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REPORT

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THE AUDITOR-GENERAL

ON

**GATAMATHI WATER AND SANITATION
COMPANY LIMITED**

**FOR THE YEAR ENDED
30 JUNE, 2020**

PAPERS LAID	
DATE	23/02/2022
TABLED BY	SML
COMMITTEE	-
CLERK AT THE TABLE	CAROLYN CHEGROF

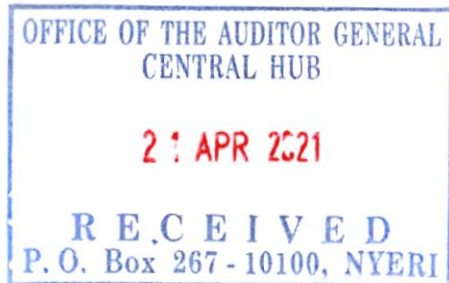


GATAMATHI WATER AND SANITATION COMPANY

REPORTS AND FINANCIAL STATEMENTS

**FOR THE FINANCIAL YEAR ENDED
JUNE 30, 2020**

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



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KEY COMPANY INFORMATION

BACKGROUND

Gatamathi Water and Sanitation Company was incorporated as a limited Company by Guarantee (No shareholding) on 23rd March, 2006 through Water Act 2002. The Company currently has seven members of Board of directors. Five of the members are elected annually during an Annual General Meeting while two are representatives of the Murang'a County Government. The Board is elected by stakeholders who come from Kangema, Mathioya Sub-Counties and Gaturi ward in Kiharu Sub-County.

The company provides water and sanitation services through **Service Provision Agreement (SPA)** which was renewed in December 2012. The area contracted are in Mathioya Sub-County, Rwathia ward in Kangema Sub-County and Gathuki-ini location in Gaturi ward of Kiharu Sub-County.

The supply area covers 314 Km² with a population of 144,000 people. The WSP manages Gatango and Mathioya schemes.

Total active connections are 8,300 with an actual served population of 75,000. There are 3,000 dormant connections.

GATANGO WATER SUPPLY

The scheme was started in 1968 and commissioned in 1972. The source of water is North Mathioya River 3.5 km inside the forest. The level of service was by communal water points (**CWP**) which were 72 CWP's in number. The scheme covered Kiru and Kamacharia Wards in Mathioya Sub-County, and some parts of Gaturi ward.

Area covered during commissioning was 85.47 km². Later, the residents opted for individual connections. The area now has been extended to cover Gaturi totaling about 108KM³.

The design period was from 1972- 1982. Augmentation report by AB Brokonsult which was to cover a period of 20 years from 1984-2004 was not implemented. There are 3,000 active connections serving a population of 24,000.

By the time the company took over the management of the scheme in May 2006, water was not reaching Kamacharia, Kanjama and Kagumo-ini.

The scheme has a potential to serve Gaturi ward if the proposed funding by Athi Water Services Board is realized.

MATHIOYA WATER SUPPLY

The scheme was started as a self-help project in the late 1970's. The source of water is Hembe River, a tributary of Githugi River of North Mathioya River. The Government later took over and engaged Bish & Partners Ilaco Consulting Engineers who come up with a design report. The scheme was commissioned in 1984.

The service level was by individual connections.

The area covered was Njumbi and Gitugi locations in Mathioya Sub-County, Rwathia location in Kangema Sub-County. Area covered is 134KM³ and the population served is 51,000 with 5,300 active connections.

MEASURES TO IMPROVE SERVICE DELIVERY

i) Gatango Water Supply

Athi Water Services Board is funding a new intake, mainline from the intake in the forest to the Kairo Tank, a distance of 8.9 km. Then a new line for Gaturi ward for a distance of 21.6 Km. A proposal for rehabilitation of the existing Kairo-Kiria-ini-Kamacharia and Kairo-Kiambuthia-Kagumo-ini has been made.

ii) Mathioya Water Supply

Mathioya requires funding for gravity main to serve people at Kiamuturi, Kagongo, Ruiru and Mioro in Mathioya Sub-County and Wanjerere, Nyagatugu and Tuthu in Kangema Sub- County in order to phase out pumping which proved to be uneconomical .The existing gravity mainlines also requires rehabilitation and improvement of treatment works.

Principal Activities

The principal activities of the company are to manage water facilities and provide water and sanitation services on behalf of Tana Water Services Board in line with Water Act 2002 & Water Act 2016 and Service Provision Agreement between the Board and the Company.

Directors

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

- | | | |
|-----------------------------|---|----------------------------------|
| 1. Mr. Washington M. Mwangi | - | Chairman |
| 2. Ms. Serah W. Gichuku | - | Member |
| 3. Ms. Joyce K. Wachira | - | “ |
| 4. Mr. Geoffrey W. Warui | - | “ |
| 5. Ms. Magdalene M. Kiriko | - | “ |
| 6. Eng. Amos Njoroge | - | CEC M -Water and Irrigation. |
| 7. Mr. David Wakaba | - | CEC M –Finance, Planning and IT. |

Corporate Secretary

Gikuhi Kiana

P.O. Box 1271-10100

Nyeri

Registered Officer

Gatamathi Water and sanitation Company Limited

Nyakianga next to DO's Office – Mathioya

Off Kangema Othaya Road

P.O. Box 93 -10204

Kiria-ini.

Corporate Headquarters

Gatamathi Water and sanitation Company Limited

Nyakianga next to DO's Office – Mathioya

Off Kangema Othaya Road

P.O. Box 93 -10204

Kiria-ini.

Corporate Contacts

Telephone: (254) 020-2032602

E-mail: gatamathiwsp@gmail.com

Website: gatamathiwsp.co.ke

Corporate bankers

1. Equity Bank Ltd
Kiria-ini branch
P.O BOX 217-10204
Kiria-ini.

2. Family bank Ltd
Kiria-ini branch
P.O BOX 82-10204
Kiria-ini.

3. Kenya Commercial Bank Ltd
Kiria-ini branch
P.O BOX 42-10204
Kiria-ini.

Auditor

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






Lawyer

Tana Water Works Development Agency lawyer

&

Triple N W & Co. Advocates
Hazina Towers 9th Floor
Monrovia Street, Wing B Room 901
P.O. Box 28074-00100
NAIROBI

THE BOARD OF DIRECTORS

NAME	POSITION	EXPERIENCE AND POSITION IN THE SOCIETY
 Washington M. Mwangi	Chairman	Born 1961, "O" Level, Former Vice Chairman Murang'a County Council. Prominent farmer and businessman
 Joyce K. Wachira	Board Member	Born 1981, Diploma, Kenya Registered Community Health Nursing
 Magdalene M. Kiriko	Board Member	Born 1958, "O" Level, Service Corp, Chairperson BoG-Gikoe Sec School, Chairperson- Gikoe Primary. Businesswoman.
 Geoffrey W. Wanyeki	Board Member	Born 1972, "O" Level, Community mobilize, representative of people with disabilities
 Serah W. Gichuku	Board Member	Born 1969, Rwathia Girls Advanced Level CPA I
Eng. Amos Njoroge	Murang'a County Government Representative	CECM-Water and Irrigation
David W. Waweru	Murang'a County Government Representative	CECM-Finance , IT & Planning

