

REPUBLIC OF KENYA



*Enhancing Accountability*

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**REPORT**

**OF**

**THE AUDITOR-GENERAL**

**ON**

**MWALA WATER AND SANITATION  
COMPANY LIMITED**

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



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

**06 MAR 2024**

**RECEIVED**

**MWALA WATER AND SANITATION CO. LTD**

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**MWALA WATER AND SANITATION CO.LTD**

**ANNUAL REPORTS AND FINANCIAL STATEMENTS**

**FOR THE FINANCIAL YEAR ENDED**

**JUNE 30, 2023**

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



# Mwala Water and sanitation Company Ltd

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

	Page
Table of Contents	
1. Acronyms and Glossary of Terms.....	iii
2. Key Entity Information .....	iv
3. The Board of Directors.....	vi
4. Key Management Team .....	vii
5. Chairman’s Statement .....	viii
6. Report of the Managing Director .....	ix
7. Statement of Performance against Predetermined Objectives for FY 2022/2023 .....	x
8. Corporate Governance Statement.....	xi
9. Management Discussion and Analysis.....	xii
10. Environmental and Sustainability Reporting .....	xiv
11. Report of the Directors.....	xvi
12. Statement of Directors’ Responsibilities.....	xvii
13. Report of the Independent Auditors .....	xviii
14. Statement of Profit or Loss & Other Comprehensive Income for the Year Ended 30 June 2023 .	1
15. Statement of Financial Position as at 30 June 2023 .....	2
16. Statement of Changes in Equity for the Year Ended 30 June 2023 .....	3
17. Statement of Cash Flows for the Year Ended 30 June 2023 .....	4
18. Statement of Comparison of Budget & Actual Amounts for the Period Ended 30 June 2023 .....	6
19. Notes to the Financial Statements .....	7
20. Appendices .....	43



### 1. Acronyms and Glossary of Terms

The followings are Acronyms and glossary of terms that appear in this annual report and financial statements

ICPACK	Institute of Certified Public Accountants of Kenya
IFRS	International Financial Reporting Standards
MD	Managing Director
PFM	Public Financial Management
PSASB	Public Sector Accounting Standards
WASREB	Water Services Regulatory Board
WSTF	Water Sector Trust Fund
WRA	Water Resources Authority
MWASCO	Mwala Water & Sanitation Co
BoD	Board of Directors



## **2. Key Entity Information**

### **Background information**

Mwala Water and Sanitation Company was established under the companies Act Cap 486 in March 2010. The company is currently serving Mbiuni, Mwala, Kibauni and Masii areas. Its mandate is to give Water and Sanitation Services in the entire Mwala Sub- County. The Company is run through a Board of Director with the Assistance of the Managing Director. The managing Director is responsible for policy implementation assisted by the Heads of Departments. The vision of the Company is to be the best water service provider in the region. The mission is to provide Sustainable, safe and adequate water for domestic and commercial use.

### **Principal Activities**

The principal activity of Mwala Water and Sanitation Co. Ltd is provision of safe adequate water for domestic and commercial use and provision of Sanitation Services within the area of jurisdiction. The vision of the Company is to be the best water service provider in the region. The mission is to provide Sustainable, safe and adequate water for domestic and commercial use.

The objectives of the company include:-

1. To strive towards reduction of Non- Revenue water to below 20%
2. To enhance and sustain quality water sources, production, storage and distribution to customers
3. Human resource management
4. To grow the company revenue and improve collection efficiency

### **Directors**

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

	<b>Designation</b>	<b>Date of Appointment</b>
1. Benjamin Munywoki Musau	Chairman	24 <sup>th</sup> September 2021
2. Joseph Mutinda Kasimolo	Member	24 <sup>th</sup> September 2021
3. David Mutua Mbithi	Member	24 <sup>th</sup> September 2021
4. Josephine Ndunge Nzivo	Member	24 <sup>th</sup> September 2021
5. Monicah Ndoti Mwangangi	Member	24 <sup>th</sup> September 2021
6. Julian Mumbua Ikovo	Member	24 <sup>th</sup> September 2021
7. Moses M Nzuki	MD- Secretary to the BoD	1 <sup>st</sup> June 2017
8. CECM-Finance- County Government of Machakos		
9. CECM-Water- County Government of Machakos		

### **Registered Office**

Mwala Water and Sanitation Co. Ltd  
Masii Town, Kitui Road  
P. O Box 248 -90101  
Masii



**Mwala Water and sanitation Company Ltd**  
**Annual Report and Financial Statements for the year ended June 30, 2023**

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Tel: 0718811685

**Corporate Headquarters**

Mwala Water and Sanitation Co. Ltd  
Masii Town, Kitui Road  
P. O Box 248 -90101  
Masii  
Tel: 0718811685

**Corporate Contacts**

Telephone: 0718811685  
E-mail: mwalacluster@gmail.com

**Corporate Bankers**

Kenya Commercial Bank  
Masii Branch  
Masii

Family Bank  
Machakos Branch  
Machakos

**Independent Auditors**







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

**Principal Legal Advisers**

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

**Mwala Water and sanitation Company Ltd**  
**Annual Report and Financial Statements for the year ended June 30, 2023**





**3. The Board of Directors**

S/NO.	NAME	Professional Qualification	Work Experience	Age
1.	Benjamin Munywoki Musau	Bachelors of Law	Lawyer	
2.	Monicah N Mwangangi 	Diploma in Education Management	Teacher	66
4.	Josephine Nzivo 	KCSE Certificate	Farmer	60
5	David Mutua Mbithi 	Certificate in Water Engineering	Water Supply Operator	63
6	Julian M.Ikovo 	KCSE Certificate	Business Lady	40
7	Joseph Kasimolo 	Degree in Sociology	Consultant in Social Issues	45
8		1. Diploma in Plant engineering	Managing Director	51



**Mwala Water and sanitation Company Ltd**  
**Annual Report and Financial Statements for the year ended June 30, 2023**

**4. Key Management Team**

S/NO	NAME	PROFFESIONAL /ACADEMIC QALIFICATION	AREA OF RESPONSIBILITY
1.	Moses Nzuki 	1. Diploma in Plant engineering	Managing Director
2.	Peter Mwasuna 	1. Diploma in water engineering	Technical Manager
3.	Phylis Matheka 	1. Bachelors of Commerce 2. Diploma In Procurement 3. CPA Part 2	Commercial, Finance & Administration Manager
4	Lucia Kavivya 	1. CPA Section 3	Accountant

## 5. Chairman's Statement

On behalf of the Board of directors, it is with great honour I present to you an overview of the annual report and financial statements of the Company for the year ended 30<sup>th</sup> June, 2023

The achievement of the company for the year is highly vested on the good working environment cultivated by the mutual understanding between the B.O.D, Management, staff, our stakeholders and our county government, the good environment based on key benchmark clear responsibility of duties in each level. Tireless commitment to different work assignments, effective utilization of available resources and time.

Although realization of the right to water can be achieved through operating under given standards on water quality, affordable service delivery, cost recovery and consumer protection, to achieve this has been a great challenge within the company.

### Key challenges

- High cost of Production which has been brought about by the decline of the Kenya shilling,
- High electricity bills compared to our water tariff which cannot fully cover the costs.
- Old pipelines which are prone to bursts.

We desire to achieve the following priorities in our medium strategy.

- Customer service.
- Water infrastructure development.
- Operational efficiency.
- Financial sustainability.
- Corporate Governance.

We will leverage on goodwill from our stakeholders including the County Government of Machakos and development partners to foster growth as we work towards achieving our corporate mission of providing quality water and sanitation services for improved livelihood.

I would like appreciate all our stakeholders, more so the County Government of Machakos and our development partners for the solid commitment and support during the year under review.

To our esteemed customers thank you for your loyalty and support during the year. I also thank the management and staff who have worked tirelessly to ensure our customers get water.

We hope for continued support and cooperation from all our stakeholders in the coming years

Thank you and God bless you all.

  
Mr. David Mbithi

For Chairman Board of Directors  
MWASCO.

DATE: .....

*06/3/2024*





## **6. Report of the Managing Director**

I am pleased to present the annual report and financial statements of MWASCO for the financial year ended 30<sup>th</sup> June 2023.

### **Results**

Despite the hard economic times, the business remained resilient and delivered its key mandate. The operating environment continues to be challenging and the company recorded an improvement in the water sales from 8,097,630 last year 9,361,158 this financial year.

Cost of electricity has remained a key challenge leading to service interruptions for prolonged time. Operation and administrative expenses have remained high due the hard economic times.

### **Service delivery**

The water produced was distributed to customers equitably through water rationing programmes. The Company has four water supplies i.e. Kibauni, Mbiuni, Masii and Mwala. Our main sources of water are Athi River which is highly polluted, Miu River which is a seasonal river that dries in the dry season and two boreholes.

