

REPUBLIC OF KENYA



Enhancing Accountability

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REPORT

OF

THE AUDITOR-GENERAL

PARLIAMENT
OF KENYA
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ON

**GATAMATHI WATER AND SANITATION
COMPANY LIMITED**

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



GATAMATHI WATER AND SANITATION LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS

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

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

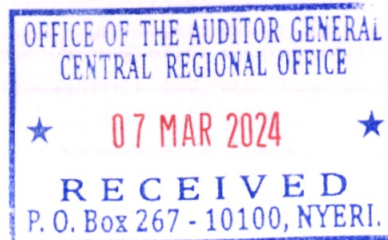


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1. ACRONYMS AND GLOSSARY OF TERMS

i.	A.W.W.D. A	-	Athi Water Works Development Agency
ii.	K.P. I	-	Key Performance Indicators
iii.	T.W.W.D. A	-	Tana Water Works Development Agency
iv.	WASPA	-	Water Services Provision Agency
v.	WASREB	-	Water Services Regulatory Board
vi.	WRA	-	Water Resource Authority
vii.	W.S.T. F	-	Water Sector Trust Fund
viii.	ICPAK	-	Institute of Certified Public Accountants of Kenya
ix.	IFRS	-	International Financial Reporting Standards
x.	MD	-	Managing Director
xi.	PFM	-	Public Financial Management
xii.	PSASB	-	Public Sector Accounting Standards Board
xiii.	WASREB	-	Water Services Regulatory Board
xiv.	CWP	-	Communal Water Points

2. KEY COMPANY INFORMATION

Background information

Gatamathi Water and Sanitation Limited was incorporated as a limited Company by Guarantee on 23rd March, 2006 through The Water Act 2002. The Company currently has seven members of Board of directors. Five of the members are elected annually during an Annual General Meeting while two are representatives of the Murang'a County Government. The Board is elected from stakeholders drawn from Company's area of operation.

The company provides water and sanitation services as per conditions set in the licence from Water Services Regulatory Board (WASREB). The area contracted are in Mathioya Sub-County, Rwathia ward in Kangema Sub-County and Gathuki-ini location in Gatari ward of Kiharu Sub-County.

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

Total active connections are 10,115 with an actual served population of 86,400. There are 5,098 dormant connections.

GATANGO WATER SUPPLY

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

At commissioning, the area covered through communal water points was 85.47 km². The Design period was from 1972-1982. Later, the residents opted for individual connections.

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

Over the years through rehabilitation and extension of service lines, services have been extended to some parts of Gatari Ward. The coverage area has been extended to 180KM².

Currently, there are 4,738 active connections serving a population of 34,400.

The scheme has a potential to serve the whole of Gatari ward if the proposed funding by Athi Water Works Development Agency are realized through extension of water mainlines and service lines.

MATHIOYA WATER SUPPLY

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

The service level was by individual connections.

The area covered was Njumbi and Gitugi locations in Mathioya Sub-County as well as Rwathia location in Kangema Sub-County. Currently, the total area covered is 134KM² with a population served of 52,000. The total number of active connections is 5,377.

MEASURES TO IMPROVE SERVICE DELIVERY

i) Gatango Water Supply

Athi Water Works Development Agency has funded construction of a new intake and laying of water mainline up to Kairo Tank which is a distance of 8.9 km. A new water pipeline for Gatari ward covering a distance of 21.6 Km has been laid. Services have been extended from Gakurwe tank to Kiambuigi tank a distance of 10km. Rehabilitation of water main lines and distribution lines is being done from Gakurwe to Gakuyu for a distance of 11km. Further rehabilitation of, Kairo-Kiria-ini-Kamacharia and Kairo-Kiambuthia-Kagumo-ini line is ongoing. For the above projects, Athi Water Works Development Agency provides pipes and fittings while the Company funds labour for pipe laying.

ii) Mathioya Water Supply

This requires funding for gravity water mainline to serve people at Kiamuturi, Kagongo, Ruiru and Mioro in Mathioya Sub-County as well as Wanjerere, Nyagatugu and Tuthu in Kangema Sub- County in order to eliminate uneconomical pumping costs. The existing gravity mainlines also requires rehabilitation and improvement of treatment works.

Principal Activities

The principal activities of the company are to manage water facilities so to provide clean, safe, affordable and portable water as well as sanitation services in the contracted areas.

Directors

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

1. Mr. Hezron M. Maina	-	Chairman
2. Ms. Magdaline M. Kiriko	-	Member
3. Mr. Samuel N. Kinyanjui	-	Member
4. Ms. Joyce K. Wachira	-	Member
5. Ms. Joyce W. Wachira	-	Member
6. Ms. Lucy N. Kionga	-	Member.
7. Ms Mary Magochi	-	Member

Corporate Secretary

FCS Richard K. Gikuhi, MBA, MKIM, HSC
Company Secretary
P.O. Box 1271-10100

Nyeri

Registered Office

Gatamathi Water and Sanitation Limited
Nyakianga next to DO's Office – Mathioya
Off Kangema Othaya Road
P.O. Box 93 -10204

Kiria-ini.

Corporate Headquarters

Gatamathi Water and sanitation Limited
Nyakianga next to DO's Office – Mathioya
Off Kangema Othaya Road
P.O. Box 93 -10204

Kiria-ini.

Corporate Contacts

Telephone: (254) 020-2032602
E-mail: gatamathiwsp@gmail.com
Website: gatamathiwsp.co.ke

Corporate bankers

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

Kiria-ini.

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

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

Independent Auditors


Auditor General




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

Principal legal Advisers

- a. The Attorney General
State law office
Harambee Avenue
P.O. Box 40112
City square 00200
Nairobi, Kenya
- b. Triple N W & Co. Advocates
Hazina Towers 9th Floor
Monrovia Street, Wing B Room 901
P.O. Box 28074-00100
Nairobi, Kenya

3. THE BOARD OF DIRECTORS

NAME	POSITION	EXPERIENCE AND POSITION IN THE SOCIETY
 Hezron Muchiri Maina	Chairman	Experience: 12yrs in Co-operative Movement in employment and 6 years in elected Post. Current Chairman of Amica Savings & Credit Sacco.
 Charles M. Muriuki	Managing Director	Education –Higher National Diploma- Water Engineering. Executive Master of Business Administration degree Area of responsibility – Implementation of the company’s board policies in line with Licence terms from WASREB. Work experience – 16years’ work experience at Gatamathi Water and sanitation company
 Magdalene M. Kiriko	Board Member	Born 1958, “O” Level, Service Corp, Chairperson BoG-Gikoe Sec School, Chairperson- Gikoe Primary. Businesswoman.
 Mr. Samuel N. Kinyanjui	Board Member	Bachelor of Arts Economics (University of Nairobi) Holder of Association of Chartered Certified Accountants (ACCA) MSc. Finance (University of Nairobi) ongoing Experience in Public Finance Management, Accounting, Auditing and Strategic Planning CEC Finance representative on the Board

 Joyce K. Wachira	Board Member	Born 1981, Diploma, Kenya Registered Community Health Nursing -Diploma in KRCHN (Embu Medical Campus) -Certificate in Leadership and Management in Health (University of Washington) -National Trainer of Trainees in Community case Management of Children under 5 years
 Joyce Wanjiku Wachira	Board Member	Born 1993 Bachelors Degree in Science Education. Mathematics & Chemistry teacher- Gakurwe Girls High School. Masters in Pure Mathematics JKUAT (Ongoing)
 Lucy Nduta Kionga	Board Member	Education- Bachelor of science in Biotechnology -Certificate in environmental Impact Assessment/ Audit - Registered NEMA EIA/ EA Associate expert -Member Environment Institute of Kenya
Mary Magochi	Board Member	CECM- Water, Irrigation & Infrastructure Murang'a County Government
FCS.Richard K. Gikuhi ,MBA,MKIM,HSC.	Company Secretary	

BOARD COMMITTEES

NAME OF THE COMMITTEE	MEMBERS
Finance, Technical and Administration Committee	1. Ms. Magdaline M. Kiriko – Chairperson 2. Ms. Joyce Wanjiku Wachira - Member 3. Ms. Mary Magochi -Member
Audit, Risk and Governance Committee	1.Ms. Joyce Karungari. Wachira - Chairperson 2. Mr. Samuel N. Kinyanjui - Member 3. Ms. Lucy Nduta Kionga - Member

4. MANAGEMENT TEAM

 <p>Charles Maina Muriuki</p>	<p>Managing Director</p>	<p>Education –Higher National Diploma- Water Engineering. Executive Master of Business Administration degree</p> <p>Area of responsibility – Implementation of the company’s board policies in line with License conditions from WASREB.</p> <p>Work experience – 17 years’ work experience at Gatamathi Water and sanitation company.</p>
 <p>Agnes Waruguru Kaburu</p>	<p>Technical Services Manager</p>	<p>Education – Diploma in Water Technology-KEWI. Diploma Public Relations –KIM</p> <p>Area of responsibility - Operation and Maintenance, Capital works rehabilitation and ensuring good quality water is availed all the time</p> <p>Work experience – 17 years’ work experience at Gatamathi Water and sanitation company</p>
 <p>Joseph Ngugi Wanyoike</p>	<p>Commercial Services Manager</p>	<p>Education – Bachelor of Commerce -Management Science. Area of responsibility – Running of company’s commercial department in the following fields: Accounts, Information Communication Technology, Meter reading, billing and Pro-Poor sections.</p> <p>Work experience – 16 years’ work experience at Gatamathi Water and sanitation company</p>
 <p>Stanley W. Ngunjiri</p>	<p>Internal Auditor</p>	<p>Education – B.COM - Accounting, CPA(K). Area of responsibility. Objectively assess the company’s risk and the efficacy of its risk management efforts. Ensure that relevant laws and statutes are complied with. Continuous evaluation and improvement of internal controls.</p>
<p>FCS.Richard K. Gikuhi ,MBA,MKIM,HSC.</p>		<p>Company Secretary</p>

5. CHAIRMAN'S STATEMENT

On behalf of the Board of Directors, it gives me great honour and privilege to present to you the Annual report and financial statements for the year ended 30th June 2023. The report outlines the Financial and operational performance of the Company for the period. Overall, the Company continued to show improvement in service provision to our customers in our expanding coverage area which now totals 345KM².

