

REPUBLIC OF KENYA



*Enhancing Accountability*

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## REPORT

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ON

**MUNICIPAL COUNCIL OF MACHAKOS WATER  
AND SEWERAGE COMPANY LIMITED**

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

OFFICE OF THE AUDITOR GENERAL  
P. O. Box 30084 - 00100, NAIROBI  
MACHAKOS HUB.

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**MUNICIPAL COUNCIL OF MACHAKOS WATER AND SEWERAGE CO. LTD**

**ANNUAL REPORT AND FINANCIAL STATEMENTS**

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

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

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## 1) ACRONYMS AND GLOSSARY OF TERMS

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

## 2) KEY ENTITY INFORMATION

### Background information

Municipal Council of Machakos Water and Sewerage Company Ltd was incorporated, as a corporate body operating under the Companies Act CAP 486, on 6<sup>th</sup> July 2005 as established by Water Act 2002. The company is licensed by Water Services Regulatory Board (WASREB). At County level, the Company is represented by the County Executive Member responsible for water and sanitation, who together with the board of Directors are responsible for the general policy and strategic direction of the Company. The Company is domiciled in Kenya.

### Principal Activities

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

### Vision

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

### Mission

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

### Core Values

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

### Directors

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

S/No	Name	Designation	Date of Appointment
1.	Eng. Joel M. Kiilu	Chairperson	13 <sup>th</sup> September 2021
2.	Catherine Nzioka	Member	13 <sup>th</sup> September 2021
3.	Reuben Muange	Member	13 <sup>th</sup> September 2021
4.	James Kyania	Member	13 <sup>th</sup> September 2021
5.	Francis Njeru	Member	13 <sup>th</sup> September 2021
6.	Betty Nduku	Member	13 <sup>th</sup> September 2021
7.	Charles Mulela	Member	13 <sup>th</sup> September 2021
8.	Daniel Kaveva	Member	13 <sup>th</sup> September 2021
9.	Chairperson Machakos	Municipal Board or Alternate	13 <sup>th</sup> September 2021
10.	Chief Officer or alternate	Water & Irrigation	13 <sup>th</sup> September 2021
11.	Chief Officer or alternate	Finance & County Treasury	13 <sup>th</sup> September 2021

### Registered Offices

Municipal Council of Machakos Water & Sewerage Co. Ltd

Machakos County Water Offices,  
Kitui Road  
P.O. Box 527 – 90100,  
Machakos, Kenya.

**Corporate Headquarters**

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

**Corporate Contacts**

Telephone: 0716069965/0797430000  
E-mail: [machakoswater2006@gmail.com](mailto:machakoswater2006@gmail.com)

**Corporate Bankers**

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



**Independent Auditors**

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



**Principal Legal Advisers**

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








### 3) THE BOARD OF DIRECTORS

S/NO.	NAME DIRECTOR/PASSPORT SIZE PHOTO	PROFFESION/ACADEMIC QUALIFICATIONS	KEY QUALIFICATIONS	Date of Birth,AGE
1	 Eng. Joel Kiilu	B.Sc.(Honors) in Electrical Engineering. MBA-Strategic Management & Leadership.	Leadership and Management. Chairman of the Board of Directors. Independent Director.	D.o.B 1956,67
2	 Reuben Muange	O-Level.	Former Mayor & Councillor, Chairman Chamber of Commerce Machakos Town. Chairman Technical Committee. Independent Director.	D.o.B 1959, 64
3	 Betty Nduku	O-Level, Certificate in Catering	Business Woman. Chairperson Audit and Risk Committee. Independent Director.	D.o.B 1964, 59
4	 Francis Njeru	Bachelor of Education Degree	Business Man, Administration. Chairman Finance and General Purpose Committee. Independent Director.	D.o.B 1958, 65
5	 Catherine Nzioka	Diploma in Food Technology	Business Woman. Independent Director.	D.o.B 1968, 55
6	 Charles Mulela	O-Level, Accounting	Business Man. Independent Director.	D.o.B 1938, 85
7	 Daniel Kaveva	Higher Diploma in Divinity	Reverend, Corporate Governance. Independent Director.	D.o.B 1967, 56
8	 James Kyania	O-Level.	Business Man. Independent Director.	D.o.B 1964, 59

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9		Prof. Thomas Katua Ngui PhD (HRM)	Associate Professor of Leadership and Management	Lecturer. Executive Director. Machakos Municipal Board	D.o.B 1977, 46
10		Winfred Mbai	MBA-Strategic Management Leadership	Managing, Director-MACHW ASCO . Executive Director.	D.o.B 1984, 39

**4) MANAGEMENT TEAM**

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

## **5) CHAIRMAN'S STATEMENT**

It is with great pleasure and honour to present to you the financial statements for the Municipal Council of Machakos Water & Sewerage Company Limited for the financial year 2022/2023. The company's growth has been fuelled by significant gains in key performance areas. This ensures that all stakeholders' interests are addressed and that the value of public funds is realized. To this end, Machakos residents have access to safe, clean, and reliable water services.

### **Key Activities**

MACHWASCO has continued to register remarkable progress in its pursuit to serve the people in its area of jurisdiction. In the year under review, significant progress was realized including increase in network coverage and customer base. The Company is a beneficiary of the Kenya Towns Sustainable Water Supply and Sanitation Programme funded by African Development Bank. The progress of implementation during the year under review was 52% and 55% for both water and sewerage components respectively. Once completed, the area of coverage will increase considerably. Effective and efficient service delivery will also be enhanced.

Over the period, the company faced various challenges while executing its operations. These included the inflation rate in the country which continued to rise, the global rise in cost of living and increased cost of fuel. The prolonged drought and impact of climate change saw the water levels at our main water source, Maruba dam, drop drastically affecting realization of the set targets during the reporting period. As such, most of the planned activities were not realized. This further resulted to decrease in revenues from operational activities compared to 2021/2022.

### **Way Forward**

It is becoming apparent that with the expected long-rains water levels at our reservoir will increase, resulting in an ever-faster pace of supply. It is against this backdrop that MACHWASCO aims to provide access to affordable and clean water while promoting sustainability in Africa, Kenya and particularly our home base, Machakos County.

The construction of additional dam, Miwongoni Dam, will lead to increased water storage hence increased resource available for supply. The area of coverage will also increase in tandem hence growth in the customer base. We remain optimistic that with the availability of internally generated resources, the Company will further grow to reach other areas outside the project scope.

Looking ahead, the Board will continue to support investment in new projects to ensure continued growth of the company and progress towards achieving the Company's core objectives. The Company will embrace close working relationship with the development partners including development agencies, World Bank, Water Sector Trust Fund, and the National and County Governments, to improve water and sanitation services.

### **Appreciation**

On behalf of the Board of Directors, I take this opportunity to thank our customers and all stakeholders to whom we owe the privilege to serve. I also extend my sincere appreciation to the

National Government, Ministry of Water, Sanitation and Irrigation, County Government of Machakos, Tanathi and Athi Water Works Development Agencies, Water Sector Trust Fund and Development Partners for their dedicated support.

In the same vein, I extend my gratitude to the Regulator, Water Services Regulatory Board for steering the sector to great heights for the purpose of improved service delivery.

I wish to congratulate most sincerely my fellow Board of Directors who have continued to provide leadership and ensured that the Company thrives and strives to deliver services to the residents in Machakos Town and its environs. Your unrelenting support has enabled the company increase its service area in a tremendous way. In a special way, I wish to thank the management and employees of MACHWASCO for their hard work. Despite the tough times, the strides made by the Company during the year under review can only be attributed to your tireless efforts.

We greatly value the support from all our stakeholders, and trust that we will continue to count on it in the future.

God bless you all.

Thank you.

.....  
Sign

**ENG. JOEL KIILU**  
**CHAIRMAN OF THE BOARD**

31/01/2024  
.....  
Date

## **6) REPORT OF THE MANAGING DIRECTOR**

I am pleased to present to you the annual report and financial statements for the Municipal Council of Machakos Water and Sewerage Company Limited for the year ended 30<sup>th</sup> June 2023. Despite the tough year, the Company operated optimally and business continuity was ascertained.

The Company realized total revenues amounting to Ksh.109,558,832.00 from sales turnover, National and County Government Grant and other income, a decrease of 31.9% compared to the previous period. The decrease was occasioned by lack of anticipated National and County Governments support and unsustainable debts among other macro factors which are not limited to the high cost of living, inflation, rise in the cost of fuel and the prolonged drought which resulted to a drastic drop in water levels at the main source, Maruba dam. As a result, production reduced significantly and rationing programme was tightened in a bid to prolong supply which led to reduced hours of supply and revenues.

The tariff structure applied is not cost reflective. As such the Company has applied for review of the tariff through the Regulator.

The operating expenditure stood at Ksh.125,643,962.00 down from Ksh.145,884,985.00 in the previous year. The total assets in the reporting period was Ksh. 175,501,243.00 from Ksh.162,714,890.00 in the previous period.

### **Internal Environment, Process and Practices**

At MACHWASCO, success is rooted in our core value, employees, service quality and stakeholder participation. Through the five departments, Technical, Commercial, Human Resources and Administration, Finance and Internal Audit, we have been able and continue to build these capacities and belief that the way in which we have brought them together has been and will continue to be fundamental to our performance.

Board and Management training and development as well as capacity building of employees has continued to be offered to members in areas not limited to governance, audit, finance, budgeting, procurement and customer care services. This has helped impart relevant skills and knowledge hence efficiency and effectiveness in service delivery. Employee motivation plays a key role in the performance of an organization. As such, the company has enhanced the same through the establishment of a welfare structure which caters for employee emergencies and other related matters thus ensuring commitment to their responsibilities.

Further, detailed analysis on performance of the company during the period ended June, 2023 is discussed under Management Discussion and Analysis.

### **Future Outlook**

The outlook of the Company in the year 2023/2024 is promising in the context of operating environment. We anticipate the completion of the Machakos Water Supply and Sewerage project under Kenya Towns Sustainable Water Supply and Sanitation Programme, funded by African Development Bank. The project will bring on board an additional dam, Miwongoni dam, ten (10) new boreholes, water treatment plant of capacity 10,000m<sup>3</sup>/day, water reservoirs of various capacities, distribution system and rehabilitation of existing infrastructure. The sewerage component comprises of wastewater treatment plant of capacity 12,500m<sup>3</sup>/day, sewer lines, rehabilitation of existing infrastructure in identified areas, an exhauster and ablution blocks. The area of coverage will increase drastically leading to more customer base and growth in revenue.