### **Staff**

During the year the Company managed to enrol its staff to an additional pension scheme on top of the mandatory NSSF.

### **Future plans**

The company has however faced many challenges that include old infrastructure, high operational costs and limited funding. These are being addressed through other mechanisms that include partnerships with county government and development partners.

### **Appreciation**

I take this opportunity to thank all our development partners, Board of directors, management and staff for their mutual cooperation, trust and continued support.

Thank you and best wishes.



Moses Nzuki  
Managing Director

Date: ..... 06/3/2024 .....



**Mwala Water and sanitation Company Ltd**  
**Annual Report and Financial Statements for the year ended June 30, 2023**

**7. Statement of Performance against Predetermined Objectives for FY 2022/2023**

The year started with high expectation for the company in terms of improvement in service delivery this was geared towards fulfilment of our core mandate of providing clean and affordable water to the residents of Mwala sub-county. In this financial year improvement was based on NRW, water quality, revenue collection efficiency, staff productivity, operation and maintenance cost coverage, water and sanitation coverage and metering.

In order to meet the above parameters the company expected to have self-financing, donor financing and also subsidy from the government to boost our performance. During the year the company underscored on performance and ability to meet its target

Mwala being rural based Water Company most consumers prefer free water from the county boreholes.

Generally the performance of the company was average due to these challenges which were beyond the company control.

Strategic pillar	Objective	Key performance indicator	Activities	Achievements
NRW	Reduce un accounted for water	Below 25%	Ensure every water connection is metered Replacement of old dilapated pipes. Increasing line patrol	Continued commitment to eliminate non-revenue water
Collection efficiency	Increase revenue collection. Meet company's o&m costs	Above 90%of billing	Timely billing. Customer engagement. Advocacy of payment mode	Billing done timely. Collection has improved compared to last year
Water & sanitation coverage	Cover more areas in terms of water and sanitation. Connect more customers. Improve on hygiene	Above 80% total area	Pipe line extension. Construction of sanitation blocks	Submitted Sanitation proposal to Wstf which has since been funded.



## **8. Corporate Governance Statement**

Corporate governance is a key tool which give an oversight of the water company in terms of improvement and sustainability

The current Board of Directors members were appointed by the County Government of Machakos on 24<sup>th</sup> September 2021

The process of appointment, removal of board members is the mandate of County Government of Machakos.

The board has been performing well in terms of giving guidelines on key matters affecting the company, planning for future development and maintaining workforce with enough capabilities to execute their mandate and roles

Roles of the bod include

- Ensuring implementation of the company memorandum and articles of association
- Providing guidance and control of the company including approving budget, appointment and dismissal of staff.
- Making decisions and resolutions in board meetings

The board induction training was done by the company and the company is vested with payment of board meeting expenses, meeting allowances and chairman's monthly honoraria.

## 9. Management Discussion and Analysis

### SECTION A

#### The entity's operational and financial performance

Mwala Water and Sanitation Co. Ltd is a water service provider in Mwala sub-county comprising of four water supplies namely Mbiuni, Kibauni, Masii and Mwala water supplies.

Water source is Athi River Miu seasonal river and borehole.

Water drawn from River Athi undergoes full water treatment process and basically water is delivered through pumping.

Our main source of income is water sales.

### SECTION B

#### Entity's compliance with statutory requirements

As at the year end, there are no foreseeable contingent liabilities that are material to the company's operations. Though the company has some pending bills it is committed to clear all statutory payments.

### SECTION C

#### Key Projects and Investment Decisions the Entity Is Planning/Implementing

The company was funded by African Development Bank through Athi Water Works Development Agency and Tanathi Water Works Development Agency for a gravitational flow project ease huge power usage and increase area coverage. The customer base will increase by 75% and thus increase in collections. Water production cost will also reduce by 25% on power and chemicals as the water will be sourced from Ndarungu River which is less polluted compared to River Athi.

### SECTION D

#### Major Risks Facing the Company

Our water is purely distributed through pumping were in most of water supplies the water undergoes multi-stage pumping creating high power consumption leading to high electricity bills. Our water sales are low compared to the billing we get for electricity. This leads to power disconnection running for months.

The treatment design plans are outdated and needs to be reviewed

Water pollution level at Athi River is high thus the water requires high quantities of chemicals which are expensive for the company.

No standby pumps leading to closure leading to closure in times of breakdown.

Being a rural water supply the level of water payments is low due to low income levels of the consumers and also the demand goes down during rainy season.

County government programme on free water has also lowered our customer base because most consumers prefer free water. This has also affected negatively our outstanding water bills on both our active and inactive debtors.

### SECTION E

#### Material arrears in statutory /financial obligations

At the year end the company had the following pending bills

ITEM	DESCRIPTION	AMOUNT(KSHS)
1	Electricity	5,249,837
2	Tanathi Water Works Development Agency	6,636,076
3	WASREB	1,804,833
4	Audit Fees-OAG	1,044,000
5	Sulis East Africa	615,000
6	Salaries	2,605,056
7	Accrued Honoraria	495,000



**Mwala Water and sanitation Company Ltd**  
**Annual Report and Financial Statements for the year ended June 30, 2023**

8	Masaku Technicians	94,600
	<b>TOTAL</b>	<b>18,544,402</b>

**SECTION F**

**The entity's financial probity and serious governance issues**

There is no financial improbity as reported by Board or external auditors.

**10. Environmental and Sustainability Reporting**

Mwala Water and Sanitation Co. Ltd exists to transform lives, this is our purpose; the driving force behind everything we do. It's what guides us to deliver our strategy, putting the customer / citizen first, delivering water and sanitation services and improving operational excellence. Below is an outline of the organisation's policies and activities that promote sustainability.

**i) Sustainability strategy and Profile**

Water sustainability is effective and holistic management of water resources. The company has ensured all connections are metered and have functional and efficient water meter.

The company has put in place a water rationing programme to ensure that all the consumers are supplied with water regularly.

Due to high production cost due to high electricity bills the company is intending to use solar powered water pumps to reduce production cost in the small supplies i.e. Boreholes

**ii) Environmental Performance**

The company has public sanitation blocks in the market areas which are used by the public and maintained by the company, the company has partnered with private Waste management companies for the purpose waste disposal and treatment.

The company promotes good hygiene habits through educating the public on importance of hand washing and use of the sanitation blocks

**iii) Employee welfare**

It's the mandate of the board of directors to recruit and retain staff with appropriate academic and professional qualifications. Vacancies in the company are filled through transparent and competitively promoting suitably qualified serving employees whenever possible whenever such employees are not available vacancies are filled through filled through transparent, competitive and accountable process.

**iv) Market place practices**

The company has a customer care desk where customer complaints and issues are captured and resolved.

**v) Responsible supply chain and supplier relation**

The company has suppliers of goods and services which are used in ensuring that the company services are continuous and our customers continue to enjoy water services, the company ensures the suppliers are paid their dues

**VI) Product stewardship**

The company ensures that water is adequate and well treated to ensure that consumers get quality water free from impurities.

**vii) Corporate Social Responsibility / Community Engagements Corporate Social Responsibility / Community Engagement**

Mwasco is focused on the interest of the community we serve and more to the realization of right to water and improved sanitation services. We move beyond our core responsibility by offering free technical, financial trainings to the current existing community projects and also to the upcoming ones in order for them to attain sustainability. We also give technical personnel to other institution to assist during technical needs.

**Mwala Water and sanitation Company Ltd**  
**Annual Report and Financial Statements for the year ended June 30, 2023**

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The company continues creating a good, safe working environment for the staff at their work place. We also give free water to our institutions like primary schools during crisis times and also during public functions. We are also ready for any disaster like helping during fire calamities through the water bowser.

Through Masii Sanitation project the company with Partnership with Water Sector Trust Fund will construct safisan Toilets in Masii Location.





**Mwala Water and sanitation Company Ltd**  
**Annual Report and Financial Statements for the year ended June 30, 2023**

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**11. Report of the Directors**

The Directors submit their report together with the audited financial statements for the year ended June 30, 2023 which show the state of Mwala water and sanitation co.ltd affairs.

**Principal activities**

The principal activities of Mwala water and sanitation co.ltd are provision of safe, adequate water for domestic and commercial use and provision of sanitation services to the residents of Mwala sub-county.

**Results**

The results of Mwala water and sanitation co.ltd for the year ended June 30, 2023 are set out on pages 1, 2, 3 and 4.

**Dividends**

No dividends were declared during the year.

**Directors**

The members of the board of directors who served during the year are shown on page (v-vi).