BOARD COMMITTEES

NAME OF THE COMMITTEE	MEMBERS
Finance, Technical and Administration Committee	1. Mr Geoffrey W. Wanyeki - Chairperson 2. Eng. Amos Njoroge - Member 3. Ms Magdaline M. Kiriko - Member 4. Ms Serah W. Gichuki - Member
Audit, Risk and Governance Committee	1. Ms Joyce K. Wachira - Chairperson 2. Mr David W. Waweru - Member 3. Ms Serah W. Gichuki - Member 4. Ms Magdaline M. Kiriko - Member

MANAGEMENT TEAM

 <p>Charles Maina Muriuki</p>	<p>Managing Director</p>	<p>Education –Higher National Diploma- Water Engineering. Executive Master of Business Administration degree</p> <p>Area of responsibility - Implementation of the company’s board policies in line with Tana Water Services Boards performance contract and targets as contained in the service provision agreement (SPA).</p> <p>Work experience - 14years’ work experience at Gatamathi Water and sanitation company</p>
 <p>Agnes Waruguru Kaburu</p>	<p>Technical Services Manager</p>	<p>Education - Diploma in Water Technology-KEWI.</p> <p>Diploma Public Relations -KIM</p> <p>Area of responsibility - Operation and Maintenance, Capital works rehabilitation and ensuring good quality water is availed all the time</p> <p>Work experience - 14years’ work experience at Gatamathi Water and sanitation company</p>
 <p>Joseph Ngugi Wanyoike</p>	<p>Commercial Services Manager</p>	<p>Education - Bachelor of Commerce Management science. Area of responsibility - Running of company’s commercial department in the following field: accounts, procurement, personnel, information technology, meter reading and billing sections.</p> <p>Work experience - 13years’ work experience at Gatamathi Water and sanitation company</p>

CHAIRMAN'S REPORT FOR THE YEAR ENDING 30th JUNE 2020

INTRODUCTION:

I have the pleasure to present to you the annual report for your company for the year 2019/2020. One of the main principles of the Water Act 2016 was that water services be managed at the lowest level possible. In line with this principle, the Ministry of Water and Sanitation transferred the provision of water services to Water Service Boards with effect from July 2005. The Water Act 2002 stipulated that the Service Board shall contract agents, known as water service providers, for provision of water and sanitation services.

After the promulgation of the new Constitution in 2010, Water Act 2016 came in to being in order to be in line with the Constitution 2010. Water services are a devolved function of the County Governments. Therefore, water service providers give services on behalf of the county Governments notwithstanding the sector is regulated through Water Services Regulatory Board. The same Act changed the Water Services Boards to Water Works Development Agencies which have been assisting the WSPs. We are still getting assistance from Tana and Athi Water Works Development Agencies for Asset development. The achievements made so far since the inception of the water service provider are hereby highlighted.

MATHIOYA WATER SUPPLY

It covers Rwathia, Gitugi and parts of Kiru Wards. The WSP is able to serve the following areas either on 24 hours or on rationing. These are Gacharage-ini, Gatunguru, Kihoya, Rwathia, Ngutu, Karung'e, Gitugi, Nyangiti and Kambara. The WSP is still unable to serve areas bordering the forest edge like Kiamuturi, Kagongo, and Wanjerere due to high cost of pumping, vandalised pipes due to lack of water before and after Gatamathi take off and destruction of pipes during roads grading.

A proposal to phase out pumping and have gravity flow system is at advanced stage with Athi Water Works Development Agency. Other areas not covered with water are past Yakarengo. With on-going exercise of last mile connectivity, the area will be covered with distribution pipes.

GATANGO WATER SUPPLY

The scheme in its early years (1970's to 80's) covered Kiru location, Kamacharia in Mathioya sub-County and Gathuki-ini, Gaturi, and Mugeka locations in Gaturi Division of Kiharu Sub-

County. By the time of handing over areas like Kanjama, Kamacharia, Kagumo-Ini, Gathuki-ini, Mugeka and Gaturi were not being served with water. This is because design carried out in 1966 by Sir Alexander Gibb recommended communal water points and not individual connections except Kiria-ini Town. In total there were 72 water points in the supply area. The current water abstraction is 2640 m³/d which was designed in 1966. The pipeline reached Kiria-ini in December 1971. Currently it has surpassed its useful life. Later in the 1980s people started reverting to individual connections. Due to this change of service and lack of augmentation water cannot reach to all consumers due to increased population and high non-revenue water caused by aged infrastructure. Until now, no augmentation has been done for the last 49 years.

The Government under the Northern Collector Tunnel Community Support in Murang'a County engaged Unibee Contractors to construct a new intake, raw water main treatment works at Kihari forest edge with a flow of 4000 m³/d. The work is almost complete and only minor works remain like training of staff how to operate chemical dozers, installation of covers chambers, fencing intake compound. Other projects that have been undertaken by the National Government through Athi Water Works Development or Tana Water Works Development Agencies are Kiria-ini-Iruri pipeline, Gakurwe-Kiambu pipeline. On-going projects which are almost complete (95%) are Fish Camp-Nyakianga parallel line, Kairo-Gakurwe line. Another project which has started is Kamagoko-Kiria-ini line.

Other approved projects within the supply area are:-

- i) Kiria-ini-Kairi line
- ii) Gaitheri-Geitwa line
- iii) Iruri-Thita line

You realise that the National Government deals with mains and sub-mains pipelines. But for the purpose of water management we require small pipes for water distribution ranging from ¾" to 1½". Water meters both master and domestic ones and pressure management valves. The following is required

Meters	4100 no.
Pressure Relief Valves	306 no.

Small distribution pipes to cover 478km within the supply area.

To achieve the dream, the company has applied a loan of 146 million from the World Bank/KFW to procure the above requirements. These are treated like asset financing but special terms negotiated by the National Government.

CONCLUSION

With the above initiative taking place, it is my hope that WSP will be able to serve its customers with efficient and effective services. We hope that the support that you have accorded us throughout will continue.

Thank you all.



Washington M. Mwangi
CHAIRMAN

MANAGING DIRECTOR'S REPORT FOR THE YEAR ENDING 30TH JUNE 2020

I take this opportunity to report to you the Company's performance for the period ended 30th June 2020.

INTRODUCTION:

One of the main objectives in the water provision sub-sector is to offer water and sanitation services to the people which are adequate and available all the time. However, we have not been able to do so due to the dilapidated infrastructure we inherited. The WSP management has been using the little water our conveyance system can be able to take to our customers. In that regard, we have been able to ration the little commodity to upper parts of our supply areas like Kairo, Kiria-ini, Gacharageini, Kihoya, Rwathia, Karunge, Ngutu, and Gitugi. However services are improving as we replace the old distributions lines with new pipelines across the supply area through the last mile connectivity programme. Areas not served are two fifths of the contracted area of supply. By the end of the programme in this year most areas will be having water.

