

REPUBLIC OF KENYA



Enhancing Accountability

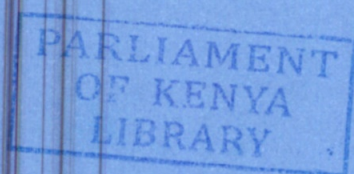
REPORT

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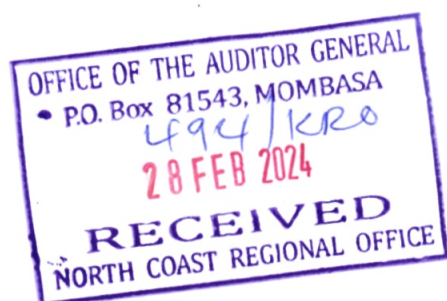
THE AUDITOR-GENERAL

ON



**MALINDI WATER AND SEWERAGE
COMPANY LIMITED**

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



MALINDI WATER AND SEWERAGE COMPANY 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)

Malindi Water and Sewerage Company Ltd
Annual Report and Financial Statements for the year ended June 30, 2023

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1. Acronyms and Glossary of Terms

ICPAK	Institute of Certified Public Accountants of Kenya
IFRS	International Financial Reporting Standards
MD	Managing Director
PFM	Public Financial Management
PSASB	Public Sector Accounting Standards Board
WASREB	Water Services Regulatory Board
MAWASCO	Malindi Water and Sewerage Company Limited
AGM	Annual General Meeting
CWWDA	Coast Water Works Development Agency

Malindi Water and Sewerage Company Ltd
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2. Key Entity Information

Background information

The Company was established pursuant to the Water Act 2002. It was incorporated on 25th August 2005. At County level, the Company is represented by the County Executive Member responsible for water and sanitation, who together with the board of Directors are responsible for the general policy and strategic direction of the Company. The Company is domiciled in Kenya in Malindi Sub- County of Kilifi County.

Principal Activities

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

Vision

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

Mission

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

Core values

The core values of the Company are:

- Customer focus
- Innovativeness
- Integrity
- Teamwork
- Excellence

Malindi Water and Sewerage Company Ltd
Annual Report and Financial Statements for the year ended June 30, 2023

Key Entity Information (Continued)

Directors

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

<u>Name</u>	<u>Position</u>	<u>Appointment Date</u>
1. Samson Mappinga	-Chairperson	Appointed on 24th March 2023
2. Gerald Mwambire	-Managing Director	Reappointed on August 2022
3. Maureen Obunga	-Member	Reappointed on 24th March 2023
4. Aisha Kiringo	-Member	Appointed on 24th March 2023
5. Hamza Hamisi Hussein	-Member	Appointed on 24 th March 2023
6. Shakir Swaleh Mohamed	-Member	Appointed on 24 th March 2023
7. Winnie Luwali	-Member	Appointed on 24 th March 2023
8. Hezekiah Mwaruwa	-Member	Appointed on 24 th March 2023
9. Sammy Kazungu Kaingu	-Member	Appointed on 24 th March 2023
10. Stella Bahati Masha	-Member	Appointed on 24 th March 2023
11. Anderson Kasiwa	-Member	Retired on 24 th March 2023
12. Barka Ali	-Member	Retired on 24 th March 2023
13. Anthony Chutta	-Member	Retired on 24 th March 202
14. Thurea Tora	-Member	Retired on 24 th March 2023
15. Loice Wanje	-Member	Retired on 24 th March 2023
16. Felix Charo	-Member	Retired on 24 th March 2023
17. Fredrick Kaingu	-Member	Retired on 24 th March 2023
18. Kennedy Chilibasi	-Member	Retired on 24 th March 2023

Corporate Secretary

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

Registered Office

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

Corporate Headquarters

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

Malindi Water and Sewerage Company Ltd
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Key Entity Information (Continued)

Corporate Contacts

Telephone: (254) 4231037
E-mail: info@malindiwater.co.ke
Website: www.malindiwater.co.ke

Corporate Bankers

Kenya Commercial Bank
P. O. Box 1800-80200
Malindi, Kenya.

Equity Bank Limited
P. O. Box 9- 80200
Malindi, Kenya.

Post Bank of Kenya
P. O. Box
Malindi, Kenya.

Independent Auditors

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

Principal Legal Advisers

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

Malindi Water and Sewerage Company Ltd
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3. The Board of Directors

	Director Samson Mkutano Mapinga, Chairperson of the board of directors was born in 1969. He was appointed on 24th March 2023. He has vast experience in Management having worked in different capacities. He holds a Certificate in County Governance. He represents the Farmers in the board of directors.
	Director Aisha Muthoni Kiringo, Chairperson of the Finance and Planning Committee of the Board of Directors was born in 1968. She was appointed on 24th March 2023. She has vast experience in Community Development. She has a Diploma in Community Health and Development. She represents the Women Groups in the board of directors.
	Director Stella Bahati Masha, Chairperson of the Human Resource and Administration Committee of the Board of Directors was born in 1977. She was appointed on 24th March 2023. She has vast experience in Administration. She has a Diploma in Company Secretarial Services. She represents the Farmers in the board of directors.
	Director Sammy Kazungu Kaingu, Chairperson of the Audit and Risk Committee of the Board of Directors was born in 1964. He was appointed on 24th March 2023. He has vast experience in Education. He has a bachelor's degree in education. He represents the Professional Organisation in the board of directors.

Malindi Water and Sewerage Company Ltd
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Board of Directors (continued)

	Director Shakir Swaleh Mohammed, Member of the Finance and Planning Committee and the Human Resources Committee of the Board of Directors was born in 1985. He was appointed on 24th March 2023. He has vast experience in Information Technology. He has a bachelor's degree in information technology. He represents the Business Community in the board of directors.
	Director Maureen Awuor Obunga, Member Finance and Planning Committee and Human Resource Committee of the Board of Directors was born in 1982. She was appointed on 24th March 2023. She has vast experience in Business Management. She has a bachelor's degree in commerce (Finance Option). She represents the Hoteliers in the board of directors.
	Director Hezekiah N. Mwarua was born on 16th January 1983. He is the Chief Officer for Water and Sanitation services at County Government of Kilifi. He holds a Bachelor of Technology in chemical and process engineering from Moi University. He is currently pursuing Master of Business Administration (Management Science option). He has over 10 years of experience in private and public service.

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Annual Report and Financial Statements for the year ended June 30, 2023

Board of Directors (continued)

	Director Winnie Wakati Luwali was born on 21st February 1990. She is the Chief Officer for Finance in the County Government of Kilifi. She holds Bachelor of commerce Degree in Finance and Banking from the University of Eastern Africa Baraton and a master's in business administration from University of Nairobi. She a member of - Kenya Institute of Bankers, Kenya institute of Management, and Institute of Human Resource Management
	Director Hamza Hamisi Hussein, Member of the Human Resource Committee and Finance and Planning Committee of the Board of Directors was born in 1979. He was appointed on 24th March 2023. He has vast experience in Information Technology. He has a Certificate in Computers. He represents the Water Users Association in the board of directors.
	Mr Felix Lalo Wanje is the Managing Director. He was appointed on 1st November 2023. He holds a master's degree in business administration and is a Certified Human Resource Professional. He has vast experience in administration from the County Government.
	Caroline Gladwell, Advocate of the high Court, Secretary to the Board of Directors. She was appointed in March 2019. She is also a Certified Public Secretary (CS) and a member of the Institute of Arbitrators. She also holds a master's in business administration, Strategic Option.

Malindi Water and Sewerage Company Ltd
Annual Report and Financial Statements for the year ended June 30, 2023

4. Key Management Team

	Mr Felix Lalo Wanje is the Managing Director. He was appointed on 1 st November 2023. He holds a master's degree in business administration and is a Certified Human Resource Professional. He has vast experience in administration from the County Government.
	Engineer Isaac Chibule is the Acting Managing Director and the Technical Manager. He holds a BSc degree in Water Engineering from Kenyatta University and a master's degree in project planning and management at the University of Nairobi. He is also the Technical Services Manager
	Mr Seith Baya is the Finance Manager. He holds a bachelor's degree in business administration from Kenya Methodist University, he is a Certified Public Accountant CPA. (K) and a Certified Public Secretary CPS.
	Mrs Fella Nawiri is the Human Resource Manager. She holds a bachelor's degree in business administration (HRM) Human Resource and a post graduate diploma in Human Resource

Malindi Water and Sewerage Company Ltd
Annual Report and Financial Statements for the year ended June 30, 2023

Management Team (Continued)

Manager	Details
	Mr Kingstone Mulewa is the Internal Audit Manager. He holds a degree in Business Management. He has vast knowledge in accounting and banking. He has worked in various capacities in the accounting field. He is a Certified Public Accountant
	Vellasco Ndaro is the Commercial Manager. He holds bachelor's degree in business management and a Master of Arts in Project Planning and Management. He is a registered Member of the Kenya Institute of Management
	Mrs Priscillah Oluoch is the Head of Sanitation Services. She holds a Bachelor of Development Studies and Master of Project Planning and Management from the University of Nairobi, Diploma in Water Engineering from the Technical University in Kenya and a Post Graduate Diploma in Land Regularization and Management from Erasmus University, Netherlands.

Malindi Water and Sewerage Company Ltd
Annual Report and Financial Statements for the year ended June 30, 2023

5. Chairman's Statement

Company Overview

Malindi Water and Sewerage Company Limited continued to register remarkable progress in its pursuit to serve the people in its area of mandate. In the year under review, significant progress was realised in the increase in network coverage and customer base. This was largely attributed to the on-going Water and Sanitation Development Project under the World Bank.