**Auditors**

The auditor general is responsible for the statutory audit of Mwala water and sanitation Co Ltd in accordance with the Article 229 of the Constitution of Kenya and the Public Audit Act 2015.

By order of the Board

Name..... MOSES NZUKI  
Signature..... [Handwritten Signature]  
Date..... 6/3/2024

Secretary to the Board



**Mwala Water and sanitation Company Ltd**  
**Annual Report and Financial Statements for the year ended June 30, 2023**

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**12. Statement of Directors' Responsibilities**

Section 81 of the public finance management act, 2012 and section 14 of the state corporations act, require the director to prepare financial statements in respect of that company, which give a true and fair view of the state of affairs of the company at the end of the financial position of the year and the operating results of the company for that year. The directors are also required to ensure that the company keeps proper accounting records which disclose with reasonable accuracy the financial position of the company. The directors are reasonable for safeguarding the assets of the company.

The Directors are responsible for the preparation and presentation of the company's financial statements, which give a true and fair view of the state of affairs of the company for and as at the end of the financial year ended on June 30, 2023. This responsibility includes: (i) maintaining adequate financial management arrangements and ensuring that these continue to be effective throughout the reporting period; (ii) maintaining proper accounting records, which disclose with reasonable accuracy at any time the financial position of the company; (iii) designing, implementing and maintaining internal control relevant to the preparation and fair presentation of the financial statements, and ensuring that they are free from material misstatements, whether due to error or fraud; (iv) safeguarding the assets of the company; (v) selecting and applying appropriate accounting policies; and (vi) making accounting estimates that are reasonable in the circumstances.

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

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

**Approval of the financial statements**

The company financial statements were approved by the Board on 6/3/ 2024 and signed on its behalf by:



\_\_\_\_\_  
**Mr. David Mbithi**  
**For Chairman Board of Directors**



\_\_\_\_\_  
**Mr. Moses Nzuki**  
**Managing Director**



**Mwala Water and sanitation Company Ltd**  
**Annual Report and Financial Statements for the year ended June 30, 2023**

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The company financial statements were approved by the Board on 6/3/ 2024 and signed on its behalf by:



\_\_\_\_\_  
**Mr. David Mbithi**  
For Chairman Board of Directors



\_\_\_\_\_  
**Mr. Moses Nzuki**  
Managing Director



# REPUBLIC OF KENYA

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



*Enhancing Accountability*

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

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

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### **PREAMBLE**

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

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

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

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

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

#### **Qualified Opinion**

I have audited the accompanying financial statements of Mwala Water and Sanitation Company Limited set out on pages 1 to 49, which comprise of the statement of financial position as at 30 June, 2023 and the statement of profit or loss and other comprehensive

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



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

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

## **Basis for Qualified Opinion**

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

The statement of profit or loss and other comprehensive income and as disclosed in Note 9 to the financial statements reflects general and operations expenses of Kshs.3,479,548 and comparative period amount of Kshs.4,653,720. Recast however, yielded Kshs.3,476,195 and Kshs.4,409,220 for the current and comparative period resulting to unreconciled variances of Kshs.3,353 and Kshs.244,500 respectively.

Further, the statement of comparison of budget and actual amounts reflects performance difference for total revenue and total expenditure of Kshs.17,325,439 and Kshs.11,535,346 respectively. However, recasting of the balances result in performance differences of Kshs.19,336,977 and Kshs.13,446,565. The resultant variances of Kshs.2,011,538 and Kshs.1,911,219 has not been reconciled.

In the circumstances, the completeness and accuracy of balances reflected in the financial statements could not be confirmed.

### **2. Unsupported Customers Deposits Balance**

The statement of financial position reflects customer deposits balance of Kshs.1,860,392 as disclosed in Note 20 to the financial statements. However, analysis or supporting schedule for the balance was not provided for audit. Further, the corresponding customer deposit bank account reflected a balance of Kshs.6,516 indicative of Kshs.1,853,876 having been utilized for company operations. There was however no evidence of the utilization having been authorized by the Board.

In the circumstances, the accuracy and fair statement of the customers deposits balance of Kshs.1,860, 392 could not be confirmed.

The audit was conducted in accordance with the International Standards for Supreme Audit Institutions (ISSAIs). I am independent of the Mwala Water and Sanitation Company



Limited. Management in accordance with ISSAI 130 on the Code of Ethics. I have fulfilled other ethical responsibilities in accordance with the ISSAI and in accordance with other ethical requirements applicable to performing audits of financial statements in Kenya. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

## **Emphasis of Matter**

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

The statement of comparison of budget and actual amounts reflects final revenue budget and actual on comparable basis of Kshs.27,752,900 and Kshs.8,415,923 respectively resulting to shortfall in revenue collection of Kshs.19,336,977 or 70% of the approved budget. Similarly, the Company expended Kshs.13,612,835 against a budget of Kshs.27,752,900 resulting to under expenditure of Kshs.14,140,065 or 51% of the budget.

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

### **2. Undisclosed Material Uncertainty Relating to Going Concern**

The statement of profit or loss and other comprehensive income reflects loss for the year of Kshs.4,840,412 which further depleted the revenue reserves deficit to Kshs.25,173,793 as at 30 June, 2023. Further, the current liabilities balance of Kshs.20,404,794 exceeded the current assets balance of Kshs.13,520,007 resulting in a negative working capital of Kshs.6,884,787 indicating that the Company is technically insolvent. In addition, trade and other payables increased by Kshs.2,952,671 from Kshs.15,591,731 in the previous year to Kshs.18,544,402 indicating the Company's inability to pay its creditors in time. The state of financial affairs and measures put in place to reverse the trend has not been disclosed in the financial statements contrary to the requirements of International Financial Reporting Standards reporting framework.

My opinion is not modified in respect of these matters.

## **Key Audit Matters**

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

## **Other Matter**

### **Unresolved Prior Year Matters**

In the audit report of the previous year, several issues were raised under the Report on Lawfulness and Effectiveness in Use of Public Resources and Report on Effectiveness of Internal Controls, Risk Management and Governance which have remained unresolved as at 30 June, 2023.



# REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

## **Conclusion**

As required by Article 229(6) of the Constitution and 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, 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. Presentation Errors in the Financial Statements**

Review of the financial statements submitted for audit revealed that details of ICPAK registration number for the head of finance was not indicated. Further, Note 14 (a) on trade receivables and statement of financial position were not presented in line with the prescribed template. In addition, Note 23 to the financial statements on financial risk management under capital risk management net debt/excess cash and cash equivalents for the financial year 2022/2023 was excluded while the comparative year capital structure indicated negative Kshs.20,268,860 instead of negative balance of Kshs.20,818,689.

In the circumstances, the Management has not complied with the Public Sector Accounting Standards reporting template guidelines.

### **2. Excess Non- Revenue Water**

The statement of profit or loss and other comprehensive income reflects water sales of Kshs.8,184,640 as disclosed in Note 6 to the financial statements. Review of water production records revealed that the Company produced 56,079M<sup>3</sup> of water, out of which 40,676 M<sup>3</sup> or 73% was billed to customers. The balance of 15,403 M<sup>3</sup> or approximately 27% represents Non-Revenue Water (NRW) valued at Kshs.3,063,744 which is above the allowable loss of 25% by 2% Contrary to the Water Services Regulatory Board guidelines. No satisfactory explanation was provided for the high level of NRW and the measures put in place by management to reverse the trend.

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

### **3. Non-Compliance with the National Cohesion and Integration Act, 2008**

The statement of profit or loss and other comprehensive income and Note 8 to the financial statements reflects staff costs of Kshs.6,930,950. Review of the staff records revealed that all the 17 employees or 100% of actual establishment were from the dominant ethnic community in the County. This is a contravention of the provisions of Section 7(2) of the National Cohesion and Integration Act, 2008 which requires that no



public establishment shall have more than one third (1/3) of its employees from the same ethnic community.

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

#### **4. Use of Outdated Water Tariff**

The statement of profit or loss and other comprehensive and as disclosed in Note 6 to the financial statements reflects operating revenue of Kshs.8,184,640 being water sales. The current water tariff approved by Water Service Regulatory Board (WASREB) used to derive the water sales amount was for use for the period 2012 to 2017 and therefore is outdated. In the absence of updated tariff, the water Company is at a risk of using unapproved water tariffs, and may be imposing erroneous charges on the consumers.

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

The audit was conducted in accordance with the International Standards for Supreme Audit Institutions (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 comply, 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 THE EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE**

#### **Conclusion**

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

#### **Basis for Conclusion**

##### **1. Understaffing of the Company**

Review of human resource records revealed that the Water Company has an approved staff establishment of sixty-one (61) staff while the staff in position were seventeen (17) resulting to a shortfall of forty-four (44). In addition, the approved staff establishment reflects zero posts (0) for procurement officer, human resource manager, security guards for Wamunyu Water Scheme, Kibauni Water Scheme and Mbiuni Water Scheme and zero post (0) for internal auditor which are significant positions in the Company.

