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**REPORT**

**OF**

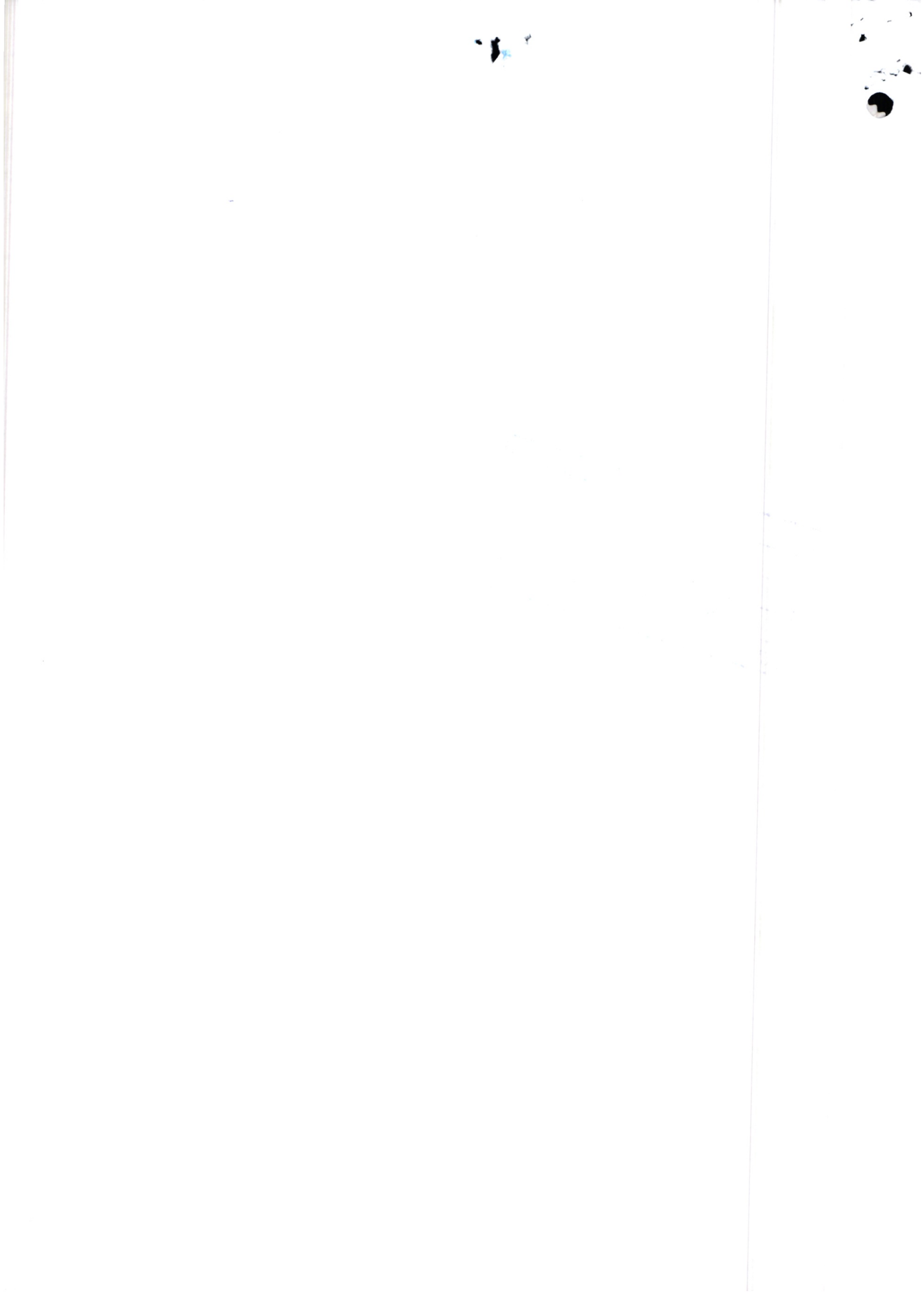
**THE AUDITOR-GENERAL**

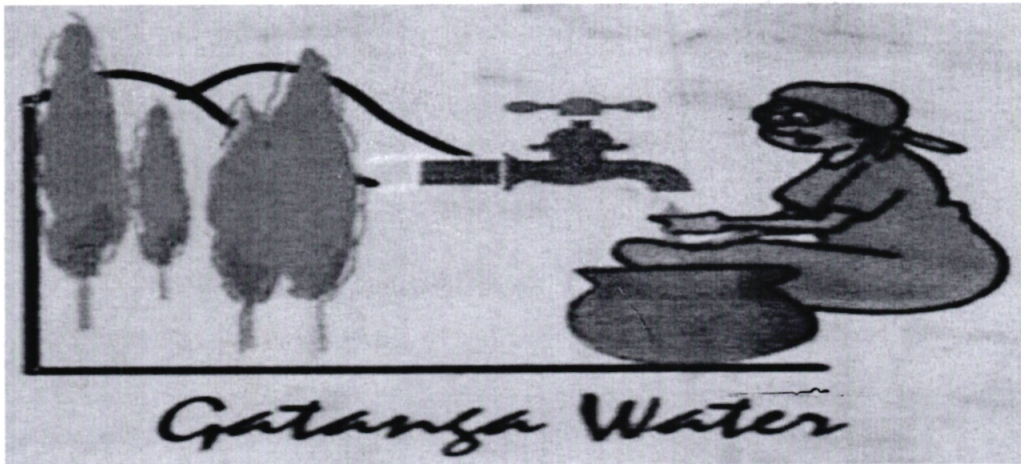
**ON**

**GATANGA COMMUNITY WATER SCHEME**

**FOR THE YEAR ENDED**

**30 JUNE, 2021**





**KENYA CORPORATION**

***GATANGA COMMUNITY WATER SCHEME***

**ANNUAL REPORTS AND FINANCIAL STATEMENTS**

**FOR THE FINANCIAL YEAR ENDED**

**JUNE 30, 2021**

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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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## **I. KEY GATANGA COMMUNITY WATER SCHEME INFORMATION**

### **Background information**

The company was established under the Trustees Act Cap 164 (Perpetual Succession Act). At County Government of Murang'a level, the company is represented by the Sub-County administrator. The trustees are responsible for the general policy and strategic direction of the company

### **Principal Activities**

The principal activity of the trust is to ensure efficient and effective provision of water Services in its area of jurisdiction. The mandate and objectives of Gatanga Community Water Scheme are enshrined in the Trust deed. The principal object of the Trust is to carry out the business of water provision within the area under its jurisdiction as provided for in the Service Provider Agreement.

### **VISION**

To be the leading Water service provider that meets customer expectations now and in future.

### **MISSION STATEMENT.**

To effectively provide quality, affordable and sustainable water in Gatanga Constituency through the development and management of appropriate water supply infrastructure.

### **STRATEGIC OBJECTIVES.**

The following are the strategic objective that the Trust will aim at achieving during the period of this contract;

1. Supply reliable, sustainable, quality and affordable water.
2. To enhance revenue collection
3. To enhance customer satisfaction.
4. To attract, develop, and retain highly skilled and motivated staff.
5. To undertake organizational structure and cultural change.
6. To carry out system change.

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**TRUSTEES**

The Trustees who served the Gatanga Community Water Scheme during the year/period were as follows:

- |                      |                     |                                             |
|----------------------|---------------------|---------------------------------------------|
| 1. Joseph Kibe       | - Chairman          | - Appointed on 10 <sup>th</sup> March 2005  |
| 2. J.B Karanja       | - Vice Chairman     | - Appointed on 10 <sup>th</sup> March 2005  |
| 3. B.N Kamanja       | - Member            | - Appointed on 10 <sup>th</sup> March 2005  |
| 4. Edward W. Njoroge | - Member            | - Appointed on 10 <sup>th</sup> March 2005  |
| 5. J.M Gathee        | - Member            | - Appointed on 10 <sup>th</sup> March 2005  |
| 6. Carol Mwaura      | - Company Secretary | - Appointed on 24 <sup>th</sup> August 2012 |
| 7. Gikeri Njoroge    | - Managing Director | - Retired on June 2021                      |
| 8. John Kiarie Kairu | - Managing Director | -Joined on July 2021                        |

**Corporate Secretary**

Mrs. Carol Mwaura  
P.O. Box 26513-00504  
Nairobi, Kenya  
Email: info@mmmadvocates.com

**Registered Office**

Gatanga community water scheme

P.O. Box 6133-01000, Thika

Mabanda Do's Office compound

Thika-Gatanga road

**Corporate Headquarters**

Gatanga Community Water Scheme  
P.O. Box 6133-01000, Thika  
Mabanda Do's Office compound  
Thika-Gatanga road

