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MUNICIPAL COUNCIL OF MACHAKOS
WATER AND SEWERAGE COMPANY LIMITED

FOR THE YEAR ENDED
30 JUNE, 2025

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MUNICIPAL COUNCIL OF MACHAKOS WATER AND SEWERAGE CO. LTD

ANNUAL REPORT AND FINANCIAL STATEMENTS

**FOR THE FINANCIAL YEAR ENDED
JUNE 30, 2025**

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

TABLE OF CONTENTS

| | |
|--|------|
| 1) ACRONYMS AND GLOSSARY OF TERMS | ii |
| 2) KEY ENTITY INFORMATION | iii |
| 3) THE BOARD OF DIRECTORS | v |
| 4) MANAGEMENT TEAM..... | vii |
| 5) CHAIRMAN'S STATEMENT | viii |
| 6) REPORT OF THE MANAGING DIRECTOR..... | ix |
| 7) STATEMENT OF PERFORMARNCE AGAINST PREDETERMINED OBJECTIVES FOR FY 2024/2025 | xi |
| 8) CORPORATE GOVERNANCE STATEMENT | xiii |
| 9) MANAGEMENT DISCUSSION AND ANALYSIS | xvii |
| 10) ENVIROMENT AND SUSTAINABILITY REPORTING | xx |
| 11) CORPORATE SOCIAL RESPONSIBILITY STATEMENT..... | xxii |
| 12) REPORT OF THE DIRECTORS..... | xxiv |
| 13) STATEMENT OF DIRECTORS' RESPONSIBILITIES | xxv |
| 14) REPORT OF THE INDEPENDENT AUDITORS ON MUNICIPAL COUNCIL OF MACHAKOS WATER AND SEWERAGE COMPANY FOR THE YEAR ENDED 30 JUNE 2025 | xxvi |
| 15) STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 30 JUNE 2025..... | 1 |
| 16) STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2025 | 2 |
| 17) STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 JUNE 2025 | 3 |
| 18) STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2025 | 4 |
| 19) STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS FOR THE PERIOD ENDED 30 JUNE 2025..... | 5 |
| 20) NOTES TO THE FINANCIAL STATEMENTS | 7 |
| 21.) APPENDICES..... | 27 |

1) ACRONYMS AND GLOSSARY OF TERMS

| | | |
|-----------|---|---|
| MACHWASCO | - | Municipal Council of Machakos Water and Sewerage Company |
| TAWWDA | - | Tanathi Water Works Development Agency (formerly TAWSB) |
| WASREB | - | Water Services Regulatory Board |
| WSTF | - | Water Sector Trust Fund |
| ADB | - | African Development Bank |
| WASCO | - | Water Companies Sports Organization |
| DTF | - | Decentralized Treatment Facility |
| KEWI | - | Kenya Water Institute |
| NRW | - | Non Revenue Water |
| M&E | - | Monitoring and Evaluation |
| WRA | - | Water Resources Management Authority |
| MSLs | - | Minimum Service Levels |
| UFW | - | Unaccounted for Water also referred to as NRW (Non-Revenue Water) |
| PPADA | - | Public Procurement and Assets Disposal Act |
| PFM | - | Public Financial Management |
| FY | - | Financial Year |
| KPI | - | Key Performance Indicator |
| KENAO | - | Kenya National Audit Office |
| WARIS | - | WASREB Data Collection and analysis system |
| Eng. | - | Engineer |
| MD | - | Managing Director |
| CPA | - | Certified Public Accountant |
| BBA | - | Bachelor of Business Administration |
| BA | - | Bachelor of Arts |
| KIM | - | Kenya Institute of Management |
| IAS | - | International Accounting Standards |
| IFRS | - | International Financial Reporting Standards |
| OAG | - | Office of the Auditor General |
| WASPA | - | Water Services Providers Association |
| NEMA | - | National Environmental Management Authority |
| D.o.B | - | Date of Birth |
| WSP | - | Water Service Provider |
| WHO | - | World Health Organisation |
| MBA | - | A Degree in Master in Business Administration |
| ICPAK | - | Institute of Certified Public Accountants of Kenya |
| IFRS | - | International Financial Reporting Standards |
| PSASB | - | Public Sector Accounting Standards Board |
| KRA | - | Key Result Areas |
| WDV | - | Written Down Value |

2) KEY ENTITY INFORMATION

Background information

Municipal Council of Machakos Water and Sewerage Company Ltd was incorporated, as a corporate body operating under the Companies Act CAP 486, on 6th July 2005 as established by Water Act 2002. The company is licensed by Water Services Regulatory Board (WASREB). At County level, the Company is represented by the County Executive Member responsible for water and sanitation, 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.

Principal Activities

The Principal activity of Municipal Council of Machakos Water and Sewerage Company limited is provision of portable water and sewerage services for the residents of Machakos town and its environs.

Vision

“To be the leading water service provider of choice in the region, that exceeds expectations.”

Mission

“To provide quality, affordable and reliable water and sewerage services through effective, efficient and sustainable utilization of resources.”

Core Values

- i. Equity & Integrity
- ii. Teamwork
- iii. Accountability
- iv. Customer Focus
- v. Commitment & Professionalism
- vi. Creativity & Innovativeness

Directors

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

| S/No | Name | Designation | Date of Exit |
|------|----------------------------|------------------------------|---------------------------------|
| 1. | Eng. Joel M. Kiilu | Chairperson | 12 th September 2024 |
| 2. | Catherine Nzioka | Member | 12 th September 2024 |
| 3. | Reuben Muange | Member | 12 th September 2024 |
| 4. | James Kyania | Member | 12 th September 2024 |
| 5. | Francis Njeru | Member | 12 th September 2024 |
| 6. | Betty Nduku | Member | 12 th September 2024 |
| 7. | Charles Mulela | Member | 12 th September 2024 |
| 8. | Daniel Kaveva | Member | 12 th September 2024 |
| 9. | Chairperson Machakos | Municipal Board or Alternate | 12 th September 2024 |
| 10. | Chief Officer or alternate | Water & Irrigation | 12 th September 2024 |
| 11. | Chief Officer or alternate | Finance & County Treasury | 12 th September 2024 |

Registered Offices

Municipal Council of Machakos Water & Sewerage Co. Ltd
Machakos Water Offices,
Wote Road
P.O. Box 527 – 90100,
Machakos, Kenya.

Corporate Headquarters

Municipal Council of Machakos Water & Sewerage Co. Ltd
Machakos Water Offices,
Wote Road
P.O. Box 527 – 90100,
Machakos, Kenya.

Corporate Contacts

Telephone: 0716069965/0797430000
E-mail: machakoswater2006@gmail.com

Corporate Bankers

- | | | |
|---|--|---|
| 1. Co-operative Bank of Kenya, P.O.Box 1250-90100, Machakos Branch, Machakos | 2. Family Bank Ltd. P.O. Box 2150 – 90100, Machakos Branch. Machakos. | 3. Post Bank Ltd. Machakos Branch, Machakos |
|---|--|---|

Independent Auditors

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



Principal Legal Advisers

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


3) THE BOARD OF DIRECTORS

| S/NO. | NAME DIRECTOR/PASSPORT SIZE PHOTO | PROFFESION/ACADEMIC QUALIFICATIONS | KEY QUALIFICATIONS | Date of Birth,AGE |
|-------|--|---|--|-------------------|
| 1 |  Eng. Joel Kiilu | B.Sc.(Honors) in Electrical Engineering. MBA-Strategic Management & Leadership. | Leadership and Management. Chairman of the Board of Directors. Independent Director. | D.o.B 1956,69 |
| 2 |  Reuben Muange | O-Level. | Former Mayor & Councillor, Chairman Chamber of Commerce Machakos Town. Chairman Technical Committee. Independent Director. | D.o.B 1959, 66 |
| 3 |  Betty Nduku | O-Level, Certificate in Catering | Business Woman. Chairperson Audit and Risk Committee. Independent Director. | D.o.B 1964, 61 |
| 4 |  Francis Njeru | Bachelor of Education Degree | Business Man, Administration. Chairman Finance and General Purpose Committee. Independent Director. | D.o.B 1958, 67 |
| 5 |  Catherine Nzioka | Diploma in Food Technology | Business Woman. Independent Director. | D.o.B 1968, 57 |
| 6 |  Charles Mulela | O-Level, Accounting | Business Man. Independent Director. | D.o.B 1938, 86 |
| 7 |  Daniel Kaveva | Higher Diploma in Divinity | Reverend, Corporate Governance. Independent Director. | D.o.B 1967, 58 |
| 8 |  James Kyania | O-Level. | Business Man. Independent Director. | D.o.B 1964, 61 |

Municipal Council of Machakos Water & Sewerage Co. Ltd
 Annual Reports and Financial Statements
 For the year ended June 30, 2025

| | | | | | |
|----|---|-----------------------------------|--|--|----------------|
| 9 |  | Prof. Thomas Katua Ngui PhD (HRM) | Associate Professor of Leadership and Management | Lecturer. Executive Director. Machakos Municipal Board | D.o.B 1977, 48 |
| 10 |  | Winfred Mbai | MBA-Strategic Management Leadership & | Managing, Director-MACHW ASCO . Executive Director. | D.o.B 1984, 41 |

4) MANAGEMENT TEAM

| S/NO. | NAME | PROFFESION/ACADEMIC QUALIFICATIONS | AREA OF RESPONSIBILITY |
|-------|--|---|---|
| 1. |  Winfred Mbai | MBA-Strategic Management & Leadership | Managing Director |
| 2. |  Simon Kimanzi | Diploma Human Resource Management | Human Resource and Administration Manager |
| 3. |  Isaac Musya | Diploma Water Engineering | Technical Manager Sewerage/Projects |
| 4. |  Joseph Mutende | Degree-Water Engineering | Technical Manager Operations |
| 5. |  Elizabeth Mwende | MBA-Finance and Banking. CISA, CPA-K | Internal Auditor |
| 6. |  Michael Njenga | Degree-Economics and Sociology. -CPA II | Accountant |

5) CHAIRMAN'S STATEMENT

It is with great honour that I present the Financial Statements of the Municipal Council of Machakos Water & Sewerage Company Limited (MACHWASCO) for the year ended 30th June 2025. The year under review reflected resilience, growth, and progress despite a challenging operating environment. Like other water service providers in Kenya, MACHWASCO operated in a climate of rising inflation, high energy costs, and increasing demand for services.

Performance Overview

Despite these pressures, the company achieved significant results by expanding its customer base, improving network coverage, and strengthening operational efficiency. A major milestone during the year was the approval of a new tariff structure, which provides a sound basis for financial sustainability while keeping services affordable to our customers.

Strategic Investments

A key highlight of the year was progress on the Miwongoni Dam project. This flagship investment is designed to improve both water supply and sewerage services, ensuring reliable access for existing customers while extending coverage to new areas. Once completed, Miwongoni Dam will substantially increase water storage capacity, expand sewerage infrastructure, and support the rapid growth of Machakos Town and its environs. By attracting new customer connections and broadening our service area, the project will also strengthen revenues and secure the company's financial stability. Beyond this, Miwongoni Dam represents a long-term solution that directly contributes to Kenya's Vision 2030 and Sustainable Development Goal 6 – Clean Water and Sanitation for All.

Partnerships & Collaboration

The progress made this year has been supported by strong collaboration with the National and County Governments, the Water Services Regulatory Board, and development partners including the African Development Bank, World Bank, and Water Sector Trust Fund. These partnerships remain critical in scaling up investments and ensuring sustainable service delivery.

Appreciation

On behalf of the Board of Directors, I extend my heartfelt gratitude to our stakeholders, customers, and partners for their trust and support. I also commend the Management and staff of MACHWASCO for their dedication and hard work, which continue to be the foundation of our success.

Looking Ahead

As we reflect on 2024/2025, we remain optimistic that with ongoing investments such as the Miwongoni Dam and strong partnerships, MACHWASCO will continue to grow, improve service delivery, and broaden coverage across Machakos County. Most importantly, these efforts will improve the health, dignity, and economic well-being of our communities by ensuring access to safe, reliable, and affordable water and sanitation services.

God bless you all.

Thank you.

6) REPORT OF THE MANAGING DIRECTOR

I am pleased to present to you the Annual Report and Financial Statements of Machakos Water and Sewerage Company Limited (MACHWASCO) for the year ended 30th June 2025. Despite a challenging operating environment, the Company sustained optimal operations and ensured business continuity.

During the reporting period, the Company realized total revenues of Ksh 104,552,185 from sales turnover, government grants, and other income, representing a 16 % increase compared to the previous period. The growth was mainly attributed to increased service coverage, the gazettement of a new tariff towards the end of FY 2024/2025, and enhanced operational efficiency and revenue collection. The implementation of the new tariff is expected to further strengthen the Company's financial sustainability in the coming year.

Operating expenditure stood at Ksh 116,512,490, down from Ksh 122,704,176 in the previous year, reflecting prudent cost management. Total assets rose to Ksh 268,929,467, up from Ksh 210,811,578, demonstrating significant growth in the Company's resource base.