In the circumstances, the effectiveness of the human resource function in provision of services to residents of Machakos County could not be confirmed.

## **2. Lack of Updated Fixed Asset Register**

The statement of financial position and as disclosed in Note 13(a) to the financial statements reflect property, plant and equipment balance of Kshs.8,739,843. However, a complete fixed asset register specifying date of acquisition, name, serial numbers and location of the individual assets was not maintained by the water Company.

In the circumstances, the effectiveness of internal control over asset management could not be confirmed.

## **3. Lack of Effective Board**

Review of Board expenses records revealed that the Board convened only two (2) meetings on 21 September, 2022 and 6 June, 2023 during the year under review, contrary to the requirements of State Corporations Act Section 8(1)(a) which requires a minimum of four (4) meetings and not more than four months in between the date of one meeting and the next one. Further, the Company's Board was appointed on 13 September, 2021 as per Gazette Notice No. 9868 dated 24 September, 2021. However, appointment letters stipulating the terms of engagement were not provided for audit.

In the circumstances, the effectiveness of the Board in provision of governance and strategic leadership of the Company could not be confirmed.

## **4. Lack of Audit Committee**

During the year under review, the Company did not establish an Audit Committee. This is contrary to the requirements of Section 155 of the Public Finance Management Act, 2012 and Regulation 167(1) of the Public Finance Management (County Governments) Regulations, 2015 which provides for the establishment of the internal audit function and an Audit Committee of the Board.

In the circumstances, the Company did not benefit from the assurance and advisory services from the internal audit function as well as oversight from the Audit Committee.

## **5. Failure to Recover Long Outstanding Trade Receivables**

The statement of financial position and as disclosed in Note 14(a) to the financial statements reflect net trade receivables balance of 4,493,061. Included in the balance are debts of Kshs.2,931,005 which have been outstanding for over 120 days casting doubt to their recoverability. Further, the Company has no policy setting on management and collection of receivables. Although the company had made provisions for doubtful debts of Kshs.330,944, the adequacy could not be confirmed as there was no policy on bad and doubtful debts in place.

In the circumstances, the effectiveness of Management strategy to recover long outstanding debts could not be confirmed.



## **6. Failure to Settle Long Outstanding Trade and Other Payables**

The statement of financial position reflects trade and other payables balance of Kshs.18,544,402 as disclosed in Note 19 to the financial statements. The balance includes salary arrears of Kshs.2,605,056 which further include statutory dues of County Pension Fund, NSSF and NSSF penalties of Kshs.185,738, Kshs.146,880 and Kshs.549,829 respectively. Continued delay in settling dues to employees negatively impact on their productivity. Further, non-timely remittance of statutory dues results in nugatory expenses in form of fines and penalties.

In the circumstances, the effectiveness of Management strategy to settle its dues could not be confirmed.

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

### **REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS**

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

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

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

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

In preparing the financial statements, the 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 the Management is aware of the intention to liquidate the Company or cease operations.



The 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, the Management is also responsible for ensuring that the activities, financial transactions and information reflected in the financial statements comply with the authorities which govern them and that public resources are applied in an effective way.

The Board of Directors is responsible for overseeing the Company's, financial reporting process, reviewing the effectiveness of how Management monitors compliance with relevant legislative and regulatory requirements, ensuring that effective processes and systems are in place to address key roles and responsibilities in relation to governance and risk management and ensuring the adequacy and effectiveness of the control environment.

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

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

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

Further, in planning and performing the audit of the financial statements and audit of compliance, I consider internal control in order to give an assurance on the effectiveness of internal controls, risk management and governance processes and systems in accordance with the provisions of Section 7(1)(a) of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution. My consideration of the internal control would not necessarily disclose all matters in the internal control that might be material weaknesses under the ISSAIs.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that



misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Because of its inherent limitations, internal control may not prevent or detect misstatements and instances of non-compliance. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the Company 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 applicable basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company ability to continue as 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 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.

  
FCPA Nancy Gathungu, CBS  
AUDITOR-GENERAL

Nairobi

20 March, 2024

**Mwala Water and Sanitation Company Ltd.**

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

**14. Statement of Profit or Loss & Other Comprehensive Income for the Year Ended 30 June 2023**

	2023	2022	2021
<b>Revenue</b>			
Operating Revenue	6	8,184,640	8,097,630
Subsidy			18,057,728
Other Income—connection fees	7	63,000	57,300
<b>Decrease in prov.for bad doubtful debts</b>		168,283	
<b>Total Revenue</b>		<b>8,415,923</b>	<b>26,212,658</b>
<b>Expenses</b>			
Staff Costs	8	6,930,950	8,898,124
General and Operations expenses	9	3,479,548	4,653,720
Board Expenses	10	201,000	249,000
Maintenance Expenses	11	1,148,590	6,623,880
Depreciation and Amortization expenses	12	1,496,247	1,411,370
Finance Costs		-	-
<b>Total Expenses</b>		<b>13,256,335</b>	<b>21,836,094</b>
<b>Total Comprehensive Income For The Year</b>		<b>(4,840,412)</b>	<b>4,376,564</b>

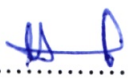



**Mwala Water and Sanitation Company Ltd.**  
**Annual Report and Financial Statements for the year ended June 30, 2023**

**15. Statement of Financial Position as at 30 June 2023**

	Note	2023-2023 Kshs	2022-2022 Kshs
<b>ASSETS</b>			
<b>Non-Current Assets</b>			
Property, plant and equipment	13(a)	8,739,843	9,879,590
<b>Total Non-Current Assets</b>		<b>8,739,843</b>	<b>9,879,590</b>
<b>Current Assets</b>			
Trade and receivable	14(a)	4,493,061	4,493,040
Prepayments	14(b)	118,342	389,810
Other debtors	16	100,000	100,000
Bank and cash balances	15	68,761	485,308
<b>Total Assets</b>		<b>13,520,007</b>	<b>15,347,748</b>
<b>EQUITY AND LIABILITIES</b>			
<b>Capital and Reserves</b>			
Ordinary share capital	16	100,000	100,000
Retained earnings	17	(25,173,793)	(20,333,381)
Grants	18	18,189,006	18,189,006
<b>Capital and Reserves</b>		<b>(6,884,787)</b>	<b>(2,044,375)</b>
<b>Current Liabilities</b>			
Trade and other payables	19	18,544,402	15,591,731
Customer Deposits	20	1,860,392	1,800,392
<b>Total Current Liabilities</b>		<b>20,404,794</b>	<b>17,392,123</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>13,520,007</b>	<b>15,347,748</b>

The financial statements were approved by the Board on 6/3/2024 and signed on its behalf by:

  
 .....  
**Moses Nzuki**  
 Managing Director

  
 .....  
**Phylis Matheka**  
 Head of Finance  
 ICPAK M/No:



  
 .....  
**David Mbithi**  
 For Chairman of the Board

16. Statement of Changes in Equity for the Year Ended 30 June 2023

	Notes	Ordinary share capital	Revaluation reserve	Fair value adjustment reserve	Retained earnings	Proposed dividends	Capital/Development Fund	Total
As at July 1, 2020		100,000	-	-	(17,747,086)	-	17,339,006	(308,080)
Profit for the year		-	-	-	(6,962,859)	-	-	(6,962,859)
As at June 30, 2021		100,000	-	-	(24,709,945)	-	17,339,006	(7,270,939)
As at July 1, 2021		100,000	-	-	(24,709,945)	-	17,339,006	(7,270,939)
Profit for the year		-	-	-	4,376,564	-	-	4,376,564
Capital/Development grants received during the year		-	-	-	-	-	850,000	850,000
As at June 30, 2022		100,000	-	-	(20,333,381)	-	18,189,006	(2,044,375)
Profit for the year		-	-	-	(4,840,412)	-	-	(4,840,412)
As at June 30, 2023		100,000	-	-	(25,173,793)	-	18,189,006	(6,884,787)