SPECIFIC GOALS

They are meant to aim the following:

- i) To supply portable water
- ii) To revive old connections
- iii) To increase new connections
- iv) To expand pipe network to areas not served
- v) To improve hygiene and sanitation practices

Current Challenges

- i) The Company is faced with low revenue collection due to Covid-19 pandemic
- ii) High Non Revenue Water of about 66%
- iii) High operational cost due to old system e.g. AC pipes in Gatango Water supply
- iv) Infrastructure damage during road construction.
- v) Office space

Ways of meeting the goals and overcoming the challenges

The augmentation and expansion of Gatango Water Supply to Gaturi, Mugeka and Gathuki-ini will greatly improve our service delivery. So far Iruri residents have tap water as an improvement of Kiria-ini-Iruri line, the WSP will be able to meet the above goals and overcome the most of the challenges. Currently, various water projects are underway and we expect them to be completed not later than the end of next financial year

Thank you all



C.M. Muriuki
MANAGING DIRECTOR

CORPORATE GOVERNANCE STATEMENT

The Company is incorporated as a limited company by guarantee. It has seven members of board of directors who represent various stakes as explained below:-

- i. Two (2) members nominated by the County Government of Murang'a one of who shall be the Chief Officer in-charge of water and the other the Officer in charge of Finance. Such nominees shall not be from among the elected officials.
- ii. One member from the business and manufacturing community nominated by their bodies.
 - a) Farmers organizations
 - b) Chamber of Commerce & Industry
- iii. One local professional nominated by their professional bodies.
 - a) Education Institutions
 - b) Professional bodies
- iv. One representatives from resident organizations
 - a) Youth & People with disabilities
 - b) Water Resource Users Association
 - c) Health Institutions
- v. One member from a women organization – Maendeleo Ya Wanawake Organisation – Mathioya
- vi. One member representing all religious organizations

The board of Directors holds four full board and four sub-committee meetings and two special meetings where circumstances calls for.

REPORT OF THE DIRECTORS

The Directors submit their report together with the audited financial statements for the year ended June 30, 2020 which show the state of the Company's affairs.

Principal activities

The principal activities of the company are to manage water facilities and provide water and sanitation services on behalf of The County Government of Murang'a mandated by Water Act 2002 and 2016 and Service Provision Agreement current in place.

Results

The results of the Company for the year ended June 30, 2020 are set out on page 22 - 42.

Dividends

The company does not declare any dividend since it is limited by guarantee and therefore does not have a share capital.

Directors

The members of the Board of Directors who served during the year are shown on page 7 - 8.

Auditors

The Auditor General is responsible for the statutory audit of the Company in accordance with the Section 192 of the Public Finance Management (PFM) Act, 2012, which empowers the Auditor General to nominate other auditors to carry out the audit on his behalf.

By Order of the Board

Gikuhi Kiana
Corporate Secretary
Po Box, 93-10204
KIRIAINI

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

The Directors are responsible for the preparation and presentation of the Company's financial statements, which give a true and fair view of the state of affairs of the Company for and as at the end of the financial year (period) ended on June 30, 2020. 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 Company; (iii) designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of the financial statements, and ensuring that they are free from material misstatements, whether due to error or fraud; (iv) safeguarding the assets of the Company; (v) selecting and applying appropriate accounting policies; and (vi) making accounting estimates that are reasonable in the circumstances.

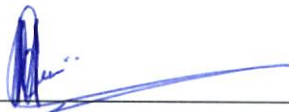
The Directors accept responsibility for the Company's financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity with International Financial Reporting Standards (IFRS), and in the manner required by the PFM Act and the State Corporations Act. The Directors are of the opinion that the Company's financial statements give a true and fair view of the state of Company's transactions during the financial year ended June 30, 2020, and of the Company's financial position as at that date. The Directors further confirm the completeness of the accounting records maintained for the Company, which have been relied upon in the preparation of the Company's financial statements as well as the adequacy of the systems of internal financial control.

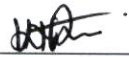
Nothing has come to the attention of the Directors to indicate that the Company will not remain a going concern for at least the next twelve months from the date of this statement.

Approval of the financial statements

The Company's financial statements were approved by the Board on 20/04/ 2021 and signed on its behalf by:

Board Chairman: Sign  Date 20/4/2021

Managing Director: Sign  Date 20/04/2021

Accountant Sign  Date 20/04/2021

CPA Wambui Priscillah Njeri

Member No: 20056

MANAGEMENT DISCUSSION AND ANALYSIS

SECTION A

PAST PERFORMANCE

Over the years, the Company has achieved steady growth as evidenced in improvement in service provision indicators which are the benchmarks used to measure performance in the sector.

During the financial year 2019/2020, the Company operated under a challenging environment.

This was mainly in:-

- 1) Water flow disruption occasioned by road repairs and upgrading by the County Government and Kenya Rural Roads Boards. This affected flow in Kagumo-ini from Kanjama in Kiru Ward in Mathioya.
- 2) The current Tariff in place only covers 84% of the Company's operational costs leaving no funds for investments.
- 3) During the second half of the year, incremental weather affected operations. This was by destruction of the infrastructure, landslides and depressed demand.
- 4) In the second half of the year, operations were affected by Covid19 pandemic; all resources had to be channelled towards containing it. This also affected the customers' ability to pay for the bills hence the Company had cash flow challenges.

Despite this, the company managed to improve performance and achieved the following:-

2.1 ACHIEVEMENTS FOR THE PERIOD WERE

- a) Increased revenue from Kshs 52,683,235.00 billed in F/Y 2018/2019 to Kshs 55,317,515.00 in F/Y 2019/2020. However due to the current Covid -19 pandemic, revenue collection dropped.
- b) Installed 100 No. customer meters
- c) Capacity builds 56 No members of staff.
- d) Connected 347 new previously unserved customers.
- e) Replaced a total of 25 Kilometres of various sizes of old pipeline line with HDPE pipes supplies by Athi Water Services Board.

- f) With the ongoing rehabilitation of Gatango Scheme, services were restored in Kamune and Iruri towards the end of the financial year. The Works were undertaken by Tana Water Works Development Agency.

2.2 WHAT WAS NOT ACHIEVED

Meter installation target was not achieved. Only 100No customer meters were installed. This is because the Company did not have funds from internal sources to procure more meters. Proposals were made to both Athi and Tana Water Works Development Agencies for metering subsidy.

2.2 KEY STRATEGIC AREAS

Expansion and Water Quality improvement of Gatango Water Supply to reach upper Gatari Ward is ongoing. Athi Water Works Development Agency is undertaking the project. A pipeline from new intake to Gakurwe tank and further transmission to Kiambuigi tank is ongoing.

For Mathioya Water Supply, a proposal to phase out pumping system and replace it with gravity system and rehabilitation of pipe network is under Consideration by Athi Water Works Development Agency.

The company has already digitalized its pipe network including upper Gatari for planning and operations purposes.

SECTION B

COMPLIANCE WITH STATUTORY REQUIREMENTS

The Company complies with statutory requirements in terms of remitting deductions. Currently the company is not involved in any litigation.