Financial Performance

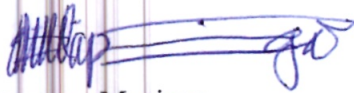
The total turnover increased by 9.5% compared to the previous year, attributable to the increase in coverage of the area under jurisdiction. In addition, there was a marked increase in the production and distribution of water levels compared to the last financial year.

Partners Support

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

Looking forward

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



Samson Mapinga

Chairman Board of Directors

Malindi Water and Sewerage Company Limited

Malindi Water and Sewerage Company Ltd
Annual Report and Financial Statements for the year ended June 30, 2023

6. Report of the Managing Director

Overall Performance of the Company and Economic Outlook

There was an improved service provision in the current financial year which was attributable to stabilized water bulk water production from the source works. There was also an improved billing and revenue collection at the same time as a result of vigorous debt collection.

Major Water and Sanitation Projects Undertaken by the Company

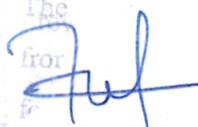
During the year, the Company continued with network improvement. Pipeline network intensification continued under the Water and Sanitation Development Project. During the financial year, the Company spent KShs 538,983,659.00 as part of the increase in coverage program.

Company's Strategic Plan

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

Challenges

The Company is currently faced with challenges in using a non-cost recovery tariff to run the organisation. The management is at an advanced stage to have a cost recovery tariff approved to ensure continued smooth operations.



Felix Wanje

Managing Director

Malindi Water and Sewerage Company Ltd
Annual Report and Financial Statements for the year ended June 30, 2023

7.Statement of Performance against Predetermined Objectives for FY 2022/23

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

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

The Company developed its annual work plan based on the above four pillars. Assessment of the Board's performance against its annual work plan is done on a quarterly basis. The Company achieved its performance targets for the FY 2022/2023 as indicated in the table below:

Review of Strategic Objective Performance for the year 2022 2023

Strategic Pillar	Objective	Key Performance Indicators	Activities	Achievements
Financial perspective	Increase length of pipeline from 1,273km to 1,292km	Increased pipeline	Network intensification within Malindi Township	Pipeline completed
Customer Perspective	Maintain the hours of supply to 22 hrs per day.	Supply water above 22 hours per day	Pumping done for 22 hours per day	Maintained at 22 hours per day
Internal (process) perspective	Fortify and internalize Organizational capacity and process.	Develop 3 No. policies.	Present policies for approval	3 Policies approved
Learning and growth perspective	Capacity build and develop employee skills.	Staff training	Undertake staff training	Staff taken for training in various relevant training institutions

Malindi Water and Sewerage Company Ltd
Annual Report and Financial Statements for the year ended June 30, 2023

8. Corporate Governance Statement

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

Board meetings held and the attendance to those meetings by members.

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

Succession plan

All the non-executive directors are appointed for an initial term of 3 years. The board implements the term limit in line with the articles of Association and the board charter. A set of three board members resign on completion of the three-year term at an Annual General Meeting so to ensure continuity of board members and achieve a succession plan for good governance. The board maintains the required skills matrix in the succession plan. The current directors were appointed on 24th March 2023 for a period of 3 years.

Board charter

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

Appointment and removal of directors

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

Malindi Water and Sewerage Company Ltd
Annual Report and Financial Statements for the year ended June 30, 2023

CORPORATE GOVERNANCE STATEMENT (Continued)

Roles and functions of the Board

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

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

Induction and training

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

Board and member performance

The board commission's board evaluation and performance audit exercise to identify any gaps and potential ways of closing gaps. The board evaluation is conducted in each financial year by an external consultant. During the financial year 2022/23 the board did not conduct the performance evaluation as they had just been appointed.

Conflict of interest

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

Malindi Water and Sewerage Company Ltd
Annual Report and Financial Statements for the year ended June 30, 2023

CORPORATE GOVERNANCE STATEMENT (Continued)

Board Remuneration

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

Malindi Water and Sewerage Company Ltd
Annual Report and Financial Statements for the year ended June 30, 2023

9. Management Discussion and Analysis

a) Operations and financial performance of the organisation

i) Number of Consumer Accounts Billed

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

Total Number of Consumer Accounts

Month/ Period	Accounts On Supply			New Connections Paid For	Total A/C Off Supply	Active A/Cs Off Supply	Terminated. Off Supply	Total A/c's
	Actual Reading	Estimated Reading	Total Billed					
	(1)	(2)	(3) = (1) +(2)					
2022-2023	22,619	3,986	26,605	184	14,523	11,127	3,397	41,128
2021-2022	22,581	3,253	25,834	257	12,684	9,597	3,087	38,518

ii) Water Production and Billing Efficiency

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

Water Production, Billed and Billing Efficiency

Month/Period	Water Production	Water Sales	Billing Efficiency	Non-Revenue water
	Total (m ³)	m ³	%	%
2022-2023	6,910,230	5,313,433	77%	23%
2021-2022	7,173,382	5,063,398	71%	29%

iii) Revenue and Collection Efficiency

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

Revenue Collection and Collection Efficiency

	2022-2023	2021-2022
	KShs	KShs
Total Billing	509,270,214	467,480,777
Total Collection	454,401,395	449,315,804
Collection Efficiency	90.00%	96.11%

b) Key Projects ongoing

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

c) Compliance with statutory and other financial obligations

i) Service Provision Agreement

The Company is licensed to operate by the Water and Sanitation Regulatory Board. Currently, the Company is licensed to operate up to the 31 August 2023.

ii) Tariff Regime

The Company operates a tariff regulated and gazetted by Water and Sanitation Regulatory Board which is gazetted for operation for a specified period. The current tariff was renewed in October 2017 for a period of 3 years. The new tariff is expected to be in place in the first quarter of the financial year 2023/24.

d) Major risks facing the organisation.

i) Negative working cash-flow

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

Malindi Water and Sewerage Company Ltd
Annual Report and Financial Statements for the year ended June 30, 2023

Management Discussion and Analysis (Continued)

ii) Closure of major customers in the operation area

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

e) Material arrears in statutory and other financial obligations

i) Outstanding staff pension obligation

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

ii) Outstanding supplier payments

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

f) Review of the economy and the sector

The Company has been faced with an increase in demand for water services and an inadequate supply infrastructure. It is hoped that with the completion of the Water and Sanitation Development Project, there will be a remarkable increase in water and sanitation services to the residents of Malindi and its environs. The cost of production remains so high per unit cubic meter of water supplied by the bulk unit to the Malindi residents. The sector is engaged in alternative sources of power for production.

10. Environmental and Sustainability Reporting

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

(i) Sustainability strategy and profile

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

(ii) Environmental performance

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

(iii) Employee welfare

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

(iv) Market place practices-

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

Malindi Water and Sewerage Company Ltd
Annual Report and Financial Statements for the year ended June 30, 2023
Environmental and Sustainability Reporting (Continued)

The organisation has outlined its efforts to:

a) Responsible competition practice.

The organisation has a policy that ensures responsible competition practices with issues like anti-corruption, responsible political involvement, fair competition and respect for competitors. All competitors are given level playground.

b) Responsible supply chain and supplier relations

The organisation has a policy that ensures it maintains good business practices, treats its own suppliers responsibly by honouring contracts and respecting payment practices. All potential suppliers are given a chance to do business with the Company through a competitive supplier prequalification and tender evaluation.

c) Responsible marketing and advertisement

The organisation has a policy on ethical marketing practices. All marketing activities are put in place so as to attract a large follow up as is possible through placing the advertisements in leading newspaper for print media. There is no misrepresentation of facts in advertisements.

d) Product stewardship

The organisation has put in place and outlined efforts to safeguard consumer rights and interests. All major activities that are undertaken by the Company are first subjected to consultative sessions with the Customers to ascertain that the consumer rights and interest are well taken care of.

(v) Community Engagements-

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

Malindi Water and Sewerage Company Ltd
Annual Report and Financial Statements for the year ended June 30, 2023

11. Report of the Directors

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

i) Principal activities

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

ii) Results

The results of the Company for the year ended 30 June 2023, are set out on page 1. Below is summary of the profit of KShs 6,055,432.00 made during the year.

iii) Dividends

The directors do not recommend the payment of dividend in the financial year ended June 30, 2023.

iv) Directors

The members of the Board of Directors who served during the year are shown on page IV. In accordance with Regulation of Malindi Water and Sewerage Company Limited's Articles of Association, three directors retire by rotation and, being eligible offer themselves for re-election.

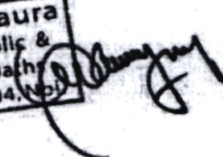
v) Auditors

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

By Order of the Board

Caroline Gladwell Wambugu
Corporate Secretary
Malindi

Caroline W. Mwaura
Advocate, Notary Public &
Commissioner for Oath
P.O. Box 26513 - 00504, Nairobi



Date:

Malindi Water and Sewerage Company Ltd
Annual Report and Financial Statements for the year ended June 30, 2023

12. Statement of Directors' Responsibilities

The Public Finance Management Act, 2012 and the State Corporations Act, require the Directors to prepare financial statements in respect of Malindi Water and Sewerage Company Ltd, which give a true and fair view of the state of affairs of Malindi Water and Sewerage Company Ltd at the end of the financial year ended 30 June 2023 and the operating results of Malindi Water and Sewerage Company for year ended 30 June 2023. The Directors are also required to ensure that Malindi Water and Sewerage Company Limited keeps proper accounting records which disclose with reasonable accuracy the financial position of Malindi Water and Sewerage Company Limited. The Directors are also responsible for safeguarding the assets of the Company.