Operating environment

During the year, we recorded a slight increase in revenues even as the cost of operations remained high. As you are aware, there was a general increase in the cost of inputs across all sectors in the Country.

The demand for our services remained high and we have strategies in place to ensure that all our customers have quality and affordable water for use.

We continued to engage the stakeholders to ensure that their concerns are addressed and guide the Company's strategic direction.

As a board, we ensure that we operate in a socially responsible manner which include focusing on operational efficiency, resources conservation and responding to our customers' needs.

Expansion plan

During the year, the Company continued expansion of services to reach people in the lower zones of our supply areas. This enabled the residence of Gaturi Ward already connected with our supply up to Kiambuigi tank access reliable water for almost 24 hours per day. This was as laid out in our five-year Strategic plan covering the period 2022-2027 where we have projected to have water connectivity up to Sagana bridge.

Financial performance

The company sales turnover from water sale for the period was Ksh **69,260,632** which was an improvement from Ksh 60,058,980 realised for the year 2021/2022 about 15% increase. Further the company made an income ksh 2,228,000 as connection fee against ksh 1,611,000 for the year 2021/2022. The generated income was used to fund operations and extension of services to unserved customers.

Future plans

The Company has developed a Strategic plan covering the years 2022-2027. The plan main's focus is to improve operation efficiency and increase service coverage to our customers. This will be realised from internally generated funds and support from our development partners.

Conclusion

As the Chairman, I wish to affirm the Board commitment to steer the Company in achieving our mandate. I take the opportunity to thank our development partners without whose support we could not have achieved this much.

Lastly, I would like to appreciate and most sincerely thanks my fellow Directors, the management and entire staff for the dedication they have shown in service provision to our customers. I wish also to note with appreciation the support extended to us by the County Government of Murang'a, Water Services Regulatory Board and both Athi and Tana Water Works Development Agencies among others. It is my hope that the Company will continue improving services to our customers. We hope that the support that you have accorded us throughout will continue.

Thank you and God bless us all.

Sign 

Date 13/12/2024

Hezron M. Maina

CHAIRMAN OF THE BOARD

6. REPORT OF THE MANAGING DIRECTOR

I take this opportunity to present to you my report on the Company's performance for the period ended 30th June 2023.

INTRODUCTION:

One of the main objectives in the water provision sub-sector is to offer water and sanitation services to the people which are adequate and available all the time. However, we have not been able to do so due to the dilapidated infrastructure we inherited. The WSP management has been using the little water our conveyance system can be able to deliver to the customers. In that regard, we have been able to ration the little commodity to upper parts of our supply areas like Kairo, Kiria-ini, Gacharage-ini, Kihoya, Rwathia, Karunge, Ngutu, and Gitugi.

However, services are improving as we replace the old distributions lines with new pipelines across the supply area through the last mile connectivity programme. Currently, about 38% of contracted supply area has no services. By the end of the programme in the next year, most areas will be served with water.

SPECIFIC GOALS are as follows: -

They are meant to aim the following:

- i) Supply of portable water
- ii) Revival of old connections
- iii) increase of new connections
- iv) Expansion of pipe network to un served areas and improvement of hygiene and sanitation practices

Financial results for the year 2022-2023

The following is a summary of key highlights of financial statements.

a. Turnover

During the year under review the company's sales turnover was ksh 69 Million against ksh 60 Million for the year 2021-2022 an increase of 16%. The increase in sales turnover was purely as a result of internal growth within the service provision area. This is despite water charges remaining the same during the year, the current tariff in place having expired in 2012. The management look forward hoping to implement the new structure. The application for an upward tariff adjustment has been made and validated by the Regulator and the only remaining thing is public participation, gazettelement and implementation.

b. Expenses

The operating expenses during the year under review were ksh 72 million against ksh 76 million reported in the year 2021-2022.

c. Capital investment

Among the major capital works undertaken during the year under review includes extension of services in Gatari where rehabilitation of mainline from Gakurwe to Mukurwe wa Nyagathanga, laying of various sizes distribution lines totalling 12 kms as well as connecting 800 new customers.

From grants received from AWWDA rehabilitation the company has been able to extend services to Gatari ward in Kiharu constituency.

d. Profit for the year

The company made an operating profit of Kshs **1,138,797** compared to Kshs 2,548,793 made in the year 2021-2022. While we recognize that the profit compares favourably with prior year reported figure, its worth noting that it is still not enough to cover the intended capital investments. The company therefore continue to rely on provision made for depreciation to meet the obligations. However, the situation will be corrected once a full cost recovery Tariff is put in place.


Current Challenges

- i) The Company is faced with low revenue collection than budgeted which is not enough to fund the company's operations budget as well as for expansion to unserved area.
- ii) High Non-Revenue Water of about 58%.
- iii) Low metering ratio of 60%
- iv) High operational cost due to old system e.g. Asbestos Cement pipes in Gatango Water supply
- v) Infrastructure damage during road construction leading to huge water losses, high maintenance cost as well as unearned income.
- vi) Lack of adequate office space.
- vii) Large accumulated customer bills due to non-payment by some of our customers.
- viii) In ability to settle creditors on time. This is due to funds flow constraint from non-paying customers.

Ways of meeting the goals and overcoming the challenges

The augmentation and expansion of Gatango Water Supply to Gaturi, Mugeka and Gathukiini will greatly improve our service delivery. As a result of improvement of Kiriaini-Iruri line, Iruri residents are now being served. Currently, various water projects are underway and we expect them to be completed in the next financial year

Thank you all.

Sign 

Date 13/2/2024

C.M. Muriuki
MANAGING DIRECTOR

7. STATEMENT OF THE PERFORMANCE AGAINST PREDETERMINED OBJECTIVES FOR THE FY2022/2023

STRATEGIC	OBJECTIVE	KPI	ACTIVITIES	ACHIEVEMENTS
Growth and expansion	To increase Company's customer base.	Coverage	-Extension of mainline from Iruri to Thuita.	-Laid 5km 4' mainline from Iruri to Thuita has been completed, the only works remaining are construction and equipping of a BPT at Iruri and testing of the line.
			Expansion of Kiriaini Town reticulation system	Expansion of mainline from 4" to 6" pipes started from equity bank Kiriaini toward Kamacharia.
			-Extension of services from Kamacharia to Kairi.	Mainline laid from Kamacharia to Kairi
			Laying of small diameter distribution pipes to serve underserved area with water	In total 21 km of various size pipes sizes in the supply area has been done.
Metering		Metering ratio	Procuring and installation of customers meters and pressure management.	Installed 1,103 consumer/individual meters. The company's metering ratio stands at 57%.
		Revenue collection efficiency	Procurement of motor cycle	None procured during the year under review.
Review of human resource management		Staff Productivity	Training as per training needs assessment	-Field officers, meter readers, customer care, GIS officers attended various training.
Adopt and integrate technologies into company's processes		Non-Revenue Water	Taking customer meters coordinates for both supplies	-GIS Mapping of 659.4 KM of main and distribution lines done.

8. CORPORATE GOVERNANCE STATEMENT

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

- i. Two (2) members nominated by the County Government of Murang'a one of who shall be the County Executive Committee Member in charge of water affairs and County Executive Committee Member in charge of Finance.
- ii. One member from the business and manufacturing community nominated by their bodies.
 - a) Farmers organizations
 - b) Chamber of Commerce & Industry
- iii. One local professional nominated by their professional bodies.
 - a) Education Institutions
 - b) Professional bodies
- iv. One representative from resident organizations
 - a) Youth & People with disabilities
 - b) Water Resource Users Association
 - c) Health Institutions
- v. One member from a women organization – Maendeleo Ya Wanawake Organisation – Mathioya
- vi. One member representing all religious organizations

BOARD OPERATIONS

The Board is composed Board of seven (7) members who are elected during annual general meeting. To be eligible for election as a Board member, one has to meet the qualification criteria as set out in Water Services Regulatory Board guidelines. When Board positions once vacant, they are advertised in the National Newspapers, the candidates apply, and are vetted by the Board selection committee. The qualifying candidates are then presented by the Board selection Committee to the Annual General Meeting for election. Thereafter, Board members are inducted through training on their roles and responsibilities. The role of the Board is policy formulation and oversight. The term limit of a Board member is a maximum of two terms of three years each. Retirement is by rotation

In order to enhance corporate governance, the Board has constituted the following committees:

- 1) Audit, Risk and Governance committee

2) Finance, Technical and Administration committee

The board sits to formulate its calendar and programmes for the year.

9. MANAGEMENT DISCUSSION AND ANALYSIS

SECTION A

I. PAST PERFORMANCE

Over the years, the Company has achieved steady growth as evidenced in improvement in the standard service provision indicators which are universal in the sector.

During the financial year 2022/2023, the Company operated under a challenging environment. This was mainly in: -

- 1) Water flow disruption occasioned by road repairs and upgrading by various Government Agencies. This affected flow in Kagumo-ini from Kanjama in Kiru Ward, Mwangathia zone and some parts of Kairo zone where mainlines were damaged.
- 2) The current Tarrif in place only covers 82% of the Company's operational costs leaving no funds for investments.
- 3) Low flow occasioned by the drought hence strict rationing programmes.