SECTION C

KEY PROJECTS AND INVESTMENT DECISIONS THE COMPANY IS PLANNING/IMPLEMENTING

To increase on coverage, the Company extended services to Kamune, Lower Kamacharia and Ngutu and Gitugi. This was from internally generated funds.

The Company is also working with Athi Water Works Development Agency who are implementing rehabilitation of Gatango water Supply. This is through funds from the World Bank as part of the Northern Collector Tunnel Projects.

Also under the same funds from the World Bank, a contractor -MS Wotasan Engineering & Bainridge Contractors were engaged by Athi Water Works Development Agency to lay pipes in areas that had no network. These are Project Covers Mathioya, parts of Kangema and Kiharu Constituencies.

On non-revenue water reduction, the WSP is in the process of seeking for a loan to install water meters, pressure management equipment and extension of service lines to hitherto unserved areas.

SECTION D

MAJOR RISKS FACING THE COMPANY

Currently, the Company is operating on a tariff that cannot fully cover the cost of operation and finance minor investments. This has led to increased short term liabilities. A cost recovery tariff has been applied for from the regulator and is in advanced stages of approval.

The Covid-19 pandemic has negatively affected the Company in terms of operation and cash flow. These effects are projected to spill over to the next financial year.

SECTION E

MATERIAL ARREARS IN STATUTORY/FINANCIAL OBLIGATIONS

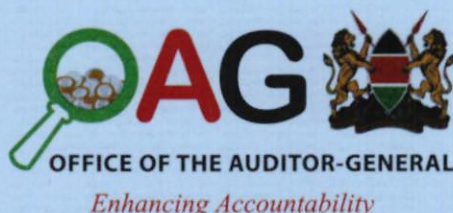
As at close of the period, the Company had accrued Kshs 14,563,159.00 as management fees payable to Tana Water Services Board who is the principal, WASREB Kshs 4,370,400 who is the regulator and WARMA Kshs 3,086,500. The employees are further owed Kshs 13,010,076 as accrued gratuity.

SECTION F

FINANCIAL PROBITY AND SERIOUS GOVERNANCE ISSUES

The Company follows corporate governance guidelines from the regulator and other relevant laws. There are no any governance issues or conflict of interest.

REPUBLIC OF KENYA



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REPORT OF THE AUDITOR-GENERAL ON GATAMATHI WATER AND SANITATION COMPANY LIMITED FOR THE YEAR ENDED 30 JUNE, 2020

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of Gatamathi Water and Sanitation Company Limited set out on pages 22 to 43, which comprise of the statement of financial position as at 30 June, 2020, statement of comprehensive income, statement of changes in equity, statement of cash flows and the 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 the Gatamathi Water and Sanitation Company Limited as at 30 June, 2020, and of its financial performance and its cash flows for the year then ended, in accordance with the International Financial Reporting Standards and comply with the Water Act, 2016, the Companies Act, 2015, and the Public Finance Management Act, 2012.

Basis for Qualified Opinion

1. Non-disclosure of Material Uncertainty in Relation to Going Concern

The statement of profit and loss and other comprehensive income reflects operating loss of Kshs.4,483,587 (2019 - an operating loss of Kshs.4,478,780), which depleted further its revenue reserves from negative balance of Kshs.51,869,544 as at 30 June, 2019 to negative balance of Kshs.56,010,245 as at 30 June, 2020. In addition, the current liabilities balance of Kshs.56,504,402 exceeded the current assets balance of Kshs.31,662,385, resulting in a negative working capital of Kshs.24,347,860 as at 30 June, 2020.

The above precarious financial performance and position is an indication of the existence of a material uncertainty which may cast a significant doubt on the Company's ability to continue as a going concern and to meet its obligations as and when they fall due. The financial statements have been prepared on a going concern basis on the assumption

that the Company will continue to receive financial support from the County Government of Murang'a and its creditors. However, this material uncertainty in relation to going concern and any mitigating measures put in place by the Company Management to reverse the undesirable precarious financial situation have not been disclosed in the notes to the financial statements.

2. Unsupported Property, Plant and Equipment

As disclosed in Note 6 to the financial statements, the statement of financial position reflects property, plant and equipment balance totalling to Kshs.16,614,347. However, the Management did not provide a fixed asset register. Further, the balance excludes land on which the Company Offices are situated and two motor vehicles of unknown value. In addition, the water infrastructure which were indicated to have been leased from Tana Water Services Board, was not supported by a lease agreement.

Consequently, the accuracy, completeness and validity of the property, plant and equipment balance totalling to Kshs.16,614,347 reflected in the statement of financial position as at 30 June, 2020 could not be confirmed.

3. Inaccuracies in Trade and Other Receivables

As disclosed in Note 8 to the financial statements, the statement of financial position reflects trade and other receivables net balance totalling to Kshs.28,792,330. Further, trade and other receivables gross balance totalling to Kshs.56,925,147 includes an amount of Kshs.8,353,608.50 relating to long outstanding debts inherited from Ministry of Water under the National Government at the inception of the Company. However, this amount has remained outstanding and uncollected for a long time. The trade and other receivables gross balance of Kshs.56,925,147 was also not supported with detailed age analyses.

The debtors balance continue to increase due debts by dormant customer accounts, but who had other active water accounts whose details and names were interchanged.

Consequently, the accuracy and recoverability of trade and other receivables net balance of Kshs.28,792,330 reflected in the statement of financial position as at 30 June, 2020 could not be confirmed.

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

Key Audit Matters

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

Other Matter

Unresolved Prior Year Matters

In the audit report of the previous year, several issues were raised. However, the Management has not resolved the issues or given any explanation for failure to adhere to the provisions of the Public Sector Accounting Standards Board templates and The National Treasury and Planning Circular reference No. AG.4/16/3 Vol.1(9) dated 24 June, 2020.

Other Information

The Directors are responsible for the other information. The other information comprises the report of Directors as required by the Companies Act, 2015, and the statement of the Directors' responsibilities which are obtained prior to the date of this report, and the annual report which is expected to be made available after that date.

My opinion on the financial statements does not cover the other information and I do not express an audit opinion or any form of assurance thereon.

In connection with the audit of the 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 the knowledge obtained in the audit, or otherwise appears to be materially misstated. Based on the work I have performed on the other information obtained prior to the date of this auditor's report, if I conclude that there is material misstatement of this other information, I am required to report that fact. I have nothing to report in this regard.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

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

Basis for Conclusion

1. Unaccounted for Water (UFW)

During the financial year under review, the Company produced a total of 2,812,920 cubic meters (M³) of water, out of this volume, only 912,477 M³ of water was billed to customers. The difference of 1,900,443 M³ which is approximately 67.6% of water produced represented Unaccounted for Water. The UFW of 67.6% which is 42.6% above the allowable loss of 25% set by Water Services Regulatory Board (WASREB) Guidelines.

This may have resulted in loss of sales estimated at an amount of Kshs.115,211,435. No evidence was produced to show the effort made by the Company to address the loss.

Consequently, the significant level of UFW may negatively impact on the Company's profitability and its long-term sustainability.

2. Non-Compliance with Law on Ethnic Composition

During the year under review, the Company's total number of employees was (56) all of whom 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 employment of staff and that no public institution shall have more than one third of its staff establishment from the same ethnic community".