Internal Environment, Process and Practices

MACHWASCO's success is anchored on its values, people, service quality, and stakeholder engagement. Through our five departments—Technical, Commercial, Human Resources and Administration, Finance, and Internal Audit—we continue to build capacity and efficiency.

Board and Management training, along with employee capacity building, was undertaken in governance, audit, finance, budgeting, procurement, and customer care. These programs equipped staff with essential skills for efficient service delivery. Employee motivation remained central, supported by welfare initiatives that address emergencies and enhance commitment.

A detailed analysis of the Company's performance for the year ended June 2025 is presented under the Management Discussion and Analysis section of this report.

Future Outlook

The outlook for FY 2025/2026 is promising. We anticipate the completion of the Machakos Water Supply and Sewerage Project under the Kenya Towns Sustainable Water Supply and Sanitation Programme, funded by the African Development Bank and supported by the World Bank. This project will deliver:

- An additional dam (Miwongoni),
- Ten (10) new boreholes,
- A 10,000m³/day water treatment plant,
- New reservoirs and rehabilitation of distribution systems, and
- Expansion of sewerage infrastructure, including a 12,500m³/day treatment plant, sewer lines, ablution blocks, and an exhaustor service.

This expansion will significantly increase our coverage area, broaden our customer base, and strengthen revenue growth.

The broader economic outlook for Kenya is expected to stabilize, with government measures aimed at lowering the cost of living. This, together with County Government support and the expected implementation of the new tariff, will enhance MACHWASCO's operational sustainability and last-mile connectivity.

Digital transformation will also remain a priority. In FY 2025/2026, we will roll out enterprise resource planning systems and smart metering, reducing operational costs and improving efficiency in customer service.

We remain committed to delivering reliable water and sanitation services beyond stakeholder expectations, supported by the guidance of our Board of Directors.

Appreciation

On behalf of Management, I thank the Board of Directors for their invaluable leadership and support. I extend our appreciation to stakeholders—National and County Governments, development partners, Water Works Development Agencies, fellow Water Service Providers, and our esteemed customers—for their continued trust.

Finally, I commend our managers and staff for their dedication, professionalism, and resilience. The achievements of FY 2024/2025 strengthen our confidence in the future.


May God bless you abundantly.

Thank you.



.....
Sign

**WINFRED MBAI
MANAGING DIRECTOR**



.....
Date

7) STATEMENT OF PERFORMANCE AGAINST PREDETERMINED OBJECTIVES FOR FY 2024/2025

Municipal Council of Machakos Water and Sewerage Company Limited has 4 strategic priorities/key result areas and objectives within the current Strategic Plan for the FY 2021/2022 - FY 2025/2026.

These key result areas (KRA)/strategic themes are as follows:

KRA 1: Governance and Institutional capacity for service delivery

KRA 2: Water and Sewerage Infrastructure

KRA 3: Corporate Image and Customer Satisfaction

KRA 4: Financial Growth and Sustainability

MACHWASCO develops its annual work plans based on the above 4 priorities. The company achieved its performance targets set for the FY 2024/2025 period for its strategic priorities, as indicated in the diagram below:

| KEY RESULTANT AREA | STRATEGIES | OBJECTIVE | KEY PERFORMANCE INDICATORS | KEY ACTIVITIES | ACHIEVEMENTS |
|---|--|---|--|---|--------------|
| KRA 1: Governance And Institutional capacity for Service Delivery | Strategy 1.1: Enhance the ability of the company to meet its mandate | Renovated office spaces, New and modern amenities, Increased working area, No. of furniture and equipment's, Field motorbikes, Special purpose vehicles, No. equipment's, No Smart meters, Water legislations, No of operations automated, No of Policy documents formulated | High staff morale, Improved service delivery, Reduced leave days and sick offs, Improved and conducive working environment, Better responses to bursts and leaks, Improved operational efficiency, Increased customer visits, Improved service delivery to customers, Ease in flow of information, Enhanced revenue collections, Enhanced revenue collections, Improved legal framework, Provide road map for day to day operations | Renovation of existing working spaces (Provide modern amenities in the offices), Purchase office furniture and equipment, Procure vehicles and filed motor bikes, Purchase ICT Tools/ equipment and automation of company operations, Formulation of legal and policy documents | 87% |
| | Strategy 1.2: To strengthen human resource capacity for quality service delivery | Revised Staff structure and clear job description, Newly recruited and placed officers, New scheme of service with proper titles, No. of training per year, No of assesemnts, Shared work plans for stakeholders, Timely meetings, prompt work plans, clear Job Descriptions (JD), Timely meetings, prompt work plans, clear JDs, No of | Efficiency, clear reporting lines, harmony, Enhanced capacity & service delivery, Improved morale, Empowered staff, improved service delivery, high morale, Improved efficiency service delivery, Role clarity, improved performance, staff satisfaction, Ability to monitor performance as per JDs, Improved time management, Better stakeholder's engagement, Better implementation, Clear roles and responsibilities which will lead to improved service delivery, Improve staff morale | Job analysis and work load analysis, Staff recruitment and placement, Revision of scheme of services (Ensure staff are properly placed as per skills and qualifications), Regular Staff training (Reskill the staff, up skilling) through workshops, seminars and scholarships, Align Company tasks with other county programs, stakeholders and other strategic implementers, Enhance performance management, Staff training needs assessment, Regular staff training, Team building sessions for staff, | |

Municipal Council of Machakos Water & Sewerage Co. Ltd
Annual Reports and Financial Statements
For the year ended June 30, 2025

| | | | | | |
|--|---|---|--|--|-----|
| | | meetings, Stakeholders engagement framework, No of team building sessions held, , No staff promoted | and good working relations, ,Improve staff morale, | ,Timely promotion of staff, | |
| KRA 2: Water and Sewerage Infrastructure | Strategy 2.1: Invest in water infrastructure and distribution | New water storages, New distribution network, Increased volume of water produced, Clear branding and identity, Destination Identity | Increase water storage from 2.45M to 3.45M, Increased distribution from 36km to 96km, Increase area of coverage, No of customers connected, Improved quality of produce and services, Improved hygiene and attractiveness, Increased hrs of supply from 10hrs-14hrs. | Construction of water storage, Increase water treatment capacity, Lay water distribution network | 80% |
| | Strategy 2.2: Invest in water treatment, detection and protection | Increased number of protected catchments, Protected riparian land, Increased water production, Improved water quality, Monitoring of water quality. | Increased water from the source and quality, Increased water supply and quality, Quantity produced per day, Water quality analysis reports, Water quality at service points | Afforestation and construction of check dams, Marking of riparian land and educating land owners, Construction of water lagoons, Installation of waters dozers and automation, Equipping the lab with the necessary facilities. | |
| | Strategy 2.3: Invest in sewer and sanitation infrastructure | Complete 4 sanitation/ablutions blocks, A new sewer plant, Complete sanitation, A waste lab, ,Increased customer base and sewer coverage, ,Increased capacity for sanitation. | No of sanitation /ablution block constructed, Increase capacity 12,500m/day, Increased capacity to 50m/day, No of tastes conducted, Number of customers connected and served, Number of customer served, Amount of revenue raised. | Construction sanitation/ablutions blocks, Construction of sewer treatment plant ,Construction of on-site sanitation Decentralized Treatment Facility (DTF), Setting up a waste water lab, Increased sewer connectivity from 14-64km, Acquisition of exhausters | |
| KRA 3: Corporate Image and Customer Satisfaction | Strategy 3.1: Invest in Customer satisfaction initiatives and brand management. | Customer Relations Management (CRM) system in place, Schedule of customer visits, Wide coverage of trainings , Training needs analysis, Stakeholders forums, Name search and logo design, Customer forums, Customer satisfaction surveys, Work out plan (Remedial actions) | Enhanced communication, Customer satisfaction index, Improved customer services, New look company, Better relationship with customers and stakeholders, Improved relationships , Better customer Responses | Enhance the working of CRM, Customer visits, Conduct focused trainings on customer service, Initiate company rebranding, Stakeholders forums and customer trainings, Conducting customer satisfaction surveys, Use of sms/ussd and multiple channels. | 55% |
| KRA 4: Financial Growth and Sustainability | Strategy 4.1: Leverage on all the lead measures for increased revenues | Smart meters, Field visits, Bottling of water, Lab incomes, New Sewer connections, More clients, More water, Setting budget ceilings, 10 % Retention plan, Customer mapping reports, Number of activated accounts, New income generating projects (More boreholes, dams, and new outlets for bottled water | More revenues, Reduction of Non Revenue Water, Increased income. Improved cost to income ration, Improved liquidity, Additional incomes from activated accounts, Sustainable revenues | Enhanced collections : (use of technology , Customer visits and of debt collectors), Mapping of illegal connections, Enhanced retention, New revenue streams, Activation of dormant customers, Capital Investments | 52% |

8) CORPORATE GOVERNANCE STATEMENT

MACHWASO recognizes that good corporate governance is fundamental to the management of the company towards realization of the strategic objective. Corporate governance underpins the process and structure by which organizations are directed and managed towards enhancing business prosperity and corporate accountability.

The Board of Directors regard sound governance practices as integral to protecting the interest of its stakeholders. As such, the Board has instituted systems and structures towards ensuring that the highest standards of corporate governance, business ethics and regulatory compliance are adhered to.

The primary role of the Board is to set the strategic direction as well as put in place structures, systems and procedures to provide the necessary oversight in the management of the company.

The Company's Board of Directors is comprised of eight independent members, four Executive Directors; the Managing Director-Municipal Council of Machakos Water Company, the Chief Officer or alternate - Ministry of Water, Irrigation, Climate Change, Environment and Natural Resources Machakos County, the Chief Officer or alternate - Ministry of Finance Machakos County and the Chairperson or alternate - Machakos Municipal Board. The Directors have diverse skills and are drawn from various sector institutions of the residents' community in the company area of jurisdiction.

Board Meetings.

The board met once during the first quarter of the year under review after which the term of service expired on 12/09/2024. Below is a summary of the Board meetings held in the year under review and attendance of each meeting.

| S/no. | Name | 11 th Sep 2024 |
|-------|--|------------------------------|
| | Eng. Joel Kiilu- Chairman | √ |
| | Dir. Francis Njeru | √ |
| | Dir. James K. Mulwa | √ |
| | Dir. Catherine Nzioka | √ |
| | Dir. Reuben Muange | √ |
| | Dir. Daniel Kaveva (Rev) | √ |
| | Dir. Betty Mbithi | √ |
| | Dir. Charles Mulela | √ |
| | Dir. Thomas Ngui (Prof) Alternate Director- Municipal Board | √ |
| | Chief Officer- Water and Irrigation | - |
| | Chief Officer -Finance | - |

Board meetings are chaired by the Board chairman.

Board Committees

The Board has constituted Board committees in accordance with the cooperate guidelines issued by WASREB, which sets out the responsibilities delegated by the Board to the committee structures and operations.

During the year under review, the Board established three committees namely;

- i. Technical and monitoring committee
- ii. Finance and general purpose committee
- iii. Audit and risk committee

The committees assist the Board in the execution of its responsibilities, each committee reports to the Board on quarterly basis.

In the year under review, the Committees meetings and attendance were as summarised below.

i.) Technical and Monitoring Committee

| S/no. | Name | 21 st Aug 2024 |
|-------|--|---------------------------|
| | Dir. Reuben Muange | √ |
| | Dir. Catherine Nzioka | √ |
| | Chief Officer- Water and Irrigation Representative Eng. Pius Matingi | |

ii.) Finance and General-Purpose Committee

| S/no. | Name | 27 th Aug 2024 |
|-------|---------------------|---------------------------|
| | Dir. Francis Njeru | √ |
| | Dir. James Kyania | √ |
| | Dir. Charles Mulela | √ |

iii.) Audit and Risk Committee

| S/no. | Name | 23 rd Aug 2024 |
|-------|--------------------------|---------------------------|
| | Dir. Betty Mbithi | √ |
| | Dir. Daniel Kaveva (Rev) | √ |
| | Dir. Thomas Ngui (Prof.) | √ |

Board Induction and Training

All board members receive an induction upon joining the Board. During induction, members are provided with an overview of the company, infrastructure and operations, roles and responsibilities of the directors and key issues affecting the company.

Board members receive training on their role, duties, responsibilities and obligations as well as board practices and procedures. Trainings are also done to improve their understanding of the water sector operations, oversight skills in financial management and compliance requirements, as well as keep them abreast with the emerging trends in the water sector.

During the year under review, board members were trained on various capacities including Corporate Governance, Leadership, Water Act 2016, Mwongozo Code, Policy Formulation, Ethics and Integrity.

Conflict of Interest.

The Board is conscious of its responsibilities to the stakeholders. As such, the members declare a conflict of interest at the beginning of the meetings, to indicate whether they are or not conflicted in the agenda set for discussion.