**Mwala Water and sanitation Company Ltd**  
**Annual Report and Financial Statements for the year ended June 30, 2023**

**17. Statement of Cash Flows for the Year Ended 30 June 2023**

	Note	2022-2023	2021-2022
		Kshs	Kshs
<b>Cash Flows From Operating Activities</b>			
<b>Receipts</b>			
Operating Revenue		8,216,072	6,273,698
Non-Operating Revenue			
Other Income-connection fees		63,000	57,300
Finance Income			-
Grants		-	18,907,728
Customer Deposits		60,000	71,200
<b>Total Receipts</b>		<b>8,339,072</b>	<b>25,309,926</b>
<b>Payments</b>			
Staff Costs		5,296,746	9,724,476
Board Expenses		102,000	259,100
General And Operation Expenses		1,926,583	7,268,765
Maintenance		1,073,790	6,513,880
Finance Costs		-	-
Refund Of Customer Deposits		-	-
<b>Total Payments</b>		<b>8,399,119</b>	<b>23,766,221</b>
<b>Net Cash From/(Used In) Operating Activities</b>			
<b>Cash Flows from Investing Activities</b>			
Purchase Of Property, Plant And Equipment (PPE)		356,500	1,287,520
Proceeds From Disposal Of PPE			-
Purchase Of Intangible Assets			-
Purchase Of Investment Property			-
Purchase Of Quoted Investments			-
Proceeds From Disposal Of Quoted Investments			-
<b>Net Cash From/(Used In) Investing Activities</b>		<b>356,500</b>	<b>1,287,520</b>
<b>Cash Flows from Financing Activities</b>			
Proceeds From Issues Of New Share Capital		-	-
Proceeds From Borrowings		-	-
Repayment Of Borrowings		-	-
Dividends Paid		-	-
<b>Net Cash From/(Used In) Financing Activities</b>		<b>-</b>	<b>-</b>
<b>Increase/(Decrease) In Cash And Cash Equivalents</b>		<b>(416,547)</b>	<b>256,185</b>

**Mwala Water and Sanitation Company Ltd**  
**Annual Report and Financial Statements for the year ended June 30, 2023**

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	Note	2022-2023	2021-2022
		Kshs	Kshs
<b>Cash And Cash Equivalents At Beginning Of Year</b>		<b>485,308</b>	<b>229,128</b>
Effects Of Foreign Exchanges Rate Fluctuations			-
<b>Cash And Cash Equivalents At End Of The Year</b>		<b>68,761</b>	<b>485,308</b>



**Mwala Water and sanitation Company Ltd**  
**Annual Report and Financial Statements for the year ended June 30, 2023**

**18. Statement of Comparison of Budget & Actual Amounts for the Period Ended 30 June 2023**

	Original budget	Adjustments	Final budget	Actual on comparable basis	Performance difference	% of utilization
	2022-2023	2022-2023	2022-2023	2022-2023		
	Kshs	Kshs	Kshs	Kshs	Kshs	
<b>Revenue</b>						
Operating Revenue	11,852,000	0	11,852,000	8,184,640	2,490,842	69
Subsidy	15,549,000	0	15,549,000	0	14,713,980	
Other income	351,900	0	351,900	63,000	288,900	18
Decrease in prov. for doubtful debts	0	0	0	168,283	(168,283)	0
<b>Total Revenue</b>	<b>27,752,900</b>	<b>0</b>	<b>27,752,900</b>	<b>8,415,923</b>	<b>17,325,439</b>	<b>30</b>
<b>Expenses</b>						
Staff Costs	8,142,224	0	8,142,224	6,930,950	(711,417)	85
Board Expenses	440,000	0	440,000	201,000	(239,000)	46
General and operations Expenses	16,070,676	0	16,070,676	3,479,548	12,480,100	22
Maintenance	2,050,000	0	2,050,000	1,148,590	1,023,910	56
Depreciation and amortization	0	0	0	1,496,247	(1,496,247)	0
Total Recurrent Expenditure	26,702,900	0	26,702,900	<b>13,256,335</b>	11,535,346	50
<b>Profit or Loss</b>	<b>1,050,000</b>	<b>0</b>	<b>1,050,000</b>	<b>(4,840,412)</b>	<b>5,790,093</b>	<b>(461)</b>
<b>Capital Expenditure</b>	<b>1,050,000</b>	<b>0</b>	<b>1,050,000</b>	<b>356,500</b>	<b>693,500</b>	<b>34</b>
<b>Total Expenditure</b>	<b>27,752,900</b>	<b>0</b>	<b>27,752,900</b>	<b>13,612,835</b>	<b>12,228,846</b>	<b>49</b>

## **19. Notes to the Financial Statements**

### **1. General Information**

Mwala water and sanitation Company Ltd is established by and derives its authority and accountability from Water Act. The Company is wholly owned by the Machakos County Government and is domiciled in Kenya. The Company's principal activity is provision of safe adequate water for domestic and commercial use and provision of Sanitation Services within the area of jurisdiction.

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

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

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

The financial statements have been prepared in accordance with the PFM Act, the State Corporations Act, Water Act 2016 and the Company's Act, and International Financial Reporting Standards (IFRS). The accounting policies adopted have been consistently applied to all the years presented.



NOTES TO THE FINANCIAL STATEMENTS (Continued)

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

i. *New and amended standards and interpretations in issue effective in the year ended 30 June 2022*

Title	Description	Effective Date
Amendments to IAS 16 titled Property, Plant and Equipment: Proceeds before Intended Use (issued in May 2020)	The amendments, applicable to annual periods beginning on or after 1 January 2022, prohibit a company from deducting from the cost of property, plant and equipment amounts received from selling items produced while the company is preparing an asset for its intended use. Instead, a company will recognise such sales proceeds and related cost in profit or loss	The amendments are effective for annual periods beginning on or after January 1, 2022. Early application is permitted.
Amendments to IAS 37 titled Onerous Contracts - Cost of Fulfilling a Contract (issued in May 2020)	The amendments clarify that for the purpose of assessing whether a contract is onerous, the cost of fulfilling the contract includes both the incremental costs of fulfilling that contract and an allocation of other costs that relate directly to fulfilling contracts. They are effective for contracts for which an entity has not yet fulfilled all its obligations on or after 1 January 2022.	The amendments are effective for annual periods beginning on or after January 1, 2022. Early application is permitted
Amendment to IFRS 1 titled Subsidiary as a First-time Adopter	The amendment, applicable to annual periods beginning on or after 1 January 2022, provides a subsidiary that becomes a first-time adopter later than its parent with an exemption relating to the measurement of its assets and liabilities. The exemption does not apply to components of equity.	The amendments are effective for annual periods beginning on or after January 1, 2022. Early application is permitted.
Amendment to IFRS 9 titled Fees in the '10 per	The amendment, applicable to annual periods beginning on or after 1 January 2022, to IFRS 9 clarifies the fees that a company includes	The amendments are effective for annual periods beginning on or after January 1,

Title	Description	Effective Date
cent' Test for Derecognition of Financial Liabilities	when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability.	2022. Early application is permitted
Amendment to IAS 41 titled Taxation in Fair Value Measurements (issued in May 2020 as part of the Annual Improvements to IFRS Standards 2018-2020)	The amendment, applicable to annual periods beginning on or after 1 January 2022, to IAS 41 removed the requirement to exclude taxation cash flows when measuring fair value. This amendment aligned the requirements in IAS 41 on fair value measurement with those in other IFRS	The amendments are effective for annual periods beginning on or after January 1, 2022. Early application is permitted.

*The Directors have assessed the applicable standards and amendments. Based on their assessment of impact of application of the above, they do not expect that there will be a significant impact on the company's financial statements. Or the following has been assessed to be significant for the company and has been addressed as follows....*



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

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

ii. *New and amended standards and interpretations in issue but not yet effective in the year ended 30 June 2022.*

Title	Description	Effective Date
IAS 1 — Presentation of Financial Statements	IAS 1 "Presentation of Financial Statements" sets out the overall requirements for financial statements, including how they should be structured, the minimum requirements for their content and overriding concepts such as going concern, the accrual basis of accounting and the current/non-current distinction. The standard requires a complete set of financial statements to comprise a statement of financial position, a statement of profit or loss and other comprehensive income, a statement of changes in equity and a statement of cash flows.	The amendments are effective for annual periods beginning on or after January 1, 2023. Earlier application is permitted.
Amendments to IAS 1 titled Classification of Liabilities as Current or Non-current (issued in January 2020)	The amendments, clarify a criterion in IAS 1 for classifying a liability as non-current: the requirement for an entity to have the right to defer settlement of the liability for at least 12 months after the reporting period.	The amendments are effective for annual periods beginning on or after January 1, 2023. Earlier application is permitted.
Amendments to IAS 1 titled Disclosure of Accounting Policies (issued in February 2021)	The amendments, applicable to annual periods beginning on or after 1st January 2023, require entities to disclose their material accounting policy information rather than their significant accounting policies	The amendments are effective for annual periods beginning on or after January 1, 2023. Earlier application is permitted.

