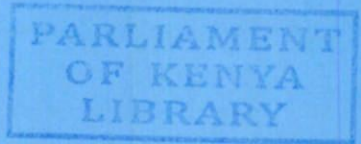
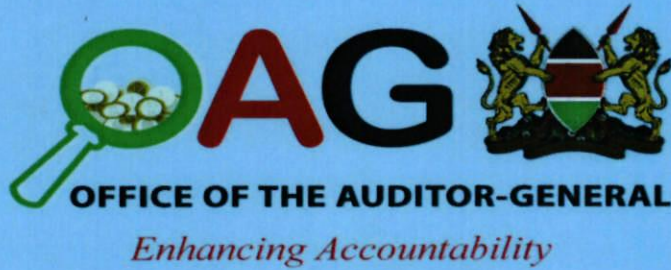


REPUBLIC OF KENYA

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**REPORT**

**OF**

**THE AUDITOR-GENERAL**

**ON**

**MALINDI WATER AND SEWERAGE  
COMPANY LIMITED**

**FOR THE YEAR ENDED  
30 JUNE, 2019**





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**MALINDI WATER AND SEWERAGE COMPANY LIMITED**

**ANNUAL REPORTS AND FINANCIAL STATEMENTS**

**FOR THE FINANCIAL YEAR ENDING  
JUNE 30, 2019**

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

**Malindi Water and Sewerage Company Limited**

**Annual Reports and Financial Statements**

**For the year ended June 30, 2019**

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# Malindi Water and Sewerage Company Limited

## Annual Reports and Financial Statements

For the year ended June 30, 2019

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### KEY ENTITY INFORMATION

#### Background information

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

#### Principal Activities

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

#### Vision

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

#### Mission

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

#### Core values

The core values of the Company are:

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

#### Directors

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

	<u>Name</u>	<u>Position</u>	<u>Appointment Date</u>
1.	Anderson Kasiwa	- Chairperson	Appointed on 5 <sup>th</sup> March 2019.
2.	Gerald Mwambire	-Managing Director	Appointed in 2018
3.	Barka Ali	-Member	Appointed on 5 <sup>th</sup> March 2019
4.	Anthony Chutta	-Member	Appointed on 5 <sup>th</sup> March 2019
5.	Thurea Tora	-Member	Appointed on 5 <sup>th</sup> March 2019
6.	Loice Wanje	-Member	Appointed on 5 <sup>th</sup> March 2019
7.	Maureen Obunga	-Member	Appointed on 5 <sup>th</sup> March 2019
8.	Ben Kai	-Member	Reappointed on 5 <sup>th</sup> March 2019
9.	Samuel Ngari	-Member	Reappointed on 5 <sup>th</sup> March 2019
10.	Felix Charo	-Member	Reappointed on 5 <sup>th</sup> March 2019
11.	Stanley Ndenge	-Member	Left on 5 <sup>th</sup> March 2019
12.	Benjamin Shollo	-Member	Left on 5 <sup>th</sup> March 2019
13.	Christine Karani	-Member	Left on 5 <sup>th</sup> March 2019

## **Malindi Water and Sewerage Company Limited**

### **Annual Reports and Financial Statements**

**For the year ended June 30, 2019**

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#### KEY ENTITY INFORMATION (Continued)

##### **Corporate Secretary**

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

##### **Registered Officer**

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

##### **Corporate Headquarters**

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

##### **Corporate Contacts**

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

##### **Corporate Bankers**

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

**Malindi Water and Sewerage Company Limited**

**Annual Reports and Financial Statements**

**For the year ended June 30, 2019**

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KEY ENTITY INFORMATION (Continued)

**Independent Auditors**

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

**Principal Legal Advisers**

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

## Malindi Water and Sewerage Company Limited

### Annual Reports and Financial Statements

For the year ended June 30, 2019





#### THE BOARD OF DIRECTORS

	Director Anderson Kasiwa, Chairperson of the board of directors was born on 1 <sup>st</sup> April 1974. He was appointed on 5 <sup>th</sup> March 2019. He has vast experience in the Hospitality Industry having worked in different capacities. He holds a Bachelors' Degree in Arts from University of Nairobi. He represents Business Community in the board of directors.
	Mr Gerald Mwambire was born on 13 <sup>th</sup> August 1972. He was appointed the Managing Director in 2018. He holds a Bachelors' degree in Commerce from Kenyatta University
	Director Barka Ali, Chairperson Finance and planning, was born on 24 <sup>th</sup> December 1972. She has a Diploma in County Governance and Management from Kenya College of Accountants University (KCA University). She represents Women Group in the board of directors
	Director Felix Ngumbao Charo, member Finance and Planning Committee and Human Resource and Administration Committee was born on 21 <sup>st</sup> January 1971. He holds a Bachelors' degree in Arts majoring on religion and a Diploma in Theology. He represents the Residents Association in the board of directors
	Anthony Kadenge Chutta, member Audit and Risk Management Committee was born on 19 <sup>th</sup> November 1956. He is a graduate from Shanzu Teachers College as an educationist and an administrator. He represents Professionals in the board of directors
	Thurea Simai Tora, Chairperson Audit and Risk Management Committee, was born on 9 <sup>th</sup> January 1986. She holds a Diploma in Banking and Computer Operations. She represents Women Organization in the board of directors
	Loice Nyavula Wanje, Chairperson Human Resource and Administration Committee member was born on 3 <sup>rd</sup> September 1986. She holds a Bachelors' Degree in Business Management. She represents Youth in the board of directors

**Malindi Water and Sewerage Company Limited**

**Annual Reports and Financial Statements**

**For the year ended June 30, 2019**

	<p>Maureen Awour Obunga, Member Human Resource and Administration Committee member. She was born on 17th August 1982. She is a Certified Public Accountant with vast knowledge in the Hospitality Industry. She represents Hotel Industry in the board of directors.</p>
	<p>Mr Ben Kai was born in November 1973. He is the County Government of Kilifi Chief Officer Finance. Reappointed on 5<sup>th</sup> March 2019 as a director. He holds a Bachelors' Degree in Commerce and a Certified Public Accountant. He represents County Government of Kilifi Finance Department in the board of directors</p>
	<p>Mr Samuel Kombe Ngari. He is the County Government of Kilifi Chief Officer for Water. Reappointed as a Director in 5<sup>th</sup> March 2019. He holds a Bachelors' of science degree in Agricultural Engineering. He represents the County Government of Kilifi Water and Irrigation Department in the board of directors</p>
	<p>Caroline Gladwell, Advocate of the high Court, Secretary to the Board of Directors. She was appointed in March 2019</p>

**Malindi Water and Sewerage Company Limited**

**Annual Reports and Financial Statements**

**For the year ended June 30, 2019**

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**MANAGEMENT TEAM**

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

# Malindi Water and Sewerage Company Limited

## Annual Reports and Financial Statements For the year ended June 30, 2019

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### CHAIRMAN'S STATEMENT

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

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

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

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

God bless MAWASCO and Kilifi County.



Andy Kasiwa  
Chairperson Board of Directors

## **Malindi Water and Sewerage Company Limited**

### **Annual Reports and Financial Statements**

**For the year ended June 30, 2019**

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

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

There was an improved service provision in the financial year under review despite the difficult trading environment the Company faced. During the year, the Company's revenue continued largely to depend on the tourism sector. The effects of the travel advisories and the low tourism sector performance adversely affected the target performance despite the slight improvement in performance compared to last financial year.

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


During the period, the KISIP Project which entailed 12.2km of distribution pipelines, construction of 1No Water Kiosk, 10 No Water yard Taps and 3No. Ablusion block at Kibokoni Secondary School were completed. Other projects that were at an advanced stage include the Kakuyuni Kilifi and Gongoni projects which are being undertaken by the National Government in MAWASCO. The county government of Kilifi under took several interventions to make water accessible to all residents within Malindi and Magarini area of operations.

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

The Company embarked on implementation of the Strategic plan which spans for five years starting from 2019 to 2024. The plan embraces the aspirations of the County Government of Kilifi on its vision for provision of clean water to the people of Kilifi. The strategic plan also focuses on providing water to the North of Malindi mainly the Sabaki Gongoni Area with the partnership of the World Bank group. The Project is at an advanced stage.

##### **CHALLENGES**

The Company is currently faced with a challenge in provision of its mandate due to the high cost of power as it is mainly a pumping system. This has adversely contributed to the high cost of production per cubic meter of water compared to other water Companies that use gravity systems. The Company is also faced with a challenge on dispensation of its mandate in managing Sewerage Services since Malindi has no established sewerage system. Studies have been made and some donors have indicated willingness to address the sewerage challenge. The Company has been faced with a challenge since inception in 2006 in providing water to the hinterland of Magarini Constituents nearing 150,000 people. There is a challenge in operation and maintenance of the dilapidated infrastructure bearing that this is a rural scheme. Efforts are underway to address the above challenges.



Gerald Mwambire  
Managing Director

## **Malindi Water and Sewerage Company Limited**

### **Annual Reports and Financial Statements**

**For the year ended June 30, 2019**

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#### **CORPORATE GOVERNANCE STATEMENT**

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

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

#### **FINANCE PLANNING AND ADMINISTRATION COMMITTEE**

The Finance and Administration Committees main duties are to ensure that Company's budget is prepared, approved and enforced, that there is harmony within the staff members, that there is human resource planning, and that there are policies on Human Resource and to review and, Set appropriate performance targets. The Committee is responsible for reviewing and setting medium- and long-term strategic directions and financial prudence. The Committee includes all aspects of projects planning as all projects will require Planning & Financing.

#### **AUDIT AND RISK COMMITTEE**

The main duty of the Internal Audit Committee is to ensure that the systems of internal controls are effectively administered. The committee defines the responsibilities of the Internal Auditors and to review and recommend to the Board the approval of interim financial results and annual financial statements. The Internal Audit is a department operating independently of other departments and sections of the Company.

#### **HUMAN RESOURCE COMMITTEE**

Due to an increase in the Company's activities, the Board however identified the need for introducing a Human Resource Committee which shall clearly define the Company's organizational structure within which individual responsibilities are defined in relation to the Company's mandate. The structure will be complemented by documented policies. The Committee will deal with appointments, dismissal, conflicts, dispute, promotion and demotion.

