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**REPORT**

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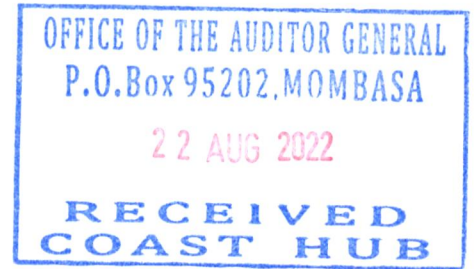
**THE AUDITOR-GENERAL**

**ON**

**MALINDI WATER AND SEWERAGE  
COMPANY LIMITED**

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





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**MALINDI WATER AND SEWERAGE COMPANY LIMITED**

**ANNUAL REPORTS AND FINANCIAL STATEMENTS**

**FOR THE FINANCIAL YEAR ENDING  
JUNE 30, 2021**

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

**Malindi Water and Sewerage Company Limited**  
**Annual Reports and Financial Statements**  
**For the year ended June 30, 2021**

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## **I. KEY ENTITY INFORMATION**

### **Background information**

The Company was established pursuant to the Water Act 2002. It was incorporated on 25<sup>th</sup> August 2005. At County level, the Company is represented by the County Executive Committee Member of Water, Environment and Natural Resources of the County Government of Kilifi. The Company is domiciled in Kenya in Malindi Sub-county of Kilifi County.

### **Principal Activities**

The principal activity of Malindi Water and Sewerage Company is the Supply of Water to the Residents of Malindi and Magarini sub-counties.

### **Vision**

To be the most efficient Water and Sewerage Service Provider in East Africa

### **Mission**

To provide sufficient high-quality water and efficient sewerage services in the most cost-effective way that exceed our customers' expectations.

### **Core values**

The core values of the Company are:

- Customer focus
- Innovativeness
- Integrity
- Team work
- Excellence

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**Directors**

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

<u>Name</u>	<u>Position</u>	<u>Appointment Date</u>
1. Anderson Kasiwa	- Chairperson	Appointed on 5 <sup>th</sup> March 2019.
2. Gerald Mwambire	-Managing Director	Appointed on 1 <sup>st</sup> July 2018
3. Barka Ali	-Member	Appointed on 5 <sup>th</sup> March 2019
4. Anthony Chutta	-Member	Appointed on 5 <sup>th</sup> March 2019
5. Thurea Tora	-Member	Appointed on 5 <sup>th</sup> March 2019
6. Loice Wanje	-Member	Appointed on 5 <sup>th</sup> March 2019
7. Maureen Obunga	-Member	Appointed on 5 <sup>th</sup> March 2019
8. Ken Kazungu	-Member	Appointed on 1 <sup>st</sup> June 2019
9. Ben Kai	-Member	Reappointed on 5 <sup>th</sup> March 2019
10. Felix Charo	-Member	Reappointed on 5 <sup>th</sup> March 2019

**Corporate Secretary**

Mwangi and Mwaura Advocates  
Kipro Centre,  
6<sup>th</sup> Floor, Westlands  
P.O. Box 26513-00504  
Nairobi, KENYA

**Registered Office**

Malindi Water and Sewerage Co. Ltd  
Water Road,  
Next to County Assembly of Kilifi  
P.O. Box 410-80200  
Malindi, KENYA.

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**Corporate Headquarters**

Malindi Water and Sewerage Co. Ltd  
Water Road,  
Next to County Assembly of Kilifi  
P.O. Box 410-80200  
Malindi, KENYA.

**Corporate Contacts**

Telephone: (254) 4231037  
E-mail: [info@malindiwater.co.ke](mailto:info@malindiwater.co.ke)  
Website: [www.malindiwater.co.ke](http://www.malindiwater.co.ke)

**Corporate Bankers**

1. Kenya Commercial Bank  
P. O. Box 9- 80200  
Malindi, Kenya.
2. Equity Bank Limited  
P. O. Box 1800-80200  
Malindi, Kenya.
3. Post Bank of Kenya  
P. O. Box  
Malindi, Kenya.

**Independent Auditors**

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




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**Principal Legal Advisers**

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

**II. THE BOARD OF DIRECTORS**




1.		<p>Director Anderson Kasiwa, Chairperson of the board of directors was born on 1<sup>st</sup> April 1974. He was appointed on 5<sup>th</sup> March 2019. He has vast experience in the Hospitality Industry having worked in different capacities. He holds a Bachelors’ Degree in Arts from University of Nairobi. He represents Business Community in the board of directors.</p>
2.		<p>Mr Gerald Mwambire was born on 13<sup>th</sup> August 1972. He was appointed the Managing Director in 2018. He holds a Bachelors’ degree in Commerce from Kenyatta University</p>
3.		<p>Director Barka Ali, Chairperson Finance and planning, was born on 24<sup>th</sup> December 1972. She has a Diploma in County Governance and Management from Kenya College of Accountants University (KCA University). She represents Women Group in the board of directors</p>

**The Board of Directors (Continued)**

4.		<p>Director Felix Ngumbao Charo, member Finance and Planning Committee and Human Resource and Administration Committee was born on 21st January 1971. He holds a Bachelors’ degree in Arts majoring on religion and a Diploma in Theology. He represents the Residents Association in the board of directors</p>
5.		<p>Director Anthony Kadenge Chutta, member Audit and Risk Management Committee was born on 19th November 1956. He is a graduate from Shanzu Teachers College as an educationist and an administrator. He represents Professionals in the board of directors</p>
6.		<p>Director Thurea Simai Tora, Chairperson Audit and Risk Management Committee, was born on 9th January 1986. She holds a Diploma in Banking and Computer Operations. She represents Women Organization in the board of directors</p>

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**The Board of Directors (Continued)**

7.		<p>Director Loice Nyavula Wanje, Chairperson Human Resource and Administration Committee member was born on 3rd September 1986. She holds a Bachelors' Degree in Business Management. She represents Youth in the board of directors</p>
8.		<p>Director Maureen Awour Obunga, Member Human Resource and Administration Committee member. She was born on 17th August 1982. She is a Certified Public Accountant with vast knowledge in the Hospitality Industry. She represents Hotel Industry in the board of directors.</p>
9.		<p>Director Ben Kai was born in November 1973. He is the County Government of Kilifi Chief Officer Finance. Appointed as a director in October 2010. He holds a Bachelors' Degree in Commerce and a Certified Public Accountant. He represents County Government of Kilifi Finance Department in the board of directors</p>

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**The Board of Directors (Continued)**

10.		<p>Director Ken Kazungu was born on 26<sup>th</sup> December 1978. He is the County Government of Kilifi Chief Officer for Roads, Transport and Public Works. He is also the Acting Chief Officer for Water and Sanitation. He holds a degree in Planning and Environment Management and a masters' degree in Project Planning and Management. He was appointed as a Director on 1<sup>st</sup> June 2019. He represents the County Government of Kilifi Water and Irrigation Department in the board of directors</p>
11.		<p>Caroline Gladwell, Advocate of the high Court, Secretary to the Board of Directors. She was appointed in March 2019. She is also a Certified Public Secretary (CS) and a member of the Institute of Arbitrators. She also holds a Masters in Business Administration, Strategic Option</p>

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**III. MANAGEMENT TEAM**

	<p>Mr Gerald Mwambire is the Managing Director. He holds a Bachelors' degree in Commerce from Kenyatta University</p>
	<p>Engineer Isaac Chibule is the Technical Manager. He holds a BSc degree in Water Engineering from Kenyatta University and a Masters' degree in Project Planning and Management at the University of Nairobi. He is also the Technical Services Manager</p>
	<p>Mr Seith Baya is the Finance Manager. He holds a Bachelors' degree in Business Administration; he is a Certified Public Accountant CPA. (K) and a Certified Public Secretary CPS</p>
	<p>Mrs Fella Nawiri is the Human Resource Manager. She holds a Bachelors' degree in Business Administration (HRM) Human Resource.</p>
	<p>Mr Kingstone Mulewa is the Internal Audit Manager. He holds a degree in Business Management. He is a Certified Public Accountant</p>
	<p>Vellasco Ndaró is the Commercial Manager. He holds Bachelor of Business Management and a Master of Arts in Project Planning and Management. He is a registered full Member of the Kenya Institute of Management</p>
	<p>Caroline Gladwell, Advocate of the high Court, Secretary to the Board of Directors. She was appointed in March 2019. She is also a Certified Public Secretary (CS) and a member of the Institute of Arbitrators. She also holds a Masters' degree in Business Administration, Strategic Option</p>

#### **IV. CHAIRMAN'S STATEMENT**

##### **Company Overview**

Malindi Water and Sewerage Company Limited continued to register remarkable progress in its pursuit to serve the people in its area of mandate. In the year under review, significant progress was realised in the increase in network coverage and customer base.

##### **Financial Performance**

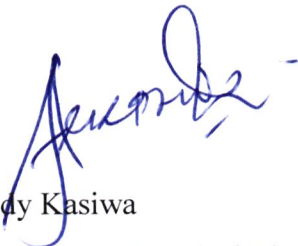
The total turnover increased compared to the previous year, attributable to the increase in coverage of the area under jurisdiction. In addition, there was a marked increase in the production and distribution of water levels compared to the last financial year.

##### **Partners Support**

The Company has continued working closely with development partners in the pursuit to realize its strategic plan. These include the World Bank, Water Services Trust Fund, the County Government of Kilifi and CDF. This partnership has resulted in the improvement of Water and Sanitation Services in both Malindi and Magarini which are within our areas of jurisdiction.

##### **Looking forward**

During the financial year, the unrelenting support received from the County Government of Kilifi enabled the Company increase its service area in a tremendous way. We appreciate and look forward to continued support in this.



Andy Kasiwa

Chairperson Board of Directors

## **V. REPORT OF THE CHIEF EXECUTIVE OFFICER**

### **OVERALL PERFORMANCE OF THE COMPANY AND ECONOMIC OUTLOOK**

There was an improved service provision in the first half of the financial year upto January 2020. The emergence of the COVID-19 pandemic from February 2020 upto the year end created unprecedented instability in the Company. The Management faced difficulties in balancing business continuity provision of free water as directed by the government and sustainability in the long run. The last quarter difficult trading environment affected the target performance compared to the previous year.