It is expected that Kenya's economy as well as global economy will continue to exhibit growth potential. With the government's commitment to stabilize the economy and lowering the cost of living, it is anticipated that customers will honor their debts. The commitment by the County Government of Machakos to support the Company will enhance operations efficiency and extensions of network towards last mile connectivity.

Additionally, the Company is embracing digital transformation to improve operational efficiency and enhance service delivery. In the coming year 2023/2024, we expect to automate processes through enterprise resource planning and embrace smart metering technology. This transformation will simplify processes, reduce on cost of operation and enhance effectiveness and efficiency in service delivery.

We are committed to ensure that we deliver beyond the expectations of our stakeholders. With the invaluable support from the Board of Directors, we remain focused on delivering excellent services.

### **Appreciation**

On behalf of the Management, I take this opportunity to thank the Board of Directors for their stewardship during the year under review.

I convey my sincere gratitude to our stakeholders who have continuously supported the Company and its endeavors, the National and County Governments, our development partners, Water Works Development Agencies, fellow Water Service Providers and our esteemed customers.

I appreciate in a special way fellow Managers and all staff for their support, unmatched commitment and tireless efforts. The achievements we have made together give us confidence for the future.

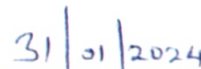
May God bless you abundantly.

Thank you.



.....  
**Sign**

**WINFRED MBAI  
MANAGING DIRECTOR**



.....  
**Date**

## 7) STATEMENT OF PERFORMANCE AGAINST PREDETERMINED OBJECTIVES FOR FY 2022/2023

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

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

KRA 1: Governance and Institutional capacity for service delivery

KRA 2: Water and Sewerage Infrastructure

KRA 3: Corporate Image and Customer Satisfaction

KRA 4: Financial Growth and Sustainability

MACHWASCO develops its annual work plans based on the above 4 priorities. The company achieved its performance targets set for the FY 2022/2023 period for its strategic priorities, as indicated in the diagram below:

KEY RESULTANT AREA	STRATEGIES	OBJECTIVE	KEY PERFORMANCE INDICATORS	KEY ACTIVITIES	ACHIEVEMENTS
KRA 1: Governance and Institutional capacity for service delivery	Strategy 1.1: Enhance the ability of the company to meet its mandate	Renovated office spaces, New and modern amenities, Increased working area, No. of furniture and equipment's, Field motorbikes, Special purpose vehicles, No. equipment's, No Smart meters, Water legislations, No of operations automated, No of Policy documents formulated	High staff morale, Improved service delivery, Reduced leave days and sick offs, Improved and conducive working environment, Better responses to bursts and leaks, Improved operational efficiency, Increased customer visits, Improved service delivery to customers, Ease in flow of information, Enhanced revenue collections, Enhanced revenue collections, Improved legal framework, Provide road map for day to day operations	Renovation of existing working spaces ( Provide modern amenities in the offices), Purchase office furniture and equipment, Procure vehicles and filed motor bikes, Purchase ICT Tools/ equipment and automation of company operations, Formulation of legal and policy documents	45%
	Strategy 1.2: To strengthen human resource capacity for quality service delivery	Revised Staff structure and clear job description, Newly recruited and placed officers, New scheme of service with proper titles, No. of training per year, No of assesemnts, Shared work plans for stakeholders, Timely meetings, prompt work plans, clear Job Descriptions (JD), Timely meetings, prompt work plans, clear JDs, No of	Efficiency, clear reporting lines, harmony, Enhanced capacity & service delivery, Improved morale, Empowered staff, improved service delivery, high morale, Improved efficiency service delivery, Role clarity, improved performance, staff satisfaction, Ability to monitor performance as per JDs, Improved time management, Better stakeholder's engagement, Better implementation, Clear roles and responsibilities which will lead to improved service delivery, Improve staff morale	Job analysis and work load analysis, Staff recruitment and placement, Revision of scheme of services (Ensure staff are properly placed as per skills and qualifications), Regular Staff training (Reskill the staff, up skilling) through workshops, seminars and scholarships, Align Company tasks with other county programs, stakeholders and other strategic implementers, Enhance performance management, Staff training needs assessment, Regular staff training, Team building sessions for staff,	

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		meetings, Stakeholders engagement framework, No of team building sessions held, , No staff promoted	and good working relations, ,Improve staff morale,	,Timely promotion of staff,	
KRA 2: Water and Sewerage Infrastructure	Strategy 2.1: Invest in water infrastructure and distribution	New water storages, New distribution network, Increased volume of water produced, Clear branding and identity, Destination Identity	Increase water storage from 2.45M to 3.45M, Increased distribution from 36km to 96km, Increase area of coverage, No of customers connected, Improved quality of produce and services, Improved hygiene and attractiveness, Increased hrs of supply from 10hrs-14hrs.	Construction of water storage, Increase water treatment capacity, Lay water distribution network	53%
	Strategy 2.2: Invest in water treatment, detection and protection	Increased number of protected catchments, Protected riparian land, Increased water production, Improved water quality, Monitoring of water quality,	Increased water from the source and quality, Increased water supply and quality, Quantity produced per day, Water quality analysis reports, Water quality at service points	Afforestation and construction of check dams, Marking of riparian land and educating land owners, Construction of water lagoons, Installation of waters dozers and automation, Equipping the lab with the necessary facilities.	
	Strategy 2.3: Invest in sewer and sanitation infrastructure	Complete 4 sanitation/ablutions blocks, A new sewer plant, Complete sanitation, A waste lab, ,Increased customer base and sewer coverage, ,Increased capacity for sanitation.	No of sanitation /ablution block constructed, Increase capacity 12,500m/day, Increased capacity to 50m/day, No of tastes conducted, Number of customers connected and served, Number of customer served, Amount of revenue raised.	Construction sanitation/ablutions blocks, Construction of sewer treatment plant ,Construction of on-site sanitation Decentralized Treatment Facility (DTF), Setting up a waste water lab, Increased sewer connectivity from 14-64km, Acquisition of exhausters	
KRA 3: Corporate Image and Customer Satisfaction	Strategy 3.1: Invest in Customer satisfaction initiatives and brand management.	Customer Relations Management (CRM)system in place, Schedule of customer visits, Wide coverage of trainings , Training needs analysis, Stakeholders forums, Name search and logo design, Customer forums, Customer satisfaction surveys, Work out plan ( Remedial actions)	Enhanced communication, Customer satisfaction index, Improved customer services, New look company, Better relationship with customers and stakeholders, Improved relationships , Better customer responses	Enhance the working of CRM, Customer visits, Conduct focused trainings on customer service, Initiate company rebranding, Stakeholders forums and customer trainings, Conducting customer satisfaction surveys, Use of sms/usdd and multiple channels.	48%
KRA 4: Financial Growth and Sustainability	Strategy 4.1: Leverage on all the lead measures for increased revenues	Smart meters, Field visits, Bottling of water, Lab incomes, New Sewer connections, More clients, More water, Setting budget ceilings, 10 % Retention plan, Customer mapping reports, Number of activated accounts, New income generating projects ( More boreholes, dams, and new outlets for bottled water	More revenues, Reduction of Non Revenue Water, Increased income, Improved cost to income ration, Improved liquidity, Additional incomes from activated accounts, Sustainable revenues	Enhanced collections : (use of technology , Customer visits and of debt collectors), Mapping of illegal connections, Enhanced retention, New revenue streams, Activation of dormant customers, Capital Investments	25%

## 8) CORPORATE GOVERNANCE STATEMENT

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

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

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

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

### Board Meetings.

Generally, the board meets four (4) times a year and additionally, when necessary to consider all matters relating to the overall control, business performance and strategy of the company. Below is a summary of the Board meetings held in the year under review and attendance of each meeting.

S/no.	Name	26 <sup>th</sup> Jul, 2022	29 <sup>th</sup> Sept, 2022	21 <sup>st</sup> Oct, 2022	6 <sup>th</sup> Feb, 2023	25 <sup>th</sup> Apr, 2023
1.	Eng. Joel Kiilu- Chairman	√	√	√	√	√
2.	Eng. Stephen Ndwiki Chief Officer- Water and Irrigation	√		√	√	
3.	Dir. Francis Njeru	√		√	√	
4.	Dir. James K. Mulwa	√	√	√	√	√
5.	Dir. Catherine Nzioka	√	√	√	√	√
6.	Dir. Reuben Muange	√	√	√	√	√
7.	Dir. Daniel Kaveva (Rev)	√	√	√	√	√
8.	Dir. Betty Mbithi	√	√	√	√	√
9.	Dir. Charles Mulela	√	√	√	√	√
10.	Dir. Thomas Ngui (Prof) Alternate Director- Municipal Board			√	√	√
11.	Abdullahi Guliye Chief Officer- Water and Irrigation				√	√
12.	CPA Felix Mulwa (Chief Officer Finance, representative)		√	√		
13.	Collins Adipo (Chief Officer- Finance, representative)					√

Board meetings are chaired by the Board chairman.