II. ACHIEVEMENTS FOR THE PERIOD WERE

S/No.	BUDGETED OBJECTIVES	TARGET	ACHIEVEMENT	REMARKS
1.	Increase Billing from Ksh 60,058,980 to Ksh 85,000,000	85,000,000	69,260,632	The target was not fully achieved since it had factored the new tariff would have resulted in an increment in billing.
2.	To revive old and new connections	2,000	1,520	This was targeting the new zone to be created at Gaitheri after completion of the new Kihari intake. However, this was not achieved due to fund constraints hindering the last mile connectivity program in those targeted areas.
3.	Procurement and Installation of 2,000 No customer, master and Zonal meters	2,000	1,103	Due to resource constraints the company did not manage to procure meters as had been anticipated.

4.	Prepare and implement a cost recovery tariff	To have a valid tariff in place	In progress	The process was started and is in advance stages of finalizing to pave way for public participation.
5.	License application	To have a valid license	In progress	The process started and is in advance stages of presentation after amendments with the regulator.

- a) Billing increased to Kshs.69,260,632 in the year 2022/2023 compared with Kshs 60,058,980 billed in F/Y 2021/2022.
- b) Procured and installed 1,103 No. customer meters
- c) Capacity builds 69 No members of staff.
- d) Connected 1,209 new connections and revived 311 dormant connections.
- e) For effective planning in the Technical Department, Mapping of 659.4 KM main and distribution lines within the supply area has been undertaken.
- f) So as to reach unserved customers, the company replaced and rehabilitated 21KM of various sizes diameter HDPE pipes supplied by Athi Water Works Development Agency

III. WHAT WAS NOT ACHIEVED

- i) Increase in billing from Kshs 60,058,980 for the year 2021/2022 to Kshs 85,000,000 was not fully achieved. It was anticipated that an upward Regular Tariff Adjustment (RTA) would be in place.
- ii) Revival and installation of 2,000 no. new and old customers within the supply area was not achieved since it was targeting the customers downstream in Kamune and Gaturi zones due to lack of small diameters pipes for extension of service lines.
- iii) Meter installation target was not achieved. Only 1,103 No customer meters were installed. This is because the Company did not have enough funds from internal sources to procure more meters and pressure reduction valves. Though proposals were made to the county Government of Murang'a and to both Athi and Tana Water Works for metering subsidy, the company was granted 1,000 No meters by Athi Water Works.

- iv) A cost recovery tariff anticipated to be prepared was not achieved but the process is in advance stage with the regulator.
- v) Finalization of license application process was not achieved but its in advance of amendments.

IV. KEY STRATEGIC AREAS

For improved services provision and sustainability, the Company will continue concentrating on four strategic areas which have been identified as the drivers towards achieving the desired standards of the key performance indicators. The strategic areas are: -

- i) Growth which will be funded by internally generated funds and partnering with external entities. Proposal will be made for funding to Murang'a County Government, the National Government, Athi and Tana Water Works Development Agencies. The funding is meant for rehabilitation of old infrastructure, increase in metering ratio, inadequate office space and amenities, address non-revenue water challenge and increase in coverage. The Company is also planning to seek fund from Water Service Trust Fund in form of a loan for Non-Revenue Water reduction, pressure management and services extension.
- ii) Review of human resource management: – Human capital is the driving force for any meaningful success. The Company will continue engaging the employees in a positive manner. The human resources and policy manual will be reviewed to take on board current trends in the market.
- iii) Embrace customer-oriented culture: - the strategy will create an environment of a good relationship between customers and the company. To get expectations of the customers, customer satisfaction survey will be conducted.
- iv) Adopt and integrate technology to the company's processes: - the company will embrace the technology to fasten the services to the customers and improve office services in accounting, procurement, customer care, human resource and improved billing.

V. KEY PERFORMANCE INDICATORS (KPI) FOR THE FINANCIAL YEAR 2022/2023

Universally, there are set parameters that are used to measure the performance of a Water Services utility for effective management. The Company applies these parameters and set continuous improvement for each indicator. The performance in the parameters for the year 2022/2023 was as summarized next below: -

No.	Objectives	Status as at 30 th June 2022	Target as at 30 th June 2023	Actual	Measure
				As at 30 th June 2023	
1.	Water Quality	99	100	99	%
2.	Non-Revenue Water	58	54	58	%
3.	Water coverage	58	68	63	%
4.	Hours of Service	23	22	23	Hours
5.	Staff Productivity	6	5	6	<
6.	Revenue Collection Efficiency	93	95	91	%
7.	Personnel cost as %age O&M	51	51	48	%
8.	O&M Cost Coverage	87	115	98	%
9.	Metering Ratio	60	87	57	%

SECTION B

COMPLIANCE WITH STATUTORY REQUIREMENTS

The Company complies with most of statutory requirements in terms of remitting.

However, to liquidity constrains, the Company is unable to remit levies, fees and employee entitlements on time.

Currently the company is not involved in any litigation.

SECTION C

KEY PROJECTS AND INVESTMENT DECISIONS THE COMPANY IS PLANNING/IMPLEMENTING

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

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

SECTION D

MAJOR RISKS FACING THE COMPANY

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

SECTION E

MATERIAL ARREARS IN STATUTORY/FINANCIAL OBLIGATIONS

As at close of the period, the Company had accrued Ksh 6,448,668 as management fees payable to Tana Water Works Development Agency, WASREB Ksh 10,790,186 who is the regulator and Water Management Authority (WRA) Ksh 4,212,080. The employees are further owed Ksh 15,409,116. as accrued gratuity.

SECTION F

FINANCIAL PROBITY AND SERIOUS GOVERNANCE ISSUES

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

10. ENVIRONMENTAL AND SUSTAINABILITY REPORTING

The company recognises the critical role of safe guarding the environment for its sustainability. To this end, the following activities were carried out to conserve and improve the environment:

- a) Successes-trees were planted in the catchment area at Mioro and Kihari Treatment Works as follows:
 - giant bamboos trees
 - podo trees
 - pine trees
- b) Efforts to manage biodiversity- The company started tree nurseries at Mioro and Kihari Treatment Works and repaired damaged gabions at newly constructed Gatango intake
- c) Efforts to reduce environmental impact of the organisation's products-The company has developed a draft water safety plan as a guide for implementation of work plan and environmental policy

I. EMPLOYEE WELFARE

Gatamathi subscribes to the doctrine of equal opportunity employer. Recruitment is undertaken on the basis of fair competition and merit, representation of Kenya's diverse communities, adequate and equal opportunities to all gender, youth, members of all ethnic groups, persons living with disabilities and minorities. The company policy is to recruit and retain high-qualified staff, with appropriate academic and professional qualifications and experience, and reward them for their efficient productivity. Vacancies in the company are filled competitively from the labor market and internally where relevant competencies exist.

Skills Inventory - The company develops, updates, analyzes and maintains the skills inventories for all their staff and share with key stakeholders when need be. The analysis establishes the type and level of skills available, existing skills gaps and recommends appropriate interventions like short-term training and seminars.

The company recognizes its corporate responsibility under the Occupational Safety and Health Act of 2007. In fulfilling this responsibility, the company undertakes to observe Occupational safety and Health standards well beyond the minimum statutory requirement.

The company adopts all reasonable and proactive measures to:

- a. Create a safe working environment;
- b. Uphold environmentally friendly practices;

- c. Provide appropriate training and awareness to its employees;
- d. Take responsibility for Occupational Health Safety and Environment of the work place;
- e. Continuously monitor Occupational Health, Safety and Environment through regular inspection and Audits

a) Responsible supply chain and supplier relations

The Company complies with Public Procurement and Asset Disposal Act 2016 and its regulations. Opportunities are given to potential supplies through tendering and quotations that are open to the public. Tenders /quotations are evaluated and feedback is given to the tenderers. Contracts are entered into and the suppliers are paid for goods delivered and services rendered.

b) Responsible marketing and advertisement

When marketing its services to potential and existing customers, the Company endeavour to fulfil the promises as per the service charter in place.

c) Product stewardship

The Company ensures that the customers are aware of their rights for services through regular communications in public Barazas.

ENVIRONMENTAL AND SUSTAINABILITY REPORTING

The company ensured purchase of goods which are environmentally friendly. This is by use of products that can be recycled or disposed to avoid environmental pollution and ensured the products are good to human health.

CORPORATE SOCIAL RESPONSIBILITY

As Gatamathi Water and sanitation Community, we believe that we have a responsibility to our stake holder as well as to the communities in which we work and live . Our commitment is to build a deeply ingrained sense of social responsibility among our stake holder and the recognition that our company exists and grow strongly by helping to advance local communities well being and strive to improve the individual lives around the area of jurisdiction.

At Gatamathi we understand that we have a responsibility to our society and have made Corporate Social Responsibility an integral part of our business culture. To underline our deep commitment to making a difference in people's live we are guided by a policy where the company commits a budgetary allocation towards Corporater Social Responsibility initiatives

which focuses on key areas such as environment, Health, Education and sporting activities, and support to vulnerable groups.

As a company some of the Corporate Social Responsibility initiative that we have extended to the communities during the year under review include

1. Education – Currently we have partnered with technical institutions offering water related courses to offer students opportunities for attachment and internship program.
2. Vulnerable groups- the company makes contribution to the communities by assisting the elderly and needy persons with roof harvesting initiative where we donate tanks and install water connections. Further the company through the pro-poor initiative as guided by the local administration has assisted in offsetting water bills to the vulnerable families within the supply area.
3. Youth & Sports – in our commitment to support the communities we advance our efforts in contributing to sporting activities in the area of jurisdiction particularly we are involved in providing clean and bottled water during public events.
4. Environment- towards protecting the eco system in our jurisdiction we partnered with other government agencies towards tree planting initiatives in the area where the company procures seedlings as well as participating in environmental conservation..

