelor's Degree in Engineering (Civil) • Member of IEB <p>EXPERIENCE</p> <ul style="list-style-type: none"> • Area Manager at Nzoia Water and Sewerage Company • Locost Homes as the Site Engineer in charge of housing projects |
|  <p>4.Ms Elizabeth M. N. Ndeti; Human Resource Manager</p> | <p>Year of birth 1975</p> <ul style="list-style-type: none"> • MBA (HR) • BBM HR • IHRM Member <p>Experience</p> <ul style="list-style-type: none"> • HRM MAVWASCO • Billing Office Mavoko Municipal Council |

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5. CHAIRMAN'S STATEMENT

On behalf of the Board, I am very encouraged with the performance of MAVWASCO for the year 2022/2023. The integrity, responsiveness and sheer determination of the Board of Directors and employees were key in meeting water services needs of our people.

MAVWASCO keenly follows guidelines on corporate governance, tariffs and customer service. These tools have been useful in guiding the sector on issues of governance, responsiveness and sustainability. On the basis of work done so far, there has been a significant improvement in the provision of water and sanitation services. For the company continue building on these gains, there is need now, for a comprehensive investment plan indicating the investment necessary to achieve the progressive realization of the right to water and sanitation for Mavoko residents.

Access to Safe Water and Sanitation is a basic human right. Kenya under Sustainable Development Goal 6, has committed itself to achieve by 2030 universal and equitable access to safe and affordable water for all, access to adequate and equitable sanitation and hygiene for and an end to open defecation, paying attention to the needs of women girls and those in vulnerable situations.

As per WASREB report issue no 15 (2021/2022), our Water Coverage was 39%, Sewerage Coverage was 15% and Sanitation coverage was 98%.

I would like to thank all our partners particularly the National Government Ministry of Water and Sanitation, State Department of Housing and Urban Development, JICA, WSTF, CGM and other Development Partners for their support they have accorded us.

Finally, I would also like to thank most sincerely the Board of Directors, Management Team and staff for the focused commitment.

Thank you all and God bless MAVWASCO.

SIGNED _____



DATE 15/09/2023

Ms FLORENCE KATHOKI KIVEVO
CHAIRPERSON –BOARD OF DIRECTORS.
MAVOKO WATER & SEWERAGE CO.

6. REPORT OF THE MANAGING DIRECTOR

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MAVWASCO plays a critical role as a WSP within Mavoko Sub-County as an enabler and key driver for economic growth and development. In this regard, we have sought to improve our water and sewerage coverage despite financial constraints and rapid population growth (329,222 persons as at 2019 census)

Projects prioritised include connecting new customers to sewer main lines done under Ministry of Housing Slum Upgrading Project. We have also activated a fully functional Pro-Poor section to cater for Low Income Areas.

Operational Performance

We connected 316 and 55 new customers to our water and sewer network respectively growing our customer base. Total water and sewer connections were 11,225 and 4,726 respectively. As per WASREB report issue no 15 (2021/2022), our Water Coverage was 39%, Sewerage Coverage was 15% and Sanitation coverage was 98%. Our Staff productivity is at 8 staff for 1,000 connections.

However, we experienced a dry season that led to closure of our treatment plants and intake works due to lack of raw water for a period of five months. As a result of this, we had low production and billed volumes. This led to a turnover that was 50% less than budgeted.

Total water production for the period was 1,164,894m³ and Billing was 788,916 m³. Non-Revenue Water was 375,978m³ (or 32%).

Total water and sewer billing was Kshs 191,579,014 which was lower than last year's Kshs 240,544,507.

We are reviewing our Strategic Plan to meet the needs of the current and future business operating environment. This will also help us develop our Business Plan. Technical Policy is being developed to help us serve our customers effectively; and Risk Management Policy is being implemented.

As the sector continues to grow, each new day has offered a chance for us to work together, pursue new opportunities and improve upon the past. As we reflect on the changes in the water sector since the beginning of MAVWASCO we are extremely proud of where we are and even more optimistic about the future.

I would like to thank all our partners including the NG MWI, State Department of Housing and Urban Development, JICA, WSTF and CGM for the support they have accorded us over the years.

Finally, I would also like to thank most sincerely the Board of Directors, staff and management for the focused commitment to provide services to Mavoko residents

Thank you all and God bless us all and MAVWASCO.

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SIGNED



DATE 15/09/2023

**CPA MICHAEL YUMBYA MANGELI
MANAGING DIRECTOR
MAVOKO WATER & SEWERAGE CO.**

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**7. STATEMENT OF PERFORMANCE AGAINST PREDETERMINED OBJECTIVES FOR
FY 2022/2023**

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

MAVWASCO has 5 strategic pillars and objectives within its Strategic Plan for the FY 2017-2022. These strategic pillars are as follows:

1. Development of water sources
2. Management of non-revenue water
3. Expansion of water and sewer infrastructure coverage
4. Improved customer service
5. Enhancing institutional capacity

MAVWASCO develops its annual work plans based on the above 5 pillars. Assessment of the Board's performance against its annual work plan is done on a quarterly basis. MAVWASCO achieved its performance targets set for the FY 2022/2023 period for its 5 strategic pillars, as indicated in the diagram below:

| Strategic Pillar | Objective | Key Performance Indicators | Activities | Achievements |
|---|---|---|--|----------------------------|
| 1. Development of water sources | To increase water production from 140,000m ³ /month in 2016 to 220,000m ³ /month by year 2023 | To satisfy the demand for water in its area of operation Increased water supply Stabilised water supply | i. KMC dam development (dam, treatment plant, intake works) ii. Expand Portland dam / treatment plant iii. Drill new boreholes iv. Development of Ndarugu dam. v. Rehabilitation of Nolturesh line | 100% done 100% done |
| 2. Management of Non-Revenue Water | To reduce non revenue water from 44% in 2016 to 25% by year 2023 | Reduced NRW Block maps Installed Smart meters | i. Implementation of GIS ii. Use of technology-based meters iii. Use of | Current at 32% |

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| | | | | |
|--|--|---|--|---|
| | | Improved meter reading Reduction in response time to bursts Increased stakeholder involvement in management of NRW Water distribution zones Accurate input/output readings Reduced water bursts and leakages Effective NRW unit | technology in meter reading iv. Leak detection and management v. Staff, customer and community sensitization vi. Water distribution balance vii. Continuous maintenance of water infrastructure viii. Strengthen NRW unit to enhance enforcement Benchmarking with industry standards | |
| 3. Expansion of Water and Sewer Infrastructure Coverage | 1. To increase water coverage from 60% in 2016 to 80% by year 2023 2. To increase sewer coverage from 20% in 2016 to 40% by year 2023 | More water and sewer Customers New sewer plant | i. Pipeline extensions to areas not covered ii. Restore supply to areas not being supplied iii. Extension of existing sewer infrastructure iv. Develop new treatment plant | 70% water coverage 25% Sewer coverage |
| 4. Improved Customer Service | To achieve customer satisfaction level of 80% by year 2023 | Less Customer complaints and positive feedback Prompt handling of customer issues | i. Implement a customer service charter ii. Implement an effective feedback mechanism for customers iii. Enhance | Customer Charter done SMS feedback system in place |

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| | | | | |
|--|--|---|--|--|
| | | Increased customer/ stakeholder participation | collaborations with customers and stakeholders | |
| 5. Enhancing institutional capacity | 1. To increase operational efficiency | Improved working environment Increased operational efficiency | i. Provision of adequate office space and facilities ii. Leverage on ICT iii. Strengthen risk management and internal controls iv. Enhance document management v. Enhance research and development | Increased Investment in ICT |
| | 2. To attract and retain qualified staff | High productivity Improved performance Increased staff motivation and productivity Smooth flow of information Increased team cohesion | i. Ensure optimal staff complement ii. Enhance staff training iii. Performance management and reward iv. Enhance staff welfare v. Enhance staff communication | Job Evaluation done and implementation ongoing |
| | 3. To increase funding to MAVWASCO | Timely collection of revenue Adequate financial planning Proper management of financial resources | i. Improve revenue collection efficiency ii. Enhance collaborations with development partners iii. Enhance effective and efficient financial management | Discussions in place with partners |
| | 4. To enhance good corporate governance | Better understanding of corporate | i. Enhance synergy between the Board of | Board trainings done |

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| | | | | |
|--|--|--|--|--|
| | | governance by Board members and senior management Improved Board performance Increased support from the community in company | Directors and management. ii. BOD performance management iii. Enhance good corporate citizenship | Audit committee Charter in place Board work plans prepared Board evaluation done |
|--|--|--|--|--|

8. CORPORATE GOVERNANCE STATEMENT

MAVWASCO Board is committed to the values and principles of good corporate governance. Good corporate governance requires that the Board of Directors must govern the Corporation with integrity and enterprise in a manner which entrenches and enhances the mandate it has under section 79-80 of the Water Act 2016 to operate. This embraces the Company's interaction with customers, Machakos County Government, National Government, Water Services Regulatory Board, Water Resources Management Authority and other stakeholders.

The Directors and Management of MAVWASCO regard corporate governance as vital to the successes of the Company and are unreservedly committed to ensuring that good corporate governance is practiced so that MAVWASCO remains a sustainable and viable institution for providing water services in Mavoko Sub-County.

As a public service organization, MAVWASCO's decisions are guided by the core tenets prescribed in the Public Officers Ethics Act, and internal codes of conduct. We continually strive to strengthen and sustain the trust that the government, the water sector and the public have placed on us. Accordingly, the Board and its committees regularly evaluate the latest national and international standards with the aim of incorporating them in the business processes of MAVWASCO so as to consistently deliver on our mandate.

Board of Directors

The role and responsibilities of the Board and management

The Board's primary role is to enable the protection and enhancement of long-term shareholder value taking into account the interests of other stakeholders including employees, customers, suppliers and the wider community. The Board is accountable to shareholders for the performance of the company. It directs and monitors the business and affairs of the company on behalf of shareholders and is responsible for the company's overall corporate governance. In particular, the Board's responsibilities include:

- Setting the 'tone from the top' through influencing the corporate culture, ethical standards and reputation of the company;
- Approving the strategic objectives and direction of the company and overseeing management's implementation of those strategic objectives;
- Monitoring the company's operational performance generally including its financial state and the effectiveness of the company's safety and sustainability strategies;
- Approving major expenditures, transactions, budgets, funding plans and capital management initiative
- monitoring the integrity, effectiveness and consistency of the company's risk management framework, controls and systems;
- Setting the overall remuneration framework for the company;

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- Appointing, setting the remuneration and assessing the performance of the CEO, as well as approving the appointment and remuneration of senior executives and overseeing their performance;
- overseeing executive succession planning
- Monitoring the effectiveness of the company's governance practices including overseeing shareholder reporting and engagement as well as compliance with the company's continuous disclosure obligations.

Skills and Diversity

In considering the composition of the Board, directors take into account the appropriate characteristics needed by the Board to maximise its effectiveness and the blend of skills, knowledge and experience necessary for the present and future needs of the company. The Board believes that having a range of different skills, backgrounds, experience and diversity enables a broad range of viewpoints which facilitates effective governance and decision making.

Independence

Directors are expected to bring independent views and judgement to the Board's deliberations. The Board recognises the special responsibility of directors for monitoring executive management and providing independent views.

The Board has determined that, in respect of the 2022/2023 financial year, the Chairman and all directors are independent of executive management and free of any business or other relationship that could materially interfere with the exercise of unfettered and independent judgement or compromise their ability to act in the best interests of the company.

Succession

As part of its annual review, the Board continues to consider Board succession. The Board's succession plan is focused on continually identifying suitable candidates for future appointment to the Board, having regard to the Board's current skills mix and desirable future skills, so that the Board remains proactive and renewal occurs in an orderly manner over time. Where a need is identified or arises, the County Government of Machakos considers potential candidates based on the skills required by the Board and the qualities and experience of the candidate. The appointment of directors is vested with the County Government of Machakos which will undertake a search process and shortlisted candidates will be interviewed and suitable candidates appointed.

Director appointment, induction and professional development

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Directors (other than the CEO) are appointed by the County Government of Machakos serve at least three years after which they are reconsidered for re-election. Further, endorsement for re-election of directors to the Board at the conclusion of their three-year term is not automatic.

New directors are provided with a formal letter of appointment that sets out the key terms and conditions of appointment including, among other things, duties, rights and responsibilities, the time commitment envisaged and the Board's expectations regarding involvement with Board Committee work. New directors also participate in a formal induction program which includes site visits, one-on-one meetings with relevant members of management and provision of relevant policies, charters and other materials. An active professional development program is also in place for directors and is incorporated as part of the annual Board cycle. This varies each year and may include internal presentations, discussions with key external subject matter experts, customers and/or suppliers as well MAVWASCO sites and other places of interest. The purpose of this program is to provide appropriate opportunities for directors to develop and maintain their skills and knowledge needed to perform their role as directors.

Board review

During the 2022/2023 financial year, the Board undertook a comprehensive review of its performance and the performance of individual directors. This review was facilitated by the Chairperson and included feedback from directors and senior management. This review concluded that the Board continues to operate effectively in the discharge of its duties and oversight of MAVWASCO. The review also concluded that the Board comprises directors with an effective mix of skills and experience whilst acknowledging the importance of addressing Board succession among other matters.

Remuneration strategy

Our remuneration strategy is unchanged. It sets the direction for the remuneration framework, and drives the design and application of remuneration programs across the Company, including for executives. Our remuneration strategy is to

- Encourage a strong focus on financial and operational performance and motivate executives to deliver outstanding business results and returns to the Company's shareholders over short- and long-term horizons
- Attract, motivate and retain appropriately qualified and experienced individuals
- Align executive and stakeholder interests through share ownership.

The full Board meets at least four times a year as per the guidelines of WASREB. The Sub Committees of the Board meet at least four times a year. The Directors are given appropriate information so that they can maintain full and effective control over strategic, financial, operational and compliance issues. Except for direction and guidance on general policy, the Board has delegated authority for conduct of day-to-day business to the Managing Director.