During the year under review the board of directors held an Annual General Meeting where there was retirement of directors and reappointment of new directors to hold office for a period of three years. The directors hold meetings in accordance to the board charter which requires review in every quarter of the financial year. The new board of directors were taken through an induction process and later signed code of ethics before taking up their roles as directors.

# Malindi Water and Sewerage Company Limited

## Annual Reports and Financial Statements

For the year ended June 30, 2019

### MANAGEMENT DISCUSSION AND ANALYSIS

#### Operational and financial Performance

##### Number of Consumer Accounts Billed

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

##### Total Number of Consumer Accounts

Month/ Period	Accounts On Supply			New Con- nections Paid For	Total A/C Off Supply	Active A/Cs Off Supply	Term- inated. Off Supply	Total A/c's	ANALYSIS			
	Actual Reading	Estimat'd Reading	Total Billed						% Est- imated	% On Supply	% Off Supply	% Term'd
	(1)	(2)	(3)=(1)+(2)						(4)	(5)	(6)=(5)-(7)	(7) cumulative
Avg FY 2017/18	18,756	1,827	20,583	148	9,158	6,973	2,185	29,741	8.9%	69.2%	1.6%	7.3%
Avg FY 2018/19	20,259	1,852	22,110	171	9,489	7,068	2,421	31,599	8.4%	69.9%	1.8%	7.7%

##### Water Production and Billing Efficiency

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

##### Water Production, Billed and Billing Efficiency

Month/Period	Water Production	Water Sales	Billing Efficiency	Unaccounted for Water (UFW)
	m <sup>3</sup>	m <sup>3</sup>	%	%
Total Fy 2017/18	6,677,094	4,583,399	69.0%	31%
Total Fy 2018/19	6,817,236	4,917,099	72.4%	28%

Note: Unaccounted for Water = 100 % (production) less billing efficiency less accounted for losses (AFW)

Note (\*) AFW = Accounted for Water (but not billed e.g. flushing, measured overflows, bursts, etc.)

##### Revenue and Collection Efficiency

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

##### Revenue Collection and Collection Efficiency

Month/ Period	BILLING (KShs)						COLLECTION (KShs)			Collection Effic'y
	Water Sale	Meter Rent	Misc.	Total Billing	Average Tariff Kshs/m <sup>3</sup>	Avg Tot. /conn.	Water sale	Misc.	Total	
Sum FY 2017/18	396,473,232	13,126,700	8,737,310	418,337,242	86.50	20,741	403,492,178	8,737,310	412,229,488	98.5%
Sum FY 2018/19	452,084,756	14,141,700	11,436,381	504,821,392	91.94	22,816	475,358,096	12,006,621	487,364,717	96.5%

## **Malindi Water and Sewerage Company Limited**

### **Annual Reports and Financial Statements**

**For the year ended June 30, 2019**

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#### **Compliance with statutory and other financial obligations**

- Service Provision Agreement

The Company operates under a Service Provision Agreement with the Coast Water Services Board which approved by the regulator. The renewal process for the service provision agreement for the period July 2019 to June 2024 is underway and is expected to be completed in the first quarter of the 2019/20 financial year.

- Tariff Regime

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

#### **Major risks facing the Company**

- Non cost recovery tariff

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

- Negative working cash-flow

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

- Closure of major customers in the operation area

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

- Non- Revenue Water increase

The management is concerned with the increase in non-revenue water loss as a result of life-expired pipelines and poor work man-ship in projects being handed over by stakeholders. These poorly supervised projects have become a big source of water loss leading to Non-Revenue water loss increase. The management has hydrologically isolated the service area into district metering areas for easy of management of the water loss. The management has also requested to be enjoined in the supervision of the water development projects in the area.

## **Malindi Water and Sewerage Company Limited**

### **Annual Reports and Financial Statements**

**For the year ended June 30, 2019**

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#### **CORPORATE SOCIAL RESPONSIBILITY STATEMENT**

The Company remained a socially responsible corporate citizen by conducting its business in a socially acceptable and responsible manner. The company contributed and participated in various forums at the county and sub-county level that include;

##### **HIV /AIDS SENSITISATION**

The company has taken active participation in sensitizing the community within its area of mandate against the spread of the HIV/AIDS scourge. The company organized for and conducted sensitization campaigns at various stake holder engagement forums within the area of jurisdiction

##### **ESTABLISHMENT OF THE PRO-POOR UNIT**

The company has been keen to provide water and sanitation services to the pro-poor residents of Malindi sub-county and its environs. In response to this, MAWASCO has established a pro-poor unit tasked with the responsibility of developing appropriate strategies for effective services delivery to the poor.

##### **WOMEN EMPOWERMENT**

MAWASCO has taken an active role in empowering women in the provision of water and sanitation services through conducting workshops for women Water operators. This has improved women skills in Management of Water and Sanitation Services at the community levels. This is in tandem with the concept of Gender Mainstreaming in the water sector; a program MAWASCO is implementing with Coast Water Services Board and the World Bank – WSP.

# Malindi Water and Sewerage Company Limited

## Annual Reports and Financial Statements For the year ended June 30, 2019

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### REPORT OF THE DIRECTORS

The Directors submit their report together with the audited financial statements for the year ended June 30, 2019 which show the state of the Malindi Water and Sewerage Company Limited's affairs.

#### Principal activities

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

#### Results

The results of the entity for the year ended June 30, 2019 are set out on page 1. The results show a net loss of Ksh 10,044,658.00

#### Dividends

The Directors do not recommend the payment of dividends for the financial year 2018/19.

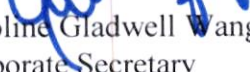
#### Directors

The members of the Board of Directors who served during the year are shown on page iii. In accordance with Regulation of the Memorandum and Articles of Association of the Company, three directors resigned and were not eligible for re-election.

#### Auditors

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

By Order of the Board

  
Caroline Gladwell Wangari  
Corporate Secretary  
Malindi

Date:

**STATEMENT OF DIRECTORS' RESPONSIBILITIES**

The Public Finance Management Act, 2012 and the State Corporations Act, require the Directors to prepare financial statements in respect of Malindi Water and Sewerage Company Ltd, which give a true and fair view of the state of affairs of Malindi Water and Sewerage Company Ltd at the end of the financial year ended 30 June 2019 and the operating results of Malindi Water and Sewerage Company for year ended 30 June 2019. The Directors are also required to ensure that Malindi Water and Sewerage Company Ltd keeps proper accounting records which disclose with reasonable accuracy the financial position of Malindi Water and Sewerage Company Ltd. The Directors are also responsible for safeguarding the assets of the Company.

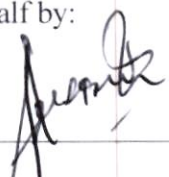
The Directors are responsible for the preparation and presentation of Malindi Water and Sewerage Company's financial statements, which give a true and fair view of the state of affairs of the Company for and as at the end of the financial year ended on June 30, 2019. This responsibility includes: (i) maintaining adequate financial management arrangements and ensuring that these continue to be effective throughout the reporting period; (ii) maintaining proper accounting records, which disclose with reasonable accuracy at any time the financial position of the entity; (iii) designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of the financial statements, and ensuring that they are free from material misstatements, whether due to error or fraud; (iv) safeguarding the assets of the Company; (v) selecting and applying appropriate accounting policies; and (vi) making accounting estimates that are reasonable in the circumstances.


The Directors accept responsibility for MAWASCO'S financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity with International Financial Reporting Standards (IFRS), and in the manner required by the PFM Act and the State Corporations Act. The Directors are of the opinion that MAWASCO'S financial statements give a true and fair view of the state of its transactions during the financial year ended June 30, 2019, and of the financial position as at that date. The Directors further confirm the completeness of the accounting records maintained for MAWASCO, which have been relied upon in the preparation of the its financial statements as well as the adequacy of the systems of internal financial control.

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

**Approval of the financial statements**

The Company's financial statements were approved by the Board on 29 August 2019 and signed on its behalf by:

  
\_\_\_\_\_  
Director

  
\_\_\_\_\_  
Director

  
\_\_\_\_\_  
Director

**Malindi Water and Sewerage Company Limited**

**Annual Reports and Financial Statements**

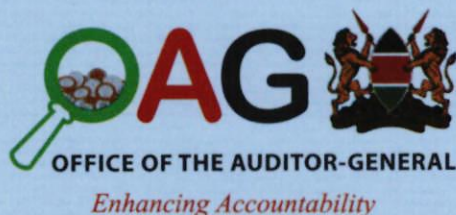
**For the year ended June 30, 2019**

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**REPORT OF THE INDEPENDENT AUDITORS ON THE ENTITY**

# REPUBLIC OF KENYA

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



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

## **REPORT OF THE AUDITOR-GENERAL ON MALINDI WATER AND SEWERAGE COMPANY LIMITED FOR THE YEAR ENDED 30 JUNE, 2019**

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

#### **Qualified Opinion**

I have audited the accompanying financial statements of Malindi Water and Sewerage Company Limited set out on pages 1 to 38, which comprise of the statement of financial position as at 30 June, 2019, statement profit or loss and other comprehensive income, statement of changes in equity, statement of cash flows and the statement of comparison of budget and actual amounts for the year then ended, and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, 2015. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

In my opinion, except for the effects of the matter described in the Basis for Qualified Opinion section of my report, the financial statements present fairly, in all material respects, the financial position of the Malindi Water and Sewerage Company Limited as at 30 June, 2019, and of its financial performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards, and comply with the Water Act, 2016 the Companies Act, 2015 and the Public Finance Management Act, 2012.

#### **Basis for Qualified Opinion**

##### **1. Non-Disclosure of Material Threat Related to Going Concern**

The statement of profit or loss and other comprehensive income reflects a loss of Kshs.10,044,658. This resulted to a cumulative retained deficit of Kshs.358,794,307. In addition, the statement of financial position reflects total current liabilities of Kshs.624,459,102 which exceeds the total current assets balance of Kshs.231,851,690 resulting to a negative working capital of Kshs.392,607,412. As previously reported, this is an indication that the Company is experiencing financial difficulties in settling financial obligations as and when they may fall due. The Company is therefore, technically insolvent and its survival is dependent on continued financial support from the County Government and its creditors.