11. REPORT OF THE DIRECTORS

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

Principal activities

The principal activities of the company are to manage water facilities and provide water and sanitation services on behalf of The County Government of Murang'a as mandated by Water Act 2002 and 2016 and the current Interim licence from Water Services Regulatory Board.

Results

The results of the Company for the year ended June 30, 2023 are set out on page 32 - 49

Dividends

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

Directors

The members of the Board of Directors who served during the year are shown on page 7 - 9.

Auditors

The Auditor General is responsible for the statutory audit of the Company in accordance with the Section 192 of the Public Finance Management (PFM) Act, 2012,

By Order of the Board

Name : Charles Maina Muriuki

Signature.....

Date...13/2/2024.....

Secretary to the Board.

12. STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

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

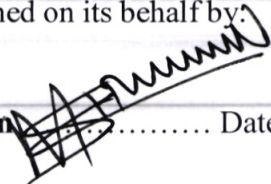
- (i) Maintaining adequate financial management arrangements and ensuring that these continue to be effective throughout the reporting period;
- (ii) Maintaining proper accounting records, which disclose with reasonable accuracy at any time the financial position of the Company;
- (iii) Designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of the financial statements, and ensuring that they are free from material misstatements, whether due to error or fraud;
- (iv) Safeguarding the assets of the Company;
- (v) Selecting and applying appropriate accounting policies; and
- (vi) Making accounting estimates that are reasonable in the circumstances.

The Directors accept responsibility for the Company's financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity with International Financial Reporting Standards (IFRS), and in the manner required by the PFM Act and the State Corporations Act. The Directors are of the opinion that the Company's financial statements give a true and fair view of the state of Company's transactions during the financial year ended June 30, 2023, and of the Company's financial position as at that date. The Directors further confirm the completeness of the accounting records maintained for the Company, which have been relied upon in the preparation of the Company's financial statements as well as the adequacy of the systems of internal financial control.

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

Approval of the financial statements

The Company's financial statements were approved by the Board on 28th September 2023 and signed on its behalf by:

Sign  Date 13/2/2024

Name Hezron Muchiri Maina

Chairman of the Board

Sign  Date 13/2/2024

Name Charles Maina Muriuki

Managing Director

REPUBLIC OF KENYA

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E-mail: info@oagkenya.go.ke
Website: www.oagkenya.go.ke



HEADQUARTERS
Anniversary Towers
Monrovia Street
P.O. Box 30084-00100
NAIROBI

REPORT OF THE AUDITOR-GENERAL ON GATAMATHI WATER AND SANITATION COMPANY LIMITED FOR THE YEAR ENDED 30 JUNE, 2023

PREAMBLE

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

- A. Report on the Financial Statements that considers whether the financial statements are fairly presented in accordance with the applicable financial reporting framework, accounting standards and the relevant laws and regulations that have a direct effect on the financial statements.
- B. Report on Lawfulness and Effectiveness in Use of Public Resources which considers compliance with applicable laws, regulations, policies, gazette notices, circulars, guidelines and manuals and whether public resources are applied in a prudent, efficient, economic, transparent and accountable manner to ensure Government achieves value for money and that such funds are applied for the 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 Gatamathi Water and Sanitation Company Limited set out on pages 1 to 31, which comprise of the statement of financial

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

position as at 30 June, 2023, and the statement of profit or loss and other comprehensive income, statement of changes in equity, statement of cash flows and statement of comparison of budget and actual amounts for the year then ended, and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, 2015. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

In my opinion, except for the effect of the matters described in the Basis for Qualified Opinion section of my report, the financial statements present fairly, in all material respects, the financial position of the Gatamathi Water and Sanitation Company Limited as at 30 June, 2023, and its financial performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards and comply with the Companies Act, 2015, the Water Act, 2016 and the Public Finance Management Act, 2012.

Basis for Qualified Opinion

1.0 Material Uncertainty in Relation to Going Concern

The statement of financial position reflects total current liabilities and total current assets balances of Kshs.65,752,982 and Kshs.55,987,679 respectively, resulting to a negative working capital of Kshs.9,765,303. Further, the statement of profit or loss and other comprehensive income shows that the Company's profit decreased during the year under review from Kshs.2,815,440 reported in the previous year, to Kshs.1,138,797, a decrease of Kshs.1,409,996 (or 55%). In addition, the statement of changes in equity reflects accumulated losses amounting to Kshs.55,788,889 as at 30 June, 2023. These undesirable financial performance and position are indications of the existence of a material uncertainty which may cast a significant doubt on the Company's ability to continue as a going concern and to meet its obligations as and when they fall due. Although the financial statements have been prepared on a going concern basis, this material uncertainty in relation to going concern and any mitigating measures put in place by the Company's Management to reverse the undesirable, precarious financial situation have not been disclosed in the notes to the financial statements.

The Company is therefore unable to pay its creditors and its continued sustainability is dependent upon the financial support from its creditors and the County Government.

2.0 Lack of Land Ownership Documents

The statement of financial position reflects property, plant and equipment balance of Kshs.19,221,176 which, as disclosed in Note 14 to the financial statements, includes Kshs.201,302 in respect of land, buildings and fixtures. The land includes Company's offices, built on 0.25 hectares of land. However, land ownership documents were not provided for audit.

In the circumstances, the accuracy, completeness and ownership status of the land, buildings and fixtures balance of Kshs.201,302 could not be confirmed.

3.0 Long Outstanding Trade and Other Receivables

The statement of financial position reflects trade and other receivables balance of Kshs.36,840,257 relating to outstanding water sales debtors which had remained uncollected for long. The persistent accumulation of trade and other receivables may have negatively affected the Company's cash flows. In addition, as disclosed in Note 16 to the financial statements, the Company made a provision of Kshs.24,926,003 (or 41%) for doubtful receivables, which is an indication that the Company had a poor debt collection mechanism. Further, the Company did not have a policy in place for the provision of bad and doubtful debts and the aging debtor's analysis provided for audit did not indicate the period that the receivables had been outstanding.

In the circumstances, the accuracy and recoverability of the receivables balance of Kshs.36,840,257 could not be confirmed.

4.0 Long Outstanding Trade and Other Payables

The statement of financial position reflects trade and other payables balance of Kshs.65,752,981 which, as disclosed in Note 19a to the financial statements, includes levy fees (owed to regulatory bodies) and gratuity (payable to staff who were on contracts before being confirmed to permanent and pensionable terms) amounts of Kshs.22,500,934 and Kshs.11,102,542 respectively, which had remained outstanding for long. In addition, a detailed aging analysis for the trade and other payables balance of Kshs.65,752,981 was not provided for audit.

In the circumstances, the accuracy and authenticity the levy fees and gratuity amounts of Kshs.22,500,934 and Kshs.11,102,542 respectively, could not be confirmed.

5.0 Anomalies in Note 16(a) on Trade and Other Receivables

Note 16 (a) to the financial statements on trade and other receivables reflects an amount of Kshs.36,590,257 (2021-2022 - Kshs.29,702,473) erroneously described as gross trade receivables. The amounts are actually net trade receivables since they comprise gross amount of Kshs.61,516,260 (2021-2022 - Kshs.60,255,986) less provision for doubtful receivables of Kshs.24,926,003 (2021-2022 - Kshs.30,553,513). No explanation has been provided for the anomalies.

In the circumstances, the accuracy and fair presentation of Note 16(a) to the financial statements could not be confirmed.

6.0 Non-Compliance with the Prescribed Reporting Requirements

Review of the financial statements revealed the following instances of non-compliance with the International Financial Reporting Standards (IFRS) reporting template prescribed for public water companies:

- i. The statement of comparison of budget and actual amounts indicates variances between actual and budgeted amounts of 10% or more (over/under) in respect of grants, new connections, miscellaneous income, repairs and maintenance costs and capital expenditure, in respect of which, Management did not provide budget or

explanatory notes as required. Also, no budget notes have been provided to explain the changes between original and final budget amounts for general and operations expenses, staff costs and repairs and maintenance as required.

- ii. Note 7 to the financial statements on grants income does not include a detailed analysis of grants received, specifying amount recognized in the statement of profit or loss and other comprehensive income and amount recognized in the statement of changed in equity. As a result of this omission, the Note does not capture grants of Kshs.16,772,710 reflected in the statement of changes in equity.
- iii. Note 16 to the financial statements on trade and receivables does not include aging analysis of the gross trade receivables balance of Kshs.61,516,260 and a reconciliation of impairment allowance for trade receivables as required by the template.
- iv. Note 17 to the financial statements on bank and cash balances does not have 'cash at bank' line item, but instead reflects individual bank accounts with account numbers. This is contrary to the prescribed template with requires names of financial institutions, types of bank accounts and account numbers to be tabulated in a 'Detailed analysis of cash and cash equivalents'.
- v. Note 19 (a) to the financial statements on trade and other payables reflects a balance of Kshs.65,752,981 whose aging analysis is not included as required.
- vi. Note 22 to the financial statements does not include analysis of cash and cash equivalents as required. Instead, analysis of cash and cash equivalents is presented as a separate note to the financial statements, which is contrary to the requirements of the template. Further, Note 22 includes operating revenue and general and operations expenses as parts (b) and (c) respectively which are not required by the template.

Therefore, Management contravened Section 164(1) of the Public Finance Management Act, 2012, which requires accounting officer of a County Government entity to prepare financial statements of the entity in formats to be prescribed by the Accounting Standards Board.

In the circumstances, the financial statements do not comply with the accounting standards as prescribed by the Public Sector Accounting Standards Board. Also, Management was in breach of the law.

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

Emphasis of Matter

Budgetary Control and Performance

The statement of comparison of budget and actual amounts reflects total income budget and actual on comparable basis amounts of Kshs.88,190,000 and Kshs.72,953,772 respectively, resulting in an underfunding of Kshs.15,236,228 (or 17% of the budget). Similarly, the statement reflects capital expenditure budget and actual on comparable basis amounts of Kshs.29,500,000 and Kshs.3,702,644 respectively, resulting in an under-expenditure of Kshs.25,797,356 (or 87% of the budget).