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

The Directors accept responsibility for MAWASCO'S financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity with International Financial Reporting Standards (IFRS), and in the manner required by the PFM Act and the State Corporations Act. The Directors are of the opinion that MAWASCO'S financial statements give a true and fair view of the state of its transactions during the financial year ended June 30, 2023, and of the financial position as at that date.

Malindi Water and Sewerage Company Ltd
Annual Report and Financial Statements for the year ended June 30, 2023

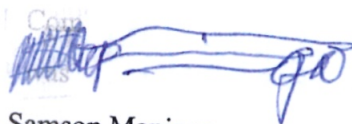
STATEMENT OF DIRECTORS' RESPONSIBILITIES (Continued)

The Directors further confirm the completeness of the accounting records maintained for MAWASCO, which have been relied upon in the preparation of its 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 MAWASCO will not remain a going concern for at least the next twelve months from the date of this statement. The Directors note that the Company reported a negative working cash flow as a result of the non-cost recovery tariff. A new tariff was put in place in October 2017 with the main creditor agreeing to extend the repayment period.

Approval of the financial statements

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



Samson Mapinga
Chairperson of the Board



Felix Wanje
Managing Director

REPUBLIC OF KENYA

Telephone: +254-(20) 3214000
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 MALINDI WATER AND SEWERAGE COMPANY LIMITED FOR THE YEAR ENDED 30 JUNE, 2023

PREAMBLE

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

- A. Report on the Financial Statements that considers whether the Financial Statements are fairly presented in accordance with the applicable financial reporting framework, accounting standards and the relevant laws and regulations that have a direct effect on the financial statements.
- B. Report on Lawfulness and Effectiveness in Use of Public Resources which considers compliance with applicable laws, regulations, policies, gazette notices, circulars, guidelines and manuals and whether public resources are applied in a prudent, efficient, economic, transparent and accountable manner to ensure 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 Malindi Water and Sewerage Company Limited set out on pages 1 to 53, which comprise of the statement of financial

position as at 30 June, 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 Malindi Water and Sewerage 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 (IFRS) Accrual Basis and comply with the Public Finance Management Act, 2012, Companies Act, 2015 and the Water Act, 2016.

Basis for Qualified Opinion

1. Omitted Expenditure on Electricity Bills

The statement of profit or loss and other comprehensive income reflects total operating expenses of Kshs.612,053,159. Available information indicates that during the year under review, payments in respect of electricity bills amounting to Kshs.136,855,149 was made to Kenya Power and Lighting Company (KPLC) on behalf of Coast Water Works Development Agency (CWWDA). However, this expenditure has not been disclosed in the statement of profit or loss and other comprehensive income.

In the circumstances, the accuracy and completeness of the total operating expenses of Kshs.612,053,159 could not be confirmed.

2. Unexplained Variance in Trade and Other Payables Balance

The statement of financial position and as disclosed in Note 34 to the financial statements reflects trade and other payables balance of Kshs.901,675,036 which includes Kshs.510,377,647 owed to Coast Water Works Development Agency (CWWDA). However, review of records maintained by the Agency indicates that the amount owed by the Company to the Agency is Kshs.506,375,138 resulting in unexplained variance of Kshs.4,002,509.

In the circumstances, the accuracy and completeness of trade and other payables balance of Kshs.901,675,036 could not be confirmed.

3. Understatement of Inventories Balance

The statement of financial position and Note 23 to the financial statements reflects inventories balance of Kshs.54,250,974. However, inventory of water and chlorine have not been disclosed.

In the circumstances, the accuracy and completeness of inventories balance of Kshs.54,250,974 could not be confirmed.

4. Long Outstanding Trade and Other Receivables Balance

The statement of financial position and Note 24 to the financial statements reflects a balance of Kshs.380,317,011 in respect of trade and other receivables. Included in this balance is Kshs.217,121,994 in respect of debts which had been outstanding for more than six (6) months. In addition, these customers' accounts did not reflect current bills, an indication that they may have been disconnected or suspended and no evidence of debt recovery measures in place was provided for audit review.

In the circumstances, the accuracy and recoverability of trade and other receivables balance of Kshs.380,317,011 could not be confirmed.

5. Long Outstanding Customer Deposit Receivable

The statement of financial position and Note 26 to the financial statements reflects customer deposit receivable balance of Kshs.8,443,600 which were long outstanding. Management indicated that the deposits were in respect of customer fixed deposits received before the inception of the Company in 2006 and was to be refunded by Coast Water Works Development Agency (CWWDA). However, no refund had been as at the time of audit in January, 2024.

In the circumstances, the accuracy and recoverability of the customer deposit receivable balance of Kshs.8,443,600 could not be confirmed.

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

Emphasis of Matter

Budgetary Control and Performance

The statement of comparison of budget and actual amounts reflects final revenue budget and actual on comparable basis of Kshs.1,175,466,185 and Kshs.618,108,591 respectively, resulting in an under-funding of Kshs.557,357,593 or 47% of the budget. Similarly, the Company expended Kshs.1,161,249,742 against an approved budget of Kshs.1,175,466,184, resulting in an under-expenditure of Kshs.14,216,442 or 1% of the budget.

The underfunding of the approved budget affected the planned activities and may have impacted negatively on service delivery to the public.

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

Various prior year audit issues remained unresolved as at 30 June, 2023. Although Management has indicated that the issues have either been resolved or partially resolved, no evidence or explanation was provided to support that assertion.

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 matter described in the Basis for Conclusion on Lawfulness and Effectiveness in Use of Public Resources section of my report, I confirm that, nothing else has come to my attention to cause me to believe that public resources have not been applied lawfully and in an effective way.

Basis for Conclusion

1. Non-Compliance with Law on Ethnic and Gender Composition

Review of payroll records revealed that the Company had a staff establishment of two hundred and thirteen (213) employees out of which one hundred and fifty-six (156) or 73% were from the dominant ethnic community in the County contrary to Section 7(2) of the National Cohesion and Integration Act, 2008 which states that no public establishment shall have more than one third of its staff from the same ethnic community. In addition, one hundred and seventy-six (176) or 83% employees were male while thirty-seven (37) or 17% were female. This was contrary to paragraph B.22 (2) of the Public Service Commission Human Resource Policies and Procedures Manual, 2015 which states that the Government will endeavor to have a gender balanced Civil Service by ensuring that not more than two-thirds (2/3) of positions in its establishment are filled by either gender.

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

2. Excessive Expenditure on Board Meetings

The statement of profit or loss and other comprehensive income and Note 13 to the financial statements reflects Board expenses amounting to Kshs.5,717,039. Review of records revealed that the Board held ten (10) full Board meetings during the year under review contrary to Office of the President Circular reference number OP/CAB.9/1A dated

11 March, 2020 paragraph A (2) which states that the Board meetings shall be restricted to a minimum of four(4) and capped at a maximum of six (6) for each financial year resulting to excess expenditure of Kshs.2,286,816.

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

3. Non-Remittance of Pension Deductions

The statement of financial position and Note 37 to the financial statements reflects a balance of Kshs.109,339,387 in respect of retirement benefit obligations. Review of records revealed that this balance is owed to LAPTRUST as pension scheme contribution that had not been remitted as at 30 June, 2023. In addition, Management has not disclosed the interest and penalties which the unremitted balance had attracted.

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

4. Long Outstanding Trade and Other Payables Balance

The statement of financial position and Note 34 to the financial statements reflects trade and other payables balance of Kshs.901,675,036 which includes a balance of trade payables that have been outstanding for over ninety (90) days of Kshs.861,528,814.

In the circumstances, the non-settlement of trade and other payables as they fall due may result in payment of fines and penalties.

5. Use of Expired Water Sales Tariff

The statement of profit or loss and other comprehensive income and Note 6 to the financial statements reflects operating revenue totalling Kshs.499,912,102 which includes revenues from water sales totalling Kshs.483,153,452. Review of records revealed that the water tariff used in billing was approved through Gazette Notice No.7535 dated 4 August, 2017 for the period 2017/2018 to 2019/2020 financial year and was not renewed by WASREB as required.

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 matter described in the Basis for Conclusion on

Effectiveness of Internal Controls, Risk Management and Governance section of my report, I confirm that, nothing else has come to my attention to cause me to believe that internal controls, risk management and overall governance were not effective.

Basis for Conclusion

Officer Serving in Acting Capacity Beyond Stipulated Period

Records provided for audit review indicated that the Deputy Technical Manager was appointed as the Acting Manager Sanitation with effect from 1 June, 2021. It was stated in the letter that the acting appointment would be for six (6) months without allowances. However, at the time of audit in January, 2024, or nineteen (19) months after the appointment, the officer was still serving in the same capacity. No explanation was provided for the acting appointment beyond the stipulated period and for failure to confirm the officer or substantively fill the position.

In the circumstances, the existence of effective human resource policy guidelines to manage and deploy staff could not be confirmed.

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

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

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

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

Responsibilities of Management and the Board of Directors

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

In preparing the financial statements, Management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters

related to going concern and using the going concern basis of accounting unless Management is aware of the intention to terminate 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 controls 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 controls may not prevent or detect misstatements and instances of non-compliance. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies and procedures may deteriorate.

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.
- Conclude on the appropriateness of Management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in the auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my audit report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information and business activities of the Company to express an opinion on the financial statements.
- Perform such other procedures as I consider necessary in the circumstances.

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

I also provide Management with a statement that I have complied with relevant ethical requirements regarding independence and communicate with them all relationships and

other matters that may reasonably be thought to bear on my independence and where applicable, related safeguards.