Title	Description	Effective Date
IAS 12 — Income Taxes	IAS 12, "Income Taxes" implements a so-called 'comprehensive balance sheet method' of accounting for income taxes which recognizes both the current tax consequences of transactions and events and the future tax consequences of the future recovery or settlement of the carrying amount of an entity's assets and liabilities. Differences between the carrying amount and tax base of assets and liabilities, and carried forward tax losses and credits, are recognized, with limited exceptions, as deferred tax liabilities or deferred tax assets, with the latter also being subject to a 'probable profits' test.	The amendments are effective for annual reporting periods beginning on or after January 1, 2023. Early adoption is permitted.
IAS 8- Accounting Policies, Errors and Estimates	The amendments, applicable to annual periods beginning on or after 1st January 2023, introduce a definition of 'accounting estimates' and include other amendments to IAS 8 to help entities distinguish changes in accounting policies from changes in accounting estimates.	The amendments are effective for annual reporting periods beginning on or after January 1, 2023. Early adoption is permitted.

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

**iii. Early adoption of standards**

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



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

**4. Summary of Significant Accounting Policies**

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

**a) Revenue recognition**

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

- i) Revenue from the sale of goods and services** is recognised in the year in which the Company delivers products/services to the customer, the customer has accepted the products/services and collectability of the related receivables is reasonably assured.
- ii) Grants from Government Entities** are recognised in the year in which the Company actually receives such grants. Recurrent grants are recognized in the statement of comprehensive income. Development/capital grants are recognized in the statement of financial position and realised in the statement of comprehensive income over the useful life of the assets that has been acquired using such funds.
- iii) Finance income** comprises interest receivable from bank deposits and investment in securities, and is 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 interest implicit in lease agreements.
- vi) Other income** is recognised as it accrues.

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

**Summary of Significant Accounting Policies**

**b) In-kind contributions**

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

**c) Property, plant and equipment**

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

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



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

**Summary of Significant Accounting Policies**

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

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

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

<b>Item</b>	<b>Years</b>	<b>Rates</b>
Plant and machinery	12.5%	12.5%
Motor vehicles, including motor cycles	25%	25%
Computers and related equipment	30%	30%
Office equipment, furniture and fittings	12.5%	12.5%
Intangible Assets	30%	30%

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

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

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

**Summary of Significant Accounting Policies**

**e) Intangible assets**

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

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

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

**g) Investment property**

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



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

**Summary of Significant Accounting Policies**

**h) Right of Use Asset**

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

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

Fixed interest investments refer to investment funds placed under Central Bank of Kenya (CBK) long-term infrastructure bonds and other corporate bonds with the intention of earning interest 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.

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

**Summary of Significant Accounting Policies**

**k) Unquoted investments**

Unquoted investments stated at cost under non-current assets, and comprise equity shares held in other Government owned or controlled entities that are not quoted in the Securities Exchange.

**l) Inventories**

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

**m) Trade and other receivables**

Trade and other receivables are recognized at 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 and when the necessary approval to write off is granted.



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

**Summary of Significant Accounting Policies**

**n) Taxation**

**i) Current income tax**

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

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

Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

**o) Deferred tax**

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

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### Summary of Significant Accounting Policies

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

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

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



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

**Summary of Significant Accounting Policies**

**p) Borrowing costs**

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

**q) Cash and cash equivalents**

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

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

**Summary of Significant Accounting Policies**

**r) Borrowings**

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

**s) Trade and other payables**

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

**t) Retirement benefit obligations**

The Company operates a defined contribution scheme for all full-time employees from July 1, 2022. The scheme is administered by an in-house team and is funded by contributions from both the company and its employees. The company also contributes to the statutory National Social Security Fund (NSSF). This is a defined contribution scheme registered under the National Social Security Act. The company's obligation under the scheme is limited to specific contributions legislated from time to time and is currently at the rate of 7.5% of gross pay per employee per month.

**u) Provision for staff leave pay**

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



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

**Summary of Significant Accounting Policies**

**v) Exchange rate differences**

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

**w) Budget information**

The original budget for FY 2022-2023 was approved by the Board of Directors on 13<sup>th</sup> June 2022. Subsequent revisions or additional appropriations were made to the approved budget in accordance with specific approvals from the appropriate authorities. The additional appropriations are added to the original budget by the entity upon receiving the respective approvals in order to conclude the final budget. The Company's budget is prepared on a different basis to the actual income and expenditure disclosed in the financial statements. The financial statements are prepared on accrual basis using a classification based on the nature of expenses in the statement of financial performance, whereas the budget is prepared on a cash basis. The amounts in the financial statements were recast from the accrual basis to the cash basis and reclassified by presentation to be on the same basis as the approved budget. A comparison of budget and actual amounts, prepared on a comparable basis to the approved budget, is then presented in the statement of comparison of budget and actual amounts. In addition to the Basis difference, adjustments to amounts in the financial statements are also made for differences in the formats and classification schemes adopted for the presentation of the financial statements and the approved budget. A statement to reconcile the actual amounts on a comparable basis included in the statement of comparison of budget and actual amounts and the actuals as per the statement of Comprehensive income has been presented under section xxx of these financial statements.

## NOTES TO THE FINANCIAL STATEMENTS (Continues)

### x) Service concession arrangements

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

### y) Comparative figures

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

### z) Subsequent events

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

## 5. Significant Judgments and Sources of Estimation Uncertainty

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



*State all judgements, estimates and assumptions made: e.g.*

## NOTES TO THE FINANCIAL STATEMENTS (Continues)

### a) Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below.

The Company based its assumptions and estimates on parameters available when the financial statements were prepared. However, existing circumstances and assumptions about future developments may change due to market changes or circumstances arising beyond the control of the Company. Such changes are reflected in the assumptions when they occur.

### b) Useful lives and residual values

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

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

### c) Provisions

Provisions were raised and management determined an estimate based on the information available.

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

Provision for bad & doubtful debts is at the rate of 10% of inactive debts



NOTES TO THE FINANCIAL STATEMENTS (Continues)

6. Operating Revenue

	2022-2023	2021-2022
	Kshs	Kshs
Water sales	8,184,640	8,097,630
Billing for other services-connection fees	63,000	57,300
<b>Total</b>	<b>8,247,640</b>	<b>8,154,930</b>

7. Grants Income

	2022-2023	2021-2022
	Kshs	Kshs
Operational grants from Government entities	0	18,057,728
Recurrent/operational grants from other agencies	0	0
Capital grants amortized	0	0
Donations from County Governments	0	0
In Kind contribution/donations from other agencies	0	0
<b>Total</b>	<b>0</b>	<b>18,057,728</b>

Name of the Entity sending the grant	Amount recognized in the Statement of Comprehensive Income KShs	Amount deferred under deferred income KShs	Amount recognised in capital fund. KShs	Total grant income during the year KShs	2022-2023 KShs
					0

NOTES TO THE FINANCIAL STATEMENTS (Continued)

8. Staff Costs

Description	2022-2023	2021-2022
	Kshs	Kshs
Gross Salary and Allowances	5,998,548	7,387,668
Casual workers Wages	186,300	235,500
Medical insurance schemes	0	0
Employer's contributions to social security schemes	147,960	496,687
Employer's contributions to pension scheme	397,665	0
Provisions for Leave pay	200,477	228,440
NSSF Penalties	0	549,829
<b>Total</b>	<b>6,930,950</b>	<b>8,898,124</b>
<b>The average number of employees during the year</b>	<b>18</b>	<b>22</b>



NOTES TO THE FINANCIAL STATEMENTS (Continued)

9. General and Operations Expenses

Description	2022-2023	2021-2022
	Kshs	Kshs
Chemicals	0	0
Electricity	1,241,289	1,570,495
Fuel, oil, lubricants, and gases	790,000	550,000
Office supplies	238,851	398,450
Telecommunication	48,000	80,350
Insurance	27,000	203,793
Rent and Rates	111,500	144,500
Domestic Traveling and subsistence	449,800	707,400
Bank Charges	43,330	55,394
Audit fees	116,000	116,000
Licensing and levies	355,425	353,734
Provision for doubtful debts-increase	-	194,104
Waspa Annual subscription fees	55,000	35,000
<b>Total</b>	<b>3,479,548</b>	<b>4,653,720</b>

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

**10. Board Expenses**

Description	2022-2023	2021-2022
	KShs	KShs
Chairman Honoraria	132,000	132,000
Sitting allowances	69,000	117,000
Medical Insurance	0	0
Induction and Training	0	0
Travel and accommodation	0	0
Other allowances	0	0
<b>Total Board Expenses</b>	<b>201,000</b>	<b>249,000</b>

**11. Maintenance Expenses**

Description	2022-2023	2021-20-22
	Kshs	Kshs
Plant and Equipment	691,700	4,280,090
Motor vehicles	209,790	2,108,510
Software	60,000	60,000
Motor cycles	64,600	175,280
Computer repairs & maintenance	122,500	244,500
<b>Total Maintenance Expenses</b>	<b>1,148,590</b>	<b>6,868,380</b>