### Board Committees

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

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

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

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

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

#### i.) Technical and Monitoring Committee

S/no.	Name	14 <sup>th</sup> Jul, 2022	11 <sup>th</sup> Oct, 2022	25 <sup>th</sup> Jan, 2023	12 <sup>th</sup> Apr, 2023
1.	Dir. Reuben Muange	√	√	√	√
2.	Eng. Stephen Ndwiki Chief Officer- Water and Irrigation	√			
3.	Dir. Catherine Nzioka	√	√	√	√
4.	Abdullahi Guliye Chief Officer- Water and Irrigation				√

#### ii.) Finance and General Purpose Committee

S/no.	Name	19 <sup>th</sup> Jul, 2022	17 <sup>th</sup> Oct, 2022	26 <sup>th</sup> Jan, 2023	13 <sup>th</sup> Apr, 2023
1.	Dir. Francis Njeru	√	√	√	√
2.	Dir. James Kyania	√	√	√	√
3.	Dir. Charles Mulela	√	√	√	√

#### iii.) Audit and Risk Committee

S/no.	Name	15 <sup>th</sup> Jul, 2022	7 <sup>th</sup> Oct, 2022	27 <sup>th</sup> Jan, 2023	14 <sup>th</sup> Apr, 2023
1.	Dir. Betty Mbithi	√	√	√	√
2.	Dir. Daniel Kaveva (Rev)	√	√	√	√
3.	Dir. Reuben Muange	√	√	√	
4.	Dir. Thomas Ngui (Prof.)				√

### Board Induction and Training

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

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

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

**Conflict of Interest.**

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

**Code of Conduct**

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

By order of the Board



.....  
**Sign**

**WINFRED MBAI  
MANAGING DIRECTOR  
SECRETARY TO THE BOARD**

31/01/2024

.....  
**Date**

## **9) MANAGEMENT DISCUSSION AND ANALYSIS**

### **9.1 Operations Overview**

#### 9.1.1 Water and Sewerage

MACHWASCO offers water and sanitation services within Machakos sub county. Currently water and sewer coverage is estimated at 60% and 29% respectively. The company has partnered with water works development agencies, county government of Machakos and other development entities to improve water and sanitation coverage. Currently water demand is estimated at 23,000m<sup>3</sup> per day while current production is at an average of 3,500m<sup>3</sup> per day. A current project funded by ADB intends to improve and increase coverage of the services by constructing 1.5Mm<sup>3</sup> dam, 10,000m<sup>3</sup> water treatment works, tanks, rehabilitation of existing water and sewer network and construction of waste water treatment plant. The company ensures production of quality water as per World Health Organization and WASREB standards. To this effect MACHWASCO has acquired modern equipment for water for water quality assurance in support of Tanathi Water Works Development Agency.

#### 9.1.2 Tariff validity and Billing

A justified tariff for the period is in place and a review of the same has been made in order to have a cost effective tariff for sustainability purposes.

#### 9.1.3 Water Quality

Sampling points have been Geo-referenced and documented. Other Physio-chemical and bacteriological test are done quarterly at WRA Central Lab. For period under review all internal and external test met standards. Test for Residual Chlorine and pH were done thrice per day will other parameters done quarterly per year. This is in accordance to sampling water guidelines standards aimed at guarantee quality of water.

#### 9.1.4 Strategic Plan, Budget and Procurement

The MACHWASCO's strategic plan highlights investments that are geared towards improvement of MSLs in the license particularly for coverage, service hours, client contact, pressure in the network, NRW, Metering ratio and collection efficiency. The company works within a budget as passed and approved by the Board of Directors. The company adheres to the requirements of the PPADA Act, 2015 and Procurement Regulations 2020. Procurement plans for the period comply with the company's annual budgets and appropriate documentation of their activities are maintained.

#### 9.1.5 Regulators Checks and Analysis

WASREB through its data collection section WARIS collects data from MACHWASCO on a yearly basis towards preparation of Impact Reports and a yearly publication thereto. The data collected is cross checked and verified before being used. This report can be accessed on WASREB website. The national treasury verifies the financial reports and statements on a yearly basis giving its review opinion, advice and support.

## 9.2 Financial Review

### 9.2.1 Revenues and Expenditure

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

<b><u>a.) Five Years Financial Review Of Statement of Profit or Loss and Other Comprehensive Incomes</u></b>					
	<b><u>Jun-23</u></b>	<b><u>Jun-22</u></b>	<b><u>Jun-21</u></b>	<b><u>Jun-20</u></b>	<b><u>Jun-19</u></b>
	<b><u>Kshs</u></b>	<b><u>Kshs</u></b>	<b><u>Kshs</u></b>	<b><u>Kshs</u></b>	<b><u>Kshs</u></b>
<b>REVENUES</b>					
Sales/Turnover	102,778,857	126,818,435	126,293,684	122,696,447	123,355,188
Cost of Sales	-	-	(26,272,504)	-	-
<b>Gross Margin</b>	<b>102,778,857</b>	<b>126,818,435</b>	<b>100,021,180</b>	<b>122,696,447</b>	<b>123,355,188</b>
Grants from National/County Government	4,365,295	32,674,296	3,114,822	2,125,487	1,800,018
<u>Other Income</u>	<u>2,414,680</u>	<u>1,535,300</u>	<u>1,761,300</u>	<u>1,796,136</u>	<u>1,555,200</u>
<b>TOTAL REVENUES</b>	<b>109,558,832</b>	<b>161,028,031</b>	<b>104,897,302</b>	<b>126,618,070</b>	<b>126,710,406</b>
<b>OPERATING EXPENSES</b>					
Total Administration Costs	92,280,016	106,260,902	92,390,079	90,297,726	89,053,415
Total Operation & Maintenance Costs	32,387,347	38,423,954	10,856,240	32,981,457	40,532,724
Depreciation of property, plant and equipment	967,367	1,200,129	1,004,307	1,265,762	559,812
<b><u>TOTAL OPERATING EXPENSES</u></b>	<b><u>125,634,730</u></b>	<b><u>145,884,985</u></b>	<b><u>104,250,626</u></b>	<b><u>124,544,945</u></b>	<b><u>130,145,950</u></b>
<b><u>Operating Profit(Loss)</u></b>	<b><u>(16,075,898)</u></b>	<b><u>15,143,046</u></b>	<b><u>646,676</u></b>	<b><u>2,073,125</u></b>	<b><u>(3,435,544)</u></b>

**9.2.2 Assets, Equity and Liabilities**

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

<b>b.) Five Year Financial Review Of Statement Of Financial Position</b>					
	<u>Jun-23</u>	<u>Jun-22</u>	<u>Jun-21</u>	<u>Jun-20</u>	<u>Jun-19</u>
	<u>Kshs</u>	<u>Kshs</u>	<u>Kshs</u>	<u>Kshs</u>	<u>Kshs</u>
<b>ASSETS</b>					
<b>Non-Current Assets</b>					
Property, plant and equipment	22,198,272	23,165,639	10,407,003	11,353,309	43,485,810
<b>Total Non-Current Assets</b>	<b>22,198,272</b>	<b>23,165,639</b>	<b>10,407,003</b>	<b>11,353,309</b>	<b>43,485,810</b>
<b>Current Assets</b>					
Inventories	2,098,678	1,774,138	2,775,807	2,600,160	3,047,966
Trade and other receivables	149,598,526	132,247,076	120,699,141	94,553,267	77,977,519
Bank and cash balances	1,600,384	5,528,037	433,492	1,696,090	5,265,161
<b>Total Current Assets</b>	<b>153,297,588</b>	<b>139,549,251</b>	<b>123,908,441</b>	<b>98,849,518</b>	<b>86,290,645</b>
<b>TOTAL ASSETS</b>	<b>175,495,861</b>	<b>162,714,890</b>	<b>134,315,443</b>	<b>110,202,827</b>	<b>129,776,456</b>
<b>EQUITY AND LIABILITIES</b>					
<b>Capital and Reserves</b>					
Ordinary share capital	100,000	100,000	100,000	100,000	100,000
Capital Grant	24,676,818	22,322,118	9,043,391	9,399,065	42,632,046
Retained earnings	(7,671,924)	7,995,071	(7,573,915)	(8,576,266)	(9,775,379)
<b>Capital and Reserves</b>	<b>17,104,894</b>	<b>30,417,189</b>	<b>1,569,476</b>	<b>922,799</b>	<b>32,956,667</b>
<b>Non-Current Liability</b>					
Customer Deposit	13,786,464				
<b>Current Liabilities</b>					
Trade and other payables	144,604,502	119,744,237	120,961,303	98,384,364	86,618,525
Customer Deposit	-	12,553,464	11,784,664	10,895,664	10,201,264
<b>Total Current Liabilities</b>	<b>144,604,502</b>	<b>132,297,701</b>	<b>132,745,967</b>	<b>109,280,028</b>	<b>96,819,789</b>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>175,495,861</b>	<b>162,714,890</b>	<b>134,315,443</b>	<b>110,202,827</b>	<b>129,776,456</b>

## **10) ENVIROMENT AND SUSTAINABILITY REPORTING**

Municipal Council of Machakos Water & Sewerage Co. Ltd is alive to the urgent need to take action to protect the planet while ensuring inclusivity with respect to access to development benefits and remaining true to our commitment to shareholders and promoting good corporate citizenry. As such, the Company is working towards integrating sustainability principles which include Environment, Social and Governance (ESG) in our organisational and business reporting processes. The ESG practice of reporting positive and negative impacts publicly, commonly referred to as sustainability reporting, contributes towards achievement of the United Nation's Sustainable Development Goals (SDGs). This section presents a summary of recent ESG activities carried out by the Company. The Company's business is heavily dependent on the sustainable utilisation of natural resources across the value chain, from water abstraction to retail. Our distribution network traverses varied environmental ecosystems. It is therefore imperative to carefully manage our business-related activities to mitigate adverse effects on the environment and enhance business sustainability.

Over the years, we have worked with the County Government of Machakos, WARMA, NEMA, TAWWDA and other partners to support several environmental conservation initiatives such as planting trees within our area of jurisdiction. During the financial year 2022/2023, we planted over 50 tree seedlings on the unutilised spaces within Company properties. These initiatives are in line with SDG 13 which advocates for urgent action to mitigate climate change and its impacts, and SDG 15 which promotes the sustainable use of terrestrial ecosystems. The Company undertakes environmental screening and Environmental Social Impact Assessments (ESIA) on new infrastructure projects to ensure compliance and mitigate adverse effects on flora and fauna. During the year, two ESIA studies were conducted. Upon assessments, the projects were found to be compliant with the National Environment Management Authority (NEMA) regulations. Further, we continue to sustain strategies to minimise paper usage by adopting electronic systems in our operations such as billing, job applications and tendering. By saving on paper usage, less trees are cut and less industrial waste is generated during paper manufacturing. In addition, the Company has introduced monthly limits on paper used by staff.

## **11) CORPORATE SOCIAL RESPONSIBILITY STATEMENT**

Social sustainability is one of the critical ESG pillars that the Company continues to strengthen by proactively managing the impacts of our business on employees, customers and local communities. Towards this, the company carried out various initiatives and programmes to improve the health, safety, education and social equity, and empowerment of disadvantaged groups.