The Board nonetheless retains oversight responsibility for establishing and maintaining the control of financial, operational and compliance issues.

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| Committee | Number of meetings |
|--|---------------------------|
| Full Board | 4 |
| Audit Committee | 4 |
| Finance, Staff and General-Purpose Committee | 4 |
| Technical Committee | 4 |
| ADHOC Committee | 1 |
| Board Trainings | 2 |
| Total | 19 |

Committees of the Board

The Board has set up the following committees which meet under well-defined terms of reference. This is intended to facilitate efficient decision making of the Board in discharging its duties and responsibilities.

A. Finance, Staff and General Purpose Committee

This committee deals with strategic, financial, human resource management and administrative issues. It meets at a minimum of four times a year or as necessary. Its membership comprises **Walter Matini Mochoge (Chairperson), Jerusa Susan Omari and Hakima Ibrahim Mohamud.**

Its responsibilities include, reviewing of Annual Accounts, monitoring and evaluation, reviewing development, provision of performance contracts and approval of budgets, policies, opening and closure of bank accounts, human resource and Strategic Planning.

B. Technical Committee

There is a Technical Committee whose membership is **James Gitonga Muhuhu (Chairperson), Walter Matini Mochoge, Rev. Felix Mualuko Daniel and Jerusa Susan Omari**

Its responsibilities include overseeing the development of water infrastructure and ensuring standards set by regulator are adhered. This committee oversees policies, strategic planning, planning, coordination and execution of development and rehabilitation projects to ensure expansion of reticulation system and to improve efficiency in water production and distribution including sewerage network.

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C. Audit Committee

The Board has constituted an audit committee which meets four times a year or as necessary. Its membership comprises **Rev.Felix Mualuko Daniel (Chairman), James Gitonga Muhuhu and Hakima Ibrahim Mohamud**

Its responsibilities include; examining and assessing the effectiveness of internal control systems, approving Internal Audit programs, carrying out special audits, verifying MAVWASCO assets and liabilities, risk management, strategic planning, adopting pro-active risk based approach to internal audit system and receiving reports from the Internal Auditor. It also receives and evaluates External Audit reports.

9. MANAGEMENT DISCUSSION AND ANALYSIS

MAVWASCO Profile

MAVWASCO is a limited liability company which was formed in line with reforms in the water sector as enshrined in the Water Act 2016. The company is owned fully by CGM and is mandated to provide water and sewerage services within Mavoko sub-county in Machakos County.

As at the 2019 population census, the area covered by MAVWASCO had a population of approximately 329,222 people. However, with population growth and migration resulting from the current development in residential and commercial properties, the population has significantly increased. The customer base in the area comprises domestic, institutional, commercial entities and industrial consumers.

The Constitution of Kenya, 2010 recognizes provision of clean and safe water in adequate quantities as a right of every person under Article 43, Economic and social rights. In addition, the provision of water and sanitation services is a devolved function to be provided by the County Government under Schedule Four of the Constitution. Furthermore, Water Act 2016 has been operationalized.

Organisation Structure

The company is led by the MD who is the Accounting Officer under the PFM Act 2012. He reports to the Board of Directors who are appointed by the CGM in accordance to PFM Act and Mwongozo Guidelines. MD provides overall direction to all departments namely;

- (a) Technical Services Department
- (b) Commercial Services Department
- (c) Human Resources and Administration Department
- (d) Finance Department.
- (e) Procurement
- (f) ICT
- (g) Internal Audit

The departments are headed by Head of Departments and Section Heads who form the Corporate Management Team.

Report on Operational and Financial Performance

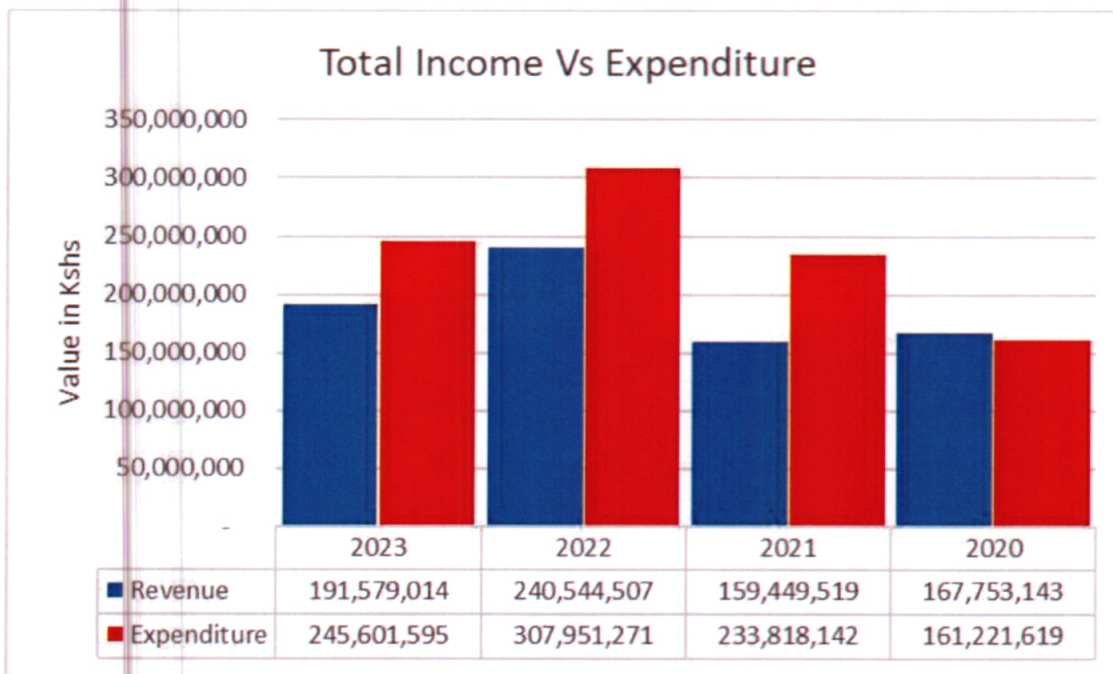
MAVWASCO's Turnover for the year was **KSHS. 191,579,013** down from KSHS. 240,544,507 (26% decrease) in 2022. MAVWASCO's operating loss before tax was **KSHS 14,340,717** (2022: KSHS 10,492,475 Loss).

In year ended 2023 trade receivables were **KSHS 123,230,219** (2022; KSHS 121,915,141) MAVWASCO had operating expenses amounting to **KSHS 245,601,595** (2022; KSHS 307,951,271).

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Total Incomes Vs Expenditure

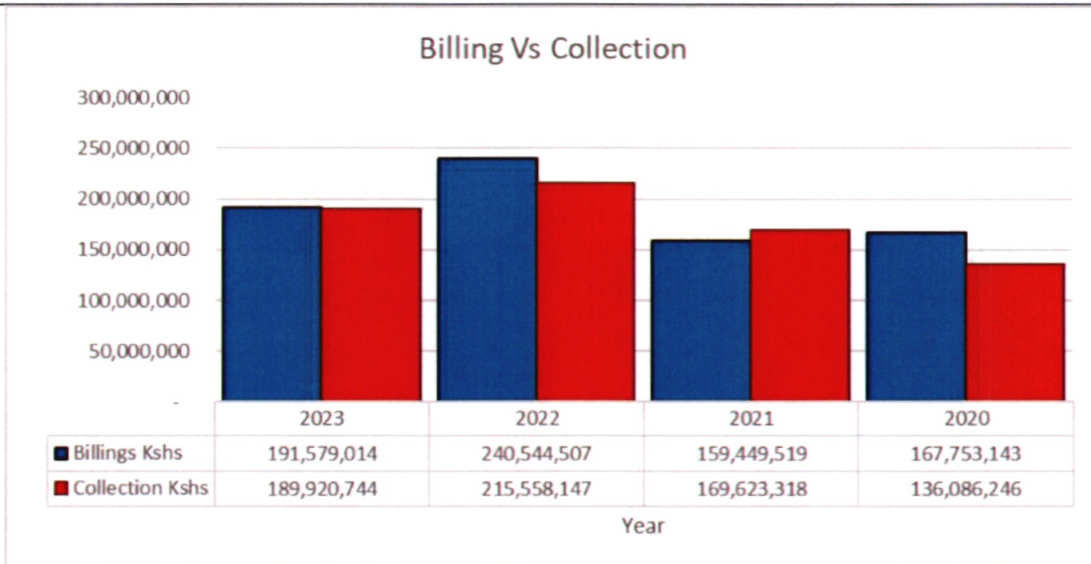
Total Incomes includes normal Billings, Project Income and other incomes. Total expenditure includes Staff costs operational, Board and maintenance expenses.



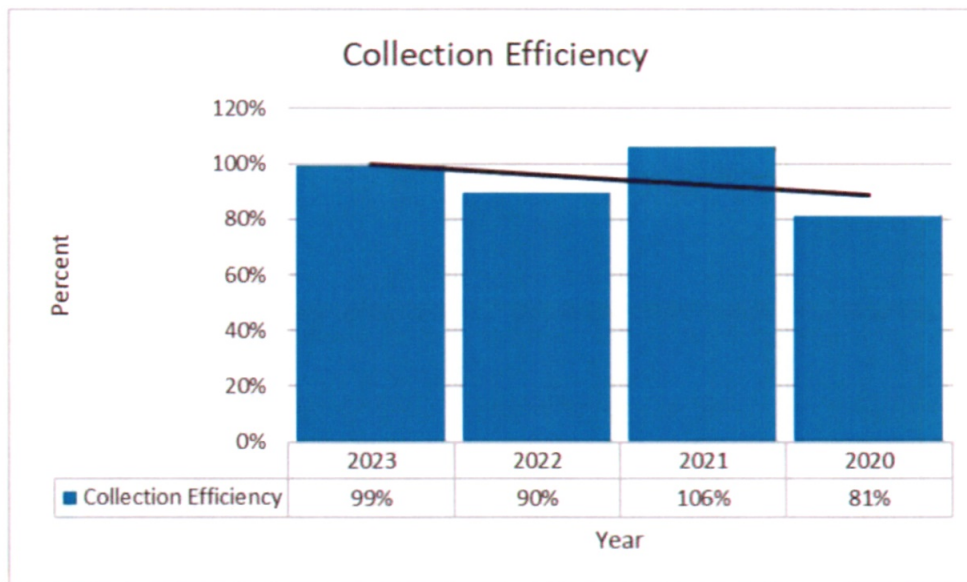
Billing Vs Collection

Collection efficiency is used to measure the effectiveness of the revenue management system in WSP. Revenue collected impacts on a utility's direct ability to fund its operation. In 2022/2023 we collected Kshs 189,920,744 against Billing of Kshs 191,579,014 giving a collection efficiency of 99%.

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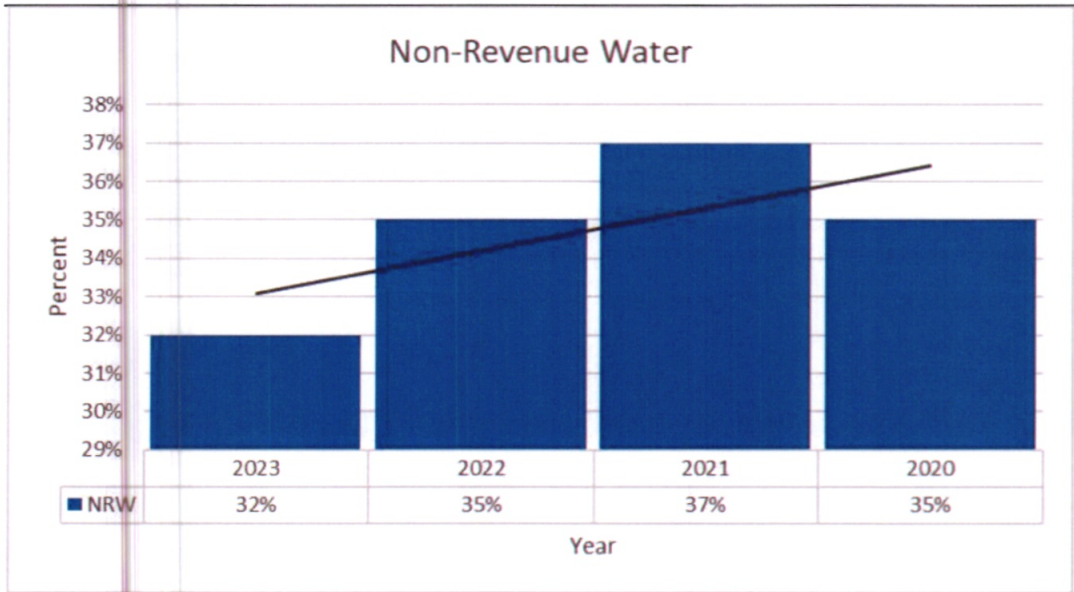
Collection Efficiency



Non-Revenue Water (NRW)

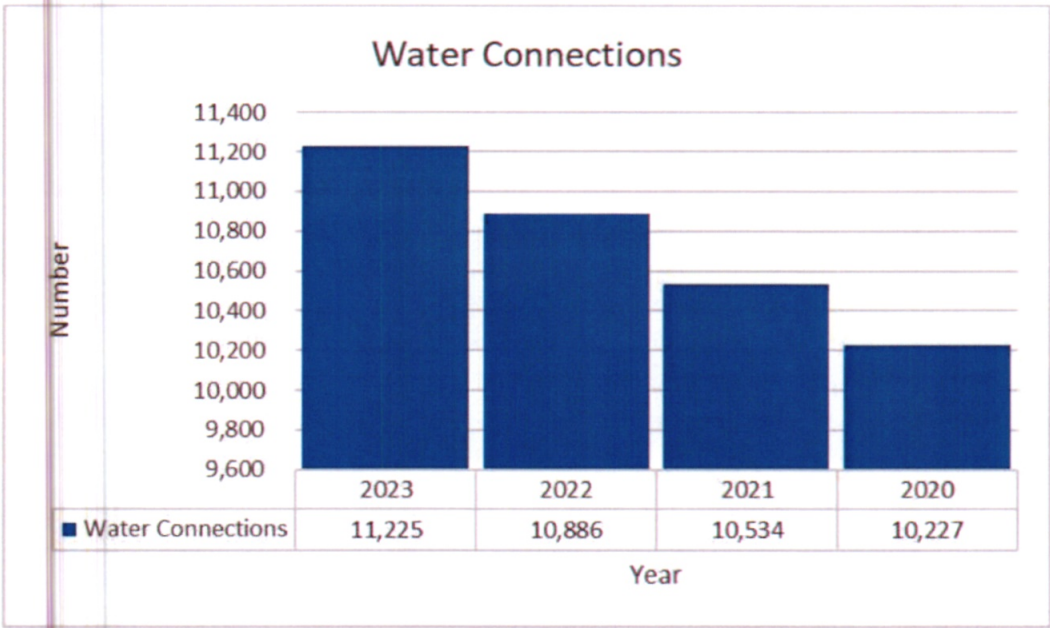
NRW is a key indicator in the measurement of WSP efficiency. It measures the difference between the amount of water produced in cubic meters for onward distribution to the consumers and the actual amounts billed at consumer meters. In the year under review NRW was at 32%

