

REPUBLIC OF KENYA



OFFICE OF THE AUDITOR-GENERAL

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REPORT

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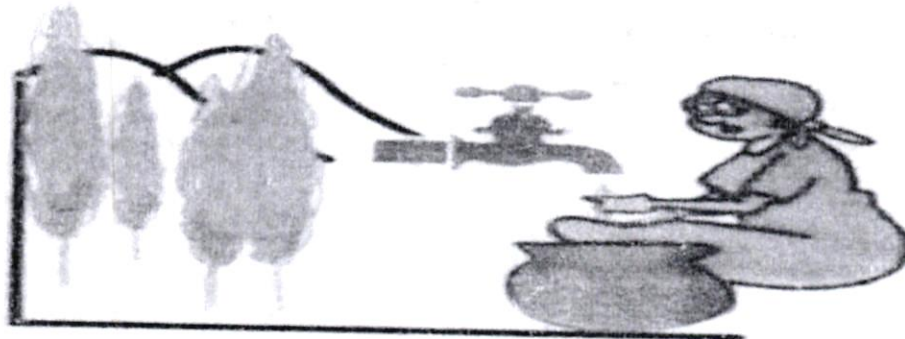
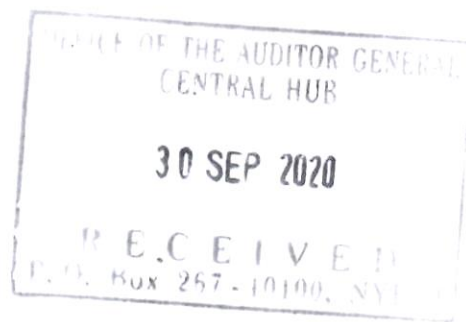
THE AUDITOR-GENERAL

ON

**GATANGA COMMUNITY WATER
SCHEME**

**FOR THE YEAR ENDED
30 JUNE, 2020**

PAPERS LAID	
DATE	23/02/2022
TABLED BY	SML
COMMITTEE	—
CLERK AT THE TABLE	CAROLINE CHROPO



Gatanga Water

GATANGA COMMUNITY WATER SCHEME

ANNUAL REPORTS AND FINANCIAL STATEMENTS

**FOR THE FINANCIAL YEAR ENDED
JUNE 30, 2020**

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

GATANGA COMMUNITY WATER SCHEME
Annual Reports and Financial Statements
For the year ended June 30, 2020

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Background information

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

Principal Activities

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

VISION

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

MISSION STATEMENT.

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

STRATEGIC OBJECTIVES.

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

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

GATANGA COMMUNITY WATER SCHEME

Annual Reports and Financial Statements For the year ended June 30, 2020

DIRECTORS

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

1. Joseph Kibe - Chairman - appointed on 10th March 2005
2. J.B Karanja - Vice Chairman - appointed on 10th March 2005
3. G. Chege - member - appointed on 10th March 2005
4. B.N Kamanja - member - appointed on 10th March 2005
5. Edward W. Njoroge - Member - appointed on 10th March 2005
6. J.M Gathee - Member - appointed on 10th March 2005
7. S.N Kibe - Member - appointed on 10th March 2005
8. J.N kangethe - member - appointed on 10th March 2005
9. Carol Mwaura - Company Secretary - appointed on 24th August 2012
10. G. Njoroge - Managing Director - appointed on September 2015

Corporate Secretary

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

Registered Office

Gatanga community water scheme
P.O. Box 6133-01000, Thika
Mabanda Do's Office compound
Thika-Gatanga road

Corporate Headquarters

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

GATANGA COMMUNITY WATER SCHEME

Annual Reports and Financial Statements For the year ended June 30, 2020

Corporate Contacts

Telephone: (254) 0708688778, 0708686360

E-mail: gatawa@yahoo.com

Corporate Bankers

Barclays Bank of Kenya-Thika branch

P.O. Box 219-01000,

Thika

Independent Auditors

Office of the Auditor - General

Anniversary Towers, University Way

P.O. Box 30084

G.O.P 00100

Nairobi, Kenya

Principal Legal Advisers

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

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THE BOARD OF TRUSTEES



JOSEPH KIBE- THE CHAIRMAN

Political Science Degree Holder

The chairman of the Board of Trustee



J.B KARANJA- VICE CHAIR

O LEVEL

The representative of Kariara Location & chairman finance committee

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GILBERT .CHEGE
O LEVEL
Retired on 23rd December 2019

Gatanga location & technical committee member





B.N KAMANJA- MEMBER
O LEVEL

Mugumoini location & Finance committee member



GATANGA COMMUNITY WATER SCHEME

**Annual Reports and Financial Statements
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 <p>EDWARD NJOROGE -MEMBER BACHELORS OF COMMERCE</p>	<p>Kariara location& chairman Audit committee</p>
 <p>J.M GATHEE- MEMBER O LEVEL</p>	<p>Kiriaini location& Finance committee member</p>



GATANGA COMMUNITY WATER SCHEME

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 <p>S.N KIBE - MEMBER O LEVEL (Passed on July 2019)</p>	Kigoro location& chairman technical committee
 <p>J.N KANGETHE O LEVEL Retired on 23rd December 2019</p>	Kihumbu-ini location& technical committee member

GATANGA COMMUNITY WATER SCHEME

**Annual Reports and Financial Statements
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 <p>CAROL MWAURYA- COMPANY SECRETARY LLB DEGREE</p>	Mukurwelo location & Finance member
 <p>G. NJOROGE- MANAGING DIRECTOR HIGHER DIPLOMA IN WATER ENGINEERING</p>	Managing Director

GATANGA COMMUNITY WATER SCHEME

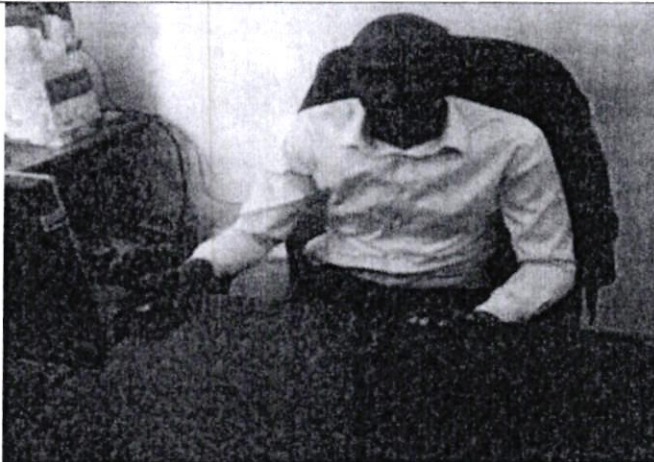
**Annual Reports and Financial Statements
For the year ended June 30, 2020**