During the financial year, the Company undertook a corporate social responsibility by supplying water to mitigate against the effect of the Covid-19 pandemic. The Company supplied over 15,000 m<sup>3</sup> of water at a cost of Kshs 2,110,000

### **MAJOR WATER AND SANITATION PROJECTS UNDERTAKEN BY THE COMPANY**

During the year, the Company continued with network improvement. Goods under the Water and Sanitation Development Project were received including pipes and fittings, motor vehicles and motorcycles that amounted to Kshs 217,882,770.

The county government continued undertaking small scale projects mostly in Magarini sub county on water accessibility. In the quest to improve sanitation services the company did a proposal to UNILEVER which was approved for funding. In the second half of the year most efforts were directed to mitigating the effects of Covid-19 which included provision of free accessible water personnel management in the wake of the directives issued by ministry of health. Advocacy by the company to various stakeholders was key in mobilization of funds to cater service delivery.

### **COMPANY'S STRATEGIC PLAN**

The Company embarked on implementation of the Strategic plan which spans for five years starting from 2019 to 2024. The plan embraces the aspirations of the County Government of Kilifi on its vision for provision of clean water and sanitation services to the people of Kilifi county.

**CHALLENGES**

The Company is currently faced with a bleak future in provision of its mandate. The Covid19 pandemic has completely wiped out the gains in the tourism sector which is a significant revenue contributor to the company. The provision of free water as directed by the government with no corresponding revenues to cover the cost will put the company in more debt. Managing staff under the pandemic is fundamental for continued service provision. The staff have to work in shifts leading to reduced Performance and with protective gear increasing the costs of service. The company was due to a tariff review to match the ever escalating costs but with the current scenario it's not feasible accomplish that. The scenarios being put up by experts indicate the pandemic will not last long, this might be a wakeup call to relook at future operations in the water sector .The future might be too bright after all



Gerald Mwambire  
Managing Director

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

Malindi Water and Sewerage Company Limited has strategic pillars and objectives within its strategic plan for the FY 2019 to 2023. The strategic pillars are as follows:

1. Strategic Pillar1: Financial perspective
2. Strategic Pillar2: Customer Perspective
3. Strategic Pillar3: Internal (process) perspective
4. Strategic Pillar4: Learning and growth perspective

The Company develops its annual work plans based on the above four pillars. Assessment of the Board's performance against its annual work plan is done on a quarterly basis. The Company achieved its performance targets set for the FY 2020/2021 period for its four strategic pillars, as indicated in the diagram below:

Review of Strategic Objective Performance for the year 2020 2021

<b>Strategic Pillar</b>	<b>Objective</b>	<b>Key Performance Indicators</b>	<b>Activities</b>	<b>Achievements</b>
Financial perspective	Increase length of pipeline from 1213km to 1273 km	Increased pipeline	Network intensification within Malindi Township	Pipeline completed
Customer Perspective	Maintain the hours of supply to 22 hrs per day	Supply water above 22 hours per day	Pumping done for 22 hours per day	Maintained at 22 hours per day
Internal (process) perspective	Fortify and internalize Organizational capacity and process	Develop 3No. policies	Present for approval policies	3 Policies presented for approval
Learning and growth perspective	Capacity build and develop employee skills	Staff training	Undertake staff training	Staff taken for training in various relevant training institutions

## **VII. CORPORATE GOVERNANCE STATEMENT**

The board of directors for Malindi Water and Sewerage Company Limited is committed to good corporate governance and has adopted corporate governance practices that are in line with the principles and standards set out under the code of Corporate Governance for state corporations and guidelines from the Water Services Regulator Board.

### **Board meetings held and the attendance to those meetings by members**

The board of directors' meeting calendar was set at the start of the financial year. The directors commit to attend meetings regularly and participate effectively. During the year, the directors' held 4 subcommittee meetings and 4 full board meetings. All the directors attended the meetings as scheduled except for the two directors seconded from the County Government of Kilifi who could not attend all the meetings due to unavoidable circumstances.

### **Succession plan**

All the non-executive directors are appointed for an initial term of 3 years. The board implements the term limit in line with the articles of Association and the board charter. A set of three board members resign on completion of the three year term at an Annual General Meeting so as to ensure continuity of board members and achieve a succession plan for good governance. The board maintains the required skills matrix in the succession plan. The current directors were appointed on 5<sup>th</sup> March 2019 for a period of 3 years.

### **Board charter**

The board of directors has clear roles, powers, duties and functions as set out in the board manual which includes the board charter. The directors review the board charter every three years.

### **Appointment and removal of directors**

All the non-executive directors in the board represent a stakeholder group as provided in the articles of association and the directors' appointment guidelines by the Water and Sanitation Regulator. The appointment is conducted by a joint nomination committee constituted by the Water and Irrigation Chief Executive Cabinet Member of the County government of Kilifi. The appointments are ratified during an AGM.

### **Roles and functions of the Board**

The role of the Board of Directors is to determine the Company's policy and strategy, to monitor the attainment of company objectives and ensure that the company meets its obligations to its customers, stakeholders and shareholders. The Board is also responsible for overseeing the company's internal control systems designed to safeguard the company's assets and to ensure the reliability of the financial information provided by the company. The Board has 3 committees namely:

- (a) Finance and Administration Committee
- (b) Audit Committee.
- (c) Human Resource Committee

### **Induction and training**

All the new directors appointed undergo a detailed induction programme in line with the Company's board charter. The aim of the induction is to enable the new director be effective in the roles. The directors also have a continuous training program that is meant to impact them with current knowledge as is necessary in dispensing their duties as directors.

### **Board and member performance**

The board commission's board evaluation and performance audit exercise to identify any gaps and potential ways of closing those gaps. The board evaluation are conducted in each financial year by an external consultant.

### **Conflict of interest**

The Company is committed to the highest standards of integrity, behaviour and ethics in dealing with all its stakeholders. All board members and management and employees are expected to avoid activities that and financial interests that could undermine the interest of the Company. Any director with an actual or potential conflict of interest in relation to a matter before the board is required to disclose such interest and to recuse himself or herself from the discussions relating to the matter in question.

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**CORPORATE GOVERNANCE STATEMENT (Continued)**

**Board remuneration**

The board has put in place a board remuneration policy in the appointment letters for each director which guides on the benefits and remuneration enjoyed by each members for services rendered during the financial year. The remuneration for the directors is adopted from the state guidelines on payment of directors and the ability to pay by the Company.

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**VIII. MANAGEMENT DISCUSSION AND ANALYSIS**

**a) Operational and financial performance of the organisation**

**i) Number of Consumer Accounts Billed**

The number of consumer accounts continued to increase steadily largely attributable to the new pipelines provided by the minor works improvement.

Total Number of Consumer Accounts

Month/ Period	Accounts On Supply			New Connections Paid For	Total A/C Off Supply	Active A/Cs Off Supply	Terminated. Off Supply	Total A/c's
	Actual Reading	Estimated Reading	Total Billed					
	(1)	(2)	(3)=(1)+(2)					
AVG FY 2020-21	21,620	2,736	24,356	204	11,132	8,277	2,855	35,487
AVG FY 2019-20	21,197	2,303	23,500	146	10,193	7,547	2,646	33,693

**ii) Water Production and Billing Efficiency**

There was a decrease in water production and sales in the financial year under review compared to the previous year. The non-revenue water loss reduced compared to the last financial year as a result of concerted efforts by the management. The Company has partnered with other development Agencies to improve on the loss.

Water Production, Billed and Billing Efficiency

Month/Period	Water Production		Water Sales	Billing Efficiency	Unaccounted
	Total	m <sup>3</sup>	m <sup>3</sup>	%	%
Total 2020 2021		4,947,007	4,288,625	88%	12%
Total 2019 2020		5,687,450	4,786,513	84%	16%

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**Management discussion and analysis (continued)**

iii) Revenue and Collection Efficiency

There was a decrease in total billing and collection efficiency in the current financial year compared to last year. The management has formed a revenue collection unit and is expected to improve the efficiency even more from the arrears.

Revenue Collection and Collection Efficiency

Month/Period	BILLING (KShs)					COLLECTION (KShs)			Effic'y
	Water Sale	Meter Rent	Misc.	Net total Billing	Average Tariff/m3	Water sale	Misc.	Total	
FY 2020 2021	31,311,185	15,379,100	9,135,770	55,826,055	86	88,958,750	9,135,770	98,094,520	88%
FY 2019 2020	21,797,446	14,903,650	9,517,250	46,218,346	86	93,869,376	8,588,750	402,458,126	90%

**b) Key Projects ongoing**

The Company is implementing the Water and Sanitation Development Project financed by the International Development Association through the Ministry of Water and Irrigation. The main objective of the project is to improve Water Supply and Sanitation Services in Malindi Water Supply area. Detailed projects being implemented are shown in Appendix II on Projects being implemented by the Company.

**c) Compliance with statutory and other financial obligations**

i) Service Provision Agreement

The Company operates under a Service Provision Agreement with the Coast Water Services Board which approved by the regulator. The renewal process for the service provision agreement for the period July 2019 to June 2024 is underway and is expected to be completed in the first quarter of the 2021/22 financial year.

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**Management discussion and analysis (continued)**

ii) Tariff Regime

The Company operates a tariff regulated and gazetted by Water and Sanitation Regulatory Board which is gazetted for operation for a specified period. The current tariff was renewed in October 2017 for a period of 3 years.

**d) Major risks facing the organisation**

i) Non cost recovery tariff

The Company is currently operating using the reviewed tariff. The management is focused on clearing the back log on supplier payments as well as operate at an optimal current level. This may delay the gains intended to be achieved in the new tariff.

ii) Negative working cash-flow

The Company operated on a negative cash flow for the period under review which made it difficult to meet obligations as they fall due. The largest creditor remained CWWDA for the supply of bulk water. The management is currently having a focus on increasing the working cash flow by vigorously increasing revenue collection and increasing customer base by venturing in areas that were previously under served.

iii) Closure of major customers in the operation area

The Company relies heavily on major customers who include the Hotels in generating revenues to cross subsidise the lower income customers. With the closure of the major hotels, the revenue streams have reduced forcing the management to review the tariff model in order to sustain the financial operations in the Company. The major hotels are now subdividing the units to sell them off to individuals as domestic apartments hence moving from commercial enterprises to domestic tariff band.