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Number of Water Connections

WSP’s sizes are determined by the number of Water and Sewer Connections. MAVWASCO is reported in the WASREB impact reports under large utilities. Number of connectetions continue to grow and as at 30th June 2023 the number of connections were 11,225



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Key Projects

Currently these projects are ongoing. They are under Tanathi WWDA to be handed over to us on completion. These are

- 1) The Mavoko Water Supply Project financed by Belgium/Kenya Governments costing KSHS 2.5 billion. Its objective is to supply 18,000m³ per day of water to Mavoko's 250,000 people. It's expected to have a duration of 2 years. This project is 95% complete. Athi river section is operational. Syokimau section awaits the completion of the Mombasa Road Expressway Project.
- 2) Mavoko Sewerage Improvement Project sponsored by ADF / Tanathi water services Board. It covers construction of new sewer network comprising extension sewer lines at Mlolongo, Syokimau, Athi River, Gimu and Lukenya areas. ToR's for consultancy have been forwarded to ADF for no objection approval.
- 3) Ndarugu Dam/ Water Supply Project sponsored by Tanathi Water Services Board. It's estimated to cost KSHS 20 billion.

Compliance with Statutory Requirements

MAVWASCO has strived to meet its statutory obligations. These include providing regular operational and financial reports, Monitoring and Evaluation reports, and regulatory fee submission to the water sector regulator WASREB. MAVWASCO also reports to the resource manager (WRA) and pays abstraction fees. MAVWASCO also reports to CGM

MAVWASCO also pays taxes regularly to KRA including VAT, PAYE, Corporate Tax and other. MAVWASCO also pay other statutory bodies including NHIF and NSSF not forgetting pension service providers as directed by employees.

MAVWASCO adheres to corporate governance ethics by having an active Board of Directors, audit function and an active Internal Audit function

Major Risks Facing the Organisation

MAVWASCO is a water service provider. Its major undertaking is water treatment and distribution to the residents of Mavoko Sub-County. Mavoko is a bedroom to Nairobi and an industrial zone. This indicates huge demand of water for domestic and industrial consumption. The water sources available cannot meet the demand currently standing at 450,000 m³ per month. MAVWASCO needs more dams, treatment plants and boreholes. At best, the current production is at 100,000m³. MAVWASCO needs funds to develop other sources.

Sewer Coverage is low. In many parts of Athi River, Mlolongo and Syokimau are not covered. Our town is growing fast due to proximity to Nairobi and availability of land for development thus increasing the demand for sewer services. Our plea to the Ministry of Water and the National

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Government and the County Government of Machakos is to assist in construction of the new sewer lines and sewer treatment plant

Non-Revenue Water currently stands at 32%. We have created a NRW unit which is mandated to help point out areas where water losses occur and block them. We are the upgrading water main lines and reduce response time to bursts we believe we that will help bring NRW down to industry standards of 25%

10. ENVIRONMENTAL AND SUSTAINABILITY REPORTING

MAVWASCO's first call to social responsibility is to our staff working our company and to their neighbourhood of Athi River and to truly value the partnership between the company and its employees and have an organization where achievement is duly rewarded and careers are sustained. It is our intention to create a working environment second to none and to set a template for other businesses moving into this region and to help improve the quality of life in communities where we operate.

i) Sustainability strategy and profile -

The management team strives to make sure that MAVWASCO is financially and operationally sustainable to meet the water and sewer needs of Mavoko Sub-County residents. We have continually invested in ICT to ease communicational and operational needs in addition to ease customer transactional activities. We have also invested in the latest NRW activities such as smart meters and GIS in order to reduce NRW to acceptable standards. We have also increased the staff capacity in terms of training and benchmarking so as to ensure our staff meet operational needs.

The company has sought to increase its revenue base by seeking new water and sewer connections in addition to the existing. Billing for services rendered is done on time and meter reading is at 100% for all water connections

MAVWASCO continually has encouraged its customers to allow pay for water and sewer services rendered so as to help the company meet its financial and social obligations

We are continually seeking new funding for new water sources to cater for current and future water-sewer needs for Mavoko residents.

ii) Environmental performance

MAVWASCO strives towards creating a healthy environment for its staff and customers by continually encouraging planting of trees in its sites. Environmental Social and Health Impact Assessment (ESHIA) on all major capital projects to identify potentially significant project-related impacts. These include impacts to surrounding communities, natural resources, biodiversity, air quality, land use, waste management, noise and public health.

iii) Employee welfare

MAVWASCO recognises all their employees to be the most valuable resource and that the health and welfare of all employees is essential in achieving the Company's mission. The well-being of all employees is of a primary concern by investing in the health and welfare of employees the Company is investing in the efficiency and effectiveness of the organisation. The company is committed to producing a caring and supportive working environment which is conducive to the welfare of all employees, and which enables them to develop towards their full potential. The Company recognises the importance of the professional relationship between line managers and staff, they have primary responsibility for the welfare at work of the staff under their supervision who respond to staff in a supportive manner taking into account their feelings and difficulties, in an atmosphere of trust and confidentiality.

MAVWASCO has continually sought to increase the capacity of its staff through trainings and benchmarking activities based on the Training Needs Assessment and HR Policies. Currently, MAVWASCO is implementing an updated HR Manual and Policy so as to up to par with the current HR practices.

MAVWASCO is a registered DOSH office and has been implementing OSH policies for the safety of our staff.

iv) Market place practices-

a) Responsible competition practice.

MAVWASCO is regulated by WASREB who sets standards for operations of Water Service Providers. These include Water and Sewer tariffs and Water Quality and Effluent Standards. The Company has continually stuck to these set standards so as to provide quality services to our clients.

b) Responsible Supply chain and supplier relations

MAVWASCO continually seek and maintain mutually beneficial relationships with Suppliers that uphold the MAVWASCO's principles and core values. MAVWASCO gives qualified Suppliers Adequate, fair, and equal opportunity to bid on goods and services for the MAVWASCO's projects or requirements. MAVWASCO accredits Suppliers based on established criteria that reflect the

ENVIRONMENTAL AND SUSTAINABILITY REPORTING (Continued)

MAVWASCO's reputation for fair, equal opportunity and honest treatment of all Suppliers. We adhere to the Public Procurement and Disposal Act 2015.

MAVWASCO ensures that, as part of the contract terms with MAVWASCO, Suppliers agree to abide with laws, rules and MAVWASCO standards relating to Industrial Relations Obligations, environment, health and safety, intellectual property rights, other applicable laws. All business transactions of MAVWASCO with Suppliers (i.e., negotiations, contracts, payments, etc.) are documented and reflected accurately and fairly in the accounts of the MAVWASCO in accordance with established rules and procedures. MAVWASCO disburses payments committed to Suppliers in a prompt manner and in accordance with the applicable contract provision.

In all procurement transactions MAVWASCO staff primarily consider the interest of the MAVWASCO and carry out and adhere to the MAVWASCO's established objectives and policies. MAVWASCO staff promote and observe ethical conduct in their relationships, actions, and communications with Suppliers at all times which is essential that in all aspects of the transactions with Suppliers, such as during the negotiation, performance monitoring, or administration of MAVWASCO supply contracts.

c) Responsible marketing and advertisement

MAVWASCO seeks to make all marketing communication have to be legal, decent, honest, and truthful without any exceptions. These Marketing communications respect human dignity, prohibit all form of discrimination (such as gender, age, ethnic origin, disability, religion or sexual orientation...) and incorporate social responsibility. Its descriptions, claims or illustrations are capable of substantiation.

Value of the product or service and pricing promoted in commercial or marketing communication have to be clear for the consumer, including terms of access or usage.

d) Product stewardship

MAVWASCO seeks to provide Clean Potable and affordable water to our clients. Our Water is clean, treated to Water Quality Standards set by WASREB for domestic use. Sewer is treated to Effluent standards set by WASREB. Daily tests are done for physiological and chlorine levels in drinking water. Tests for Bio-Chemical and metals are done regularly.

Corporate Social Responsibility / Community Engagements

MAVWASCO is committed to improving social, environmental and economic conditions where we operate. Our focus on sustainable employment opportunities promotes self-sufficiency. With partners, we identify programmes to promote a better standard of living, create a more stable operating environment and improve relationships. We currently have over 70 water kiosks that are operated by local community-based organizations that are conduits for job and wealth creation.

**Mavoko Water and Sewerage Company Limited
Annual Reports and Financial Statements
For the year ended June 30, 2023**

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 MAVWASCO's affairs.

Principal activities

The principal activity is of the Company continued to be that of providing water and sewerage services to the residents and companies in Mavoko Municipality and its environs as a Machakos County Government owned water service provider.

Results

The results of the MAVWASCO for the year ended June 30, 2022 are set out on [Pages 1-2](#)

Dividends

There shall be no dividends declared as per company's Articles of Association where it states that all profits shall be prowled back to the company for provision of water and sewerage services

Directors

The members of the Board of Directors who served during the year are shown on [page VI](#).

Auditors

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

By Order of the Board

SIGNED _____



DATE 15/09/2023

**CPA. MICHAEL YUMBYA MANGELI
MANAGING DIRECTOR /SECRETARY TO THE BOARD
MAVOKO WATER & SEWERAGE CO**

12. STATEMENT OF DIRECTORS' RESPONSIBILITIES

Section 5 and 183 of the Public Finance Management Act, 2012, Companies Act 2015 and Water Act 2016 require the Directors to prepare financial statements in respect of that MAVWASCO, which give a true and fair view of the state of affairs of MAVWASCO at the end of the financial year 2022/2023 and the operating results of MAVWASCO for year 2022/2023. The Directors are also required to ensure that the MAVWASCO keeps proper accounting records which disclose with reasonable accuracy the financial position of MAVWASCO. The Directors are also responsible for safeguarding the assets of MAVWASCO.

The Directors are responsible for the preparation and presentation of MAVWASCO's financial statements, which give a true and fair view of the state of affairs of MAVWASCO for and as at the end of the financial year ended on June 30, 2023. This responsibility includes:

- a. Maintaining adequate financial management arrangements and ensuring that these continue to be effective throughout the reporting period;
- b. Maintaining proper accounting records, which disclose with reasonable accuracy at any time the financial position of the MAVWASCO;
- c. 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;
- d. Safeguarding the assets of MAVWASCO;
- e. Selecting and applying appropriate accounting policies; and
- f. Making accounting estimates that are reasonable in the circumstances.

The Directors accept responsibility for MAVWASCO'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, Companies Act 2015 and Water Act 2016. The Directors are of the opinion that MAVWASCO's financial statements give a true and fair view of the state of MAVWASCO's transactions during the financial year ended June 30, 2023, and of the MAVWASCO's financial Position as at that date. The Directors further confirm the completeness

Mavoko Water and Sewerage Company Limited
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STATEMENT OF DIRECTORS' RESPONSIBILITIES (Continued)

of the accounting records maintained for MAVWASCO, which have been relied upon in the preparation of MAVWASCO's financial statements as well as the adequacy of the systems of internal financial control.

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

Approval of the financial statements

MAVWASCO's financial statements were approved by the Board on **15/09/2023** and signed on its behalf by:



SIGNED

REV. FLORENCE K. KIVEVO
CHAIRPERSON



SIGNED

CPA. MICHAEL Y. MANGELI
MANAGING DIRECTOR

REPUBLIC OF KENYA

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Enhancing Accountability

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NAIROBI

REPORT OF THE AUDITOR-GENERAL ON MAVOKO WATER AND SEWERAGE 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 that 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 Mavoko Water and Sewerage Company Limited set out on pages 1 to 64, 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

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

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 Mavoko Water and Sewerage 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 (IFRS) and comply with the Public Finance Management Act, 2012, the County Governments Act, 2012, the Companies Act, 2015 and the Water Act, 2016.

Basis for Qualified Opinion

1. Inaccuracies in the Financial Statements

Review of the financial statements revealed the following inaccuracies:

- i. The statement of financial position reflects deferred tax asset balance of Kshs.9,352,371 which differs from the amount of Kshs.6,379,289 disclosed in the corresponding Note 40 to the financial statements by an unreconciled and unexplained difference of Kshs.2,973,082.
- ii. The statement of profit or loss and other comprehensive income reflects an amount of Kshs.16,009,017 in respect of depreciation and amortization expenses which, as disclosed in Note 16 to the financial statements, includes an amount of Kshs.10,829,410 in respect of amortization of reserves. However, a re-computation of the same yielded an amount of Kshs.12,376,468 resulting to an unexplained and unreconciled variance of Kshs.1,547,058.

In the circumstances, the accuracy and completeness of the affected balances in the financial statements could not be confirmed.

2. Unsupported Adjustments in Revenue

The statement of profit or loss and other comprehensive income reflects revenue amount of Kshs.191,579,014 as disclosed in Note 6 to the financial statements. Review of revenue records revealed an adjustment on revenue of Kshs.20,433,350. The adjustment was however not supported with customer statements and reconciliations or any other records.