MANAGEMENT TEAM



G. NJOROGE- MANAGING DIRECTOR
HIGHER DIPLOMA IN WATER ENGINEERING

- a) Developing for the approval of the Board, strategic and business plans, including annual work-plans, budget and performance targets,
- b) Ensuring effective of the company strategic plan
- c) Ensuring safe custody and management of company's assets
- d) Providing strategic leadership and direction, including the management and development to the human resources of the company,
- e) Planning, coordinating and implementing all activities of the company in line with the policies and directives approved by the Board of Directors



**MICHAEL MUGO MWAMBIA- COMMERCIAL
MANAGER**

BACHELOR OF COMMERCE & CPA(K)

- a. Establishes and ensure compliance with the financial management systems for effective implementation of the company goals and objectives.
- b. Ensures efficient billing, revenue collection, disbursements, accounting and reporting.
- c. Oversees preparations of budgets, and periodic financial performance reports for the company.
- d. Prepares budgets and monitors expenditures
- e. Acts as the Financial controller of the company

GATANGA COMMUNITY WATER SCHEME

Annual Reports and Financial Statements For the year ended June 30, 2020

CHAIRMAN'S STATEMENT

The financial year 2019/2020 has come to close and on behalf of the board of trustees and all staff of Gatanga Community Water Scheme would lie to present the financial statement for the period.

During the period under review, the board of Trustees guided the management according to the mandate as per the water service provision regulator

During the second half of the year, the operations of the Trust was negatively affected like any other organization in many sectors of the economy by Covid- 19. The directive that was given by the by the government on water provision was interpreted by most customers as a waiver on water payments hence the drop in revenues in the period under review.

However, the national government continued with ongoing Ithanga water project and also gave another project whose implementation will start at the start of the coming financial year. The project is projected to inject 5000M3 / day to our system. The main areas that are going to benefit are parts of Kariara ,Kihumbuini and Mugumoini wards.

Two more boreholes were drilled at Mithandukuini and Nyaga areas which have a cumulative 20m3/day into our systems. The areas were in the periphery of our supply area hence in dire need for water.

The board of Trustees would like to thank the National Government through Athi Water Works Development Agency for the above projects that will help in increasing our coverage.

During our tenth annual general meeting held in February this year the board made a proposal of writing off Ksh 30 Million (Thirty Million Kenya Shillings) which has been outstanding in our financial statements. The amount is uncoverable since most of the debtors are untraceable.

On a sad note, the board of Trustees lost one of their members due to illness. During the same period the board of Trustees implemented a resolution on retirement of directors so as to improve governance. Two of our directors retired so as to conform to the regulators co-operate governance guidelines.

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

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

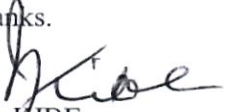
GATANGA COMMUNITY WATER SCHEME

Annual Reports and Financial Statements

For the year ended June 30, 2020

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

Thanks.


J G. KIBE.

CHAIRMAN OF THE BOARD

Date: 15/9/2020

GATANGA COMMUNITY WATER SCHEME

Annual Reports and Financial Statements For the year ended June 30, 2020

REPORT OF THE MANAGING DIRECTOR

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

Among the success in the running of the scheme is an increase in the number of connections from 8821 to 9620. This can be traced to the increase in production from the previous hand over project by Athi Water Development Agency. There was also additional 160m³ per day from two boreholes in Nyaga and Mithandukuini which were commissioned in the period under review. This has helped in increase in coverage 72% from 68%.

During the period, a debt policy was generated and adopted whereby most of the debts reflected in our financial statement was categorized as uncollectable.

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

It's during the same period that the Trust became cashless in its revenue collection. This is in an effort to minimize cash related risks and productivity on our customers who have more time for other economic activities due to making payments anytime at the comfort of their homes.

Several training for member staff were conducted during the year as was identified by the human resource department.

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

The year came with its own challenges which affected our operations in a wide range of effects. Covid-19 affected the Trust in the third and fourth quarters where revenue collection was the most affected due to the government directive on zero disconnection was interpreted by most customers as non-payment of water used. This challenge made the annual revenue collection drop by approximately 3.5 % compared to previous year collection.

Unaccounted for water remained another challenge during the period.

The management has come up with a strategy to mitigate of this challenge by identifying DMA's where metering will be done to 100%. This will have a multiplier effect of increasing water for sale and coverage by making more water available to the underserved.

GATANGA COMMUNITY WATER SCHEME

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For the year ended June 30, 2020

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

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

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

Thank You.



Gikeri Njoroge,
Managing Director.

Date: 15/1/2020

GATANGA COMMUNITY WATER SCHEME

Annual Reports and Financial Statements

For the year ended June 30, 2020

CORPORATE GOVERNANCE STATEMENT

Gatanga Community Water Scheme is incorporated in Kenya under the Trustee's Act Cap 164

Under section 47(h) of the Water Act 2002 Water Service Regulatory Board is supposed to develop guideline for and provide advice on the cost effective and efficient management and operation of water services.

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

Good governance is embedded in the tenets of corporate governance.

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

The good governance has ensured;

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

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

The Board of Trustees as per the guideline of Water Services Board has ensured that they have signed the code of conduct of ethics, schedule of full board meeting at the end of every year, approve an annual budget in consultation with respective water service board etc. this therefore means that the board of directors make the strategic policies to be implemented by the senior managers for the smooth running of the water provider The board of directors comprises of 10 members. The directors are from different professions as per the guideline of the Water ServicesBoard. We have adhered to the gender rule as there are two females in the board.

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

This has enhanced the good productivity of the company.

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

GATANGA COMMUNITY WATER SCHEME

Annual Reports and Financial Statements For the year ended June 30, 2020

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

GATANGA COMMUNITY WATER SCHEME

Annual Reports and Financial Statements For the year ended June 30, 2020

MANAGEMENT DISCUSSION AND ANALYSIS

Area of operation is Gatanga Sub County. The water utility is owned by County Government of Murang'a. There were no grants received in the financial year 2019/2020, entity finances its operations and it's self-sustaining

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

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

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

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

Operational Risks.

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

Market Risks.

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

Capital Risk,

The company is not exposed to capital risk

Credit risk.