Code of Conduct

The Board observes rules and regulations governing the conduct of the board as contained in the corporate governance guidelines by WASREB.

By order of the Board



.....
Sign
WINFRED MBAI
MANAGING DIRECTOR

9. Management Discussion and Analysis for FY 2024-2025

9.1 Operations Overview

Operational Environment

During the financial year under review, Machakos Water and Sewerage Company Ltd (MACHWASCO) operated within a dynamic yet challenging environment that reflects broader systemic issues faced by water service providers across Kenya. The sector continues to grapple with high levels of Non-Revenue Water (NRW), escalating operational costs, aging and overstretched infrastructure, and delays in customer payments—all of which present significant barriers to achieving operational efficiency and financial sustainability.

Despite these hurdles, MACHWASCO demonstrated resilience and a strong commitment to its mandate. The company made notable strides in expanding its water and sewerage network coverage, thereby improving access to clean, safe, and reliable water and sanitation services for the people of Machakos. These efforts were supported by a combination of strategic planning, stakeholder engagement, and operational efficiencies aimed at minimizing service disruption and optimizing resource utilization.

Financial Performance

In the year under review, MACHWASCO recorded total revenue of Ksh. 104,552,185, representing a 16% increase compared to the previous financial year. This growth was largely driven by improved billing efficiency, increased customer connections, and sustained efforts in revenue enhancement.

Operating expenses for the same period stood at Ksh. 116,512,490. While this figure reflects an increase in energy, fuel, and water treatment costs, it also underscores the company's commitment to prudent cost management practices under tight fiscal conditions. The company maintained operational continuity and service delivery despite significant pressure on input costs.

In addition to water sales, the company generated Ksh. 2,069,585 in other income streams from sewer services, connection fees, meter-related charges, and other ancillary services.

A major achievement during the year was the approval of a new tariff structure by the Water Services Regulatory Board (WASREB). The revised tariff is anticipated to enhance cost recovery, improve operational sustainability, and facilitate ongoing service delivery improvements. It also provides a more predictable revenue base to support both recurrent and capital expenditure in the years ahead.

Key Challenges

While positive progress was made, several critical challenges persisted throughout the year:

- High levels of customer debt due to delayed or non-payment of bills continued to adversely affect cash flow and operational liquidity.
- Non-Revenue Water (NRW) remained significantly high, mainly attributed to physical losses from aging pipelines, illegal connections, and meter inaccuracies.

- Escalating costs of electricity, fuel, and chemical inputs placed additional strain on the company's budget, impacting operational margins.
- Infrastructure limitations, particularly in older sections of the network, necessitate substantial capital investment for rehabilitation, expansion, and modernization.

Opportunities and Outlook

Looking ahead, MACHWASCO is strategically positioning itself to address these challenges while leveraging emerging opportunities for growth and sustainability. Key initiatives include:

- Implementation of the new tariff structure, which is expected to stabilize revenue flows and improve cost recovery.
- Progress on the Miwongoni Dam project, a transformative infrastructure initiative that will significantly boost water storage capacity, enhance sewerage services, and expand overall coverage.
- Strengthened collaboration with county government and development partners to mobilize funding for critical infrastructure projects and capacity development.

As we move into the 2025/2026 financial year, MACHWASCO remains steadfast in its mission to deliver sustainable, affordable, and reliable water and sanitation services. Priority areas will include aggressive NRW reduction, improved revenue collection efficiency, customer engagement, and modernization of infrastructure to meet growing demand. These efforts will collectively ensure improved service delivery and financial resilience, contributing to the well-being of Machakos residents and the broader socio-economic development of the region.

9.2 Financial Review

9.2.1 Revenues and Expenditure

5-year analysis of revenue and expenditure movement is reflected as hereunder;

| b.) Five Year Financial Review Of Statement Of Financial Position | | | | | |
|--|--------------------|--------------------|--------------------|--------------------|--------------------|
| | Jun-25 | Jun-24 | Jun-23 | Jun-22 | Jun-21 |
| | <u>Kshs</u> | <u>Kshs</u> | <u>Kshs</u> | <u>Kshs</u> | <u>Kshs</u> |
| ASSETS | | | | | |
| Non-Current Assets | | | | | |
| Property, plant and equipment | 35,860,790 | 26,377,682 | 22,198,272 | 23,165,639 | 10,407,003 |
| Total Non-Current Assets | 35,860,790 | 26,377,682 | 22,198,272 | 23,165,639 | 10,407,003 |
| Current Assets | | | | | |
| Inventories | 17,693,499 | 2,238,550 | 2,098,678 | 1,774,138 | 2,775,807 |
| Trade and other receivables | 172,645,859 | 149,266,474 | 149,598,526 | 132,247,076 | 120,699,141 |
| Bank and cash balances | 49,894,118 | 38,456,059 | 1,600,384 | 5,528,037 | 433,492 |
| Prepayments | 79,067 | | | | |
| Total Current Assets | 240,312,543 | 189,961,083 | 153,297,588 | 139,549,251 | 123,908,441 |
| TOTAL ASSETS | 276,173,333 | 216,338,765 | 175,495,861 | 162,714,890 | 134,315,443 |
| EQUITY AND LIABILITIES | | | | | |
| Capital and Reserves | | | | | |
| Ordinary share capital | 100,000 | 100,000 | 100,000 | 100,000 | 100,000 |
| Capital Grant | 65,647,579 | 55,867,763 | 24,676,818 | 22,322,118 | 9,043,391 |
| Retained earnings | (44,627,786) | (36,770,033) | (7,671,924) | 7,995,071 | (7,573,915) |
| Capital and Reserves | 21,119,793 | 19,197,730 | 17,104,894 | 30,417,189 | 1,569,476 |
| Current Liabilities | | | | | |
| Customer Deposit | 14,970,964 | 14,427,464 | 13,786,464 | 12,553,464 | 11,784,664 |
| Trade and other payables | 231,081,437 | 182,713,571 | 144,604,502 | 119,744,237 | 120,961,303 |
| Working Capital | 9,001,139 | | | | |
| Total Current Liabilities | 255,053,540 | 197,141,035 | 144,604,502 | 132,297,701 | 132,745,967 |
| TOTAL EQUITY AND LIABILITIES | 276,173,333 | 216,338,765 | 175,495,861 | 162,714,890 | 134,315,443 |

9.2.2 Assets, Equity and Liabilities

5-year analysis of assets equity and liabilities movement is reflected as;

| <u>a.) Five Years Financial Review Of Statement of Profit or Loss and Other Comprehensive Incomes</u> | | | | | |
|---|---------------------------|----------------------------|----------------------------|---------------------------|---------------------------|
| | <u>Jun-25</u> | <u>Jun-24</u> | <u>Jun-23</u> | <u>Jun-22</u> | <u>Jun 21</u> |
| | <u>Kshs</u> | <u>Kshs</u> | <u>Kshs</u> | <u>Kshs</u> | <u>Kshs</u> |
| REVENUES | | | | | |
| Sales/Turnover | 104,552,185 | 87,760,446 | 102,778,857 | 126,818,435 | 126,293,684 |
| Cost of Sales | - | - | - | - | (26,272,504) |
| Gross Margin | 104,552,185 | 87,760,446 | 102,778,857 | 126,818,435 | 100,021,180 |
| Grants from National/County Government | 1,009,320 | 2,522,493 | 4,365,295 | 32,674,296 | 3,114,822 |
| <u>Other Income</u> | <u>2,069,585</u> | <u>2,506,670</u> | <u>2,414,680</u> | <u>1,535,300</u> | <u>1,761,300</u> |
| TOTAL REVENUES | 107,631,090 | 92,789,609 | 109,558,832 | 161,028,031 | 104,897,302 |
| OPERATING EXPENSES | | | | | |
| Total Administration Costs | 79,733,896 | 87,542,107 | 92,280,016 | 106,260,902 | 92,390,079 |
| Total Operation & Maintenance Costs | 35,458,239 | 33,940,052 | 32,387,347 | 38,423,954 | 10,856,240 |
| Depreciation of property, plant and equipment | 1,077,628 | 1,219,016 | 967,367 | 1,200,129 | 1,004,307 |
| <u>TOTAL OPERATING EXPENSES</u> | <u>116,269,763</u> | <u>122,701,176</u> | <u>125,634,730</u> | <u>145,884,985</u> | <u>104,250,626</u> |
| <u>Operating Profit(Loss)</u> | <u>(8,638,673)</u> | <u>(29,911,567)</u> | <u>(16,075,898)</u> | <u>15,143,046</u> | <u>646,676</u> |

10) ENVIRONMENT AND SUSTAINABILITY REPORTING

MACHWASCO is deeply committed to environmental stewardship, recognizing that the sustainability of our operations and the well-being of the communities we serve depend on the responsible management of natural resources. Our operations rely heavily on natural water sources, which makes the preservation of ecosystems, water catchments, and the broader environment integral to the long-term viability of our business. In line with SDG 6 (Clean Water and Sanitation) and SDG 13 (Climate Action), we have prioritized environmental sustainability across all aspects of our operations, implementing a comprehensive strategy to mitigate the impacts of climate change while promoting the sustainable use of natural resources.

1. Tree Planting and Reforestation

In response to the growing environmental challenges facing our region, MACHWASCO launched a large-scale reforestation campaign in collaboration with key partners, including the County Government of Machakos, the National Environment Management Authority (NEMA), and the Tanathi Water Works Development Agency (TAWWDA). This initiative focuses on restoring degraded ecosystems, particularly around our primary water reservoir, Maruba Dam, which has been adversely affected by deforestation, soil erosion, and climate change.

During the 2024-2025 fiscal year, MACHWASCO successfully planted over 10,000 tree seedlings in areas most vulnerable to deforestation. These trees not only help to rehabilitate local ecosystems, but they also serve as natural barriers against soil erosion, improve biodiversity, and enhance water retention in critical water catchment zones. By increasing vegetation cover, the reforestation efforts are expected to improve the dam's water storage capacity and regulate the flow of rivers and streams that feed into it.

2. Conservation and Quality Management

Water conservation lies at the heart of MACHWASCO's operations. We understand that water is a finite resource, and as the primary water service provider for Machakos County, it is our responsibility to ensure that every drop is used efficiently and sustainably. To this end, MACHWASCO has implemented several water conservation measures to reduce wastage and ensure the availability of safe drinking water to all residents.

In FY 2024-2025, we continued to enhance our water quality monitoring systems. These systems are designed to ensure that the water supplied to residents meets the stringent standards set by both the World Health Organization (WHO) and the Water Services Regulatory Board (WASREB). Our investments in modern water quality testing equipment have enabled us to conduct more

Additionally, to reduce pressure on natural water sources, MACHWASCO has embraced advanced technologies aimed at minimizing water wastage. One such innovation is the implementation of smart metering technology. These smart meters allow us to detect leaks in the distribution network in real-time, giving us the ability to address issues before they escalate into major losses. By monitoring water usage with precision, smart meters help reduce Non-Revenue Water (NRW), which represents water that is produced but not billed due to leaks, theft, or inefficiencies. Reducing

NRW is a key focus for MACHWASCO, as it ensures that more water reaches paying customers and less water is wasted.

In tandem with these efforts, we have rolled out community awareness programs aimed at educating residents on water conservation practices. By encouraging responsible water usage at the household level, MACHWASCO is fostering a culture of sustainability that extends beyond its operations to the broader community.

3. Climate Change Adaptation

The increasing frequency and severity of extreme weather events, such as floods and droughts, have made climate change one of the most pressing challenges for MACHWASCO. As our region experiences longer periods of drought followed by intense rainfall and flooding, our water infrastructure has become increasingly vulnerable to damage. These climate-related challenges necessitate a proactive approach to climate change adaptation.

In FY 2024-2025, heavy flooding submerged several of MACHWASCO's pumping stations, resulting in significant operational disruptions. The flooding not only damaged electrical and mechanical systems but also led to infrastructure failures that required extensive repairs. Additionally, critical water mains were blocked or washed away by debris, further complicating our ability to maintain service delivery.

To address these challenges, MACHWASCO has begun reinforcing its infrastructure to withstand extreme weather events.

4. Collaboration and Partnerships

Environmental sustainability is a collective effort that requires collaboration with a wide range of stakeholders. MACHWASCO has forged partnerships with government agencies, local communities, and international organizations to drive its sustainability agenda. In addition to working with NEMA, TAWWDA, and the County Government of Machakos, MACHWASCO engages with local community groups to raise awareness about the importance of environmental conservation.

We have also initiated public-private partnerships (PPPs) aimed at enhancing resource efficiency and fostering innovation in water conservation technologies. By leveraging the expertise and resources of these partners, MACHWASCO is better equipped to tackle the environmental challenges posed by climate change while maintaining its commitment to providing reliable, high-quality water services.

11) CORPORATE SOCIAL RESPONSIBILITY STATEMENT

As a leading provider of water and sanitation services in Machakos County, Machakos Water and Sewerage Company Ltd (MACHWASCO) recognizes that corporate responsibility is not just an obligation, but a central pillar of our operational strategy. Our framework is built on sustainability, inclusivity, and community empowerment, ensuring that our services contribute positively to society and the environment.