## 12. Depreciation and Amortization Expenses

Description	2022-2023	2021-2022
	KShs	KShs
Property, plant, and equipment	1,496,247	1,411,370
Right of Use Assets	0	0
Intangible assets	0	0
Investment property carried at cost	0	0
<b>Total Depreciation and Amortization</b>	<b>1,496,247</b>	<b>1,411,370</b>

NOTES TO THE FINANCIAL STATEMENTS (Continued)

13. (a) Property, Plant and Equipment

2022-2023	Plant and machinery	Motor vehicles, including, motor cycles	Computers & related equipment	Office equipment, furniture & fittings	Capital work in progress	Total
<b>Cost Or Valuation</b>						
At July 1, 2022	20,064,803	7,095,000	834,550	68,100	-	28,062,453
Additions	356,500	-	-	-	-	356,500
Transfers	-	-	-	-	-	-
Disposals	-	-	-	-	-	-
<b>At June 30, 2023</b>	<b>20,421,303</b>	<b>7,095,000</b>	<b>834,550</b>	<b>68,100</b>	<b>-</b>	<b>28,418,953</b>
<b>Depreciation</b>						
At July 1, 2022	11,920,455	5,409,275	800,152	52,981	-	18,182,863
Charge For The Year	1,062,606	421,431	10,319	1,890	-	1,496,247
Impairment Loss	-	-	-	-	-	-
Eliminated On Disposal	-	-	-	-	-	-
<b>As at June 30,2023</b>	<b>12,983,061</b>	<b>5,830,706</b>	<b>810,471</b>	<b>54,871</b>	<b>-</b>	<b>19,679,110</b>
<b>Net Book Value At June 30, 2022</b>	<b>8,144,348</b>	<b>1,685,725</b>	<b>34,398</b>	<b>15,119</b>		<b>9,879,590</b>
<b>Net Book Value At June 30, 2023</b>	<b>7,438,242</b>	<b>1,264,294</b>	<b>24,079</b>	<b>13,229</b>	<b>-</b>	<b>8,739,843</b>



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

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

**Valuation**

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

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

	<b>Cost</b>	<b>Accumulated Depreciation</b>	<b>NBV</b>
	<b>Kshs</b>	<b>Kshs</b>	<b>Kshs</b>
Plant and machinery	20,421,303	12,983,061	7,438,242
Motor vehicles, including motorcycles	7,095,000	5,830,706	1,264,294
Computers and related equipment	834,550	810,471	24,079
Office equipment, furniture, and fittings	68,100	54,871	13,229
	<b>28,418,953</b>	<b>19,679,110</b>	<b>8,739,843</b>

**Mwala Water and Sanitation Company Ltd**  
**Annual Reports and Financial Statements**  
**For the year ended June 30, 2023**

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

**14 (a) Trade Receivables**

	2022-2023	2021-2022
	Kshs	Kshs
Gross trade receivables	4,824,005	4,992,267
Provision for doubtful receivables	(330,944)	(499,227)
Net trade receivables	4,493,061	4,493,040
<b>at June 30, the ageing analysis of the gross trade receivables was as follows:</b>		
Less than 30 days	564,500	524,300
Between 30 and 60 days	472,600	453,900
Between 61 and 90 days	333,800	326,980
Between 91 and 120 days	522,100	516,900
Over 120 days	2,931,005	3,170,187
<b>Total</b>	<b>4,824,005</b>	<b>4,992,267</b>
Increase in trade receivables		785,801

**b) Prepayments**

Item	2022-2023	2021-2022
	Kshs	Kshs
Electricity	0	243,429
WARMA	118,342	146,381
<b>Total</b>	<b>118,342</b>	<b>389,810</b>

**15. Bank and Cash Balances**

	2022-2023	2021-2022
	Kshs	Kshs
Cash at bank-Family bank-CSLG	(3,248)	105
KCB-Expenditure account	3,000	3,000
KCB-Revenue account	61,472	147,498
KCB-Deposit account	6,516	157,707
Family bank-Revenue account	21	80,065
Cash in hand	0	0
M-pesa	1,000	96,933
	<b>68,761</b>	<b>485,308</b>



**Mwala Water and Sanitation Company Ltd**  
**Annual Reports and Financial Statements**  
**For the year ended June 30, 2023**

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

**16. Ordinary Share Capital**

	2022-2023	2021-2022
	Kshs	Kshs
<b>Authorized:</b>		
100 ordinary shares of Kshs.1,000 par value each	100,000	100,000
<b>Issued and not paid:</b>		
100 ordinary shares of Kshs.1,000 par value each	100,000	100,000

**17. Retained Earnings**

	KSHS 2023	KSHS 2022
Opening balance	(20,333,381)	(24,709,945)
Profit/Loss	(4,840,412)	4,376,564
Bal c/d	(25,173,793)	(20,333,381)

**18. Grants**

	KSHS 2023	KSHS 2022
Opening balance	18,189,006	17,339,006
Assets received during the year	0	850,000
<b>Total c/d</b>	<b>18,189,006</b>	<b>18,189,006</b>

**Mwala Water and Sanitation Company Ltd**  
**Annual Reports and Financial Statements**  
**For the year ended June 30, 2023**

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

The entity also contributes to the statutory National Social Security Fund (NSSF). This is a defined contribution scheme registered under the National Social Security Act. The entity's obligation under the scheme is limited to specific contributions legislated from time to time and is currently at Kshs. 2,160 per employee per month. Employer contributions are recognized as expenses in the statement of financial performance within the period they are incurred

**19. Trade and Other Payables**

	<b>KSHS 2023</b>	<b>KSHS 2022</b>
Electricity	5,249,837	4,441,977
Tanathi WSB	6,636,076	6,636,076
Wasreb	1,804,833	1,477,447
Audit Fee- KENAO	1,044,000	928,000
Sulis East Africa	615,000	555,000
Salary Arrears	2,605,056	1,107,231
Accrued Honoraria	495,000	396,000
Masaku Technicians	94,600	50,000
<b>Total</b>	<b>18,544,402</b>	<b>15,591,731</b>
<b>Increase/ Decrease in Trade Payables</b>	<b>2,952,671</b>	<b>(4,183,926)</b>

**20. Customer Deposits**

	<b>2022-2023</b>	<b>2021-2023</b>
	<b>Kshs</b>	<b>Kshs</b>
Opening Balance	1,800,392	1,729,192
Add: deposits received during the year	60,000	71,200
Less: Refunded deposits during the year	0	0
<b>Total</b>	<b>1,860,392</b>	<b>1,800,392</b>



**Mwala Water and Sanitation Company Ltd**  
**Annual Reports and Financial Statements**  
**For the year ended June 30, 2023**

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

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

	2022-2023	2021-2022
	Kshs	Kshs
<b>(a) Reconciliation of operating profit/(loss) to cash generated from/(used in) operations</b>		
Profit or loss before tax	(4,840,412)	4,376,564
Depreciation	1,496,247	1,411,370
Operating profit/(loss) before working capital changes	(3,344,165)	5,787,934
(Increase)/decrease in trade and other receivables	21	(1,175,611)
Increase/(decrease) in trade and other payables	2,952,671	(4,183,926)
Increase in customer deposits	60,000	71,200
<b>Cash generated from/(used in) operations</b>	<b>(331,473)</b>	<b>499,597</b>
<b>(b) Analysis of changes in loans</b>		
<b>Balance at beginning of the year</b>	<b>485,308</b>	<b>229,123</b>
Receipts during the year	8,339,072	25,309,926
Repayments during the year	8,755,619	25,053,741
<b>Balance at end of the year</b>	<b>68,761</b>	<b>485,308</b>
<b>(c) Analysis of cash and cash equivalents</b>		
M-pesa	1,000	96,933
Cash at bank	67,761	388,375
Cash in hand	-	0
<b>Balance at end of the year</b>	<b>68,761</b>	<b>485,308</b>

**Mwala Water and Sanitation Company Ltd**  
**Annual Reports and Financial Statements**  
**For the year ended June 30, 2023**

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

**Other Disclosures**

**22. Related Party Disclosures**

**County Government of Machakos**

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

Other related parties include:

- The County Department in charge of Water
- Water works Agencies
- WASREB
- WARMA
- Water Sector Trust Fund
- Key management
- Board of directors

<b>a) Grants from the Government</b>	<b>2023</b>	<b>2022</b>
Grants from National Govt Agencies	0	850,000
Grants from County Government	0	0
Donations in kind	0	0
<b>Total</b>	<b>0</b>	<b>850,000</b>