The scheme supplies water on credit and gives the customers a period of 14 days to clear their bills. However, not all consumers are able to clear their bills on time, this give rise to credit risk. At the end of the year the trade receivables (water sale debtors) amounted to Ksh.69,496,421 and the highest percentage was owed by Murang'a South Water and Sanitation Company on bulk water bills amounting to ksh.2, 159,605 and Part of these total debts date back from the national water and ministry which are untraceable.

GATANGA COMMUNITY WATER SCHEME

Annual Reports and Financial Statements

For the year ended June 30, 2020

Liquidity risks

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

GATANGA COMMUNITY WATER SCHEME

**Annual Reports and Financial Statements
For the year ended June 30, 2020**

CORPORATE SOCIAL RESPONSIBILITY STATEMENT/SUSTAINABILITY REPORTING

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

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

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

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

GATANGA COMMUNITY WATER SCHEME

Annual Reports and Financial Statements For the year ended June 30, 2020

REPORT OF THE DIRECTORS

The Board of Trustees submits their annual report together with the financial statements for the year ended 30th June 2020 which discloses the state of affairs of the Trust.

INCORPORATION

The Trust (water scheme) is registered in Kenya under the Trustees (perpetual succession) Act chapter 164 and is domicile in Kenya. The address of the registered office is set out in page v

1 RESULTS

The results of the entity for the year ended 30th June 2020 are set out on page 1. Deficit for the year ended 30th June 2019 was Kshs. 3,419,456 and a deficit of Kshs.12,013,700.25 for the year ended 30th June 2020.

2 PRINCIPAL ACTIVITIES

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

3 TRUSTEES.

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

4 AUDITORS

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

BY ORDER OF THE BOARD.


GIKERI NJOROGE.
MANAGING DIRECTOR

DATE...15/9/2020.....

GATANGA COMMUNITY WATER SCHEME

Annual Reports and Financial Statements For the year ended June 30, 2020

STATEMENT OF DIRECTORS' RESPONSIBILITIES


Section 81 of the Public Finance Management Act, 2012 requires the board of Trustees to prepare financial statements for each year. The financial statements are expected to give a true and a fair view of the state of affairs of the trust at the end of the financial year, and the operation result of the scheme for the year. It also requires the Trustees to ensure that the water scheme keep proper accounting records which discloses with reasonable accuracy at any time, the financial position of the scheme. They are also responsible for safeguarding the assets of the scheme. The Trustees are responsible for the preparation and presentation of Gatanga community water scheme's financial statements, which give a true and fair view of the state of affairs of the entity for and as at the end of the financial year (period) ended on June 30, 2020. This responsibility includes: (i) maintaining adequate financial management arrangements and ensuring that these continue to be effective throughout the reporting period; (ii) maintaining proper accounting records, which disclose with reasonable accuracy at any time the financial position of the Gatanga community water scheme; (iii) designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of the financial statements, and ensuring that they are free from material misstatements, whether due to error or fraud; (iv) safeguarding the assets of the Gatanga community water scheme; (v) selecting and applying appropriate accounting policies; and (vi) making accounting estimates that are reasonable in the circumstances.

The Trustees accept responsibility for the Gatanga community water scheme's financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity with International Financial Reporting Standards (IFRS), and in the manner required by the PFM Act, 2012. The Trustees are of the opinion that Gatanga community water scheme's financial statements give a true and fair view of the state of entity's transactions during the financial year ended June 30, 2020, and of the entity's financial position as at that date. The Directors further confirm the completeness of the accounting records maintained for the entity, which have been relied upon in the preparation of the

Entity's financial statements as well as the adequacy of the systems of internal financial control.

Approval of the financial statements

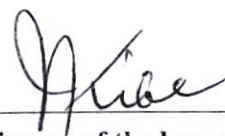
Gatanga community water scheme's financial statements were approved by the board on ^{15th}.....
September, 2020 and signed on its behalf by:



Managing Director

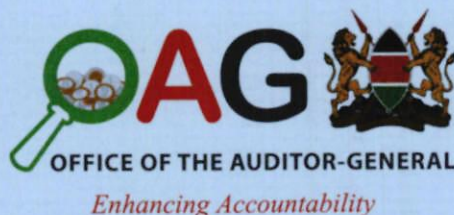


Director



Chairman of the board

REPUBLIC OF KENYA



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

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

REPORT OF THE AUDITOR-GENERAL ON GATANGA COMMUNITY WATER SCHEME FOR THE YEAR ENDED 30 JUNE, 2020

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of Gatanga Community Water Scheme set out on pages 1 to 35, which comprise the statement of financial position as at 30 June, 2020 and the statement of comprehensive income, statement of changes in equity, statement of cash flows and statement of comparison of budget and actual amounts for the year then ended, and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, 2015. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

In my opinion, except for the effects of the matter described in the Basis for Qualified Opinion section of my report, the financial statements present fairly, in all material respects, the financial position of Gatanga Community Water Scheme as at 30 June, 2020 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 Kenyan Companies Act, 2015 and the Public Finance Management Act, 2012.

Basis for Qualified Opinion

Long Outstanding Account Receivables

The statement of financial position reflects a balance of Kshs.53,641,562 under account receivables which, as disclosed in Note 8 to the financial statements, includes trade receivables of Kshs.69,840,156 less a provision for bad debts of Kshs.16,198,594. As previously reported, the trade receivables includes debts amounting to Kshs.30,773,030 which have been outstanding for a long period. Although the Management made a specific bad debt provision of Kshs.10,276,613 during the year, no breakdown of the specific debts being written off was provided. Further, the Scheme had not established a Debt Management Policy as of 30 June, 2020. In addition, no effort appears to have been made to recover the long outstanding account receivables.

As a result, the accuracy and recoverability in full of the account receivables balance of Kshs.53,641,562 as at 30 June, 2020 could not be confirmed.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the Gatanga Community Water Scheme

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

Key Audit Matters

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

Other Matter

Budgetary Control and Performance

During the financial year 2019/2020 the Scheme realized a total income of Kshs.43,177,221 against a revenue budget projection of Kshs.56,901,312, resulting in an under-collection of Kshs.13,235,558 or 24% of the budgeted revenue which was not explained or justified.

Other Information

The Directors are responsible for the other information. The other information comprises the Report of Directors as required by the Companies Act, 2015, and the statement of the Directors' responsibilities which are obtained prior to the date of this report, and the annual report which is expected to be made available after that date.