In the circumstances, the accuracy and completeness of the sales revenue of Kshs.191,579,014 could not be confirmed.

3. Long Outstanding Trade and Other Receivables Balance

The statement of financial position and as disclosed in Note 30a to the financial statements, reflects trade and other receivables balance of Kshs.156,536,388 which includes net trade receivables balance of Kshs.113,987,953. However, trade receivables

amounting to Kshs.61,661,480 or 39% of the gross trade receivables have remained outstanding for more than one hundred and twenty (120) days and their recoverability is therefore doubtful.

In the circumstances, the accuracy and fair statement of the trade and other receivables balance of Kshs.156,536,390 could not be confirmed.

4. Unsupported Short-Term Deposits Balance

The statement of financial position reflects a balance of Kshs.10,916,994 in respect of short-term deposits balance which, as disclosed in Note 32 to the financial statements, includes investment in fixed deposit and call account of Kshs.7,813,876 and Kshs.3,103,118, respectively. The balances further include rolled over interest of Kshs.282,406. Review of supporting documents revealed the following inconsistencies:

- i. Letters of confirmation of deposits in respect of the renewal of existing deposit and rollover interest were not provided for review.
- ii. The investment register lacked basic details including certificate deposit number, date of deposit, initial capital, rate of interest, total of principal and interest, date of maturity, period and date of deposit withdrawals, transfers and authority for withdrawals. This contravenes the requirements of Section 4.12.1 of the Company's Finance Policies and Procedures Manual, 2012, which requires maintenance of updated records on investments capturing all the details.

In the circumstances, the accuracy and completeness of the short-term deposits balance of Kshs.10,916,994 could not be confirmed.

5. Trade and Other Payables Balance

The statement of financial position and as disclosed in Note 43(a) to the financial statements, reflects trade and other payables balance of Kshs.94,019,944. The following unsatisfactory matters were however noted: -

5.1. Long Outstanding Trade and Other Payables

Review of financial records revealed that accounts payables totalling Kshs.66,838,002 had remained outstanding for more than one year. Further, included in the payables balance is unremitted statutory deductions amounting to Kshs.22,416,106 which comprise of Regulatory fees - Water Services Regulatory Board (WASREB) and Abstraction fees - Water Resources Management Authority (WARMA) balances of Kshs.20,930,241 and Kshs.1,485,865, respectively. The Management has not explained the reasons for the delay in settling the liabilities thus exposing the Company to litigations and the risk of incurring penalties and interest for late payments.

5.2. Unsupported Payables Write-off

Included in the payables balance is an amount of Kshs.15,016,991 owed to Mavoko Municipal Council which is a decrease by Kshs.17,000,000 from the prior year's audited balance of Kshs.32,016,991. The decrease of Kshs.17,000,000 was attributed to accounts payables written off but whose supporting documents including requisite

approval, full statement of account from the vendor and reconciliation statement to determine write off amount were not provided for audit verification.

5.3. Unsupported Balances

Included in the accounts payables balance is an amount of Kshs.59,626,416 which further includes regulatory fees to WASREB, lease fee to Tanathi Water Works Development Agency, lease fees to Mavoko Municipal Council, Nairobi City Water and Sewerage Company and Mulekyo and Company Advocates of Kshs.26,098,697, Kshs.16,180,823 Kshs.15,016,991, Kshs.1,635,256 and Kshs.694,649, respectively. The balances were however not supported with lease fees agreements, regulatory fees agreements and vendor statements.

In the circumstances, the accuracy, validity and fair statement the trade and other payables balance of Kshs.94,019,944 could be confirmed.

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

Emphasis of Matter

Budgetary Control and Performance

The statement of comparison of budget and actual amounts reflects final revenue budget and actual on comparable basis of Kshs.416,980,479 and Kshs.231,260,878 respectively, resulting to a revenue shortfall of Kshs.185,719,601 or 45% of the budget.

The under-performance affected the implementation of the planned activities and programs and may have impacted negatively on service delivery to the residents of Machakos County.

My opinion is not modified in respect of this matter.

Key Audit Matters

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

Other Matter

Unresolved Prior Year Matters

In the previous year's audit report, several issues were raised under the Report on Financial Statements, Report on Lawfulness and Effectiveness in Use of Public Resources and Report on Effectiveness of Internal Controls, Risk Management and

Governance. However, Management has not resolved the issues or given any explanation for failure to adhere to the provisions of the financial reporting template issued by the Public Sector Accounting Standards Board (PSASB).

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

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

Basis for Conclusion

1. Non-Adherence to Ethnic Diversity in Staffing

Review of the Company's personnel records revealed that sixty-eight (68) or 73% of the total work force of ninety-three (93) was from the dominant local ethnic community in the County. This is contrary to the provisions of Part III Section 7(2) of the National Cohesion and Integration Act, 2008 which states that no public establishment shall have more than one third of its staff from the same ethnic community.

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

2. Failure to Comply with Affirmative Action on Gender Equality

Review of Company's human resource documents and payroll data revealed that there were ninety-three (93) employees, out of which sixty-eight (68) or 73% were male while twenty-five (25) or 27% were female which is contrary to the threshold of two thirds (2/3) gender rule as provided for in Section B.22(2) of Public Service Commission Human Resource Policies and Procedure Manual, 2016.

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

3. Irregular Use of Framework Agreements/Contract

The Company entered into a framework agreement with various suppliers for the supply of goods, works and services in various categories including supply of water meters, chemicals for water treatment, electromechanical works and motor vehicle maintenance. Review of procurement documents in support of the framework agreements and contracts however, revealed that the criteria for a minimum of seven (7) alternative suppliers or contractors for framework agreements was not met. This was a contravention of Regulation 102(1)(b) of the Public Procurement and Asset Disposal Regulations, 2020 which states that, subject to Section 114 of the Act, a procuring entity may enter into a framework agreement through open tender using an invitation to tender which shall specify the number of suppliers or contractors which shall not be less than seven alternative vendors. No plausible explanation was provided to justify the irregularity.

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

4. Irregular Composition of Committees of the Board

Review of the Water Company's Board records revealed that the Chairlady to the Board is a member of both the audit and the finance committees. This contravenes Parameter 1.7(2) of Mwingozo Code of Governance for State Corporations which requires that the Chairperson of the Board should not be a member of any committee save for an ad hoc committee.

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

5. Irregular Appointment of Board Members

Review of Board records revealed that the Governor of Machakos County appointed the Board members of the Water Company through gazette notice no. 9865 of 13 September, 2021. However, the appointees were not subjected to an open and competitive recruitment process, which includes advertisement for the vacancies, applications for the posts, interviews and final selection of successful candidates, as required by section 2(2) of Schedule 1 of Water Act, 2016.

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

6. Excessive Non-Revenue Water

Review of water sales and production records revealed that the Company produced 1,164,894 cubic meters of water, out of which 785,159 cubic meters or 67% was billed to customers. The balance of 379,735 cubic meters or approximately 33% of total production represents Non-Revenue Water (NRW) valued at Kshs.11,392,050 which is above the allowable loss of 25% by 8% contrary to the Water Services Regulatory Board (WASREB) guidelines.

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

7. Irregular Borrowings from Customer Deposits Account

Note 43(b) to the financial statements reflects customer deposit balance of Kshs.37,258,503 while the related deposits bank account reflects a balance of Kshs.233,683 resulting to a variance of Kshs.37,024,820. Review of deposits records revealed that full Board meetings held during the periods 2009, 2018 and 2023 approved requests by the Management to borrow Kshs.8,000,000, Kshs.16,000,000 and Kshs.3,000,000 respectively, from the customer deposits to finance Company's operations. The total amount borrowed of Kshs.27,000,000 had not been refunded as at 30 June, 2023 while the balance of Kshs.10,024,820 was borrowed without the Board approval.

In the circumstances, the regularity of borrowings of Kshs.10,024,820 from Customer Deposits Account could not be confirmed.

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

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

Conclusion

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

Basis for Conclusion

1. Lack of Production Distribution Software for Bulk Meter Readings

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

In the circumstances, the controls in production and distribution of water may be weak and losses are likely to occur.

2. Lack of Non-Revenue Water Policy

Review of the Company operations and records revealed that the entity did not design and implement a non-revenue water policy for effective management of the non-revenue water. Thus, the Company did not put in place measures to mitigate the non-revenue water challenges encountered in the water sector.

In the circumstances, Management lacked mechanisms to help in the reduction of non-revenue water losses.

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

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

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

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

Responsibilities of Management and the Board of Directors

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

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

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

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

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

Auditor-General's Responsibilities for the Audit

The audit objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion in accordance with the provisions of Section 48 of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISSAIs will always detect

a material misstatement and weakness when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

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

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

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Management.
- Conclude on the appropriateness of the management's use of applicable basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as going concern. If I conclude that a material uncertainty exists, I am required to draw attention in the auditor's report to the related disclosures in the

financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my audit report. However, future events or conditions may cause the Company to cease to continue as going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information and business activities of the Company to express an opinion on the financial statements.
- Perform such other procedures as I consider necessary in the circumstances.

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

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


FCPA Nancy Gathungu, CBS
AUDITOR-GENERAL

Nairobi

25 March, 2024

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

| | Note | 2022-2023 | 2021/2022 |
|---|------|---------------------|---------------------|
| | | | Kshs |
| REVENUES | | | |
| Revenue | 6 | 191,579,014 | 240,544,507 |
| Grants from the National Government | 7 | 2,449,261 | 36,806,444 |
| Interest income | 9 | 282,406 | 337,571 |
| Other Income | 10 | 36,950,198 | 19,770,276 |
| Other gains/(losses) | 11 | - | - |
| TOTAL REVENUES | | 231,260,878 | 297,458,797 |
| EXPENSES | | | |
| Staff Cost | 12 | 92,359,589 | 76,062,697 |
| General and Operational Expenses | 13 | 98,543,212 | 163,125,687 |
| Directors' emoluments | 14 | 9,909,811 | 13,050,573 |
| Water and Sewer Qualities Repairs and maintenance | 15 | 26,036,174 | 28,249,016 |
| Depreciation and Amortization Expenses | 16 | 16,009,017 | 17,655,272 |
| Project Costs | 17 | 2,743,792 | 9,808,025 |
| TOTAL OPERATING EXPENSES | | 245,601,595 | 307,951,271 |
| PROFIT/(LOSS) BEFORE TAXATION | | (14,340,717) | (10,492,475) |
| INCOME TAX EXPENSE/(CREDIT) | 18 | (8,022,960) | - |
| DEFERED TAX | 40 | - | 2,371,075 |
| PROFIT/(LOSS) AFTER TAXATION | | (6,317,757) | (8,121,400) |
| Earnings per share – basic and diluted | 20 | | |

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| | | | |
|---|-----------|--------------------|--------------------|
| Dividend per share | 21 | | |
| | | | |
| OTHER COMPREHENSIVE INCOME | - | | |
| PROFIT/(LOSS) AFTER TAXATION | | (6,317,757) | (8,121,400) |
| Surplus or deficit on revaluation of PPE | | | |
| Remeasurement of net defined benefit liability | | | |
| Fair value gain/(loss) on investments in equity instruments designated as at FVTOCI | | | |
| TOTAL COMPREHENSIVE INCOME FOR THE YEAR | | (6,317,757) | (8,121,400) |

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15. STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2023




| | Note | 2022/2023 | 2021/2022 |
|--------------------------------------|-------|--------------------|--------------------|
| | | Kshs | Kshs |
| ASSETS | | | |
| Non-Current Assets | | | |
| Property, plant and equipment | 22 | 107,533,002 | 121,436,914 |
| Intangible assets | 23 | 250,155 | 333,540 |
| Investment property | 24 | | |
| Prepaid operating lease rentals | 26 | | |
| Fixed interest investments (bonds) | 27 | | |
| Quoted investments | 27 | | |
| Unquoted investments | 28 | | |
| Staff receivables due after one year | | | |
| Total Non-Current Assets | | 107,783,158 | 121,770,454 |
| Current Assets | | | |
| Inventories | 29 | 4,125,478 | 9,085,160 |
| Trade -and other receivables | 30a | 156,536,388 | 149,140,337 |
| VAT Tax recoverable | 31 b) | 1,131,550 | 1,158,019 |
| Short-term deposits | 32 | 10,916,994 | 10,634,588 |
| Bank and cash balances | 33 | 3,144,005 | 19,627,229 |
| Deferred Tax | 40 | 9,352,371 | 5,022,641 |
| Tax Recoverable | 31(a) | 5,552,235 | |
| Total Current Assets | | 190,759,022 | 194,667,974 |
| Total Assets | | 298,542,179 | 316,438,429 |
| EQUITY AND LIABILITIES | | | |
| Capital and Reserves | | | |
| Ordinary share capital | 35 | 100,000 | 100,000 |
| Revaluation reserve | 36a | 4,329,731 | - |

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| | | | |
|--------------------------------------|--------|--------------------|--------------------|
| General reserves | 36 b | 24,748,969 | 24,748,969 |
| Retained earnings | 38 | 16,630,471 | 12,118,818 |
| Capital grants | 36 c | 88,182,334 | 99,011,744 |
| Proposed dividends | 21 | | |
| Capital and Reserves | | 133,991,505 | 135,979,531 |
| Non-Current Liabilities | | | |
| Trade and other payables long term | 43(b) | 32,290,000 | 35,050,000 |
| Customer Deposits | 43(b) | 37,258,503 | 36,448,503 |
| Total Non-Current Liabilities | | 69,548,503 | 71,498,503 |
| Current Liabilities | | | |
| Borrowings | 35 | - | |
| Tax payable | 31(a) | - | 4,216,709 |
| Trade and other payables | 43 (a) | 94,019,944 | 97,267,610 |
| Provision for future expenses | 41 | 982,185 | 1,321,474 |
| Deferred Income | 47 | 41 | 6,154,903 |
| Total Current Liabilities | | 95,002,170 | 108,960,696 |
| TOTAL EQUITY AND LIABILITIES | | 298,542,179 | 316,438,429 |