### **(i)Enhancing public safety**

In contribution to SDG 8 which promotes inclusive and sustainable economic growth, full and productive employment and decent work, we ensure safe operation of the network and facilities as well as advocating for the safety of staff and members of the public who have just cause to interact with the company operations. We have put in place various interventions to prevent accidents. These include; continuous safety trainings and awareness creation; routine worksites inspections were made to ensure compliance to safe operating procedures; review of routine inspections of tools and equipment to incorporate changing technology and routine monitoring of contractors at work to assess compliance with the company safety standards and requirements.

### **(ii)Promoting employee wellness**

It is widely acknowledged that prevention is better than cure. Indeed, a healthier workforce is critical for high productivity and improved business performance. In collaboration with our partners, we organised open medical screening camps targeting all employees within their workstations. Various complementary services offered to employees included physical examination, health screening, HIV/AIDS testing and counseling and nutrition advisories. The wellness camps enable the prevention and early detection of disease, and the facilitation of timely interventions.

### **(iii) Internship Programmes**

Our policy on Corporate Social Investment prioritises programmes that promote education as a critical support area. This is in recognition that education undeniably plays a significant role in imparting knowledge and skills as well as nurturing innovation that catalyses economic transformation and societal growth. The company enrolls students on internship programmes to impact practical skills in their academic pursuits and career development, notably those pursuing technical courses. During the year, over 20 young boys and girls drawn from different educational institutions benefitted from the internship programme.

**(iv) Empowering disadvantaged groups**

Article 227 of the Kenyan Constitution provides set standards for public procurement systems to be fair, equitable, transparent, competitive and cost effective in line with Sustainable Development Goal 10, which targets reducing inequality by 2030. In a bid to further embed the equal distribution of wealth and access to business opportunities, the Government founded the Access to Government Procurement Opportunities (AGPO) programme outlined in the Public Procurement and Asset Disposal Act, 2015. AGPO seeks to empower disenfranchised groups by requiring public procuring entities to allocate at least 30% of their procurement spend to enterprises owned by women, youth and persons with disabilities. In context, women and youth form a substantive part of the population at over 50% representation and, therefore, the Kenyan economy cannot grow with the exclusion of this group of people. In a bid to comply with the regulations and as part of the company's social responsibility, the we continue to incorporate the AGPO requirements on its annual procurement plans.

**(v) Enabling communities**

At Municipal Council of Machakos Water and Sewerage Company, we consider the broader interests of society by taking responsibility for the impact of our companies' activities. Through our charity initiatives, we give free water supply services through the water bowser where occasion allows. We also provide the pro-poor community with affordable water where piped water is not available through water kiosks at 2/= per 20 litre Jerrican as our corporate support to the local community.

## 12) REPORT OF THE DIRECTORS

The Directors submit their report together with the financial statements for the year ended June 30, 2023 which show the state of Municipal Council of Machakos Water and Sewerage Company affairs.

### i. Principal activities

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

### ii. Results

The results of the entity for the year ended June 30, 2023 are set out on page 1 and 2. Below is the summary of the loss made during the year.

### iii. Dividends

The Company did not declare any dividends for the financial year ended 30<sup>th</sup> June 2023. Below is a summary of profit/(loss) made during the year.

	<b>2022-2023</b>	<b>2021-2022</b>
	<b>Kshs</b>	<b>Kshs</b>
Sales/Turnover	102,778,857	126,818,435
Grants from National/County Government	4,365,295	32,674,296
Other Income	2,414,680	1,535,300
Administration Costs	(92,280,016)	(106,260,902)
Operation & Maintenance	(32,387,347)	(38,423,954)
Depreciation of Property, Plant and Equipment	(967,367)	(1,200,129)
<b>Operating Profit (Loss)</b>	<b>(16,075,898)</b>	<b>15,143,046</b>

### iv. Directors

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

### v. Auditors

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

By Order of the Board



.....  
**Sign**

31/01/2024

.....  
**Date**

**WINFRED MBAI**  
**MANAGING DIRECTOR**  
**SECRETARY TO THE BOARD**

### 13) STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

The Directors are responsible for the preparation and presentation of the Company financial statements, which give a true and fair view of the state of affairs of the Company for and as at the end of the financial year (period) ended on June 30, 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 responsibility for the Company financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgments and estimates, in conformity with International Financial Reporting Standards (IFRS), and in the manner required by the PFM Act, 2012, water act 2016 and companies Act 2015).


The Directors are of the opinion that the Company's financial statements give a true and fair view of the state of Company's transactions during the financial year ended June 30, 2023, and of the Company's financial position as at that date. The Directors further confirm the completeness of the accounting records maintained for the Company, which have been relied upon in the preparation of the company financial statements as well as the adequacy of the systems of internal financial control.

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

#### Approval of the financial statements

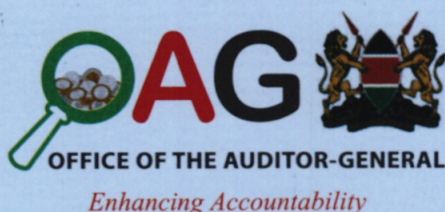
The financial statements were approved for Re-submission by the Board on ..... 31/01/2024 .....  
and signed on its behalf by:

  
ENG. JOEL KIILU  
CHAIRMAN OF THE BOARD

  
WINFRED MBAI  
MANAGING DIRECTOR

# REPUBLIC OF KENYA

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## **REPORT OF THE AUDITOR-GENERAL ON MUNICIPAL COUNCIL OF MACHAKOS WATER AND SEWERAGE COMPANY LIMITED FOR THE YEAR ENDED 30 JUNE, 2023**

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### **PREAMBLE**

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

- A. Report on the Financial Statements that considers whether the financial statements are fairly presented in accordance with the applicable financial reporting framework, accounting standards and the relevant laws and regulations that have a direct effect on the financial statements.
- B. Report on Lawfulness and Effectiveness in Use of Public Resources which considers compliance with applicable laws, regulations, policies, gazette notices, circulars, guidelines and manuals and whether public resources are applied in a prudent, efficient, economic, transparent and accountable manner to ensure Government achieves value for money and that such funds are applied for 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 Municipal Council of Machakos Water and Sewerage Company Limited set out on pages 1 to 27, which comprise of the

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

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

## **Basis for Qualified Opinion**

### **1. Irregularities in Board Expenses**

Note 9(c) to the financial statements has disclosed board expenses of Kshs.3,307,399. However, review of the supporting documents revealed that an amount of Kshs.245,000 was paid to board members as reimbursement of transport expenses without adequate supporting documents. Further, public officers from the County Executive were paid sitting allowances amounting to Kshs.245,000 during the year under review, yet this was part of their official assignments under full time employment. This amounts to double payment contrary to the provisions of the constitution that a public officer cannot earn two salaries. In addition, one officer was paid Kshs.20,000 sitting allowance after he had ceased being a board member.

In the circumstances, the accuracy and regularity of the board expenses could not be confirmed.

### **2. Unsupported Expenditure**

The statement of profit or loss and other comprehensive reflects operation and maintenance costs of Kshs.32,387,347 as disclosed in Note 10 to the financial statements. Included in this amount is Kshs.1,436,343 relating to motor vehicle fuel and oil expenditure which was not supported by way of detailed orders.

In the circumstances, the accuracy, and regularity of the expenditure of Kshs.1,436,343 on motor vehicle fuel and oil could not be confirmed.

### **3. Accuracy of Customer Deposits**

The statement of financial position reflects customer deposits (non-current and Current liabilities) balance of Kshs.13,786,464 as disclosed under Note 22 to the financial

statements. However, the corresponding , bank account holding the customer deposit at the Co-operative Bank reflects a balance of Kshs.11,335. Management has not provided explanation or reconciliation for the discrepancies.

In the circumstance, accuracy of the customer deposits balance of Kshs.13,786,464 could not be confirmed.

#### **4. Long Outstanding Receivables**

The statement of financial position net trade and other receivables balance of Kshs.149,598,526 as disclosed in Note 17 to the financial statements. Included is Kshs.28,745,023 relating to amounts owed by Machakos County Executive in respect to unpaid bills. In spite of several demand notices by the Water Company, the County Government had not honored their obligations. Further, the amount owed by the County Executive does not tally with the amount declared as pending bills due to the Water Company of Kshs.21,359,570, resulting to an unreconciled and unexplained variance of Kshs.7,385,453.

Further, trade receivables amounting to Kshs.97,382,988 have been long outstanding for periods exceeding 120 days casting doubt on their recoverability. The Company did not demonstrate measures put in place to recover the long outstanding debts. In addition, there was an increase in trade receivables by Kshs.19,663,399 to Kshs.198,290,020 despite the decline in operating revenue sales by Kshs.51,469,199 which was indicative of the Company's laxity in collecting the debts.

In the circumstances, the accuracy, recoverability and fair statement of trade and other receivables balance of Kshs.149,598,526 could not be confirmed.

#### **5. Accuracy of Cash Flows Statement**

The statement of cash flows reflects cash received from customers of Kshs.84,490,328 which has not been reconciled to the operating revenue/sale of Kshs.102,778,857 reported in the statement of profit or loss and other comprehensive income. Further, the supporting schedule for cash receipts from customers of Kshs.84,490,328 was not provided for audit review.

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

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the Municipal Council of Machakos Water and Sewerage Company Limited Management in accordance with ISSAI 130 on 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 reflect final receipts budget and actual on a comparable basis of Kshs.259,264,971 and Kshs.109,558,832 respectively resulting to an under performance of Kshs.149,706,139 or 58% of the budget.

The underperformance may have affected the planned activities and programs impacting negatively on services delivery to the residents of Machakos County.

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's Audit Matters**

In the audit report of the previous year, several issues were raised under the Report on Financial Statements, Report on Lawfulness and Effectiveness in Use of Public Resources and Report on Effectiveness on Internal Controls, Risk Management and Governance. Management has however, not resolved the issues or provided explanation for the failure to adhere to the requirements of the Public Sector Accounting Standards template.

## **REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES**

### **Conclusion**

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

### **Basis for Conclusion**

#### **1. Late Submission of the Financial Statements**

The financial statements were submitted for audit on 3 October, 2023 contrary to Section 164 of the PFM Act, 2012 which requires the Accounting Officer of a County Government

entity for each financial year, to prepare financial statements in respect of the entity and to submit them to the Auditor General with a copy to the Controller of Budget and the Commission on Revenue Allocation within three months after financial year end.