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

In connection with the audit of the financial statements, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or the knowledge obtained in the audit, or otherwise appears to be materially misstated. Based on the work I have performed on the other information obtained prior to the date of this auditor's report, if I conclude that there is material misstatement of this other information, I am required to report that fact. In this regard, I wish to report as follows:

On pages vi to x of the report on Key Entity Information attached to the financial statements for the year ended 30 June, 2020 are names and passport-size photographs of Board of Trustees/Directors who held office during the year under review. However, pertinent details of the Trustees/Directors including their dates of birth and work experience were not provided contrary to the guidelines prescribed by the Public Sector Accounting Standards Board.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

As required by Article 229(6) of the Constitution, based on the audit procedures performed, except for the matters described in the Basis for Conclusion on Lawfulness, Effectiveness in Use of Public Resources section of my report, I confirm that, nothing else

has come to my attention to cause me to believe that public resources have not been applied lawfully and in an effective way.

Basis for Conclusion

1. Non-Revenue Water

During the financial year, the Company produced 1,466,867 cubic meters (m³) of water, out of which 826,801 m³ is water billed to customers. The balance of 640,066m³ or approximately 44% of the total volume of water produced represents Non-Revenue Water (NRW) which is 19% over and above the allowable water loss of 25% as per the Water Service Regulatory Board (WASREB) guidelines. The non-revenue water of 44% may have resulted in loss of sales estimated at Kshs.32,681,590. The significant level of non-revenue water is an indication of inefficiency and ineffectiveness in use of public and water resources and may negatively impact on the Scheme's profitability and its long-term sustainability.

2. Non-Compliance with the Water Services Regulatory Board (WASREB) Regulations on Personnel Costs

The statement of comprehensive income reflects administration expenses of Kshs.52,238,316 which, as disclosed in Note 3 to the financial statements, includes personnel costs of Kshs.24,097,527, representing 44% of the annual expenditure of Kshs.55,190,921 as at 30 June, 2020. This is higher than the recommended ratio of 35% as per WASREB guidelines. The excess personnel costs may negatively impact on the Water Scheme's profitability and sustainability of services if measures are not put in place to contain the cost within the acceptable level.

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

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

Basis for Conclusion

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

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

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

- (i) I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of my audit;
- (ii) In my opinion, proper books of account have been kept by the Scheme, so far as appears from the examination of those books;
- (iii) The Scheme's statement of financial position and statement of comprehensive income are in agreement with books of account; and
- (iv) In my opinion, the information given in the report of the Directors on page xxi is consistent with the financial statements.

Responsibilities of Management and the Board of Trustees

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

In preparing the financial statements, the Management is responsible for assessing the Water Scheme's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Management is aware of the intention to liquidate the Water Scheme or to 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, Management is also responsible for ensuring that the activities, financial transactions and information reflected in the financial statements are in compliance with the authorities which govern them, and that public resources are applied in an effective way.

The Board of Trustees is responsible for overseeing the Scheme's financial reporting process, reviewing the effectiveness of how the entity 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 policies and procedures may deteriorate.

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Management.
- Conclude on the appropriateness of the Management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on

the Water Scheme's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in the auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my audit report. However, future events or conditions may cause the Water Scheme to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information and business activities of the Water Scheme to express an opinion on the financial statements.
- Perform such other procedures as I consider necessary in the circumstances.

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

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


CPA Nancy Gathungu, CBS
AUDITOR-GENERAL

Nairobi

02 February, 2022

GATANGA COMMUNITY WATER SCHEME

**Annual Reports and Financial Statements
For the year ended June 30, 2020**

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 30 JUNE 2020.

INCOME			<u>2019/2020</u>	<u>2018/2019</u>
	NOTE		<u>KSHS</u>	<u>KSHS</u>
Revenue	1		41,594,751	37,007,807
Other income	1b		888,150	174,300
Grants	2		694,320	1,146,660
TOTAL INCOME			<u>43,177,221</u>	<u>38,328,767</u>
OPERATION EXPENSES				
Administration Expenses	3		52,238,316	39,576,585
Depreciation of Property, Plant and Equipment	4		2,952,605	2,721,638
TOTAL OPERATING EXPENSES			<u>55,190,921</u>	<u>42,298,223</u>
Deficit for the year before tax			<u>(12,013,700)</u>	<u>(3,969,456)</u>
Income tax			-	-
Deficit after tax			<u>(12,013,700)</u>	<u>(3,969,456)</u>
OTHER COMPREHENSIVE INCOME				
Surplus on revaluation of PPE				<u>400,000</u>
DEFICIT FOR THE YEAR ENDED			<u>(12,013,700)</u>	<u>(3,569,456)</u>

GATANGA COMMUNITY WATER SCHEME

Annual Reports and Financial Statements

For the year ended June 30, 2020

STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2020

		2019/2020	2018/2019
	NOTE	<u>KSHS</u>	<u>KSHS</u>
<u>NON -CURRENT ASSETS</u>			
Property, plant & Equipment	5	22,342,811	23,473,323
<u>Current Assets</u>			
cash and cash equivalents	6	1,116,335	1,430,470
Inventories	7	115,580	161,500
Accounts Receivables	8	53,641,562	54,469,976
Total Current Assets		<u>54,873,477</u>	<u>56,061,946.32</u>
TOTAL ASSETS		<u>77,216,288</u>	<u>79,535,269</u>
<u>EQUITY AND LIABILITIES</u>			
Capital Reserves		16,443,575	16,443,575
General Reserves		14,156,748	26,170,449
Capital and Reserves		<u>30,600,323</u>	<u>42,614,024</u>
<u>Current Liabilities</u>			
Accounts Payable	9	17,097,927	10,398,187
Customer Deposits	10	9,760,393	9,261,093
Provision Account	11	19,757,644	17,261,965
Total Current Liabilities		<u>46,615,964</u>	<u>36,921,245</u>
TOTAL EQUITY & LIABILITIES		<u>77,216,288</u>	<u>79,535,269</u>

The financial statements were approved by the Board on 15/9/2020 and signed on its behalf by:

M.D <i>[Signature]</i>	Head of Finance <i>[Signature]</i>		Chairman of the Board <i>[Signature]</i>
Name: <u>LIZZI WJOROGE</u>	Name: <u>M. MWAMBIA</u>		Name:
	ICPAK M/NO: <u>18045</u>		