Further, the statement reflects total income and total recurrent expenses budget amounts of Kshs.88,190,000 and Kshs.78,354,600, resulting in a budget surplus of Kshs.9,835,400. This is contrary to Regulation 31 of the Public Finance Management (County Governments) Regulations, 2015, which stipulates that unless provided otherwise in the Act, these Regulations or any other guidelines developed in furtherance of the Act or these Regulations, the following guidelines shall be observed at all times during budget formulation and approval— (c) budget revenue and expenditure appropriations shall be balanced; and (e) total budget revenue shall cover total budget expenditure.

My opinion is not modified in respect of this matter.

Key Audit Matters

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

Other Matter

Unresolved Prior Year Matters

The progress on follow-up on Auditor's recommendations section of the financial statements reflects issues raised in the previous year's audit report that remained unresolved as at 30 June, 2023. No satisfactory explanations were provided for not resolving the prior year audit matters.

Other Information

The Board of Directors is responsible for the other information, which comprises the Chairman's Report, Report of the Managing Director, Directors' Report, the Statement of Corporate Governance, Management Discussions and Analysis, Environmental and Sustainability Reporting and the Statement of the Directors' Responsibility. The other information does not include the financial statements and my auditor's report thereon.

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

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

1.0 Non-Revenue Water (NRW) Losses

The statement of profit or loss and other comprehensive income reflects water sales amount of Kshs.69,260,632. Review of water production records revealed that during the year under review, the Company produced 3,186,600 cubic meters (m³) of water. However, as per the billing records, 1,358,859 m³ of water were sold during the period, resulting to Non-Revenue Water (NRW) of 1,827,741 m³ valued at Kshs.93,159,406, which represents 57% of the total water produced. The NRW is 32% above the allowable loss of 25% set by the Water Services Regulatory board (WASREB) Guidelines and, therefore, the excess NRW is not acceptable.

The significant level of Non-Revenue Water is an indication of inefficiency and ineffectiveness in the use of public and water resources, which may negatively impact on the Company's profitability and its ability to sustain services.

2.0 Expired Billing Tariff

The statement of profit or loss and other comprehensive income reflects Kshs.69,260,632 in respect of water billed to customers. However, it was noted that the existing tariffs were gazetted on 12 March, 2010 vide Kenya Gazette Notice Number 2610 effective for 12 months from the date of the notice, but have since then not been renewed or revised. This is contrary to Section 72(1) (c-d) of the Water Act, 2016 which gives the Water Services Regulatory Board (WASREB) powers and functions to set licence conditions and accredit water services providers, monitor and regulate licensees and enforce licence conditions.

In circumstances, Management was in breach of the law.

3.0 Unmetered Connections

As previously reported, examination of documents provided for audit revealed that a total of four thousand two hundred and forty-nine (4,249) customers were connected to the supply of water from the Company but their supply was not fitted with meters (unmetered) to enable the customers pay monthly bills in accordance with consumption in breach of Clause 14.3(a) of the water service providers permit.

In circumstances, Management was in breach of the law.

4.0 Exceeding Industrial Benchmark on Personnel Expenses

The statement of profit or loss and other comprehensive income reflect staff costs amount of Kshs.45,627,674 which is 64% of the total operating expenses of Kshs.71,814,975. However, this is higher than the recommended ratio of 35% prescribed by Section 3.9(10) of the Water Services Regulatory Board (WASREB) Corporate Governance Guidelines, 2018, which states that, when fixing remuneration of the staff, the total expenditure for each financial year must not exceed the benchmarks set for the services sector nationally, so that personnel cost as a share of operations and maintenance cost shall be contained within the 35%.

In the circumstances, the excess personnel costs may impact negatively on the Company's profitability and sustainability of services if measures are not put in place to contain the cost within the acceptable levels.

5.0 Non-Compliance with the Law on Staff Ethnic Diversity

In the year under review, the Company had a total staff of sixty-eight (68) out of which sixty-one (61), or 99%, were from one dominant ethnic community. This was contrary to Section 65(e) of the County Governments Act, 2012 which requires the County Governments to ensure that at least thirty percent of the vacant posts at entry level are filled by candidates who are not from the dominant ethnic community in the County.

In the circumstances, 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 matters described in the Basis for Conclusion on Effectiveness of Internal Controls, Risk Management and Governance section of my report, I confirm that, nothing else has come to my attention to cause me to believe that internal controls, risk management and overall governance were not effective.

Basis for Conclusion

1.0 Lack of Enterprise Wide Risk Management (ERM)

The water company had not compiled any risk register for the year under review and there was no evidence of risk policy and if enterprise wide risk management is

effectively working or fully operational. This is contrary to Regulation 165(1) of the Public Finance Management (County Governments) Regulations, 2015, which requires that the Accounting Officer shall ensure that the County Government entity develops— (a) risk management strategies, which include fraud Prevention mechanism; and (b) a system of risk management and internal control that builds robust business operations.

In the circumstances, the effectiveness of the risk management and internal controls in place could not be confirmed.

2.0 Asset Management

2.1 None Disposal of Motor Vehicles

During the year under review, the Company had four grounded motor vehicles which had not been disposed of as at 30 June, 2023, contrary to Regulation 176(1) of the Public Procurement and Asset Disposal Regulations, 2020, which states that an Accounting Officer of a procuring entity shall ensure that an annual assets disposal plan is prepared of items declared as unserviceable, surplus or obsolete, obsolescence stores, asset or equipment as set out under Section 53(4) of the Act. Paragraph (2) states that pursuant to Section 53(4) of the Act, the disposal plan in Paragraph (1) shall be done in accordance with the format specified in the Thirteenth Schedule.

2.2 Un-Updated Fixed Assets Register

The statement of financial position reflects property, plant and equipment balance of Kshs.19,221,176 as disclosed in Note 10 to the financial statement. However, the asset register provided for audit review had no key assets information like date of acquisition, costs, accumulated depreciation, net book values, asset location and custodian. This was contrary to Regulation 136(1) of the Public Finance Management (County Governments) Regulations, 2015, which stipulates that the Accounting Officer shall be responsible for maintaining a register of assets under his or her control or possession as prescribed by the relevant laws.

In the circumstances, the effectiveness of the asset management system in place could not be confirmed.

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

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

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

- i. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of my audit.

- ii. In my opinion, adequate accounting records have been kept by the Company, so far as appears from the examination of those books; and
- iii. The Company's financial statements are in agreement with those records and returns.

Responsibilities of Management and Board of Directors

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and the requirements of the Companies Act, 2015 and for maintaining effective internal control as Management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error and for assessment of the effectiveness of internal control, risk management and governance.

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


FCPA Nancy Gathungu, CBS
AUDITOR-GENERAL

Nairobi

29 April, 2024

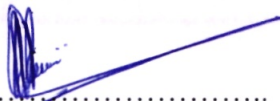
14. STATEMENT OF PROFIT OR LOSS & OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 30TH JUNE 2023

	Note	2022-2023	2021-2022
PARTICULARS		KSHS	KSHS
Water sales	6	69,260,632	60,058,980
Grants income	7	1,405,140	16,268,930
Other income	8	2,288,000	1,771,000
TOTAL REVENUE		72,953,772	78,098,910
OPERATING EXPENSES			
General and operations expenses (Re-stated)	9	19,250,633	31,659,541
Board expenses (Re-stated)	10	1,956,194	2,044,346
Staff costs	11	45,627,674	36,260,277
Repairs and maintenance (Re-stated)	12	1,940,184	2,770,513
Depreciation of property, plant and equipment	13	3,040,290	2,815,440
Other operating expenses (Re-stated)		-	-
TOTAL OPERATING EXPENSES		71,814,975	75,550,117
OPERATING PROFIT		1,138,797	2,548,793
PROFIT BEFORE TAXATION		1,138,797	2,548,793
PROFIT AFTER TAXATION		1,138,797	2,548,793


15. STATEMENT OF FINANCIAL POSITION AS AT 30TH JUNE 2023

	Notes	2022-2023	2021-2022
PARTICULARS		KSHS	KSHS
Non-Current Assets			
Property, plant and equipment	14	19,221,176	18,404,124
Total Non-current Assets		19,221,176	18,404,124
Current Assets			
Inventories	15	18,380,710	1,410,343
Trade and other receivables	16	36,840,257	30,237,058
Bank and cash balances	17	766,712	1,118,047
Total Current Assets		55,987,679	32,765,448
TOTAL ASSETS		75,208,855	51,169,572
EQUITY AND LIABILITIES			
Capital and Reserves			
Retained earnings	18(a)	(55,788,889)	(57,129,496)
Government Grants	18(b)	65,244,763	48,472,053
Reserves		9,455,874	(8,657,443)
Trade and other payables	19(a)	65,752,981	59,827,016
Total Current Liabilities		65,752,981	59,827,016
TOTAL EQUITY AND LIABILITIES		75,208,855	51,169,572

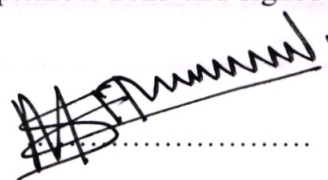
The financial statements were approved by the Board on 27th September 2023 and signed on its behalf by:


.....

Name Charles M. Muriuki
Managing Director


.....

Name: Priscillah N. Wambui
Head of Account
ICPAK M/NO. 20056


.....