FCPA Nancy Gathungu, CBS
AUDITOR-GENERAL

Nairobi

29 April, 2024

Malindi Water and Sewerage Company Limited
Annual Report and Financial Statements for the year ended June 30, 2023

1. Statement Of Profit or Loss & Other Comprehensive Income for the Year Ended 30 June 2023.

	Note	2022-2023	2021-2022
		KShs	KShs
REVENUE			
Operating Revenue	6	499,912,102	456,455,929
Grants Income	7	108,838,377	261,572,611
Other Income	8	9,358,112	11,024,848
Finance Income	9	-	-
Other gains/(losses)	10	-	-
TOTAL REVENUES		618,108,591	729,053,388
EXPENSES			
Staff Costs	11	218,717,960	210,160,952
General and Operations expenses	12	256,108,584	303,040,373
Board Expenses	13	5,717,039	7,894,293
Maintenance Expenses	14	51,641,544	62,212,966
Depreciation and Amortization expenses	15	79,868,033	78,310,661
Finance Costs	16	-	-
TOTAL OPERATING EXPENSES		612,053,159	661,619,246
PROFIT/(LOSS) BEFORE TAXATION		6,055,432	67,434,143
INCOME TAX EXPENSE/(CREDIT)	17	-	-
PROFIT/(LOSS) AFTER TAXATION		6,055,432	67,434,143
OTHER COMPREHENSIVE INCOME			
Fair value through comprehensive income		-	-
Surplus on revaluation of PPE		-	-
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		6,055,432	67,434,143
Earnings per share-basic and diluted	18	-	-
Dividend per share	19	-	-

Malindi Water and Sewerage Company Limited
Annual Report and Financial Statements for the year ended June 30, 2023

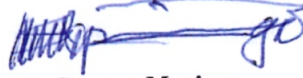
2. Statement Of Financial Position As at 30 June 2023

	Note	2022 - 2023	2021 - 2022
		KShs	KShs
ASSETS			
Non-Current Assets			
Property, plant and equipment	20	498,643,752	566,406,019
Intangible assets	21	3,759,608	5,652,451
Works In Progress	22	1,128,503,049	589,519,390
Total Non-Current Assets		1,630,906,410	1,161,577,859
Current Assets			
Inventories	23	54,250,974	50,630,902
Trade and other receivables	24	380,317,011	321,668,714
Share Capital Receivable	25	5,000,000	5,000,000
Customer Deposit Receivable	26	8,443,600	8,443,600
Bank and cash balances	27	12,431,649	19,415,446
Total Current Assets		460,443,234	405,158,662
Total Assets		2,091,349,644	1,566,736,521
EQUITY AND LIABILITIES			
Capital and Reserves			
Ordinary share capital	28	5,000,000	5,000,000
Retained earnings	29	(321,706,116)	(327,761,548)
Project Grant Fund	30	-	-
Capital Reserve Fund	31	39,534,996	39,534,996
Revaluation Reserve	32	447,264,384	447,264,384
Capital and Reserves		170,093,264	164,037,832
Non Current Liabilities			
WSDP Loan Balance	33	830,303,937	354,033,526
Current Liabilities			
Trade and other payables	34	901,675,036	892,007,701
Provision for leave pay	35	-	-
Customer Deposit	36	73,060,214	66,281,014
Retirement benefit obligations	37	109,339,387	90,376,448
Gratuity payable	38	6,877,807	-
Total Current Liabilities		1,090,952,444	1,048,665,163
TOTAL EQUITY AND LIABILITIES		2,091,349,644	1,566,736,521

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


Felix Wanje
 Managing Director


Seith Kalume
 Head of Finance ICPAK
 M/No:10436


Dir Samson Mapinga
 Chairman of the Board

Malindi Water and Sewerage Company Limited
Annual Report and Financial Statements for the year ended June 30, 2023

3. Statement Of Changes in Equity for the Year Ended 30 June 2023

Particulars	Ordinary share capital	Revaluation Reserve	Capital Reserve Fund	Retained earnings	Total
At July 1, 2021	5,000,000	447,264,384	39,534,996	(395,195,691)	96,603,689
Net profit For The Year	-	-	-	67,434,143	67,434,143
Revaluation Gain	-	-	-	-	-
At June 30, 2022	5,000,000	447,264,384	39,534,996	(327,761,548)	164,037,832
At July 1, 2022	5,000,000	447,264,384	39,534,996	(327,761,548)	164,037,832
Net profit For The Year	-	-	-	6,055,432	6,055,432
Revaluation Gain	-	-	-	-	-
At June 30, 2023	5,000,000	447,264,384	39,534,996	(321,706,116)	170,093,264

Malindi Water and Sewerage Company Limited
Annual Report and Financial Statements for the year ended June 30, 2023

4. Statement Of Cash Flows for The Year Ended 30 June 2023

		2022 - 2023	2021 - 2022
	Note	KShs	KShs
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash generated from/(used in) operations	39	65,942,377	402,559,464
Net cash generated from/(used in) operating activities		65,942,377	402,559,464
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property, plant and equipment	20	(10,212,924)	(124,208,881)
Purchase of Intangible assets	21	-	(6,086,300)
Work in Progress	22	(538,983,659)	(415,153,069)
Net cash generated from/(used in) investing activities		(549,196,583)	(545,448,250)
CASH FLOWS FROM FINANCING ACTIVITIES			
Increase /(Decrease) in project grant reserve		-	(26,128,959)
WSDP Loan	33	476,270,411	136,150,756
Net cash generated from/(used in) financing activities		476,270,411	110,021,797
INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		(6,983,796)	(32,866,989)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR		19,415,446	52,282,435
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	27	12,431,650	19,415,446

Malindi Water and Sewerage Company Limited
Annual Report and Financial Statements for the year ended June 30, 2023

5. Statement Of Comparison of Budget & Actual Amounts for The Period Ended 30 June 2023

	Original Budget	Adjustments	Final Budget	Actual on Comparable basis	Performance Difference	% of utilization
	2022-2023	2022-2023	2022-2023	2022-2023	2022-2023	2022-2023
	KShs	Kshs	KShs	KShs	KShs	%
	(a)	(b)	(c=a+b)	(d)	(e=c-d)	(f=d/c %)
REVENUE						
Operating Revenue	474,510,000	24,090,000	498,600,000	499,912,102	(1,312,102)	100
Grants Income	125,989,764	11,800,000	137,789,764	108,838,377	28,951,387	79
Other Income	62,806,010	-	62,806,010	9,358,112	53,447,898	15
WSDP Loan	2,478,942,368	(2,002,671,957)	476,270,411	-	476,270,411	-
Other gains/(losses)	-	-	-	-	-	-
TOTAL REVENUES	3,142,248,142	(1,966,781,957)	1,175,466,185	618,108,591	557,357,593	53
EXPENSES						
Staff Costs	224,298,260	-	224,298,260	218,717,960	5,580,301	98
General and Operations expenses	265,721,687	890,000	266,611,687	256,108,584	10,503,103	96
Board Expenses	9,283,148	-	9,283,148	5,717,039	3,566,109	62
Maintenance Expenses	17,386,211	35,000,000	52,386,211	51,641,544	744,667	99
Depreciation and Amortization expenses	-	-	-	79,868,033	(79,868,033)	-
Finance Costs	-	-	-	-	-	-
TOTAL OPERATING EXPENSES	516,689,306	35,890,000	552,579,306	612,053,159	(59,473,853)	111
CAPITAL EXPENDITURE	2,625,558,836	(2,002,671,957)	622,886,878	549,196,583	73,690,295	88
TOTAL EXPENDITURE	3,142,248,142	(1,966,781,957)	1,175,466,184	1,161,249,742	14,216,442	99

Malindi Water and Sewerage Company Limited
Annual Report and Financial Statements for the year ended June 30, 2023

6. Notes To the Financial Statements

1. General Information

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

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

2. Statement of Compliance and Basis of Preparation

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

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

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

Malindi Water and Sewerage Company Limited
Annual Report and Financial Statements for the year ended June 30, 2023

Notes to the financial statements (continued)

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

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

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 IAS 8 to help entities distinguish changes in accounting policies from changes in accounting estimates. The Company is not affected by this amendment in the financial statement	The amendments are effective for annual reporting periods beginning on or after 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. This has not brought about changes to the accounting policies disclosed to the financial statement.	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.

Malindi Water and Sewerage Company Limited
Annual Report and Financial Statements for the year ended June 30, 2023

Notes to the Financial Statements (Continued)

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

- ii. *New and amended standards and interpretations in issue but not yet effective in the year ended 30 June 2023.*

Amendments to IAS 1 titled Classification of Liabilities as Current or Non-current (issued in January 2020, amended in October 2022)	The amendments, applicable to annual periods beginning on or after 1st January 2024, clarify a criterion in IAS 1 for classifying a liability as non-current: the requirement for an entity to have the right to defer settlement of the liability for at least 12 months after the reporting period	The amendments are effective for annual periods beginning on or after January 1, 2024. Earlier application is permitted.
Amendment to IFRS 16 titled Lease Liability in a Sale and Leaseback (issued in September 2022)	The amendment, applicable to annual periods beginning on or after 1st January 2024, requires a seller-lessee to subsequently measure lease liabilities arising from a leaseback in a way that it does not recognise any amount of the gain or loss.	The amendments are effective for annual periods beginning on or after January 1, 2024. Earlier application is permitted.
Amendments to IAS 1 titled Non-current Liabilities with Covenants (issued in October 2022)	The amendments, applicable to annual periods beginning on or after 1st January 2024, improve the information an entity provides about liabilities arising from loan arrangements for which an entity's right to defer settlement of those liabilities for at least twelve months after the reporting period is subject to the entity complying with conditions specified in the loan arrangement.	The amendments are effective for annual periods beginning on or after January 1, 2024. Earlier application is permitted.