GATANGA COMMUNITY WATER SCHEME

Annual Reports and Financial Statements
For the year ended June 30, 2020

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 JUNE 2020

	Capital Reserves	General reserves	Total
Bal B/F 1 July 2018	16,443,575	29,739,905	46,183,480
Total Net comprehensive income		(3,569,456)	(3,569,456)
Bal c/d 30 June 2019	16,443,575	26,170,449	42,614,024
Opening Balance as at 1 July 2019	16,443,575	26,170,449	42,614,024
Total Net comprehensive income	-	(12,013,700)	(12,013,700)
closing balance as at 30th June 2020	<u>16,443,575</u>	<u>14,156,748</u>	<u>30,600,323</u>

GATANGA COMMUNITY WATER SCHEME

**Annual Reports and Financial Statements
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STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2020

INCOME			<u>2019/2020</u>	<u>2018/2019</u>
			<u>KSHS</u>	<u>KSHS</u>
Cash flow from operating activities				
Profit before income taxes			(12,013,700)	(3,969,456)
<u>Adjust for:</u>				
Depreciation	4		<u>2,952,605</u>	<u>2,721,638</u>
Operating profit before working capital changes			<u>(9,061,095)</u>	<u>(1,247,818)</u>
<u>Working capital changes</u>				
Increase in inventories	7		45,920	(58,800)
Increase/Decrease in Accounts receivables	8		828,414	(2,635,173)
Increase in Accounts Payables	9		6,699,740	834,226
Increase in Members deposits	10		499,300	548,000
Increase in provisions account	11		2,495,679	2,250,172
Cash generated from operating activities			<u>1,507,958</u>	<u>(309,393)</u>
Tax paid			-	-
Net cash generated from operating activities			<u>1,507,958</u>	<u>(309,393)</u>
Cash flow from investing activities				
Acquisition of assets			(1,822,094)	(606,992)
Net cash flow after investing activities			(1,822,094)	(606,992)
Net increase in cash & cash equivalent			(314,136)	(916,385)
Cash and cash equivalent at the beginning of year			<u>1,430,466</u>	<u>2,346,851</u>
Cash and cash equivalent at the beginning of year			<u>1,116,335</u>	<u>1,430,471</u>

GATANGA COMMUNITY WATER SCHEME

**Annual Reports and Financial Statements
For the year ended June 30, 2020**

STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS FOR THE PERIOD ENDED 30 JUNE 2020

FOR THE YEAR ENDED 30TH JUNE 2020							
	ORIGINAL BUDGET 2019/2020	ADJUSTMENTS 2019/2020	FINAL BUDGET 2019/2020	ACTUAL COMPARABLE 2019/2020	PERFORMANC E DIFFERENCE	PERFORMANCE DIFFERENCE AS %	Explanation of material variances
	Shs	Shs	Shs	Shs	Shs	Shs	
Revenue							
Billing(Water Sale)	56,181,312	-	56,181,312	41,594,750.40	14,586,562	26	
Miscelaneous	720,000	-	720,000	888,150.00	- 168,150	- 23	
Total income	56,901,312	-	56,901,312	42,482,900.40	14,418,412	25	a)
Expenses							
Compensation of employees	10,916,530	-	10,916,530	11,394,863.00	478,333	4	
Administration Cost	3,663,000	-	3,663,000	3,136,755.00	- 526,245	- 14	b)
Operation Cost	8,892,878	-	8,892,878	4,038,849.00	- 4,854,029	- 55	c)
	-	-	-	-	-		
Trustee cost	648,000	-	648,000	305,001.00	- 342,999	- 53	d)
Other payments	-	-	-	-	-		
Grants and subsidies paid	-	-	-	-	-		
Total expenditure	24,120,408	-	24,120,408	18,875,468.00	5,244,940	25	
Surplus for the period	32,780,904		32,780,904	23,607,432.40	- 9,173,472		

Explanatory notes

- a) Movement is due to work in progress of the project which we anticipated they will be complete during the financial year and continuous dilapidated system.
- b) Movement is due to management effort to reduce overall administration cost due reduction in revenue
- c) Movement is due to management effort to reduce overall operation cost due reduction in revenue

GATANGA COMMUNITY WATER SCHEME

Annual Reports and Financial Statements For the year ended June 30, 2020

NOTES TO THE FINANCIAL STATEMENTS

1. GENERAL INFORMATION

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

2.

STATEMENT OF COMPLIANCE AND BASIS OF PREPARATION

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

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

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

GATANGA COMMUNITY WATER SCHEME

Annual Reports and Financial Statements For the year ended June 30, 2020

NOTES TO THE FINANCIAL STATEMENTS (Continued)

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

i) Relevant new standards and amendments to published standards effective for the year ended 30 June 2020(Continued)

Application of IFRS 16 requires right-of-use assets and lease liabilities to be recognised in respect of most operating leases where the Company is the lessee.

IFRIC 23: Uncertainty Over income tax treatments

The interpretation addresses the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates, when there is uncertainty over income tax treatments under IAS 12. It specifically considers:

- Whether tax treatments should be considered collectively
- Assumptions for taxation authorities' examinations
- The determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates
- The effect of changes in facts and circumstances

Amendments to IFRS 9 titled Prepayment Features with Negative Compensation (issued in October 2017)

The amendments, applicable to annual periods beginning on or after 1 January 2020, allow entities to measure prepayable financial assets with negative compensation at amortised cost or fair value through other comprehensive income if a specified condition is met.

Amendments to IAS 28 titled Long-term Interests in Associates and Joint Ventures (issued in October 2017)

The amendments, applicable to annual periods beginning on or after 1st January 2020, clarify that an entity applies IFRS 9, rather than IAS 28, in accounting for long-term interests in associates and joint ventures.

Amendments to IFRS 3 - Annual Improvements to IFRSs 2015–2017 Cycle, issued in December 2017.

The amendments, applicable to annual periods beginning on or after 1st January 2020, provide additional guidance on applying the acquisition method to particular types of business combination.

GATANGA COMMUNITY WATER SCHEME

Annual Reports and Financial Statements For the year ended June 30, 2020

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

- i) **Relevant new standards and amendments to published standards effective for the year ended 30 June 2020(Continued)**

Amendments to IFRS 11 - Annual Improvements to IFRSs 2015–2017 Cycle, issued in December 2017

The amendments, applicable to annual periods beginning on or after 1st January 2020, clarify that when an entity obtains joint control of a business that is a joint operation, it does not re-measure its previously held interests

Amendments to IAS 12 - Annual Improvements to IFRSs 2015–2017 Cycle , issued in December 2017

The amendments, applicable to annual periods beginning on or after 1st January 2020, clarify that all income tax consequences of dividends should be recognised when a liability to pay a dividend is recognised, and that these income tax consequences should be recognised in profit or loss, other comprehensive income or equity according to where the entity originally recognised the transactions to which they are linked.