##### **2. Inaccuracies in the Financial Statements**

A review of the financial statements for the year ended 30 June, 2019 revealed that the statement of comparison of budget and actual amounts reflects actual investment

expenditure (acquisition of assets) of Kshs.13,573,070 while the corresponding Notes 14 and 15 respectively, reflect nil additions to property, plant and equipment and intangible assets additions of Kshs.2,838,769, resulting to an un-reconciled or explained difference of Kshs.10,734,301.

Further, the statement of profit or loss and other comprehensive income reflects amortization of intangible assets of Kshs.567,754 while the re-computed figure is Kshs.946,256 resulting to unexplained and unreconciled variance of Kshs.378,502.

In addition, the statement of comparison of budget and actual amounts reflects total actual expenditure of Kshs.504,953,310 while the statement of profit or loss and other comprehensive income reflects actual expenditure of Kshs.330,454,178, resulting to unreconciled and unexplained variance of Kshs.174,449,132.

In the circumstances, the accuracy, completeness and validity of the financial statements for the year ended 30 June, 2019 could not be confirmed.

### **3. Unsupported Property, Plant and Equipment**

As disclosed in Note 14 to the financial statements, the statement of financial position reflects property, plant and equipment balance of Kshs.549,470,431. The balance includes transfers/adjustments of Kshs.18,313,354 to plant and machinery relating to four (4) projects whose certificates of completion of the as well as handing over reports were not availed for audit review.

Further, Management carried out a revaluation that was completed on 20 June, 2019. However, details of what is owned by Coast Water Works Development Agency and the Company together with their ownership documents were not availed for audit review.

In addition, assets purchased during the year valued at Kshs.13,622,724 were not depreciated with an amount of Kshs.1,820,895 contrary to the Company's depreciation policy.

Consequently, the accuracy, valuation and ownership of property, plant and equipment balance of Kshs.549,470,431 reflected in the statement of assets and liabilities as at 30 June, 2019 could not be confirmed.

### **4. Inaccuracies in Trade and Other Receivables**

As disclosed in Note 18 to the financial statements, the statement of financial position reflects trade and other receivables balance of Kshs.192,531,563. However, the supporting schedules reflected a balance of Kshs.205,212,040 resulting to unreconciled variance of Kshs.12,680,477.

Consequently, the accuracy completeness and validity of trade and other receivable balance of Kshs.192,531,563 reflected in the statement of financial position as at 30 June, 2019 could not be confirmed.

## **5. Unsupported Non-Current Receivables**

As disclosed in Note 16 to the financial statements, the statement of financial position reflects non-current receivables comparative balance of Kshs.57,134,125 in respect of debtors' balances inherited from Coast Water Works Development Agency at the inception of the Company. Note 28 to the financial statements reflects non-current payables of the same amount being debt balance inherited from Coast Water Works Development Agency at the inception of the Company. However, no documentary evidence was provided for audit review in support of this balance.

Further, the statement reflects nil non-current receivables balance with a disclosure in Note 16 that the same have been reclassified under trade and other receivables. However, Note 18 to the financial statements reflects trade and other receivables balance of Kshs.192,531,563 which has decreased by Kshs.357,950 from the previous year's balance of Kshs.192,889,513 without reclassifications.

Consequently, the accuracy, completeness and validity of non-current receivables balance as at 30 June, 2019 could not be confirmed.

## **6. Unsupported Share Capital Receivable**

As previously reported and disclosed in Note 19 to the financial statements, the statement of financial position reflects authorized share capital of Kshs.5,000,000 divided into 5,000 shares of Kshs.1,000 each, all issued to County Government of Kilifi but which had not been paid for as at 30 June, 2019.

In the circumstances, the validity of share capital of balance of Kshs.5,000,000 reflected in the statement of financial position as at 30 June, 2019 could not be confirmed.

## **7. Unsupported Customer Deposits Receivable**

As disclosed in Note 20 to the financial statements, the statement of financial position reflects customer deposits receivable balance of Kshs.8,443,600 being deposits for the existing customers which were taken over from Coast Water Works Development Agency when the Company was incorporated. However, as previously reported, no schedule was provided, for audit review, to support the balance.

Consequently, the accuracy and validity of customer deposits receivable balance of Kshs.8,443,600 as at 30 June, 2019 could not be ascertained.

## **8.0 Trade and Other Payables**

As disclosed in Note 29 to the financial statements, the statement of financial position reflects trade and other payables balance of Kshs.506,029,445. The following observations were made:

### **8.1 Trade Payables**

Included in the balance is trade payables balance of Kshs.452,394,283 due to Coast Water Works Development Agency. However, records and financial statements for Coast

Water Works Development Agency as at 30 June, 2019 reflect an amount of Kshs.531,332,877 as due from the Company, resulting to an unreconciled variance of Kshs.78,938,594. Further, included in this balance is Kshs.3,734,863 in respect of tax payable whose supporting schedule was not provided for audit review.

Consequently, the accuracy, completeness and validity of trade and other payables balance of Kshs.506,029,445 reflected in the statement of financial position as at 30 June, 2019 could not be confirmed.

## **8.2 Unsupported Reclassification of Non-Current Payables**

The comparative for Note 28 to the financial statements reflects non-current payables balance of Kshs.57,134,125 as at 30 June, 2019. This is in respect of creditors' balances inherited from Coast Water Works Development Agency at the inception of the Company. The comparative for Note 16 to the financial statements indicates non-current receivables of the same amount as the credit balance inherited by the Company from Coast Water Works Development Agency at the inception of the Company. However, no documentary evidence was provided for audit review in support of this figure.

Further, non-current payables balance for the current year is nil with a disclosure in Note 28 that non-current payables have been reclassified under trade and other payables. However, Note 29 to the financial statements reflects trade and other receivables balance of Kshs.506,029,445 as at 30 June, 2019 and which has gone down by Kshs.3,195,891 from the previous year's balance of Kshs.509,225,336.

Therefore, the reclassified non-current payables amount of Kshs.57,134,125 in these financial statements could not be ascertained.

## **9. Inaccuracies in Bank and Cash Balances**

As disclosed in Note 22 to the financial statements, the statement of financial position reflects cash and bank balance of Kshs.17,658,611. Included in this balance is operations bank account balance of Kshs.7,686,177. However, the supporting bank reconciliation statement as at 30 June, 2019 reflects reconciled cashbook balance of Kshs.1,513,623.76, resulting to an unreconciled variance of Kshs.6,172,553.24.

As a result, the accuracy and completeness of the cash and bank balance of Kshs.17,658,611 reflected in the statement of financial position as at 30 June, 2019 could not be confirmed.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the Malindi Water and Sewerage Company Limited Management in accordance with ISSAI 130 on Code of Ethics. I have fulfilled other ethical responsibilities in accordance with the ISSAIs 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**

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

The statement of comparison of budget and actual amounts reflects final receipts budget and actual on comparable basis of Kshs.563,391,183 and Kshs.481,903,337 respectively resulting to an under-funding of Kshs.81,487,846 or 14% of the budget. Similarly, the statement reflects final expenditure budget and actual on comparable basis of Kshs.526,452,858 and Kshs.504,953,310 respectively resulting to an under expenditure of Kshs.21,499,548 or 4% of the budget.

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

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

In the audit report of the previous year, several issues were raised. However, the Management has not resolved the issues or given any explanation for failure to adhere to the provisions of the Public Sector Accounting Standards Board templates and The National Treasury's Circular Ref: PSASB/1/12 Vol.1(44) of 25 June, 2019.

## **Other Information**

The Board of Directors is responsible for the other information. The other information comprises the Company's information, corporate governance and the report of Board of Directors as required by the Companies Act, 2015. The other information does not include the financial statements and the auditor's report thereon.

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

In connection with my audit of the Company's financial statements, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or the knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work I have performed, I conclude that there is a material misstatement of this other information, I am required to report that fact. I have nothing to report in this regard.

## **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. Non-Compliance with Non-Revenue Water Guidelines**

During the financial year under review, the Company produced a total of 6,817,236 cubic meters (M<sup>3</sup>) of water. However, out of this volume, only 4,917,099 cubic meters (M<sup>3</sup>) of water was billed to customers as consumed. The balance of 1,900,137 M<sup>3</sup> which is approximately 28% of water produced represented unaccounted for water (UFW). The UFW of 28% was over and above the allowable loss of 25% by 3% according to Water Services Regulatory Board (WASREB) guidelines. The non-allowable unaccounted for water of 204,517 M<sup>3</sup> or 3% may have resulted in loss of sales estimated at Kshs.18,803,293 at a rate of Kshs.91.94 per cubic meter. No explanations have been rendered for the high NRW and measures being put in place to comply with guidelines.

Consequently, the Company is in breach of the guidelines.

### **2. Irregular Staff Training Expenses**

As disclosed in Note 10 to the financial statements, the statement of profit and loss and comprehensive income for the reflects a balance of Kshs.329,886,424 in respect of administration costs which includes a balance of Kshs.1,860,159 under staff training expenses. However, the training work plan and training needs assessment were not provided for audit review.

Consequently, the validity and propriety of the expenditure of Kshs.1,860,159 on staff training for the year ended 30 June, 2019 could not be confirmed.

### **3. Non-Remittance of Retirement Benefits Obligations**

Note 33 to the financial statements reflects retirement benefits obligations balance of Kshs.72,515,460. Records provided for audit review indicated that the Company cumulatively held pension contributions amounting to Kshs.90,467,524 but remitted only Kshs.17,952,064, leaving a balance of Kshs.72,515,460 as at the end of the year. However, the Management has not justified the non-remittance of the deductions, contrary to Section 53A (1) of the Retirement Benefits Act, 1997 revised in 2017 that requires an employer to remit employee's pension emoluments within fifteen days of the deduction. Further, non-remittance of the funds attracts an interest of 3% of the amount payable. However, the management has not provided for the possible interest or penalty of 3% in these financial statements.

Consequently, the Management is in breach of the law.

## **4.0 Delayed Projects**

### **4.1 Construction of a Hybrid Decentralized Treatment Facility**

Review of the Company's records revealed that the Company awarded a contract for construction of a hybrid decentralized treatment facility to a firm at a contract price of Kshs.6,885,048.07. The works commenced on 10 August, 2017 with the expected completion date of 31 May, 2019. The Company made an advance payment of Kshs.1,994,468 on 3 May, 2019 for works certified under Interim Certificate one (1) of 27 April, 2019 for Kshs.2,437,402. However, physical verification of the project in the month of December, 2019 revealed that the project had stalled at foundation level. Documentary evidence to confirm termination of the contract, in line with Clause 18.1 of the contract agreement which stated that 'the employer of the contractor may terminate the contract if the other party causes a fundamental breach of the contract and includes the contractor stopping work for thirty (30) days continuously without reasonable cause or authority from the employer's representative' was not provided for audit review.