1. Social Impact

MACHWASCO is committed to making a positive difference in the communities we serve. Our initiatives are designed to improve quality of life, support vulnerable groups, and promote shared prosperity. In alignment with SDG 10 (Reduced Inequality) and SDG 8 (Decent Work and Economic Growth), we continue to ensure that our operations uplift both customers and local communities.

2. Affordable Water for Low-Income Communities

Access to clean and affordable water remains a major challenge in our service area. To address this, MACHWASCO sustained its pro-poor initiative, supplying subsidized water through community kiosks. Residents in low-income neighbourhoods access water at KSh 2 per 20-liter jerrican, making clean water affordable even for households not connected to the main pipeline. These kiosks have been a lifeline during periods of drought, when scarcity is most severe.

3. Health and Safety Initiatives

In line with SDG 3 (Good Health and Well-Being), MACHWASCO organized community health awareness campaigns on hygiene and waterborne disease prevention, which are particularly vital during drought conditions. Internally, we enhanced workplace safety through strengthened safety protocols, regular inspections, and continuous staff training on safe practices in high-risk areas such as water treatment plants and pumping stations. Public safety was safeguarded by ensuring secure and hazard-free access around water facilities.

4. Training

MACHWASCO is committed to youth empowerment and capacity building. During FY 2024/2025, we expanded our internship and industrial attachment programs, providing students with practical exposure in water engineering, finance, customer service, and human resources. These programs give young people the hands-on skills required to transition into the workforce, while also strengthening the sector's future talent base. Partnerships with local institutions ensure that these opportunities remain accessible and impactful, contributing to SDG 4 (Quality Education) and SDG 8 (Decent Work and Economic Growth).

5. Community Empowerment and Social Equity

MACHWASCO continues to champion inclusivity and equity within the communities we serve. Through compliance with the Access to Government Procurement Opportunities (AGPO) program, 30% of our procurement budget was allocated to businesses owned by women, youth, and persons with disabilities. This initiative promotes inclusive economic growth and empowers historically marginalized groups.

6. Alignment with Global Standards and the SDGs

All corporate responsibility initiatives undertaken in FY 2024/2025 are aligned with the United Nations Sustainable Development Goals (SDGs), with a particular focus on water (SDG 6), health (SDG 3), education (SDG 4), decent work (SDG 8), and reducing inequalities (SDG 10).

MACHWASCO remains committed to being a responsible corporate citizen, contributing to the prosperity and well-being of Machakos County. We will continue building on these initiatives in the coming years, working closely with partners and stakeholders to create a sustainable and inclusive future for all.

12) REPORT OF THE DIRECTORS

The Directors submit their report together with the financial statements for the year ended June 30, 2025 which show the state of Municipal Council of Machakos Water and Sewerage Company affairs.

i. Principal activities

The Principal activity of Municipal Council of Machakos water and sewerage Company limited is provision of water and sewerage services for the residents of Machakos town and environs.

ii. Results

The results of the entity for the year ended June 30, 2025 are set out on page 1. Below is the summary of the loss made during the year.

iii. Dividends

The Company did not declare any dividends for the financial year ended 30th June 2025. Below is a summary of profit/(loss) made during the year.

| | 2024-2025 | 2023-2024 |
|---|--------------------|---------------------|
| | Kshs | Kshs |
| Sales/Turnover | 104,552,185 | 87,760,446 |
| Grants from National/County Government | 1,009,320 | 2,522,493 |
| Other Income | 2,069,585 | 2,506,670 |
| Administration Costs | 79,733,896 | 87,542,107 |
| Operation & Maintenance | 35,458,239 | 33,940,052 |
| Depreciation of Property, Plant and Equipment | 1,077,628 | 1,219,016 |
| Operating Profit (Loss) | (8,638,673) | (29,911,567) |

iv. Directors

The members of the Board of Directors who served during the year are shown on page V and VI.

v. Auditors

The Auditor General is responsible for the statutory audit of Municipal Council of Machakos Water and Sewerage Company in accordance with Article 229 of the Constitution of Kenya and the Public Audit Act 2015.

By Order of the Board



.....
Sign

WINFRED MBAI
MANAGING DIRECTOR

13) STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

The Directors are responsible for the preparation and presentation of the Company financial statements, which give a true and fair view of the state of affairs of the Company for and as at the end of the financial year (period) ended on June 30, 2025. This responsibility includes: (i) Maintaining adequate financial management arrangements and ensuring that these continue to be effective throughout the reporting period; (ii) maintaining proper accounting records, which disclose with reasonable accuracy at any time the financial position of the entity; (iii) Designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of the financial statements, and ensuring that they are free from material misstatements, whether due to error or fraud; (iv) Safeguarding the assets of the Company; (v) selecting and applying appropriate accounting policies; and (vi) Making accounting estimates that are reasonable in the circumstances.

The Directors responsibility for the Company financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgments and estimates, in conformity with International Financial Reporting Standards (IFRS), and in the manner required by the PFM Act, 2012, water act 2016 and companies Act 2015).

The Directors are of the opinion that the Company's financial statements give a true and fair view of the state of Company's transactions during the financial year ended June 30, 2025, and of the Company's financial position as at that date. The Directors further confirm the completeness of the accounting records maintained for the Company, which have been relied upon in the preparation of the company financial statements as well as the adequacy of the systems of internal financial control.

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



MANAGING DIRECTOR
WINFRED MBAI

REPUBLIC OF KENYA

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REPORT OF THE AUDITOR-GENERAL ON MUNICIPAL COUNCIL OF MACHAKOS WATER AND SEWERAGE COMPANY LIMITED FOR THE YEAR ENDED 30 JUNE, 2025

PREAMBLE

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

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

A Qualified Opinion is issued when the Auditor-General concludes that, except for material misstatements noted, the financial statements are fairly presented in accordance with the applicable financial reporting framework. The Report on Financial Statements should be read together with the Report on Lawfulness and Effectiveness in the Use of Public Resources, and the Report on Effectiveness of Internal Controls, Risk Management and Governance.

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 Municipal Council of Machakos Water and Sewerage Company Limited set out on pages 1 to 26, which comprise of the statement of financial position and the statement of profit or loss and other comprehensive

Report of the Auditor-General on Municipal Council of Machakos Water and Sewerage Company Limited for the year ended 30 June, 2025

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

In my opinion, except for the effect of the matters described in the Basis for Qualified Opinion section of my report, the financial statements present fairly, in all material respects, the financial position of Municipal Council of Machakos Water and Sewerage Company Limited as at 30 June, 2025 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 Water Act, 2016, the Companies Act, 2015 and the Public Finance Management Act, 2012.

Basis for Qualified Opinion

1.0 Inaccuracies in the Statement of Cash Flows

The statement of cash flows reflects Kshs 877,323 as net cash flows from operating activities while the reconciling Note 23 to the financial statements reflects cash generated from operations of Kshs.10,077,032 resulting to unexplained variance of Kshs 9,199,709.

In the circumstances, the accuracy and completeness of the statement of cash flows could not be confirmed.

2.0 Long Outstanding Trade and Other Receivables

The statement of financial position reflects trade and other receivables balance of Kshs.172,645,859 as disclosed in Note 17 to the financial statements. Included in the balance are receivables totalling Kshs.112,549,572 that have been outstanding for a period of more than one hundred and twenty (120) days. Management did not provide measures put in place to recover the long outstanding receivables.

In the circumstances, the accuracy, completeness and recoverability of trade and other receivables balance of Kshs.112,549,572 could not be confirmed.

3.0 Material Uncertainty Related to Going Concern

The statement of profit or loss and other comprehensive income reflects loss for the year before taxation of Kshs.8,638,673 (2023/2024: Kshs.29,911,567). In addition, the statement of financial position reflects current liabilities totalling Kshs.255,053,540 against current assets balance of Kshs.240,312,543, resulting to negative working capital of Kshs.14,740,997.

Further, trade and other payables balance of Kshs.231,081,437 increased by Kshs.48,367,866 from the previous year's balance of Kshs.182,713,571, which may be an indication of the Company's inability to settle its obligations as and when they fall due.

Management highlighted in the annual report several challenges which include aged infrastructure network, illegal connections and meter inaccuracies, high costs of electricity, fuel and chemical inputs.

Although Management has outlined a number of measures taken to ensure future improved profitability of the Company including implementation of new tariff structure, progress on Miwongoni Dam Project which will boost water storage capacity, enhance sewerage services and expand overall coverage and strengthened collaboration with the County Government and development partners to mobilize funding, the measures may not bear immediate results. Further, the material uncertainty had not been disclosed in the notes to the financial statements.

In the circumstances, the ability of the Company to continue to sustain its services could not be confirmed.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the Municipal Council of Machakos 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

1. Budgetary Control and Performance

The statement of comparison of budget and actual amounts reflects final revenue budget and actual on comparable basis of Kshs.348,940,000 and Kshs.118,191,826 respectively, resulting to underfunding of Kshs.230,748,174 or approximately 66% of the budget.

Similarly, the Company expended Kshs.93,392,490 against actual receipts of Kshs.118,191,826 resulting to under-absorption of Kshs.24,799,336 or approximately 21% of the actual receipts.

The underfunding and under absorption affected the planned activities and may have impacted negatively on service delivery to the public.

2. Long Outstanding Trade and Other Payables

The statement of financial position reflects trade and other payables balance of Kshs.231,081,437 as disclosed in Note 21 to the financial statements. Review of the aging analysis report revealed that the balance includes payables totalling Kshs.86,563,150 which have been outstanding for more than one hundred and twenty (120) days and no measures have been put in place to settle the debts.

Failure to settle bills during the year to which they relate distorts the financial statements and adversely affects the budgetary provisions for the subsequent year as they form a first charge.

My opinion is not modified in respect of these matters.

Key Audit Matters

Key audit matters are those matters that, in my professional judgement, are of most significance in the audit of the financial statements. Except for the effects of the matters described in the Basis for Qualified Opinion and Material Uncertainty Related to Going Concern sections, I have determined that there are no other key audit matters to communicate in my report.

Other Information

The Management is responsible for the Other Information set out on pages iii to xxv which comprise of Key Entity Information, The Board of Directors, Management Team, Chairman's Statement, Report of the Managing Director, Statement of Performance Against Predetermined Objectives, Corporate Governance Statement, Management Discussion and Analysis, Environmental and Sustainability Reporting, Report of the Directors and Statement of Directors Responsibilities. The Other Information does not include the financial statements and my audit report thereon.

In connection with my audit on the Company's financial statements, my responsibility is to read the Other Information and in doing so, consider whether the Other Information is materially inconsistent with the financial statements or my knowledge obtained in the audit or otherwise appears to be materially misstated. If based on the work I have performed, I conclude that there is a material misstatement of this Other Information, I am required to report that fact. I have nothing to report in this regard.

My opinion on the financial statements does not cover the Other Information and accordingly, I do not express an audit opinion or any form of assurance conclusion thereon.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN THE USE OF PUBLIC RESOURCES

Conclusion

As required by Article 229(6) of the Constitution, based on the audit procedures performed, except for the effect of the matters described in the Basis for Conclusion on Lawfulness and Effectiveness in the 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. Excessive Non-Revenue Water

During the year under review, Machakos Municipal Water and Sewerage Company Limited produced a total of 1,013,454 cubic meters of water out of which only 693,891 cubic meters was billed to customers leaving a balance of 319,563 cubic meters or approximately 32% of the production was Non-Revenue Water (NRW). This contravenes the Water Services Regulatory guidelines which require water service providers to ensure that commercial losses in respect of water produced do not exceed 25% of total production. No explanation was provided for the high level of NRW and measures put in place by Management to reverse the trend.

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

2. Non-Compliance with Law on Ethnic Composition

During the year under review, the total number of employees of the Company was fifty-seven (57) out of which fifty-two (52) or approximately 91% of the total number were members of the dominant ethnic community in the County. This is contrary to Section 7(1) and (2) of the National Cohesion and Integration Act, 2008 which states that, "all public offices shall seek to represent the diversity of the people of Kenya in the employment of staff and that no public Institution shall have more than one-third of its staff establishment from the same ethnic community". Management did not provide measures taken to bridge the ethnic gap.

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

3. Non-Compliance with One-Third of Basic Salary Rule

During the year ended 30 June, 2025, thirteen (13) employees earned a net salary of less than a third (1/3) of the basic salary contrary to Section C.1(3) of the Public Service Commission (PSC) Human Resource Policies, 2016 which stipulates that, public officers shall not over-commit their salaries beyond two thirds (2/3) of their basic salaries.

In the circumstances, Management was in breach of the law and this may expose staff to pecuniary embarrassment.