Amendments to IAS 23 - Annual Improvements to IFRSs 2015–2017 Cycle , issued in December 2017

The amendments, applicable to annual periods beginning on or after 1st January 2020, clarify that the costs of borrowings made specifically for the purpose of obtaining a qualifying asset that is substantially completed can be included in the determination of the weighted average of borrowing costs for other qualifying assets.

Amendments to IAS 19 titled Plan Amendment, Curtailment or Settlement (issued in February 2019)

The amendments, applicable to plan amendments, curtailments or settlements occurring on or after the beginning of the first annual reporting period that begins on or after 1st January 2020, requires an entity to use updated actuarial assumptions to determine current service cost and net interest for the remainder of the annual reporting period after the plan amendment, curtailment or settlement when the entity re-measures its net defined benefit liability (asset) in the manner specified in the amended standard.

GATANGA COMMUNITY WATER SCHEME

Annual Reports and Financial Statements

For the year ended June 30, 2020

NOTES TO THE FINANCIAL STATEMENTS (Continued)

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

Amendments to IAS 1 and IAS 8 Definition of material

The amendments are intended to make the definition of material in IAS 1 easier to understand and are not intended to alter the underlying concept of materiality in IFRS Standards. The concept of 'obscuring' material information with immaterial information has been included as part of the new definition. The threshold for materiality influencing users has been changed from 'could influence' to 'could reasonably be expected to influence'. The definition of material in IAS 8 has been replaced by a reference to the definition of material in IAS 1. In addition, the IASB amended other Standards and the Conceptual Framework that contain a definition of material or refer to the term 'material' to ensure consistency. The amendments are applied prospectively for annual periods beginning on or after 1 January 2020, with earlier application permitted

ii) **New and amended standards and interpretations in issue but not yet effective in the year ended 30 June 2020**

IFRS 17 Insurance Contracts (Issued 18 May 2017)

IFRS 17 requires insurance liabilities to be measured at a current fulfillment value and provides a more uniform measurement and presentation approach for all insurance contracts. These requirements are designed to achieve the goal of a consistent, principle-based accounting for insurance contracts. IFRS 17 supersedes IFRS 4 *Insurance Contracts* as of 1 January 2021.

Amendments to References to the Conceptual Framework in IFRS Standards (Issued 29 March 2019- Applicable for annual periods beginning 1 January 2020)

Together with the revised *Conceptual Framework* published in March 2019, the IASB also issued *Amendments to References to the Conceptual Framework in IFRS Standards*. The document contains amendments to IFRS 2, IFRS 3, IFRS 6, IFRS 14, IAS 1, IAS 8, IAS 34, IAS 37, IAS 38, IFRIC 12, IFRIC 19, IFRIC 20, IFRIC 22, and SIC-32. Not all amendments, however, update those pronouncements with regard to references to and quotes from the framework so that they refer to the revised *Conceptual Framework*. Some pronouncements are only updated to indicate which version of the framework they are referencing to (the IASC framework adopted by the IASB in 2001, the IASB framework of 2010, or the new revised framework of 2019) or to indicate that definitions in the standard have not been updated with the new definitions developed in the revised *Conceptual Framework*.

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.

GATANGA COMMUNITY WATER SCHEME

Annual Reports and Financial Statements

For the year ended June 30, 2020

NOTES TO THE FINANCIAL STATEMENTS (Continued)

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

iii) Early adoption of standards

The entity did not early – adopt any new or amended standards in year 2020.

iii) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

I. Revenue Recognition

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

- (a) Revenue from the sale of goods and services is recognized in the year in which Gatanga Community Water Scheme delivers products to the customer, the customer has accepted the products and collectability of the related receivables is reasonably assured.
- (b) Grants from National Government are recognized in the year in which Gatanga Community Water Scheme actually receives such grants.
- (c) Finance income comprises interest receivable from bank deposits and investment in securities, and is recognized in profit or loss on a time proportion basis using the effective interest rate method.
- (d) Other income is recognized as it accrues.

iii. In-Kind Contributions

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

GATANGA COMMUNITY WATER SCHEME

Annual Reports and Financial Statements

For the year ended June 30, 2020

NOTES TO THE FINANCIAL STATEMENTS (Continued)

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

a) Property, plant and equipment

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

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

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

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

b) Depreciation and impairment of property, plant and equipment

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

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

Buildings	10%
Operational tool	33%
Motor vehicles, including motor cycles	25%
Computers and related equipment	30%
Office equipment, furniture and fittings	12.5%
Water pipeline	5%
Software Amortization	10%
Water tanks and plots	0%
Furniture and fittings	12.5%

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

GATANGA COMMUNITY WATER SCHEME

Annual Reports and Financial Statements

For the year ended June 30, 2020

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

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

c) Intangible assets

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

d) Amortisation and impairment of intangible assets

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

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

e) Inventories

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

f) Trade and other receivables

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

g) Taxation

Current income tax

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

GATANGA COMMUNITY WATER SCHEME

Annual Reports and Financial Statements

For the year ended June 30, 2020

NOTES TO THE FINANCIAL STATEMENTS (Continued)

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

n) Taxation (Continued)

Current income tax (Continued)

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

Deferred tax

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

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

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

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

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

GATANGA COMMUNITY WATER SCHEME

Annual Reports and Financial Statements

For the year ended June 30, 2020

NOTES TO THE FINANCIAL STATEMENTS (Continued)

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

n) Taxation (Continued)

Deferred tax (Continued)

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

h) Cash and cash equivalents

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

i) 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 on settlement or redemption are accounted for on accrual basis and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise. Loan interest accruing during the construction of a project is capitalised as part of the cost of the project.

j) 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.

GATANGA COMMUNITY WATER SCHEME

Annual Reports and Financial Statements

For the year ended June 30, 2020

NOTES TO THE FINANCIAL STATEMENTS (Continued)

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

k) Retirement benefit obligations

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

l) Provision for staff leave pay

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

m) Budget information

The original budget for FY 2019-2020 was approved by the County Assembly. Subsequent revisions or additional appropriations were made to the approved budget in accordance with specific approvals from the appropriate authorities. The additional appropriations are added to the original budget by the entity upon receiving the respective approvals in order to conclude the final budget.