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

## **2. Obsolete Water Tariff in Use**

Note 6 to the financial statements has disclosed an amount of Kshs.102,778,857 in respect of water sales. However, review of the Company's sales records revealed that the tariffs currently in use are dated 4 July, 2014 and had been approved by the Water Services Regulatory Board (WASREB) for the years 2014/2015, 2015/2016 and 2016/2017. Therefore, the Water company has been using the obsolete water tariffs over the past 6 (six) years.

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

## **3. Excessive Non-Revenue Water**

Note 6 to the financial statements disclosed an amount of Kshs.102,778,857 in respect of water sales. Review of the water sales records revealed that the Company produced a total of 986,437 cubic meters (M<sup>3</sup>) of water out of which 660,398 M<sup>3</sup> or 67 was billed to customers. The balance of 326,039 M<sup>3</sup> represents Non-Revenue Water (NRW). The NRW was equivalent to 33% of the total production equivalent to Kshs.37,494,485 based on the Company's average selling price of Kshs.115 per M<sup>3</sup>. The NRW exceeded the 25% threshold of total production set in the guidelines issued by the Water Services Regulatory Board (WASREB).

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

## **4. Non-Remittance of Statutory Deductions**

The statement of profit or loss and other comprehensive income reflects staff costs of Kshs.62,775,274 as disclosed in Note 9(b) to the financial statements. However, review of payroll documents revealed that Kshs.21,111,760 and Kshs.1,853,465 had not been remitted to Lap Trust and Lap Fund retirement schemes respectively. No explanation was provided for non-remittance of deductions amounting to Kshs.22,965,225 due to the retirement schemes.

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

## **5. Non-compliance with Regulatory Fees Regulations**

The statement of profit or loss and other comprehensive income reflects general administrative expenses of Kshs.25,797.344 as disclosed in Note 9 (a) to the financial statements. This amount includes WASREB and WARMA fees of Kshs. 4,207,737 and Kshs.1,756,263 respectively. Review of expenditure records revealed that the Company did not remit the required amounts during the financial year 2022/2023. Further, there were prior years outstanding fees amounting to Kshs. 26,974,612 due to the two (2)

entities. Additionally, the Company does not have a water permit which is a requirement by the Water Act, 2016.

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

## **6. Non-Filing of Income Tax Returns**

Review of the Company's records revealed that it was incorporated in 2005. However, Management did not provide evidence of filed annual returns with the Registrar of Companies as provided for in law. No explanation was provided by Management for the failure to file returns.

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

## **7. Irregularities in Human Resource Management**

The statement of profit or loss and other comprehensive income reflects staff costs of Kshs.62,775,274 as disclosed in Note 9(b) to the financial statements. However, the following anomalies were noted:

### **7.1. Long Overdue Secondment of Staff**

Review of payroll documents revealed that one staff has been seconded to the Water Company since the year 2013. However, his personal file did not show a letter of secondment from Machakos County Government hence no clarification of job description, duties to be performed and his career progression to the current role of superintendent officer in the Company. As a result, the basis of annual top-up to the remuneration of Kshs.1,005,840 could not be ascertained.

In the circumstances, the lawfulness of the secondment could not be established.

### **7.2. Staff Acting for More than Six Months**

Review of staff personnel files revealed that one (1) staff member appointed on 2 July, 2015 as accounts assistant was subsequently appointed as acting commercial manager on 1 January, 2017 for six months and this has since been extended over time with last acting appointment dated 11 May, 2022. Cumulatively, the officer has been in acting capacity for more than seven (7) years.

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

### **7.3. Engagement of Casuals Beyond Three Months**

Note 9(b) to the financial statement reflects wages of temporary employees totalling Kshs.1,539,732. However, it was noted that some casuals had been engaged for periods exceeding 6 months. Further, they had been hired without any form of agreement contrary to the existing employment laws.

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

### **8. Irregularities in Supply and Delivery of Water Treatment Chemicals and Reagents**

Note 10 to the financial statements reflects operation and maintenance costs totalling Kshs.32,387,347. The amount includes Kshs.4,665,350 relating chemical costs. Review of procurement documents revealed that Management awarded a contract to a firm for the supply and delivery of water treatment chemicals and reagents at a tender sum of Kshs.30,171,600. No explanation was given on how the tender was awarded and how it operated for a period of three years without a budget.

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

The audit was conducted in accordance with ISSAI 2315 and ISSAI 2330. The standards require that I plan and perform the audit to obtain assurance about whether 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 THE EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE**

### **Conclusion**

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

### **Basis for Conclusion**

#### **Lack of Career Progression Guidelines and Out-dated HR Policy**

Review of human resource records of the Company revealed that it lacked career progression guidelines which would streamline promotions. Further, the human resource policy in place was enacted in June, 2014 and is therefore outdated.

In the circumstances lack of HR Policy may affect the effectiveness of the operations of the entity's business processes on delivery of services to the public in an effective and efficient manner.

The audit was conducted in accordance with the International Standards for Supreme Audit Institutions (ISSAIs) 2315 and 2330. The Standards require that I plan and perform the audit to obtain assurance about whether effective processes and systems of internal controls, risk management and overall governance were operating effectively, in all

material respects. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

## REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

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

- (i) I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of my audit;
- (ii) In my opinion, proper books of account have been kept by the Company, so far as appears from the examination of those books;
- (iii) The Company's financial statements agree with the books of account.

### **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 control as Management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error and for its assessment of the effectiveness of internal control, risk management and overall governance.

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

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

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

The Board of Directors is responsible for overseeing the financial reporting process, reviewing the effectiveness of how the Company 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 environme

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

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

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

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

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

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


- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a

basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Management.
- Conclude on the appropriateness of the Management's use of the applicable 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 or to sustain its services.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information and business activities of the Company to express an opinion on the financial statements.
- Perform such other procedures as I consider necessary in the circumstances.

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

I also provide Management with a statement that I have complied with relevant ethical requirements regarding independence and 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**

**15 March, 2024**

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*Report of the Auditor-General on Municipal Council on Machakos Water and Sewerage Company Limited for the year ended 30 June, 2023*

**15) STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME  
FOR THE YEAR ENDED 30 JUNE 2023**

	Notes	2022/2023	2021/2022
		Kshs	Kshs
<b><u>Revenues</u></b>			
Operating Revenue/Sales	6	102,778,857	126,818,435
Grants Income from National, County Government	7	4,365,295	32,674,296
Other Income	8	2,414,680	1,535,300
<b>Total Revenues</b>		<b>109,558,832</b>	<b>161,028,031</b>
<b><u>Expenditure</u></b>			
General Administrative Expenses	9 (a)	25,797,344	39,375,393
Staff Costs	9 (b)	62,775,274	62,644,247
Board Expenses	9 (c)	3,707,399	4,241,262
Operation & Maintenance Costs	10	32,387,347	38,423,954
Depreciation of property, plant and equipment	14	967,367	1,200,129
<b>Total Expenditure</b>		<b>125,634,730</b>	<b>145,884,985</b>
Operating Profit(Loss) before taxation		(16,075,898)	15,143,046
<b>Income Tax Expense</b>	15	-	-
<b>Profit/(Loss) After Taxation</b>		<b>(16,075,898)</b>	<b>15,143,046</b>
Earnings Per Share		(3,215)	3,029

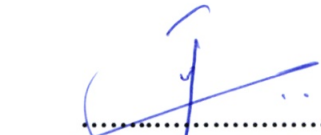
**16) STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2023**

	Notes	2022/2023 Kshs	2021/2022 Kshs
<b><u>ASSETS</u></b>			
<b>Non-Current Assets</b>			
Property, Plant & Equipment	14	22,198,272	23,165,639
<b>Total Non-Current Asset</b>		<b>22,198,272</b>	<b>23,165,639</b>
<b>Current Assets</b>			
Inventory	16	2,098,678	1,774,138
Trade and Other Receivables	17	149,598,526	132,247,076
Cash & Bank Balances	18	1,600,384	5,528,037
<b>Total Current Assets</b>		<b>153,297,588</b>	<b>139,549,251</b>
<b>TOTAL ASSETS</b>		<b><u>175,495,861</u></b>	<b><u>162,714,890</u></b>
<b><u>EQUITY &amp; LIABILITIES</u></b>			
<b>Equity (Capital &amp; Reserves)</b>			
Ordinary Share Capital	19	100,000	100,000
Capital Grant	20	24,676,818	22,322,118
Retained Earnings		(7,671,924)	7,995,071
<b>Total Equity</b>		<b>17,104,894</b>	<b>30,417,189</b>
<b>Non-Current Liability</b>			
Customer Deposits	22	13,786,464	-
<b>Current Liabilities</b>			
Trade & Other Payables	21	144,604,502	119,744,237
Customer Deposits	22	-	12,553,464
<b>Total Current Liabilities</b>		<b>144,604,502</b>	<b>132,297,701</b>
<b>TOTAL EQUITY &amp; LIABILITIES</b>		<b><u>175,495,861</u></b>	<b><u>162,714,890</u></b>

The Financial Statements were approved for re-submission by the Board on ... 31/01/2024.  
and signed on its behalf by:

  
WINFRED MBAI  
MANAGING DIRECTOR

  
CPA GEORGE KOMBO  
HEAD OF FINANCE  
ICPAK M/NO.15118

  
ENG. JOEL KIILU  
CHAIRMAN OF THE BOARD

**17) STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 JUNE 2023**

<b>Equity Changes</b>	<b>Share capital</b>	<b>Capital Grant</b>	<b>Retained Earnings</b>	<b>Total</b>
	<b><u>Ksh</u></b>	<b><u>Ksh</u></b>	<b><u>Ksh</u></b>	<b><u>Ksh</u></b>
At July 1, 2022	100,000	9,043,391	(7,573,915)	1,569,476
Profit/(loss) for the year	-	-	15,143,046	15,143,046
Changes (Note No.20)	-	13,704,667	-	13,704,667
Amortization (Note No.20)	-	(425,940)	425,940	-
<b>At June 30, 2022</b>	<b><u>100,000</u></b>	<b><u>22,322,118</u></b>	<b><u>7,995,071</u></b>	<b><u>30,417,189</u></b>
At July 1, 2022	100,000	22,322,118	7,995,071	30,417,189
Profit/(loss) for the year	-	-	(16,075,898)	(16,075,898)
Changes (Note No.20)	-	2,763,603	-	2,763,603
Amortization (Note No.20)	-	(408,903)	408,903	-
<b>At June 30, 2023</b>	<b><u>100,000</u></b>	<b><u>24,676,818</u></b>	<b><u>(7,671,924)</u></b>	<b><u>17,104,894</u></b>