Further, the performance bond of Kshs.688,504, being 10% of the contract price which was issued by the contractor expired on 16 April, 2019 and had not been renewed. This is contrary to Section 142(2) of the Public Procurement and Asset Disposal Act, 2015 which states that 'in case the contract is not fully or well executed, the performance security shall unconditionally be fully seized by the procuring entity as compensation without prejudice to other penalties provided for by the Act'.

In the circumstances, the residents of Kilifi County did not get value for money totalling Kshs.1,994,468 spent on the project for the year ended 30 June, 2019 and the Management was in breach of the law.

### **4.2 Installation of Decentralized Treatment Facility**

Audit review of available records indicated that the Company entered into a contract with a firm for installation of decentralized treatment facility equipment at a contract price of Kshs.11,485,000. The project commenced on 4 August, 2018 and was supposed to be completed by 31 July, 2019. However, the following observations were made:

- i. The contractor was paid Kshs.4,594,000 on 1 February, 2019, being advance payment of forty percent (40%) of the contract sum, contrary to Section 147(1) of the Public Procurement and Asset Disposal act, 2015 which states that 'Under exceptional circumstances advance payment may be granted and shall not exceed twenty per cent (20 %) of the price of the tender and shall be paid upon submission by the successful tenderer to the procuring entity of an advance payment security equivalent to the advance itself and that security shall be given by a reputable bank or any authorized financial institution issued by a corresponding bank in Kenya recognized by the Central Bank of Kenya, in case the successful tenderer is a foreigner'. the advance payment security was not provided for audit review.
- ii. During physical verification on 3 December, 2019, it was noted that no work had been undertaken despite the advance payment of Kshs.4,594,000 made on 1 February 2019, a delay of eleven (11) months.

- iii. The performance bond of Kshs.1,148,500 issued by the contractor expired on 23 April, 2019 but had not been renewed at the time of the audit inspection. Thus, the project could not be executed, contrary to Section 142 (2) of the Public Procurement and Asset Disposal Act, 2015 which provides that 'in case the contract is not fully or well executed, the performance security shall unconditionally be fully seized by the procuring entity as compensation without prejudice to other penalties provided for by the Act'.

In the circumstances, the residents of the County did not get value for money totaling to Kshs.4,594,000 spent on the project for the year ended 30 June, 2019 and the Management was in breach of the law.

## **5. Irregular Directors' Emoluments**

Review of records revealed that an amount of Kshs.1,725,133 was paid as sitting allowances to Board Members for attending meetings. However, minutes of the meetings were not provided for audit review, contrary to the Code of Governance for State Corporations Paragraph 8 (e) which provides that 'minutes for every Board or committee meeting and resolutions highlighted must be drawn'.

Consequently, the propriety and validity of directors' emoluments of Kshs.1,725,133 for the year ended 30 June, 2019 could not be ascertained.

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

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

### **Conclusion**

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

### **Basis for Conclusion**

#### **Long Outstanding Receivables**

Included in the receivables balance is Kshs.137,852,599 which had been outstanding for more than 120 days. However, the entity is yet to develop a debtor's collection strategy on how to improve efficiency in collections or recoveries of the debts.

In the circumstances, it has not been possible to confirm existence of effective debt collection measures at the Company.

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

## REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

As required by the Kenyan Companies Act, 2015, except for the matters under the Basis for Qualified Opinion, Other Matter, Basis for Conclusion on Lawfulness and Effectiveness in Use of Public Resources and Basis for Conclusion on Effectiveness of Internal Controls, Risk Management and Governance sections of my report, I report based on my audit, that:

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

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

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

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

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

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

The Board of Directors is responsible for overseeing the financial reporting process, reviewing the effectiveness of how the Company monitors compliance with relevant

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

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

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

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

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

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

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

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

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

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by 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 Company's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in the auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my audit report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information and business activities of the Company to express an opinion on the financial statements.
- Perform such other procedures as I consider necessary in the circumstances.

I communicate with 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.

  
Nancy Gathungu  
**AUDITOR-GENERAL**

**Nairobi**

**10 November, 2021**

**Malindi Water and Sewerage Company Limited**

**Annual Reports and Financial Statements**

**For the year ended June 30, 2019**

**STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 30 JUNE 2019**

	Note	2018/2019	2017/2018
		Kshs	Kshs
<b>REVENUES</b>			
Revenue	6	466,226,456	409,599,932
Cost of sales	7	(161,493,817)	(176,601,936)
Gross profit		<b>304,732,639</b>	<b>232,997,996</b>
In-Kind Contributions	8	4,240,560	4,240,560
Other Income	9	11,436,321	8,737,310
<b>TOTAL REVENUES</b>		<b>320,409,520</b>	<b>245,975,866</b>
<b>OPERATING EXPENSES</b>			
Administration Costs	10	329,886,424	305,137,294
Amortization of Intangible Assets	11	567,754	-
Finance Costs	12	-	-
<b>TOTAL OPERATING EXPENSES</b>		<b>330,454,178</b>	<b>305,137,294</b>
<b>PROFIT/(LOSS) BEFORE TAXATION</b>	13	<b>(10,044,658)</b>	<b>(59,161,428)</b>
<b>INCOME TAX EXPENSE/(CREDIT)</b>		-	-
<b>PROFIT/(LOSS) AFTER TAXATION</b>		<b>(10,044,658)</b>	<b>(59,161,428)</b>
<b>OTHER COMPREHENSIVE INCOME</b>			
Fair value through comprehensive income		-	-
Surplus on revaluation of PPE		447,264,384	-
<b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR</b>		<b>437,219,726</b>	<b>(59,161,428)</b>
Earnings per share – basic and diluted		-	-
Dividend per share		-	-

# Malindi Water and Sewerage Company Limited

## Annual Reports and Financial Statements

For the year ended June 30, 2019

### STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2019

	Note	2018-2019	2017-2018
		Kshs	Kshs
<b>ASSETS</b>			
<b>Non-Current Assets</b>			
Property, plant and equipment	14	549,470,431	83,892,693
Intangible assets	15	2,271,015	-
Non-Current Receivable	16	-	57,134,125
<b>Total Non-Current Assets</b>		<b>551,741,446</b>	<b>141,026,818</b>
<b>Current Assets</b>			
Inventories	17	8,217,916	12,217,926
Trade and other receivables	18	192,531,563	192,889,513
Share Capital Receivable	19	5,000,000	5,000,000
Customer Deposit Receivable	20	8,443,600	8,443,600
Delegated Works	21	-	18,313,354
Bank and cash balances	22	17,658,611	11,133,574
<b>Total Current Assets</b>		<b>231,851,690</b>	<b>247,997,966</b>
<b>Total Non-Current Assets</b>		<b>783,593,136</b>	<b>389,024,784</b>
<b>EQUITY AND LIABILITIES</b>			
<b>Capital and Reserves</b>			
Ordinary share capital	23	5,000,000	5,000,000
Retained earnings	24	(358,794,307)	(348,749,649)
Project grant	25	26,128,959	26,128,959
Capital reserve fund	26	39,534,996	39,534,996
Revaluation reserve	27	447,264,384	-
<b>Capital and Reserves</b>		<b>159,134,033</b>	<b>(278,085,694)</b>
<b>Non-Current Liabilities</b>			
Non-current payables	28	-	57,134,125
<b>Total Non-Current Liabilities</b>		<b>-</b>	<b>57,134,125</b>
<b>Current Liabilities</b>			
Trade and other payables	29	506,029,445	509,225,336
Provision for leave pay	30	2,000,133	4,926,134
Customer Deposit - Old	31	-	8,443,600
Customer Deposit - New	32	43,914,064	28,575,014
Retirement benefit obligations	33	72,515,460	58,806,269
<b>Total Current Liabilities</b>		<b>624,459,102</b>	<b>667,110,478</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>783,593,135</b>	<b>389,024,784</b>

The financial statements were approved by the Board on 29 August 2019 and signed on its behalf by:

Managing Director  
Name: Gerald Mwambire

Date: 29/08/2019

Head of Finance  
Name: Seith Kalume  
ICPAK M/NO: R/10436

Date: 29/08/2019

Chairman of the Board  
Name: Andy Kasiwa

Date: 29/08/2019

**Malindi Water and Sewerage Company Limited****Annual Reports and Financial Statements****For the year ended June 30, 2019**

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**STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 JUNE 2019**

<b>Particulars</b>	<b>Ordinary share capital</b>	<b>Revaluation Reserve</b>	<b>Capital Reserve Fund</b>	<b>Retained earnings</b>	<b>Total</b>
<b>At July 1, 2017</b>	<b>5,000,000</b>	-	<b>39,534,996</b>	<b>(289,588,221)</b>	<b>(245,053,225)</b>
Net Loss For The Year	-	-	-	(59,161,428)	(59,161,428)
Prior Year Adjustment	-	-	-	-	-
<b>At June 30, 2018</b>	<b>5,000,000</b>	-	<b>39,534,996</b>	<b>(348,749,649)</b>	<b>(304,214,653)</b>
<b>At July 1, 2018</b>	<b>5,000,000</b>	-	<b>39,534,996</b>	<b>(348,749,649)</b>	<b>(304,214,653)</b>
Net Loss For The Year	-	-	-	(10,044,658)	(10,044,658)
Revaluation Gain	-	447,264,384	-	-	447,264,384
<b>At June 30, 2019</b>	<b>5,000,000</b>	<b>447,264,384</b>	<b>39,534,996</b>	<b>(358,794,307)</b>	<b>133,005,073</b>