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**Corporate Contacts**

Telephone: (254) 0708688778, 0708686360

E-mail: [gatawa@yahoo.com](mailto:gatawa@yahoo.com)

**Corporate Bankers**

Barclays Bank of Kenya-Thika branch

P.O. Box 219-01000,

Thika

**Independent Auditors**

Office of the Auditor - General

Anniversary Towers, University Way

P.O. Box 30084



G.O.P 00100



Nairobi, Kenya

**Principal Legal Advisers**

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

II. THE BOARD OF TRUSTEES



1.	 A black and white portrait of Joseph Kibe, an elderly man with glasses, wearing a dark suit jacket, a light-colored shirt, and a striped tie.	<p>He was permanent secretary in agriculture and water and irrigation for over 15 years. He also served in various administrative positions like district officer. He was also a business man with interest in real estate.</p> <p>He had BA in political science from Makerere University. He was the chairman of the Board since 2005 to November 2021 when he passed on.</p>
2.	 A black and white portrait of J.B Karanja, a man with a receding hairline, wearing a light-colored sweater over a collared shirt. He is smiling.	<p>He is a former senior manager at KTDA having worked there for over 19 years. He also a chairperson of various secondary schools. He has been an education officer for over 5 years. He has a diploma in education.</p>

3.		<p>He has been a senior support services manager at Aga khan hospital for over 27 years. He has been a delegate at Amica Sacco society and also held position of the chairman at various coffee factories.</p> <p>He holds a diploma in business management and several training in management.</p>
4.		<p>He has been an IT manager at KPCU for over 30 years dealing in software development.</p> <p>He also holds position of BOD chair in several local primary schools.</p> <p>He is also trained in several administrative courses.</p> <p>He a level holder</p>

B.N KAMANJA- MEMBER

EDWARD NJOROGE -MEMBER


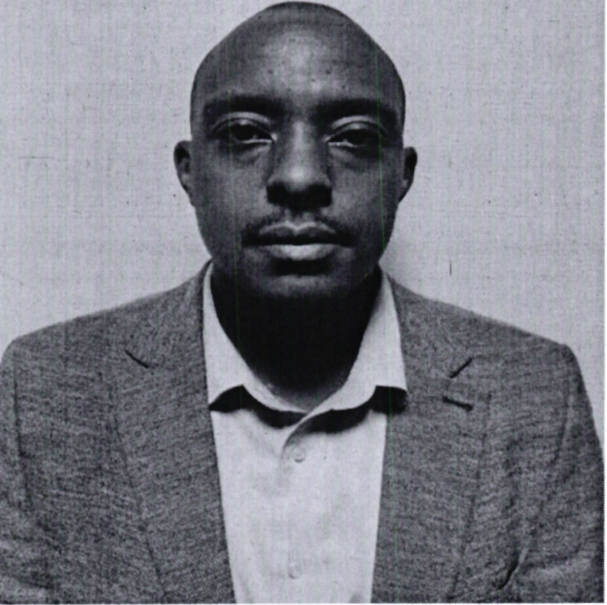
Annual Reports and Financial Statements  
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5.		<p>He is a businessman with interest in transportation and hospitality He is a O level holder.</p>
6.		<p>She is an advocate of the high court with over 20 years of experience. She also Company secretary of Malindi water and sanitation company She is former legal manager mater hospital and currently on private practice.</p> <p>She holds LLB at university of London. She also holds MBA Moi University and has diploma in law at Kenya School of Law</p>


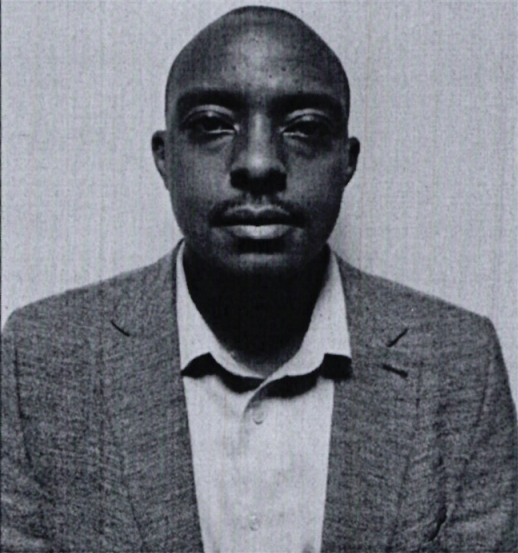
J.M GATHEE- MEMBER


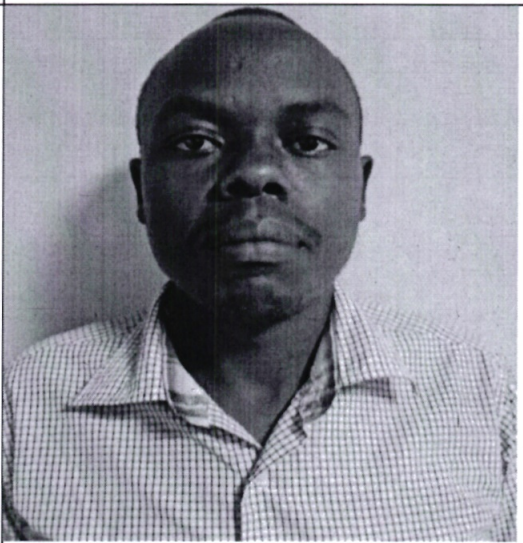
CAROL MWAURA- COMPANY SECRETARY

Annual Reports and Financial Statements  
For the year ended June 30, 2021

7.	  GIKERI. NJOROGE-MANAGING DIRECTOR Retired on June 2021	<p>He is the former Managing Director of Gatanga Community Water Scheme He joined the Trust on September 2015 and retired on June 2021.</p>
8.	  John Kiarie Kairu Managing Director Joined July 2021	<p>He is the current Managing Director of Gatanga Community Water Scheme He joined the Trust on July 2021. He has 10 years experience in the water sector sector. He a BSC water &amp; environmental engineering</p>



III. MANAGEMENT TEAM

1.	 <p>GIKERI. NJOROGE- MANAGING DIRECTOR</p>	
2.	 <p>John Kiarie Kairu Managing Director Joined July 2021</p>	<ul style="list-style-type: none"><li>a)Developing for the approval of the Board, strategic and business plans, including annual work-plans, budget and performance targets,</li><li>b)Ensuring effective of the company strategic plan</li><li>c)Ensuring safe custody and management of company’s assets</li><li>d)Providing strategic leadership and direction, including the management and development to the human resources of the company,</li><li>e)Planning, coordinating and implementing all activities of the company in line with the policies and directives approved by the Board of Trustees</li></ul>

3.		
4		He has over 8 years of experience in non-revenue water management and in technical services in water companies.

MICHAEL MUGO MWAMBIA  
COMMERCIAL MANAGER  
Bachelors of Commerce & CPA(K)  
Left on December 2021

Bernard Kiplagat  
Technical Manager  
Joined December 2020

<p>5.</p>  <p>CPA Wilson Mwangi Bachelors of Commerce, CPA-K, CIFA-K</p> <p>Acting Commercial Manager October 2021</p>	<p>He is professional in financial management with more than nine (9) years of experience in financial management, accounting work and strategic management</p>
<p>6.</p>  <p>Carol Otiato Human Resource Officer Diploma in Human Resource</p>	<p>She is a professional in human resource with over 13years of experience</p>

**Annual Reports and Financial Statements  
For the year ended June 30, 2021**

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**IV. CHAIRMAN'S STATEMENT**

The financial year 2020/2021 has come to close and on behalf of the board of trustees and all staff of Gatanga Community Water Scheme would like to present the financial statement for the period. During the period under review, The Board of Trustees was able to guide management as per its mandate and as guided by water services regulatory board.

The period under review witnessed a challenging economic environment due to difficulties occasioned by Covid-19 pandemic. A government directive to water services providers to suspend enforcement of water payment and the diminished ability of water consumers to pay for water services led to a drop in revenue base for water utilities. In deed many water utilities have struggled to meet their financial obligations during this period.

On a positive note, the national government continues to invest in improvement of water infrastructure in our area of jurisdiction. The ongoing Ithanga water supply project was in the final stages of the second phase. This entailed construction of main transmission line to Ithanga area from the treatment facility. On completion, the third phase is projected to commence in the coming financial year ushering improved water access to the residents of Ithanga. Kigoro-Samuru project was also ongoing. The project was aimed at supplying Samuru and Githingiri areas with 5000m<sup>3</sup> of water per day. Similarly, it is expected to be completed in the course of coming financial year.