**18) STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2023**

	Note	2022-2023	2021-2022
		Kshs	Kshs
<b>Cash Flows From Operating Activities</b>			
<b>Receipts</b>			
Cash Received from Customers		84,490,328	115,270,500
Cash Paid for Suppliers for Inventory		(324,540)	(215,398)
Other Income	8	2,414,680	1,535,300
Grants Income from National, County Government	7	4,365,295	32,674,296
Customer Deposits	22	1,247,000	792,800
<b>Total Receipts</b>		92,192,763	150,057,499
<b>Payments</b>			
General Administrative Expenses	9 (a)	25,797,344	39,375,393
Staff Costs	9 (b)	62,775,274	62,644,247
Board Expenses	9 (c)	3,707,399	4,241,262
Operation & Maintenance Costs	10	32,387,347	38,423,954
Refund Of Customer Deposits	22	14,000	24,000
<b>Total Payments</b>		98,884,020	144,708,856
<b>Net Cash From/(Used In) Operating Activities</b>		<b>(6,691,256)</b>	<b>5,348,643</b>
<b>Cash Flows from Investing Activities</b>			
Purchase Of Property, Plant And Equipment (PPE)	14	-	(13,958,765)
<b>Net Cash From/(Used In) Investing Activities</b>		<b>-</b>	<b>(13,958,765)</b>
<b>Cash Flows from Financing Activities</b>			
Capital Grant	20	2,763,603	13,704,667
<b>Net Cash From/(Used In) Financing Activities</b>		<b>2,763,603</b>	<b>13,704,667</b>
<b>Increase/(Decrease) In Cash And Cash Equivalents</b>		<b>(3,927,653)</b>	<b>5,094,545</b>
<b>Cash And Cash Equivalents At Beginning Of Year</b>		<b>5,528,037</b>	<b>433,492</b>
<b>Cash And Cash Equivalents At End Of The Year</b>		<b>1,600,384</b>	<b>5,528,037</b>

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**19) STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS FOR THE PERIOD ENDED 30 JUNE 2023**

	Original	Adjustment	Final Budget	Actual on comparable basis	Performance difference	% of Utilization
	Kshs	Kshs	Kshs	Kshs	Kshs	
<b>Revenue</b>						
Operating Revenue	155,918,070	-	155,918,070	102,778,857	(53,139,213)	66%
Other Incomes	5,423,611	-	5,423,611	2,414,680		
Grants Income from National, County Government	28,923,290	-	28,923,290	4,365,295	(24,557,995)	15%
Projects	69,000,000	-	69,000,000	-	(69,000,000)	
<b>Total income</b>	<b>259,264,971</b>	<b>-</b>	<b>259,264,971</b>	<b>109,558,832</b>		
<b>Expenses</b>						
*General Administrative Expenses	54,299,128	-	54,299,128	25,797,344	(28,501,784)	48%
*Staff Costs	67,145,844	-	67,145,844	62,775,274	(4,370,570)	93%
*Board Expenses	6,300,000	-	6,300,000	3,707,399	(2,592,601)	59%
*Operation & Maintenance costs	56,259,999	-	56,259,999	32,387,347	(23,872,652)	58%
*Depreciation	-	-	-	967,367	967,367	
<b>Total Recurrent Expenditure</b>	<b>184,004,971</b>	<b>-</b>	<b>184,004,971</b>	<b>125,634,730</b>		
<b>Profit or Loss</b>	<b>75,260,001</b>	<b>-</b>	<b>75,260,001</b>	<b>(16,075,898)</b>	<b>-</b>	
Capital/Development Expenditure	75,260,000	-	75,260,000	-	(75,260,000)	0%
<b>TOTAL EXPENDITURE</b>	<b>259,264,971</b>	<b>-</b>	<b>259,264,971</b>	<b>125,634,730</b>		
<p>Budget Note: Explanation for the various performance differences is noted as here under; *Operating revenue and other incomes :- anticipated billings were affected by the dry spell experienced in the 3rd and 4th quarter of FY 2022-2023. These saw water production and distribution decline drastically thus reduces sales and new connections. from Major clients including the county government but this was not adequately honored. *Grants Income from National, County Government :- Operational support as anticipated was not received as expected. *Expenditure items :- Most of the expenditure activities were under financed due to the low revenues as recorded. Projects:-The company had made proposals for funding for various projects but the funds had been received by the close of the accounting period.</p>						

## 20) NOTES TO THE FINANCIAL STATEMENTS

### 1.) General Information

Municipal Council of Machakos Water & Sewerage Co. entity is established by and derives its authority and accountability from Water Act 2002 and Water Act 2016. The entity is a Semi-Autonomous Government Agency. The entity's principal activity is provision of water and sewerage services within Machakos Town and its environs. For Kenyan Companies Act reporting purposes, the balance sheet is represented by the statement of financial position and the profit and loss account by the statement of profit or loss and other comprehensive income in these financial statements.

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

The financial statements have been prepared on a historical cost basis. The preparation of financial statements in conformity with International Financial Reporting Standards (IFRS) allows the use of estimates and assumptions. It also requires management to exercise judgement in the process of applying the entity's accounting policies. The financial statements have been prepared and presented in Kenya Shillings, which is the functional and reporting currency of the entity. The figures are rounded to the nearest Kenyan shilling. The financial statements have been prepared in accordance with the PFM Act, Water Act and International Financial Reporting Standards (IFRS). The accounting policies adopted have been consistently applied to all the years presented.

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

- i.) Relevant new standards and amendments to published standards effective for the year ended 30 June 2023

Title	Description	Effective Date
IFRS 17 Insurance Contracts (issued in May 2017)	The new standard establishes principles for the recognition, measurement, presentation and disclosure of insurance contracts issued. It also requires similar principles to be applied to reinsurance contracts held and investment contracts with discretionary participation features issued. The objective is to ensure that entities provide relevant information in a way that faithfully represents those contracts.  <i>Machwasco does not issue insurance contracts.</i>	Effective for annual periods beginning on or after 1 <sup>st</sup> January 2023.

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Title	Description	Effective Date
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.  <i>(The amendments have not brought changes on their financial statements for the year ended.)</i>	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.  <i>(The amendments has not brought about changes to the accounting policies disclosed)</i>	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.

Title	Description	Effective Date
Amendments to IAS 1 titled Classification of Liabilities as Current or Non-current (issued in January 2020, amended in October 2022)	The amendments, applicable to annual periods beginning on or after 1st January 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	The amendments, applicable to annual periods beginning on or after 1st January 2024, improve the information an entity provides about liabilities arising	The amendments are effective for annual periods beginning on or after January 1, 2024.

Title	Description	Effective Date
Covenants (issued in October 2022)	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.	Earlier application is permitted.

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

ii.) Early adoption of standards

The entity did not early – adopt any new or amended standards in year 2022-2023.

**4. Summary of Significant Accounting Policies**

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

a.) Revenue recognition

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

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

b.) In-kind contributions

In-kind contributions are donations that are made to the Company in the form of actual goods and/or services rather than in money or cash terms. These donations may include vehicles, equipment, utilities or personnel services. Where the financial value received for in-kind contributions can be reliably determined, the Company includes such value in the statement of comprehensive income both as

revenue and as an expense in equal and opposite amounts; otherwise, the contribution is not recorded but disclosed.

c.) Property, plant and equipment

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

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

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

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

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

A full year's depreciation charge is recognized both in the year of asset purchase and in the year of asset disposal. Items of property, plant and equipment are reviewed annually for impairment. Where the carrying amount of an asset is assessed as greater than its estimated recoverable amount, an impairment loss is recognized so that the asset is written down immediately to its estimated recoverable amount.

e.) Intangible assets

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

f.) Amortisation and impairment of intangible assets

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

All computer software is reviewed annually for impairment. Where the carrying amount of an intangible asset is assessed as greater than its estimated recoverable amount, an impairment loss is recognised so that the asset is written down immediately to its estimated recoverable amount.

g.) Leases

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

h.) Inventories

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

i.) Trade and other receivables

Trade and other receivables are recognised at fair values less allowances for any uncollectible amounts. These are assessed for impairment on a continuing basis. An estimate is made of doubtful receivables at the rate of 50%, of the Inactive receivable, based on a review of all outstanding amounts at the year end. Bad debts are written off after all efforts at recovery have been exhausted and when the necessary approval to write off is granted.

j.) Taxation

(i.) Current income tax

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

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

(ii.) Deferred tax

Deferred tax is provided using the liability method on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date. Deferred tax liabilities are recognized for all taxable temporary differences, except in respect of taxable

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

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

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

k.) Cash and cash equivalents

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

l.) Borrowings

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

m.) Trade and other payables

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

n.) Budget information

The original budget for FY 2022-2023 was approved by the Board of Directors of Machakos water and sewerage co. Subsequent revisions or additional appropriations were made to the approved budget in accordance with specific approvals from the Board of Directors. The entity's budget is prepared on a different basis to the actual income and expenditure disclosed in the financial statements. The financial statements are prepared on accrual basis using a classification based on the nature of expenses in the statement of financial performance, whereas the budget is prepared on a cash basis. The amounts in the financial statements were recast from the accrual basis to the cash basis and reclassified by presentation to be on the same basis as the approved budget. A comparison of budget and actual amounts, prepared on a comparable basis to the approved budget, is then presented in the statement of comparison of budget and actual amounts. In addition to the Basis difference, adjustments to amounts in the financial statements are also made for differences in the formats and classification schemes adopted for the presentation of the financial statements and the approved budget. A statement to reconcile the actual amounts on a comparable basis included in the statement of comparison of budget and actual amounts and the actuals as per the statement of financial performance.

o.) Comparative figures

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

p.) Subsequent events

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

q.) Work In Progress (WIP)

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

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

s.) Retirement benefit obligations

The Company staff are members of various defined contribution pension schemes The schemes include National Water & Housing Conservation Pension Scheme, Laptrust Pension Scheme and Lapfund Pension Scheme. These schemes are regulated as per Regulatory Benefit Authority (RBA) Act. Contributions from both the company and its employees are made to the scheme at 15% and 7.5% respectively based on the staff basic salary per month. The company also contributes to the statutory