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The financial statements were approved by the Board on **15/09/2023** and signed on its behalf by:

| | |
|--|---|
| Director General/C.E.O /M.D | |
| Name: | CPA. MICHAEL YUMBYA MANGELI |
| Signed: |  |
| ICPAK M/NO: | R 9276 |
| Chairperson of the Board | |
| Name: | REV. FLORENCE KATHOKI KIVEVO |
| Signed: |  |
| ACCOUNTANT | |
| Name: | CPA. CHARLES CHEGE CHARI |
| Signed: |  |
| ICPAK M/NO: | R 9274 |

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

| | Share capital | General reserve | Revaluation reserve | Retained earnings | Capital /Development Grants/Fund | Total |
|--|----------------|-------------------|---------------------|-------------------|----------------------------------|--------------------|
| At July 1, 2021 | 100,000 | 24,748,969 | 391,232 | 20,240,049 | - | 45,480,419 |
| Issue of new share capital | - | - | - | - | - | - |
| Revaluation gain | - | - | - | - | - | - |
| Transfer of excess depreciation on revaluation | - | - | - | - | - | - |
| Deferred tax on excess depreciation | - | - | - | - | - | - |
| Fair value adjustment on quoted investments | - | - | - | - | - | - |
| Total comprehensive income | - | - | - | (8,121,400) | - | (8,121,400) |
| Capital/Development grants received during the year | - | - | - | - | 99,011,744 | 99,011,744 |
| Transfer of depreciation/amortisation from capital fund to retained earnings | - | - | (391,232) | - | - | (391,232) |
| At June 30, 2022 | 100,000 | 24,748,969 | - | 12,118,818 | 99,011,744 | 135,979,531 |
| At July 1, 2022 | 100,000 | 24,748,969 | - | 12,118,818 | 99,011,744 | 135,979,531 |
| Issue of new share capital | - | - | - | - | - | - |
| Revaluation gain | - | - | - | - | - | - |
| Transfer of excess depreciation on revaluation | - | - | - | - | - | - |
| Deferred tax on excess depreciation | - | - | 4,329,731 | - | - | 4,329,731 |
| Fair value adjustment on quoted investments | - | - | - | - | - | - |
| Total comprehensive income | - | - | - | (6,317,757) | - | (6,317,757) |
| Capital/Development grants received during the year | - | - | - | - | - | - |
| Transfer of depreciation/amortisation from capital fund to retained earnings | - | - | - | 10,829,410 | (10,829,410) | - |
| At June 30, 2023 | 100,000 | 24,748,969 | 4,329,731 | 16,630,471 | 88,182,334 | 133,991,505 |

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

| | Note | 2022/2023 | 2021/2022 |
|--|--------|---------------------|--------------------|
| | | | Kshs |
| CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| Cash generated from/ (used in) operations | 48 | (12,309,575) | 24,364,076 |
| Interest received | 9 | 282,406 | |
| Interest paid | 48 | | |
| Tax Payable | 31(a) | 5,552,235 | (4,216,709) |
| VAT recoverable | 31(b) | 1,131,550 | 1,158,019 |
| Dividends paid | 21 | | |
| Deferred tax | 40 | (4,329,731) | 2,371,075 |
| Taxation paid/offset | 31(a) | (1,745,984) | - |
| Net cash generated from/ (used in) operating activities | | (11,419,099) | 23,676,461 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | |
| Purchase of property, plant and equipment | 22 | (2,021,720) | (2,140,202) |
| Proceeds from disposal of property, plant and equipment | 22 | | |
| Purchase of intangible assets | 23 | 0 | - |
| Purchase of investment property | 25 | | |
| Purchase of quoted investments | 28 | | |
| Proceeds from disposal of quoted investments | 28 | | |
| impairment losses | 24 | - | - |
| Erdermann Sewer payments | 43(b) | (2,760,000) | (2,760,000) |
| Net cash generated from/(used in) investing activities | | (4,781,720) | (4,900,202) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | |
| Proceeds from issues of new share capital | | | |
| Proceeds from borrowings | 39 (b) | | |
| Repayment of borrowings | 39 (b) | | |

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| | | | |
|---|-----------|---------------------|-------------------|
| Net cash generated from/(used in) financing activities | | | |
| INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS | | (16,200,819) | 18,776,260 |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR | 34 | 30,261,818 | 11,485,558 |
| Effects of foreign exchanges rate fluctuations | | | |
| CASH AND CASH EQUIVALENTS AT END OF THE YEAR | 34 | 14,060,999 | 30,261,818 |

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**18. STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS FOR
THE PERIOD ENDED 30 JUNE 2023**

| | Original budget | Adjustments | Final budget | Actual on comparable basis | Performance difference | % Variance |
|---|---------------------|-------------|---------------------|----------------------------|------------------------|------------|
| | 2022-2023 | 2022-2023 | 2022-2023 | 2022-2023 | 2022-2023 | |
| | Kshs | Kshs | Kshs | Kshs | Kshs | |
| Revenue | | | | | | |
| Sale of goods | | | | | | |
| Sale of services | 379,930,805 | - | 379,930,805 | 191,579,014 | 188,351,792 | 50% |
| Grants from the National Government | - | - | - | 2,449,261 | (2,449,261) | |
| Interest income | 100,000 | - | 100,000 | 282,406 | (182,406) | 282% |
| Other Income | 36,949,674 | - | 36,949,674 | 36,950,198 | (524) | 100% |
| Total income | 416,980,479 | - | 416,980,479 | 231,260,878 | 185,719,601 | 55% |
| Expenses | | | | | | |
| Staff Cost | 108,967,500 | | 108,967,500 | 92,359,589 | 16,607,911 | 85% |
| Operational Expenses | 221,309,548 | | 221,309,548 | 98,543,212 | 122,766,336 | 45% |
| Directors' emoluments | 10,494,000 | | 10,494,000 | 9,909,811 | 584,189 | 94% |
| Water and Sewer Qualities Repairs and maintenance | 54,980,000 | | 54,980,000 | 26,036,174 | 28,943,826 | 47% |
| Depreciation and Amortization Expenses | 19,944,000 | | 19,944,000 | 16,009,017 | 3,934,983 | 80% |
| Project Expense | 24,000,000 | | 24,000,000 | 2,743,792 | 21,256,208 | 11% |
| Total expenditure | 439,695,048 | - | 439,695,048 | 245,601,595 | 194,093,453 | 56% |
| | - | | | | | |
| Surplus for the period | (22,714,569) | - | (22,714,569) | (14,340,717) | 8,373,852 | 63% |

Mavoko Water and Sewerage Company Limited
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NOTES TO THE STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS

General Performance

The year ending 30th June 2023 was a difficult period. Due to the drought we closed the treatment plant during the months of October, November 2022 and February, March and part of April 2023. This means 42% of the period the treatment plant was closed. This led to decreased sales and revenues thus greatly affecting our operations. At the same time water supply from Nairobi water and Sewerage company has reduced greatly thus affecting supply to residents of Syokimau, Mlolongo and Mombasa Road.

Due to this the turnover for the year for normal operations was 50% of the budgeted which led to a loss on normal operations.

1) TURNOVER (SALES)

Overall sales were **KSHS 191,579,014** while the budgeted was **KSHS 379,930,805**. These varied from the budgeted amount by **KSHS 188,351,792**.

Drought occurred that rendered our dams dry and hence unable to produce enough water for treatment and onward distribution to customers. This led to low billed volumes and low sales amounts

2) EXPENSES

The actual Expenses were **KSHS 245,601,595** and the budgeted was **KSHS 439,695,048** which varied by **KSHS 194,093,453**. With low billings meant that we had to reduce our expenses to almost half the budgeted amounts

The loss for the year 2022/2023 before tax was **KSHS 14,340,717**.

19. NOTES TO THE FINANCIAL STATEMENTS

1. General Information

MAVWASCO is established by and derives its authority and accountability from Water Act 2016. MAVWASCO is wholly owned by the County Government of Machakos and is domiciled in Kenya. The MAVWASCO principal activity is Water and Sewerage Service Provision. For Kenyan Companies Act reporting purposes, the balance sheet is represented by the statement of financial position and the profit and loss account by the statement of profit or loss and other comprehensive income in these financial statements.

2. Statement of Compliance and Basis of Preparation

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

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

The financial statements have been prepared in accordance with the PFM Act, the Companies Act 2015 Act, Water Act 2016, and International Financial Reporting Standards (IFRS). The accounting policies adopted have been consistently applied to all the years presented.

Mavoko Water and Sewerage Company Limited
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3. Notes to the Financial Statements (Continued)

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

i. *New and amended standards and interpretations in issue 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. |

i. Early adoption of standards

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

NOTES TO THE FINANCIAL STATEMENTS (Continues)

4. Summary of Significant Accounting Policies

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

a) Revenue recognition

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

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Summary of Significant Accounting Policies

b) In-kind contributions

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

c) Property, plant and equipment

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)
Summary of Significant Accounting Policies

d) Depreciation and impairment of property, plant and equipment

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

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

| Item | Years | Rates |
|----------------------|-------|--------|
| Plant & Machinery | 20 | 12.50% |
| Motor Vehicles | 10 | 25.00% |
| Furniture & Fittings | 8 | 12.50% |
| Computer | 10 | 33.33% |
| Infrastructure | 20 | 33.33% |
| Laboratory Equipment | 5 | 33.33% |
| Intangible Assets | 20 | 25.00% |
| Tools | 3 | 33.33% |

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

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

e) Intangible assets

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Summary of Significant Accounting Policies

f) Amortisation and impairment of intangible assets

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

g) Investment property

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Summary of Significant Accounting Policies

h) Right of Use Asset

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

i) Fixed interest investments (bonds)

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

j) Quoted investments

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Summary of Significant Accounting Policies

k) Unquoted investments

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

l) Inventories

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

m) Trade and other receivables

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Summary of Significant Accounting Policies

n) Taxation

i) Current income tax

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

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

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

ii) 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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Summary of Significant Accounting Policies

in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

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

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

o) 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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

capitalization. All other borrowing costs are recognized in profit or loss in the period in which they are incurred.

Summary of Significant Accounting Policies

p) Cash and cash equivalents

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

q) 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.

a) 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.

b) Retirement benefit obligations

MAVWASCO subscribes to defined contributions schemes (Kenindia Insurance, LAPTRUST and LAPFUND) for all full-time employees from July 1, 2008. The schemes are based on contributions where the employee contributes 10% of basic pay and the employer pays 15% per month The Company

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Summary of Significant Accounting Policies

also contributes to the statutory National Social Security Fund (NSSF). This is a defined contribution scheme registered under the National Social Security Act.

c) Provision for staff leave pay

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

d) Exchange rate differences

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

e) Budget information

The original budget for FY 2022/2023 was approved by the Board of Directors on 14/06/2023. Subsequent revisions or additional appropriations were made to the approved budget in accordance with specific approvals from the appropriate authorities.

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Summary of Significant Accounting Policies

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

f) Service concession arrangements

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

g) Prior – Year Activities.

There were no prior year activities

h) Comparative figures

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

i) 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.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

5. Significant Judgments and Sources of Estimation Uncertainty

The preparation of the Entity's financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of the reporting period.

However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods.

a) Estimates and assumptions

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

b) Useful lives and residual values

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

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

c) Provisions

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

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NOTES TO THE FINANCIAL STATEMENTS (Continues)

The provision for doubtful debts is an estimated number of bad debts that are likely to arise from the accounts receivable. Provision of bad debts is 7.5% of the active debt

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NOTES TO THE FINANCIAL STATEMENTS (Continues)

6. Revenue

| | 2022/2023 | 2021/2022 |
|--------------------------------------|--------------------|--------------------|
| | Kshs | Kshs |
| Water Sales | 91,229,380 | 139,515,814 |
| Sewer Sales | 100,349,634 | 101,028,693 |
| Less: Value added tax on gross sales | | |
| Total | 191,579,014 | 240,544,507 |

7. Grants from National Government

| | 2022/2023 | 2021/2022 |
|--|------------------|-------------------|
| | Kshs | Kshs |
| Recurrent grants received | 507,675 | 31,255,995 |
| Capital grants realised (see note below) | | |
| Donations in | 1,941,586 | 5,550,449 |
| Total | 2,449,261 | 36,806,444 |

8. Donations and Grants

(a) Conditional Liquidity Support Grant

| Name of the Entity sending the grant | Amount recognized in the Statement of Comprehensive Income | Amount deferred under deferred income | Amount recognised in capital fund. | Total grant income during the year | |
|--------------------------------------|--|---------------------------------------|------------------------------------|------------------------------------|----------|
| | Kshs | Kshs | Kshs | Kshs | Kshs |
| WSTF | 507,675 | 41 | - | 507,716 | - |
| Total | 507,675 | 41 | - | 507,716 | - |

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

8(b) Donations

| | 2022/2023 | 2021/2022 |
|------------------------|------------------|------------------|
| | Kshs | Kshs |
| NRW meters | 1,941,586 | |
| NRW Equipment | | |
| Pipes and fittings | | 771,449 |
| COVID-19 Interventions | | 4,779,000 |
| Water Chemicals | | |
| Total | 1,941,586 | 5,550,449 |

9. Finance Income

| | 2022/2023 | 2021/2022 |
|---|----------------|----------------|
| | Kshs | Kshs |
| Exchange gains on foreign current denominated loans | - | - |
| Exchange gains on short-term bank deposits | - | - |
| Exchange gains on cash and bank balances | - | - |
| Interest income on government securities | - | - |
| Interest income on short-term bank deposits | 282,406 | 337,571 |
| Total | 282,406 | 337,571 |

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

10. Other Income

a) Other income

| | 2022/2023 | 2021/2022 |
|-------------------------------------|-------------------|-------------------|
| | Kshs | Kshs |
| Penalty + Damages | - | 10,000 |
| New connections | 2,061,922 | 3,045,359 |
| New Sewer connections | 6,325,500 | 5,517,900 |
| Meter Sales | 1,004,925 | 1,663,225 |
| Tender | | |
| Project income (10 b) | 10,557,851 | 8,000,000 |
| Token Kiosks Customers | - | 4,570 |
| Decrease in provision for Bad Debts | | 1,529,222 |
| Creditors Written off | 17,000,000 | |
| Total | 36,950,198 | 19,770,276 |