**e) Material arrears in statutory and other financial obligations**

i) Outstanding staff pension obligation

The Company is lagging behind in remitting staff pension contributions as a result of the period it operated on a non-cost recovery tariff. The Management has entered into an instalment payment plan with the CPF in order to recover the period it did not remit in full.

ii) Outstanding supplier payments

The Company is facing difficulties in fully servicing of the arrears in the bulk water supply due to the non-cost recovery tariff in place. The Company has a memorandum of understanding on the arrears as the case is across all the water services providers in Coast Region under the Coast Water Services Board.

**f) Review of the economy and the sector**

The Company's supply area has been adversely affected by the Covid-19 pandemic that has caused loss of jobs which in turn affect the ability to pay for services. The Company has been faced with an increase in demand for water services and an inadequate supply infrastructure. It is hoped that with the completion of the Water and Sanitation Development Project, there will be a remarkable increase in water and sanitation services to the residents of Malindi and its environs.

## **IX. ENVIRONMENTAL AND SUSTAINABILITY REPORTING**

Malindi Water and Sewerage Company exists to transform lives. The Company's mission is to provide sufficient high-quality water and efficient sewerage services in the most cost-effective way that exceed our customers' expectations. To deliver the above, the company has developed four pillars that are driving force in everything we do. Below is a brief highlight of our achievements in each pillar

(i) Sustainability strategy and profile

The Company has partnered with development agencies to improve on the service delivery in the under-served areas. To increase the financial sustainability, the partnership is meant to increase the water coverage hence increase revenue base in the area of operation.

(ii) Environmental performance

The Company obtained funding from the world-bank under the Water and Sanitation Development Program. The funding is for use in construction of 10 ablution block and 2 decentralized treatment facility in various parts of the service area. The Company is desirous of maintain a clean environment in its operation.

(iii) Employee welfare

Malindi Water and Sewerage Company is an equal opportunity employer. The Company encourages women to apply for vacant positions in all areas and does not discriminate against any group. The Company has a reward and penalty system and complies with the Occupational Safety and Health Act of 2007 in keep safe with the welfare of the staff.

(iv) Market place practices-

The Company regularly conducts customer and stakeholder forums that ensure inclusivity and consultatively in its undertaking. All major projects are undertaken once the stakeholders have been consulted. The Company has an anti-corruption policy in place and does not condone acts of corruption in its trading.

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(v) Community Engagements-

The Company has a Company Social Responsibility Policy which ensures it gives back to the society. The Company delivers free water to community establishments like schools and hospitals to ensure there is a positive impact in the society.

## **X. REPORT OF THE DIRECTORS**

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

### **i) Principal activities**

The principal activities of the entity are the Supply of Water to the Residents of Malindi and Magarini sub-counties.

### **ii) Results**

The results of the entity for the year ended June 30, 2021 are set out on page 1. The results show a net profit of KSh 9,244,975.00

### **iii) Dividends**

The Directors do not recommend the payment of dividends for the financial year 2020/21.

### **iv) Directors**

The members of the Board of Directors who served during the year are shown on page iii. In accordance with Regulation of the Memorandum and Articles of Association of the Company, three directors resign after three years and are eligible for reappointment. No director resigned in the current year as they are serving their first term of three years in office.

### **v) Auditors**

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

By Order of the Board



Caroline Gladwell Wangari

Corporate Secretary

Malindi

Date:

## **XI. STATEMENT OF DIRECTORS' RESPONSIBILITIES**

The Public Finance Management Act, 2012 and the State Corporations Act, require the Directors to prepare financial statements in respect of Malindi Water and Sewerage Company Ltd, which give a true and fair view of the state of affairs of Malindi Water and Sewerage Company Ltd at the end of the financial year ended 30 June 2021 and the operating results of Malindi Water and Sewerage Company for year ended 30 June 2021. The Directors are also required to ensure that Malindi Water and Sewerage Company Ltd keeps proper accounting records which disclose with reasonable accuracy the financial position of Malindi Water and Sewerage Company Ltd. The Directors are also responsible for safeguarding the assets of the Company.

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

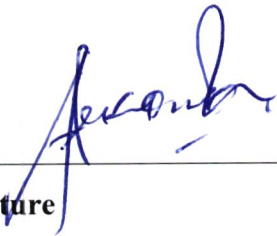
The Directors accept responsibility for MAWASCO'S financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity with International Financial Reporting Standards (IFRS), and in the manner required by the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

**STATEMENT OF DIRECTORS' RESPONSIBILITIES (Continued)**

Nothing has come to the attention of the Directors to indicate that MAWASCO will not remain a going concern for at least the next twelve months from the date of this statement. The Directors note that the Company reported a negative working cash flow as a result of the non-cost recovery tariff. A new tariff was put in place in October 2017 with the main creditor agreeing to extend the repayment period.

**Approval of the financial statements**

The Company's financial statements were approved by the Board on 28 September 2021 and signed on its behalf by:



\_\_\_\_\_  
**Signature**

**Name**

**Chairperson of the Board/**



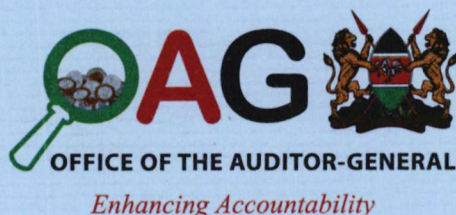
\_\_\_\_\_  
**Signature**

**Name**

**Managing Director**

# REPUBLIC OF KENYA

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**HEADQUARTERS**  
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P.O. Box 30084-00100  
NAIROBI

## **REPORT OF THE AUDITOR-GENERAL ON MALINDI WATER AND SEWERAGE COMPANY LIMITED FOR THE YEAR ENDED 30 JUNE, 2021**

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### **PREAMBLE**

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

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

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

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

### **REPORT ON THE FINANCIAL STATEMENTS**

#### **Qualified Opinion**

I have audited the accompanying financial statements of Malindi Water and Sewerage Company Limited set out on pages 1 to 53, which comprise of the statement of financial

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

In my opinion, except for the effects of the matter 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 Malindi Water and Sewerage Company Limited as at 30 June, 2021 and of its financial performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards (IFRS) and comply with the Companies Act, 2015, Water Act, 2016 and the Public Finance Management Act, 2012.

### **Basis for Qualified Opinion**

#### **Unreconciled Refundable Customer Deposits**

The statement of financial position and as disclosed in Note 34 to the financial statements, reflects customer deposits balance of Kshs.56,717,564. However, supporting records provided for audit review indicated related bank balance of Kshs.172,996 as at 30 June, 2021, resulting to unreconciled and unexplained variance of Kshs.56,544,568.

In the circumstances, the accuracy and completeness of the customer deposits balance of Kshs.56,717,564 could not be confirmed.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the Malindi Water and Sewerage 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.

### **Emphasis of Matter**

#### **Material Uncertainty Related to Going Concern**

During the year under review, the Company reported a net profit of Kshs.9,244,975 (2020: Loss of Kshs.45,646,359), resulting in a cumulative retained deficit of Kshs.395,195,690 as at 30 June, 2021 (Kshs.404,440,666 2019/2020). Further, the current liabilities of Kshs.798,512,907 exceeded the current assets balance of Kshs.444,688,056, resulting in a negative working capital of Kshs.353,824,851 (Kshs.379,595,026 2019/2020), an

indication that the Company may be experiencing financial difficulties in settling financial obligations as and when they may fall due.

The existence of the above material uncertainty casts significant doubt on the Company's ability to continue as a going concern. 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 Kilifi, its creditors and bankers. However, this material uncertainty in relation to going concern and any mitigating measures put in place by the Company to reverse the undesirable financial position have not been disclosed in the financial statements.

### **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**

#### **1. Budgetary Control and Performance**

The statement of comparison of budget and actual amounts reflects revenue final budget and actual collections on comparable basis of Kshs.996,252,351 and Kshs.742,619,923 respectively, resulting to a revenue shortfall of Kshs.253,632,428 or 25% of the budget. Similarly, the Company expended Kshs.794,393,565 against an approved budget of Kshs.996,252,351, resulting to an under-expenditure of Kshs.201,858,786 or 20% of the budget.

The revenue shortfall and under-expenditure had negative impact on the planned goals and objectives of the Company.

#### **2. Unresolved Prior Year Matters**

Various prior year audit issues remained unresolved. Management has not provided reasons for the delay in resolving the prior year audit issues. Further, the unresolved prior year issues are not disclosed under the progress on follow up of auditor's recommendations section of the financial statements as required by the Public Sector Accounting Standards Board.

## **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. Trade and Other Payables**

The statement of financial position and as disclosed in Note 32 to the financial statements reflects trade and other payables balance of Kshs.662,202,655, out of which an amount of Kshs.587,812,801 relates to long outstanding creditors that were over 180 days old. This is contrary to provisions of Section 13.1 of the Malindi Water and Sewerage Company Limited Accounting and Finance Procedures and Policies Manual, 2015 which provides that, all liabilities are reviewed on a monthly basis to ensure the Company is able to honor its obligations as and when they fall due.

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

### **2. Application of Unauthorized Tariffs**

During the year under audit review, the Company did not have a current approved tariff structure from the Water Services Regulatory Board, contrary to Rule 32(2) of the Water Services Regulatory Rules, 2012, which require that all licenses to contain the period in which such tariffs may be adjusted at least once in every three years. Information available shows that the Company used the approved tariff structures for the period 2017/2018 to 2019/2020. The Management application for a review and approval of new tariffs had not been acted on as of January, 2022.

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

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

## **REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE**

### **Conclusion**

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

## **Basis for Conclusion**

### **Over-Commitment of Staff Salaries**

The statement of profit or loss and other comprehensive income reflects administrative costs of Kshs.346,381,673 as disclosed under Note 11 to the financial statements.

Included in this amount are staff costs of Kshs.195,109,166 paid to two hundred and four (204) employees both in Management, unionisable and temporary employees. Review of the net salaries and other staff dues revealed that officers committed their salaries beyond two-thirds (2/3) of their basic salaries, contrary to Section C.1 (3) of the Public Service Commission Human Resources Policies and Procedures Manual, May 2016.