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

t.) Provision for staff leave pay

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

u.) Right of Use Asset

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

V.) Computation of Capital Allowances

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

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

(ii) Hospital equipment	50% in the first year of use
(iii) Ships or aircrafts	50% in the first year of use
(iv) Residual value items (b) (i) to (b)(iii)	25% per year, on reducing balance
(v) Motor vehicles and heavy Earth moving equipment	25% per year, on reducing balance
(vi) Computer and peripheral computer hardware and software, calculators, duplicating machines	25% per year, on reducing balance
(vii) Furniture and fittings	10% per year, on reducing balance
(viii) Telecommunications equipment	10% per year, on reducing balance

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

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

#### Estimates and assumptions

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

#### Useful lives and residual values

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

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

#### Provisions

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

**6. Operating Revenue/Sales**

	2022/2023	2021/2022
	Kshs	Kshs
Metered water & Sewerage Sales	101,470,525	123,466,755
Water sales through water Bowers	1,308,332	3,351,680
<b>Total Sales</b>	<b><u>102,778,857</u></b>	<b><u>126,818,435</u></b>

**7. Grant Income from National, County Government**

	2022/2023	2021/2022
	Kshs	Kshs
Electricity Bills	3,396,355	6,200,000
Salaries Subsidy seconded staff	968,940	981,790
Conditional Support Liquidity Grant	-	25,492,506
<b>Total Subsidies</b>	<b><u>4,365,295</u></b>	<b><u>32,674,296</u></b>

**8. Other Income**

	2022/2023	2021/2022
	Kshs	Kshs
Water & Sewer Survey Fees	70,500	118,000
Sewer Dumping & Connection Fees	1,024,000	945,000
Water Connection & Reconnection Fees	429,700	472,300
Meter Charge	890,480	
<b>Total Other Income</b>	<b><u>2,414,680</u></b>	<b><u>1,535,300</u></b>

**9. (a) General Administrative Expenses**

	2022/2023	2021/2022
	Kshs	Kshs
Auditor's remuneration	348,000	348,000
Uniforms	-	559,280
Billing Expenses	89,976	

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		251,200
Telephone, Postal & Internet	922,639	1,017,768
Printing & Publishing	57,920	38,790
Staff Training	906,000	3,009,400
Legal Fees	-	325,000
Rental cost	60,000	60,000
Insurance	166,325	179,384
Travelling & Subsistence	1,894,130	5,511,199
Office Stationery	321,157	736,378
Office Expenses	1,396,481	2,305,727
Publicity & Advertising	20,690	229,242
Maintenance of comps furniture & office, equipment	74,250	125,075
Wasreb	4,207,737	7,350,685
Warma	1,756,263	964,747
Provision for bad debts	2,311,949	7,091,565
Bank charges	820,116	513,705
Subscription Fee	196,400	196,400
Security	2,484,000	2,484,000
Computer Software Maintenance Costs	229,200	120,000
Accrued Interest/Acturial Deficit	7,534,111	5,588,407
Occupation, Health & Safety	-	369,440
<b>Total Administration Cost</b>	<b><u>25,797,344</u></b>	<b><u>39,375,393</u></b>

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**9(b) Staff Costs**

	<b>2022/2023</b>	<b>2021/2022</b>
	<b>Kshs</b>	<b>Kshs</b>
Salaries & Wages of Permanent Employees	50,345,779	50,834,964
Wages of temporary employees	1,539,732	1,702,548
Gross Pension Company Contribution	4,394,598	4,044,858
Staff Medical Cover	5,781,665	5,665,877
Staff Welfare Expenses	321,000	-
Machakos Staff Welfare Scheme-Company Contribution	392,500	396,000
<b>Total Staff Expense</b>	<b><u>62,775,274</u></b>	<b><u>62,644,247</u></b>

	<b>2022/2023</b>	<b>2021/2022</b>
The average number of employees at the end of the year		
Permanent Employees –Management	6	6
Permanent Employees-Unionisable	59	61
Temporary employees	15	15

**9(c). Board Expenses**

	<b>2022/2023</b>	<b>2021/2022</b>
	<b>Kshs</b>	<b>Kshs</b>
- Allowances	1,770,000	1,263,000
- Training	1,080,650	826,352
- General Expenses	376,749	1,671,910
- Honoraria	480,000	480,000
<b>Total Board Expenses</b>	<b>3,707,399</b>	<b>4,241,262</b>

**10. Operation & Maintenance Costs**

	<b>2022/2023</b>	<b>2021/2022</b>
	<b>Kshs</b>	<b>Kshs</b>
Maintenance of Build., Plant & Equip	1,336,145	1,278,054
Motor Vehicle Maintenance	1,514,499	2,264,406
Electricity	17,876,724	19,334,703
Maintenance of Sewer & Water	1,784,242	3,068,926
Motor Vehicle fuel & Oil	1,436,343	3,200,972

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Drugs & Dressing	334,808	249,368
Water Quality Test	20,000	21,000
Chemicals	4,665,350	6,095,800
Water Bowser Supply	43,200	165,600
Pipe & Fittings	3,376,035	2,745,125
<b>Total Operation Cost</b>	<b><u>32,387,347</u></b>	<b><u>38,423,954</u></b>

### 11. Capital Allowance

	Furniture & Fittings	Industrial Buildings, Civil Works, Motor Vehicles, Motor Cycles, Computer & Accessories and Software	Total
	25%	10%	
<b>WDV as at 01.07.2022</b>	<b>2,570,105</b>	<b>411,846</b>	<b>2,981,951</b>
Additions	-	-	-
Disposal	-	-	-
<b>Total</b>	<b>2,570,105</b>	<b>411,846</b>	<b>2,981,951</b>
Wear and Tear Allowance for the period	(642,526)	(41,185)	(683,710)
<b>WDV as at 30.06.2023</b>	<b>1,927,579</b>	<b>370,661</b>	<b>2,298,241</b>

### 12. Earnings Per Share

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

### 13. Dividend Per Share

The Board did not declare any dividend for the financial year ended 30<sup>th</sup> June 2023.

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**14. Property, Plant And Equipment**

	Buildings and civil works	Motor vehicles, including, motor cycles	Office equipment, furniture & fittings	Computers & related equipment, Software	Capital work in progress	Total
<b>COST OR VALUATION</b>						
At June 30, 2022	11,374,674	3,966,700	912,480	4,782,268	10,651,544	31,687,666
Additions						
Disposal	-	-	-	-	-	-
<b>At June 30, 2023</b>	<b>11,374,674</b>	<b>3,966,700</b>	<b>912,480</b>	<b>4,782,268</b>	<b>10,651,544</b>	<b>31,687,666</b>
<b>DEPRECIATION</b>						
At June 30, 2022	1,152,108	2,821,983	487,827	4,060,109	-	8,522,027
Charge for the year	408,903	286,179	33,972	238,313		967,367
<b>At June 30, 2023</b>	<b>1,561,011</b>	<b>3,108,162</b>	<b>521,800</b>	<b>4,298,421</b>	<b>-</b>	<b>9,489,394</b>
<b>NET BOOK VALUE</b>						
At June 30, 2022	10,222,566	1,144,717	424,653	722,160	10,651,544	23,165,639
<b>At June 30, 2023</b>	<b>9,813,663</b>	<b>858,538</b>	<b>390,680</b>	<b>483,847</b>	<b>10,651,544</b>	<b>22,198,272</b>

**15. Income Tax Expense**

	2022/2023	2021/2022
	Kshs	Kshs
Profit/Loss before tax	(16,075,898)	15,143,046
<b>Add Back: Disallowable Expenses</b>		
Depreciation	967,367	1,200,129
Provision for bad debts	2,311,949	7,091,565
	<b>(12,796,582)</b>	<b>23,434,740</b>
<b>Deduct:</b>		
Wear & Tear	(683,710)	(1,378,350)
Tax Losses B/F	(6,685,584)	-
Grants Income from National, County Government	(4,365,295)	(32,674,296)

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Tax Losses for the period	(24,531,172)	(10,617,905)
Tax losses C/F	(24,531,172)	(6,685,584)
<b>Tax Liability @30%</b>	-	-

16. Inventory	2022/2023	2021/2022
	Kshs	Kshs
Pipes and Fittings	725,350	1,272,520
Stationery	858,430	204,245
Chemicals	214,898	280,573
Water	300,000	16,800
<b>TOTALS</b>	<b>2,098,678</b>	<b>1,774,138</b>

17. Trade Receivables	2022/2023	2021/2022
	Kshs	Kshs
Active Trade Receivables	100,807,032	85,767,531
Inactive Trade Receivables	<u>97,382,988</u>	<u>92,759,091</u>
Total Trade Receivables	198,190,020	178,526,621
Other Receivables	100,000	100,000
Gross Trade and Other Receivables (a)	<u>198,290,020</u>	<u>178,626,621</u>
Less: Provision for bad debts (b)	(48,691,494)	(46,379,545)
<b>Net Trade and other receivables (a-b)</b>	<b><u>149,598,526</u></b>	<b><u>132,247,076</u></b>

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

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

At June 30, the ageing analysis of the total trade receivables (a) was as follows:		
Less than 30 days	10,462,596	10,462,596
Between 30 and 60 days	14,387,499	12,960,765
Between 61 and 90 days	18,735,568	16,877,658
Between 91 and 120 days	57,321,369	45,566,511
Over 120 days	<u>97,382,988</u>	<u>92,759,091</u>
	198,290,020	178,626,621

### 18. Bank And Cash Balances

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	2022/2023	2021/2022
Description	Kshs	Kshs
<b>a) Current account</b>		
Co-operative Bank Expenditure A/C 01120033182901	120,160	1,124,629
Co-operative Bank Collection A/C 01100033182900	124,188	1,000
Post Bank Collection A/C 0744130010118	7,300	20,156
Family Bank Bowser A/C 07300014638	54	1,725
Family Salary A/c 073000030542	65	8,782
Family Collection A/c 073000030552	3,568	14,881
Family Kiandani Project (DTF) A/c 073000043226	917,934	2,617,168
Family Ikulu Kathale Project (UPC) A/c 073000047653	273,920	-
Family CLSG II Project Escrow A/c 073000049936	-	-
Family CLSG II Project Main A/c 073000049935	-	-
Family CLSG II Project Revenue A/c 073000049937	-	-
<b>Sub- total</b>	<b>1,447,189</b>	<b>3,788,341</b>
<b>b) Customer deposits</b>		
Co-operative Bank Deposit A/C 01120033182902	7,334	1,718,682
<b>Sub- total</b>	<b>7,334</b>	<b>1,718,682</b>
<b>c) Others(specify)</b>		
M – pesa – 823222	145,855	20,896
Cash in hand	6	118
<b>Sub- total</b>	<b>145,861</b>	<b>21,014</b>
<b>Grand total</b>	<b><u>1,600,384</u></b>	<b><u>5,528,037</u></b>