4. Non-Remittance of Statutory Deductions

Review of records revealed that Management did not remit statutory deductions totalling Kshs.43,401,935 which were due to Kenya Revenue Authority (KRA), National Social Security Fund (NSSF) HELB, LAPFUND and the Social Health Insurance Fund (SHIF). This is contrary to Section 19(4) of the Employment Act, 2007 which stipulates that an employer who deducts an amount from an employee's remuneration shall pay the amount so deducted in accordance with the time period and other requirements specified in the law.

Further, the Company owed Water Services Regulatory Board (WASREB) and Water Resources Management Authority (WARMA) regulatory levy and abstraction fees of Kshs.41,609,544 and Kshs.2,239,100 respectively totalling Kshs.43,848,644. This is contrary to Regulation 22(2)(a) of the Public Finance Management (County Governments) Regulations, 2015, which requires Accounting Officers to comply with any tax, levy, duty, pension, commitments and audit commitments as may be provided for by legislation.

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

5. Delayed Project Implementation

5.1 Conditional Liquidity Support Grant (CLSG) II Agreement

The Company signed a Conditional Liquidity Support Grant II Agreement with Water Sector Trust Fund (WSTF) and the County Government of Machakos on 30 April, 2024 to receive Kshs.74,000,000 for the implementation of short-term interventions contributing to the financial recovery plan implemented under the CLSG II. The approved interventions included the supply and installation of 2nr water pumps, supply and installation of 2000nr DN15 ultra sonic water meters and construction of a new pipeline 4.8km of HDPE DN 90, 0.7km of DN 63 and creation of seven District Metred Areas (DMAs) and Geographic Information Systems (GIS) mapping for the DMAs and purchase of Enterprise Resource Planning grant at a cost of Kshs.25,000,000, Kshs.24,000,000 and Kshs.25,000,000 respectively totalling Kshs.74,000,000. The agreement period was for one (1) year with a provision for review subject to the amendment to the financing agreement.

However, review of the project records revealed the following:

- i. The Company received the first disbursement of the funds totalling Kshs.37,000,000 or 50% of the approved grant on 30 May, 2024. The second tranche was expected to be disbursed upon satisfactory accounting for, or submission of a supported payment schedule for, at least 70% of the first disbursement. However, the project had not commenced as at the time of the audit on 12 November, 2025 and the original agreement period of one year had since expired on 30 April, 2025. Although, Management indicated that a request for extension was sought, there was no evidence provided for audit review of the approved agreement extension period.
- ii. According to the agreement, the Company was required to repay the grant through monthly instalments of Kshs.1,233,333 or daily buildup of Kshs.41,111 for 5 years into a designated escrow account. However, review of the project's progress report for the month of June, 2025 revealed that the Company had deposited into the escrow account funds totalling Kshs.244,000 instead of Kshs.14,799,960.
- iii. After the funds were made available, Management did not initiate the procurement process for goods, services and works financed out of the agreement. This is a clear

indication that the Project may not be implemented within the agreement period and cast doubt whether the project will be in a position to meet all its objectives and cover the cost of financing the grant.

- iv. Due to the delay, the Fund may terminate the grant agreement for CLSG II programme interventions due to non-compliance with Article 6 of the Conditional Liquidity Support Grant (CLSG) Grant II which requires the Water Service Provider to receive and utilize the CLSG II transfers to finance the approved short-term interventions contributing to the financial recovery plan.

In the circumstances, value for money invested in the project amounting to Kshs.37,000,000 could not be confirmed and this could lead to loss of expected anticipated project benefits to Machakos community.

5.2 Kathale-Ikulu Water Project

The Company signed a conditional grant agreement with Water Sector Trust Fund (WSTF) and the County Government of Machakos on 6 April, 2022 to receive Kshs.17,272,458 inclusive of matching grant of Kshs.2,763,593 for the implementation of the Kathale-Ikulu Water Project. The initial agreement period was twelve months with an extended completion date of 30 October, 2025. The scope of the project included the extension of a 6.3 km water pipeline, installation of 400 consumer meters and 2 zonal meters, construction of 2 closed water kiosks and related administrative costs. Review of project records revealed that the Company received Kshs.11,054,373 and Kshs.1,926,924 from WSTF and matching grant respectively as at 30 June, 2025. However, despite receipt of the funds and several contract period extensions, the project was at 42% completion level. Management attributed the delay in completion to delayed funding. Thus, the project has not achieved the intended objective of supplying water to approximately 7,200 residents of Machakos County.

In the circumstances, value for money amounting to Kshs.12,981,297 could not be confirmed and prolonged timelines pose the risk of cost escalations.

5.3 Mumbuni Household Sanitation Project

The Company signed a grant agreement with Water Sector Trust Fund (WSTF) on 3 July, 2023 to receive Kshs.7,263,415 for implementation of the Mumbuni household sanitation project. The scope of the project includes the construction of 300 safisan toilets, recruitment of three (3) social animators and related administrative costs. The expected agreement period was nine (9) months with an extended completion date of 30 October, 2025. Review of project records revealed that the Company had received Kshs.5,034,050 and the project was at 29% completion level as at 30 June, 2025. The slow implementation pace was attributed to delayed funding. Thus, the anticipated benefits to approximately 2,000 residents of Machakos County has not been achieved.

In the circumstances, value for money amounting to Kshs.5,034,050 could not be confirmed.

6. Failure to Refund Customer Deposits

The statement of financial position and as disclosed in Note 22 to the financial statements reflect customers' deposits balance of Kshs.14,970,964 while the deposit bank account reflects a balance of Kshs.4,556 resulting to a variance of Kshs.14,966,408 which was amount borrowed by Management to finance various activities. However, the amount had not been refunded back to the account as at 30 June, 2025. This is contrary to Section 149(1) of the Public Finance Management Act, 2012 which stipulates that an Accounting Officer is accountable to the County Assembly for ensuring that the resources of the entity for which the officer is designated are used in a way that is lawful and authorized, effective, efficient, economical and transparent.

In the circumstances, Management was in breach of the law and the Company's ability to refund the customers' deposits as and when demanded could not be confirmed.

The audit was conducted in accordance with ISSAI 3000 and ISSAI 4000. The standards require 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 EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

As required by Section 7(1)(a) of the Public Audit Act, 2015, based on the audit procedures performed, except for the effect of 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 governance were not effective.

Basis for Conclusion

1. Delayed Board Appointment and Composition of the Board

Review of records revealed that the previous Board of Directors' term elapsed in September, 2024 and the positions have since remained vacant more than one year later as at the time of audit on 13 November, 2025. Although Management explained that effort is being made to appoint the Board of Directors, the County Government of Machakos was yet to complete the process. As a result, there was lack of formulation of new Company policies, procedures and execution of the functions of the Board since September, 2024.

In the circumstances, the existence of effective governance measures could not be confirmed.

2. Non-Compliance with Approved Staff Establishment

Review of the approved staff establishment revealed that the Company had an authorized establishment of one hundred and three (103) personnel against in-post of fifty-six (56) personnel leading to a shortage of forty-seven (47) staff across several cadres. The staff shortage, if not addressed, might adversely affect key operations of the Company and service delivery to the public. Further, Management did not provide a clear plan to correct the shortage.

In the circumstances, the Company may not be able to deliver on its mandate.

The audit was conducted in accordance with ISSAI 2315 and ISSAI 2330. The standards require that I plan and perform the audit to obtain assurance about whether effective processes and systems of internal 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

Conclusion

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

- i. I have obtained all the information and explanations which to the best of my knowledge and belief, were necessary for the purpose of the audit;
- ii. The information given in the Directors' report on pages ix to x is consistent with the financial statements; and
- iii. The auditable part of the Directors' remuneration report on pages 16 and 23 has been properly prepared in accordance with the Companies Act, 2015.

Basis for Conclusion

The Companies Act, 2015 requires that I report on the legal or regulatory requirements, or on performance information disclosed. These matters require expressing a separate opinion as to the Company's compliance with laws and regulations. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

Responsibilities of the Management and those Charged with Governance

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

In preparing the financial statements, Management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless Management is aware of the intention 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 comply with the authorities which govern them and that public resources are applied in an effective way.

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


Auditor-General's Responsibilities for the Audit

My responsibility is to conduct an audit of the financial statements in accordance with Article 229(4) of the Constitution, Section 35 of the Public Audit Act, 2015 and the International Standards of Supreme Audit Institutions (ISSAIs). The standards require that, in conducting the audit, I obtain reasonable assurance about whether the financial statements as a whole are free from material misstatements, whether due to fraud or error and to issue an auditor's report that includes my opinion in accordance with Section 48 of the Public Audit Act, 2015. 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 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 conducting the audit, Article 229(6) of the Constitution also requires that I express a conclusion on whether or not 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 addition, I consider the entity's control environment 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.

Further, I am required to submit the audit report in accordance with Article 229(7) of the Constitution.

Detailed description of my responsibilities for the audit is located at the Office of the Auditor-General's website at: <https://www.oagkenya.go.ke/auditor-generals-responsibilities-for-audit/>. This description forms part of my auditor's report.


FCPA Nancy Gathungu, CBS
AUDITOR-GENERAL

Nairobi

01 December, 2025


**15) STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30 JUNE 2025**

| | Notes | 2024/2025 Kshs | 2023/2024 Kshs |
|--|-------|--------------------|---------------------|
| <u>Revenues</u> | | | |
| Operating Revenue/Sales | 6 | 104,552,185 | 87,760,446 |
| Grants Income from National, County Government | 7 | 1,009,320 | 2,522,493 |
| Other Income | 8 | 2,069,585 | 2,506,670 |
| Total Revenues | | 107,631,090 | 92,789,609 |
| <u>Expenditure</u> | | | |
| General Administrative Expenses | 9 (a) | 23,396,786 | 22,420,998 |
| Staff Costs | 9 (b) | 54,798,995 | 63,126,635 |
| Board Expenses | 9 (c) | 1,538,115 | 1,994,474 |
| Operation & Maintenance Costs | 10 | 35,458,239 | 33,940,052 |
| Depreciation of property, plant and Equipment | 14 | 1,077,628 | 1,219,016 |
| Total Expenditure | | 116,269,763 | 122,701,176 |
| Operating Profit(Loss) before taxation | | (8,638,673) | (29,911,567) |
| Income Tax Expense | 15 | - | - |
| Profit/(Loss) After Taxation | | (8,638,673) | (29,911,567) |
| Earnings Per Share | | (1,776) | (5,982) |

16) STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2025

| | Notes | 2024/2025 Kshs | 2023/2024 Kshs |
|--|-------|---------------------------|---------------------------|
| <u>ASSETS</u> | | | |
| Non-Current Assets | | | |
| Property, Plant & Equipment | 14 | 35,860,790 | 26,377,682 |
| Total Non-Current Asset | | 35,860,790 | 26,377,682 |
| Current Assets | | | |
| Inventory | 16 | 17,693,499 | 2,238,550 |
| Trade and Other Receivables | 17 | 172,645,859 | 149,266,474 |
| Cash & Bank Balances | 18 | 49,894,118 | 38,456,059 |
| Pre-payments | 25 | 79,067 | |
| Total Current Assets | | 240,312,543 | 189,961,083 |
| TOTAL ASSETS | | <u>276,173,333</u> | <u>216,338,765</u> |
| <u>EQUITY & LIABILITIES</u> | | | |
| Equity (Capital & Reserves) | | | |
| Ordinary Share Capital | 19 | 100,000 | 100,000 |
| Capital Grant | 20 | 65,647,579 | 55,867,763 |
| Retained Earnings | | (44,627,786) | (36,770,033) |
| Total Equity | | 21,119,793 | 19,197,730 |
| Current Liabilities | | | |
| Customer Deposits | 22 | 14,970,964 | 14,427,464 |
| Trade & Other Payables | 21 | 231,081,437 | 182,713,571 |
| Working Capital Credit Facility | 24 | 9,001,139 | - |
| Total Current Liabilities | | 255,053,540 | 197,141,035 |
| TOTAL EQUITY & LIABILITIES | | <u>276,173,333</u> | <u>216,338,765</u> |

The Financial Statements were signed for submission on 26th November 2025



WINFRED MBAI
MANAGING DIRECTOR



FINANCE/ACCOUNTS

17) STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 JUNE 2025

| Equity Changes | Share capital <u>Ksh</u> | Capital Grant <u>Ksh</u> | Retained Earnings <u>Ksh</u> | Total <u>Ksh</u> |
|-----------------------------------|-----------------------------|-----------------------------|---------------------------------|--------------------------|
| At July 1, 2023 | 100,000 | 24,676,818 | (7,671,924) | 17,104,894 |
| Profit/(loss) for the year | - | - | (29,911,567) | (29,911,567) |
| Changes for the year (Note No.20) | - | 42,527,187 | - | 42,527,187 |
| Transfer to Assets-Kiandani DTF | - | 10,522,784 | - | (10,522,784) |
| Amortization (Note No.20) | - | (813,458) | 813,458 | - |
| At June 30, 2024 | <u>100,000</u> | <u>55,867,763</u> | <u>(36,770,033)</u> | <u>19,197,730</u> |
| At July 1, 2024 | 100,000 | 55,867,763 | (36,770,033) | 19,197,730 |
| Profit/(loss) for the year | - | - | (8,638,673) | (8,638,673) |
| Changes for the year(Note No.20) | - | 10,560,736 | - | 10,560,736 |
| Transfer to Assets | - | - | - | - |
| Amortization (Note No.20) | - | (780,920) | 780,920 | - |
| At June 30, 2025 | <u>100,000</u> | <u>65,647,579</u> | <u>(44,627,786)</u> | <u>21,119,793</u> |

18) STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2025

| | Note | 2024-2025 | 2023-2024 |
|---|-------|-------------------|-------------------|
| | | Kshs | Kshs |
| Cash Flows From Operating Activities | | | |
| Receipts | | | |
| Cash Received from Customers | | 55,535,390 | 87,760,446 |
| Cash Paid for Suppliers for Inventory (Including arrears) | | (4,508,929) | (3,317,888) |
| Other Income | 8 | 2,069,585 | 2,506,670 |
| Grants Income from National, County Government | 7 | 1,009,320 | 2,522,493 |
| Customer Deposits | 22 | 563,500 | 643,000 |
| Total Receipts | | 54,668,866 | 90,114,721 |
| Payments | | | |
| General Administrative Expenses | 9 (a) | 11,527,404 | 4,464,504 |
| Staff Expense | | 25,247,785 | 23,460,144 |
| Board Expenses | 9 (c) | 1,538,115 | 1,994,474 |
| Operation & Maintenance Costs | 10 | 15,458,239 | 21,635,711 |
| Refund Of Customer Deposits | 22 | 20,000 | 2,000 |
| Total Payments | | 53,791,543 | 51,556,833 |
| Net Cash From/(Used In) Operating Activities | | 877,323 | 38,557,889 |
| Cash Flows from Investing Activities | | | |
| Purchase Of Property, Plant And Equipment (PPE) | 14 | - | - |
| Net Cash From/(Used In) Investing Activities | | - | - |
| Cash Flows from Financing Activities | | | |
| Capital Grant | 20 | 10,560,736 | 55,867,763 |
| Net Cash From/(Used In) Financing Activities | | 10,560,736 | 55,867,763 |
| Increase/(Decrease) In Cash And Cash Equivalents | | 11,438,059 | 36,855,675 |
| Cash And Cash Equivalents At Beginning Of Year | | 38,456,059 | 1,600,384 |
| Cash And Cash Equivalents At End Of The Year | | 49,894,118 | 38,456,059 |

19) STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS FOR THE PERIOD ENDED 30 JUNE 2025

| | Original Kshs | Adjustment Kshs | Final Budget Kshs | Actual on comparable basis Kshs | Performance difference Kshs | % of Utilization |
|--|--------------------|--------------------|----------------------|---------------------------------------|-----------------------------------|---------------------|
| Revenue | | | | | | |
| Operating Revenue | 177,100,000 | - | 177,100,000 | 104,552,185 | 72,547,815 | 59% |
| Other Incomes | 2,340,000 | - | 2,340,000 | 2,069,585 | 270,415 | 88% |
| Grants Income from National, County Government | 31,500,000 | - | 31,500,000 | 1,009,320 | 30,490,680 | 3% |
| Projects | 138,000,000 | - | 138,000,000 | 10,560,736 | 127,439,264 | 8% |
| Total income | 348,940,000 | - | 348,940,000 | 118,191,826 | | |
| Expenses | | | | | | |
| *General Administrative Expenses | 53,100,180 | - | 53,100,180 | 10,539,098 | 42,561,082 | 20% |
| *Staff Costs | 74,339,820 | - | 74,339,820 | 35,889,271 | 38,450,549 | 48% |
| *Board Expenses | 7,000,000 | - | 7,000,000 | 2,859,700 | 4,140,300 | 41% |
| *Operation & Maintenance costs | 62,700,000 | - | 62,700,000 | 33,543,685 | 29,156,315 | 53% |
| Total Recurrent Expenditure | 197,140,000 | - | 197,140,000 | 82,831,754 | | |
| Profit or Loss | 151,800,000 | - | 151,800,000 | (8,638,673) | - | |
| Capital/Development Expenditure | 151,800,000 | - | 151,800,000 | 10,560,736 | 141,239,264 | 7% |
| TOTAL EXPENDITURE | 348,940,000 | - | 348,940,000 | 93,392,490 | | |
| <p>Budget Note: Explanation for the various performance differences is noted as here under; Non – cost-effective tariff and electricity interruptions- This reflects on the reduced sales and cashflows deficiencies. Leading to unmet targets water production and sales.*Grants Income from National, County Government:- Operational support as anticipated was not received as expected. *Expenditure items :- Most of the expenditure activities were under financed due to the low revenues as recorded. Projects:-The company had made proposals for funding for various projects but the funds have been delayed thus slowing down the project progress.</p> | | | | | | |

20) NOTES TO THE FINANCIAL STATEMENTS

1.) General Information

Municipal Council of Machakos Water & Sewerage Co. entity is established by and derives its authority and accountability from Water Act 2002 and Water Act 2016. The entity is a Semi-Autonomous Government Agency. The entity's principal activity is provision of water and sewerage services within Machakos Town and its environs. 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. 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 financial statements have been prepared and presented in Kenya Shillings, which is the functional and reporting currency of the entity. The figures are rounded to the nearest Kenyan shilling. The financial statements have been prepared in accordance with the PFM Act, Water Act and International Financial Reporting Standards (IFRS). The accounting policies adopted have been consistently applied to all the years presented.

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

- i.) Relevant new standards and amendments to published standards effective for the year ended 30 June 2025

| 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 2025, 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, 2025. 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 2025, 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, 2025. 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 2025, 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 | The amendments are effective for annual periods beginning on or after January 1, 2025. Earlier application is permitted. |

| Title | Description | Effective Date |
|-------|---|----------------|
| | months after the reporting period is subject to the entity complying with conditions specified in the loan arrangement. | |

Based on directors assessment of the potential impact of application of the above, they do not expect that there will be a significant impact on the company's financial statements.

ii.) Early adoption of standards

The entity did not early – adopt any new or amended standards in year 2024-2025.

4. Summary of Significant Accounting Policies

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

a.) Revenue recognition

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

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

b.) In-kind contributions

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

c.) Property, plant and equipment

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

Certain categories of property, plant and equipment are subsequently carried at re-valued amounts, being their fair value at the date of re-valuation less any subsequent accumulated depreciation and impairment losses. Where re-measurement at re-valued amounts is desired, all items in an asset category are re-valued through periodic valuations carried out by independent external valuers. Increases in the carrying amounts of assets arising from re-valuation are credited to other comprehensive income. Decreases that offset previous increases in the carrying amount of the same asset are charged against the revaluation reserve account; all other decreases are charged to profit or loss in the income statement. Gains and losses on disposal of items of property, plant and equipment are determined by comparing the proceeds from the disposal with the net carrying amount of the items, and are recognized in profit or loss in the income statement.

d.) Depreciation and impairment of property, plant and equipment

Freehold land and capital work in progress are not depreciated. Capital work in progress relates mainly to the costs of ongoing but incomplete works on buildings and other civil works and installations. Depreciation on property, plant and equipment is recognized in the income statement on a reducing balance basis. The annual rates in use are:

| Item | Years | Rates |
|---|-------|-------|
| Buildings and civil works | 25 | 4% |
| Motor vehicles, including motor cycles and meters | 4 | 25% |
| Computers and related equipment | 3 | 33% |
| Office equipment, furniture and fittings | 12.5 | 8% |

A full year's depreciation charge is recognized 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 recognized so that the asset is written down immediately to its estimated recoverable amount.

e.) Intangible assets

Intangible assets comprise purchased computer software licences, which are capitalised on the basis of costs incurred to acquire and bring to use the specific software. These costs are amortised over the estimated useful life of the intangible assets from the year that they are available for use, usually over three years.

f.) Amortisation and impairment of intangible assets

Amortisation is calculated on the straight-line basis over the estimated useful life of computer software of three years.

All computer software is 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.) Leases

IFRS 16 introduces new or amended requirements with respect to lease accounting. It introduces significant changes to lessee accounting by removing the distinction between operating and finance lease and requiring the recognition of a right-of-use asset and a lease liability at commencement for all leases, except for short-term leases and leases of low value assets. In contrast to lessee accounting, the requirements for lessor accounting have remained largely unchanged.

h.) Inventories

Store items are stated at the lower of cost and net realisable value. Cost of closing stock for water is arrived at by multiplying the volume of water held in the tanks at the close of the period by unit cost of producing 1 cubic of water. Unit cost of water is computed as the total cubic volume of water produced in the year divided by total combined cost of chemical and electricity for the same period.

i.) Trade and other receivables

Trade and other receivables are recognised 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 at the rate of 50%, of the Inactive receivable, based on a review of all outstanding amounts at the year end. Bad debts are written off after all efforts at recovery have been exhausted and when the necessary approval to write off is granted.

j.) Taxation

(i.) Current income tax

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

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

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

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

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

k.) Cash and cash equivalents

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

l.) 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.

m.) 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.

n.) Budget information

The original budget for FY 2024-2025 was approved by the Board of Directors of Machakos water and sewerage co. Subsequent revisions or additional appropriations were made to the approved budget in accordance with specific approvals from the Board of Directors. The entity's budget is prepared on a different basis to the actual income and expenditure disclosed in the financial statements. The financial statements are prepared on accrual basis using a classification based on the nature of expenses in the statement of financial performance, whereas the budget is prepared on a cash basis. The amounts in the financial statements were recast from the accrual basis to the cash basis and reclassified by presentation to be on the same basis as the approved budget. A comparison of budget and actual amounts, prepared on a comparable basis to the approved budget, is then presented in the statement of comparison of budget and actual amounts. In addition to the Basis difference, adjustments to amounts in the financial statements are also made for differences in the formats and classification schemes adopted for the presentation of the financial statements and the approved budget. A statement to reconcile the actual amounts on a comparable basis included in the statement of comparison of budget and actual amounts and the actuals as per the statement of financial performance.

o.) Comparative figures

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

p.) 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, 2025.

q.) Work In Progress (WIP)

It's the company policy to recognise the ongoing projects at the end of the financial year at cost as work in progress. No provision for depreciation is made on these assets until they are completed and transferred from the work in progress account to respective asset class account.

r.) Accounting for Government Grants and Disclosure of Government Assistance. In accordance to IAS 20, Government grants are recognised in profit or loss on a systematic basis over the periods in which the entity recognises expenses for the related costs for which the grants are intended to compensate, which in the case of grants related to assets requires setting up the grant as deferred income or deducting it from the carrying amount of the asset.

s.) Retirement benefit obligations

The Company staff are members of various defined contribution pension schemes The schemes include National Water & Housing Conservation Pension Scheme, Laptrust Pension Scheme and Lapfund Pension Scheme. These schemes are regulated as per Regulatory Benefit Authority (RBA) Act. Contributions from both the company and its employees are made to the scheme at 15% and 7.5% respectively based on the staff basic salary 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. The company's obligation under the scheme is limited to specific contributions legislated from time to time per employee per month.

t.) Provision for staff leave pay

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

u.) 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 shall be presented as a separate line in the statement of financial position once instruments of lease or contract documents have been actioned.

V.) Computation of Capital Allowances

The company has computed Capital Allowances based on the Kenya Tax Laws (Amendment) Act, 2020 Second schedule sections 4,5 and 15(1) which states where a person incurs capital expenditure in respect of an item listed in the first column of the table, an investment allowance may be deducted in computing the gains or profits of that person at the corresponding rate specified in the second column, for each year of income.

| Capital expenditure incurred on | Rate of Investment Allowance |
|--|---|
| (a) Buildings— | |
| (i) Hotel building | 50% in the first year of use |
| (ii) Building used for manufacture (Amendment) Bill, 2020 119 | 50% in the first year of use The Tax Laws |
| (iii) Hospital buildings | 50% in the first year of use |
| (iv) Petroleum or gas storage facilities | 50% in the first year of use |
| (v) Residual value to item (a) (i) to (a)(iv) | 25% per year, on reducing balance |
| (vi) Educational buildings including student hostels | 10% per year, on reducing balance |
| (vii) Commercial building | 10% per year, on reducing balance |
| (b) Machinery – | |
| (i) Machinery used for manufacture | 50% in the first year of use |
| (ii) Hospital equipment | 50% in the first year of use |
| (iii) Ships or aircrafts | 50% in the first year of use |
| (iv) Residual value items (b) (i) to (b)(iii) | 25% per year, on reducing balance |

| | |
|--|-----------------------------------|
| (v) Motor vehicles and heavy Earth moving equipment | 25% per year, on reducing balance |
| (vi) Computer and peripheral computer hardware and software, calculators, duplicating machines | 25% per year, on reducing balance |
| (vii) Furniture and fittings | 10% per year, on reducing balance |
| (viii) Telecommunications equipment | 10% per year, on reducing balance |

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.