**Malindi Water and Sewerage Company Limited**

**Annual Reports and Financial Statements  
For the year ended June 30, 2019**

**STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2019**

	Note	2018-2019	2017-2018
		Kshs	Kshs
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Cash generated from/(used in) operations	34	9,363,805	39,665,999
<b>Net cash generated from/(used in) operating activities</b>		<b>9,363,805</b>	<b>39,665,999</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Purchase of property, plant and equipment	14	-	(26,698,822)
Purchase of intangible assets	15	(2,838,769)	-
<b>Net cash generated from/(used in) investing activities</b>		<b>(2,838,769)</b>	<b>(26,698,822)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Increase / (Decrease) in project grant reserve		-	(16,057,866)
<b>Net cash generated from/(used in) financing activities</b>		<b>-</b>	<b>(16,057,866)</b>
<b>INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS</b>			
		<b>6,525,036</b>	<b>(3,090,689)</b>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>			
		<b>11,133,574</b>	<b>14,224,263</b>
<b>CASH AND CASH EQUIVALENTS AT END OF THE YEAR</b>			
	22	<b>17,658,610</b>	<b>11,133,574</b>

**Malindi Water and Sewerage Company Limited**

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For the year ended June 30, 2019**

**STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS FOR THE YEAR ENDED 30 JUNE 2019**

	Original budget	Adjustments	Final budget	Actual on comparable basis	Performance difference
	2018-2019	2018-2019	2018-2019	2018-2019	2018-2019
Revenues					
Water Sale and Meter rent	545,432,848		545,432,848	466,226,456	79,206,392
In Kind Donation	4,240,560		4,240,560	4,240,560	-
Sale of tender documents	20,948		20,948	-	20,948
Miscellaneous receipts	13,696,827		13,696,827	11,436,321	2,260,506
<b>Total income</b>	<b>563,391,183</b>	<b>-</b>	<b>563,391,183</b>	<b>481,903,337</b>	<b>81,487,846</b>
<b>Expenses</b>					
Compensation of employees	174,588,615	-	174,588,615	202,118,035	(27,529,420)
Rent paid	400,000	-	400,000	360,000	40,000
Other payments	272,961,612	-	272,961,612	288,902,206	(15,940,594)
Investment made	52,381,878	-	52,381,878	13,573,070	38,808,808
Loan Repayment	26,120,753	-	26,120,753	-	26,120,753
<b>Total expenditure</b>	<b>526,452,858</b>	<b>-</b>	<b>526,452,858</b>	<b>504,953,310</b>	<b>21,499,547</b>
<b>Surplus for the period</b>	<b>36,938,325</b>	<b>-</b>	<b>36,938,325</b>	<b>23,049,973</b>	<b>59,988,299</b>

**Explanation of variance**

**Loss on Revenue**

The Company did not meet its expected revenues as the major clients closed down operations due to the decline in the tourism sector which forms the main industry in the trading area

**General Expenses**

The increase in budget expenditure to actual was caused by increase in overheads in the service area including the cost of production and electricity. The Company increased operations that were necessary for the distribution of water in the vast rural areas. Unnecessary expenses were deferred.

**Investment Expenditure**

There was reduced expenditure on investment as a result of the missed revenue collection targets in the financial year. The bulk of the income was channelled to maintenance

# Malindi Water and Sewerage Company Limited

## Annual Reports and Financial Statements For the year ended June 30, 2019

### NOTES TO THE FINANCIAL STATEMENTS

#### 1. GENERAL INFORMATION

Malindi Water and Sewerage Company Limited is established pursuant to the Water Act 2016 and derives its authority and accountability from the Company's Act. The Company is wholly owned by the County Government of Kilifi and is domiciled in Kenya. The entity's principal activity is supply of water to the residents of Malindi and Magarini sub counties.

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

#### 2. STATEMENT OF COMPLIANCE AND BASIS OF PREPARATION

The financial statements have been prepared on a historical cost basis except for the measurement at re-valued amounts of certain items of property, plant and equipment. The preparation of financial statements in conformity with International Financial Reporting Standards (IFRS) allows the use of estimates and assumptions. It also requires management to exercise judgement in the process of applying the entity's accounting policies.

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

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

#### 3. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

##### i) Relevant new standards and amendments to published standards effective for the year ended 30 June 2019

Standard	Impact
IFRS 16: Leases	The Company does not have a leases arrangement and therefore the standard does not apply
IFRIC 23: Uncertainty Over income tax treatments	The Company does not have uncertainties in tax treatment and so this standard does not apply
Amendments to IFRS 9 titled Prepayment Features with Negative Compensation (issued in October 2017)	This Company does not have financial assets with negative compensation at amortised cost or fair value through other comprehensive income therefore this standard does not apply.

**Malindi Water and Sewerage Company Limited**

**Annual Reports and Financial Statements**

**For the year ended June 30, 2019**

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

**i) Relevant new standards and amendments to published standards effective for the year ended 30 June 2019 (continued)**

Amendments to IAS 28 titled Long-term Interests in Associates and Joint Ventures (issued in October 2017)	The Company does not have interests in Associates and joint ventures therefore this standard does not apply
Amendments to IFRS 3 - Annual Improvements to IFRSs 2015–2017 Cycle, issued in December 2017.	This Company does not have interest in acquisitions of any other business and therefore this standard does not apply
Amendments to IFRS 11 - Annual Improvements to IFRSs 2015–2017 Cycle, issued in December 2017	The Company does not have joint ventures and therefore the standard does not apply
Amendments to IAS 12 - Annual Improvements to IFRSs 2015–2017 Cycle, issued in December 2017	The Company has not transacted in dividends and therefore the amendment does not apply
Amendments to IAS 23 - Annual Improvements to IFRSs 2015–2017 Cycle, issued in December 2017	The Company did not borrow for purposes of obtaining a qualifying asset hence this amendment does not apply
Amendments to IAS 19 titled Plan Amendment, Curtailment or Settlement (issued in February 2018)	The Company does not have actuarial assumptions hence this amendment does not apply

**ii) New and amended standards and interpretations in issue but not yet effective in the year ended 30 June 2019**

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

**iii) Early adoption of standards**

The entity did not early – adopt any new or amended standards in year 2018.

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

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

- i) **Revenue from the sale of goods and services** is recognized in the year in which the entity delivers products to the customer, the customer has accepted the products and collectability of the related receivables is reasonably assured.
- ii) **Grants from National Government** are recognized in the year in which the *entity* 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) **Rental income** is recognised in the income statement as it accrues using the effective lease agreements.
- vi) **Other income** is recognised as it accrues.

**b) In-kind contributions**

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

**Malindi Water and Sewerage Company Limited**

**Annual Reports and Financial Statements**

**For the year ended June 30, 2019**

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

**4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**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 an independent external valuer.

Increases in the carrying amounts of assets arising from re-valuation are credited to other comprehensive income. Decreases that offset previous increases in the carrying amount of the same asset are charged against the revaluation reserve account; all other decreases are charged to profit or loss in the income statement.

Gains and losses on disposal of items of property, plant and equipment are determined by comparing the proceeds from the disposal with the net carrying amount of the items, and are recognised in profit or loss in the income statement.

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

Freehold land and capital work in progress are not depreciated. Capital work in progress relates mainly to the cost 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:

Buildings and civil works	2.5%
Plant and machinery	12.5 %
Motor vehicles, including motor cycles	25.0%
Computers and related equipment	30.0%
Office equipment, furniture and fittings	12.5%

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)**

**4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**e) Intangible assets**

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

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

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

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

**g) Investment property**

Buildings, or part of a building (freehold or held under a finance lease) and land (freehold or held under an operating lease) held for long term rental yields and/or capital appreciation, and which are not occupied by the entity, are classified as investment property under non-current assets.

Investment property is carried at fair value, representing open market value determined periodically by independent external values. Changes in fair values are included in profit or loss in the income statement.

**h) Finance and operating leases**

Leases which confer substantially all the risks and rewards of ownership to the entity are classified as finance leases. Upon initial recognition, the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments, and the asset is subsequently accounted for in accordance with the accounting policy applicable to that asset.

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

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

**4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

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

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

**j) Quoted investments**

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

**k) Unquoted investments**

Unquoted investments stated at cost under non-current assets, and comprise equity shares held in other Government owned or controlled entities.

**l) Inventories**

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

**m) Trade and other receivables**

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

**n) Taxation**

***Current income tax***

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

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

**4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**n) Taxation (Continued)**

***Current income tax (Continued)***

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

***Deferred tax***

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

Deferred tax liabilities are recognized for all taxable temporary differences, except in respect of taxable temporary differences associated with investments in controlled entities, associates and interests in joint ventures, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognized for all deductible temporary differences, the carry forward of unused tax credits and any unused tax losses. Deferred tax assets are recognized to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilized, except in respect of deductible temporary differences associated with investments in controlled entities, associates and interests in joint ventures, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Unrecognized deferred tax assets are re-assessed at each reporting date and are recognized to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

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

**4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**n) Taxation (Continued)**

*Deferred tax (Continued)*

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

**o) 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 authorized public officers and/or institutions which were not surrendered or accounted for at the end of the financial year.

**p) Borrowings**

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

**q) Trade and other payables**

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

## **Malindi Water and Sewerage Company Limited**

### **Annual Reports and Financial Statements**

**For the year ended June 30, 2019**

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

#### **4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

##### **r) Retirement benefit obligations**

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

##### **s) Provision for staff leave pay**

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

##### **t) Exchange rate differences**

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

##### **u) Budget information**

The original budget for FY 2018-2019 was approved by the Board of Directors on 4<sup>th</sup> May 2018. Subsequent revisions or additional appropriations were made to the approved budget in accordance with specific approvals from the Board of Directors. The additional appropriations are added to the original budget by the Company upon receiving the respective approvals in order to conclude the final budget. Accordingly, the entity recorded no additional appropriations on the 2018-2019 budget.

The Company's budget is prepared on the same 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. 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.

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

**4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**v) Service concession arrangements**

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

**w) Comparative figures**

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

**x) 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, 2019.

**5 SIGNIFICANT JUDGMENTS AND SOURCES OF ESTIMATION UNCERTAINTY**

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

**5. SIGNIFICANT JUDGEMENTS AND SOURCES OF ESTIMATION  
UNCERTAINTY (Continued)**

**Estimates and assumptions**

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

**Useful lives and residual values**

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

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

**Provisions**

Provisions are measured at the management's best estimate of the expenditure required to settle the obligation at the reporting date, and are discounted to present value where the effect is material.