The Board of Trustees of Gatanga Community Water Scheme are grateful to the National Government through Athi Water Works Development Agency for commitment to develop water infrastructure for the residents of the area we serve. The gravity water supply projects as well as the numerous boreholes the agency continues to develop in Gatanga and newly established Ithanga sub-counties will go a long way in improving access to safe and clean water and in adequate quantities as envisioned in Article 43 of the constitution of Kenya 2010.

It's our hope that the National Government and the County Government of Murang'a will continue to fund development projects as they appear in our strategic plan.

I would like to thank all the board members and all the staff for the efforts they put to improve on service delivery and hope that the same will be done in the coming years.

It's our hope that the coming year will not be adversely affected by Covid - 19 as it happens to the year coming to close.

Thanks.



Date:

CHAIRMAN OF THE BOARD

## **V. REPORT OF THE MANAGING DIRECTOR**

We have come to the end of yet another financial year which had several successes as well as challenges which impacted negatively on the performance of the Trust.

Among the success in the running of the scheme is an increase in the number of connections from 9620 to 12900. This can be traced to the increase in production from the previously handed over project by Athi Water Development Agency. There was also additional 160m<sup>3</sup> per day from two boreholes in Nyaga and Mithandukuini which were commissioned in the period under review. This has helped in increase in coverage to 72% up from 68%.

During the period, the scheme has continued to implement its debt write-off policy which was generated and adopted whereby most of the debts reflected in our financial statement was categorized as uncollectable.

The board came up with a write off policy and is in consultation on the method of implementation.

The Trust continues to operate a cashless revenue collection system. This has minimized cash related risks on one hand and improved productivity of our customers on the other hand by saving the time taken to make payments.

Several trainings for member staff were conducted during the year as was identified by our training needs assessment and rolled out according to training plan.

The training ranged from taxation, financial reporting standards, non-revenue and on billing where staff in those departments were trained.

Covid-19 continued to affect the Trust throughout the financial year. The scheme faced a real risk of financial unsustainability due to low revenues occasioned by diminishing purchasing power of water consumers and the Government directive on zero disconnection which was interpreted by most customers as non-payment for water used.

Unaccounted for water remained another challenge during the period. The management continues to run a intensive consumer metering program in identified zones closer to water sources. This will has created a multiplier effect of increasing water for sale and coverage by making more water available to the underserved downstream.

Debtors have been a constant challenge, the management carried out an exercise where total of Ksh 30 Million was identified as uncollectable and communicated the same to the board of Trustees for action.

**Annual Reports and Financial Statements**

**For the year ended June 30, 2021**

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Implementation of our current strategic plan has also been a challenge due to delay in financing of the development proposals. It's our hope that the ongoing construction of projects will be completed on time so that the effects of the project completion will bare fruits.

The management would like to thank all our development partners, Athi Water Works Development Agency being the main one, all our customers for their willingness to work with us, the board of Trustees for guiding us as per the regulations and the staff for dedicating their time to make sure that the Trust is functioning as it should.

Thank You.



John Kiarie ,

Managing Director.

Date :

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

Gatanga Water has four main strategic pillars within its strategic plan i.e. provision of quality, affordable, and sustainable water and services through efficient and effective corporate management by exceeding the customers’ expectations. The strategic objectives within the current strategic plan is as listed below;

- Increase water supply from 6,800 m3 to 28,000 m3 by 2021. Gatanga Community Water Scheme Strategic Plan 2016–2021
- Expand supply network from 40% in 2016 to 80% by 2021.
- Enhance wastewater management.
- Reduce Non-Revenue Water from 45% to 25% by 2021.
- Enhance customer satisfaction from 60% to 90% by year 2021.
- Increase collection efficiency from 65% to 95% by 2021.
- Secure external funding for infrastructure development
- Enhance good corporate governance.
- Increase operational effectiveness and efficiency.
- Increase employee satisfaction from 47% to 80%

Gatanga Water develops its annual work plan based on the above four pillars on a five year strategic plan 2016-2021. Assessment of Boards performance against its annual work plan was done on quarterly basis. The company achieved its performance target set for the year 2020/21 period of strategic pillars as indicated in the table below.

No.	PROJECT	SCOPE	RESULT AREAS
1.	Improvement of ICT portfolio i.e. <ul style="list-style-type: none"> <li>• Payroll system at Ksh. 215,000</li> <li>• Accounting system at Ksh. 102,000</li> <li>• Upgrading billing system to web based at Ksh. 899,105</li> </ul> Status: Complete	The scope included purchase, Installation, testing, training and using the systems.	<ul style="list-style-type: none"> <li>• Improved accounting methods which are electronically stored and referred</li> <li>• Improved billing and mobile meter reading</li> <li>• Easier and efficient preparation of payrolls</li> </ul>

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For the year ended June 30, 2021

2.	Metering of flat rate meters at Ksh. 1,445,000  <b>Status: Complete</b>	Procurement of meters and fittings and Installation	<ul style="list-style-type: none"> <li>• Reduced Commercial NRW losses.</li> <li>• Improved revenues</li> <li>• Improved Water Flows</li> </ul>
3.	Implementation of cashless collection system  <b>Status: Complete</b>	By the use of upgraded system and sensitization of consumers to use Mpesa	<ul style="list-style-type: none"> <li>• The company Revenue Improved from last FY Ksh. 32,987,037 to Ksh. 42,269,563</li> </ul>
4.	Implementation of GIS at Ksh. 200,000  <b>Status: Complete</b>	Contracting GIS expert	<ul style="list-style-type: none"> <li>• Mapping of Customers, pipelines, intakes and water appurtenances. The maps and reports are in hard and soft copy.</li> <li>• Mapping of bursts and leakages</li> </ul>
4.	Athi Water Works Development Agency Projects  <b>Status: Complete</b>	<ul style="list-style-type: none"> <li>• Drilling of Nyaga and Mithanduku- ini Borehole plus 8Km Distribution pipe of 2inch Diameter HDPE that benefitted 340No. Consumers</li> <li>• Rehabilitation of Gathanji borehole and conversion to Solar. This benefitted around 200No. Customers</li> <li>• Installation of 3inch Diameter HDPE pipe in Gakurari and Kigio that benefitted 350No. Customers</li> <li>• Installation of 2inch HDPE pipeline in Kirwara and Mabae to benefit 170No. Consumers</li> </ul>	<ul style="list-style-type: none"> <li>• Increase of water coverage to a population of over 1,000No. of persons</li> </ul>

## **VII. CORPORATE GOVERNANCE STATEMENT**

Gatanga Community Water Scheme is incorporated in Kenya under the Trustee's Act Cap 164 Under section 47(h) of the Water Act 2002 Water Service Regulatory Board is supposed to develop guideline for and provide advice on the cost effective and efficient management and operation of water services.

This can only be achieved if the leadership in the water sector by principle of good governance.

Good governance is embedded in the tenets of corporate governance.

This has been adhered to by senior management of Gatanga Community Water Scheme by governing the Gatanga Community Water Scheme integrity in a manner which entrenches and enhances the objectives agreed under the license and service provision agreement.

The good governance has ensured;

- The stability and credibility of the water provider financially
- Improved the relationship between the water provider and the stakeholders -It has also ensured efficiency in the provision of services to the customers.

The Board of Trustees has been adhering to the Memorandum of Articles and Association and act as Agents of the Water Services Board.

The Board of Trustees as per the guideline of Water Services Board has ensured that they have signed the code of conduct of ethics, schedule of full board meeting at the end of every year, approve an annual budget in consultation with respective water service board etc. this therefore means that the board of Trustees make the strategic policies to be implemented by the senior managers for the smooth running of the water provider The board of Trustees comprises of 6 members. The Trustees are from different professions as per the guideline of the Water Services Board.

The board has formed various committees namely; finance, technical and audit committee.

This has enhanced the good productivity of the company.

The board has also been trained on Corporate Governance i.e. they have gone through a thorough training on their roles, duties, responsibilities and obligation as well as the Board practices and procedures on first appointment.

The board also ensures various reports have been submitted to the relevant institutions as required and policies and regulations are adhered to by the company including the statutory deduction and subsequent remittance.

## **VIII. MANAGEMENT DISCUSSION AND ANALYSIS**

Area of operation is Gatanga Sub County. The water utility is owned by County Government of Murang'a. There were no grants received in the financial year 2020/2021, Gatanga Community Water Scheme finances its operations and it's self-sustaining

The company has formed a non-revenue team which is working to ensure that there is minimum water loss.