The Directors do not plan to apply any of the above until they become effective. Based on their assessment of the potential impact of application of the above, they do not expect that there will be a significant impact on the company's financial statement).

iii. Early adoption of standards

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

Malindi Water and Sewerage Company Limited
Annual Report and Financial Statements for the year ended June 30, 2023

Notes to the financial statements (continued)

4. Summary of Accounting Policies

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

a) Revenue recognition

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

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

Notes to the financial statements (continued)

Summary of Accounting Policies

b) In-kind contributions

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

c) Property, plant and equipment

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

Notes to the financial statements (continued)

Summary of Accounting Policies

d) Depreciation and impairment of property, plant and equipment

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

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

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

A full year's depreciation charge is recognized both in the year of asset purchase and none in the year of asset disposal. Items of property, plant and equipment are reviewed annually for impairment and accounted for in line with the provisions in the standard.

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.

Notes to the financial statements (continued)

Summary of Accounting Policies

f) Amortization and impairment of intangible assets

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

g) Investment property

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

Notes to the financial statements (continued)

Summary of Accounting Policies

h) Right of Use Asset

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

i) Fixed interest investments (bonds)

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

j) Quoted investments

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

Notes to the financial statements (continued)

Summary of Accounting Policies

k) Unquoted investments

Unquoted investments stated at cost under non-current assets, and comprise equity shares held in other Government owned or controlled entities that are not quoted in the Securities Exchange. These are measured at fair value through profit or loss (FVTPL).

l) Inventories

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

m) Trade and other receivables

Trade and other receivables are recognized at amortized cost 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 and when the necessary approval to write off is granted. No debt write off was made in the financial year 2022/23

Notes to the financial statements (continued)

Summary of Accounting Policies

n) Taxation

i) Current income tax

Current income tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting date in the area where the Company operates and generates taxable income. Current income tax relating to items recognized directly in net assets is recognized in net assets and not in the profit or loss statement. Current income tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

o) Deferred tax

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

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

Notes to the financial statements (continued)

Summary of Accounting Policies

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

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

p) Borrowing costs

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

Notes to the financial statements (continued)

Summary of Accounting Policies

q) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and cash at bank, short-term deposits on call and highly liquid investments with an original maturity of three months or less, which are readily convertible to known amounts of cash and are subject to insignificant risk of changes in value. Bank account balances include amounts held at various Commercial Banks at the end of the reporting period.

r) Borrowings

Interest bearing loans and overdrafts are initially recorded at fair value being received, net of issue costs associated with the borrowing. Subsequently, these are measured at amortized cost using the effective interest rate method. Amortized cost is calculated by taking into account any issue cost and any discount or premium on settlement. Finance charges, including premiums payable on settlement or redemption are accounted for on accrual basis and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise. Loan interest accruing during the construction of a project is capitalized as part of the cost of the project.

s) Trade and other payables

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

Malindi Water and Sewerage Company Limited
Annual Report and Financial Statements for the year ended June 30, 2023

Notes to the financial statements (continued)

Summary of Accounting Policies

t) Retirement benefit obligations

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

u) Provision for staff leave pay

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

v) Exchange rate differences

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

Notes to the financial statements (continued)

Summary of Accounting Policies

w) Budget information

The original budget for FY 2022-2023 was approved by the Board of Directors on 15th June 2022. Subsequent revisions or additional appropriations were made to the approved budget in accordance with specific approvals from the appropriate authorities. The additional appropriations are added to the original budget by the entity upon receiving the respective approvals in order to conclude the final budget. Accordingly, the Company revised the budget in January 2022 and obtained approvals from the directors.

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

A statement to reconcile the actual amounts on a comparable basis included in the statement of comparison of budget and actual amounts and the actuals as per the statement of financial performance has been presented under the section statement of comparison of budget and actual amounts for the period ended 30 June 2023 of these financial statements where applicable.

Notes to the financial statements (continued)

Summary of Accounting Policies

x) Service concession arrangements

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

y) Comparative figures

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

z) 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.

5. Significant Judgments and Sources of Estimation Uncertainty

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

The Company made the following estimates and assumptions.

Notes to the financial statements (continued)

Summary of Accounting Policies

a) Estimates and assumptions

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

Malindi Water and Sewerage Company Limited
Annual Report and Financial Statements for the year ended June 30, 2023

Notes to the financial statements (continues)

6. Operating Revenue

	2022-2023	2021-2022
	KShs	KShs
Water Sale	483,153,452	440,170,229
Meter Rent	16,758,650	16,285,700
	499,912,102	456,455,929

7. Grants Income

	2022-2023	2021-2022
	KShs	KShs
Conditional Liquidity Support Grant	-	200,090,000
Mawasco Unilever Transform Project Grant	11,042,335	7,923,266
County Government of Kilifi	28,000,000	48,879,486
Rotary Club of Malindi	1,138,570	1,477,140
Smart Metering Project Grant	-	-
In Kind contribution	2,680,000	3,202,720
WSTF Gongoni-Marereni Water Project Grant	65,977,472	-
	108,838,377	261,572,611

8. Other Income

	2022-2023	2021-2022
	KShs	KShs
Other miscellaneous receipts		
Illegal Consumption Charge	5,000	-
Illegal Reconnection Charge	15,000	9,500
Meter testing fees	1,000	4,500
New connection charges	5,515,500	7,657,800
New meter charges	1,024,250	1,227,250
Other charges	743,570	-
Reconnection fees	1,277,700	1,856,050
Superseding fees	53,900	33,750
Surcharges	1,100	-
Termination fees	58,000	63,400
License fees	4,000	36,000
Exhauster services	659,092	136,598
	9,358,112	11,024,848

Malindi Water and Sewerage Company Limited
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Notes to the financial statements (continued)

9. Finance Income

	2022-2023	2021-2022
	KShs	KShs
Finance Income	-	-
	-	-

10. Other Gains and Losses

	2022-2023	2021-2022
	KShs	KShs
Other Gains	-	-
	-	-

11. Staff Costs

	2022-2023	2021-2022
	KShs	KShs
Gross Salary and Allowances	170,905,107	171,822,479
Casual workers Wages	-	-
Medical insurance schemes	20,158,620	15,448,844
Employer's contributions to social security schemes	1,441,400	506,800
Employer's contributions to pension scheme	18,443,261	18,721,329
Provision for Leave pay	3,602,500	3,661,500
Gratuity	4,167,072	-
	218,717,960	210,160,952
The average number of employees at the end of the year was:		
Permanent employees – Management	7	7
Permanent employees – Unionizable	151	151
Temporary and contract employees	55	60
	213	218

Malindi Water and Sewerage Company Limited
Annual Report and Financial Statements for the year ended June 30, 2023

Notes to the financial statements (continued)

12. General and Operations Expenses

	2022-2023	2021-2022
Description	KShs	KShs
Advertising, printing, stationery and photocopying	5,424,918	6,596,637
Auditors' remuneration	700,000	700,000
Bank charges and commissions	320,552	488,103
Bulk water costs	132,831,540	134,893,680
Chemicals	972,535	8,967,559
Communication services and supplies	10,684,306	8,929,273
Consultancy fees	-	-
Corporate Social Responsibility	109,500	655,000
Cost of Electricity (Pumping stations, Boreholes)	4,655,216	6,400,943
Electricity and water (Office)	1,738,370	1,695,722
Hospitality supplies and services	8,639,045	15,281,309
Insurance costs	3,387,760	2,179,239
Contracted Professional fees	1,286,800	556,800
Occupational Safety & Health (OSH)	1,287,700	-
Office and general supplies and services	26,016,113	25,372,738
Other operating expenses	13,655,864	6,908,797
Provision for bad and doubtful debts	-	-
Rent expenses	408,800	669,600
Staff training expenses	1,509,580	1,300,156
Transportation, travelling and subsistence	15,303,426	24,689,739
Compensation for loss of livelihood	3,744,812	38,055,848
World Bank Project Operations expense	793,239	-
4% WASREB Regulatory Levy	20,370,809	18,699,231
Customer Identification Survey	2,267,700	-
	256,108,584	303,040,373

Malindi Water and Sewerage Company Limited
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Notes to the financial statements (continued)

13. Board Expenses

	2022-2023	2021-2022
	KShs	KShs
Chairman's Honoraria	960,000	960,000
Directors' emoluments	3,580,000	4,058,000
Other allowances	1,177,039	2,876,293
	5,717,039	7,894,293

14. Maintenance Expenses

	2022-2023	2021-2022
	KShs	KShs
Repairs, Maintenance & Minor Works & Others	51,641,544	62,212,966
	51,641,544	62,212,966

15. Depreciation and Amortization Expenses

	2022-2023	2021-2022
	KShs	KShs
Depreciation of Property, Plant and Equipment	77,975,191	76,417,819
Amortization of Intangible Assets	1,892,842	1,892,842
	79,868,033	78,310,661

16. Finance costs

	2022-2023	2021-2022
	KShs	KShs
Interest expense on loans	-	-
Interest expense on bank overdrafts	-	-
	-	-

17. Income Tax Expense/ (Credit)

	2022-2023	2021-2022
	KShs	KShs
Income Tax Expense / Credit	-	-
Total	-	-

Malindi Water and Sewerage Company Limited
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Notes to the financial statements (continued)

18. Earnings Per Share

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

19. Dividend Per Share

Proposed dividends are accounted for as a separate component of equity until they have been ratified and declared at the relevant Annual General Meeting (AGM). The Company did not propose for any dividend in the financial year ended June 30, 2023.