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

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 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 Kenyan 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, proper books of account 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 the accounting records and returns.

#### **Responsibilities of Management and Board of Directors**

The 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 the 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 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 Management monitors compliance with relevant legislative and regulatory requirements, ensuring that effective processes and systems are in place to address key roles and responsibilities in relation to governance and risk management, and ensuring the adequacy and effectiveness of the control environment.

### **Auditor-General's Responsibilities for the Audit**

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

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

Further, in planning and performing the audit of the financial statements and audit of compliance, I consider internal control in order to give an assurance on the effectiveness of internal controls, risk management and 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 Management.
- Conclude on the appropriateness of 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 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**

**19 September, 2022**

**Malindi Water and Sewerage Company Limited**  
**Annual Reports and Financial Statements**  
**For the year ended June 30, 2021**

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

	Note	2020-2021	2019-2020
		KShs	KShs
<b>REVENUES</b>			
Revenue	6	446,690,285	436,701,096
Cost of sales	7	(141,824,391)	(137,807,268)
Gross Profit		<b>304,865,894</b>	<b>298,893,828</b>
In-Kind Contributions	8	3,414,480	4,703,400
Other Income	9	9,135,770	9,517,250
Grants Received	10	95,612,104	-
<b>TOTAL REVENUES</b>		<b>413,028,248</b>	<b>313,114,478</b>
<b>OPERATING EXPENSES</b>			
Administration Costs	11	346,381,673	311,268,199
Amortization of Intangible Assets	12	675,582	675,582
Depreciation of fixed Assets	13	56,726,018	46,817,056
Finance Costs	14	-	-
<b>TOTAL OPERATING EXPENSES</b>		<b>403,783,273</b>	<b>358,760,837</b>
<b>PROFIT/(LOSS) BEFORE TAXATION</b>	15	<b>9,244,975</b>	<b>(45,646,359)</b>
<b>INCOME TAX EXPENSE/(CREDIT)</b>		-	-
<b>PROFIT/(LOSS) AFTER TAXATION</b>		<b>9,244,975</b>	<b>(45,646,359)</b>
<b>OTHER COMPREHENSIVE INCOME</b>			
Fair value through comprehensive income		-	-
Surplus on revaluation of PPE		-	-
<b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR</b>		<b>9,244,975</b>	<b>(45,646,359)</b>
Earnings per share-basic and diluted	16	-	-
Dividend per share	17	-	-

**Malindi Water and Sewerage Company Limited**  
**Annual Reports and Financial Statements**  
**For the year ended June 30, 2021**

**II. STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2021**

	Note	2020 - 2021	2019 - 2020
		KShs	KShs
<b>ASSETS</b>			
<b>Non-Current Assets</b>			
Intangible assets	18	1,458,993	2,134,575
Property, plant and equipment	19	518,614,957	515,948,124
Works In Progress	20	174,366,321	-
<b>Total Non-Current Assets</b>		<b>694,440,271</b>	<b>518,082,699</b>
<b>Current Assets</b>			
Inventories	21	75,947,470	36,307,754
Trade and other receivables	22	303,014,550	245,283,116
Share Capital Receivable	23	5,000,000	5,000,000
Customer Deposit Receivable	24	8,443,600	8,443,600
Bank and cash balances	25	52,282,436	18,102,328
<b>Total Current Assets</b>		<b>444,688,056</b>	<b>313,136,798</b>
<b>Total Assets</b>		<b>1,139,128,326</b>	<b>831,219,497</b>
<b>EQUITY AND LIABILITIES</b>			
<b>Capital and Reserves</b>			
Ordinary share capital	26	5,000,000	5,000,000
Retained earnings	27	(395,195,690)	(404,440,666)
Project Grant Fund	28	26,128,959	26,128,959
Capital Reserve Fund	29	39,534,996	39,534,996
Revaluation Reserve	30	447,264,384	447,264,384
<b>Capital and Reserves</b>		<b>122,732,649</b>	<b>113,487,675</b>
<b>Non-Current Liabilities</b>			
WSDP Loan Balance at beginning of the year	31	217,882,770	25,000,000
<b>Current Liabilities</b>			
Trade and other payables	32	662,202,655	555,247,049
Provision for leave pay	33	-	-
Customer Deposit	34	56,717,564	49,362,364
Retirement benefit obligations	35	79,592,688	88,122,411
<b>Total Current Liabilities</b>		<b>798,512,907</b>	<b>692,731,824</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>1,139,128,326</b>	<b>831,219,499</b>

The financial statements were approved by the Board on 28/09/2021 and signed on its behalf by:

Managing Director

Name: Gerald Mwambire

Head of Finance

Name: Seith Kalume

ICPAK M/NO: 10436

Chairman of the Board

Name: Anderson Kasiwa

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

Particulars	Ordinary share capital	Revaluation Reserve	Capital Reserve Fund	Retained earnings	Total
<b>At July 1, 2019</b>	<b>5,000,000</b>	<b>447,264,384</b>	<b>39,534,996</b>	<b>(358,794,307)</b>	<b>133,005,073</b>
Net Loss For The Year	-	-	-	(45,646,359)	(45,646,359)
Revaluation Gain	-	-	-	-	-
<b>At June 30, 2020</b>	<b>5,000,000</b>	<b>447,264,384</b>	<b>39,534,996</b>	<b>(404,440,666)</b>	<b>87,358,714</b>
<b>At July 1, 2020</b>	<b>5,000,000</b>	<b>447,264,384</b>	<b>39,534,996</b>	<b>(404,440,666)</b>	<b>87,358,714</b>
Net Loss For The Year	-	-	-	9,244,975	9,244,975
Revaluation Gain	-	-	-	-	-
<b>At June 30, 2021</b>	<b>5,000,000</b>	<b>447,264,384</b>	<b>39,534,996</b>	<b>(395,195,690)</b>	<b>96,603,690</b>

**Malindi Water and Sewerage Company Limited**  
**Annual Reports and Financial Statements**  
**For the year ended June 30, 2021**

**IV. STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2021**

		<b>2020 - 2021</b>	<b>2019 - 2020</b>
	Note	<b>KShs</b>	<b>KShs</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Cash generated from/(used in) operations	34	75,056,508	(10,722,390)
<b>Net cash generated from/(used in) operating activities</b>		<b>75,056,508</b>	<b>(10,722,390)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Purchase of property, plant and equipment	19	(59,392,850)	(13,294,749)
Purchase of Intangible assets	18	-	(539,142)
Work in Progress	20	(174,366,321)	-
<b>Net cash generated from/(used in) investing activities</b>		<b>(233,759,171)</b>	<b>(13,833,891)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Increase /(Decrease) in project grant reserve		-	-
WSDP Loan	31	192,882,770	25,000,000
<b>Net cash generated from/(used in) financing activities</b>		<b>192,882,770</b>	<b>25,000,000</b>
<b>INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS</b>			
		<b>34,180,107</b>	<b>443,719</b>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR</b>			
		<b>18,102,328</b>	<b>17,658,609</b>
<b>CASH AND CASH EQUIVALENTS AT END OF THE YEAR</b>			
	25	<b>52,282,435.37</b>	<b>18,102,328</b>

**Malindi Water and Sewerage Company Limited**  
**Annual Reports and Financial Statements**  
**For the year ended June 30, 2021**

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

	Original Budget	Adjustments	Final Budget	Actual on Comparison	Performance Difference	% of utilisation
	2020-2021	2020-2021	2020-2021	2020-2021	2020-2021	2020-2021
	Kshs	Kshs	Kshs	Kshs	Kshs	%
Revenues						
Water Sale and Meter rent	420,750,489	30,207,062	390,543,427	446,690,285	- 56,146,858	114%
In Kind Donation	5,076,000	-	5,076,000	3,414,480	1,661,520	67%
Miscellaneous receipts	9,923,618	935,790	8,987,828	9,135,770	- 147,942	102%
Arrears Collection	81,000,000	45,000,000	36,000,000	-	36,000,000	0%
Conditional Liquidity Support Grant	-	(85,462,136)	85,462,136	85,462,136	-	100%
Mawasco- Unilever Transform Project Grant	-	(8,239,660)	8,239,660	5,034,482	3,205,178	61%
Water and Sanitation Development Loan	1,584,819,000	1,122,875,700	461,943,300	192,882,770	269,060,530	42%
Projected Revenue	2,101,569,107	1,105,316,756	996,252,351	742,619,923	253,632,428	75%
Expenses						
Compensation of employees	192,073,296	3,595,272	195,668,568	195,109,166	195,109,166	100%
Rent paid	360,000	300,000	660,000	480,600	480,600	73%
Other Payments	343,099,715	(72,210,724)	270,888,991	447,593,803	574,102,668	165%
Investment made	1,539,915,348	(1,028,294,388)	511,620,960	151,209,996	151,209,996	30%
Loan Repayment	26,120,748	(8,706,916)	17,413,832	-	-	0%
Total Expenditure	2,101,569,107	(1,105,316,756)	996,252,351	794,393,565	201,858,786	80%
Surplus for the period	-	-	-	(51,773,642)	51,773,642	

**Explanation to the variance**

**a) Revenues**

The Company did not meet its expected revenues by 25% as a result of delays in budget revenues in the Water and Sanitation Development project and the Transform Unilever Project disbursement. The reduced donation in kind is as a result of retired staff who were being paid for in kind by the County Government of Kilifi.

**b) Expenditure**

The Company reduced the expenditure to the budget amount as a result of not receiving grants monies as had been budgeted for.

## **VI. NOTES TO THE FINANCIAL STATEMENTS**

### **1. General Information**

Malindi Water and Sewerage Company is established by and derives its authority and accountability from Water Act 2002. The entity is wholly owned by the County Government of Kilifi and is domiciled in Kenya. The entity's principal activity is the Supply of Water and Sanitation Services to the Residents of Malindi and Magarini sub-counties.