10 (b) Project income

| | 2022/2023 | 2021/2022 |
|----------------------------------|-------------------|------------------|
| | Kshs | Kshs |
| Mombasa road pipeline relocation | 10,557,851 | 8,000,000 |
| Total | 10,557,851 | 8,000,000 |

11. Other Gains and Losses

| | 2022/2023 | 2021/2022 |
|--|-----------|-----------|
| | Kshs | Kshs |
| Foreign exchange gains / (losses) | | |
| Loss/gain on disposal on sale of investments | | - |
| Unrealized foreign exchange gains/(losses) | | - |
| Total | - | - |

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

Administration Costs

12. Staff Cost

| | 2022/2023 | 2021/2022 |
|---|-------------------|-------------------|
| | Kshs | Kshs |
| Salaries and allowances of permanent employees | 72,812,539 | 62,219,778 |
| Wages of temporary employees | 2,789,774 | 4,293,040 |
| Compulsory national social security schemes | 600,557 | 200,600 |
| Other pension contributions | 5,752,568 | 5,541,674 |
| Gratuity | 992,750 | |
| Staff welfare | 697,000 | 701,415 |
| Conversion to contract | 4,949,585 | |
| Medical Expenses | 3,764,817 | 3,106,190 |
| Total | 92,359,589 | 76,062,697 |

13. General and Operational Expenses

| | 2022/2023 | 2021/2022 |
|--|------------|------------|
| | Kshs | Kshs |
| Water Chemicals & Reagents | 16,533,672 | 18,988,803 |
| Water Quality & Effluent Testing | 521,000 | 963,250 |
| Laboratory Items and Maintenance | 31,549 | 224,827 |
| Regulatory Levies | 7,663,249 | 9,652,873 |
| Abstraction Levies | 3,035,843 | 1,089,713 |
| Electricity | 21,358,883 | 23,412,487 |
| Purchase of water | 1,532,606 | 2,766,510 |
| Purchase of Meters | 1,570,480 | 2,866,006 |
| Communication services and supplies | 2,799,146 | 2,507,565 |
| Transportation, travelling and subsistence | 7,465,672 | 9,935,777 |
| Foreign Travel | 995,091 | 971,163 |
| Advertising, printing, stationery and photocopying | 1,797,132 | 1,228,987 |

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| | | |
|--------------------------------------|-------------------|--------------------|
| Rent expenses | 1,443,397 | 1,265,266 |
| Staff training expenses | 1,205,725 | 1,602,590 |
| Hospitality supplies and services | 3,808,290 | 3,458,114 |
| Insurance costs | 1,714,263 | 1,438,394 |
| Bank charges and commissions | 301,258 | 377,059 |
| Auditors' remuneration | 232,000 | 232,000 |
| Legal fees | 387,200 | 1,313,020 |
| Consultancy fees | 1,554,684 | 1,932,501 |
| Strategic Review & Biz Plan Expenses | - | |
| OSHE | 80,400 | 83,270 |
| Motor Vehicle & Generator Fuel | 9,775,487 | 5,430,266 |
| Security Expenses | 8,291,300 | 8,757,200 |
| Donations | 47,550 | 207,000 |
| IT Expenses | 1,093,295 | 1,157,468 |
| Increase in bad debts provision | 662,213 | - |
| Bad Debts Written off | - | 56,339,813 |
| Uniforms | 766,600 | 964,828 |
| WASCA | 97,550 | 1,837,085 |
| Customer/Stakeholder meetings | 693,900 | 134,320 |
| Annual General Meeting Expenses | - | - |
| Environmental Activities | 125,166 | 406,100 |
| COVID 19 INTERVENTIONS | 392,235 | 1,581,432 |
| WASREB Bond | - | |
| License Fee | 566,377 | |
| Total | 98,543,212 | 163,125,687 |

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

14. Directors' emoluments

| | 2022/2023 | 2021/2022 |
|------------------------|------------------|-------------------|
| | Kshs | Kshs |
| Board Allowances | 5,746,748 | 7,608,728 |
| Chairman's Honoraria | 864,000 | 600,000 |
| Board Expenses | 1,004,926 | 1,485,285 |
| BOD Medical Expenses | 745,597 | 832,560 |
| Board Training Expense | 1,548,540 | 2,524,000 |
| Total | 9,909,811 | 13,050,573 |

15. Water and Sewer Qualities, Repairs and Maintenance

| | 2022/2023 | 2021/2022 |
|---------------------------------------|-------------------|-------------------|
| | Kshs | Kshs |
| Water Maintenance Costs | 9,428,319 | 10,591,965 |
| Sewer maintenance Costs | 7,208,262 | 6,422,872 |
| Water Extensions Costs | 297,133 | 638,760 |
| New Connection Costs | 2,575,808 | 1,267,487 |
| Sewer Extension Costs | 1,735,608 | 3,309,776 |
| NRW Meter Fittings & Activities | 2,075,692 | 507,787 |
| NEMA & EIA Reports | 63,000 | 70,000 |
| Motor Vehicle Maintenance and repairs | 2,376,703 | 4,211,092 |
| Office Repairs and maintenance | 275,650 | 1,229,278 |
| Total | 26,036,174 | 28,249,016 |

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

16. Depreciation and Amortization Expenses

| | 2022/2023 | 2021/2022 |
|---|-------------------|-------------------|
| | Kshs | Kshs |
| Depreciation of property, plant and equipment | 5,096,222 | 17,935,324 |
| Amortization of reserves | 10,829,410 | (391,232) |
| Amortization of Intangible Assets | 83,385 | 111,180 |
| Total | 16,009,017 | 17,655,272 |

17. Project Costs

| | 2022/2023 | 2021/2022 |
|----------------------------------|------------------|------------------|
| Description | Kshs | Kshs |
| Mombasa road pipeline relocation | 2,743,792 | 9,808,018 |
| Total | 2,743,792 | 9,808,018 |

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

18. Income Tax Expense
Current taxation

| | 2022/2023 | 2021/2022 |
|---|--------------------|--------------------|
| | Kshs | Kshs |
| Profit before taxation | (14,340,717) | (10,492,475) |
| Tax at the applicable tax rate of 30% | (4,302,215) | |
| Current tax: under-provision | - | - |
| Tax Losses carried forward | (2,330,042) | |
| Tax effects of expenses not deductible for tax purposes | 1,766,811 | 18,253,504 |
| Tax effects of income not taxable | | |
| Tax effects of excess capital allowances over depreciation/amortisation | (3,157,515) | (11,404,818) |
| Deferred tax prior year over-provision | 0 | (4,123,017) |
| Total | (8,022,960) | (7,766,805) |
| | 0 | (2,330,042) |
| to P& L | (8,022,960) | 0 |

19. Reconciliation of tax expense/ (credit) to the expected tax based on accounting profit

| | 2022/2023 | 2021/2022 |
|--|--------------------|--------------------|
| | Kshs | Kshs |
| Current taxation based on the profit for the year at 30% | (4,302,215) | (3,147,742) |
| Current tax: prior year under/(over) provision | | - |
| Current year deferred tax charge | (4,329,731) | (2,371,075) |
| Prior year under-provision for deferred tax | 608,986 | 3,188,775 |
| Total | (8,022,960) | (2,330,042) |

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

20. Earnings Per Share

No EPS declared

21. Dividend Per Share

As per Water Act no dividends are declared

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

22. Property, Plant and Equipment

22 a) Tangible Assets

| 2023 | Plant & Machinery | Motor vehicles | Furniture & Equipment | Computers | Infrastructure | Laboratory Equipment | Tools | Total |
|--------------------------|-------------------|------------------|-----------------------|------------------|--------------------|----------------------|----------------|--------------------|
| | 12.50% | 25.00% | 12.50% | 33.33% | 12.5% | 33.30% | 33.33% | |
| COST OR VALUATION | | | | | | | | |
| At July 1 | 61,818,612 | 6,611,875 | 1,489,180 | 4,164,464 | 129,288,195 | 1,358,402 | 429,012 | 205,159,741 |
| Additions | 670,600 | | 107,000 | 1,244,120 | | | | 2,021,720 |
| Revaluation | | | | | | | | |
| Transfers | - | | - | - | - | - | - | - |
| Impairment | - | - | - | - | - | | | - |
| At June 30 | 62,489,212 | 6,611,875 | 1,596,180 | 5,408,584 | 129,288,195 | 1,358,402 | 429,012 | 207,181,461 |
| DEPRECIATION | | | | | | | | |
| At July 1, | 33,195,716 | 5,906,425 | 707,453 | 3,132,997 | 39,489,699 | 1,004,659 | 285,878 | 83,722,827 |
| Charge for the year | 3,661,687 | 75,776 | 87,426 | 757,463 | 11,224,817 | 108,863 | 9,600 | 15,925,632 |
| Revaluation | | | - | - | - | - | - | - |
| Transfers | | | | | | | | - |
| Impairment | | | - | - | - | - | - | - |
| At June 30, | 36,857,403 | 5,982,201 | 794,879 | 3,890,460 | 50,714,516 | 1,113,522 | 295,478 | 99,648,458 |
| NET BOOK VALUE | | | | | | | | |
| At June 30 | 25,631,810 | 629,674 | 801,301 | 1,518,124 | 78,573,679 | 244,880 | 133,534 | 107,533,002 |

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| 2022 | Plant & Machinery | Motor vehicles | Furniture & Equipment | Computers | Infrastructure | Laboratory Equipment | Tools | Total |
|--------------------------|-------------------|------------------|-----------------------|------------------|--------------------|----------------------|----------------|--------------------|
| | 12.50% | 25.00% | 12.50% | 33.33% | 12.5% | 33.30% | 33.33% | |
| COST OR VALUATION | | | | | | | | |
| At July 1 | 61,521,012 | 6,382,867 | 1,185,130 | 3,260,620 | 30,276,451 | 995,902 | 385,812 | 104,007,794 |
| Additions | 297,600 | 229,008 | 304,050 | 903,844 | 99,011,744 | 362,500 | 43,200 | 101,151,947 |
| Revaluation | - | - | - | - | - | - | - | - |
| Transfers | - | - | - | - | - | - | - | - |
| Impairment | - | - | - | - | - | - | - | - |
| At June 30 | 61,818,612 | 6,611,875 | 1,489,180 | 4,164,464 | 129,288,195 | 1,358,402 | 429,012 | 205,159,741 |
| DEPRECIATION | | | | | | | | |
| At July 1, | 29,106,726 | 5,671,275 | 617,980 | 2,617,334 | 26,661,337 | 841,372 | 271,478 | 65,787,503 |
| Charge for the year | 4,088,990 | 235,150 | 89,473 | 515,662 | 12,828,362 | 163,287 | 14,400 | 17,935,324 |
| Revaluation | - | - | - | - | - | - | - | - |
| Transfers | - | - | - | - | - | - | - | - |
| impairment | - | - | - | - | - | - | - | - |
| At June 30, | 33,195,716 | 5,906,425 | 707,453 | 3,132,997 | 39,489,699 | 1,004,659 | 285,878 | 83,722,827 |
| NET BOOK VALUE | | | | | | | | |
| At June 30 | 28,622,897 | 705,450 | 781,727 | 1,031,467 | 89,798,496 | 353,743 | 143,134 | 121,436,914 |

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Property, Plant and Equipment (Continued)

Valuation

No valuation was done during the year

22 (b) Property, Plant and Equipment at Cost

Assets were stated on the historical cost basis the amounts would be as follows:

| | Cost | Accumulated Depreciation | NBV |
|----------------------|--------------------|-----------------------------|--------------------|
| | Kshs | Kshs | Kshs |
| Plant & Machinery | 62,489,212 | 36,857,403 | 25,631,810 |
| Motor Vehicles | 6,611,875 | 5,982,201 | 629,674 |
| Furniture & Fittings | 1,596,180 | 794,879 | 801,301 |
| Computer | 5,408,584 | 3,890,460 | 1,518,124 |
| Infrastructure | 129,288,195 | 50,714,516 | 78,573,679 |
| Laboratory Equipment | 1,358,402 | 1,113,522 | 244,880 |
| Tools | 429,012 | 295,478 | 133,534 |
| Total | 207,181,461 | 99,648,458 | 107,533,002 |

Property plant and Equipment includes the following assets that have reached end of useful life

| | Collection or Revaluation | Accumulated Depreciation |
|----------------------|------------------------------|-----------------------------|
| Plant & Machinery | - | - |
| Motor Vehicles | 5,813,693 | 402,346 |
| Furniture & Fittings | 633,037 | 189,079 |
| Computer | 171,999 | 169,016 |
| Infrastructure | - | - |
| Laboratory Equipment | 711,360 | 684,224 |
| Tools | 385,812 | 271,478 |
| Total | 7,715,901 | 1,716,143 |

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23. Intangible Assets

| | 2022/2023 | 2021/2022 |
|-----------------------|------------------|-----------|
| | Kshs | Kshs |
| | 25% | 25% |
| COST | | |
| At July 1 | 2,428,583 | 2,428,583 |
| Additions | | |
| Disposals | | |
| At June 30 | 2,428,583 | 2,428,583 |
| AMORTISATION | | |
| At July 1 | 2,095,043 | 1,983,864 |
| Charge for the year | 83,385 | 111,180 |
| Disposals | | |
| Impairment loss | | |
| At June 30 | | 2,095,044 |
| NET BOOK VALUE | 2,178,428 | |
| At June 30 | 250,155 | 333,540 |

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24. Impaired Assets

| | | Normal | |
|--|------------------|---------------------|------------|
| | | annual | |
| | Cost or | depreciation | Net |
| | valuation | charge | |
| Plant and machinery | - | - | - |
| Motor vehicles, including motor cycles | - | - | - |
| Computers and related equipment | - | - | - |
| Furniture & Equipment | - | - | - |
| Tools | - | - | - |
| Laboratory Equipment | - | - | - |
| Total | - | - | - |