Malindi Water and Sewerage Company Limited
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Notes to the financial statements (continued)

20. Property, Plant and Equipment

2023	Freehold Land, Buildings and Civil Works	Plant and Machinery	Motor Vehicles, Including Motor cycles	Computers & Related Equipment	Office Equipment, Furniture & Fittings	Total
	Shs	Shs	Shs	Shs	Shs	Shs
Cost						
At 30 June 2022	412,834,232	240,901,266	75,420,735	36,987,264	48,263,537	814,407,034
Additions	-	3,603,059	-	1,604,320	5,005,545	10,212,924
Disposals	-	-	-	-	-	-
Transfers/adjustments	-	-	-	-	-	-
Revaluation Reserve						-
At end of year - 30 June 2023	412,834,232	244,504,325	75,420,735	38,591,584	53,269,082	824,619,958
Depreciation						
At 30 June 2022	33,356,889	98,409,988	49,999,027	40,027,915	26,207,195	248,001,015
Depreciation	10,320,856	30,563,041	18,855,184	11,577,475	6,658,635	77,975,191
Disposals	-	-	-	-	-	-
Impairment	-	-	-	-	-	-
Transfer/adjustments	-	-	-	-	-	-
At 30 June 2023	43,677,745	128,973,028	68,854,211	51,605,391	32,865,831	325,976,205
Net Book Value at June 30 2023	369,156,487	115,531,296	6,566,524	13,013,807	20,403,251	498,643,752

The Company carried out asset's identification, tagging and valuation and recognized the values in the financial year ended 30 June 2019.

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Notes to the financial statements (continued)

21. Intangible Assets

INTANGIBLE ASSETS	2022-2023	2021-2022
	KShs	KShs
Cost		
At July 1	9,464,211	3,377,911
Additions	-	6,086,300
Disposals		-
Transfers/adjustments		-
At end of year - 30 June	9,464,211	9,464,211
Amortization		
At July 1	3,811,760	1,918,918
Amortization	1,892,842	1,892,842
Disposals		-
Impairment loss		-
Transfer/adjustments		-
At 30 June	5,704,603	3,811,760
Net Book Value at June 30	3,759,608	5,652,451

22. Work In Progress

	2022-2023	2021-2022
	KShs	KShs
Opening Balance	589,519,390	174,366,321
Additions in the year	538,983,659	415,153,069
Transfers	-	-
	1,128,503,049	589,519,390

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2022	Freehold Land, Buildings and Civil Works	Plant and Machinery	Motor Vehicles, Including Motorcycles	Computers & Related Equipment	Office Equipment, Furniture & Fittings	Total
	Shs	Shs	Shs	Shs	Shs	Shs
Cost						
At 30 June 2021	412,834,232	149,175,164	48,370,735	32,504,742	47,313,280	690,198,153
Additions	-	91,726,102	27,050,000	4,482,522	950,257	124,208,881
Disposals	-	-	-	-	-	-
Transfers/adjustments	-	-	-	-	-	-
Revaluation Reserve	-	-	-	-	-	-
At end of year - 30 June 2022	412,834,232	240,901,266	75,420,735	36,987,264	48,263,537	814,407,034
Depreciation						
At 30 June 2021	23,036,033	68,297,329	31,143,844	28,931,736	20,174,253	171,583,196
Depreciation	10,320,856	30,112,658	18,855,184	11,096,179	6,032,942	76,417,819
Disposals	-	-	-	-	-	-
Impairment	-	-	-	-	-	-
Transfer/adjustments	-	-	-	-	-	-
At 30 June 2022	33,356,889	98,409,988	49,999,027	40,027,915	26,207,195	248,001,015
Net Book Value at June 30 2022	379,477,343	142,491,278	25,421,708	3,040,651	22,056,342	566,406,019

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Notes to the financial statements (continued)

23. Inventories

	2022-2023	2021-2022
	Shs	Shs
Appurtenances spares	375,692	268,739
Building Materials	7,830	5,930
Cleaning and Sanitation materials	16,890	12,820
Cold Water Meters Accessories	4,146,879	3,326,338
Computers consumable parts	34,586	-
Motor vehicle spare parts	23,053	19,603
Office Equipment	2,340	300
Pipes and fittings	48,959,310	46,408,863
Stationery and general stores	567,893	491,851
Tools and Equipment	70,625	62,837
Uniform and Boots	-	-
Water Analysis Equipment	45,876	33,621
Kitchen Utilities	-	-
	54,250,974	50,630,902

24. Trade and Other Receivables

	2022-2023	2021-2022
	KShs	KShs
Opening Balance	321,668,714	303,503,741
Addition in the year	509,270,214	467,480,777
Payments received in the year	(454,441,134)	(449,315,804)
Trade receivables - note 24 (a)	376,497,795	321,668,714
Staff receivables	-	-
Gross trade and other receivables	376,497,795	321,668,714
Staff Medical Insurance cover prepaid	3,819,217	-
Provision for bad and doubtful receivables	-	-
Net trade and other receivables	380,317,011	321,668,714

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Trade and Other Receivables Note (24a)

	2022-2023	2021-2022
	KShs	KShs
Trade receivables	376,497,795	321,668,714
Provision for doubtful receivables	-	-
Net Trade Receivables	376,497,795	321,668,714
At June 30, the ageing analysis of the gross trade receivables was as follows:		
Less than 30 days	42,524,905	33,447,991
Between 30 and 60 days	63,877,164	22,343,102
Between 60 and 90 days	81,547,278	18,966,092
Between 90 and 120 days	96,132,548	32,533,678
Over 120 days	92,415,900	214,377,851
	376,497,795	321,668,714

25. Ordinary Share Capital Receivable

	2022-2023	2021-2022
	KShs	KShs
Authorised:		
5,000 ordinary shares of Kshs.1,000 par value each	5,000,000	5,000,000
Unpaid:		
5,000 ordinary shares of Kshs.1,000 par value each	5,000,000	5,000,000

26. Customer Deposit Receivable

	2022-2023	2021-2022
	KShs	KShs
Customer Deposit Receivable	8,443,600	8,443,600
	8,443,600	8,443,600

These are customer Fixed Deposit received before the inception of the Company. This is to be refunded by CWWDA

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Notes to the financial statements (continued)

27. Cash and Bank Balances

	2022-2023	2021-2022
	KShs	KShs
Cash at bank	12,431,649	19,415,446
Cash in hand	-	-
	12,431,649	19,415,446

Note 27 (a) Cash and Bank Balances

The Cash and Bank Balances is made up of short-term deposit as below.

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NO.	BANK NAME/BRANCH	ACCOUNT NO.	ACCOUNT NAME	2022-2023	2021-2022
1	KCB-MALINDI BRANCH	1104220504	MAWASCO REVENUE A/C.	576,823	2,771,558
2	KCB-MALINDI BRANCH	1104220571	MAWASCO OPERATIONS A/C.	292,928	2,956,479
3	KCB-MALINDI BRANCH	1104220377	MAWASCO DEPOSITS A/C.	63,985	172,796
4	KCB-MALINDI BRANCH	1103447661	MAWASCO SAVINGS A/C.	97,027	98,218
5	KCB-MALINDI BRANCH	1104224186	MAWASCO PROJECTS A/C.	37,830	102,627
6	KCB-MALINDI BRANCH	1224619129	MAWASCO-LOAN REPAYMENT ACCOUNT	95,387	96,578
7	KCB-MALINDI BRANCH	128215320	MAWASCO TRANSFORM PROJECT ACCOUNT	70,061	4,008,356
8	KCB-MALINDI BRANCH	1281859966	MAWASCO - LIQUIDITY SUPPORT ACCOUNT	1,000	67,537
9	KCB-MALINDI BRANCH	1278233288	MAWASCO SMART METERING PROJECT	113,110	114,301
10	KCB-MALINDI BRANCH	1236141776	MAWASCO WORLD BANK PROJECT ACCOUNT	191,306	80,959
11	KCB-MALINDI BRANCH	1283864177	MAWASCO RESETTLEMENT ACTION PLAN ACCOUNT	798,022	794,910
12	KCB-MALINDI BRANCH	1284847829	MAWASCO - WSTF GONGONI - MARERENI WATER PROJECT	8,346,724	15
13	KCB-MALINDI BRANCH	1284847845	MAWASCO - WSTF - MARERENI SANITATION PROJECT	103,585	3,969,331
14	KCB-MALINDI BRANCH	1302155865	MAWASCO-	1,000	-
15	KCB-MALINDI BRANCH	1313001457	MAWASCO TIMBONI PSF PROJECT ACCOUNT	-	-
16	EQUITY-MALINDI BRANCH	045-0293125064	MAWASCO REVENUE A/C.	530,794	1,431,018
17	SAFARICOM	708001	MPESA COLLECTION A/C.	124,511	1,294,344
18	POST BANK	0744130013926	POST BANK REVENUE COLLECTION ACCOUNT	230,417	1,267,967
19	FAMILY BANK - MALINDI BRANCH	9800017525	MAWASCO - FAMILY BANK COLLECTION ACCOUNT	506,318	188,452
20	CO-OPERATIVE - MALINDI BRANCH	01141654162600	MAWASCO REVENUE COLLECTION ACCOUNT	250,823	-
	TOTALS AS PER STATEMENT			12,431,649	19,415,446

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Notes to the financial statements (continued)

28. Ordinary Share Capital

	2022-2023	2021-2022
	KShs	KShs
Authorised:		
5,000 ordinary shares of Kshs.1,000 par value each	5,000,000	5,000,000
Unpaid:		
5,000 ordinary shares of Kshs.1,000 par value each	5,000,000	5,000,000

29. Retained Earnings

	2022-2023	2021-2022
	KShs	KShs
As at the Start of the Year	(327,761,548)	(395,195,691)
Net profit for the Year	6,055,432	67,434,143
Prior Year Adjustment	-	-
As at the End of the Year	(321,706,116)	(327,761,548)

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

30. Project Grant Fund

	2022-2023	2021-2022
	Shs	Shs
Projects Reserve Fund	-	-
WSTF- UBSUP-KIBOKONI PROJECT GRANT A/C.	-	-
	-	-

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31. Capital Reserve Fund

	2022-2023	2021-2022
	KShs	KShs
Land, Plant & Equipment	31,861,567	31,861,567
Consumable Stock	7,673,429	7,673,429
	39,534,996	39,534,996

This comprises the value of plant, property and equipment and consumable stock leased to the Company by CWWDA at the inception of the Company.