**Malindi Water and Sewerage Company Limited**

**Annual Reports and Financial Statements**

**For the year ended June 30, 2019**

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

**6. REVENUE**

	<b>2018-2019</b>	<b>2017-2018</b>
	<b>KShs</b>	<b>KShs</b>
Water Sale	452,084,756	396,473,232
Meter Rent	14,141,700	13,126,700
	<b>466,226,456</b>	<b>409,599,932</b>

**7. COST OF SALES**

	<b>2018-2019</b>	<b>2017-2018</b>
	<b>KShs</b>	<b>KShs</b>
Cost of Water	132,914,500	139,123,625
Administrative fees to CWSB	12,996,446	32,344,761
4% WASREB Regulatory Levy	15,582,870	5,133,551
	<b>161,493,817</b>	<b>176,601,936</b>

**8. IN-KIND DONATION**

	<b>2018-2019</b>	<b>2017-2018</b>
	<b>KShs</b>	<b>KShs</b>
Seconded Personnel	4,240,560	4,240,560
	<b>4,240,560</b>	<b>4,240,560</b>

This is salaries paid for staff seconded from the County Government of Kilifi working for Malindi Water and Sewerage Company limited

**9. OTHER INCOME**

	<b>2018-2019</b>	<b>2017-2018</b>
	<b>KShs</b>	<b>KShs</b>
Sale of tender documents	-	-
Other miscellaneous receipts	11,436,321	8,737,310
	<b>11,436,321</b>	<b>8,737,310</b>

**Malindi Water and Sewerage Company Limited****Annual Reports and Financial Statements****For the year ended June 30, 2019****NOTES TO THE FINANCIAL STATEMENTS (Continued)****10. (a) ADMINISTRATION COSTS**

	<b>2018-2019</b>	<b>2017-2018</b>
	<b>KShs</b>	<b>KShs</b>
Advertising, printing, stationery and photocopying	6,963,482	4,699,619
Auditors' remuneration	700,000	638,000
Bank charges and commissions	1,466,530	1,521,073
Communication services and supplies	7,957,845	7,449,469
Consultancy fees	1,691,450	19,700
Corporate Social Responsibility	3,208,570	630,000
Directors' emoluments - Note 10 (a)	6,762,592	5,661,378
Electricity and water	5,592,070	7,924,092
Hospitality supplies and services	6,849,103	5,466,696
Insurance costs	1,871,749	1,793,045
Legal fees	1,109,151	1,065,518
Minor works improvements	-	3,111,584
Occupational Safety & Health (OSH)	1,320,544	-
Office and general supplies and services	17,282,460	19,789,599
Operations & Maintenance Expenses	26,952,045	28,800,707
Other operating expenses	9,552,717	2,091,888
Provision for bad and doubtful debts	-	-
Rent expenses	360,000	542,494
Repairs and maintenance	7,311,777	7,168,819
Staff costs - note 10 (b)	202,118,035	178,098,592
Staff training expenses	1,860,159	2,790,830
Transportation, travelling and subsistence	18,956,146	14,339,463
Depreciation	-	11,534,728
	<b>329,886,424</b>	<b>305,137,294</b>

<b>10 (a). DIRECTORS EMOLUMENTS</b>	<b>2018-2019</b>	<b>2017-2018</b>
	<b>KShs</b>	<b>KShs</b>
Chairman's Honoraria	1,001,290	960,000
Directors emoluments	3,020,000	2,296,000
Other allowances	2,741,302	2,405,378
<b>Total director emoluments</b>	<b>6,762,592</b>	<b>5,661,378</b>

**Malindi Water and Sewerage Company Limited**

**Annual Reports and Financial Statements**

**For the year ended June 30, 2019**

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

**10. (b) STAFF COSTS**

	<b>KShs</b>	<b>KShs</b>
Salaries and allowances of permanent employees	170,884,561	147,753,291
Wages of temporary employees	-	-
Staff In-Patient and Out-Patient Medical Fund	9,790,203	11,926,399
Compulsory national social security schemes	491,400	452,600
Other pension contributions	17,254,871	14,305,302
Leave pay	3,697,000	3,661,000
	<b>202,118,035</b>	<b>178,098,592</b>
<b>The average number of employees at the end of the year was:</b>		
Permanent employees - Management	7	7
Permanent employees - Unionisable	125	110
Temporary and contract employees	77	77
	<b>209</b>	<b>194</b>

**11. AMORTIZATION OF INTANGIBLE ASSETS**

	<b>2018-2019</b>	<b>2017-2018</b>
	<b>Kshs</b>	<b>Kshs</b>
Depreciation / Amortization		
At July 1	-	-
Charge for the year	567,754	-
Disposals	-	-
Impairment loss	-	-
<b>At June 30</b>	<b>567,754</b>	<b>-</b>

Detailed schedules on the Intangible Assets is found in note 15

**12. FINANCE COSTS**

	<b>2018-2019</b>	<b>2017-2018</b>
	<b>Kshs</b>	<b>Kshs</b>
Interest expense on loans	-	-
Interest expense on bank overdrafts	-	-
Total	-	-

**Malindi Water and Sewerage Company Limited**

**Annual Reports and Financial Statements**

**For the year ended June 30, 2019**

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

**13. OPERATING PROFIT / (LOSS)**

	<b>2018-2019</b>	<b>2017-2018</b>
	<b>Kshs</b>	<b>Kshs</b>
The operating profit/(loss) is arrived at after charging/(crediting):		
Staff costs (note 10b)	202,118,035	178,098,592
Depreciation of property, plant and equipment	-	11,534,728
Amortization of intangible assets	567,754	-
Directors' emoluments - fees	4,021,290	3,256,000
- other	2,741,302	2,405,378
Auditors' remuneration - current year fees	700,000	638,000
Total	210,148,381	195,932,698

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

**14. PROPERTY, PLANT AND EQUIPMENT**

<b>2019</b>	<b>Freehold Land, Buildings and Civil Works</b>	<b>Plant and Machinery</b>	<b>Motor Vehicles, Including Motor cycles</b>	<b>Computers &amp; Related Equipment</b>	<b>Office Equipment, Furniture &amp; Fittings</b>	<b>Total</b>
<b>Cost</b>						
At 30 June 2018	28,152,809	67,023,739	16,554,721	15,668,908	24,532,639	151,932,816
Additions	-	-	-	-	-	-
Disposals	-	-	-	-	-	-
Transfer/adjustments		18,313,354				18,313,354
Revaluation Reserve	383,868,019	16,767,739	16,995,279	11,427,908	18,205,439	447,264,384
<b>At end of year - 30 June 2019</b>	<b>412,020,828</b>	<b>102,104,832</b>	<b>33,550,000</b>	<b>27,096,816</b>	<b>42,738,078</b>	<b>617,510,554</b>
<b>Depreciation</b>						
At 30 June 2018	2,408,327	35,677,822	10,661,377	10,610,764	8,681,833	68,040,123
Depreciation	-	-	-	-	-	-
Disposals	-	-	-	-	-	-
Impairment	-	-	-	-	-	-
Transfer/adjustment	-	-	-	-	-	-
<b>At end of year - 30 June 2019</b>	<b>2,408,327</b>	<b>35,677,822</b>	<b>10,661,377</b>	<b>10,610,764</b>	<b>8,681,833</b>	<b>68,040,123</b>
<b>Net Book Value at June 30 2019</b>	<b>409,612,501</b>	<b>66,427,010</b>	<b>22,888,623</b>	<b>16,486,052</b>	<b>34,056,245</b>	<b>549,470,431</b>

**Malindi Water and Sewerage Company Limited**

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

**14. PROPERTY, PLANT AND EQUIPMENT (Continued)**

2018	Freehold Land, Buildings and Civil Works	Plant and Machinery	Motor Vehicles, Including Motor cycles	Computers & Related Equipment	Office Equipment, Furniture & Fittings	Total
<b>Cost</b>						
At 30 June 2017	28,070,659	53,411,167	15,685,740	14,930,847	13,135,582	125,233,995
Additions	82,150	13,612,572	868,981	738,061	11,397,057	26,698,821
Disposals	-	-	-	-	-	-
Transfer/adjustments		-				-
Revaluation Reserve	-	-	-	-	-	-
<b>At end of year - 30 June 2018</b>	<b>28,152,809</b>	<b>67,023,739</b>	<b>16,554,721</b>	<b>15,668,908</b>	<b>24,532,639</b>	<b>151,932,816</b>
<b>Depreciation</b>						
At 30 June 2017	1,748,212	31,199,834	8,696,930	8,442,987	6,417,433	56,505,395
Depreciation	660,115	4,477,988	1,964,448	2,167,776	2,264,401	11,534,728
Disposals	-	-	-	-	-	-
Impairment	-	-	-	-	-	-
Transfer/adjustment	-	-	-	-	-	-
<b>At 30 June 2018</b>	<b>2,408,327</b>	<b>35,677,822</b>	<b>10,661,377</b>	<b>10,610,764</b>	<b>8,681,833</b>	<b>68,040,123</b>
<b>Net Book Value at June 30 2019</b>	<b>25,744,482</b>	<b>31,345,917</b>	<b>5,893,344</b>	<b>5,058,144</b>	<b>15,850,806</b>	<b>83,892,693</b>

**Malindi Water and Sewerage Company Limited**

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

**15. INTANGIBLE ASSETS**

	<b>2018-2019</b>	<b>2017-2018</b>
	<b>KShs</b>	<b>KShs</b>
<b>Cost</b>		
At July 1	-	-
Additions	2,838,769	-
Disposals	-	-
<b>At June 30</b>	<b>2,838,769</b>	<b>-</b>
<b>Amortization</b>		
At July 1	-	-
Charge for the year	567,754	-
Disposals	-	-
Impairment loss	-	-
<b>At June 30</b>	<b>567,754</b>	<b>-</b>
<b>Net Book Value</b>		
<b>At June 30</b>	<b>2,271,015</b>	<b>-</b>

**16. NON - CURRENT RECEIVABLE**

	<b>2018-2019</b>	<b>2017-2018</b>
	<b>KShs</b>	<b>KShs</b>
Non - Current Receivable	-	57,134,125
	-	<b>57,134,125</b>

The item on Non-current receivable has been reclassified under trade and other receivables. The item was reported as non-current receivable to show what was receivable from customers before the inception of the Company. All trade receivables are now reported under Trade and other receivables in note number 18.