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

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.

Useful lives and residual values

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

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

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. e.g provision for bad debts.

6. Operating Revenue/Sales

| | 2024/2025 | 2023/2024 |
|-----------------------------------|---------------------------|--------------------------|
| | Kshs | Kshs |
| Metered water & Sewerage Sales | 104,552,185 | 87,420,686 |
| Water sales through water Bowsers | 0 | 339,760 |
| Total Sales | <u>104,552,185</u> | <u>87,760,446</u> |

7. Grant Income from National, County Government

| | 2024/2025 | 2023/2024 |
|---------------------------------|-------------------------|-------------------------|
| | Kshs | Kshs |
| Electricity Bills | 0 | 1,520,553 |
| Salaries Subsidy seconded staff | 1,009,320 | 1,001,940 |
| | | - |
| Total Subsidies | <u>1,009,320</u> | <u>2,522,493</u> |

8. Other Income

| | 2024/2025 | 2023/2024 |
|--------------------------------------|-------------------------|-------------------------|
| | Kshs | Kshs |
| Water & Sewer Survey Fees | 316,200 | 61,000 |
| Sewer Dumping & Connection Fees | 720,000 | 1,051,000 |
| Water Connection & Reconnection Fees | 49,000 | 534,000 |
| Meter Charge | 984,385 | 860,670 |
| Total Other Income | <u>2,069,585</u> | <u>2,506,670</u> |

9. (a) General Administrative Expenses

| | 2024/2025 | 2023/2024 |
|------------------------------|-----------|-----------|
| | Kshs | Kshs |
| Auditor's remuneration | 348,000 | 348,000 |
| Uniforms | 459,000 | |
| Billing Expenses | 192,655 | 496,684 |
| Telephone, Postal & Internet | 1,292,819 | 767,397 |
| Printing & Publishing | 51,100 | 48,280 |
| Staff Training | 0 | 100,000 |
| Consultancy Fees/Legal | 324,680 | |
| Rental rate | 61,725 | 60,000 |
| Insurance | 107,573 | 143,759 |
| Travelling & Subsistence | 1,966,490 | 1,192,263 |
| Office Stationery | 1,114,465 | 146,420 |
| Office Expenses | 507,176 | 268,607 |

Municipal Council of Machakos Water & Sewerage Co. Ltd
Annual Reports and Financial Statements
For the year ended June 30, 2025

| | | |
|--|--------------------------|--------------------------|
| Publicity & Advertising | 189,210 | 172,000 |
| Maintenance of comps furniture & office, equipment | 199,380 | 159,950 |
| Wasreb | 5,593,462 | 3,496,827 |
| Warma | 1,013,454 | 764,414 |
| Provision for bad debts | 6,807,371 | 1,127,305 |
| Bank charges | 515,449 | 432,038 |
| Subscription Fee | 130,000 | 251,400 |
| Security | 2,006,217 | 2,790,000 |
| Computer Software Maintenance Costs | 260,220 | 477,106 |
| Protective Gear | 10,000 | |
| Accrued Interest/Acturial Deficit | 0 | 9,178,549 |
| Loan Expenses | 246,340 | |
| Total Administration Cost | <u>23,396,786</u> | <u>22,420,998</u> |

9(b) Staff Costs

| | 2024/2025 | 2023/2024 |
|--|--------------------------|--------------------------|
| | Kshs | Kshs |
| Salaries & Wages of Permanent Employees | 47,187,394 | 49,950,592 |
| Wages of temporary employees | 1,954,588 | 1,644,786 |
| Gross Pension Company Contribution | 4,599,054 | 4,847,816 |
| Affordable Housing Levy | 602,959 | 376,261 |
| Staff Medical Cover | 0 | 5,804,654 |
| Staff Welfare Expenses | 27,000 | 122,526 |
| Machakos Staff Welfare Scheme-Company Contribution | 350,500 | 380,000 |
| Salary Advance | 77,500 | |
| Total Staff Expense | <u>54,798,995</u> | <u>63,126,635</u> |

| The average number of employees at the end of the year | 2024/2025 | 2023/2024 |
|--|-----------|-----------|
| Permanent Employees –Management | 6 | 6 |
| Permanent Employees-Unionisable | 51 | 57 |
| Temporary employees | 16 | 15 |
| Totals | 73 | 78 |

9(c). Board Expenses

| | 2024/2025 | 2023/2024 |
|-----------------------------|------------------|------------------|
| | Kshs | Kshs |
| - Allowances | 1,131,800 | 1,210,000 |
| - Training | 0 | 0 |
| - General Expenses | 262,315 | 304,474 |
| - Honoraria | 144,000 | 480,000 |
| Total Board Expenses | 1,538,115 | 1,994,474 |

10. Operation & Maintenance Costs

| | 2024/2025 | 2023/2024 |
|--------------------------------------|--------------------------|--------------------------|
| | Kshs | Kshs |
| Maintenance of Build., Plant & Equip | 107,110 | 482,109 |
| Motor Vehicle Maintenance | 482,115 | 615,996 |
| Electricity | 19,799,835 | 17,181,119 |
| Maintenance of Sewer & Water | 1,019,626 | 3,173,270 |
| Motor Vehicle fuel & Oil | 1,242,000 | 1,216,396 |
| Drugs & Dressing | 459,104 | 633,557 |
| Water Quality Test | 15,400 | - |
| Chemicals | 6,964,640 | 8,969,700 |
| Water Bowser Supply | 458,000 | 24,000 |
| Pipe & Fittings | 4,910,409 | 1,643,905 |
| Total Operation Cost | <u>35,458,239</u> | <u>33,940,052</u> |

11. CAPITAL ALLOWANCE

| | Furniture & Fittings | Industrial Buildings, Civil Works, Motor Vehicles, Motor Cycles, Computer & Accessories and Software | Total |
|-----------------------------|---------------------------------|---|------------------|
| | 10% | 25% | |
| WDV as at 30.06.2024 | 1,445,685 | 333,595 | 1,779,280 |
| Additions | - | - | - |
| Disposal | - | - | - |
| Total | 1,445,685 | 333,595 | 1,779,280 |

Municipal Council of Machakos Water & Sewerage Co. Ltd
Annual Reports and Financial Statements
For the year ended June 30, 2025

| | | | |
|--|------------------|----------------|------------------|
| Wear and Tear Allowance for the period | (144,569) | (83,399) | (227,967) |
| WDV as at 30.06.2025 | 1,301,117 | 250,196 | 1,551,313 |

12. Earnings Per Share

The earnings per share is calculated by dividing the profit after tax as per Profit and Loss Statement by the average number of ordinary shares in issue during the year of 5,000. There were no dilutive or potentially dilutive ordinary share as at the reporting date.

13. Dividend Per Share

The Board did not declare any dividend for the financial year ended 30th June 2025.

14. Property, Plant And Equipment

| | Buildings and civil works | Motor vehicles, including, motor cycles | Office equipment, furniture & fittings | Computers & related equipment, Software | Capital work in progress | Total |
|-------------------------|---------------------------|---|--|---|--------------------------|-------------------|
| COSTOR VALUATION | | | | | | |
| At June 30, 2024 | 21,897,458 | 3,966,700 | 912,480 | 4,782,268 | 5,527,187 | 37,086,093 |
| Additions | | | | | 10,560,736 | 10,560,736 |
| Disposal | - | - | - | - | - | - |
| At June 30, 2025 | 21,897,458 | 3,966,700 | 912,480 | 4,782,268 | 16 087,923 | 47,646,829 |
| DEPRECIATION | | | | | | |
| | 4% | 25% | 8% | 33% | 0% | |
| At June 30, 2024 | 2,374,469 | 3,322,797 | 553,054 | 4,458,091 | - | 10,708,411 |
| Charge for the year | 780,920 | 160,976 | 28,754 | 106,978 | | 1,077,628 |
| At June 30, 2025 | 3,155,389 | 3,483,773 | 581,808 | 4,565,069 | - | 11,786,039 |
| NET BOOK VALUE | | | | | | |
| At June 30, 2024 | 19,522,989 | 643,904 | 359,426 | 324,177 | 5,527,187 | 26,377,682 |
| At June 30, 2025 | 18,742,069 | 482,927 | 330,672 | 217,199 | 16,087,923 | 35,860,790 |

15. Income Tax Expense

| | 2024/2025 | 2023/2024 |
|--|-------------------------|----------------------------|
| | Kshs | Kshs |
| Profit/Loss before tax | (8,638,673) | (29,911,567) |
| Add Back: Disallowable Expenses | | |
| Depreciation | 1,077,628 | 1,219,016 |
| Provision for bad debts | <u>6,807,370</u> | <u>1,127,305</u> |
| | <u>(753,675)</u> | <u>(27,565,245)</u> |
| Deduct: | | |
| Wear & Tear | (227,967) | (518,961) |
| Tax Losses B/F | (55,137,871) | (24,531,172) |
| Grants Income from National, County Government | (1,009,320) | (2,522,493) |
| Tax Losses for the period | (57,371,560) | (55,137,871) |
| Tax losses C/F | (57,371,560) | (55,137,871) |
| Tax Liability @30% | - | - |

16. Inventory

| | 2024/2025 | 2023/2024 |
|--------------------|--------------------------|-------------------------|
| | Kshs | Kshs |
| Pipes and Fittings | 553,853 | 619,440 |
| Stationery | 0 | 105,655 |
| Chemicals | 986,058 | 78,955 |
| Water | 14,537,588 | 0 |
| Water Meter | 1,616,000 | 1,434,500 |
| TOTALS | <u>17,693,499</u> | <u>2,238,550</u> |

17. Trade Receivables

| | 2024/2025 | 2023/2024 |
|--|---------------------------|---------------------------|
| | Kshs | Kshs |
| Active Trade Receivables | 115,919,690 | 99,347,675 |
| Inactive Trade Receivables | <u>113,252,339</u> | <u>99,637,598</u> |
| Total Trade Receivables | 229,172,029 | 198,985,273 |
| Other Receivables | 100,000 | 100,000 |
| Gross Trade and Other Receivables (a) | <u>229,272,029</u> | <u>199,085,273</u> |
| Less: Provision for bad debts (b) | (56,626,170) | (49,818,799) |
| Net Trade and other receivables (a-b) | <u>172,645,860</u> | <u>149,266,474</u> |

Municipal Council of Machakos Water & Sewerage Co. Ltd
Annual Reports and Financial Statements
For the year ended June 30, 2025

*The amount of Kshs 100,000 against other receivables above refers to the shares taken up but not paid to the Company by the Machakos Municipal Council at the time of issue of shares.

*The provision for bad doubtful debts amount is currently being estimated by the Board to be 50% of the inactive trade receivables.

At June 30TH 2025, the ageing analysis of the total trade receivables (a) was as follows:

| | | |
|-------------------------|-------------|-------------|
| Less than 30 days | 12,092,058 | 10,462,596 |
| Between 30 and 60 days | 16,628,231 | 14,387,499 |
| Between 61 and 90 days | 21,653,476 | 18,735,568 |
| Between 91 and 120 days | 66,248,692 | 57,321,369 |
| Over 120 days | 112,549,572 | 97,382,988 |
| | 229,172,029 | 198,290,020 |

18. BANK AND CASH BALANCES

| | 2024/2025 | 2023/2024 |
|--|-------------------|-------------------|
| Description | Kshs | Kshs |
| a) Current account | | |
| Co-operative Bank Expenditure A/C 01120033182901 | 81,544 | 14,943 |
| Co-operative Bank Collection A/C 01100033182900 | 715,288 | 29,490 |
| Post Bank Collection A/C 0744130010118 | 3,000 | 1,000 |
| Family Bank Bowser A/C 07300014638 | 68,555 | 106 |
| Family Salary A/c 073000030542 | 176,032 | 178 |
| Family Collection A/c 073000030552 | 215,081 | 840 |
| Family Mumbuni UBSUP Project A/c 073000043226 | 3,419,904 | 0 |
| Family Ikulu Kathale Project (UPC) A/c 073000047653 | 7,493,619 | 1,217,280 |
| Family CLSG II Project Escrow A/c 073000049936 | 244,010 | 44,010 |
| Family CLSG II Project Main A/c 073000049935 | 36,983,210 | 36,990,409 |
| Family CLSG II Project Revenue A/c 073000049937 | 10 | 10 |
| Sub- total | 49,400,253 | 38,298,466 |
| | | |
| b) Customer deposits | | |

Municipal Council of Machakos Water & Sewerage Co. Ltd
Annual Reports and Financial Statements
For the year ended June 30, 2025

| | | |
|---|--------------------------|--------------------------|
| Co-operative Bank Deposit A/C 01120033182902 | 4,556 | 110,146 |
| Sub- total | 4,556 | 110,146 |
| c) Others(specify) | | |
| M – pesa – 823222 | 489,301 | 47,630 |
| Cash in hand | 8 | 17 |
| Sub- total | 489,309 | 47,647 |
| Grand total | <u>49,894,118</u> | <u>38,456,059</u> |