Name: Hezron M. Maina
Chairman of the Board

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

	Government grants	Accumulated Losses	Total
2022			
As at 1 st July 2021	48,472,053	(59,678,289)	(11,206,236)
Total comprehensive profit	-	2,548,793	2,548,793
As at June 30 th , 2022	48,472,053	(57,129,496)	(8,657,443)
2023			
As at 1 st July 2022	48,472,053	(57,129,496)	(8,657,443)
Prior year adjustments	-	201,809	201,809
Additions for the year	16,772,710	-	16,772,710
Total comprehensive profit	-	1,138,797	1,138,797
As at June 30 th , 2023	65,244,763	(55,788,889)	9,455,874

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

	Notes	2022-2023	2021-2022
PARTICULARS		KSHS	KSHS
Cashflow from operating expenses			
Receipts			
Operating revenue	22(b)	68,284,943	56,956,166
Grant income	7	1,405,140	16,268,930
Other income	8	2,288,000	1,771,000
Customer deposits	19(b)	1,439,600	927,890
Total receipts		73,417,683	75,923,986
Payments			
Staff costs	11	45,627,674	36,260,277
General & Operations Expenses	22(c)	20,492,323	29,078,573
Board Expenses	10	1,956,194	2,044,346
Repairs and Maintenance expenses	12	1,940,184	2,770,513
Refund of Customer deposits	19(b)	50,000	50,000
Total payments		70,066,375	70,203,709
Net cash From Operating expenses	22(a)	3,351,308	5,720,278
Cashflows from investing activities			
Purchase of property, Plant and Equipment	14	(3,702,644)	(5,856,606)
Net cash used in investing activities		(3,702,644)	(5,856,606)
DECREASE IN CASH AND CASH EQUIVALENTS		(351,336)	(136,329)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR		1,118,048	1,254,376
CASH AND CASH EQUIVALENTS AT END OF THE YEAR		766,712	1,118,047

18. STATEMENT OF COMPARISON OF BUDGET & ACTUAL AMOUNTS FOR THE PERIOD ENDED 30TH JUNE 2023

PARTICULARS	ORIGINAL BUDGET	ADJUSTMENT	FINAL BUDGET	ACTUAL ON COMPARABLE BUDGET	PERFORMANCE DIFFERENCE	UTILISATION
Income	Kshs	Kshs	Kshs	Kshs	Kshs	%
Billing	85,000,000	-	85,000,000	69,260,632	(15,739,368)	81
Grants	1,080,000	-	1,080,000	1,405,140	325,140	130
New connection	2,000,000	-	2,000,000	2,228,000	228,000	111
Miscellaneous income	110,000	-	110,000	60,000	(50,000)	55
Total income	88,190,000	-	88,190,000	72,953,772	(15,236,228)	83
EXPENSES						
General & Operations Expenses	26,508,100	1,503,500	28,011,600	19,250,633	(8,760,967)	63
Board expenses	3,000,000	-	3,000,000	1,956,194	(1,043,806)	65
Staff costs	43,103,000	(300,000)	42,803,000	45,627,674	2,824,674	107
Repairs and maintenance costs	3,243,500	(1,203,500)	2,040,000	1,940,184	(99,816)	95
Depreciation	2,500,000	-	2,500,000	3,040,290	540,290	122
Total Recurrent expenses	78,354,600	-	78,354,600	71,814,975	(6,539,625)	92
Profit for the year	9,835,400	-	9,835,400	1,138,797	(8,696,603)	12
Capital expenditure	29,500,000	-	29,500,000	3,702,644	(25,797,356)	13

Total expenditures	107,854,600		107,854,600	75,517,619	(32,336,981)	70

The difference between actual and budgeted amounts can be explained as follows-

- 1) **Billing income** - The budget had factored an increase in billing due to an upward water Tariff review which was at the last stages. However, the process was not completed during the year under review.
- 2) **General and operations expense** - The reduction in provision for bad debts as it omitted category of institutions.
- 3) **Board expenses** - The planned Annual General Meeting(AGM), Board induction and benchmarking did not take place
- 4) **Depreciation** - There was an increase in provision for depreciation since the Billing software was capitalized.

19. NOTES TO THE FINANCIAL STATEMENTS

1. General Information

Gatamathi water and sanitation Company Ltd is incorporated as a limited company by guarantee and derives its authority and accountability from The Water Act 2002. The Company is wholly owned by the Murang'a County Government and is domiciled in Kenya. The Company's principal activity is provision of water services. For Kenyan Companies Act reporting purposes, the balance sheet is represented by the statement of financial position and the profit and loss account by the statement of profit or loss and other comprehensive income in these financial statements.

2. Statement of compliance and basis of preparation

The financial statements have been prepared after considering the going concern aspect of the company. In preparing its financial statements the management has noted that the company's ability to remain as a going concern is assured and will continue to offer services for the next year after thorough consideration to areas that may affect profitability. However, there were noted material uncertainties that may affect the company continuing to remain as a going concern as the current liabilities has exceeded the current asset a situation that has resulted in a negative working capital. The company's statement of profit and loss and comprehensive income reflects an accumulated loss of Kshs 55,779,166 as at June 30th 2023. This material uncertainty as well as precarious financial performance and position may hinder effective operations of the company as delays have been noted in meeting its financial obligations as they fall due.

The management after considering all relevant information has put in place mitigating actions that will ensure the company will remain as a going concern. Some of these actions planned and being implemented by the management in order to ensure the company continue to remain as a going concern are; -

- a) Excess demand of the company's products whereby the company has more water as well as high potential areas that are unserved. Rehabilitation and extension works are ongoing and will eventually lead to growth in connections as well as increase in billings.
- b) The company has a good working relationship with its owners the county Government and other government agencies that have committed support in infrastructure development as well as capacity building to increase in efficiency.
- c) The company has put in place measures to collect huge outstanding debtors. Once collected it will be in a position to settle its outstanding liabilities and do minor investments and expansion works.

Notes to the financial statements (continued)

- d) The company has been operating on a non-cost recovery tariff. A cost recovery tariff has been applied for and is at an advanced stage of approvals by WASREB.

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

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

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

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

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

Title	Description	Effective Date
IFRS 17 Insurance Contracts (issued in May 2017)	The new standard establishes principles for the recognition, measurement, presentation and disclosure of insurance contracts issued. It also requires similar principles to be applied to reinsurance contracts held and investment contracts with discretionary participation features issued. The objective is to ensure that entities provide relevant information in a way that faithfully represents those contracts. The Company does not issue insurance contracts	Effective for annual periods beginning on or after 1 st January 2023.
IAS (International Accounting Standards) 8- Accounting Policies, Errors, and Estimates	The amendments, applicable to annual periods beginning on or after 1st January 2023, introduce a definition of 'accounting estimates' and include other amendments to	The amendments are effective for annual reporting periods beginning on or after

Title	Description	Effective Date
	IAS 8 to help entities distinguish changes in accounting policies from changes in accounting estimates.	January 1, 2023.
Amendments to IAS 1 titled Disclosure of Accounting Policies (issued in February 2021)	The amendments, applicable to annual periods beginning on or after 1st January 2023, require entities to disclose their material accounting policy information rather than their significant accounting policies.	The amendments are effective for annual periods beginning on or after January 1, 2023.
Amendments to IAS 12 titled Deferred Tax Related to Assets and Liabilities arising from a Single Transaction (issued in May 2021)	The amendments, applicable to annual periods beginning on or after 1st January 2023, narrowed the scope of the recognition exemption in paragraphs 15 and 24 of IAS 12 (recognition exemption) so that it no longer applies to transactions that, on initial recognition, give rise to equal taxable and deductible temporary differences.	The amendments are effective for annual periods beginning on or after January 1, 2023.

(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.)

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

ii. Early adoption of standards

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

4. Summary of accounting policies

a. Revenue recognition

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

- i. Revenue from the sale of goods and services is recognised in the year in which the Company delivers products to the customer, the customer has accepted the products and collectability of the related receivables is reasonably assured.

Notes to the financial statements (continued)

Summary of accounting policies

- ii. Grants from National Government are recognised in the year in which the Company actually receives such grants.
- iii. Finance income comprises interest receivable from bank deposits and investment in securities, and is recognised in profit or loss on a time proportion basis using the effective interest rate method.
- iv. Other income comprises of sale of tenders and is recognised as it accrues.

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.

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

Notes to the financial statements (continued)

Summary of accounting policies

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

Buildings and civil works	12.5 %
Plant and machinery	12.5 %
Motor vehicles, including motor cycles	25%
Computers and related equipment	12.5%
Office equipment, furniture and fittings	12.5%
Intangible assets	33.3%

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

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

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

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. Inventories

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

Notes to the financial statements (continued)

Summary of accounting policies

g. 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.

h. Taxation

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the tax authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantially enacted as at the reporting date. Current income tax relating to items recognised directly in equity is recognised in equity and not in the income statement.

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

i. Cash and cash equivalents.

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

j. Trade and other payables

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

k. Retirement benefit obligations

The company contributes to the statutory National Social Security Fund (NSSF). This is a defined contribution scheme registered under the National Social Security Act. The company's obligation under the scheme is limited to specific contributions legislated from

Notes to the financial statements (continued)

Summary of accounting policies

time to time and is currently at Kshs.200.00 per employee per month. Also employees are under registered pension scheme where the company contributes 15% of the basic pay plus house allowance to the scheme.

l. Provision for staff leave pay

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

m. Comparative figures

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

n. Subsequent events

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

o. Public Sector Accounting Standards Board (PSASB) Gazettement

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

p. Financial Risk Management

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

Notes to the financial statements (continued)

Summary of accounting policies

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

(i) Credit risk

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

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

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

	Fully performing Kshs.	Past due Kshs.	Impaired Kshs.	Totals Kshs.
At 30th June 2023				
Trade receivables	30,962,747	24,926,003	(5,627,510)	61,516,260
Bank balances	766,712	-	-	766,712
At 30th June 2022				
Trade receivables	28,339,876	30,553,513	1,362,597	60,255,986
Bank balances	1,118,047	-	-	1,118,047

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.