**Malindi Water and Sewerage Company Limited**

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

**17. INVENTORIES**

	<b>2018-2019</b>	<b>2017-2018</b>
	<b>KShs</b>	<b>KShs</b>
Appurtenances spares	69,206	102,892
Building Materials	25,882	38,480
Cleaning and Sanitation materials	29,029	43,160
Cold Water Meters Accessories	2,659,451	3,953,915
Computers consumable parts	18,160	27,000
Motor vehicle spare parts	47,984	71,340
Office Equipment	184,053	273,640
Pipes and fittings	4,759,780	7,076,561
Stationery and general stories	354,915	527,668
Tools and Equipment	45,566	67,750
Uniform and Boots	4,035	6,000
Water Analysis Equipment	19,855	29,520
	<b>8,217,916</b>	<b>12,217,926</b>

**18. TRADE AND OTHER RECEIVABLES**

	<b>2018-2019</b>	<b>2017-2018</b>
	<b>KShs</b>	<b>KShs</b>
Trade receivables - note 18(a)	192,531,563	191,187,070
Staff receivables	-	1,702,443
Gross trade and other receivables	192,531,563	192,889,513
Provision for bad and doubtful receivables	-	-
Net trade and other receivables	192,531,563	192,889,513

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

**18. TRADE AND OTHER RECEIVABLES (Continued)**

**18(a) GROSS TRADE AND OTHER RECEIVABLES**

	<b>2018-2019</b>	<b>2017-2018</b>
	<b>KShs</b>	<b>KShs</b>
Trade receivables	192,531,563	192,889,513
Provision for doubtful receivables	-	-
<b>Net Trade receivables</b>	<b>192,531,563</b>	<b>192,889,513</b>
At June 30, the ageing analysis of the gross trade receivables was as follows:		
Less than 30 days	27,339,482	29,696,265
Between 30 and 60 days	8,086,326	8,279,863
Between 61 and 90 days	12,514,552	11,331,896
Between 91 and 120 days	6,738,605	6,691,547
Over 120 days	137,852,599	136,889,942
	<b>192,531,563</b>	<b>192,889,513</b>

**19. ORDINARY SHARE CAPITAL RECEIVABLE**

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

**20. CUSTOMER DEPOSIT RECEIVABLE**

	<b>2018-2019</b>	<b>2017-2018</b>
	<b>KShs</b>	<b>KShs</b>
Customer Deposit Receivable	8,443,600	8,443,600
	<b>8,443,600</b>	<b>8,443,600</b>

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

**Malindi Water and Sewerage Company Limited**

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

**21. DELEGATED WORKS**

	<b>2018-2019</b>	<b>2017-2018</b>
	<b>KShs</b>	<b>KShs</b>
Booster Station and Watamu Junction Project	-	3,250,906
Jimba Pipeline	-	1,691,040
Mayungu Pipeline	-	9,912,804
Watamu South Pipeline	-	3,458,604
	-	<b>18,313,354</b>

These are projects that were done on behalf of CWSB and the costs are to be refunded to the Company. They have been recognised as assets and capitalised to the Company Assets under the item Plant and Machinery due to the expiry of the refund time.

**22. CASH AND BANK BALANCES**

	<b>2018-2019</b>	<b>2017-2018</b>
	<b>KShs</b>	<b>KShs</b>
Cash at bank (Note 22 a)	17,658,611	11,133,574
Cash in hand	-	-
	<b>17,658,611</b>	<b>11,133,574</b>

The bulk of the cash at bank was held at KCB Bank of Kenya as the entity's main bankers.

**Malindi Water and Sewerage Company Limited**

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

**22 (a) CASH AND BANK BALANCES**

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

**Detailed analysis of the cash and cash equivalents**

BANK/BRANCH	ACCOUNT NAME	ACCOUNT NO.	2018-2019	2017-2018
			KShs	KShs
KCB-MALINDI BRANCH	MAWASCO REVENUE A/C.	1104220504	2,072,571	3,355,191
KCB-MALINDI BRANCH	MAWASCO OPERATIONS A/C.	1104220571	7,686,177	1,530,726
KCB-MALINDI BRANCH	MAWASCO DEPOSITS A/C.	1104220377	172,996	175,111
KCB-MALINDI BRANCH	MAWASCO SAVINGS A/C.	1103447661	708	(35,051)
KCB-MALINDI BRANCH	MAWASCO PROJECTS A/C.	1104224186	328,063	2,857
KCB-MALINDI BRANCH	MAWASCO UBSUP-KIBOKONI PROJECT A/C.	1171300247	1,371,718	1,375,654
KCB-MALINDI BRANCH	MAWASCO-LOAN REPAYMENT ACCOUNT	1224619129	998,089	1,000,000
EQUITY-MALINDI BRANCH	MAWASCO REVENUE A/C.	045-0293125064	1,589,042	1,455,254
POST BANK	POST BANK COLLECTION ACCOUNT	0744130013926	2,158,010	1,389,021
SAFARICOM	SAFARICOM-MPESA ACCOUNT	708001	1,281,236	884,813
TOTALS AS PER STATEMENT			<b>17,658,610</b>	<b>11,133,574</b>

**23. ORDINARY SHARE CAPITAL**

	2018-2019	2017-2018
	KShs	KShs
<b>Authorized:</b>		
5,000 ordinary shares of Kshs.1,000 par value each	5,000,000	5,000,000
<b>Unpaid:</b>		
5,000 ordinary shares of Kshs.1,000 par value each	5,000,000	5,000,000

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

**24. RETAINED EARNINGS**

	<b>2018-2019</b>	<b>2017-2018</b>
	<b>KShs</b>	<b>KShs</b>
As at the Start of the Year	(348,749,649)	(289,588,221)
Net loss for the Year	(10,044,658)	(59,161,428)
Prior Year Adjustment	-	-
<b>As at the End of the Year</b>	<b>(358,794,307)</b>	<b>(348,749,649)</b>

**25. PROJECT GRANT FUND**

	<b>2018-2019</b>	<b>2017-2018</b>
	<b>KShs</b>	<b>KShs</b>
Projects Reserve Fund	1,863,740	1,863,740
WSTF- UBSUP-KIBOKONI PROJECT GRANT A/C.	24,265,219	24,265,219
	<b>26,128,959</b>	<b>26,128,959</b>

**26. CAPITAL RESERVE FUND**

	<b>2018-2019</b>	<b>2017-2018</b>
	<b>KShs</b>	<b>KShs</b>
Capital Reserve fund	39,534,996	39,534,996
	-	-
	<b>39,534,996</b>	<b>39,534,996</b>

**27. REVALUATION RESERVE**

	<b>2018-2019</b>	<b>2017-2018</b>
	<b>KShs</b>	<b>KShs</b>
Revaluation Reserve	447,264,384	-
	<b>447,264,384</b>	-

The Company carried out asset identification, tagging and valuation in order to establish the true value of the assets in its area of jurisdiction. The values of the identified assets have now been recognized in the financial year ended 30 June 2019

**Malindi Water and Sewerage Company Limited**

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

**28. NON-CURRENT PAYABLES**

	<b>2018-2019</b>	<b>2017-2018</b>
	<b>KShs</b>	<b>KShs</b>
Non - Current Payables	-	57,134,125
	-	<b>57,134,125</b>

The item on Non-current payable has been reclassified under trade and other payables. The item under non-current payables was reported to show what was payable when collected from customers and payable to CWSB before the inception of the Company. All trade payables are now reported under Trade and other payables item in note number 29.

**29. TRADE AND OTHER PAYABLES**

	<b>2018-2019</b>	<b>2017-2018</b>
	<b>KShs</b>	<b>KShs</b>
Trade payables	502,294,582	505,490,473
Taxable payable	3,734,863	3,734,863
	<b>506,029,445</b>	<b>509,225,336</b>

**30. PROVISION FOR LEAVE PAY**

	<b>2018-2019</b>	<b>2017-2018</b>
	<b>KShs</b>	<b>KShs</b>
Balance at the start of the year	4,926,134	2,766,067
Additional Provision at the end of year	770,999	5,821,067
Leave pay / Utilized during the year	(3,697,000)	(3,661,000)
Balance at the end of the year	<b>2,000,133</b>	<b>4,926,134</b>

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

**31. CUSTOMER DEPOSITS OLD**

	<b>2018-2019</b>	<b>2017-2018</b>
	<b>KShs</b>	<b>KShs</b>
Customer Deposits - Old	-	8,443,600
	-	<b>8,443,600</b>

This is the amount of Customer Deposit that was received before the inception of the Company. It is receivable to the Company as reported in note 20 above and has been consolidated in the Total Customer deposit paid by the customers in note 32 below

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

**32. CUSTOMER DEPOSIT - NEW**

	<b>2018-2019</b>	<b>2017-2018</b>
	<b>KShs</b>	<b>KShs</b>
<b>Balance at the start of the year</b>	<b>28,575,014</b>	<b>22,459,041</b>
Deposits paid before the inception of the Company	8,443,600	-
Additional Deposit paid during the year	7,185,850	6,357,373
Customer Deposits refunded during the year	(290,400)	(241,400)
<b>Balance at the end of the year</b>	<b>43,914,064</b>	<b>28,575,014</b>

**33. RETIREMENT BENEFITS OBLIGATIONS**

	<b>2018-2019</b>	<b>2017-2018</b>
	<b>KShs</b>	<b>KShs</b>
Balance at the start of the year	58,806,269	40,328,578
Additional Provision at the end of year	31,661,255	28,522,326
Benefit utilized during the year	(17,952,064)	(10,044,635)
Balance at the end of the year	<b>72,515,460</b>	<b>58,806,269</b>

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

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

**34. NOTES TO THE STATEMENT OF CASH FLOWS**

	<b>2018-2019</b>	<b>2017-2018</b>
	<b>KShs</b>	<b>KShs</b>
Reconciliation of operating profit/(loss) to cash generated from/(used in) operations		
Operating profit/(loss)	(10,044,658)	(59,161,428)
Depreciation	567,754	11,534,728
<b>Operating profit/(loss) before working capital changes</b>	<b>(9,476,904)</b>	<b>(47,626,700)</b>
(Increase)/decrease in inventories	4,000,010	(2,710,660)
(Increase)/decrease in trade and other receivables	357,950	(32,413,923)
Increase/(decrease) in trade and other payables	(3,195,891)	95,663,551
Increase/(decrease) in Retirement Benefits Obligations	13,709,191	18,477,691
Increase/(decrease) in profits from Retained Earnings	-	-
Increase/(decrease) in Staff leave provision	(2,926,001)	2,160,067
Increase/(decrease) in Customer Deposit - old	(8,443,600)	-
Increase/(decrease) in Customer Deposit	15,339,050	6,115,973
<b>Cash generated from/(used in) operations</b>	<b>9,363,805</b>	<b>39,665,999</b>

**Malindi Water and Sewerage Company Limited**

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

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**35. 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. Revaluation surpluses are not distributable.