Gatanga community water scheme complies with various statutory requirements that is the Water Act of 2016 and trust deed Act. Cap 164. The company is not exposed to any Contingent liabilities.

Gatanga community Water scheme is a Trust hence it cannot be able to finance its project through equity.

The projects are financed either through internally generated revenue, grants from Government and Development partners. The scheme has a role to play since the existing project funded by the national Government and development partners financing through performance /result bases financing.

### **Operational Risks.**

The scheme inherited old dilapidated infrastructure and this has contributed to high non-revenue water. During the years the scheme has invested in various projects to improve the infrastructure. However, the funds required for overhauling the whole network is beyond the scheme's affordability.

### **Market Risks.**

The scheme has no interest-bearing financial instrument and has no any outstanding loan.

### **Capital Risk**

The company is not exposed to capital risk

### **Credit risk.**

The scheme supplies water on credit and gives the customers a period of 14 days to clear their bills. However, not all consumers are able to clear their bills on time, this gives rise to credit risk. At the end of the year the trade receivables (water sale debtors) amounted to Ksh. 80,100,118 and Part of these total debts date back from the national water and ministry which are untraceable.

### **Liquidity risks**

The scheme has various obligation and liabilities. The scheme manages liquidity risk by maintaining banking facilities through continuous monitoring of forecast and actual cash flow

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

### **ENVIRONMENTAL AND SUSTAINABILITY REPORTING**

Gatanga Water exists to transform lives. This is our purpose; the driving force behind everything we do. It's what guides us to deliver our strategy, putting the customer/citizen first, delivering relevant goods and services and improving operational excellence. Below is an outline of the organizations policies and activities that promotes sustainability.

#### **i) Sustainability strategy and profile**

The management has made several proposals to potential donors such as National government, County government, WSTF, ATHI and World Bank whereby we have received ongoing grant projects worth over ksh. 3billion.

#### **ii) Environmental performance**

The trust has made some significant efforts to improve environmental performance by cooperating with social groups for forestation of watersheds and also doing proposals for plot level sanitation and DTFs.

#### **iii) Employee welfare**

The policies guiding the hiring process are the trust's human resource policy, labour laws and employment act.

#### **iv) Market Practices**

##### **(a) Responsible completion practices**

The trust has an anti-corruption policy which is adhered to, involves the County Government of Murang'a on all projects we intent to carry out whereby they issue a letter of no objection. Fair competition and respect for competitors is guided by WASREB boundaries clearly specified in the license.

##### **(b) Responsible supplier relations**

The company has a contract with our prequalified suppliers who underwent tender evaluation process as per the procurement act laws. Payment terms with our suppliers is on credit term basis and payment is made upon delivery of all goods requested. In case of part payments or delayed payments, the company enters into a part payment agreement with the supplier on a reasonable monthly commitment payment structure.

**(c) Responsible marketing and advertisement**

The company maintains healthy ethical marketing practices such as engaging our customers through holding baraza's, have a customer care contact person in all our 2 branches, engages the customers through sms platforms and advertising through the company's website.

**(d) Product stewardship**

The company makes efforts to safeguard consumer rights and interests through:

- Provision of quality water
- Adherence to the regulated tariff by WASREB
- Customer relations module to sort customer's queries
- Customer care section
- Maintaining of confidentiality on customer database

**Corporate Social Responsibility / Community Engagements**

Water service providers shall endeavour to ensure that their organizations are responsible corporate citizens and that they have due regard for the interest of all stakeholders and the community in which they operate.

Gatanga Community water scheme has ensured that the local has enjoyed the existence of the scheme by employing some of the locals' persons with required qualifications. The scheme also ensure it promote and is sensitive on preservation and protection of the environment by playing part on planting of trees.

The scheme also visits the pro-poor areas and helps them especially with free piped water for up to 6000litres per month. This has improved the area they live in.

The scheme also ensures participation of stakeholders by calling for meetings and allows them to air their views to better the society.

**X. REPORT OF THE DIRECTORS**

The Board of Trustees submits their annual report together with the financial statements for the year ended 30th June 2021 which discloses the state of affairs of the Trust.

**i) Principal activities**

The principal activities are to ensure availability of sustainable, affordable and quality water services to the residents living within the scheme area (Gatanga District) of operation or jurisdiction by sourcing, treating, distributing and water conservation while billing and collecting revenue from the water consumers who are the residents of the area

**ii) Results**

The results of the Gatanga Community Water Scheme for the year ended 30th June 2021 are set out on page 2. Deficit for the year ended 30th June 2020 was Kshs. 12,013,700.25 and a deficit of Kshs.4, 954,269.00 for the year ended 30th June 2021.

**iii) Dividends**

The trust does not give divided to the Trustees.

**iv) Trustees**

The Trustees who held office during the year are listed on page iv

**v) Auditors**

The Auditor General is responsible for the statutory audit of the Gatanga Community Water Scheme in accordance with Article 229 of the Constitution of Kenya and the Public Audit Act 2015

By Order of the Board

Name 

Signature



Date 28/03/22

Corporate Secretary/Secretary to the Board

**XI. STATEMENT OF TRUSTEES' RESPONSIBILITIES**

Section 81 of the Public Finance Management Act, 2012 requires the board of Trustees to prepare financial statements for each year. The financial statements are expected to give a true and a fair view of the state of affairs of the trust at the end of the financial year, and the operation result of the scheme for the year. It also requires the Trustees to ensure that the water scheme keep proper accounting records which discloses with reasonable accuracy at any time, the financial position of the scheme. They are also responsible for safeguarding the assets of the scheme The Trustees are responsible for the preparation and presentation of Gatanga community water scheme's financial statements, which give a true and fair view of the state of affairs of the Gatanga Community Water Scheme for and as at the end of the financial year (period) ended on June 30, 2021. This responsibility includes: (i) maintaining adequate financial management arrangements and ensuring that these continue to be effective throughout the reporting period; (ii) maintaining proper accounting records, which disclose with reasonable accuracy at any time the financial position of the Gatanga community water scheme; (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 Gatanga community water scheme; (v) selecting and applying appropriate accounting policies; and (vi) making accounting estimates that are reasonable in the circumstances.

The Trustees accept responsibility for the Gatanga community water scheme's financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity with International Financial Reporting Standards (IFRS), and in the manner required by the PFM Act, 2012. The Trustees are of the opinion that Gatanga community water scheme's financial statements give a true and fair view of the state of Gatanga Community Water Scheme's transactions during the financial year ended June 30, 2021, and of the Gatanga Community Water Scheme's financial position as at that date. The Trustees further confirm the completeness of the accounting records maintained for the Gatanga Community Water Scheme, which have been relied upon in the preparation of the

Gatanga Community Water Scheme's financial statements as well as the adequacy of the systems of internal financial control.

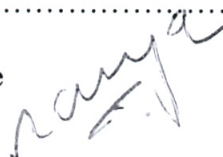
**Approval of the financial statements**

Gatanga community water scheme's financial statements were approved by the board on .....  
.....and signed on its behalf by:

**Signature**

**Name**

**Chairperson of the Board**



**Signature**

**Name**

**Accounting officer**



John Kaim

# REPUBLIC OF KENYA

Telephone: +254-(20) 3214000  
E-mail: info@oagkenya.go.ke  
Website: www.oagkenya.go.ke



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

## **REPORT OF THE AUDITOR-GENERAL ON GATANGA COMMUNITY WATER SCHEME FOR THE YEAR ENDED 30 JUNE, 2021**

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### **PREAMBLE**

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

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

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

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

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

#### **Qualified Opinion**

I have audited the accompanying financial statements of Gatanga Community Water Scheme set out on pages 2 to 47, which comprise the statement of financial position as at 30 June, 2021, and the statement of profit or loss and other comprehensive income,

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*Report of the Auditor-General on Gatanga Community Water Scheme for the year ended 30 June, 2021*

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

In my opinion, except for the effects of the matter described in the Basis for Qualified Opinion section of my report, the financial statements present fairly, in all material respects, the financial position of the Gatanga Community Water Scheme as at 30 June, 2021, and of its financial performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standard and comply with the Public Finance Management Act, 2012 and the Trustees (Perpetual Succession Act), Cap 164.