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

GATANGA COMMUNITY WATER SCHEME

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For the year ended June 30, 2020

NOTES TO THE FINANCIAL STATEMENTS (Continued)

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

u) Budget information (Continued)

A statement to reconcile the actual amounts on a comparable basis included in the statement of comparison of budget and actual amounts and the actual as per the statement of financial performance has been presented under page 7 of these financial statements.

n) Service concession arrangements

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

o) Comparative figures

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

p) Subsequent events

There have been no events subsequent to the financial year end with a significant impact on the financial statements for the year ended June 30, 2020.

5 SIGNIFICANT JUDGMENTS AND SOURCES OF ESTIMATION UNCERTAINTY

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

GATANGA COMMUNITY WATER SCHEME

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For the year ended June 30, 2020

5 SIGNIFICANT JUDGEMENTS AND SOURCES OF ESTIMATION UNCERTAINTY

(Continued)

Estimates and assumptions

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

Useful lives and residual values

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

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

Provisions

Provisions are recognized when a company has a legal or constructive obligation as a result of past events and it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate of the amount can be made. Provision for bad and doubtful debts is provided at 10% of the trade debtors and specific provision of bad debts which is made on debt which are not recoverable is done at 100% having been approved by the board of Trustees awaiting approval by other authorities.

GATANGA COMMUNITY WATER SCHEME

Annual Reports and Financial Statements

For the year ended June 30, 2020

NOTES TO THE FINANCIAL STATEMENTS (Continued)

1. REVENUE

	<u>2019/2020</u>	<u>2018/2019</u>
	<u>KSHS</u>	<u>KSHS</u>
1.Revenue		
Water billing	41,594,751	37,007,807
	<u>41,594,751</u>	<u>37,007,807</u>
1b). Other incomes		
Conection & reconnection	759,400	174,300
other incomes- refunds	37,800	
Decrease in provision for bad debts	90,950	
	<u>888,150</u>	<u>174,300</u>

2. GRANTS FROM NATIONAL GOVERNMENT

2. Grants		
Salary grant-GOK	694,320	1,146,660
	<u>694,320</u>	<u>1,146,660</u>

Salary grant relates to seconded employees from ministry

GATANGA COMMUNITY WATER SCHEME

Annual Reports and Financial Statements
For the year ended June 30, 2020

NOTES TO THE FINANCIAL STATEMENTS (Continued)

3. ADMINISTRATION COSTS

3.a)Personnel Cost		
Staff Salaries	17,401,977	16,734,132
staff Salaries paid by MOWI (operational Grant)	694,320	1,146,660
casual wages	3,831,042	3,486,330
Pension contribution by employer	1,850,088	1,795,066
Gratuity	297,600	297,600
Other staff costs(salary adv written off)		84,000
Leave allowance& compensation	22,500	291,757
Total Personnel cost	24,097,527	23,835,545
3.b). <u>TRUSTEE EXPENSES</u>		
Board sitting allowances	498,571	657,858
Board Training	586,000	
Trustee cost	1,084,571	657,858

GATANGA COMMUNITY WATER SCHEME

**Annual Reports and Financial Statements
For the year ended June 30, 2020**

3.c)Administration Expenses			
Advertising and Promotion		75,052	234,000
A.G.M Expenses		170,000	10,000
Auditor General charges			290,000
Bank & Mpesa Charges		188,930	149,129
Christmas party and gift		170,500	175,000
Conference, Training and workshops		149,688	200,967
Consultancy(legal fee & other charges)		562,000	934,700
Corporate social responsibility			42,280
Electricity		120,090	230,716
Employee welfare			40,000
Insurance		512,906	136,736
Licence and permits		41,500	116,500
Office General Expenses		643,384	659,913
Office repairs and Maintenance		91,920	
Telephone and postage		523,550	382,450
Printing and Stationery		33,610	104,615
Provision for bad & Doubtful debts			303,833
R & M Computer repair & printers		235,095	278,250
Specific Provision for bad debts		10,276,613	
Sports		16,200	26,874
Subscriptions		61,000	273,400
Stakeholders meeting			140,000
Travel & accomodation		1,251,950	1,080,150
Total Administration Costs		15,123,988	5,809,513

GATANGA COMMUNITY WATER SCHEME

Annual Reports and Financial Statements For the year ended June 30, 2020

<u>3.d) OPERATION COST</u>		
Athi Water Service Board- Lease fees	2,495,679	2,335,172
Bore hole electricity	240,463	273,243
Chemicals	507,620	
KFS Annual permit	99,000	4,000
Repair and maintenance of billing system	45,000	18,500
Repair and maintenance of water systems	3,331,060	1,853,472
Repair and maintenance of motor cycies	100,520	126,050
Repair and maintenance of motor vehicles	256,050	687,305
Regulatory Levy - WASREB	1,663,783	1,115,984
Transport and fuel	2,288,555	2,188,309
Water Abstraction Fees - WARMA	904,500	671,635
TOTAL OPERATION COST	11,932,230	9,273,670

4. DEPRECIATION OF PROPERTY, PLANT AND EQUIPMENT

Depreciation	2,952,605	2,721,638
TOTAL	2,952,605	2,721,638

GATANGA COMMUNITY WATER SCHEME

Annual Reports and Financial Statements

For the year ended June 30, 2020

NOTES TO THE FINANCIAL STATEMENTS (Continued)

5. INCOME TAX EXPENSE/(CREDIT)

(a) Current taxation

	2019/2020	2018/2019
	Kshs	Kshs
Current taxation based on the adjusted profit for the year at 30%	0	0
Current tax: prior year under/(over) provision	0	0
Current year deferred tax charge	0	0
Prior year under-provision for deferred tax	0	0
Total	0	0

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

	2019/2020	2018/2019
	KSH	
Surplus for the year	(12,013,700)	(3,569,456)
ADD DISALLOWABLES		
Depreciation	2,952,605	2,721,638
Increase in Provision for bad debts	(90,950)	303,833
	(9,152,045)	(543,985)
LESS ALLOWABLES		
Wear and tear	2,952,605	2,721,638
Taxable profit/ (loss)	(12,104,650)	(3,265,623)
Tax @ 30%	-	