Consequently, Management is in breach of the law.

3. Expired Water Tariffs

Review of records indicated that the Company has been operating and billing customers based on provisional approval of water tariffs which expired in December, 2017. No evidence was provided indicating that Management has sought approval of new tariffs by Water Services Regulatory Board (WASREB).

In the circumstances, I am unable to confirm whether the Management effectively managed public resources.

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

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

Basis for Conclusion

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

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

As required by the Companies Act, 2015 I report based on the 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 my audit;
- (ii) In my opinion, adequate accounting records have been kept by the Company, so far as appears from the examination of those books;
- (iii) The Company's financial statements are in agreement with those records and returns.

Responsibilities of Management and the Board of Directors

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

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

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

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

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

Auditor-General's Responsibilities for the Audit

The audit objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion in accordance with the provisions of Section 48 of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution. Reasonable assurance is a high level of assurance, but

is not a guarantee that an audit conducted in accordance with ISSAIs will always detect a material misstatement and weakness when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

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

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

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

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

the Company's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in the auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my audit report. However, future events or conditions may cause the Company to cease to continue as a going concern.

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

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

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


CPA Nancy Gathungu, CBS
AUDITOR-GENERAL

Nairobi

03 February, 2022

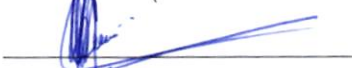

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 30TH JUNE 2020

	Note	2020 Kshs	2019 Kshs
REVENUES			
Sales	1	55,317,515	52,683,235
Grants from National Government	2	2,755,400	2,641,338
Other Income	3	1,109,570	813,340
TOTAL REVENUES		<u>59,182,485</u>	<u>56,137,913</u>
OPERATING EXPENSES			
Administration Costs	4	61,034,825	57,688,102
Depreciation of property, plant and equipment		2,631,247	2,928,591
TOTAL OPERATING EXPENSES		<u>63,666,072</u>	<u>60,616,693</u>
OPERATING PROFIT/(LOSS)	5	<u>(4,483,587)</u>	<u>(4,478,780)</u>
PROFIT/(LOSS) BEFORE TAXATION		<u>(4,483,587)</u>	<u>(4,478,780)</u>
PROFIT/(LOSS) AFTER TAXATION		<u>(4,483,587)</u>	<u>(4,478,780)</u>

STATEMENT OF FINANCIAL POSITION AS AT 30TH JUNE 2020

	Note	2020 Kshs	2019 Kshs
ASSETS			
Non-Current Assets			
Property, plant and equipment	6	16,614,347	18,094,308
Total Non-current Assets		16,614,347	18,094,308
Current Assets			
Inventories	7	1,827,795	1,495,480
Trade and other receivables	8(b)	28,792,330	29,044,710
Bank and cash balances	9	1,042,260	396,560
Total Current Assets		31,662,385	30,936,750
TOTAL ASSETS		48,276,732	49,031,058
EQUITY AND LIABILITIES			
Capital and Reserves			
Retained earnings	10	(56,010,245)	(51,869,544)
Government Grants		47,782,573	47,782,573
Capital and Reserves		(8,227,672)	(4,086,971)
Current Liabilities			
Trade and other payables	11	56,504,402	52,324,662
Provision for leave pay	13	-	793,367
Total Current Liabilities		56,504,402	53,118,029
TOTAL EQUITY AND LIABILITIES		48,276,732	49,031,058

The financial statements were approved by the Board on 20/04/2021 and signed on its behalf by:

Board Chairman	Sign		Date	<u>20/04/2021</u>
Managing Director	Sign		Date	<u>20/04/2021</u>
Accountant	Sign		Date	<u>20/04/2021</u>

CPA Wambui Priscillah Njeri
Member No: 20056

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30th JUNE 2020

	Government grants	Retained earnings	Total
2019			
As at 1st July 2018	47,782,573	(47,390,764)	391,809
Total comprehensive income	-	(4,478,780)	(4,478,780)
As at June 30th, 2019	47,782,573	(51,869,544)	(4,086,971)
2020			
As at 1st July 2019	47,782,573	(51,869,544)	(4,086,971)
Prior year adjustment- audit fees		(290,000)	(290,000)
Total comprehensive income	-	(4,483,587)	(4,483,587)
Prior year adjustment- staff leave		632,886	632,886
As at June 30th, 2020	47,782,573	(56,010,245)	(8,227,672)

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30th JUNE 2020

	Note	2020	2019
		Kshs	Kshs
OPERATING ACTIVITIES			
Cash generated from/(used in) operations	(14)	1,796,985	1,072,574
Interest Paid		-	
Net cash generated from/(used in) operating activities		1,796,985	1,072,574
INVESTING ACTIVITIES			
Purchase of property, plant and equipment	(6)	(1,151,285)	(504,000)
Net cash generated from/(used in) investing activities		(1,151,285)	(504,000)
FINANCING ACTIVITIES			
Interest paid		-	(81,478)
Repayment of borrowings		-	(1,421,427)
Net cash generated from/(used in) financing activities		-	(1,502,904)
INCREASED/ (DECREASE) IN CASH AND CASH EQUIVALENTS		645,700	(934,331)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		396,560	1,330,891
CASH AND CASH EQUIVALENTS AT END OF YEAR	(9)	1,042,260	396,560

STATEMENT OF COMPARISON OF BUDGET & ACTUAL AMOUNT FOR THE YEAR ENDED 30TH JUNE 2020

	Jul '19 - Jun 20	Budget	Over Budget	% of Budget
1. INCOME				
1.1 Billing	55,317,515.00	55,555,000.00	237,485.00	99.57%
1.2 Grants	2,755,400.00	720,000.00	2,035,400.00	382.69%
1.3 New connections	670,500.00			
1.4 Miscellaneous Income	439,070.00			
Total 1. INCOME	59,182,485.00	56,275,000.00	2,907,485.00	105.17%
Expense				
1. RECURRENT EXPENDITURE (R)				
R1. ADMINSTRATIVE COST				
R1.01 Directors Emoluments				
R1.01.1 Board allowances	464,875.00	650,000.00	(185,125.00)	71.52%
R1.01.2 Board expenses	673,670.00	450,000.00	23,670.00	149.7%
Total R1.01 Directors Emoluments	1,138,545.00	1,100,000.00	38,545.00	103.5%
R1.02 Utility				
R1.02.1 Electricity	54,871.00	60,000.00	(5,129.00)	91.45%
R1.02.2 Power pump	813,229.00	247,000.00	566,229.00	329.24%
R1.02.3 Water utility	12,490.00	16,000.00	(3,510.00)	78.06%
Total R1.02 Utility	880,590.00	323,000.00	557,590.00	272.63%
R1.03 Communication				
R1.03.1 Telephone	325,680.00	202,500.00	123,180.00	160.83%
R1.03.2 Postage	203,011.00	100,000.00	103,011.00	203.01%
R1.03.3 SMS Billing	300,000.00	202,500.00	97,500.00	148.15%
Total R1.03 Communication	828,691.00	505,000.00	323,691.00	164.1%
R1.04 Travelling & Subsistence				
R1.04.1 Travelling	2,015,650.00	1,680,000.00	335,650.00	119.98%
R1.04.2 Committees	204,500.00	109,000.00	95,500.00	187.62%
Total R1.04 Travelling & Subsistence	2,220,150.00	1,789,000.00	431,150.00	124.1%