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

### **2. Statement of Compliance and Basis of Preparation**

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

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.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

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

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

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

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Title	Description	Effective Date
IFRS 7- Financial Instrument Disclosures	IFRS 7 "Financial Instruments: Disclosures" requires disclosure of information about the significance of financial instruments to an entity, and the nature and extent of risks arising from those financial instruments, both in qualitative and quantitative terms. Specific disclosures are required in relation to transferred financial assets and a number of other matters.	The amendments are effective for annual periods beginning on or after January 1, 2020. Earlier application is permitted.
IFRS 16- Leases	IFRS 16 specifies how to recognize, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring the recognition of assets and liabilities for all leases, unless the lease term is 12 months or less or the underlying asset has a low value. Lessor accounting however remains largely unchanged from IAS 17 and the distinction between operating and finance leases is retained.	The amendments are effective for annual periods beginning on or after January 1, 2020. Earlier application is permitted.

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

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

ii. *New and amended standards and interpretations in issue but not yet effective in the year ended 30 June 2021.*

Title	Description	Effective Date
IAS 1 — Presentation of Financial Statements	IAS 1 "Presentation of Financial Statements" sets out the overall requirements for financial statements, including how they should be structured, the minimum requirements for their content and overriding concepts such as going concern, the accrual basis of accounting and the current/non-current distinction. The standard requires a complete set of financial statements to comprise a statement of financial position, a statement of profit or loss and other comprehensive income, a statement of changes in equity and a statement of cash flows.	The amendments are effective for annual periods beginning on or after January 1, 2023. Earlier application is permitted.
IAS 12 — Income Taxes	IAS 12, "Income Taxes" implements a so-called 'comprehensive balance sheet method' of accounting for income taxes which recognizes both the current tax consequences of transactions and events and the future tax consequences of the future recovery or settlement of the carrying amount of an entity's assets and liabilities. Differences between the carrying amount and tax base of assets and liabilities, and carried forward tax losses and credits, are recognized, with limited exceptions, as deferred tax liabilities or deferred tax assets, with the latter also being subject to a 'probable profits' test.	Earlier application is permitted. The amendments are effective for annual reporting periods beginning on or after January 1, 2023. Early adoption is permitted.



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<b>Title</b>	<b>Description</b>	<b>Effective Date</b>
IAS 16 — Property, Plant and Equipment	IAS 16 "Property, Plant and Equipment" outlines the accounting treatment for most types of property, plant and equipment. Property, plant and equipment is initially measured at its cost, subsequently measured either using a cost or revaluation model, or depreciated so that its depreciable amount is allocated on a systematic basis over its useful life.	The amendments are effective for annual periods beginning on or after January 1, 2022. Early application is permitted.
IAS 37 — Provisions, Contingent Liabilities and Contingent Assets	IAS 37 "Provisions, Contingent Liabilities and Contingent Assets" outlines the accounting for provisions (liabilities of uncertain timing or amount), together with contingent assets (possible assets) and contingent liabilities (possible obligations and present obligations that are not probable or not reliably measurable).	The amendments are effective for annual periods beginning on or after January 1, 2022. Early application is permitted.
IAS 41 — Agriculture	IAS 41 "Agriculture" sets out the accounting for agricultural activity – the transformation of biological assets (living plants and animals) into agricultural produce (harvested product of the entity's biological assets). The standard generally requires biological assets to be measured at fair value less costs to sell.	The amendments are effective for annual periods beginning on or after January 1, 2022. Early application is permitted.
IFRS 1 — First-time Adoption of International Financial Reporting Standards	IFRS 1 "First-time Adoption of International Financial Reporting Standards" sets out the procedures that an entity must follow when it adopts IFRS for the first time as the basis for preparing its general purpose financial statements. The IFRS grants limited exemptions from the general requirement to comply with each IFRS effective at the end of its first IFRS reporting period.	The amendments are effective for annual periods beginning on or after January 1, 2022. Early application is permitted.

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Title	Description	Effective Date
IFRS 3 — Business Combinations	IFRS 3 "Business Combinations" outlines the accounting when an acquirer obtains control of a business (e.g. an acquisition or merger). Such business combinations are accounted for using the 'acquisition method', which generally requires assets acquired and liabilities assumed to be measured at their fair values at the acquisition date.	The amendments are effective for annual periods beginning on or after January 1, 2022. Early application is permitted if an entity also applies all other updated references (published together with the updated Conceptual Framework) at the same time or earlier.
IFRS 17 — Insurance Contracts	IFRS 17 establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts within the scope of the standard. The objective of IFRS 17 is to ensure that an entity provides relevant information that faithfully represents those contracts. This information gives a basis for users of financial statements to assess the effect that insurance contracts have on the entity's financial position, financial performance and cash flows.	The IASB tentatively decided to defer the effective date of IFRS 17, Insurance Contracts to annual periods beginning on or after January 1, 2022. [The IASB has also published 'Extension of the Temporary Exemption from Applying IFRS 9 (Amendments to IFRS 4)' to defer the fixed expiry date of the amendment also to annual periods beginning on or after January 1, 2023.]

The Directors do not plan to apply any of the above until they become effective. Based on their 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.

**iii. Early adoption of standards**

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

NOTES TO THE FINANCIAL STATEMENTS (Continues)

**4. Summary of Significant Accounting Policies**

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

**a) Revenue recognition**

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

- i) Revenue from the sale of goods and services** is recognized in the year in which the Company delivers products to the customer, the customer has accepted the products 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 recognised in the income statement as it accrues using the effective interest implicit in lease agreements.
- vi) Other income** is recognised as it accrues.

**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

**Summary of Significant Accounting Policies**

**b) In-kind contributions**

In-kind contributions are donations that are made to the 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.

**c) Property, plant and equipment**

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

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

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



NOTES TO THE FINANCIAL STATEMENTS (Continued)

Summary of Significant Accounting Policies

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

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

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

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

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

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

**Summary of Significant Accounting Policies**

**e) Intangible assets**

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

**f) Amortisation and impairment of intangible assets**

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

**g) Investment property**

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

**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

**Summary of Significant Accounting Policies**

**h) Right of Use Asset**

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

**i) Fixed interest investments (bonds)**

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

**j) Quoted investments**

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

**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

**Summary of Significant Accounting Policies**

**k) Unquoted investments**

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

**l) Inventories**

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

**m) Trade and other receivables**

Trade and other receivables are 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.

**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

**Summary of Significant Accounting Policies**

**n) Taxation**

**i) Current income tax**

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

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

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

**o) Deferred tax**

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

**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

**Summary of Significant Accounting Policies**

**Deferred Tax**

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

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

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

**Summary of Significant Accounting Policies**

**p) Borrowing costs**

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

**q) Cash and cash equivalents**

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

**r) Borrowings**

Interest bearing loans and overdrafts are initially recorded at fair value being received, net of issue costs associated with the borrowing. Subsequently, these are measured at amortised cost using the effective interest rate method. Amortised cost is calculated by taking into account any issue cost and any discount or premium on settlement. Finance charges, including premiums payable 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

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period in which they arise. Loan interest accruing during the construction of a project is capitalised as part of the cost of the project.

**s) Trade and other payables**

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

**t) Retirement benefit obligations**

The entity operates a defined contribution scheme for all full-time employees from January 1, 2009. The scheme is administered by County Pension Fund and is funded by contributions from both the company and its employees. The company also contributes to the statutory National Social Security Fund (NSSF). This is a defined contribution scheme registered under the National Social Security Act. The company's obligation under the scheme is limited to specific contributions legislated from time to time and is currently at 15% of Gross Salary per employee per month.

**u) Provision for staff leave pay**

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

**v) Exchange rate differences**

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

**Summary of Significant Accounting Policies**

**w) Budget information**

The original budget for FY 2020-2021 was approved by the Board of Directors on 15<sup>th</sup> May 2020. Subsequent revisions or additional appropriations were made to the approved budget in accordance with specific approvals from the appropriate authorities. The additional appropriations are added to the original budget by the entity upon receiving the respective approvals in order to conclude the final budget. Accordingly, the Company revised the budget in January 2021 and obtained approvals from the directors on the 2020 – 2021 budget.

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

A statement to reconcile the actual amounts on a comparable basis included in the statement of comparison of budget and actual amounts and the actuals as per the statement of financial performance has been presented under the section statement of comparison of budget and actual amounts for the period ended 30 June 2021 of these financial statements where applicable.

**NOTES TO THE FINANCIAL STATEMENTS (Continues)**

**a) Service concession arrangements**

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

**b) Comparative figures**

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

**c) Subsequent events**

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

**5. Significant Judgments and Sources of Estimation Uncertainty**

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

**NOTES TO THE FINANCIAL STATEMENTS (Continues)**

**a) Estimates and assumptions**

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

**b) Useful lives and residual values**

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

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

**c) Provisions**

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



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**NOTES TO THE FINANCIAL STATEMENTS (Continues)**

**6. Revenue**

	2020-2021	2019-2020
	KShs	KShs
Water Sale	431,311,185	421,797,446
Meter Rent	15,379,100	14,903,650
	<b>446,690,285</b>	<b>436,701,096</b>

**7. Cost of Sales**

	2020-2021	2019-2020
	KShs	KShs
Cost of Water	115,588,660	111,204,763
Cost of Electricity	5,387,984	-
Administrative fees to CWWDA	2,602,267	9,326,441
4% WASREB Regulatory Levy	18,245,480	17,276,064
	<b>141,824,391</b>	<b>137,807,268</b>

**8. In – Kind donation**

	2020-2021	2019-2020
	KShs	KShs
Seconded Personnel	3,414,480	4,703,400
	<b>3,414,480</b>	<b>4,703,400</b>

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

**9. Miscellaneous Income**

	<b>2020-2021</b>	<b>2019-2020</b>
	<b>KShs</b>	<b>KShs</b>
Miscellaneous receipts	9,135,770	9,517,250
	<b>9,135,770</b>	<b>9,517,250</b>

**10. Grants Received**

	<b>2020-2021</b>	<b>2019-2020</b>
	<b>KShs</b>	<b>KShs</b>
Conditional Liquidity Support Grant	85,462,136	-
MAWASCO-UNILEVER -TRANSFORM PROJECT	5,034,482	-
MAWASCO SMART METER PROJECT GRANT	5,115,486	-
	<b>95,612,104</b>	<b>-</b>

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**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