25. Investment Property

There was no Investment property

26. Right-of-use assets

There were no Right-of-use Assets

27. Fixed Interest Investments (Bonds)

There were no Fixed Interest Investments (Bonds)

28. Quoted Investments and Unquoted Investments

There were no quoted investments. There were no unquoted investments

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29. Inventories

| | 2022/2023 | 2021/2022 |
|-----------------|------------------|------------------|
| | Kshs | Kshs |
| Water | | |
| Meters | 259,824 | 681,577 |
| Other inventory | 3,865,654 | 8,403,583 |
| Total | 4,125,478 | 9,085,160 |

30. Trade and Other Receivables

30 a) Trade and Other Receivables

| | 2022/2023 | 2021/2022 |
|---|--------------------|--------------------|
| | Kshs | Kshs |
| Net Trade receivables (note 30 (b)) | 113,987,953 | 112,771,505 |
| Receivables from other billings | 37,387,560 | 29,873,134 |
| Provision for doubtful other receivable | (2,804,067) | (2,240,485) |
| Deposits and prepayments | 601,086 | 778,851 |
| Staff receivables (note 27 (c)) | - | - |
| Project receivables | 7,363,857 | 7,957,332 |
| Net trade and other receivables | 156,536,388 | 149,140,337 |

Deposits and prepayments includes the following

| | 2022/2023 | 2021/2022 |
|-------------------------|----------------|----------------|
| | Kshs | Kshs |
| Group Life Assurance | 299,570.08 | 375,030.56 |
| Group Personal Accident | 301,516.00 | 303,511.36 |
| Motor Vehicle Insurance | | 100,308.94 |
| Total | 601,086 | 778,851 |

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

30 (b) Trade Receivables

| | 2022/2023 | 2021/2022 |
|---|--------------------|--------------------|
| | Kshs | Kshs |
| Gross trade receivables | 123,230,219 | 121,915,141 |
| Provision for doubtful trade receivables | (9,242,266) | (9,143,636) |
| Net Trade receivables | 113,987,953 | 112,771,505 |
| At June 30, the ageing analysis of the gross trade receivables was as follows: | | |
| Less than 30 days | 15,526,089 | 21,872,947 |
| Between 30 and 60 days | 16,326,861 | 10,413,758 |
| Between 61 and 90 days | 17,842,388 | 7,395,436 |
| Between 91 and 120 days | 11,873,402 | 5,936,196 |
| Over 120 days | 61,661,480 | 76,296,805 |
| Total | 123,230,219 | 121,915,141 |

31. Tax Payable/ (Recoverable)

31 (a) Tax Payable/(Recoverable)

| | 2022/2023 | 2021/2022 |
|---|--------------------|--------------------|
| | Kshs | Kshs |
| At beginning of the year | 4,216,709 | 6,990,814 |
| Income tax charge for the year (note 18) | (5,692,919) | - |
| Under/(over) provision in prior year/s (note 18) | (2,330,042) | - |
| Income tax paid/offset during the year | (1,745,984) | (2,774,105) |
| At end of the year | (5,552,235) | 4,216,709 |

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

31 (b) Other Taxes Recoverable

| | 2022/2023 | 2021/2022 |
|---------------------------------|--------------------|--------------------|
| | Kshs | Kshs |
| VAT Recoverable | (1,131,550) | (1,158,019) |
| VAT payable(recoverable) | (1,131,550) | (1,158,019) |

32. Short Term Deposits

| | 2022/2023 | 2021/2022 |
|---|-------------------|-------------------|
| | Kshs | Kshs |
| Cooperative Bank of Kenya Fixed Account | 7,813,876 | 7,634,588 |
| Cooperative Bank of Kenya Call Account | 3,103,118 | 3,000,000 |
| Total | 10,916,994 | 10,634,588 |

33. Bank and Cash Balances

| | 2022/2023 | 2021/2022 |
|--|------------------|-------------------|
| | Kshs | Kshs |
| Cash At hand | 64,570 | 31,890 |
| Cooperative Bank of Kenya | 2,159,629 | 18,652,610 |
| CLSG FAMILY BANK 036000011006 | 41 | 154,984 |
| MPESA Pay-bill 363100 | 912,445 | 785,880 |
| Kenya post office Savings bank 744130009967 | 7,320 | 1,865 |
| Total | 3,144,005 | 19,627,229 |

The bulk of the cash was held at Co-operative Bank Athi River which is our main bank

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

34. Detailed analysis of the cash and cash equivalents

| | | 2022/2023 | 2021/2022 |
|----------------------------------|----------------|-------------------|-------------------|
| Financial institution | Account number | Kshs | Kshs |
| a) Current account | | | |
| Co-operative Bank | | | |
| Collection Account | 01136066125200 | 502,248 | 8,815,016 |
| Expenditure Account | 01136066125202 | 939,345 | 4,048,376 |
| Co-op Bank - Savings | 01100066125200 | 233,683 | 4,156,038 |
| Projects Account | 01136066125212 | 98,922 | 1,403,302 |
| Tanker | 01136066125211 | 385,390 | 229,878 |
| Family Bank | | | |
| CLSG FAMILY BANK 036000011006 | 036000011006 | 41 | 154,984 |
| Sub- total | | 2,159,629 | 18,807,594 |
| b) On - call deposits | | | |
| | 01152066125201 | 3,103,118 | 3,000,000 |
| Sub- total | | 3,103,118 | 3,000,000 |
| c) Fixed deposits account | | | |
| Co-operative Bank | 01132066125201 | 7,813,876 | 7,634,588 |
| Sub- total | | 7,813,876 | 7,634,588 |
| e) Others(specify) | | | |
| Cash At hand | | 64,570 | 31,890 |
| MPESA Pay-bill | 363100 | 912,445 | 785,880 |
| Kenya post office Savings bank | 744130009967 | 7,320 | 1,865 |
| Sub- total | | 984,335 | 819,635 |
| Grand total | | 14,060,999 | 30,261,818 |

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

35. Ordinary Share Capital

| | 2022/2023 | 2021/2022 |
|---|----------------|-----------|
| | Kshs | Kshs |
| Authorised: | | |
| 5,000 ordinary shares of Kshs. 20 each | 100,000 | 100,000 |
| Issued & fully paid | | |
| 5,000 ordinary shares of Kshs. 20 each | 100,000 | 100,000 |

36. a) Revaluation Reserve

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

36. b) General Reserves

General reserves stood at Kshs 24,748,969

36. c) Capital Grants

KMC-Njoguini Sewer Line Grant Kshs 99,011,744 less Amortised amount of Kshs 10,829,410 NBV Kshs 88,182,334

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37. Fair Value Adjustment Reserve

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

38. Retained Earnings

The retained earnings represent amounts available for use in company business activities

| | |
|---|--------------------------|
| Balance Brought forward 2022 | 12,118,818 |
| Profit/(Loss) for the Year 2023 | (6,317,757) |
| Capital/Development grants received during the year | 10,829,410 |
| As at June 2023 | <u>16,630,471</u> |

39. Borrowings

| Description | 2022/2023 | 2021/2022 |
|-------------------------------------|-----------|-----------|
| | Kshs | Kshs |
| a) External Borrowings | | |
| Balance at beginning of the year | - | - |
| External borrowings during the year | - | - |
| Repayments of during the year | - | - |
| Balance at end of the year | | |
| b) External Borrowings | | |
| Balance at beginning of the year | - | - |
| External borrowings during the year | - | - |
| Repayments of during the year | - | - |
| Balance at end of the year | | |

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40. Deferred Tax

Deferred tax is calculated on all temporary differences under the liability method using the enacted tax rate, currently 30%. The net deferred tax liability at year end is attributable to the following items:

| | 2022/2023 | 2021/2022 |
|--|--------------------|----------------|
| | Kshs | Kshs |
| Accelerated capital allowances | 1,842,343 | 2,610,532 |
| Unrealised exchange gains/(losses) | | |
| Revaluation surplus | | |
| Tax losses carried forward | (8,022,960) | (2,330,042) |
| Provisions for liabilities and charges | (198,664) | |
| Net deferred tax liability | (6,379,281) | 280,490 |

The movement on the deferred tax account is as follows:

| | 2022/2023 | 2021/2022 |
|--|--------------------|----------------|
| | Kshs | Kshs |
| The movement on the deferred tax account is as follows: | | |
| Balance at beginning of the year | 280,490 | 2,651,566 |
| Credit to revaluation reserve | 4,329,731 | |
| Under provision in prior year | (2,966,541) | |
| Income statement charge/(credit) | (8,022,960) | (2,371,075) |
| Balance at end of the year | (6,379,281) | 280,490 |

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

41. Provision for Future expenses

| | 2022/2023 | 2021/2022 |
|--------------------------------------|------------------|-----------|
| | Kshs | Kshs |
| Provision for Audit Expenses | 232,000 | 232,000 |
| Provision for Abstraction Expense | 750,185 | 1,089,954 |
| Provision for Future expenses | 982,185 | 1,321,954 |

42. Lease Liability

| Description | 2022/2023 | 2021/2022 |
|--------------------------------------|------------------|-----------|
| | Kshs | Kshs |
| At the start of the year | - | - |
| Discount interest on lease liability | - | - |
| Paid during the year | - | - |
| At end of the year | - | - |

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

43. Trade and Other Payables

43 a) Trade and Other Payables

| | 2022/2023 | 2021/2022 |
|------------------------------------|-------------------|-------------------|
| | Kshs | Kshs |
| Trade payables | 85,891,235 | 90,333,626 |
| Staff Liability | - | 4,181,800 |
| Accrued Boad Expenses | 194,400 | 140,000 |
| Other Payables | | - |
| Customer Receipts in Bank Accounts | 2,001,364 | |
| Salary Control | 5,932,945 | 2,612,183 |
| | 94,019,944 | 97,267,610 |

Customer receipts in Bank Accounts relates to funds deposited to our bank accounts by unknown customers with no corresponding water and sewerage accounts

43 b) Long Term Payables

| | 2022/2023 | 2021/2022 |
|-------------------|-------------------|-------------------|
| | Kshs | Kshs |
| Long Term Payable | 32,290,000 | 35,050,000 |
| Customer Deposits | 37,258,503 | 36,448,503 |
| Totals | 69,548,503 | 71,498,503 |

43 c) Long Term Payable Kshs 32,290,000

This amount of Kshs 32,290,000 relates to Mlolongo Sewer plant bought at a cost of Kshs. 50,000,000 under property plant and machinery. It will be paid over a period of 18 years. Instalments per month is Kshs 230,000 (Kshs 2,760,000 p.a.)

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

43 d) Customer Deposits

| | 2022/2023 | 2021/2022 |
|--|-------------------|------------|
| | Kshs | Kshs |
| Opening Balance | 36,448,503 | 35,423,503 |
| Add Deposits received during the year | 810,000 | 1,025,000 |
| less refunded deposits during the year | - | - |
| Total | 37,258,503 | 36,448,503 |

44. Retirement Benefit Obligations

Retirement benefit Asset/ Liability

MAVWASCO subscribes to defined contributions schemes (Kenindia Insurance, LAPTRUST and LAPFUND) for all full-time employees from July 1, 2008. The schemes are based on contributions where the employee contributes 10% of basic pay and the employer pays 15% per month.

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.

45. Provisions

| | 2022/2023 | 2021/2022 |
|--|------------------|-----------|
| | Kshs | Kshs |
| Balance at beginning of the year | - | - |
| Additional provision at end of year | - | - |
| Leave paid out or utilised during the year | - | - |
| Balance at end of the year | - | - |

46. Dividends Payable

No dividends are payable,

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

47. Deferred Income

| | 2022/2023 | 2021/2022 |
|-------------------------|------------------|------------------|
| | Kshs | Kshs |
| CLSG | 41 | 154,903 |
| Project Deferred Income | - | 6,000,000 |
| Total | 41 | 6,154,903 |

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

48. Notes to The Statement of Cash Flows

| | 2022/2023 | 2021/2022 |
|---|---------------------|-------------------|
| | Kshs | Kshs |
| (a) Reconciliation of operating profit/(loss) to cash generated from/ (used in) operations | | |
| Operating profit/(loss) | (14,340,717) | (10,492,475) |
| Depreciation | 16,009,017 | 17,935,324 |
| (Gain)/ Loss from disposal of Assets | | - |
| Provision for future expenses | (982,185) | (1,321,474) |
| Provisions for liabilities and charges | (8,121,916) | (811,222) |
| Deferred Income | (41) | 6,154,903 |
| Operating profit/(loss) before working capital changes | (7,435,843) | 11,465,057 |
| (Increase)/decrease in inventories | 4,959,682 | (3,141,074) |
| (Increase)/decrease in trade and other receivables | (7,396,052) | 18,617,000 |
| Increase/(decrease) in trade and other payables | (3,247,363) | (3,601,907) |
| Increase/(decrease) in retirement benefit obligations | | |
| Increase/(decrease) in provision for staff leave pay | | |
| Increase/(decrease) in Customer Deposits | 810,000 | 1,025,000 |
| Cash generated from/(used in) operations | (12,309,575) | 24,364,076 |
| (b) Analysis of cash and cash equivalents | | |
| Short term deposits | 10,916,994 | 10,634,588 |
| Cash at bank | 3,079,435 | 19,595,339 |
| Cash in hand | 64,570 | 31,890 |
| Balance at end of the year | 14,060,999 | 30,261,818 |

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49. Related Party Disclosures

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

Other related parties include:

- Ministry of Water and irrigation
- Tanathi WWDA
- Board of Directors

Transactions with related parties

| | 2022/2023 | 2021/2022 |
|--|------------------|-------------------|
| | Kshs | Kshs |
| a) Sales to related parties | | |
| Sales of goods | | |
| Sales of services CGM Institutions | 1,630,518 | |
| Sales of services NG Institutions | 267,988 | |
| Total | 1,898,506 | |
| b) Grants from the Government | | |
| Grants from National Govt | | |
| County Govt of Machakos | | 771,449 |
| JICA | - | |
| CLSG-WSTF | 507,675 | 30,250,245 |
| WSTF | | 4,779,000 |
| Donations in kind Tanathi WSB | 1,941,586 | |
| Total | 2,449,261 | 35,800,694 |
| | - | |
| c) Expenses incurred on behalf of related party | | |
| Payments of salaries and wages for employees | | |
| | | |
| Payments for goods and services for | | |

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| | | |
|---------------------------------------|-------------------|-------------------|
| Total | - | - |
| d) Key management compensation | | |
| Directors' emoluments | 9,909,811 | 13,050,573 |
| Compensation to the CEO | 5,723,185 | 4,892,920 |
| Compensation to key management | 9,528,694 | 6,645,300 |
| Total | 25,161,690 | 27,644,632 |

Motor Vehicles Owned by Related Parties maintained and used by MAVWASCO

| Type | Number Plate | Owner | Status |
|------------|--------------|--------------|--------|
| Motor Bike | KMFW902A | Tanathi WWDA | Good |
| Motor Bike | KMFW935A | Tanathi WWDA | Good |
| Motor Bike | KMFW968A | Tanathi WWDA | Good |
| Lorry | KBU829T | Tanathi WWDA | Good |
| Car | KBG410C | Tanathi WWDA | Fair |
| Double Cab | KCQ979Z | Tanathi WWDA | Good |
| Bowser | GKA424T | NG | Good |
| Bowser | Chassis 2429 | CGM | Good |

50. Capital Commitments

Capital commitments at the year- end for which no provision has been made in these financial statements are:

| | 2022/2023 | 2021/2022 |
|--|-----------|-----------|
| | Kshs | Kshs |
| Amounts authorised and contracted for | - | - |
| Amounts authorizes but not contracted for | - | - |
| Less: Amounts included in Work in progress | - | - |
| | - | - |

51. Contingent Assets and Liabilities

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MAWASCO provides insurance cover to its staff under Group Life Assurance and WIBA. During the Year we lost two staff to sickness – Andrew Ndelea and Japheth Wambua. We put an insurance claim for payment amounting to Kshs 3,300,000 which had not been honoured by the close of the year. It's expected to be honoured by July 2023.