32. Revaluation Reserve

	2022-2023	2021-2022
	KShs	KShs
Revaluation Reserve	447,264,384	447,264,384
	447,264,384	447,264,384

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

33. Water and Sanitation Development Project Loan

	2022-2023	2021-2022
	KShs	KShs
WSDP Loan Balance at beginning of the year	354,033,526	217,882,770
Borrowings during the year	476,270,411	136,150,756
Repayments during the year	-	-
	830,303,937	354,033,526

34. Trade and other payables

	2022-2023	2021-2022
	KShs	KShs
Trade payables	897,940,173	888,272,838
Tax payable	3,734,863	3,734,863
	901,675,036	892,007,701

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Notes to the financial statements (continued)

35. Provision for Leave Allowance

	2022-2023	2021-2022
	KShs	KShs
Balance at the start of the year	-	-
Leave pay for the year	3,602,500	3,661,500
Leave pay / Utilised during the year	(3,602,500)	(3,661,500)
Balance at the end of the year	-	-

36. Customer Deposit Payable

	2022-2023	2021-2022
	KShs	KShs
Balance at the start of the year	66,281,014	56,717,564
Additional Deposit paid during the year	6,941,200	9,688,450
Customer Deposits refunded during the year	(162,000)	(125,000)
Balance at the end of the year	73,060,214	66,281,014

37. Retirement Benefit Obligation

	2022-2023	2021-2022
	KShs	KShs
Balance at the start of the year	90,376,448	79,592,688
Additional Employer's and Employees' contributions	33,625,948	34,306,249
Benefit utilized during the year / Adjustment	(14,663,009)	(23,522,489)
Balance at the end of the year	109,339,387	90,376,448

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

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38. Gratuity payable

	2022-2023	2021-2022
	KShs	KShs
Balance at the start of the year	-	-
Prior year gratuity	6,142,203	-
Gratuity provided during the year	1,430,117	-
Gratuity paid during the year	(694,512)	-
Balance at the end of the year	6,877,808	-

The Company pays the gratuity at the rate of 31% on gross salary to the managing director. The gratuity payable has now been accounted for the period of 5 years he was in office.

39. Notes to The Statement of Cash Flows

	2022-2023	2021-2022
	KShs	KShs
Reconciliation of operating profit/(loss) to cash generated from/(used in) operations		
Operating profit/(loss)	6,055,432	67,434,143
Depreciation/Amortization	79,868,033	78,310,661
Operating profit/(loss) before working capital changes	85,923,465	145,744,804
(Increase)/decrease in inventories	(3,620,072)	25,316,568
(Increase)/decrease in trade and other receivables	(58,648,297)	(18,654,164)
Increase/(decrease) in trade and other payables	9,667,335	229,805,046
Increase/(decrease) in Retirement Benefits Obligations	18,962,939	10,783,760
Increase/(decrease) in Gratuity payable	6,877,807	-
Increase/(decrease) in profits from Retained Earnings	-	-
Increase/(decrease) in Staff leave provision	-	-
Increase/(decrease) in Customer Deposit - old	-	-
Increase/(decrease) in Customer Deposit	6,779,200	9,563,450
Cash generated from/(used in) operations	65,942,377	402,559,464

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Notes to the financial statements (continued)

Other Disclosures

40. Related Party Disclosures

County Government of Kilifi

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

Other related parties include:

- The County Department in charge of Water
- Coast Water works Development Agencies
- WASREB (Water Services Regulatory Board)
- WARMA
- Water Sector Trust Fund
- Key management
- Board of directors
- Others (Development Partners)

Transactions with related parties

	2022-2023	2021-2022
	KShs	KShs
a) Sales to related parties		
Water sales to Govt. agencies	12,405,700	11,225,600
Total	12,405,700	11,225,600
b) Purchases from related parties		
Cost of water	158,830,100	168,961,413
Total	158,830,100	168,961,413
c) Grants from the Government		
Grants from National Government	106,158,377	258,369,892
Donations in kind	2,680,000	3,202,720
Total	108,838,377	261,527,612
d) Key management compensation		
Directors' emoluments	5,717,039	7,895,293
Compensation to key management	2,388,450	2,290,400
Total	8,105,489	10,185,693

Notes to the financial statements (continued)

41. Capital Commitments

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

42. Contingent Assets and Liabilities

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

43. Financial Risk Management

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

(i) Credit risk

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

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

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Notes to the financial statements (continued)

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

Credit Risk (Continued)

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

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

ii) Liquidity risk management

Ultimate responsibility for liquidity risk management rests with the Company's 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.

(iii) Market risk (*Tailor as appropriate*)

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

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

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

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

Notes to the financial statements (continued)

a) Foreign currency risk

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

(iii) Market risk (Continued)

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

b) Foreign currency sensitivity analysis

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

c) Interest rate risk

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

i) Management of interest rate risk

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

ii) Sensitivity analysis

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

Notes to the financial statements (continued)

iii) Fair value of financial assets and liabilities

a) *Financial instruments measured at fair value*

Determination of fair value and fair values hierarchy

IFRS 7 specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources; unobservable inputs reflect the Company's market assumptions. These two types of inputs have created the following fair value hierarchy:

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

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

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Notes to the financial statements (continued)

iv) Capital Risk Management

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

Capital and Reserves		KShs	KShs
Ordinary share capital	28	5,000,000	5,000,000
Retained earnings	29	(321,706,116)	(327,761,548)
Project Grant Fund	30	-	-
Capital Reserve Fund	31	39,534,996	39,534,996
Revaluation Reserve	32	447,264,384	447,264,384
Capital and Reserves		170,093,264	164,037,832

44. Incorporation

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

45. Events After the Reporting Period

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

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7. Appendices

Appendix 1: progress on follow up of auditor recommendations.

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

Ref No.	Issue / Observations from Auditor	Management comments	Status:	Timeframe:
			(Resolved / Not Resolved)	
	Report on financial statement			
1	Unexplained Variance - Trade and Other Payables Balance			
	The statement of financial position as disclosed in Note 34 to the financial statements reflects trade and other payables balance of Kshs.892,007,701 which includes a balance of Kshs 514,747,473 owed to Coast Water Works Development Agency. However, review of records maintained by the Agency indicates that the amount owed by the Company to the Agency is Kshs.510,377,647, thus resulting in a variance of Kshs.4,369,826 which has not been explained nor reconciled.	The difference between the Coast Water Works Development Agency and the Company of Kshs 4,369,826 was reconciled in the financial year 2022/23. The copy of the reconciliation is available for audit.	Resolved	30 th June 2023
	Further, according to debtors' circularization the Company owed Water Services Regulatory Board	The Debtors balance and the supporting schedule has been reconciled and is	Resolved	30 th June 2023

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Ref No.	Issue / Observations from Auditor	Management comments	Status:	Timeframe:
			(Resolved / Not Resolved)	
	(WASREB) an amount of Kshs.54,619,286 as at 30 June, 2022 while the supporting schedule indicated an amount payable of Kshs.39,388,333 to the Board, resulting in an unexplained and unreconciled variance of Kshs. 15,230,953. In the circumstances, the accuracy and completeness of trade and other payables of Kshs.892,007,701 as at 30 June, 2022 could not be confirmed.	available for audit. The debtor circularisation report and the debt schedule are fully reconciled and attached.		
2	Understated Inventories Balance			
	The statement of financial position and Note 23 to the financial statements reflects inventories balance of Kshs.50,630,902. However, excluded from the inventories balance is water and chlorine costing Kshs.134,893,680 and Kshs.8,967,559 respectively, all totalling Kshs.143,861,239. In the circumstances, the accuracy and completeness of inventories balance of Kshs.50,630,902 as at 30 June, 2022 could not be confirmed.	The management confirms that the water and chlorine in the water tanks has been included in the inventories as at 30 June 2023.	Resolved	30 th June 2023

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Ref No.	Issue / Observations from Auditor	Management comments	Status:	Timeframe:
			(Resolved / Not Resolved)	
3	Trade and Other Receivables Doubtful Allocated Meter Numbers			
	The statement of financial position and Note 24 to the financial statements reflects trade and other receivables balance of Kshs.321,668,714. However, thirteen (13) debtors with balances amounting to Kshs.16,3783,545 had no current meter readings despite the accounts being allocated meters, eight (8) of the debtors totaling Kshs.8,629,667 had their last billing dates ranging between 2012 and 2018 while two (2) debtors had no billings for almost one year. All the accounts had been allocated meter numbers. In the circumstances, the accuracy and completeness of the trade and other receivables balance of Kshs.321,668,714 as at 30 June, 2022 could not be confirmed.	The management confirms that all water connections on disconnection are not billed as per the Company Policy. Meter numbers allocated to disconnected connections for reference only.	Resolved	30 th June 2023