### **Basis for Qualified Opinion**

#### **Long Outstanding Trade and Other Receivables**

The statement of financial position reflects a balance of Kshs.53,889,156 in respect of account receivables which, as disclosed in Note 13 to the financial statements, includes trade receivables of Kshs.80,100,119 which is net of a provision of bad debts of Kshs.26,614,387. However as reported in the previous year, the trade receivables included debts amounting to Kshs.20,496,417 which have been outstanding for a long period. Although Management made a specific provision of Kshs.20,671,528 during the year, no Board approval and break down of the specific debts being written off was provided for audit verification. Further, the Scheme had not established a Debt Management Policy as of 30 June, 2021 and no effort appears to have been made to recover the long outstanding account receivables.

In the circumstances, the accuracy and recoverability of the account receivables balance of Kshs.53,889,156 as at 30 June, 2021 could not be confirmed.

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

### **Key Audit Matters**

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

## **Other Matter**

### **Unresolved Prior Year Matters**

Various prior year audit issues remained unresolved as at 30 June, 2021. Management did not provide reasons for the delay in resolving the prior year audit issues.

### **Other Information**

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

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

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

### **Conclusion**

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

### **Basis for Conclusion**

#### **1. Staff Ethnic Diversity**

The Scheme has thirty-four (34) staff members out of which thirty (30) or 86% of the staff members are from the dominant ethnic community. This is contrary to Section 65(e) of the County Governments Act, 2012 which requires the County Governments to ensure that at least thirty percent of the vacant posts at entry level are filled by candidates who are not from the dominant ethnic community in the county.

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

#### **2. Staff Costs**

The statement of profit or loss and other comprehensive income reflects an expenditure of Kshs.55,544,833 in respect of administrative costs which, as disclosed in Note 8b to the financial statements, includes an amount of Kshs.25,187,414 in respect of staff costs. This represents 43% of the total expenditure of Kshs.58,574,770 and is higher than the recommended ratio of 35% prescribed by the Water Services Regulatory Board (WASREB).

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

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

As reported in the previous year's audit, the Scheme produced water output of 1,619,720M<sup>3</sup> out of which 967,673 M<sup>3</sup> was billed (sold). The resulting difference of 652,047 M<sup>3</sup> or approximately 40.26% represented non-revenue water. However, this is higher than the recommended ratio of 25% by the WASREB guidelines, schedule 'E' which provides for a Non-Revenue Water level above 25% as 'not acceptable'.

In the circumstance, Management was in breach of the law

### **4. Lack of an Approved Salary Structure for the Managing Director and Managers**

The Scheme's Line Managers and the Managing Director of the Scheme are not included in the approved salary structure, contrary to Section 11(c) of the Salary and Remuneration Commission Act, 2011 which requires that in addition to the powers and functions of the Commission under Article 230 (4) of the Constitution of Kenya 2010, the Commission shall advise the National and County Governments on the harmonization, equity and fairness of remuneration for the attraction and retention of requisite skills in the public sector.

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

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

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

### **Conclusion**

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

### **Basis for Conclusion**

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

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

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and for maintaining effective internal control as Management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether

due to fraud or error and for its assessment of the effectiveness of internal control, risk management and governance.

In preparing the financial statements, Management is responsible for assessing the Scheme's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless Management is aware of the intention to liquidate the Scheme 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 Scheme's financial reporting process, reviewing the effectiveness of how the Management monitors compliance with relevant legislative and regulatory requirements, ensuring that effective processes and systems are in place to address key roles and responsibilities in relation to governance and risk management, and ensuring the adequacy and effectiveness of the control environment.

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

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

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

Further, in planning and performing the audit of the financial statements and audit of compliance, I consider internal control in order to give an assurance on the effectiveness of internal controls, risk management and 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 noncompliance. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies and procedures may deteriorate.

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

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

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

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

  
CPA Nancy Gathungu, CBS  
AUDITOR-GENERAL

Nairobi

14 July, 2022

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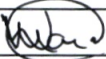
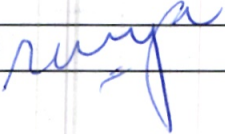
**XIII. STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR  
THE YEAR ENDED 30 JUNE 2021.**

INCOME			<u>2020/2021</u>	<u>2019/2020</u>
	NOTE		KSHS	KSHS
Water sales	6		50,192,041	41,594,751
Other income	6b		2,699,220	888,150
Grants	7		729,240	694,320
<b>TOTAL INCOME</b>			<u>53,620,501</u>	<u>43,177,221</u>
<b>OPERATION EXPENSES</b>				
Administration Expenses	8		55,544,833	52,238,316
Depreciation of PPE & Amortization	8		3,029,937	2,952,605
<b>TOTAL OPERATING EXPENSES</b>			<u>58,574,770</u>	<u>55,190,921</u>
Deficit for the year before tax			<u>(4,954,269)</u>	<u>(12,013,700)</u>
Income tax			-	-
<b>DEFICIT FOR THE YEAR ENDED</b>			<u>(4,954,269)</u>	<u>(12,013,700)</u>

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## XIV. STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2021

-	-	<u>2020/2021</u>	<u>2019/2020</u>
-	<u>NOTE</u>	<u>KSHS</u>	<u>KSHS</u>
<b>NON -CURRENT ASSETS</b>			
Property, plant & Equipment	10	20,649,464	21,621,751
Intangible Assets	11	586,510	721,061
Total Noncurrent Assets		<u>21,235,974</u>	<u>22,342,811</u>
<b>CURRENT ASSETS</b>			
Inventories	12	96,255	115,580
Accounts Receivables	13	53,889,156	53,641,562
Cash and cash equivalents	14	724,209	1,116,335
Total Current Assets		<u>54,709,620</u>	<u>54,873,477</u>
<b>TOTAL ASSETS</b>			
		<u>75,945,594</u>	<u>77,216,288</u>
<b>EQUITY AND LIABILITIES</b>			
Capital Reserves		16,443,575	16,443,575
General Reserves		9,201,873	14,156,749
Capital and Reserves		25,645,448	30,600,324
<b>Current Liabilities</b>			
Accounts Payable	17	19,710,302	17,097,927
Customer Deposits		10,471,000	9,760,393
Provision Account	18	20,118,844	19,757,644
Total Current Liabilities		50,300,146	46,615,964
<b>TOTAL EQUITY &amp; LIABILITIES</b>			
		<u>75,945,594</u>	<u>77,216,288</u>

The financial statements were approved by the Board on <u>28/3/</u> 2022 and signed on its behalf by:		
Managing Director Name: John Kairu Sign 	Head of Finance Name: CPA Wilson Mwangi ICPAK M/NO:18459 Sign 	Chairman of the Board Name: Sign 

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

		Capital Reserves	General reserves	Total
Bal B/F 1 July 2019		16,443,575	26,170,449	42,614,024
Total Net comprehensive income			(12,013,700)	(12,013,700)
Bal c/d 30 June 2020		16,443,575	14,156,749	30,600,324
Opening Balance as at 1 July 2020		16,443,575	14,156,749	30,600,324
Prior year adjustments			(607)	(607)
Total Net comprehensive income		0	(4,954,269)	(4,954,269)
closing balance as at 30th June 2021		<u>16,443,575</u>	<u>9,201,873</u>	<u>25,645,448</u>

**Note:**

- Prior year adjustment relates to amount of customer deposit which was wrongly captured*

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

			<u>2020/2021</u>	<u>2019/2020</u>
			<u>KSHS</u>	<u>KSHS</u>
<b>Cash flow from operating activities</b>				
Profit before income taxes			(4,954,269)	(12,013,700)
<u>Adjust for:</u>				
Depreciation	4		<u>3,029,937</u>	<u>2,952,605</u>
Operating profit before working capital changes			<u>(1,924,332)</u>	<u>(9,061,095)</u>
<b><u>Working capital changes</u></b>				
Increase in inventories	7		19,325	45,920
Increase/Decrease in Accounts receivables	8		(247,594)	828,414
Increase in Accounts Payables	13		2,612,375	6,699,740
Increase in Members deposits	14		710,000	499,300
Increase in provisions account	15		361,200	2,495,679
Cash generated from operating activities			<u>1,530,974</u>	<u>1,507,958</u>
Tax paid			-	-
Net cash generated from operating activities			<u>1,530,974</u>	<u>1,507,958</u>
<b>Cash flow from investing activities</b>				
Acquisition of assets			(1,923,100)	(1,822,094)
Net cash flow after investing activities			(1,923,100)	(1,822,094)
Net increase in cash & cash equivalent			(392,126)	(314,136)
Cash and cash equivalent at the beginning of year			<u>1,116,335</u>	<u>1,430,466</u>
Cash and cash equivalent at the beginning of year			<u>724,209</u>	<u>1,116,335</u>