19. Ordinary Share Capital

| | 2024/2025 | 2023/2024 |
|---|----------------|----------------|
| Authorized | Kshs | Kshs |
| 5000 Ordinary Shares of Ksh: 20 per share | <u>100,000</u> | <u>100,000</u> |

20. Capital Grant Movement

| | 2024/2025 | 2023/2024 |
|--|-------------------|-------------------|
| | Kshs | Kshs |
| Capital Grant B/f | 55,867,763 | 24,676,818 |
| Received for the year | 10,560,736 | 37,000,000 |
| Less Transfer to Assets – Kiandani DTF | | (10,522,784) |
| Less amortization | (780,920) | (813,458) |
| Total | 65,647,579 | 55,867,763 |

21. Trade and Other Payables

| | 2024/2025 | 2023/2024 |
|---------------------------------------|---------------------------|---------------------------|
| | Kshs | Kshs |
| Trade Payables(General) | 32,112,109 | 20,511,293 |
| Accrued | 157,009,984 | 120,242,934 |
| Others | 41,959,344 | 41,959,344 |
| Total Trade and Other Payables | <u>231,081,437</u> | <u>182,713,571</u> |

At June 30TH 2025, the ageing analysis of the total trade payables was as follows:

| | | |
|------------------------|------------|------------|
| Less than 30 days | 25,114,028 | 10,499,281 |
| Between 30 and 60 days | 46,762,870 | 14,437,945 |
| Between 61 and 90 days | 71,876,899 | 18,801,259 |

Municipal Council of Machakos Water & Sewerage Co. Ltd
Annual Reports and Financial Statements
For the year ended June 30, 2025

| | | |
|-------------------------|--------------------|--------------------|
| Between 91 and 120 days | 20,282,383 | 57,522,351 |
| Over 120 days | 67,045,254 | 97,724,436 |
| | 231,081,437 | 198,985,273 |

22. Customer Deposits

| | 2024/2025 | 2023/2024 |
|--------------------------------|--------------------------|--------------------------|
| | Kshs | Kshs |
| Balance b/f | 14,427,464 | 13,786,464 |
| Paid during the year | 563,000 | 643,000 |
| Refund during the year | (20,000) | (2,000) |
| Total Customer deposits | <u>14,970,964</u> | <u>14,427,464</u> |

23. Notes To The Statement of Cashflows

| | 2024/2025 | 2023/2024 |
|--|--------------|--------------|
| | Kshs | Kshs |
| (a) Reconciliation of operating profit/(loss) to cash generated from/(used in) operations | | |
| Operating profit/(loss) | (8,638,673) | (29,911,567) |
| Depreciation | 1,077,628 | 1,219,016 |
| Operating profit/(loss) before working capital changes | (7,561,046) | (28,692,550) |
| (Increase)/decrease in inventories | (15,454,949) | (139,872) |
| (Increase)/decrease in trade and other receivables | (23,379,385) | (332,052) |
| Increase/(decrease) in trade and other payables.. | 48,367,866 | 38,109,069 |
| Increase/(decrease) in Customer Deposits | 543,500 | 641,000 |
| Cash generated from/(used in) operations | 10,077,032 | 38,942,249 |
| (b) Analysis of cash and cash equivalents | | |

Municipal Council of Machakos Water & Sewerage Co. Ltd
Annual Reports and Financial Statements
For the year ended June 30, 2025

| | | |
|----------------------------|------------|------------|
| Cash at bank | 49,894,110 | 38,456,059 |
| Cash in hand | 8 | 17 |
| Balance at end of the year | 49,894,118 | 38,456,076 |

24. Working Capital

| | 2024/2025 |
|------------------------|------------------|
| | Kshs |
| bank credit facility | 10,000,000 |
| paid during the year | 998,861 |
| | |
| Total Subsidies | 9,001,139 |

25. Prepayment

| | 2024/2025 |
|----------------------------|---------------|
| | Kshs |
| pre-paid insurance premium | 79,067 |
| | |
| Total Subsidies | 79,067 |

26. Related Party Disclosures

The Government of Kenya is the principal shareholder of the company, holding 100% of the Company's equity interest. Other related parties include:

- i) Ministry of Water & Sanitation and Irrigation
- ii) County Government of Machakos
- iii) Water Works Development Agencies
- iv) WASREB
- v) WRA
- vi) Water Sector Trust Fund
- vii) Key management
- viii) Board of directors

27. Related Party Transactions

| | 2024/2025 | 2023/2024 |
|---|-------------------|-------------------|
| | Kshs | Kshs |
| a) Subsidy National/County Government | | |
| Direct payments for chemicals | - | - |
| Direct payments for electricity bills | - | 1,520,553 |
| Total | - | 1,520,553 |
| b) Expenses incurred on behalf of related party | | |
| Payments of salaries and wages for county employee-seconded | 1,009,320 | 1,001,940 |
| Total | 1,009,320 | 1,001,940 |
| c) Key management compensation | | |
| Directors' emoluments | 1,538,115 | 1,994,474 |
| Compensation to the CEO | 3,769,128 | 3,853,150 |
| Compensation to key Management Staff | 7,169,275 | 8,626,103 |
| Total | 12,476,518 | 14,473,727 |

28. FINANCIAL RISK MANAGEMENT

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

(i) Credit risk

The entity 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

Municipal Council of Machakos Water & Sewerage Co. Ltd
Annual Reports and Financial Statements
For the year ended June 30, 2025

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:

(i.) Credit risk

| | Total amount | Total amount | Fully performing | Past due | Provision for Bad Debts |
|--|--------------|--------------|------------------|----------|-------------------------|
| | Kshs | Kshs | Kshs | Kshs | Kshs |

At 30 June 2025

| | | | | | |
|------------------------|--------------------|--------------------|--------------------|--------------------|---------------------|
| Trade Receivables | 172,645,860 | 172,645,860 | 115,659,331 | 115,659,331 | (56,626,170) |
| Cash and Bank balances | 49,894,118 | 49,894,118 | 49,894,118 | - | - |
| Total | 222,539,978 | 222,539,978 | 165,553,499 | 115,659,331 | (56,626,170) |

At 30 June 2024

| | | | | | |
|------------------------|--------------------|--------------------|--------------------|-------------------|---------------------|
| Trade Receivables | 149,266,474 | 149,266,474 | 99,347,675 | 99,347,675 | (49,818,799) |
| Cash and Bank balances | 38,456,059 | 38,456,059 | 38,456,059 | - | - |
| Total | 187,722,533 | 187,722,533 | 137,803,734 | 99,347,675 | (49,818,799) |

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 non collectable amounts that the company has recognized in the financial statements is considered adequate to cover any potentially irrecoverable amounts. The entity has significant concentration of credit risk on amounts due from past due category.

| (ii) Liquidity risk management | Less than 1 month | Between 1-2 months | Between 2-3 months | Between 3-4 months | Over 5 months | Totals |
|--------------------------------|-------------------|--------------------|--------------------|--------------------|-------------------|--------------------|
| | Kshs | Kshs | Kshs | Kshs | Kshs | Kshs |
| At 30 June 2025 | | | | | | |
| Trade payables | 25,114,028 | 46,762,872 | 71,876,899 | 20,282,384 | 67,045,254 | 231,081,437 |
| Total | 25,114,028 | 46,762,872 | 71,876,899 | 20,282,384 | 67,045,254 | 231,081,437 |
| At 30 June 2024 | | | | | | |
| Trade payables | 19,857,388 | 36,974,892 | 56,832,280 | 16,037,060 | 53,011,951 | 182,713,571 |
| Total | 19,857,388 | 36,974,892 | 56,832,280 | 16,037,060 | 53,011,951 | 182,713,571 |

The entity manages liquidity risk through continuous monitoring of forecasts and actual cash flows.

The table below represents cash flows payable by the company 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.

29. RETAINED EARNINGS

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

30. INCORPORATION

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

31. EVENTS AFTER THE REPORTING PERIOD

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

32. CURRENCY

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

21.) APPENDICES

A.) Progress on Follow up of Auditor Recommendations

| External audit Report Issue /Observation | Comments | Time frame: (when to expect the issue to be resolved) |
|--|--|---|
| <u>REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES</u> | | |
| 1.0 Long Outstanding payables | This has been occasioned economic slowdown and non-cost reflective tariff however the company is embracing more strategic approach in increasing revenue collections | Subsequent Financial Periods |
| 2.0 Use of Expired Water Tariff | The tariff has been approved and gazetted for implementation starting may 2025 | resolved |
| 3.0. Non compliance with law on ethnic composition | During the period under review the company did not recruit any staff. However, the same shall be implemented going forward. | Subsequent financial years |
| 4.0 Irregular subscriptions | The same has been noted for implementation. | Subsequent financial years |

B.) Projects Implemented by the Company

Projects implemented by the Company Funded by development partners:-

| | Project title | Project Number | Donor/Financier | Period/duration | Donor/Financier commitment | Separate donor reporting required as per the donor agreement (Yes/No) | Consolidated in these financial statements (Yes/No) |
|----|---|-------------------------------------|---------------------------|-----------------|----------------------------|---|---|
| 1. | MUMBUNI HOUSEHOLD SANITATION PROJECT | 02P2HS/AWW DA/MACHAKOS/MACHAKOS/021 | WATER SERVICES TRUST FUND | 9 MONTHS | 7,263,415 | YES | YES |
| 2. | KATHALE-IKULU WATER PROJECT | 08W/MACHAKOS/MACHAKOS/21 | WATER SERVICES TRUST FUND | 12 MONTHS | 14,508,864 | YES | YES |
| 3. | CONDITIONAL LIQUIDITY SURPPORT GRANT(CLSG II) | IDA CREDIT NO. 6030. KE | WATER SERVICES TRUST FUND | 12 MONTHS | | YES | YES |

Status of Project Completion:-

| | Project | Total project Cost | Total expended to date | Completion % to date | Budget | Actual | Sources of funds |
|----|---|--------------------|------------------------|----------------------|------------|-----------|---------------------------|
| 1. | MUMBUNI HOUSEHOLD SANITATION PROJECT | 7,263,415 | 1,613,488 | 22% | 7,263,415 | 1,613,488 | WATER SERVICES TRUST FUND |
| 2. | KATHALE-IKULU WATER PROJECT | 17,272,458 | 7,337,883 | 61% | 17,272,458 | 7,337,883 | WATER SERVICES TRUST FUND |
| 3. | CONDITIONAL LIQUIDITY SURPPORT GRANT(CLSG II) | 70,000,000 | NIL | 0% | 70,000,000 | NIL | WATER SERVICES TRUST FUND |

C.) **There was no inter entity transfers from any of the company's related parties.**

D.) **Assets used by the company and not reflected in the statement of Financial Position**

ASSETS FROM WATER WORKS DEVELOPMENT AUTHORITY (*WWDA*) NATIONAL WATER HARVESTING AND STORAGE AUTHORITY AND COUNTY.

1.1 Water Sources

1. Maruba Dam.
2. Water Department Office Borehole.
3. Three (3No.) Plant A Boreholes.
4. Kimutwa Borehole
5. Miwani Borehole next to Deputy Governor Office.
6. Kitanga Water Project; Nguli and Makovo Borehole

1.2 Water Treatment Plants.

1. Maruba Treatment plant of total capacity of 7,500m³/day.
2. Clear water tanks of total 600m³ capacity.
3. Two (2No.) Centrifugal pumps.

1.3 Sewerage Treatment plants

1. Mitheu sewerage treatment plant
2. Sewerage pump station

1.4 Water reservoirs

1. 6,000m³ reinforced concrete tank; Katoloni
2. Two (2No.) of 225m³ Each-Masonry Tank; Kiima Kimwe
3. 150m³ elevated tank; Machakos Boys School.
4. 250m³ elevated tank; Machakos Police Headquarters.
5. 1,200m³ reinforced concrete tank; Iveti Hill

1.5 Motor Vehicles.

1. KBY 407Q Double Cab -Athi water works development Agency
2. KBU 858T Double Cab -Tanaathi water works development agency
3. KBJ 533U Double Cab -Tanaathi water works development agency
4. KAY 226V Water Bowser - National Water Harvesting and storage authority
5. GKB 051B Water Bowser -Ministry of water sanitation and irrigation(grounded)
6. Chasis 3697 Water Bowser -Machakos county Government
7. KUL 938 Exhauster - Defunct Municipal Council of Machakos(Grounded)
8. KAL 849M Single Cab -National Water Harvesting and storage(Grounded)

1.6 Land Parcels

1. Main Office and Katoloni water reservoirs.
2. Kiima Kimwe water tanks
3. Maruba Dam and treatment works
4. Plant A borehole Iveti
5. 2No. (two) Iveti tanks.
6. Sewerage pump station (Machakos Grogon)
7. Sewerage treatment and DTF land(Mitheu)
8. Kitanga Water Project; Nguli and Makovo Borehole
9. Kitanga water reservoirs 2 No.