**36. RETAINED EARNINGS**

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

**37. RELATED PARTY DISCLOSURES**

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

**38. CAPITAL COMMITMENTS**

No Capital commitments were made at the year-end in these financial statements.

**39. FINANCIAL RISK MANAGEMENT**

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

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

**(i) Credit risk**

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

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

The carrying amount of financial assets recorded in the financial statements representing the entity's maximum exposure to credit risk without taking account of the value of any

**Malindi Water and Sewerage Company Limited**

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

**40. FINANCIAL RISK MANAGEMENT (Continued)**

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

**ii) Liquidity risk management**

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

**(iii) Market risk**

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

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

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

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

**41. INCORPORATION**

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

**42. EVENTS AFTER THE REPORTING PERIOD**

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

**43. CURRENCY**

The financial statements are presented in Kenya Shillings (Kshs)



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

The following is the summary of issues raised by the external auditor, and management comments that were provided to the auditor. 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
1.	<p>Going-Concern</p> <p>The Company made a loss and is working on negative working capital an indication that the Company may be experiencing financial difficulties in settling financial obligations as and when they may fall due.</p>	The Company has had a non cost recovery tariff that has led to a negative working cashflow. The management applied for a tariff review which was implemented from October 2017. This expected to be reversed over the tariff period.	<p>Seith Kalume</p> <p>Finance Manager</p>	Partially Resolved	30th June 2020
2.1	<p>Leased Assets</p> <p>No ownership documents for leased assets from Coast Water Services Board neither professional valuation reports to support the values assigned to the assets.</p>	The management has tendered for a professional valuation of the assets under Coast Water Services Board	<p>Managing Director</p> <p>Mr Gerald Mwambire</p>	Resolved	30 <sup>th</sup> June 2019
2.2	<p>Unreconciled variance in property, Plant and Equipment</p> <p>The balance in the statement of financial position did not reconcile with the schedule provided</p>	The management carried out asset identification tagging and valuation. The complete list is now available for Audit	<p>Managing Director</p> <p>Mr Gerald Mwambire</p>	Resolved	30 <sup>th</sup> June 2019
3	<p>Non-Current Receivables</p> <p>No documentary evidence was availed for audit review in support of the debtor balances inherited from Coast Water Services Board at the inception of the Company.</p>	The management has reconciled the balances as at inception of the Company and schedules of the debtors is now available	<p>Finance Manager</p> <p>Seith Kalume</p>	Resolved	30 <sup>th</sup> June 2019
4	<p>Share Capital Receivable</p> <p>Shares had not been paid for as at 30 June 2018. In the circumstances, it was not possible to confirm whether or not the subscribers were desirous of having the Company</p>	The Management has engaged the County Government of Kilifi for the subscriptions as the owners of the Company through the County Legal Officer	<p>Managing Director</p> <p>Gerald Mwambire</p>	Not Resolved	30 <sup>th</sup> June 2020

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## Annual Reports and Financial Statements

For the year ended June 30, 2019

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
5	Delegated Works The accuracy and validity of the expenditure of KShs. 18,313,353 in respect of delegated works carried out as at 30 June 2016 cannot be ascertained as records available from the Board do not reflect these debts as carried out by the Company on behalf of Coast Water Services Board.	The management is guided by the Service Provision Agreement which provides for a refund on the nature of works done. The management has however taken up the project in its books of accounts but still pursuing it with CWSB	Managing Director Gerald Mwambire	Resolved	30th June 2019
6	Customer Deposit Receivable  No schedules were availed for audit review to support these balances for deposits received from customers taken over by Coast Water Services Board when the Company was incorporated.	The management has reconciled the schedule of the Customer Deposit Receivable from Coast Water Services Board at the inception of the Company. The Company is still pursuing the refund from Coast Water Services Board	Managing Director Gerald Mwambire	Resolved	30th June 2019
7	Trade and Other Payables  There is an unreconciled amount between the accounts held by the Company and CWSB for the supply of bulk water in both amounts owed and amount paid.	The difference in the amount due to Coast Water Services Board was reconciled and is awaiting incorporation and formal issuance of credit notes to the Company.	Finance Manager Seith Kalume	Resolved	30th June 2019
8.1	Bank and Cash Balances  Kenya Commercial Bank – Revenue Account  There was non-disclosure of unpresented cheques and non-compliance to the GAAP in reconciliation format	The Company has fully adopted the GAAP format in the preparation of the bank reconciliations	Finance Manager Seith Kalume	Resolved	30th June 2019
8.2	Kenya Commercial Bank – Operations Account  There was non-disclosure of the dates which the unpresented cheques were cleared, a net off of an over drawn cash book against the bank account contrary to the GAAP	The Company has fully adopted the GAAP format in the preparation of the bank reconciliations	Finance Manager Seith Kalume	Resolved	30th June 2019
8.3	Kenya Commercial Bank – Deposit Account  There was net off the account against the GAAP in financial reporting standards.	The Company has fully adopted the GAAP format in the preparation of the bank reconciliations	Finance Manager Seith Kalume	Resolved	30th June 2019

# Malindi Water and Sewerage Company Limited

## Annual Reports and Financial Statements

For the year ended June 30, 2019

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
8.4	Kenya Commercial Bank – Savings Account  There was a net off of overdraft against the cash book balance contrary to the GAAP	The Company has fully adopted the GAAP format in the preparation of the bank reconciliations	Finance Manager Seith Kalume	Resolved	30th June 2019
8.5	Post Bank Collection Account  There was no bank certificate to support the amount reflected in the bank statement as at the close of the financial year	The Company has fully adopted the GAAP format in the preparation of the bank reconciliations and its supporting documentation	Finance Manager Seith Kalume	Resolved	30th June 2019
8.6	Safaricom Mpesa Account  There was no Mpesa Statement and Confirmation certificates to support the Mpesa Balance reported	The Company has fully adopted the GAAP format in the preparation of the bank reconciliations and its supporting documentation	Finance Manager Seith Kalume	Resolved	30th June 2019
8.7	Stale Cheques  There was no reversal of stale cheques	The management has adopted the GAAP format for reporting on the cash and bank reconciliations. All the stale cheques have been reversed	Finance Manager Seith Kalume	Resolved	30th June 2019
9	Non-Revenue Water  The Company registered a Non-Revenue for Water loss (NRW) of 6%, loss amounting to an estimated 28,970,299 at a rate of 73.27 per cubic meter.	The Management considers this loss as significant and has partnered with donor to help improve on the infrastructure to reduce this loss. The project is capital intensive and the management has approached the work in six phases. The target for the year is 30%	Technical Manager Isaac Chibule	Partially Resolved	30 <sup>th</sup> June 2019
10.1	Directors Emoluments  Directors had not retired in accordance to the M&E while some Directors appointed by the County Government of Kilifi to the Board were irregularly paid sitting allowances for attending Board Meetings even though they were employees of the County Government.	The management has engaged the County Government of Kilifi through the Legal Officer on the Annual General Meeting where the directors retire and others are appointed  The management has communicated to the directors seconded to the Company on the payment of sitting allowances and the payment stopped immediately	Managing Director  Gerald Mwambire	Resolved	30 <sup>th</sup> June 2019

**Malindi Water and Sewerage Company Limited**

**Annual Reports and Financial Statements**


**For the year ended June 30, 2019**

<b>Reference No. on the external audit Report</b>	<b>Issue / Observations from Auditor</b>	<b>Management comments</b>	<b>Focal Point person to resolve the issue (Name and designation)</b>	<b>Status: (Resolved / Not Resolved)</b>	<b>Timeframe</b>
10.2	Hospitality Supplies and Services  There was lack of supporting evidence on meetings held which include list of participants, purpose of meeting or conference and authorisation	The management has put up controls on the supporting documents for all the company. No payments are made without adequate supporting documents	Finance Manager Seith Kalume	Resolved	30 <sup>th</sup> June 2019
10.3	Transportation, Travelling and Subsistence  There was lack of supporting documentation on staff travels and accounting for transportation, travels and subsistence allowances	The management has put up controls on the supporting documents for all the company. No payments are now made without adequate supporting documents	Finance Manager Seith Kalume	Resolved	30 <sup>th</sup> June 2019


**Notes:**

- v) The Company used the same reference numbers as contained in the external audit report;
- i) The Company obtained the “Issue/Observation” and “management comments”, required above, from final external audit report that is signed by Management;
- ii) Before approving the report, the Company discussed the timeframe with the appointed Focal Point persons responsible for implementation of each issue;
- v) The Company indicate the status of “Resolved” or “Not Resolved” by the date of submitting this report to National Treasury.

Managing Director

Date..... 29/2/2020

Chairman of the Board

Date.....

APPENDIX II: PROJECTS IMPLEMENTED BY THE ENTITY

Projects

Projects implemented by the Company Funded by development partners

Project title	Number	Donor	Period/ duration	Donor commitment	Separate donor reporting(yes/no)	Consolidated in these financial statements
1. Mida Matsangoni Water Project	07W/CWSB/KILIFI/MALINDI/40	Water Services Trust Fund	2016-2017	18,208,528	Yes	Yes
2. WSTF-UBSUP Kibokoni Project	01HS/CWSB/KILIFI/MALINDI/14	Water Services Trust Fund	2016-2018	10,750,684	Yes	Yes
<b>STATUS OF PROJECTS COMPLETION</b>						
Project	Total project Cost	Total expended to date	Completion % to date	Budget	Actual per quarter	Sources
1. Mida Matsangoni Water Project	19,266,401	18,199,273	94%	19,266,401	4,549,818.25	Water Services Trust Fund
2. WSTF-UBSUP Kibokoni Project	12,008,000	1,760,980	15%	24,212,613	440,245.00	Water Services Trust Fund
<b>Total</b>	<b>31,274,401</b>	<b>19,960,253</b>		<b>43,479,014</b>	<b>4,990,063.25</b>	<b>Water Services Trust Fund</b>