**11. Administration Costs**

	<b>2020-2021</b>	<b>2019-2020</b>
	<b>KShs</b>	<b>KShs</b>
Advertising, printing, stationery and photocopying	6,014,003	7,180,193
Auditors' remuneration	700,000	644,828
Bank charges and commissions	448,543	395,570
Communication services and supplies	9,851,922	8,941,662
Consultancy fees	5,242,852	1,183,148
Corporate Social Responsibility	2,110,000	2,595,345
Directors' emoluments - Note 11 (a)	5,509,403	5,257,710
Electricity and water	2,278,845	2,661,060
Hospitality supplies and services	5,509,403	9,257,715
Insurance costs	1,499,891	1,540,782
Legal fees	1,005,322	572,800
Occupational Safety & Health (OSH)	321,800	-
Office and general supplies and services	20,326,741	17,713,151
Repairs, Maintenance & Minor Works & Others	64,367,589	32,498,602
Other operating expenses	10,970,023	8,821,403
Provision for bad and doubtful debts	-	-
Rent expenses	485,800	375,000
Staff costs - note 11 (b)	195,109,166	193,627,044
Staff training expenses	1,643,010	976,287
Transportation, travelling and subsistence	12,987,360	17,025,899
	<b>346,381,673</b>	<b>311,268,199</b>

**11 (a) Directors Emoluments**

	<b>2020-2021</b>	<b>2019-2020</b>
	<b>KShs</b>	<b>KShs</b>
Chairman's Honoraria	960,000	960,000
Directors emoluments	3,533,055	2,820,000
Other allowances	1,016,348	1,477,710
<b>Total director emoluments</b>	<b>5,509,403</b>	<b>5,257,710</b>

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**11 (b) Staff costs**

	2020-2021	2019-2020
	KShs	KShs
Salaries and allowances of permanent employees	159,328,251	159,329,840
Wages of temporary employees	-	-
Staff In-Patient and Out-Patient Medical Fund	14,889,506	13,360,601
Compulsory national social security schemes	481,200	482,800
Other pension contributions	16,940,709	17,062,803
Leave pay	3,469,500	3,391,000
	<b>195,109,166</b>	<b>193,627,044</b>
<b>The average number of employees at the end of the year</b>		
Permanent employees – Management	7	7
Permanent employees – Unionizable	151	152
Temporary and contract employees	46	47
	<b>204</b>	<b>206</b>

**12. Amortization of Intangible Assets**

INTANGIBLE ASSETS	2020-2021	2019- 2020
	KShs	KShs
<b>Cost</b>		
<b>At July 1</b>	<b>3,377,911</b>	<b>2,838,769</b>
Additions	-	539,142
Disposals	-	-
Transfers/adjustments	-	-
<b>At end of year - 30 June</b>	<b>3,377,911</b>	<b>3,377,911</b>
<b>Amortization</b>		
At July 1	1,243,336	567,754
Depreciation	-	-
Disposals	-	-
Impairment loss	675,582.20	675,582.20
Transfer/adjustments	-	-
<b>At 30 June</b>	<b>1,918,918</b>	<b>1,243,336</b>
<b>Net Book Value at June 30</b>	<b>1,458,993</b>	<b>2,134,575</b>

This refers to the purchase of the Accounting software and improvement on it.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

13. Depreciation of Fixed Assets

	2020-2021	2019-2020
	KShs	KShs
Depreciation		
At July 1	114,857,178	68,040,122
Charge for the year	56,726,018	46,817,056
Disposals	-	-
Impairment loss	-	-
<b>At June 30</b>	<b>171,583,196</b>	<b>114,857,178</b>

Detailed schedules on the fixed assets is found in note 19

14. Finance costs

	2020-2021	2019-2020
	KShs	KShs
Interest expense on loans	-	-
Interest expense on bank overdrafts	-	-
<b>Total</b>	<b>-</b>	<b>-</b>

15. Operating profit/ (loss)

	2020-2021	2019-2020
	KShs	KShs
The operating profit/(loss) is arrived at after charging/		
Staff costs (note 10b)	195,109,166	193,627,044
Depreciation of property, plant and equipment	68,405,319	46,815,681
Amortization of intangible assets	675,582	675,582
Directors' emoluments - fees	4,493,055	3,780,000
- others	1,016,348	1,477,710
Auditors' remuneration - current year fees	700,000	644,828
<b>Total</b>	<b>270,399,470</b>	<b>247,020,846</b>

16. Earnings Per Share

The earnings per share is calculated by dividing the profit after tax by the average number of ordinary shares in issue during the year. There were not dilutive or potentially dilutive ordinary share as at the reporting date.

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**17. Dividend Per Share**

Proposed dividends are accounted for as a separate component of equity until they have been ratified and declared at the relevant Annual General Meeting (AGM). The Company did not propose for any dividend in the financial year ended June 30, 2021.

**18. Intangible Assets**

INTANGIBLE ASSETS	2020-2021	2019-2020
	KShs	KShs
<b>Cost</b>		
<b>At July 1</b>	<b>3,377,911</b>	<b>2,838,769</b>
Additions	-	<b>539,142</b>
Disposals	-	-
Transfers/adjustments	-	-
<b>At end of year - 30 June</b>	<b>3,377,911</b>	<b>3,377,911</b>
<b>Amortization</b>		
At July 1	1,243,336	567,754
Amortization	675,582.20	675,582.20
Disposals	-	-
Impairment loss	-	-
Transfer/adjustments	-	-
<b>At 30 June</b>	<b>1,918,918</b>	<b>1,243,336</b>
<b>Net Book Value at June 30</b>	<b>1,458,993</b>	<b>2,134,575</b>

This refers to the purchase of financial and accounting SAGE EVOLUTION software and its programming costs.

**19. Property, Plant and Equipment**

2020	Freehold Land, Buildings and Civil Works	Plant and Machinery	Motor Vehicles, Including Motor cycles	Computers & Related Equipment	Office Equipment, Furniture & Fittings	Total
	Shs	Shs	Shs	Shs	Shs	Shs
<b>Cost</b>						
<b>At 30 June 2020</b>	<b>412,274,020</b>	<b>111,780,896</b>	<b>33,559,135</b>	<b>28,565,162</b>	<b>44,626,090</b>	<b>630,805,303</b>
Additions	560,212	37,394,268	14,811,600	3,939,580	2,687,190	59,392,850
Disposals	-	-	-	-	-	-
Transfers/adjustments						-
Revaluation Reserve						-
<b>At end of year - 30 June 2021</b>	<b>412,834,232</b>	<b>149,175,164</b>	<b>48,370,735</b>	<b>32,504,742</b>	<b>47,313,280</b>	<b>690,198,153</b>
<b>Depreciation</b>						
At 30 June 2020	12,715,178	49,650,434	19,051,160	19,180,314	14,260,093	114,857,178
Depreciation	10,320,855.80	18,646,895	12,092,684	9,751,423	5,914,160	56,726,018
Disposals	-	-	-	-	-	-
Impairment	-	-	-	-	-	-
Transfer/adjustments	-	-	-	-	-	-
<b>At 30 June 2021</b>	<b>23,036,033</b>	<b>68,297,329</b>	<b>31,143,844</b>	<b>28,931,736</b>	<b>20,174,253</b>	<b>171,583,196</b>
<b>Net Book Value at June 30 2021</b>	<b>389,798,199</b>	<b>80,877,834</b>	<b>17,226,892</b>	<b>3,573,006</b>	<b>27,139,027</b>	<b>518,614,957</b>

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2020	Freehold Land, Buildings and Civil Works		Plant and Machinery		Motor Vehicles, Including Motor cycles		Computers & Related Equipment		Office Equipment, Furniture & Fittings		Total	
		KShs		KShs		KShs		KShs		KShs		KShs
Cost												
At 30 June 2019		412,020,828		102,104,832		33,550,000		27,096,816		42,738,078		617,510,554
Additions		253,192		9,676,064		9,135		1,468,346		1,888,012		13,294,749
Disposals		-		-		-		-		-		-
Transfers/adjustments		-		-		-		-		-		-
Revaluation Reserve		-		-		-		-		-		-
At end of year - 30 June 2020		412,274,020		111,780,896		33,559,135		28,565,162		44,626,090		630,805,303
<b>Depreciation</b>												
At 30 June 2019		2,408,327		35,677,822		10,661,376		10,610,765		8,681,832		68,040,122
Depreciation		10,306,851		13,972,612		8,389,784		8,569,549		5,578,261		46,817,056
Disposals		-		-		-		-		-		-
Impairment		-		-		-		-		-		-
Transfer/adjustments		-		-		-		-		-		-
At 30 June 2020		12,715,178		49,650,434		19,051,160		19,180,314		14,260,093		114,857,178
Net Book Value at June 30 2020		399,558,843		62,130,462		14,507,975		9,384,848		30,365,997		515,948,124

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**20. Works in Progress**

	2020-2021	2019-2020
	KShs	KShs
WSDP Pipeline project	174,366,321	-
	<b>174,366,321</b>	<b>-</b>

This refers to the construction of water infrastructure current on going under the World Bank Water and Sanitation Development Program (WSDP) which is expected to be complete by 2022

**21. Inventories**

	2020-2021	2019-2020
	KShs	KShs
Appurtenances spares	8,011,010	305,760
Building Materials	301,209	114,349
Cleaning and Sanitation materials	64,356	128,253
Cold Water Meters Accessories	10,962,589	11,749,778
Computers consumable parts	65,742	80,233
Motor vehicle spare parts	1,374,106	211,999
Office Equipment	53,179	813,168
Pipes and fittings	51,596,328	21,029,287
Stationery and general stories	2,518,158	1,568,057
Tools and Equipment	493,495	201,316
Uniform and Boots	25,603	17,827
Water Analysis Equipment	358,532	87,727
Kitchen Utilities	123,163	-
	<b>75,947,470</b>	<b>36,307,754</b>

**22. Trade and Other Receivables**

	2020-2021	2019-2020
	KShs	KShs
Trade receivables - note 22 (a)	303,014,550	245,283,116
Staff receivables	-	-
Gross trade and other receivables	<b>303,014,550</b>	<b>245,283,116</b>
Provision for bad and doubtful receivables	-	-
<b>Net trade and other receivables</b>	<b>303,014,550</b>	<b>245,283,116</b>

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**22 (a) Trade and Other Receivables**

	2020-2021	2019-2020
	KShs	KShs
At June 30, the ageing analysis of the gross trade receivables was as follows:		
Less than 30 days	56,483,135	39,767,875
Between 30 and 60 days	19,160,914	24,746,224
Between 60 and 90 days	16,822,146	6,172,091
Between 90 and 120 days	31,902,100	13,053,902
Over 120 days	178,646,255	161,543,023
	<b>303,014,550</b>	<b>245,283,116</b>

**23. Ordinary Share Capital Receivable**

	2020-2021	2019-2020
	KShs	KShs
<b>Authorized:</b>		
5,000 ordinary shares of Kshs.1,000 par value each	5,000,000	5,000,000
<b>Unpaid:</b>		
5,000 ordinary shares of Kshs.1,000 par value each	5,000,000	5,000,000

**24. Customer Deposit Receivable**

	2020-2021	2019-2020
	KShs	KShs
Customer Deposit Receivable	8,443,600	8,443,600
	<b>8,443,600</b>	<b>8,443,600</b>

These refer to customer fixed deposit receivable before the inception of the Company. This is to be refunded by Coast Water Works Development Authority who were in-charge before the inception of the Company.