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

FOR THE YEAR ENDED 30TH JUNE 2021						
	ORIGINAL BUDGET 2020/2021	ADJUSTMENTS 2020/2021	FINAL BUDGET 2020/2021	ACTUAL COMPARABLE 2020/2021	PERFORMANCE DIFFERENCE	% OF UTILIZATION
	Shs	Shs	Shs	Shs	Shs	
Revenue						
Billing(Water Sale)	50,571,948	-	50,571,948	50,192,041	379,907	
Miscellaneous	720,000	-	720,000	2,699,220	1,979,220	
Total income	51,291,948	-	51,291,948	52,891,261	1,599,313	3%
Expenses			-			
Compensation of employees	26,286,192	-	26,286,192	25,187,414	1,098,778	-4%
Administration Cost	15,281,195	-	15,281,195	17,223,239	1,942,044	13%(a)
Operation Cost	8,280,000	-	8,280,000	11,832,467	3,552,467	43%(b)
	-	-	-	-	-	
Trustee cost	2,528,597	-	2,528,597	1,301,713	1,226,884	-49%(c)
Other payments	-	-	-	-	-	
Grants and subsidies paid	-		-	-	-	
Total expenditure	52,375,984	-	52,375,984	55,544,833	3,168,849	6%
			-		-	
Surplus for the period	- 1,084,036		1,084,036	2,653,572	1,569,536	

- a) This relates to administration cost where there was underspending of 13% which was due to covid 19 which required restricted movement hence training of staffs was reduced.
- b) There was overspending of 43%. This was due to increase in price index of product like fuel and pipes which are the major expenses in our operations.
- c) Trustee's cost was kept low due to restricted movement during covid 19.

**XVIII. NOTES TO THE FINANCIAL STATEMENTS**

**1. General Information**

Gatanga Community Water Scheme is established by and derives its authority and accountability from the Trustee's Act cap 164. The Gatanga Community Water Scheme is wholly owned by the County Government of Kenya and is domiciled in Kenya. The principal activity of the trust is to ensure efficient and effective provision of water Services in its area of jurisdiction.

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

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

The financial statements have been prepared and presented in Kenya Shillings, which is the functional and reporting currency of the *Gatanga Community Water Scheme*

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

**4. Summary of Significant Accounting Policies**

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

**a) Revenue recognition**

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

- i) Revenue from the sale of goods and services** is recognised in the year in which the Gatanga Community Water Scheme delivers products to the customer, the customer has accepted the products and collectability of the related receivables is reasonably assured.
- ii) Grants from National Government** are recognised in the year in which the Gatanga Community Water Scheme 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 recognised 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) Other income** is recognized as it accrues.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Summary of Significant Accounting Policies

**b) In-kind contributions**

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

**c) Property, plant and equipment**

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

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

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

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

**Summary of Significant Accounting Policies**

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

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

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

Freehold Land	Nil
Buildings	10 years
Plant and machinery	8 years
Motor vehicles, including motor cycles	4 years
Computers and related equipment	3 years
Office equipment, furniture and fittings	8 years
Operational tool	3 years
Water pipeline	20 years
Water Meters	8 years

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

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

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

**Summary of Significant Accounting Policies**

**e) Intangible assets**

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

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

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

The annual rates in use are:

Software & Website	10 years
--------------------	----------

**g) Inventories**

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

**h) Trade and other receivables**

Trade and other receivables are recognised at fair values less allowances for any uncollectible amounts. These are assessed for impairment on a continuing basis. An estimate is made of doubtful receivables based on a review of all outstanding amounts at the year end. Bad debts are written off after all efforts at recovery have been exhausted.

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

**Summary of Significant Accounting Policies**

**i) 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 Gatanga Community Water Scheme 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 Gatanga Community Water Scheme 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.

**j) Deferred tax**

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

**NOTES TO THE FINANCIAL STATEMENTS (Continued)  
Summary of Significant Accounting Policies**

**Deferred Tax**

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

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

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

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

**Summary of Significant Accounting Policies**

**k) Borrowing costs**

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

**l) Cash and cash equivalents**

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

**m) 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.

**n) 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 Gatanga Community Water Scheme or not, less any payments made to the suppliers.

**o) Retirement benefit obligations**

The entity has registered all permanent and pensionable employees into two defined contribution and benefit schemes. The schemes are Local Authority Pension Scheme (LAPTRUST) and National Water Pension Scheme. The company joined the pension 5th October 2010 and 17th February 2006 respectively. The company contributes to these two pension schemes. Under LAPTRUST employer contribute 15% and employee 12% of basic salary and house allowance. Contribution of National Water Pension Scheme is 7.5% by employee and 15% by employer calculated on basic salary only.

**p) Provision for staff leave pay**

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

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

**Summary of Significant Accounting Policies**

**q) Budget information**

The original budget for FY 2020-2021 was approved by the County Assembly. Subsequent revisions or additional appropriations were made to the approved budget in accordance with specific approvals from the appropriate authorities. The additional appropriations are added to the original budget by the entity upon receiving the respective approvals in order to conclude the final budget.

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.

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

A statement to reconcile the actual amounts on a comparable basis included in the statement of comparison of budget and actual amounts and the actuals as per the statement of financial performance has been presented under section XVII of these financial statements.

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

**a) Service concession arrangements**

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

**b) Comparative figures**

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

**c) Subsequent events**

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

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

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

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

**a) Estimates and assumptions**

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. The Gatanga Community Water Scheme 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 Gatanga Community Water Scheme. Such changes are reflected in the assumptions when they occur.

**b) Useful lives and residual values**

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

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

**c) Provisions**

Provisions were raised and management determined an estimate based on the information available. Provisions are measured at the management's best estimate of the expenditure required to settle the obligation at the reporting date, and are discounted to present value where the effect is material. (include provisions applicable for your organization e.g. provision for bad debts, provisions of obsolete stocks and how management estimates these provisions)

Annual Reports and Financial Statements  
For the year ended June 30, 2021

NOTES TO THE FINANCIAL STATEMENTS (Continues)

6. Revenue

-	<u>2020/2021</u>	<u>2019/2020</u>
	KSHS	KSHS
Water sale		
Water billing	50,192,041	41,594,751
-	<u>50,192,041</u>	<u>41,594,751</u>

6b Other incomes

Connection & reconnection	2,699,220	759,400
other incomes- refunds		37,800
Decrease in provision for bad debts		90,950
	<u>2,699,220</u>	<u>888,150</u>

7. Grants from National Government

	2020/2021	2019/2020
	Kshs	Kshs
In Kind contributions/ donations	729,240	694,320
<b>Total</b>	729,240	694,320

**Annual Reports and Financial Statements**  
**For the year ended June 30, 2021**

**NOTES TO THE FINANCIAL STATEMENTS (Continued)****8. Administration Costs**

Staff costs(8b)	25,187,414	24,097,527
Trustee cost	1,301,713	1,084,571
Advertising and Promotion	213,330	75,052
A.G.M Expenses	0	170,000
Auditor General charges	270,000	0
Bank & Mpesa Charges	247,357	188,930
Christmas party and gift	170,500	170,500
Conference, Training and workshops	568,533	149,688
Consultancy (legal fee & other charges)	879,000	562,000
Corporate social responsibility	72,000	
Electricity	1,035,248	360,553
Insurance	573,255	512,906
ICT Enhancement (USSD)	95,000	
Licence and permits	131,500	41,500
Office General Expenses	609,790	643,384
Office repairs and Maintenance	52,190	91,920
Telephone and postage	529,093	523,550
Printing and Stationery	85,600	33,610
Provision for bad & Doubtful debts	20878.3	0
Protective clothing& other staff uniform	411,630	0
R & M Computer repair & printers	267,200	235,095
Maintenance of website	90,000	
Specific Provision for bad debts	10394915	10,276,613
Staff welfare	56,900	0
Sports	0	16,200
Subscriptions	190,800	61,000
Stakeholders meeting	123,400	0
Travel & accommodation	1,053,700	1,251,950
Athi Water Service Board- Lease fees	0	2,495,679
Chemicals	377,810	507,620
KFS Annual permit	204060	99,000
Repair and maintenance of billing system	0	45,000
Repair and maintenance of water systems	3,978,649	3,331,060
Repair and maintenance of motor cycles	138,230	100,520
Repair and maintenance of motor vehicles	561,872	256050