Notes to the financial statements (continued)

(ii) Liquidity risk management

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

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

	Less than 1 Month Kshs	between 1-3 Month Kshs	Over 5 Month Kshs	Total Kshs
At 30th June 2023				
Trade Payables	974,764	978,443	6,725,792	8,678,999
At 30th June 2022				
Trade payable	779,830	2,605,158	7,400,457	10,785,445

q. Accounting policies

- i) Early adoption of standards

The Company did not early-adopt any new or amended standards in the year 2023.

5. Significant Judgments and Sources of Estimation Uncertainty

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

a) Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. Gatamathi Water and Sanitation Limited based its assumptions and estimates on parameters available when the financial statements were prepared. However, existing

Notes to the financial statements (continued)

circumstances and assumptions about future developments may change due to market changes or circumstances arising beyond the control of the Company. Such changes are reflected in the assumptions when they occur.

b) Useful lives and residual values

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

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

c) Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions is included in Note 16(a). 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.

6. WATER SALES

PARTICULARS	2022-2023	2021-2022
	Kshs	Kshs
Billing	69,260,632	60,058,980
Total	69,260,632	60,058,980

7. GRANTS INCOME

PARTICULARS	2022-2023	2021-2022
	Kshs	Kshs
Current grants received		
- A.W.W.D.A	500,000	1,000,000
- Water Services Trust Fund	-	14,417,440
- County government	905,140	851,490
Total	1,405,140	16,268,930

Notes to the financial statements (continued)

8. OTHER INCOME

PARTICULARS	2022-2023	2021-2022
	Kshs	Kshs
Butt Fusion hiring	-	160,000
Miscellaneous income	60,000	-
New connections	2,228,000	1,611,000
Total	2,288,000	1,771,000

9. GENERAL AND OPERATIONS EXPENSES

PARTICULARS	2022-2023	2021-2022
	Kshs	Kshs
Electricity and water	90,349	185,147
Communication services and supplies	944,447	883,943
Transportation, travelling and subsistence	2,562,597	3,536,012
Advertising, printing, stationery and photocopying	1,080,976	739,938
Staff training expenses	863,200	2,033,220
Hospitality supplies and services	177,886	184,785
Insurance costs	608,218	579,388
Bank charges and commissions	88,187	829,781
Auditor's remuneration	304,000	455,000
Legal fees	1,110,308	1,353,291
AGM cost	419,090	1,627,980
Water supply operations	6,232,312	10,602,880
Chemicals	287,280	392,685
Security	204,100	146,560
Fuel and Oils	3,805,397	2,700,643
Licence and tariff costs	274,020	212,158
Provisions for bad debts	(5,627,510)	1,362,597
WARMA	2,356,200	475,200
WASPA	105,000	105,000
WASREB	2,826,500	3,011,061
Staff uniform	318,076	22,272
KFS Fees	220,000	220,000
	19,250,633	31,659,541

Notes to the financial statements (continued)

10. BOARD EXPENSES

PARTICULARS	2022-2023	2021-2022
	Kshs	Kshs
Board fees	1,454,004	1,755,146
Other board expenses	502,190	289,200
	1,956,194	2,044,346

11. STAFF COSTS

PARTICULARS	2022-2023	2021-2022
	Kshs	Kshs
Salaries and allowances of permanent employees	33,139,557	26,663,836
Wages of temporary employees	4,269,390	3,862,450
Compulsory national health insurance schemes	743,601	646,950
Compulsory national social security schemes	433,581	145,400
Other pension contributions: Company contribution	3,143,750	2,571,425
: N.S.S.F	378,670	63,300
: Standard chartered	72,000	144,000
Total pension	3,594,420	2,778,724
Leave allowance and gratuity	2,418,022	1,846,957
Staff welfare	150,000	100,000
Motivation	879,103	215,960
Total	45,627,674	36,260,277
The average number of employees during the year:		
Permanent employees – Management	15	12
Permanent employees – Unionisable	43	44
Employees on contract employees	11	4
Total	69	60

Notes to the financial statements (continued)

12. REPAIR AND MAINTENANCE

	2022-2023	2021-2022
PARTICULARS	Kshs	Kshs
Computer repairs	550,415	339,360
Fixtures repairs	42,250	211,925
General repairs	17,400	88,340
Motor cycle repairs	124,263	262,407
Motor Vehicle repairs	1,205,856	1,868,481
Total	1,940,184	2,770,513

13. OPERATING PROFIT

	2022-2023	2021-2022
PARTICULARS	Kshs	Kshs
The operating profit is arrived at after charging	3,040,290	2,815,440
Depreciation of property, plant and equipment	1,454,004	1,755,146
Directors' emoluments - fees	502,190	289,200

14. PROPERTY, PLANT AND EQUIPMENT

PROPERTY, PLANT AND EQUIPMENT	LAND AND BUILDINGS & FIXTURES	MOTOR VEHICLES	OFFICE EQUIPMENTS	INTANGIBLE ASSETS	PLANT & EQUIPMENT	TOTAL
	12.5%	25%	12.5%	33.3%	12.5%	
Cost	Kshs	Kshs	Kshs	Kshs	Kshs	Kshs
At 1st July 2021	970,731	7,915,550	5,542,807	-	46,766,082	61,195,170
Additions	-	288,990	39,000	-	5,528,616	5,856,606
At end of year - June 2022	970,731	8,204,540	5,581,807	-	52,294,698	67,051,776
Prior year adjustments	-	-	-	464,000	-	464,000
Additions	-	-	-	-	3,702,644	3,702,644
At end of year - June 2023	970,731	8,204,540	5,581,807	464,000	55,997,342	71,218,420
DEPRECIATION	Kshs	Kshs	Kshs	Kshs	Kshs	Kshs
At 1st July 2022	707,806	6,900,590	4,094,541	-	34,129,275	45,832,212
Depreciation for the year	32,866	325,988	185,908	-	2,270,678	2,815,440
At end of year - June 2022	740,672	7,226,578	4,280,449	-	36,399,953	48,647,652
Prior year a depreciation	-	-	-	309,302	-	309,302

Depreciation for the year 2023	28,757	244,491	162,670	154,698	2,449,674	3,040,290
At end of year - June 2023	769,429	7,471,069	4,443,119	464,000	38,849,627	51,997,244
NET BOOK VALUE at 30 June 2023	201,302	733,471	1,138,688	-	17,147,715	19,221,176
NET BOOK VALUE at 30 June 2022	230,059	977,962	1,301,358	-	15,894,754	18,404,124

15. INVENTORIES

	2022-2023	2021-2022
PARTICULARS	Kshs	Kshs
Stationery, pipes and fittings	1,562,640	1,332,543
Chemicals	45,360	77,800
Grants (pipes & fittings)	16,772,710	-
Total	18,380,710	1,410,343

16. (a) TRADE AND OTHER RECEIVABLES

	2022-2023	2021-2022
PARTICULARS	Kshs	Kshs
Trade receivables	61,516,260	60,255,986
Provision for doubtful receivables	(24,926,003)	(30,553,513)
Gross trade receivables	36,590,257	29,702,473
Deposits and Prepayments	250,000	534,585
Net trade and other receivables	36,840,257	30,237,058

Notes to the financial statements (continued)

17. BANK AND CASH BALANCES

	2022-2023	2021-2022
PARTICULARS	Kshs	Kshs
Equity Bank Current Account - 0050290566304	24,028	187,747
Equity Bank Savings Account - 0050190278469	324,298	176,578
Family Bank Project Account - 008000007165	7,564	35,424
Family Bank Current Account - 008000006833	190,660	214,364
Kenya Commercial Bank Account - 1151559091	90,446	174,344
Cash in hand	1	100,000
Imprest	14,501	11,748
M-Pesa - Paybill no. 991790	114,880	202,832
Family Bank current account - 008000019276	334	15,010
Total	766,712	1,118,047

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

18. RETAINED EARNINGS AND GOVERNMENT GRANTS

(a). RETAINED EARNINGS

The retained earnings represent amounts available for plugging back to the company's operation. Undistributed retained earnings are utilised to finance the Company's business activities.

	2022-2023	2021-2022
PARTICULARS	Kshs	Kshs
Opening balance b/f	(57,129,496)	(59,678,289)
Comprehensive profit	1,138,797	2,548,793
Prior year adjustments (Payables)	47,111	-
Prior year adjustment (depreciation intangible asset)	154,698	-
Total	(55,788,889)	(57,129,496)

Notes to the financial statements (continued)

(b). GOVERNMENT GRANTS

This refers to grants received from developing partners for expansion of water services.

	2022-2023	2021-2022
PARTICULARS	Kshs	Kshs
Opening balance b/f	48,472,053	48,472,053
Additions during the year	16,772,710	-
Total	65,244,763	48,472,053

19. (a) TRADE AND OTHER PAYABLES

	2022-2023	2021-2022
PARTICULARS	Kshs	Kshs
Trade payables (creditors)	8,678,999	10,668,971
Accrued expenses		
: Levy fees	22,500,934	17,493,234
: Employees salary	4,327,306	2,912,211
: Pension	2,339,613	501,341
: Pension gratuity	1,645,641	603,327
: Gratuity	11,102,542	13,880,115
: Customer advances	523,077	505,958
: Audit fees accrued	1,703,000	1,399,000
Customer deposit	10,686,145	9,296,545
Other payables (KRA)	2,245,724	2,245,724
Accrued staff leave	-	320,590
Total	65,752,981	59,827,016

(b) Customer deposits

	2022-2023	2021-2022
PARTICULARS	Kshs	Kshs
Opening customer deposits	9,296,545	8,418,655
Add customer payments for the year	1,439,600	927,890
Less refunds for the year	50,000	50,000
Closing customer deposit	10,786,145	9,396,545

Notes to the financial statements (continued)

20. RETIREMENT BENEFIT OBLIGATIONS

The company also contributes to the statutory National Social Security Fund (NSSF). This is a defined contribution scheme registered under the National Social Security Act. The company's obligation under the scheme is limited to specific contributions legislated from time to time and is currently at 1.5% of the gross pay per employee per month.