R1.05 Advertising printing, stationery					
	R1.05.1 Advertising	171,680.00	200,000.00	(28,320.00)	85.84%
	R1.05.2 Printing	544,200.00	800,000.00	(255,800.00)	68.03%
	R1.05.3 Stationery	20,204.00	30,000.00	(9,796.00)	67.35%
Total R1.05 Advertising printing, stationery		736,084.00	1,030,000.00	(293,916.00)	71.46%
R1.06 AGM costs					
		0.00	631,000.00	(631,000.00)	0.0%
R1.07 License Application					
		515,000.00	500,000.00	15,000.00	103.0%
R1.08 Staff training					
		373,100.00	330,000.00	43,100.00	113.06%
R1.09 Hospitality supplies					
	R1.09.1 Hospitality	199,492.00	252,752.00	(53,260.00)	78.93%
	R1.09.2 Corporate Social Responsibility	57,600.00	134,000.00	(76,400.00)	42.99%
Total R1.09 Hospitality supplies		257,092.00	386,752.00	(129,660.00)	66.48%
R1.10 Insurance					
		404,077.00	819,000.00	(414,923.00)	49.34%
R1.11 Bank & M-Pesa Charges					
	R1.11.1 M-Pesa Charges	1,284,709.00	928,000.00	356,709.00	138.44%
	R1.11.2 Bank Charges	64,676.81	60,000.00	4,676.81	107.8%
Total R1.11 Bank & M-Pesa Charges		1,349,385.81	988,000.00	361,385.81	136.58%
R1.12 Auditors remunerations					
		304,000.00	304,000.00	0.00	100.0%
R1.13 Legal fee					
	R1.13.1 Professional services	619,337.00	600,000.00	19,337.00	103.22%
	R1.13.2 Company secretary	0.00	400,000.00	(400,000.00)	0.0%
Total R1.13 Legal fee		619,337.00	1,000,000.00	(380,663.00)	61.93%
R1.14 Computer repairs					
		43,400.00	50,000.00	(6,600.00)	86.8%
R1.15 Fixtures repair					
		95,180.00	100,000.00	(4,820.00)	95.18%
R1.16 General repair					
		175,965.00	60,000.00	115,965.00	293.28%
R1.17 Motor cycles repair					
		360,242.00	230,000.00	130,242.00	156.63%
R1.18 Motor vehicles repair					
		1,127,999.00	1,890,000.00	(762,001.00)	59.68%
R1.19 Water supply O & M					

	R1.19.1 Water supply	5,852,281.00	3,800,000.00	2,052,281.00	154.01%
	R1.19.3 System Rehabilitation	1,885,825.00			
Total R1.19 Water supply O & M		7,738,106.00	3,800,000.00	3,938,106.00	203.63%
R1.20 Chemicals					
		183,134.00	500,000.00	(316,866.00)	36.63%
R1.21 Security					
		145,100.00	100,000.00	45,100.00	145.1%
R1.22 Fuel & Oils					
		1,747,359.00	1,523,000.00	224,359.00	114.73%
R1.23 License renewal					
	R1.23.1 Driving license	7,450.00	8,500.00	(1,050.00)	87.65%
	R1.23.2 Membership fees	67,150.00	16,500.00	50,650.00	406.97%
	R1.23 License renewal - Other	0.00	0.00	0.00	0.0%
Total R1.23 License renewal		74,600.00	25,000.00	49,600.00	298.4%
R1.24 Tariff expenses					
		201,000.00	700,000.00	(499,000.00)	28.71%
R1.25 Employees satisfaction survey					
		0.00	10,000.00	(10,000.00)	0.0%
R1.26 Customer satisfaction survey					
		0.00	500,000.00	(500,000.00)	0.0%
Total R1. ADMINSTRATIVE COST		21,518,136.81	19,193,752.00	2,324,384.81	112.11%
R2. OTHER OPERATING EXPENSES					
	R2.01 Provision for bad debts	4,909,384.50	2,572,000.00	2,337,384.50	190.88%
	R2.02 TWSB fees	0.00	4,502,000.00	(4,502,000.00)	0.0%
	R2.03 WARMA Fees	1,557,800.00	498,000.00	1,059,800.00	312.81%
	R2.04 WASPA Fees	85,000.00	75,000.00	10,000.00	113.33%
	R2.05 WASREB fees	2,230,263.00	555,500.00	1,674,763.00	401.49%
	R2.06 KFS fees	220,000.00	231,000.00	(11,000.00)	95.24%
	R2.08 Staff Uniforms	294,190.00	300,000.00	(5,810.00)	98.06%
	R2.10 Depreciation	2,631,247.00	4,622,000.00	(1,990,753.00)	56.93%
	R2.12 Provision for performance	1,100,000.00			
Total R2. OTHER OPERATING EXPENSES		13,027,884.50	13,355,500.00	(327,615.50)	97.55%
R3. PERSONNEL COST					
R3.01 Salaries & Allowance					
	R3.01.1 Grants - GOK salary	755,400.00	720,000.00	35,400.00	104.92%

R3.01 Salaries & Allowance - Other	21,690,012.00	20,900,000.00	790,012.00	103.78%
Total R3.01 Salaries & Allowance	22,445,412.00	21,620,000.00	825,412.00	103.82%
R3.02 Wages casual				
R3.02.1 Gatango	1,446,760.00	500,000.00	946,760.00	289.35%
R3.02.2 Mathioya	1,485,500.00	1,000,000.00	485,500.00	148.55%
Total R3.02 Wages casual	2,932,260.00	1,500,000.00	1,432,260.00	195.48%
R3.03.2 Staff gratuity	943,008.00	500,000.00	443,008.00	188.6%
R3.03 Pension contribution	2,464,971.00	2,900,000.00	(435,029.00)	85.0%
R3.04 Staff welfare	150,000.00	200,000.00	(50,000.00)	75.0%
R3.05 Motivation	184,400.00	200,000.00	(15,600.00)	92.2%
Total R3. PERSONNEL COST	29,120,051.00	26,920,000.00	2,200,051.00	108.17%
Total 1. RECURRENT EXPENDITURE (R)	63,666,072.31	59,469,252.00	4,196,820.31	107.06%
Total Expense	63,666,072.31	59,469,252.00	4,196,820.31	107.06%
Profit for the Year	(4,483,587.31)	(3,194,252.00)	(1,289,335.31)	140.36%

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

1. **Statement of compliance and basis of preparation**

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

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

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

2. **Revenue recognition**

Revenue is recognised to the extent that it is probable that future economic benefits will flow to the Company and the revenue can be reliably measured. Revenue is recognised at the fair value of consideration received or expected to be received in the ordinary course of the Company's activities, net of value-added tax (VAT), where applicable, and when specific criteria have been met for each of the Company's activities as described below.