**19. Ordinary Share Capital**

	2022/2023	2021/2022
Authorized	Kshs	Kshs
5000 Ordinary Shares of Ksh: 20 per share	<u>100,000</u>	<u>100,000</u>

<b>20. Capital Grant Movement</b>	<b>2022/2023</b>	<b>2021/2022</b>
	<b>Kshs</b>	<b>Kshs</b>
Capital Grant B/f	22,322,118	9,043,391
Received for the year	2,763,603	13,704,667
Less amortisation	(408,903)	(425,940)
<b>Total</b>	<b>24,676,818</b>	<b>22,322,118</b>

<b>21. Trade and Other Payables</b>	<b>2022/2023</b>	<b>2021/2022</b>
	<b>Kshs</b>	<b>Kshs</b>
Trade Payables(General)	15,702,653	12,308,451
Accrued	86,942,506	65,476,442
Others	41,959,344	41,959,344
<b>Total Trade and Other Payables</b>	<b><u>144,604,502</u></b>	<b><u>119,744,237</u></b>

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

Less than 30 days	15,702,653	12,308,451
Between 30 and 60 days	29,280,509	11,208,647
Between 61 and 90 days	12,678,835	23,517,098
Between 91 and 120 days	44,983,162	30,750,696
Over 120 days	41,959,344	41,959,344
	<b>144,604,502</b>	<b>119,744,237</b>

<b>22. Customer Deposits</b>	<b>2022/2023</b>	<b>2021/2022</b>
	<b>Kshs</b>	<b>Kshs</b>
Balance b/f	12,553,464	11,784,664
Paid during the year	1,247,000	792,800
Refund during the year	(14,000)	(24,000)
<b>Total Customer deposits</b>	<b><u>13,786,464</u></b>	<b><u>12,553,464</u></b>

<b>23. Notes To The Statement of Cashflows</b>	<b>2022/2023</b>	<b>2021/2022</b>
	<b>Kshs</b>	<b>Kshs</b>
<b>(a) Reconciliation of operating profit/(loss) to cash generated from/(used in) operations</b>		

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Operating profit/(loss)	(16,075,898)	15,143,046
Depreciation	967,367	1,200,129
Operating profit/(loss) before working capital changes	(15,108,531)	16,343,175
(Increase)/decrease in inventories	(324,540)	1,001,669
(Increase)/decrease in trade and other receivables	(17,351,451)	(11,547,935)
Increase/(decrease) in trade and other payables	24,860,266	(1,217,067)
Increase/(decrease) in Customer Deposits	1,233,000	768,800
Cash generated from/(used in) operations	(6,691,256)	5,348,643
<b>(b) Analysis of cash and cash equivalents</b>		
Cash at bank	1,600,378	5,527,919
Cash in hand	6	118
Balance at end of the year	1,600,384	5,528,037

#### 24. Related Party Disclosures

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

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

#### 24. Related Party Transactions

2022/2023	2021/2022
Kshs	Kshs

<b>a) Subsidy National/County Government</b>		
Direct payments for chemicals	-	-
Direct payments for electricity bills	3,396,355	6,200,000
<b>Total</b>	<b>3,396,355</b>	<b>6,200,000</b>
<b>b) Expenses incurred on behalf of related party</b>		
Payments of salaries and wages for county employee-seconded	968,940	981,790
<b>Total</b>	<b>968,940</b>	<b>981,790</b>
<b>c) Key management compensation</b>		
Directors' emoluments	3,707,399	4,241,262
Compensation to the CEO	3,795,990	3,740,190
Compensation to key Management Staff	9,952,635	7,655,864
<b>Total</b>	<b>17,456,024</b>	<b>15,637,316</b>

## 25. FINANCIAL RISK MANAGEMENT

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

### (i) Credit risk

The entity has exposure to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when due. Credit risk arises from cash and cash equivalents, and deposits with banks, as well as trade and other receivables and available-for-sale financial investments. Management assesses the credit quality of each customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external assessment in accordance with limits set by the Directors. The amounts presented in the statement of financial position are net of allowances for

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doubtful receivables, estimated by the company's management based on prior experience and their assessment of the current economic environment. The carrying amount of financial assets recorded in the financial statements representing the entity's maximum exposure to credit risk without taking account of the value of any collateral obtained is made up as follows:

**(i.) Credit risk**

	<b>Total amount</b>	<b>Fully performing</b>	<b>Past due</b>	<b>Provision for Bad Debts</b>
	<b>Kshs</b>	<b>Kshs</b>	<b>Kshs</b>	<b>Kshs</b>

**At 30 June 2023**

Trade Receivables	149,498,526	100,807,032	97,382,988	(48,691,494)
Cash and Bank balances	1,600,384	1,600,384	-	-
<b>Total</b>	<b>151,098,910</b>	<b>102,407,416</b>	<b>97,382,988</b>	<b>(48,691,494)</b>

**At 30 June 2022**

Trade Receivables	132,147,076	85,767,531	92,759,091	(46,379,545)
Cash and Bank balances	5,528,037	5,528,037	-	-
<b>Total</b>	<b>137,675,113</b>	<b>91,295,567</b>	<b>92,759,091</b>	<b>(46,379,545)</b>

The customers under the fully performing category are paying their debts as they continue trading. The credit risk associated with these receivables is minimal and the allowance for non collectable amounts that the company has recognized in the financial statements is considered adequate to cover any potentially irrecoverable amounts. The entity has significant concentration of credit risk on amounts due from past due category.

**(ii.) Liquidity risk management**

	<b>Less than 1 month</b>	<b>Between 1-3 months</b>	<b>Over 5 months</b>	<b>Total</b>
	<b>Kshs</b>	<b>Kshs</b>	<b>Kshs</b>	<b>Kshs</b>

**At 30 June 2023**

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Trade payables	15,702,653	86,942,506	41,959,344	144,604,502
<b>Total</b>	<b>15,702,653</b>	<b>86,942,506</b>	<b>41,959,344</b>	<b>144,604,502</b>

**At 30 June 2022**

Trade payables	12,308,451	65,476,442	41,959,344	119,744,237
<b>Total</b>	<b>12,308,451</b>	<b>65,476,442</b>	<b>41,959,344</b>	<b>119,744,237</b>

The entity manages liquidity risk through continuous monitoring of forecasts and actual cash flows. The table below represents cash flows payable by the company at the reporting date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances, as the impact of discounting is not significant.

**26. RETAINED EARNINGS**

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

**27. INCORPORATION**

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

**27. EVENTS AFTER THE REPORTING PERIOD**

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

**28. CURRENCY**

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

**21.) APPENDICES**

**A.) Progress on Follow up of Auditor Recommendations**

<b>External audit Report Issue /Observation</b>	<b>Time frame: (when to expect the issue to be resolved)</b>
<b><u>BASIS FOR QUALIFIED OPINION</u></b>	
1.0 Accuracy of Trade and Other Payables	Subsequent Financial Periods
2.0 Accuracy of Bad Debt Provision	Subsequent Financial Periods
<b><u>OTHER MATTER</u></b>	
Unresolved Prior Year's Audit issues	Subsequent Financial Periods
<b><u>REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES</u></b>	
1.0 Excessive Non-Revenue Water	Subsequent Financial Periods
2.0 Long Outstanding Receivables	Subsequent Financial Periods
3.0 Use of Expired Water Tariff	Subsequent Financial Periods
4.0 Non-Compliance with WASREB and WARMA Regulations	Subsequent Financial Periods
5.0 Non-Remittance of Retirement Benefits Schemes Deductions	Subsequent Financial Periods
6.0 Lack of Training Needs Assessment and Committee	Subsequent Financial Periods
7.0 Irregular Procurement of Motor Bikes	Subsequent Financial Periods
8.0 Presentation and Disclosures in the Financial Statements	Subsequent Financial Periods
<b><u>REPORT ON INTERNAL CONTROL, RISK MANAGEMENT &amp; GOVERNANCE</u></b>	
1.0 Management of Water Bowser Sales	Subsequent Financial Periods
2.0 Weak ICT Internal Controls	Subsequent Financial Periods

**B.) Projects Implemented by the Company**

Projects implemented by the Company Funded by development partners:-

	Project title	Project Number	Donor/Financier	Period/duration	Donor/Financier commitment	Separate donor reporting required as per the donor agreement (Yes/No)	Consolidated in these financial statements (Yes/No)
1.	KIANDANI HOUSEHOLD SANITATION PROJECT	02HS/TAWWD A/MACHAKOS/MACHAKOS /045	WATER SERVICES TRUST FUND	9 MONTHS	10,651,544	YES	YES
2.	KATHALE-IKULU WATER PROJECT	08W/MACHAKOS/MACHAKOS/21	WATER SERVICES TRUST FUND	12 MONTHS	14,508,864	YES	YES

Status of Project Completion:-

	Project	Total project Cost	Total expended to date	Completion % to date	Budget	Actual	Sources of funds
1.	KIANDANI HOUSEHOLD SANITATION PROJECT	11,716,698	10,798,764	92%	11,716,698	10,798,764	WATER SERVICES TRUST FUND
2.	KATHALE-IKULU WATER PROJECT	17,272,458	9,682	Contracts have been Signed	17,272,458	9,682	WATER SERVICES TRUST FUND

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

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

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

**1.1 Water Sources**

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

**1.2 Water Treatment Plants.**

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

**1.3 Sewerage Treatment plants**

1. Mitheu sewerage treatment plant
2. Sewerage pump station

**1.4 Water reservoirs**

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

**1.5 Motor Vehicles.**

1. KBY 407Q Double Cab -Athi water works development Agency

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

#### **1.6 Land Parcels**

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