21. PROVISION FOR LEAVE PAY

	2022-2023	2021-2022
PARTICULARS	Kshs	Kshs
Balance at beginning of the year	320,590	838,950
Leave pay cumulated during the year	-	-
Amount unutilised	320,590	838,950
Leave paid out or utilised during the year	(320,590)	(518,360)
Balance at end of the year	-	320,590

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

22. NOTES TO THE STATEMENT OF CASH FLOWS

	2022-2023	2021-2022
PARTICULARS	Kshs	Kshs
(a) Reconciliation of operating profit to Cash generated from / (used in) operations		
Operating profit	1,138,797	2,548,793
Depreciation	3,040,290	2,815,440
Operating profit before working capital changes	4,179,087	5,364,233
(Increase)/decrease in inventories	(197,657)	242,138
(Increase)/decrease in trade and other receivables	(6,603,199)	(1,740,217)
Increase/(decrease) in trade and other payables	5,925,966	1,854,124
Increase/(decrease) in prior year adjustments (payable)	47,111	-
Cash generated from/ (used in) operation	3,351,308	5,720,278

Notes to the financial statements (continued)

(b) Operating revenue	2022-2023	2021-2022
PARTICULARS	Kshs	Kshs
Opening accounts receivables	60,790,571	57,687,757
Water sales – billing	69,260,632	60,058,980
Closing Accounts receivables	(61,766,260)	(60,790,571)
Total operating revenue	68,284,943	56,956,166
(c) General and operations expenses		
Opening trade & other payables	59,827,015	57,972,890
Purchases (Chemicals & water supply operations)	6,519,592	10,995,565
Administration expenses less purchases	19,898,697	19,937,133
Closing trade & other payables	(65,752,981)	(59,827,015)
Total payments	20,492,323	29,078,573

23. ANALYSIS OF CASH AND CASH EQUIVALENTS

PARTICULARS	2022-2023	2021-2022
PARTICULARS	Kshs	Kshs
Cash at bank	752,210	1,006,298
Cash in hand	14,502	111,749
Balance at end of the year	766,712	1,118,047

24. RELATED PARTY DISCLOSURES

(a) Government of Kenya

The county government of Murang'a is the principal shareholder of the Company, holding 100% of the Company's equity interest. The County Government of Murang'a has provided full guarantee to all long-term lenders of the Company, both domestic and external.

(b) Other related parties include:

- The County Department in charge of Water
- County Government of Murang'a
- Water works Agencies
- WASREB
- WARMA
- Water Sector Trust Fund
- Key management

Notes to the financial statements (continued)

- Board of directors
- Water service provider

Transactions with related parties

	2022-2023	2021-2022
PARTICULARS	Kshs	Kshs
a) Sales to related parties		
Water sales to Murang'a county government	232,790	348,820
Butt Fusion services	-	160,000
b) Grants A.W.W.D.A	16,772,710	-
Total	17,005,500	508,820

25. CAPITAL COMMITMENT

	2022-2023	2021-2022
PARTICULARS	Kshs	Kshs
Capital works investments	3,702,644	5,856,606

26. INCOPORATION

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

27. CURRENCY

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

20. APPENDIX 1: PROGRESS ON FOLLOW UP OF AUDITOR RECOMMENDATIONS

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

Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
1	Material uncertainty in relation to going concern	The company has had a stream of loss making over years due to the status of infrastructure that was inherited from the parent ministry which has been a drain of little resources due to high cost of operation and maintenance. With rehabilitation and replacement of old Upvc pipes with HDPE Pipes the cost of operation and maintenance has gradually started to decline thus leading to an improved performance by a reduction of losses we have been making. There is a program in place of continuous metering so as to reduce Non- Revenue. The management believes that with the capital projects being implemented by the national government towards upgrading and extension of the infrastructure the loss-making stream will be overturn and start recording profits due to reduction of operation and maintenance works and improved income.	Not resolved	June 2027
2	Lack of land ownership documents	The Company operates former Government of Kenya Water Supplies that used to be run by the District Water Officers. All the Building and Fixture were constructed on pooled Government Land with other Ministries. There should have been a transfer as had been envisaged in Water Act 2002 and later 2016. The transfer did not take place hence the Government still owns the land and hold the Titles.	Not resolved	June 2027


	Long outstanding trade and other payables	With the prevailing financial performance and position, the company has been faced with a challenge of settling its obligations as and when they fall due. This has greatly been attributed by lack of a regular tariff adjustment where the tariff in place only covers approximately 82% of its obligations thus leading to accumulation of debts. To address this issue the management has applied for a regular tariff adjustment which if approved will address the cashflow problems. To further address the issue the management has embarked on a debt collection and recovery strategy where the proceeds will be utilized to settle some of the long outstanding debts.	Not resolved	June 2025
3	Trade and other receivables	The company's receivables have been accumulating over time which implies that more customers are unable to clear their bills by due date. This persistent accumulation has been compounded by other social, economic and demographic factors. The company is purely a rural set up where majority of its customers relies majorly on farming. With reduced income from tea, coffee and milk produce majority of our customers have become unable to settle their bills thus ending up being disconnected. Further in some areas there are good catchment areas where small tributaries and rivers have become an alternative source of water to those disconnected thus ending up abandoning the company's connection. To address the issues of receivables the company has embarked on a raft of measures among them raising of demand notices to defaulters, structured dormant connection audit as well as sending reminder	Not resolved	June 2025

		messages.		
4	Exceeding industrial benchmark on personnel expenses	The management acknowledges high wage bill which has yet to meet the minimum requirements as per the set industrial benchmark. This has been a challenge since the company status changed from medium to large utility. As per the licence conditions the company negotiated with WASREB on performance improvement plan for 5 years, the management was to ensure personnel expenditure improves from 54% in 2019 to 45% in 2024. This has been captured as one of the company's strategic objectives where the management has embarked on an expansion mission which will assist in increasing on coverage as well as new connections that will eventually yield more billing. Also, efforts have been put in place to revive the dormant connections and the company has a raft of measures that will curb on illegal connections and also metering those on flat rate with an aim of increasing the billing base.	On going	June 2027
5	Staff ethnic diversity	The company aim at achieving the thirty percent ethnic diversity and also be compliant with the law. In order for the company to further represent the diversity of the people of Kenya a deliberate program is in place to recruit qualified people from other communities when an opportunity arises as witnessed in the last recruitment of a G.I.S Officer.	Not resolved	By 2026/2027 financial year
6	Lack of updated asset	The management has identified the gaps in the areas raised by the audit and asset	Not resolved	December 2023

	register	tagging and identification is ongoing.		
7	Legal services without approval	<p>In the years 2019/2020, the Companies in the County were faced with a hostile legal environment through challenge from the County Government which threatened their very existence. This was through threats of freezing of Banks Accounts among other measure which would have greatly affected service delivery. The board had noted that engaging legal firms to represent each Company was deemed not to be cost effective. More so, since the Companies had similar grievances, it was resolved during a meeting held at Murang'a Water and Sanitation Company on 11 June 2020 to engage Mess Triple N.M & Co, to represent all the Companies in the legal matter on a retainer basis. The dispute was subsequently determined in the favour of the Companies and freezing of Accounts barred by the court.</p> <p>After inception in year 2006, the Company had not held an AGM until year 2010. At the same time, there was a challenge from a group called Mathioya Self Help who claimed that they owned Mathioya Scheme as they had made token contribution at the start of the Scheme in late 1970's. The principal at the time i.e. Tana Water Services board Seconded Gikuhi Kiana &Company to guide the Company through the process of AGM and incorporating the self-help group as stake holders in the Company. The process was successful and subsequently, the Board appointed Gikuhi Kiana as the Company Secretary. The fees would be as per the standard rates. Ever since the company</p>	Not resolved	June 2024

		Secretary's work has been excellent and the Company had not seen the need to annul the appointment.		
8	Excess Non – Revenue Water	<p>To reduce the NRW the company has been undertaking the following:-</p> <ul style="list-style-type: none"> -Continuous metering from internally generated funds and support from water works Development Agencies -Writing proposals for external funding from ministry through Water Works Development Agencies, the county government and had also applied for a loan facility from world bank/ KFW of which part of the loan will be used in the management of NRW -To curb commercial losses the company has embarked on a customer identification and dormant tracing exercise with an aim to minimize on illegal consumptions -The company has also developed a policy to gradually phase out upvc pipes with hdpe pipes of which in the piloted areas we have reduced the number of frequent bursts thus a reduction in physical losses. -On need to establish the courses of frequent bursts along the reticulating system the company through GIS Section has started mapping exercise of the supply area with particular emphasis on pressure maps that will aid in identifying pressure differences in a particular line. These maps will guide the company in establishing areas that will require installation of pressure release devices thus a reduction in frequent bursts 	On going	June 2027

9	Budgetary control and performance	To address the over expenditure the management had sought a supplementary budget allocation on the components that had exceeded the allocation.	Resolved	June 2023
10	Un-serviced fire extinguishers	In order to mitigate the company from catastrophic losses the company has serviced fire extinguishers as per the OSHA guidelines.	Resolved	June 2023
11	Lack of disaster recovery plan	The company in its effort to meet its strategic objectives as well as to safeguard its data due to any eventuality has enriched the IT Policy and procedure manual to incorporate a detailed IT continuity plan and disaster recovery plan. The revised policy acts as a reference document for the company IT matters.	Resolved	June 2023
12	Expired tariff billing	The process of applying for a cost recovery tariff is in the final stages.	On going	June 2024

Sign 

Date 13/2/2024

C.M. Muriuki
MANAGING DIRECTOR