**Annual Reports and Financial Statements**

**For the year ended June 30, 2021**

Repair and maintenance of borehole	38,693	
Regulatory Levy - WASREB	2,006,961	1,663,783
Transport and fuel	2,703,111	2,288,555
Water Abstraction Fees - WARMA	904,500	904,500
Depreciation	2,895,387	2,830,955
Amortization	134,551	121,651
<b>Total</b>	<b>58,574,770</b>	<b>55,190,921</b>

**8b Staff Costs**

Description	2020/2021	2019/2020
	Kshs	Kshs
Salaries and allowances of permanent employees	18,155,886	17,401,977
Wages of temporary employees	3,891,065	3,831,042
Employer's contributions to pension scheme	1,940,023	1,850,088
Leave pay	0	22,500
Gratuity provisions	471,200	297,600
Staff salaries paid by MOWI (IN KIND)	729,240	694,320
<b>Total</b>	<b>25,187,414</b>	<b>24,097,527</b>
<b>The average number of employees at the end of the year was:</b>		
Permanent employees – Management	4	4
Permanent employees – Unionisable	32	32
Temporary and contracted employees	29	31
<b>Total</b>	<b>65</b>	<b>67</b>

**Annual Reports and Financial Statements**  
**For the year ended June 30, 2021**

**NOTES TO THE FINANCIAL STATEMENTS (Continued)****9. Income Tax Expense/(Credit)****(a) Current taxation**

	2020/2021	2019/2020
	Kshs	Kshs
Current taxation based on the adjusted profit for the year at 30%	0	0
Current tax: prior year under/(over) provision	0	0
Current year deferred tax charge	0	0
Prior year under-provision for deferred tax	0	0
<b>Total</b>	<b>0</b>	<b>0</b>

**b) Reconciliation of tax expense/ (credit) to the expected tax based on accounting profit**

	2020/2021	2019/2020
	KSH	
Surplus for the year	(4,954,269)	(12,013,700)
<b>ADD DISALLOWABLES</b>		
Depreciation	3,029,937	2,952,605
Increase in Provision for bad debts	-	-
	(1,924,332)	(9,061,095)
<b>LESS ALLOWABLES</b>		
Wear and tear	3,029,937	2,952,605
Taxable profit/ (loss)	(4,954,269)	(12,013,700)
Tax @ 30%	0	

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

**10. Property, Plant and Equipment**

	<u>Equipments, Furniture&amp;Generator</u>	<u>Motorcycles &amp;MotorVehicles</u>	<u>Computers &amp; Peripherals</u>	<u>water pipelines</u>	<u>water plots</u>	<u>Building</u>	<u>WATER METERS</u>	<u>Total</u>
Total cost or Valuation As at 01.07.20	492,586	1,032,860	537,100	35,202,318	780,000	4,204,831.00	1,355,500	43,605,195
Additions for the year	-	-	478,100	-	-	-	1,445,000	1,923,100
REVALUATION								-
Total cost or Valuation as at 30.06.21	492,586	1,032,860	1,015,200	35,202,318	780,000	4,204,831	2,800,500	45,528,295
Accum dep as at 31.07.20	175,813	676,025	490,779	17,182,419	-	3,279,767.20	178,638	21,983,441
Charge for the year ended 2021	61,573	256,835	46,321	1,760,116	-	420,483.10	350,063	2,895,387
Accum dep as at 30.06.21	237,386	932,860	537,100	18,942,535	-	3,700,250	528,700	24,878,831
NETBOOK 30/6/2021	255,200	100,000	478,100	16,259,783	780,000	504,581	2,271,800	20,649,464
NETBOOK 30.06.2020	316,773	356,835	46,321	18,019,899	780,000	925,064	1,176,863	21,621,755

- a) Building which is our main office amounting to Kshs. 4,204,83 lies on National government land where the title is yet to be transferred.
- b) Athi water works development agency has donated asset worth Kshs. 900,000 which are computers and office equipment. They have also donated four vehicles(KBV 248J,KBQ 927D, KBG 977C, KBL 287G) where the documents of title is with Athi water works development agency and whose value is not included in the asset schedule. Handle over letter was provided.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Property, Plant and Equipment (Continued)

	<u>Equipments, Furniture&amp;Generator</u>	<u>Motorcycles &amp; Motorvehicle</u>	<u>Computers &amp; Peripherals</u>	<u>Water pipelines</u>	<u>Water plots</u>	<u>Building</u>	<u>Water Meters</u>	<u>Total</u>
Total cost or Valuation as at 01.07.19	358,922	821,620	1,826,010	35,202,318	780,000	4,204,831.00	67,000	43,260,701
								-
Additions	133,664	211,240	59,690		-	-	1,288,500	1,693,094
REVALUATION								-
Total cost or Valuation as at 30.06.20	492,586	1,032,860	1,885,700	35,202,318	780,000	4,204,831.00	1,355,500	44,953,795
								-
Accum dep as at 31.07.19	114,240	417,810	1,678,249	15,422,303	-	2,859,284.10	9,200	20,501,086
								-
Charge for the year	61,573	258,215	161,130	1,760,116	-	420,483.10	169,438	2,830,955
								-
Accum dep as at 30.06.20	175,813	676,025	1,839,379	17,182,419	-	3,279,767.20	178,638	23,332,041
NETBOOK 30/6/2020	316,773	356,835.00	46,321	18,019,899	780,000.00	925,063.80	1,176,862.50	21,621,751
NETBOOK 30.06.2019	244,682	403,810	147,761	19,780,015	780,000	1,345,546.90	57,800	22,759,615

NOTES TO THE FINANCIAL STATEMENTS (Continues)

**11. Intangible Assets**

Total cost or Valuation as at 1 <sup>st</sup> July 2019	1,216,505
Additions for the year	129,000
Total cost or Valuation as at 30 <sup>th</sup> June 2020	<u>1,345,505</u>
Total cost or Valuation As at 1 <sup>st</sup> July 2020	<u><b>1,345,505</b></u>
Additions for the year	0
Total cost or Valuation as at 30 <sup>th</sup> June 2021	<b>1,345,505</b>
<b>Amortization</b>	
Accumulated Amortization as at 1 <sup>st</sup> July 2019	502,794
Charge for the year	121,651
Accumulated Amortization as at 30 <sup>th</sup> June 2020	<b>624,446</b>
Charge for the year ended 2021	134,550.50
Accumulated Amortization as at 30/06/21	<b>758,995</b>
<b>Net Book Value</b>	
<b>As at 30/6/2021</b>	<u><b>586,510</b></u>
<b>As at 30/6/2020</b>	<u><b>721,057</b></u>

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

**10 (b) Property, Plant and Equipment at Cost**

If the freehold land, buildings and other assets were stated on the historical cost basis the amounts would be as follows:

	<b>Cost</b>	<b>Accumulated Depreciation</b>	<b>NBV</b>
	<b>Kshs</b>	<b>Kshs</b>	<b>Kshs</b>
Buildings	4,204,831	3,700,250	504,581
Motor vehicles, including motorcycles	1,032,860	932,860	100,000
Computers and related equipment	1,015,200	537,100	478,100
Office equipment, furniture, and fittings & Generator	492,586	237,386	255,200
Water pipelines	35,202,318	18,942,535	16,259,783
Land	780,000	0	780,000
Water Meters	2,800,500	528,700	2,271,800
	<b>45,528,295</b>	<b>24,878,831</b>	<b>20,649,464</b>

Property plant and Equipment includes the following assets that are fully depreciated:

	<b>Cost or valuation</b>	<b>Normal annual depreciation charge</b>
Motor vehicles, including motor cycles	2,268,000	567,000
Computers and related equipment	1,348,600	449,533
Office equipment, furniture and fittings	1,109,834	138,729
Operation tools	220,000	73,300
<b>Total</b>	<b>4,946,434</b>	<b>1,228,562</b>

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

**11b.Intangible Assets**

	2020/2021	2019/2020
	Kshs	Kshs
<b>COST</b>		
<b>At July 1</b>	1,345,505	1,216,505
Additions		129,000
Disposals	0	0
<b>At June 30</b>	<b>1,345,505</b>	<b>1,345,505</b>
<b>AMORTISATION</b>		
<b>At July 1</b>	624,445	502794
Charge for the year	134,551	121,651
Disposals	0	0
Impairment loss	0	0
<b>At June 30</b>	<b>758,995</b>	<b>624,445</b>
<b>NET BOOK VALUE</b>		
<b>At June 30</b>	<b>586,510</b>	<b>721,057</b>

*The intangible asset comprises of software's bought from external sources and the website*

NOTES TO THE FINANCIAL STATEMENTS (Continued)

12. Inventories

	2020/2021	2019/2020
	Kshs	Kshs
Pipes and their fittings	96,255	115,580
<b>Total</b>	<b>96,255</b>	<b>115,580</b>

13. Trade and Other Receivables

Bal B/F Book Water sale debtors	69,496,421	60,129,308
Water Sale & Miscellaneous	52,873,261	42,354,151
Water sale Receipts	(42,269,563)	(32,987,038)
Total Water Sale Debtors C/D	80,100,119	69,496,421
Specific Provision for bad & Doubtful Debts(100%)	20,671,528	10,276,613
General Provision for bad & Doubtful Debts(10%)	5,942,859	5,921,981
Net (water) debtors	53,485,732	53,297,827
Lap trust	5,000	5,000
Staff loan	73,360	5,100
Pension (National water)	78,339	78,339
Total Kenya	0	8,571
Murang'a south water & sewerage CO. LTD	186,617	186,617
Staff pension paid by Company	30,108	30,108
Tusquee	30,000	30,000
Total Accounts Receivable	53,889,156	53,641,562

**Notes**

- The Trust provided for specific provision at 100% since the Trust has made all effort to recover to no avail.