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25. (a) Bank and Cash Balances

	2020-2021	2019-2020
	KShs	KShs
Cash at bank	52,282,436	18,102,328
Cash in hand	-	-
	<b>52,282,436</b>	<b>18,102,328</b>
See detailed cash and bank balances in note 25 (b)		

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**25 (b) Detailed analysis of the Bank and Cash equivalents**

The make-up of bank balances and short term deposits is as follows

NO.	BANK NAME/BRANCH	ACCOUNT NO.	ACCOUNT NAME	2020-2021	2019-2020
1	KCB-MALINDI BRANCH	1104220504	MAWASCO REVENUE A/C.	4,202,645	1,649,193
2	KCB-MALINDI BRANCH	1104220571	MAWASCO OPERATIONS A/C.	369,701	1,582,740
3	KCB-MALINDI BRANCH	1104220377	MAWASCO DEPOSITS A/C.	172,996	172,996
4	KCB-MALINDI BRANCH	1103447661	MAWASCO SAVINGS A/C.	99,283	708
5	KCB-MALINDI BRANCH	1104224186	MAWASCO PROJECTS A/C.	325,807	326,872
6	KCB-MALINDI BRANCH	1171300247	MAWASCO UPSUP-KIBOKONI	330	1,395
7	KCB-MALINDI BRANCH	1224619129	MAWASCO-LOAN	996,898	996,898
8	KCB-MALINDI BRANCH	128215320	MAWASCO TRANSFORM	1,578,293	-
9	KCB-MALINDI BRANCH	1281859966	MAWASCO - LIQUIDITY	37,391,245	-
10	KCB-MALINDI BRANCH	127823288	MAWASCO SMART	115,366	-
11	KCB-MALINDI BRANCH	1236141776	MAWASCO WORLD BANK	2,529,044	289,300
12	KCB-MALINDI BRANCH	1283864177	MAWASCO RESETTLEMENT	-	-
13	KCB-MALINDI BRANCH	1284847829	MAWASCO - WSTF- GONGONI	1,001,000	-
14	KCB-MALINDI BRANCH	1284847845	MAWASCO - WSTF -	1,000	-
15	EQUITY-MALINDI BRANCH	045-0293125064	MAWASCO REVENUE A/C.	740,277	3,266,300
16	SAFARICOM	708001	MPEA COLLECTION A/C.	625,432	4,681,033
17	POST BANK	0744130013926	POST BANK REVENUE	2,106,157	5,134,893
18	FAMILY BANK - MALINDI	9800017525	MAWASCO - FAMILY BANK	26,961	-
	<b>TOTALS AS PER STATEMENT</b>			<b>52,282,436</b>	<b>18,102,328</b>

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**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

**26. Ordinary Share Capital**

	2020-2021	2019-2020
	KShs	KShs
<b>Authorised:</b>		
5,000 ordinary shares of Kshs.1,000 par value each	5,000,000	5,000,000
<b>Unpaid:</b>		
5,000 ordinary shares of Kshs.1,000 par value each	5,000,000	5,000,000

**27. Retained Earnings**

	2020-2021	2019-2020
	KShs	KShs
As at the Start of the Year	(404,440,666)	(358,794,307)
Net loss for the Year	9,244,975	(45,646,359)
Prior Year Adjustment	-	-
<b>As at the End of the Year</b>	<b>(395,195,691)</b>	<b>(404,440,666)</b>

**28. Project Grant Fund**

	2020-2021	2019-2020
	KShs	KShs
Projects Reserve Fund	1,863,740	1,863,740
WSTF- UBSUP-KIBOKONI PROJECT GRANT A/C.	24,265,219	24,265,219
	<b>26,128,959</b>	<b>26,128,959</b>

**29. Capital Reserve Fund**

	2020-2021	2019-2020
	KShs	KShs
Capital Reserve fund	39,534,996	39,534,996
	<b>39,534,996</b>	<b>39,534,996</b>

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

33. Provision for leave pay

	2020-2021	2019-2020
	KShs	KShs
Balance at the start of the year	-	2,000,133
Leave pay for the year	3,469,500	1,390,867
Leave pay / Utilised during the year	(3,469,500)	(3,391,000)
Balance at the end of the year	-	-

34. Customer Deposit

	2020-2021	2019-2020
	KShs	KShs
<b>Balance at the start of the year</b>	<b>49,362,364</b>	<b>43,914,064</b>
Deposits paid before the inception of the Company	-	-
Additional Deposit paid during the year	7,530,200	5,833,300
Customer Deposits refunded during the year	(175,000)	(385,000)
<b>Balance at the end of the year</b>	<b>56,717,564</b>	<b>49,362,364</b>

35. Retirement Benefits Obligations

	2020-2021	2019-2020
	KShs	KShs
Balance at the start of the year	88,122,411	72,515,460
Additional Employer's and Employees' contributions	31,101,342	31,321,113
Benefit utilized during the year	(39,631,065)	(15,714,162)
Balance at the end of the year	<b>79,592,688</b>	<b>88,122,411</b>

The Company operates both defined benefit scheme for staff employed before July 2013 and Defined contribution scheme for staff employed after July 2013. The scheme is administered by County Pension Fund and is funded by contributions from both the company and its employees. The company also contributes to the statutory National Social Security Fund (NSSF). This is a defined contribution scheme registered under the National Social Security Act. The company's obligation under the scheme is limited to specific contributions legislated from time to time.

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**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

**36. Notes to the Statement of Cash flows**

	2020-2021	2019-2020
	KShs	KShs
Reconciliation of operating profit/(loss) to cash generated from/(used in) operations		
Operating profit/(loss)	9,244,975	(45,646,359)
Depreciation/Amortization	675,582	675,582
Depreciation	56,726,018	46,817,056
<b>Operating profit/(loss) before working capital changes</b>	<b>66,646,575</b>	<b>1,846,279</b>
(Increase)/decrease in inventories	(39,639,716)	(28,089,838)
(Increase)/decrease in trade and other receivables	(57,731,434)	(52,751,553)
Increase/(decrease) in trade and other payables	106,955,606	49,217,604
Increase/(decrease) in Retirement Benefits Obligations	(8,529,723)	15,606,951
Increase/(decrease) in profits from Retained Earnings	-	-
Increase/(decrease) in Staff leave provision	-	(2,000,133)
Increase/(decrease) in Customer Deposit - old	-	-
Increase/(decrease) in Customer Deposit	7,355,200	5,448,300
<b>Cash generated from/(used in) operations</b>	<b>75,056,508</b>	<b>(10,722,390)</b>

**37. Revaluation Reserve**

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

**38. Fair Value Adjustment Reserve**

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

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**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

**39. 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.

**40. Related Party Disclosures**

**Government of Kenya**

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

Other related parties include:

- i) The Parent Ministry
- ii) County Government of Kilifi
- iii) Key management
- iv) Board of directors

**Transactions with related parties**

	2020-2021	2019-2020
	Kshs	Kshs
<b>a) Sales to related parties</b>		
Water sales to Govt. agencies	10,220,340	12,435,678
<b>Total</b>	<b>10,220,340</b>	<b>12,435,678</b>
<b>b) Purchases from related parties</b>		
Cost of water	141,824,391	137,807,268
<b>Total</b>	<b>141,824,391</b>	<b>137,807,268</b>
<b>b) Grants from the Government</b>		
Grants from National Government	95,612,104	-
Donations in kind	3,414,480	4,703,400
<b>Total</b>	<b>99,026,584</b>	<b>4,703,400</b>
<b>c) Key management compensation</b>		
Directors' emoluments	5,509,403	5,257,710
Compensation to key management	2,290,400	2,290,400
<b>Total</b>	<b>7,799,803</b>	<b>7,548,110</b>

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**41. Capital Commitments**

There were no capital commitments at the year- end for which no provision has been made in these financial statements.

**42. Contingent Assets and Liabilities**

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

**43. Financial Risk Management**

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

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

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**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

**(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.

***Credit Risk (Continued)***

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

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

**ii) Liquidity risk management**

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

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**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

**(iii) Market risk**

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

Market risk is the risk arising from changes in market prices, such as interest rate, equity prices and foreign exchange rates which will affect the entity's income or the value of its holding of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return. Overall responsibility for managing market risk rests with the Audit and Risk Management Committee.

The company's Finance Department is responsible for the development of detailed risk management policies (subject to review and approval by Audit and Risk Management Committee) and for the day to day implementation of those policies.

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

**a) Foreign currency risk**

The entity has transactional currency exposures. Such exposure arises through purchases of goods and services that are done in currencies other than the local currency. Invoices denominated in foreign currencies are paid after 30 days from the date of the invoice and conversion at the time of payment is done using the prevailing exchange rate.

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

**b) Foreign currency sensitivity analysis**

There was no effect on the company's statement of comprehensive income on the sensitivity for a reasonable possible change in the exchange rate on the main transaction currencies, with all other variables held constant.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

**c) Interest rate risk**

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

**i) Management of interest rate risk**

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

**ii) Sensitivity analysis**

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

**iii) Fair value of financial assets and liabilities**

**a) *Financial instruments measured at fair value***

Determination of fair value and fair values hierarchy

IFRS 7 specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources; unobservable inputs reflect the *entity's* market assumptions.