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

**23. Financial Risk Management**

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

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

**Mwala Water and Sanitation Company Ltd**  
**Annual Reports and Financial Statements**  
**For the year ended June 30, 2023**

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

**(i) Credit risk**

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

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

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

	Total amount Kshs	Fully performing Kshs	Past due but not Impaired Kshs	Past due and Impaired Kshs
<b>At 30 June 2023</b>				
Trade Receivables				
<b>Total</b>				
<b>At 30 June 2022 (previous Year)</b>				
Receivables	4,493,040	1,027,420	615,720	2,849,000
<b>Total</b>	<b>4,493,040</b>	<b>1,027,420</b>	<b>615,720</b>	<b>2,849,000</b>



**Mwala Water and Sanitation Company Ltd**  
**Annual Reports and Financial Statements**  
**For the year ended June 30, 2023**

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

***Credit Risk (Continued)***

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

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

**ii) Liquidity risk management**

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

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

	Less than 1 month	Between 1-3 months	Over 5 months	Total
	Kshs	Kshs	Kshs	Kshs
<b>At 30 June 2023 current year</b>				
Trade payables				
Employee benefit obligation				
<b>Total</b>				
<b>At 30 June 2022 previous year</b>				
Trade payables		50,000	14,434,500	14,484,500
Employee benefit obligation			1,107,231	1,107,231
<b>Total</b>		<b>50,000</b>	<b>15,541,731</b>	<b>15,591,731</b>

**(iii) Market risk**

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

**Mwala Water and Sanitation Company Ltd**  
**Annual Reports and Financial Statements**  
**For the year ended June 30, 2023**

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



**Mwala Water and Sanitation Company Ltd**  
**Annual Reports and Financial Statements**  
**For the year ended June 30, 2023**

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

**v) Capital Risk Management**

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

	2022-2023	2021-2022
	Kshs	Kshs
Revaluation reserve	-	-
Retained earnings		(20,333,381)
<b>Total funds</b>		<b>(20,333,381)</b>
Total borrowings		0
Less: cash and bank balances		(485,308)
Net debt/(excess cash and cash equivalents)		(20,268,860)

**24. Incorporation**

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

**25. Events After the Reporting Period**

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

**26. Currency**

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

**Mwala Water and Sanitation Company Ltd  
Annual Reports and Financial Statements  
For the year ended June 30, 2023**

**20. Appendices**

**APPENDIX 1: PROGRESS ON FOLLOW UP OF AUDITORRECOMMENDATIONS**

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

Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Status: <i>(Resolved / Not Resolved)</i>	Timeframe: <i>(Put a date when you expect the issue to be resolved)</i>
1.	<p><b>REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES</b>  <b>Long outstanding trade payables</b>                      The statement of financial position and as disclosed under Note 19 to the financial statements reflect trade and other payables balance of ksh.15,591,731.the balance includes payables that have remained outstanding with some dating back to the year 2015,totalling to ksh.12,164,671.the Company appears unable to settle its obligations as and when they fall due. The management has also not demonstrated measures instituted for clearing the long outstanding payables.                      In the circumstances, the company is at risk incurring interest and penalties for failure to settle debts.</p>			



**Mwala Water and Sanitation Company Ltd**  
**Annual Reports and Financial Statements**  
**For the year ended June 30, 2023**

Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Status: <i>(Resolved / Not Resolved)</i>	Timeframe: <i>(Put a date when you expect the issue to be resolved)</i>
2	<p><b>Unauthorised borrowing of customer deposits</b>  The statement of financial position reflects customer deposits balance of kshs,1,800,392 comprising of prior year balance of kshs.1,729,192 and new connection deposits during the year of kshs.71,200.the customer deposits balance of ksh.157,707 indicative of kshs.1,642,685 of the deposits having been utilised for company operations without express authorization of the board.in the circumstances, the accuracy and legality of the kshs.1,800,392 as at 30 June 2022 could not be confirmed.</p>		Not Resolved	

**Mwala Water and Sanitation Company Ltd  
Annual Reports and Financial Statements  
For the year ended June 30, 2023**

Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Status: <i>(Resolved / Not Resolved)</i>	Timeframe: <i>(Put a date when you expect the issue to be resolved)</i>
3	<p><b>Late remittance of statutory deductions</b></p> <p>Note 8 to the financial statements disclose national security fund(NSSF)penalties of ksh.549,829 due to delayed remittances for the period July 2018 to June 2021.the company had not remitted deductions of kshs.203,439 for the period July to November 2021 attracting penalties of kshs.4,990.</p> <p>In the circumstances, the Company has incurred avoidable expenditure for late remittance of statutory deductions.</p>		Not Resolved	



**Mwala Water and Sanitation Company Ltd**  
**Annual Reports and Financial Statements**  
**For the year ended June 30, 2023**

Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
4	<p><b>Unapproved water tariff</b>  The statement of profit or loss and other comprehensive income and as disclosed in Note 6 to the financial statements reflect revenue billing of kshs.8, 097, 630.however, the customer billings were not based on approved and gazetted water tariff by the Water Services Regulatory Board (WASREB).The Board is required to evaluate and recommend water and sewerage tariffs to the county water service providers and approve the imposition of such tariffs in line with consumer protection standards. The board then gazette tariffs for each water company.  In the circumstances, the management was in breach of law and the tariffs being applied were irregularly.</p>	<p>The customer deposits are you used time to time by the company to finance its operations with the authority of the board of directors</p>	<p>Not Resolved</p>	

**Mwala Water and Sanitation Company Ltd  
Annual Reports and Financial Statements  
For the year ended June 30, 2023**

Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Status: <i>(Resolved / Not Resolved)</i>	Timeframe: <i>(Put a date when you expect the issue to be resolved)</i>
1	<p>REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS,RISK MANAGEMENT AND GOVERNANCE</p> <p><b>Lack of a risk management policy</b> A review of the company records revealed that the management did not have a risk management policy, strategies and risk register to mitigate against risk through a framework for management of the risk. Thus the management does not have means to identify, access and control risk. The company could not identify the entity's risk and set the risk tolerance levels by identifying boundaries against unacceptable exposure to risk. This is a contravention of regulation 158(1) (a) and (b) of the public finance officer to ensure that the county government entity develops risk management strategies, which include fraud prevention mechanism and internal control that builds robust business operations. In the circumstances, weak internal controls expose the company to risk, fraud and system failure.</p>	<p>The Company is not a profit making company but exists to provide water &amp; sanitation services to the residents of Mwala.</p> <p>The cost of production is very high due to the cost of electricity since supplies pumped water. The company does not charge water to its customers to recover cost but is guided by water tariff approved by WASREB.</p>	Not Resolved	




**Mwala Water and Sanitation Company Ltd**  
**Annual Reports and Financial Statements**  
**For the year ended June 30, 2023**

Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
2	<p><b>Lack of information technology(IT) policy</b>  A review of the company information technology systems revealed that it has in place a billing system to manage its revenue collection. The company however lack assets management system, human resource application systems and accounting systems and there is no approved IT policy for governance and management of its ICT resources .in addition, no ICT steering committee in place to assist in the development of ICT policy to enable the Company to realize long-term ICT strategic goals.  Without a sound approved framework, users do not have rules and procedures to follow in order to minimise risk of errors, fraud and the loss of data confidentiality.</p>	An amended copy was submitted to the office of the Auditor General on 14 July 2022	Not Resolved	
3	<p><b>Non-revenue water</b>  The company records indicate water production of 59,667m<sup>3</sup> of the water for the year under review. Out of the production, only 43,437m<sup>3</sup> valued at kshs.8,097,630 was billed to customers. The balance of 16,220m<sup>3</sup> valued at 3,023,743 or approximately 27% represents non-revenue water(NRW)The NRW is above the allowable loss limit of 25% by 2%. The loss affected the company profitability and sustainability of services to the residents of Mwala.</p>	The company is in the process of getting an approved water tariff	Not Resolved	

**Mwala Water and Sanitation Company Ltd**  
**Annual Reports and Financial Statements**  
**For the year ended June 30, 2023**

Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
8	<p><b>Non-revenue water</b></p> <p>During the year, company produced and billed a total of 58,205 cubic meters and 42,682 cubic meters of water respectively. The non-revenue water for the period was therefore 15,523 cubic meters equivalent of 27% of total production, which is above threshold of 25% prescribed by the water services regulatory board guidelines.</p> <p>In the circumstances, the loss of revenue may adversely affect the company profitability and efficient and effective service delivery to the residents.</p>		Not Resolved	

Name Moses Nzu  
 Signature [Signature]  
 Managing Director  
 Date 6/3/2024





**Mwala Water and Sanitation Company Ltd**  
**Annual Reports and Financial Statements**  
**For the year ended June 30, 2023**

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