- i) Revenue from the sale of goods and services is recognised in the year in which the Company delivers products to the customer, the customer has accepted the products and collectability of the related receivables is reasonably assured.
- ii) Grants from National Government are recognised in the year in which the Company actually receives such grants.
- iii) Finance income comprises interest receivable from bank deposits and investment in securities, and is recognised in profit or loss on a time proportion basis using the effective interest rate method.

iv) Other income comprises of sale of tenders and is recognised as it accrues.

3. **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 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.

4. **Property, plant and equipment**

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

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

Increases in the carrying amounts of assets arising from re-valuation are credited to other comprehensive income. Decreases that offset previous increases in the carrying amount of the same asset are charged against the revaluation reserve account; all other decreases are charged to profit or loss in the income statement.

Gains and losses on disposal of items of property, plant and equipment are determined by comparing the proceeds from the disposal with the net carrying amount of the items, and are recognised in profit or loss in the income statement.

5. **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 on-going but incomplete works on buildings and other civil works and installations.

Depreciation on property, plant and equipment is recognised in the income statement on a reducing balance method.

Buildings and civil works	12.5 %
Plant and machinery	12.5 %
Motor vehicles, including motor cycles	25%
Computers and related equipment	12.5%
Office equipment, furniture and fittings	12.5%

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

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

All other leases are treated as operating leases and the leased assets are recognised in the statement of financial position to the extent of prepaid lease rentals at the end of the year. Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense over the term of the lease.

6. **Inventories**

Inventories are stated at the lower of cost and net realisable value. The cost of inventories comprises purchase price, import duties, transportation and handling charges, and is determined on the moving average price method.

7. **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 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.

8. **Taxation**

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the tax authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantially enacted as at the

reporting date. Current income tax relating to items recognised directly in equity is recognised in equity and not in the income statement.

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

9. 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 Equity Bank, Family Bank, Kenya commercial bank and M-Pesa account at the end of the financial year. 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.

10. 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 Company or not, less any payments made to the suppliers.

11. Retirement benefit obligations

The company contributes to the statutory National Social Security Fund (NSSF). This is a defined contribution scheme registered under the National Social Security Act. The company's obligation under the scheme is limited to specific contributions legislated from time to time and is currently at Kshs.200.00 per employee per month. Also employees are under registered pension scheme where the company contributes 15% of the basic pay plus house allowance to the scheme.

12. Provision for staff leave pay

Employees' entitlements to annual leave are recognised as they accrue. Leave days will be carried forward and taken as per the Company's Human Resources and Policy Manual

13. Comparative figures

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

14. 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, 2020.

15. Public Sector Accounting Standards Board (PSASB) Gazettement

The Public Finance Management (PFM) Act 2012 Section 192 provided the setting up of the Public Sector Accounting Standards Board (PSASB). The Cabinet Secretary National Treasury, gazetted members of the Board through Gazette Notice No. 1199 of 28 February, 2014. Following the Board's approval on the adoption of the International Financial Reporting Standards (IFRS) for state organs operating as Commercial Business Entities and the International Public Sector Accounting Standards (IPSAS) for non-commercial entities, the entity has adopted the pronouncements made by the IPSAS board in preparation of its current year financial statements.

16. Financial Risk Management

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

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

(i) Credit risk

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

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

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

	Fully performing Kshs.	Past due Kshs.	Impaired Kshs.	Totals Kshs.
At 30th June 2020				
Trade receivables	28,792,329	23,223,432	4,909,385	56,925,146
Bank balances	1,042,260			1,042,260
At 30th June 2019				
Trade receivables	29,044,737	21,057,834	1,968,703	52,071,274
Bank balances	396,560			396,560

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

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

(ii) Liquidity risk management

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

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

	Less than 1 Month Kshs	between 1-3 Month Kshs	Over 5 Month Kshs	Total Kshs
At 30th June 2020				
Trade Payables	1,571,186	1,803,184	2,207,122	5,581,492
At 30th June 2019				
Trade payable	1,075,102	557,025	2,975,292	4,607,419

17. Accounting policies**i) Early adoption of standards**

The Company did not early-adopt any new or amended standards in the year 2020

NOTES TO THE FINANCIAL STATEMENTS

		2020 Kshs	2019 Kshs
1	SALES		
	Billing	55,317,515	52,683,235
		<u>55,317,515</u>	<u>52,683,235</u>
2	GRANTS FROM NATIONAL GOVERNMENT		
	Seconded personnel	755,400	2,137,338
	Current grants received	2,000,000	504,000
		<u>2,755,400</u>	<u>2,641,338</u>
3	OTHER INCOME		
	Other miscellaneous receipts	439,070	83,280
	New connections	670,500	730,060
		<u>1,109,570</u>	<u>813,340</u>
4(a)	ADMINISTRATION COSTS		
	Directors' emoluments	1,138,545	945,400
	Electricity and water	880,590	142,638
	Communication services and supplies	828,691	773,794
	Transportation, travelling and subsistence	2,220,150	1,658,810
	Advertising, printing, stationery and photocopying	736,084	800,940
	Staff training expenses	373,100	480,300
	Hospitality supplies and services	257,092	263,995
	Insurance costs	404,077	532,478
	Bank charges and commissions	1,349,386	1,161,663
	Auditors' remuneration	304,000	290,000
	Legal fees	619,337	838,918
	AGM Cost	-	601,171
	Licence and Tariff costs	716,000	-
	Repairs and maintenance	11,691,085	8,884,421
	Other operating expenses	10,396,638	11,210,960
	Total	<u>31,914,775</u>	<u>28,585,488</u>

NOTES TO THE FINANCIAL STATEMENTS (Continued)

	2020 Kshs	2019 Kshs
4(b) STAFF COSTS		
Salaries and allowances of permanent employees	21,753,312	20,977,912
Wages of temporary employees	2,932,260	1,772,960
Compulsory national health insurance schemes	560,100	533,000
Compulsory national social security schemes	132,000	129,400
Other pension contributions	2,464,971	194,248
Leave pay and gratuity provisions	943,008	5,135,594
Staff welfare	150,000	250,000
Motivation	184,400	109,500
	<u>29,120,051</u>	<u>29,102,614</u>
TOTAL ADMINISTRATION EXPENSES	<u>61,034,826</u>	<u>57,688,102</u>
The average number of employees at the end of the year was:		
Permanent employees – Management	11	1
Permanent employees – Unionisable	41	0
Temporary and contract employees	<u>4</u>	<u>55</u>
	<u>56</u>	<u>56</u>
4(c) REPAIR AND MAINTENANCE		
— Computer repairs	43,400	47,480
- Fixtures repairs	95,180	-
- General repairs	175,965	57,780
- Motor cycle repairs	360,242	139,810
- Motor Vehicle repairs	1,127,999	1,736,105
- Water supply	7,738,106	5,019,335
- Chemicals	183,134	269,000
- Security	145,100	139,100
- Fuel and Oils	1,747,359	1,375,351
- Licences	74,600	100,460
TOTAL	<u>11,691,085</u>	<u>8,884,421</u>
4(d) OTHER OPERATING EXPENSES		
- provision for bad debts	4,909,385	1,968,703
- GIS Mapping	-	1,269,400
- Provision for performance guarantee	1,100,000	-
- Prior year Adjustments (Audit fees)	-	290,000
- TWSB	-	4,276,794
- WARMA	1,557,800	1,555,200
- WASPA	85,000	55,000
- WASREB	2,230,263	1,652,586