These two types of inputs have created the following fair value hierarchy:

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

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**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

observable market data when available. The *entity* considers relevant and observable market prices in its valuations where possible.

*Financial instruments not measured at fair value*

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

**iv) Capital Risk Management**

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

**44. Incorporation**

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

**45. Events After The Reporting Period**

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

**46. Currency**

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

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**APPENDICES**

**APPENDIX 1: PROGRESS ON FOLLOW UP OF AUDITOR RECOMMENDATIONS**

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

Ref No	Issue / Observation	Management Response	Status	Time frame
1.0	Presentation of financial statements using 2018/2019 template	The management confirms to have complied with all the provisions as required in the preparation and presentation of the financial statements for the financial year 2019/20. A copy of the financial statement is hereby attached for confirmation.	Resolved	Immediately
2	Going-Concern	The management acknowledges that the current liabilities exceed the current assets and that this is an indication of the Company experiencing financial difficulties in settling financial obligations as and when they may fall due. The management considers this as a serious but temporary situation and it shall be reversed over time as the business environment opens up	Partially resolved	Progressively in the next three years 2020 - 2023
3.1	Ownership title documents to Property, Plant and Equipment – Leased Assets	The management undertook a comprehensive assets identification and valuation for all assets under its jurisdiction as at June 2019 and compiled an asset register. The Company is in the process of obtaining the title documents of the assets.	On-going	By the end of financial year 2021/22
3.2	Lack of basis for Property, Plant and Equipment – Revaluation of Assets	The management contracted an independent Valuer and has since then included the values of the assets based on the report by the independent Valuer. The	Resolved	Immediately

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Ref No	Issue / Observation	Management Response	Status	Time frame
		management shall include a comprehensive report in line with the requirement of the reporting standard on assets revaluation which includes the basis of the revaluation and the carrying costs. The attached list is reflective of the costs as at the time of valuation.		
3.3	New assets not included in the Property, Plant and Equipment –Asset Register.	The management confirmed the assets added in the financial year as presented during the audit to be worth 13,622,724. The list of the assets shall be added to the new asset register as we await the production of the asset register in line with the booklet from the consultant doing the assets register. Each new asset has been included in its own category as prescribed in the Assets management circular.	Resolved	Immediately
3.4	Property, Plant and Equipment – Transfer / Adjustments	The Company confirms that the works were satisfactorily done internally and that they were done on behalf of Coast Water Services Board. The management shall constitute the Inspection and Acceptance committee to raise the completion certificate.	Resolved	Immediately
4.1	Trade and Other Receivables –Long outstanding receivables	The management has put in place a new unit called Debt Recovery Unit to assist in the debt recovery. The unit has a concrete policy to deal with all defaulters. The management under the policy is instituting recoveries including taking the defaulters to court for legal recoveries. The management considers the collection	On-going	Progressively

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Ref No	Issue / Observation	Management Response	Status	Time frame
		efficiency of the current billing to be within optimal levels and is focused on the old debts.		
5	Share Capital receivables	The management acknowledges that the share capital is still outstanding and that the subscribers are in the process of making the payment for the shares. The management shall continue reminding the subscribers of the outstanding share capital payment	Not yet resolved	By end of 2021/22 financial year
6	Customer Deposit Receivables	The customer deposit receivable refers to the deposits made by the Customers before the inception of the Company. The management prepared the schedule based on the number of connections it took over and the allowable rate of customer deposit payable then.	Resolved	Immediately
7.1	Trade and Other Payables – Trade and payables	The management considers the records it holds for the payment and bills received from Coast Water Services Board as final. The Company considers the difference to be emanating from Coast Water Services Board not acknowledging all the payments made by the management. No records were availed from Coast Water Services Board for reconciliation by the management.	Resolved	Immediately
7.2	Tax Payable	The tax payable amount resulted in the reconciliation between the Company and KRA on previous transaction which have not been concluded and that the amount was outstanding by then but has not been payable as a result of the	Resolved	30 <sup>th</sup> June 2021

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Ref No	Issue / Observation	Management Response	Status	Time frame
		incomplete assessment. The management shall conclude the reconciliation and reverse or pay the amount in the financial year 2020/21		
8	Customer Deposits	The management accepts the observation made and has instituted a repayment mechanism based on the recovery of the tariff which is being reviewed by the Company and shall be forwarded to the regulator for approval. Tariff consultant engaged already engaged	Not yet resolved	By 30 <sup>th</sup> December 2021
9	Bank and Cash balances	The bank reconciliations were prepared and presented during the Audit exercise. The bank reconciliations and bank certificates have also been presented.	Resolved	Immediately
10	Variances between Financial Statement figures and supporting Schedules	The management confirms that the differences in financial statements and schedules was as a result of the corrections that were done after submission of the draft accounts and the actual accounts presented during the audit exercise.	Resolved	Immediately
11	Cost of sales to Coast Water Services Board	The management considers the records it holds for payments made to Coast Water Services Board as accurate and truly reflecting what was paid to them.	Resolved	Immediately
	Other Matters			


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Ref No	Issue / Observation	Management Response	Status	Time frame
1.1	Budgetary Control and Performance – Revenue Budget	The management accepts the observation made and shall ensure there is improvement in revenue collection as per the budget forecasts. The period under review was faced with many trading challenges but the management considers this as temporary and that it shall be able to make it in future.		
1.2	Budgetary Control and Performance – Revenue Budget	The management acknowledges the observation made. The management considers the period under review to have been exceptionally difficult in costs management as a result of the increased costs of operations and reduced revenues. The fixed costs were not affected however the management reduced all the non-emergence variable costs to a later date and paid on the fixed costs only in the year under review. In future the management considers this to be temporary and in future it shall be in line with the budget provisions.		

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Ref No	Issue / Observation	Management Response	Status	Time frame
	Report on lawfulness and effectiveness in use of public resources			
1	Employees with net salaries less than one third of basic salary	The management acknowledges the observation made. The management accepts the observation made and is in the process of correcting the anomaly. The staff involved have been made aware and no more deductions are being effected that contravene this recommendation. No new cases were admitted in the financial year under review. The list has now reduced as more staff are getting more than a third of the basic salary. The Company has now instituted the Payroll Changes Advice originating from the Human Resource Manager to the accounts office to further control this.		
2	Retirement Benefits Obligations	The management entered into an agreement on the outstanding remittances and is currently remitting current month and a month in arrears for the next two years and shall be thereafter up to date. The agreement offered to waive the interest upon completion of the arrears. The management has posted the balances based on actual remittances accrued		

Name: Gerald Mwambire

Signature   
Date.....  
Managing Director  
Accounting Officer

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**APPENDIX II: PROJECTS IMPLEMENTED BY THE ENTITY**

**Projects**

Projects implemented by Malindi Water and Sewerage Company Funded by development partners.

Project title	Project Number	Donor	Period/ duration	Donor commitment	Separate donor reporting required as per the donor agreement (Yes/No)	Consolidate d in these financial statements (Yes/No)
Water and Sanitation Development Project	IDA CREDIT NO 60300	International Development Agency	5 Years from 2017 to 2022	US \$ 14.2 Million	Yes	Yes
Unilever Transform Project	-	Unilever and UK's Department of International Development DfID	18 Months from December 2020 June 2021	UK 250,000	Yes	No

**Status of Projects completion**

	Project	Total project Cost	Total expended to date	Completion % to date	Budget	Actual	Sources of funds
1	Water and Sanitation Development Project	Ksh 1.4 billion		60%			
2	Unilever Transform Project	Ksh 25, million		40%			

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**APPENDIX III: INTER-ENTITY TRANSFERS**

	<b>ENTITY NAME:</b>	MALINDI WATER AND SEWERAGE COMPANY LIMITED		
	<b>Break down of Transfers from the State Department of Ministry of Water and Irrigation</b>			
	<b>FY 2020/21</b>			
<b>a.</b>	<b>Recurrent Grants</b>	<u>Bank Statement Date</u>	<u>Amount (KShs)</u>	<u>Indicate the FY to which the amounts relate</u>
		<b>Total</b>		
<b>b.</b>	<b>Development Grants</b>	<u>Bank Statement Date</u>	<u>Amount (KShs)</u>	<u>Indicate the FY to which the amounts relate</u>
		<b>Total</b>		
<b>c.</b>	<b>Direct Payments</b>	<u>Bank Statement Date</u>	<u>Amount (KShs)</u>	<u>Indicate the FY to which the amounts relate</u>
		<b>Total</b>		

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	<b>ENTITY NAME:</b>	MALINDI WATER AND SEWERAGE COMPANY LIMITED		
<b>Break down of Transfers from the State Department of Ministry of Water and Irrigation</b>				
	<b>FY 2020/21</b>			
<b>d.</b>	<b>Donor Receipts</b>	<b><u>Bank Statement Date</u></b>	<b><u>Amount (KShs)</u></b>	<b><u>Indicate the FY to which the amounts relate</u></b>
		<b>Total</b>		

The above amounts have been communicated to and reconciled with the parent Ministry.

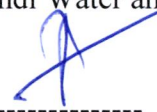
Finance Manager

Malindi Water and Sewerage Company Limited

Sign 

Head of Accounting Unit

Malindi Water and Sewerage Company Limited

Sign 



**APPENDIX IV: RECORDING OF TRANSFERS FROM OTHER GOVERNMENT ENTITIES**

Name of the MDA/Donor Transferring the funds	Date received as per bank statement	Nature: Recurrent/Development/Others	Total Amount - KES	Where Recorded/recognized					Total Transfers during the Year
				Statement of Financial Performance	Capital Fund	Deferred Income	Receivables	Others - must be specific	
Ministry of Planning and Devolution	-	Recurrent	-	-	-	-	-	-	-
Ministry of Planning and Devolution	-	Development	-	-	-	-	-	-	-
USAID	-	Donor Fund	-	-	-	-	-	-	-
Ministry of Planning and Devolution	-	Direct Payment	-	-	-	-	-	-	-
			-	-	-	-	-	-	-
<b>Total</b>			-	-	-	-	-	-	-