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Ref No.	Issue / Observations from Auditor	Management comments	Status:	Timeframe:
			(Resolved / Not Resolved)	
4	Fair Value of Idle Assets			
	The statement of financial position and Note 20 to the financial statements reflect property, plant and equipment balance of Kshs.566,406,019. Included in the balance is plant and machinery balance of Kshs.142,491,278, out of which assets worth Kshs.20,349,000 as detailed were idle. Other than depreciation, the assets have not been impaired to reflect the loss of value arising from the disused, breaking down or lack of complimentary installations to make them useful. In the circumstances, the valuation of the listed assets could not be ascertained.	The management confirms to have impaired the tank that have broken down and depreciated the broken-down supply pipelines to the Water tanks. Despite the tanks having been idle, they are still useable to be impaired.	Resolved	30 th June 2023

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Ref No.	Issue / Observations from Auditor	Management comments	Status:	Timeframe:
			(Resolved / Not Resolved)	
5	Un-transferred Ownership of Assets			
	The statement of financial position and Note 20 to the financial statements reflects property, plant and equipment of Kshs.566,406,019 as disclosed in motor vehicles and motorcycles worth Kshs.27,115,000 owned by Coast Water Works Development Agency. Management did not explain why the ownership of the assets has not been transferred to the Company. In the circumstances, the valuation and ownership of the motor vehicles and motorcycles worth Kshs.27,115,000 as at 30 June, 2022 could not be confirmed.	The management has written to CWSB on the transfer of the vehicles whose ownership has not been transferred to the Company. The management shall remind the CWWDA on the need to transfer the ownership documents to the Company. The request for the transfer is available for audit.	Ongoing	30 th June 2023

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Ref No.	Issue / Observations from Auditor	Management comments	Status:	Timeframe:
			(Resolved / Not Resolved)	
	Other Matter			
1	Budgetary Control and Performance			
	The statement of comparison of budget and actual amounts reflects final receipts budget and actual on comparable basis of Kshs.843,564,675 and Kshs.729,053,388 respectively, resulting in an under-funding of Kshs.114,511,287 or 14% of the budget. Similarly, the Company expended Kshs.785,828,127 against an approved budget of Kshs.843,564,675, resulting in an under-expenditure of Kshs.57,736,548 or 7% of the budget. The underfunding and underutilization of approved budget affects the planned activities and may have negatively impacted service delivery to the public.	The management considers the budgets as a strategic tool for achieving organizational goals. However, the funding in the budget is partly internal and partly external. It is the external funding that delayed in line with the planned activities. As management we brought this to the attention of the respective donors and has now been funded although it did not come as expected.	Ongoing	30 th June 2023
2	Unresolved Prior Year Matters			
	Various prior year audit issues remained unresolved as at 30 June, 2022. Although	The management shall in future present evidence or explanation on the status of all	Ongoing	30 th June 2023

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Ref No.	Issue / Observations from Auditor	Management comments	Status:	Timeframe:
			(Resolved / Not Resolved)	
	Management has indicated that the issues have either been resolved or partially resolved, no evidence or explanation was provided to support that assertion. In the circumstances, the issues remained unresolved.	previous matters in the subsequent audit. All matters raised in the financial year 2022/23 have been addressed as either resolved or partial resolved and evidence provided		
	Report on lawfulness and effectiveness in use of public resources			
1	Unaccounted for Water (Non-Revenue Water)			
	The statement of profit or loss and other comprehensive income disclosed in Note 6 to the financial statements reflect operating revenue of Kshs.456,455,929 which consists of water sales of Kshs.440,170,229. Review of records revealed that the Company produced 7,173,382 cubic meters of water during the year under review out	The management acknowledges that it received 7,173,382 cubic meters of water and sold out 5,063,398 cubic meters of water thereby maintaining a non-revenue water loss of 29% which is above the sector bench mark of 25% but below the national average water loss of 40%. The	Ongoing	30 th June 2023

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Ref No.	Issue / Observations from Auditor	Management comments	Status:	Timeframe:
			(Resolved / Not Resolved)	
	of which 5,063,398 cubic meters (or about 71%) was sold to consumers. The variance of 2,109,984 cubic meters of water (or 29%) represents non-revenue water, which is above the acceptable threshold of 25% set by the Water Service Regulatory Board (WASREB). In the circumstances, Management was in breach of the law.	management attributes this water loss to old and dilapidated water pipelines in the supply area that needs to be replace. The Company is currently undertaking a project under the World Bank to improve on the network infrastructure in the supply area. The project is expected to be completed in the year 2023/2024.		
	Report on Effectiveness of Internal Controls, Risk Management and Governance			
1	Staff Serving in Acting Position Beyond the Stipulated Period			
	Records provided for audit review indicated that the Deputy Technical Manager was appointed as the Acting Manager Sanitation with effect from 1 June, 2021 vide letter dated 26 May, 2021. It was stated in the letter that the acting appointment would be for six (6) months without allowances. However, at the time of audit in January, 2023, or nineteen (19) months after appointment, the officer	The Deputy Technical Manager was appointed as the sanitation manager after the probation period. The appointment letter is available. The delay was caused by approval from the appointing office.	Resolved	30 th June 2023

Malindi Water and Sewerage Company Limited
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Ref No.	Issue / Observations from Auditor	Management comments	Status:	Timeframe:
			(Resolved / Not Resolved)	
	was still serving in the same capacity. No explanation was provided for the acting appointment beyond the stipulated period and for the failure to confirm the officer in the position or to substantively fill it. In the circumstances, the existence of effective human resource policy guideline to manage and deploy staff could not be confirmed.			

Signature:



Felix Wanje

Managing Director

Date.....

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Appendix II: Projects Implemented by the Company

Projects

Projects implemented by the Company Funded by development partners.

Project title	Project Number	Donor	Period/ duration	Donor commitment	Separate donor reporting required as per the donor agreement (Yes/No)	Consolidated in these financial statements (Yes/No)
1. Gongoni Marereni Water Project	-	WSTF/CGK	1 YEAR	-	YES	YES
2. Marereni Public Sanitation Facility	-	WSTF/ CGK	1 YEAR	-	YES	YES
3. Water and Sanitation Development Project	IDA CREDIT NO 60300	International Development Agency	5 Years from 2017 to 2022	US \$ 14.2 Million	YES	YES

Status of Projects completion

	Project	Total project Cost	Total expended to date	Completion % to date	Budget	Actual	Sources of funds
1	Gongoni Marereni Water Project	-	-	-	-	-	Donor funds
2	Marereni Public Sanitation Facility	-	-	-	-	-	Donor funds
3	Water and Sanitation Development Project	US \$ 14.2 Million	US \$ 8.3 million	70%	US \$ 14.2 Million	US \$ 8.3 million	World bank loan

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Appendix III- Inter-Entity Confirmation Letter

Malindi Water and Sewerage Company Limited
P. O. Box 410-80200
Malindi

Malindi Water and Sewerage Company wishes to confirm the amounts disbursed as at 30th June 2023 as indicated in the table below.

Confirmation of amounts received by Malindi Water and Sewerage Company Limited as at 30 th June 2023							
Reference Number	Date Disbursed	Amounts Disbursed by [SC/SAGA/Fund] (KShs) as at 30th June 2023				Amount Received (KShs) as at 30 th June 2023 (E)	Differences (KShs) (F)=(D-E)
		Recurrent (A)	Development (B)	Inter-Ministerial (C)	Total (D)=(A+B+C)		
IDA-6030 KE	07.07.2022	-	190,020,129.65	-	190,020,129.65	190,020,129.65	-
IDA-6030 KE	13.02.2023	-	286,250,280.95	-	286,250,280.95	286,250,280.95	-
Total			476,270,410.60	-	476,270,410.60	476,270,410.60	-

In confirm that the amounts shown above are correct as of the date indicated.

Head of Accountants department of beneficiary entity:

Name Sait Karume Sign [Signature] Date 26/02/2024

Appendix IV: Reporting of Climate Relevant Expenditures

Project Name	Project Description	Project Objectives	Project Activities					Source Of Funds	Implementing Partners
				Q1	Q2	Q3	Q4		

The Company did not undertake any climate relevant project in the financial year under review.

Appendix V: Reporting Disaster Management Expenditure

Date: 30 June 2023

Entity: Malindi Water and Sewerage Company Limited

Column I	Column II	Column III	Column IV	Column V	Column VI	Column VII
Programme	Sub-programme	Disaster Type	Category of disaster related Activity that require expenditure reporting (response/recovery/mitigation/preparedness)	Expenditure item	Amount (Kshs.)	Comments

The Company did not incur expenses related to disaster management. A draft Disaster Management Policy was developed in house in the financial year.

Malindi Water and Sewerage Company Limited
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Appendix VI: Recording of Transfers from Other Government Entities

Name of the County/MDA/Donor Transferring the funds	Date received as per bank statement	Nature: Recurrent/ Development/Others	Total Amount - KES	Where Recorded/recognized					Total Transfers during the Year
				Statement of Comprehensive income	Capital Fund	Deferred Income	Receivables	Loan	
County Government of Kilifi department of Water	07.07.2022	Development	190,020,129.65	-	-	-	-	190,020,129.65	190,020,129.65
County Government of Kilifi department of Water	13.02.2023	Development	286,250,280.95	-	-	-	-	286,250,280.95	286,250,280.95
Total			476,270,410.60					476,270,410.60	476,270,410.60