-Laptrust and National Water are pension scheme where there was an overpayment

-Muranga South Water relate to sharing of repair of intake when we were sharing intake

-Tusquee relates to deposit made to bulk sms company.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

13 (a) Trade Receivables

	2020/2021	2019/2020
	Kshs	Kshs
Gross trade receivables	80,100,119	69,496,421
Provision for doubtful receivables	(5,942,859)	(5,921,981)
Specific Provision	(20,671,528)	(10,276,613)
Net trade receivables	53,485,731	53,297,827
<b>At June 30, the ageing analysis of the gross trade receivables was as follows:</b>		
Less than 30 days	4,737,680	3,927,497
Between 30 and 60 days	4,656,194	3,291,573
Between 61 and 90 days	5,036,880	3,926,987
Between 91 and 120 days	5,035,460.90	7,505,929
Over 120 days	60,633,903	50,844,433
<b>Total</b>	<b>80,100,119</b>	<b>69,496,421</b>

*[Provide short appropriate explanations as necessary]*

13 (b) Staff Receivables

	2020/2021	2019/2020
	Kshs	Kshs
Gross staff loans and advances	73,360	5,100
Provision for impairment loss		
Net staff loans		
Less: Amounts due within one year	(73,360)	(5,100)
Amounts due after one year	0	0

**Kenya Corporation(GATANGA COMMUNITY WATER SCHEME)**

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

**14. Short Term Deposits**

	2020/2021	2019/2020
	Kshs	Kshs
<b>Other commercial banks</b>		
Absa bank of kenya	570,642	1,108,083

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

**14b. Bank and Cash Balances**

	<b>2020/2021</b>	<b>2019/2020</b>
	<b>Kshs</b>	<b>Kshs</b>
Cash at bank	570,642	1,108,083
Cash in hand	153,567	8,252
	<b>724,209</b>	<b>1,116,335</b>

**15. Revaluation Reserve**

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

**16. Retained Earnings**

The retained earnings are utilized to finance operations because Gatanga community water scheme because it's don't pay dividends

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

**17. Trade and Other Payables**

	<u>2020/2021</u>	<u>2019/2020</u>
	<u>Ksh</u>	<u>Ksh</u>
WARMA	3,695,755	3,917,380
Kel chemicals LTD	98,640	121,700
Earth view Limited	95,000	425,000
Neema Hardware	380,350	429,000
Salary arrears& gratuity	5,500,477	6,119,918
WASREB	5,093,823	3,086,862
Bromak general merchants	3,647,008	1,679,780
MAN U	331,626	352,000
WASPA Subscription	215,000	150,000
Aqua treat Solutions LTD	-	133,664
Target Management Consultants	249,000	
Francisco & Pats Consultants	225,000	375,000
Aquila Group	-	129,000
Accounts Payable	19,531,679	16,919,304
Income tax	178,623	178,623
<b>Total Accounts Payable</b>	<b>19,710,302</b>	<b>17,097,927</b>

**Kenya Corporation(GATANGA COMMUNITY WATER SCHEME)**

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

**18. Provisions**

AWSB-Lease	18,007,644	18,007,644
Audit provisions (AOG)	1,990,000	1,720,000
FKE subscription	30,000	30,000
KFS Way leave	91,200	-
<b>Total Provision Account</b>	<b>20,118,844</b>	<b>19,757,644</b>

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

**19. Notes to The Statement of Cash Flows**

	2020/2021	2019/2020
	KSHS	KSHS
Cash flow from operating activities		
Profit before income taxes		
	(4,954,269)	(12,013,700)
Adjust for:		
Depreciation		
	3,029,937	2,952,605
Operating profit before working capital changes		
	(1,924,332)	(9,061,095)
Working capital changes		
Increase in inventories		
	19,325	45,920
Increase/Decrease in Accounts receivables		
	(247,594)	828,414
Increase in Accounts Payables		
	2,612,375	6,699,740
Increase in Members deposits		
	710,000	499,300
Increase in provisions account		
	361,200	2,495,679
Cash generated from operating activities		
	1,530,974	1,507,958
Tax paid		
	-	-
Net cash generated from operating activities		
	1,530,974	1,507,958
Cash flow from investing activities		
Acquisition of assets		
	(1,923,100)	(1,822,094)
Net cash flow after investing activities		
	(1,923,100)	(1,822,094)
Net increase in cash & cash equivalent		
	(392,126)	(314,136)
Cash and cash equivalent at the beginning of year		
	1,116,335	1,430,466
Cash and cash equivalent at the beginning of year		
	724,209	1,116,335

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

**20. Related Party Disclosures**

**Government of Kenya**

The county Government of Murang'a is the principal trustee of the *Gatanga Community water scheme*, holding 100% of the *Gatanga Community water scheme*'s equity interest.

Other related parties include:

- i) Athi Water works Development Agency
- ii) Water Resource Authority
- iii) Key management;
- iv) Board of Trustees;

<b>a) Key management compensation</b>		
Directors' emoluments	1,301,713	1,084,571
Compensation to key management	3,350,235	2,938,917
<b>Total</b>	<b>4,651,948</b>	<b>4,023,488</b>

**21. Financial Risk Management**

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

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

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

**(i) Credit risk**

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

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

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

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

**ii) Liquidity risk management**

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

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

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

**(iii) Market risk**

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

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

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

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

**a) Foreign currency risk**

The Gatanga Community Water Scheme has no transactional currency exposures.

**b) Interest rate risk**

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

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

**22. Incorporation**

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

**23. Events After the Reporting Period**

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

**24. Currency**

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

**ATANGA COMMUNITY WATER SCHEME)**

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Year ended 30, 2021**

**TABLE ON FOLLOW UP OF AUDITOR RECOMMENDATIONS**

A summary of issues raised by the external auditor, and management comments to the auditor. We have nominated focal persons to resolve the various issues as shown below with the associated time frame within which we expect the issues to be resolved.

Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Focal Point person to resolve the issue (Name and designation)	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
<b>Basis of qualified opinion</b>					
1.	Long outstanding account receivables	The board of Trustee has approved writing off of debts amounting to kes.27,536,659. The debts have been long outstanding and their recoverability was uncertain. All efforts had been made to recover but not avail.	Michael Mwambia-Commercial Manager	Resolved	done
2	Budgetary control and performance	Collection during the year ended June 2020 the Trustee underperformed but during the current financial year June 2021 the Trustee performed better from Kes.32,987,038 to Kes.42,269,563	Michael Mwambia-Commercial Manager	Resolved	Continuous
<b>Basis for conclusion</b>					
1.	There was non-revenue water of 44%	The system that we operate is dilapidated and we have made several proposals to Athi Water for finances and also we have customers who are unmetered and we have written proposals also for funding.	G Njoroge- Managing Director	Continuous	Waiting for funding

**Kenya Corporation(GATANGA COMMUNITY WATER SCHEME)**

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Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Focal Point person to resolve the issue (Name and designation)	Status: (Resolved / Not Resolved)	Time (Put when you expect the issue to be resolved)
2.	Personnel over expenditure above required rate of 40%	The system is dilapidated and require a lot casual labour to maintain which is forming substantive part of the personnel cost. As the trust increase its operation and the projects in place start giving economic benefit the trust will reduce personnel cost.	G Njoroge-MD	In progress	3 years

Accounting Officer

John Kairu

Managing director

Gatanga Community Water Scheme)



Signature

Date..... 20/03/2022

frame  
date  
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