NOTES TO THE FINANCIAL STATEMENTS (Continued)

- Loan Interest	-	81,477
- Staff Uniforms	294,190	61,800
- KFS Fees	<u>220,000</u>	-
TOTAL	<u>10,396,638</u>	<u>11,210,960</u>

5 OPERATING PROFIT/(LOSS)

The operating profit/(loss) is arrived at after charging/(crediting):

Depreciation of property, plant and equipment	2,631,247	2,928,591
Directors' emoluments - fees	464,875	593,000
- Other	673,670	352,400

6 PROPERTY, PLANT AND EQUIPMENT

	Land and Buildings and Fixtures	Motor vehicles	Office Equipment's	Plant and Equipment	Total
COST	Kshs	Kshs	Kshs	Kshs	Kshs
At 1 July 2018	970,731	7,915,550	5,110,142	44,995,817	58,992,240
Additions				504,000	504,000
Prior year adjustments (G.I.S mapping equipment reclassification)	-	-	-	(589,000)	(589,000)
Reclassification of asset	-	-	(170,000)	170,000	-
At June 2019	970,731	7,915,550	4,940,142	45,080,817	58,907,240
Additions	-	-	327,665	823,620	1,151,285
At end of year - June 2020	970,731	7,915,550	5,267,807	45,904,437	60,058,525
DEPRECIATION AND IMPAIRMENT					
At 1 July 2018	578,259	5,509,718	3,511,957	28,284,406	37,884,340
Depreciation	49,059	601,458	178,523	2,099,551	2,928,591
At 30 June 2019	627,318	6,111,176	3,690,480	30,383,957	40,812,931
Depreciation for the year	42,927	451,094	197,166	1,940,060	2,631,247
At 30 June 2020	670,245	6,562,270	3,887,646	32,324,017	43,444,178
NET BOOK VALUES					
At 30 June 2020	300,486	1,353,280	1,380,161	13,580,420	16,614,347
At 30 June 2019	343,413	1,804,374	1,249,662	14,696,860	18,094,309

NOTES TO THE FINANCIAL STATEMENTS (Continued)

	2020 Kshs	2019 Kshs
7. INVENTORIES		
Stationery and general stores	1,736,695	1,295,480
Chemicals	91,100	200,000
	<u>1,827,795</u>	<u>1,495,480</u>
8(a) TRADE AND OTHER RECEIVABLES		
Trade receivables	56,764,468	52,071,274
Deposits and Prepayments	160,679	196,868
Net trade and other receivables	<u>56,925,147</u>	<u>52,268,142</u>
8 (b) TRADE RECEIVABLES		
Gross trade receivables	56,925,147	52,268,142
Provision for doubtful receivables	(28,132,817)	(23,223,432)
Total receivables	<u>28,792,330</u>	<u>29,044,710</u>
9 BANK AND CASH BALANCES		
Equity Bank Current Account	459,739	5,660
Equity Bank Savings Account	120,978	107,728
Family Bank Project Account	81,531	1,441
Family Bank Current Account	272,246	67,998
Kenya Commercial Bank Account	55,102	38,508
Cash in hand	2,251	33,720
Imprest	6,978	20,400
M-Pesa	43,435	121,105
	<u>1,042,260</u>	<u>396,560</u>

The bulk of the cash at bank was held at Equity Bank of Kenya and Family Bank, the Company's main bankers.

NOTES TO THE FINANCIAL STATEMENTS (Continued)**10 RETAINED EARNINGS**

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

	2020	2019
	Kshs	Kshs
11 TRADE AND OTHER PAYABLES		
Trade payables (customer advances, creditors)	5,581,492	4,607,419
Accrued expenses (accruals, accrued gratuity, leave)	40,710,887	38,004,597
Customer deposit	7,566,475	7,102,715
Other payables (M-Pesa, KRA, customer advances)	2,645,548	2,609,931
	<u>56,504,402</u>	<u>52,324,662</u>

12 RETIREMENT BENEFIT OBLIGATIONS

The company also contributes to the statutory National Social Security Fund (NSSF). This is a defined contribution scheme registered under the National Social Security Act. The company's obligation under the scheme is limited to specific contributions legislated from time to time and is currently at Kshs.200 per employee per month. During the year, employees joined a registered pension scheme where the company contributes 15% of the basic pay plus house allowance.

	2020	2019
	Kshs	Kshs
13. PROVISION FOR LEAVE PAY		
Balance at beginning of the year	1,611,726	2,095,085
Leave paid out or utilised during the year	(978,840)	(1,276,726)
Amount unutilised	<u>632,886</u>	<u>818,359</u>
Prior year adjustments – Retained Earnings	(632,886)	-
Leave pay cumulated during the year	1,668,907	793,367
Leave forfeited	(1,668,907)	-
Balance at end of the year	<u><u>-</u></u>	<u><u>1,611,726</u></u>

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Provision for annual leave pay is based on services rendered by full-time employees up to the end of the year.

14 NOTES TO THE STATEMENT OF CASH FLOWS

(a) Reconciliation of operating profit/(loss) to Cash generated from/(used in) operations	2020 Kshs	2019 Kshs
Operating profit/(loss)	(4,483,587)	(4,478,780)
Depreciation	2,631,247	2,928,591
Interest paid	-	81,477
Adjustment on leave forfeited	632,886	-
Adjustment on GIS mapping expenditure treated as PPE	-	535,977
Operating profit/(loss) before working capital changes	(1,219,454)	(932,735)
(Increase)/decrease in inventories	(332,315)	356,514
(Increase)/decrease in trade and other receivables	252,381	(4,936,541)
Increase/(decrease) in trade and other payables	3,096,373	6,585,336
Increase / (Decrease) in provision for staff leave pay	-	-
Cash generated from/ (used in) operation	1,796,985	1,072,574

15. ANALYSIS OF CASH AND CASH EQUIVALENTS

	2020 Kshs	2019 Kshs
Cash at bank	1,033,031	342,440
Cash in hand	9,229	54,120
Balance at end of the year	1,042,260	396,560

NOTES TO THE FINANCIAL STATEMENTS (Continued)**16 RELATED PARTY DISCLOSURES****(a) Government of Kenya**

The Government of Kenya is the principal shareholder of the Company, holding 100% of the Company's equity interest.

There were no other Company transactions involving the Government of Kenya.

Other disclosure includes payments to the following parties:-

	2020	2019
	Kshs	Kshs
TWSB Levy fees -	-	4,276,794
Board members allowance -	464,875	945,500
Top Management salaries -	4,146,000	3,052,920
17 CAPITAL COMMITMENT	2020	2019
	Kshs	Kshs
Capital works investments	1,151,285	504,000

18 INCOPORATION

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