52. Financial Risk Management

The entity'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.

(i) Credit risk

MAVWASCO has exposure to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when due. Credit risk arises from cash and cash equivalents, and deposits with banks, as well as trade and other receivables and available-for-sale financial investments.

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

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

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| | Total amount | Fully performing | Past due | Impaired |
|--|---------------------|-------------------------|-----------------|-----------------|
| | Kshs | Kshs | Kshs | Kshs |
| At 30 June 2023 | | | | |
| Receivables from exchange transactions | 156,536,388 | 156,536,388 | - | - |
| Receivables from non-exchange transactions | | - | - | - |
| Bank balances | 14,060,999 | 14,060,999 | - | - |
| Total | 170,597,387 | 170,597,387 | - | - |
| At 30 June 2022 | | | - | - |
| Receivables from exchange transactions | 159,745,607 | 159,745,607 | - | - |
| Receivables from non-exchange transactions | | | - | - |
| Bank balances | 30,057,331 | 30,057,331 | - | - |
| Total | 189,802,937 | 189,802,937 | - | - |

Credit Risk (Continued)

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

The board of directors sets the company's credit policies and objectives and lays down parameters within which the various aspects of credit risk management are operated.

ii) Liquidity risk management

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

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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 | 8,130,842 | 9,824,070 | 67,936,323 | 85,891,235 |
| long term payables | - | - | 32,290,000 | 32,290,000 |
| Current portion of borrowings | - | - | - | - |
| Provisions | 982,185 | - | - | 982,185 |
| Deferred income | 41 | - | - | 41 |
| Employee benefit obligation | - | - | - | - |
| Total | 9,113,068 | 9,824,070 | 100,226,323 | 119,163,461 |
| At 30 June 2022 | KSHS | KSHS | KSHS | KSHS |
| Trade payables | 22,043,522 | 26,299,651 | 111,402,433 | 159,745,607 |
| long term payables | 230,000 | 690,000 | 34,130,000 | 35,050,000 |
| Current portion of borrowings | - | - | - | - |
| Provisions | - | - | 1,321,474 | 1,321,474 |
| Deferred income | - | - | 6,154,903 | 6,154,903 |
| Employee benefit obligation | - | - | - | - |
| Total | 22,273,522 | 26,989,651 | 153,008,811 | 202,271,984 |

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

(iii) Market risk

The board has put in place an internal audit function to assist it in assessing the risk faced by the entity 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 Finance Department is responsible for the development of detailed risk management policies (subject to review and approval by Audit and Risk Management Committee) and for the day-to-day implementation of those policies.

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

a) Foreign currency risk

The entity 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 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.

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

(iii) Market risk (Continued)

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

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

The entity 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.

| | Kshs | Other currencies | Total |
|---|------|------------------|-------|
| | Kshs | | Kshs |
| At 30 June 2022 | | | |
| 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

MAVWASCO currently has no transactions in foreign currency.

c) Interest rate risk

Interest rate risk is the risk that the entity'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.

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ii) Sensitivity analysis

The entity 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

MAVWASCO has not invested in financial instruments

iv) Capital Risk Management

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

| | 2022/2023 | 2021/2022 |
|---|-------------------|-------------------|
| | Kshs | Kshs |
| Revaluation reserve | 4,329,731 | - |
| Retained earnings | 16,630,471 | 12,118,818 |
| Capital reserve | 24,748,969 | 24,748,969 |
| Total funds | 45,709,171 | 36,867,787 |
| Total borrowings | | |
| Less: cash and bank balances | (14,060,999) | (30,261,819) |
| Net debt/(excess cash and cash equivalents) | 31,648,171 | 6,605,968 |
| Gearing | 225% | 22% |

53. Incorporation

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

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

54. Events After the Reporting Period

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

55. Currency

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

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APPENDICES

APPENDIX 1: PROGRESS ON FOLLOW UP OF AUDITOR RECOMMENDATIONS

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

| Reference No. on the external audit Report | Issue / Observations from Auditor | Management comments | Status: (Resolved / Not Resolved) | Timeframe: (Put a date when you expect the issue to be resolved) | | | | | | | | | | | | | | | | | | | | |
|---|--|---|--------------------------------------|---|--------------|-----------------------|--------------------|-----------|--------|---------|---------|---------|-------------------------|------------|---------------|---------|-----------------|-----------|---------|---------|---------------------|-------------------|----------|--|
| <p>1 Trade and other Receivables</p> | <p>The statement of financial position reflects and other receivable balance of ksh.149,140,337 which includes other receivables balance of ksh.29,873,134 and as disclosed on note 30 (a) to the financial statements. However, the ledger schedule reflects other relievable balance of kshs.20,777,669 resulting to an unexplained and unreconciled variance of shs.9,095,565. Further, the ageing analysis of gross trade receivable reflects balance of Kshs 121,915,141 and as disclosed in note 30(b) to the financial statements included long outstanding debts of over 4 months totalling to ksh.76,296,805 which the management has not demonstrated tangible efforts to recover. In addition, project receivables balance of ksh.7,957,332 included in note 30.</p> <p>(a) To the financial statements was not supported with ledger schedules. In the circumstances the accuracy and completeness of trade and other receivables balance of kshs.119,140,337 could not be confirmed</p> | <p>We have provided a Schedule of other receivables totalling to Kshs 29,873,134.00</p> <table border="1" data-bbox="788 913 1125 1375"> <thead> <tr> <th colspan="2">NON - CUSTOMERS INVOICES SUMMARY</th> </tr> <tr> <th>Invoice Type</th> <th>Invoice Amount (Kshs)</th> </tr> </thead> <tbody> <tr> <td>TANKER INDIVIDUALS</td> <td>2,070,000</td> </tr> <tr> <td>OTHERS</td> <td>316,730</td> </tr> <tr> <td>PENALTY</td> <td>140,000</td> </tr> <tr> <td>SEWER CORPORATE INVOICE</td> <td>24,712,036</td> </tr> <tr> <td>SEWER CHARGES</td> <td>480,000</td> </tr> <tr> <td>TANKER SERVICES</td> <td>1,864,808</td> </tr> <tr> <td>DAMAGES</td> <td>289,560</td> </tr> <tr> <td>REPORT TOTAL</td> <td>29,873,134</td> </tr> </tbody> </table> | NON - CUSTOMERS INVOICES SUMMARY | | Invoice Type | Invoice Amount (Kshs) | TANKER INDIVIDUALS | 2,070,000 | OTHERS | 316,730 | PENALTY | 140,000 | SEWER CORPORATE INVOICE | 24,712,036 | SEWER CHARGES | 480,000 | TANKER SERVICES | 1,864,808 | DAMAGES | 289,560 | REPORT TOTAL | 29,873,134 | Resolved | |
| NON - CUSTOMERS INVOICES SUMMARY | | | | | | | | | | | | | | | | | | | | | | | | |
| Invoice Type | Invoice Amount (Kshs) | | | | | | | | | | | | | | | | | | | | | | | |
| TANKER INDIVIDUALS | 2,070,000 | | | | | | | | | | | | | | | | | | | | | | | |
| OTHERS | 316,730 | | | | | | | | | | | | | | | | | | | | | | | |
| PENALTY | 140,000 | | | | | | | | | | | | | | | | | | | | | | | |
| SEWER CORPORATE INVOICE | 24,712,036 | | | | | | | | | | | | | | | | | | | | | | | |
| SEWER CHARGES | 480,000 | | | | | | | | | | | | | | | | | | | | | | | |
| TANKER SERVICES | 1,864,808 | | | | | | | | | | | | | | | | | | | | | | | |
| DAMAGES | 289,560 | | | | | | | | | | | | | | | | | | | | | | | |
| REPORT TOTAL | 29,873,134 | | | | | | | | | | | | | | | | | | | | | | | |
| <p>2.Unsupported Write-Off of Bad Debt</p> | <p>The statement of profit or loss and other comprehensive income reflects operational expenses of an amount of kshs.163,125,687 which include bad debts written off of an amount of Kshs. 56,339,813 and as disclosed in note 13 to the financial statements. The company provision for bad and doubtful for the year however amounted to Ksh. 9,143,636 as and disclosed in note 30(b) to the financial statements. The write-off write is significantly higher than the amount provisioned for</p> | <p>The write-off amount of Kshs 56,339,813 relates to bad debt accrued over 10 years from areas/zones where there is no water service provided such as Syokimau and Kyumbi. The Board approved the write off.</p> | Resolved | | | | | | | | | | | | | | | | | | | | | |

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| | | | | |
|---|--|---|------------|--|
| | overtime and unsupported by way of board authorization. | | | |
| 3. Budgetary control and performance | <p>The statement of comparative budget and actual amounts reflects final income budget and actual on comparable basis of shs.327,590,000 and ksh.297,458,796 respectively resulting to an under-funding of ksh.31,131,204 or 9% of the budget. Similarly, the statement reflects final budget expenditure and actual on comparable basis of ksh.329,020,000 and Ksh.307,951,271 resulting to under absorption of kshs. 21,068,729 or 6% of the budget. The underfunding and under expenditure absorption affected the planned activities and may have impacted negatively on service delivery to the public.</p> | <p>COVID19 pandemic left a legacy that affected most business such that most companies either closed shop or reduced their operations. This meant reduced demand for Water and Sewerage Services resulting to reduced actual sales which were less than projected sales. With reduced actual sales our activities were reduced leading to reduced expenditure</p> | Continuous | |
| 4. Non –Revenue Water | <p>Review of water sales documents provided for audit revealed that the company produced 1,564,325 cubic meters(m3) of water valued at Ksh. 209,877,732, out of the volume 1,039,882 cubic meters(m3) valued at Ksh. 139,515,814 was billed to customers leaving balance of 524,443 cubic meters(m3) or 34% of non – revenue water (NRW) valued at kshs. 70,361,918 as unaccounted for water. This level of NRW was above the allowable limit of 25% provided under the water services regulatory board (wasreb) guidelines leading to possible loss of revenue of kshs. 70,361,918.</p> <p>In the circumstances, management was in breach of the law and continued NRW negatively impact on the company’s profitability and long – term sustainability.</p> | <p>We have taken measures to control and reduce NRW by forming a dedicated NRW team which coordinates all NRW activities. Testing, servicing and replacing faulty meters on a routine basis are being done to reduce commercial losses. Installing digital meters on commercial customers, water kiosks and domestic flats. These meters are not easy to tamper with and even if a customer tampers with it, the information can be retrieved and action taken. Frequent line patrols and immediate repair of bursts and leaks to reduce physical losses. We are members of a peer learning program where we learn from the water companies with low NRW on how they have managed to reduce the NRW.</p> <p>We have sensitization sessions for staff, customers and other stakeholders on causes and effects of NRW to our operations.</p> <p>We are in partnership with JICA on a capacity building program on modern ways of sustainable management and reduction of non-revenue water. We have installed a mobile meter reading system which will ensure all the meters are read accurately and readings transmitted seamlessly without manual data capture. With these measures the non-revenue water will reduce to acceptable levels.</p> <p>In addition, we have acquired equipment and machines which include listening sticks, ultrasonic flow-meters, water flow gauges. We have begun doing water flow measurement day</p> | Continuous | |

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APPENDIX II: PROJECTS IMPLEMENTED BY THE ENTITY

Projects

All projects mentioned in the CEO's Statement above are being implemented by TANATHI WWDA and the donors. All project reports are done by them

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APPENDIX III: INTER-ENTITY TRANSFERS

There were no inter-entities transfers

APPENDIX IV: RECORDING OF TRANSFERS FROM OTHER GOVERNMENT ENTITIES

| Name of the MDA/Donor Transferring the funds | Date received as per bank statement | Nature: Recurrent/Development/Others | Total Amount - KSHS | Where Recorded/recognized | | | | | Total Transfers during the Year |
|--|-------------------------------------|--------------------------------------|---------------------|------------------------------------|--------------|-----------------|-------------|---------------------------|---------------------------------|
| | | | | Statement of Financial Performance | Capital Fund | Deferred Income | Receivables | Others - must be specific | |
| WSTF | | | | | | | | | |
| Total | | | | | | | | | |