GATANGA COMMUNITY WATER SCHEME

**Annual Reports and Financial Statements
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FULLY DEPRECIATED ASSETS	COST		REVALUED ASSET		COST		ACC DEPN		REVALUED AMOUNT	
MOTORCYCLES		518,000.0	MOTORVEHICLES		1,750,000.00		1,750,000.00		400,000.00	
MOTORVEHICLE		1,750,000.0								
FURNITURE & FITTINGS		606,914.0								
EQUIPMENTS		502,920.0								
COMPUTER AND PERIPHERALS		1,348,600.0								
OPERATIONAL TOOLS		220,000.0								

	Furniture & Fittings	Motorcycles	GENERATOR	Motorvehic le	Equipments	Computers & Peripherals	water pipelines	SOFTWARES	water plots	Operational tool	Building	INTERNET DOMAIN(WEBSITE)	WATER METERS	Total
Total cost or Valuation as at	606,914	939,620	185,000	2,150,000	676,842	1,826,010	35,202,318	1,216,505	780,000	220,000	4,204,831		67,000	48,075,040
additions	-	211,240	-	-	133,664	59,690						129,000	1,288,500	1,822,094
REVALUATION														
Total cost or Valuation as at	606,914	1,150,860	185,000	2,150,000	810,506	1,885,700	35,202,318	1,216,505	780,000	220,000	4,204,831	129,000	1,355,500	49,897,134
Accum dep as at 31.07.19	606,914	835,810	92,500	1,850,000	524,660	1,678,249	15,422,303	502,794	-	220,000	2,859,284	-	9,200	24,601,714
Charge for the year		158,215	23,125	100,000	38,448	161,130	1,760,116	121,651	-	-	420,483	-	169,438	2,952,605
Accum dep as at 30.06.20	606,914	994,025	115,625	1,950,000	563,109	1,839,379	17,182,419	624,445	-	220,000	3,279,767	-	178,638	27,554,320
NETBOOK 30/6/2020	-	156,835	69,375	200,000	247,398	46,321	18,019,899	592,061	780,000	-	925,064	129,000	1,176,863	22,342,811
NETBOOK 30.06.2019	-	103,810	92,500	300,000	152,182	147,761	19,780,015	713,711	780,000	-	1,345,547		57,800	23,473,323

GATANGA COMMUNITY WATER SCHEME

**Annual Reports and Financial Statements
For the year ended June 30, 2020**

	<u>Furniture & Fittings</u>	<u>Motorcycles</u>	<u>GENERATOR</u>	<u>Motorvehicle</u>	<u>Equipments</u>	<u>Computers & Peripherals</u>	<u>water pipelines</u>	<u>SOFTWARES</u>	<u>water plots</u>	<u>Operational tool</u>	<u>Building</u>
Total cost or Valuation as at 01.07.18	606,914	939,620	185,000	1,750,000	502,920	1,555,740	35,202,318	1,114,105	780,000	220,000	4,204,831.00
additions	-	-	-	-	173,922	270,270	-	102,400	-	-	-
REVALUATION				400,000							
Total cost or Valuation as at 30.06.19	606,914	939,620	185,000	2,150,000	676,842	1,826,010	35,202,318	1,216,505	780,000	220,000	4,204,831.00
Accum dep as at 31.07.18	589,394	730,405	69,375	1,750,000	502,920	1,535,026	13,662,187	381,143	-	220,000	2,438,801.00
Charge for the year	17,520	105,405	23,125	100,000	21,740	143,223	1,760,116	121,651.00	-	-	420,483.10
Accum dep as at 30.06.19	606,914	835,810	92,500	1,850,000	524,660	1,678,249	15,422,303	502,794	-	220,000	2,859,284.10
NETBOOK 30/6/2019	-	103,810.00	92,500.00	300,000.00	152,181.75	147,761.00	19,780,015.10	713,711.00	780,000.00	-	1,345,546.90
NETBOOK 30.06.2018	17,520	209,215	115,625	-	-	20,714	21,540,131	732,962	780,000	-	1,766,030.00

GATANGA COMMUNITY WATER SCHEME

Annual Reports and Financial Statements

For the year ended June 30, 2020

7. INVENTORIES

	2019	2020
Pipes and their fittings	115,580	161,500
	115,580	161,500
	=====	=====

8(a) TRADE AND OTHER RECEIVABLES

Bal B/F Book Water sale debtors	60,129,308	57,090,978
Water Sale & Miscellaneous	42,354,151	37,182,107
Watersale Receipts	(32,987,038)	(34,143,777)
Total Water Sale Debtors	69,496,421	60,129,308
Specific Provision for bad & Doubtful Debts(100%)	10,276,613	-
General Provision for bad & Doubtful Debts(10%)	5,921,981	6,012,931
Net (water) debtors	53,297,827.02	54,116,377.02
Laptrust	5,000	5,000
Staff loan	5,100	15,500
Pension (National water)	78,339	78,339
Total kenya	8,571	8,035
Muranga south water & sewerage co.ltd	186,617	186,617
Staff pension paid by Company	30,108	30,108
Tusquee	30,000	30,000
Total Accounts Receivable	53,641,562.02	54,469,976.05

Notes

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

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

-MurangaSouth Water relate to sharing of repair of intake when we were sharing intake

-Tusquee relates to deposit made to bulk sms company.

GATANGA COMMUNITY WATER SCHEME

Annual Reports and Financial Statements

For the year ended June 30, 2020

NOTES TO THE FINANCIAL STATEMENTS (Continued)

8. (b) TRADE RECEIVABLES

	2019-2020	2018-2019
	Kshs	Kshs
Gross trade receivables	60,129,308	60,129,308
General Provision for doubtful receivables	(5,921,981)	(6,012,931)
Specific Provision	(10,276,613)	
	53,297,827	54,116,376
	=====	=====
At June 30, the ageing analysis of the gross trade receivables was as follows:		
Less than 30 days	3,927,497	6,469,378
Between 30 and 60 days	3,291,573	0
Between 61 and 90 days	3,926,987	3,285,275
Between 91 and 120 days	7,505,929	3,125,489
Over 120 days	50,844,433	47,249,165
	69,496,421	60,129,308
	=====	=====

8. (c) STAFF RECEIVABLES

	2019-2020	2018-2019
	Kshs	Kshs
Gross staff loans and advances	5,100	99,500
Provision for impairment loss		
		15,500
Less: Amounts due within one year	(5,100)	(15,500)
Amounts due after one year	0	0
	=====	=====

Amount written off in 2018/2019 relates to the employee who left the company

GATANGA COMMUNITY WATER SCHEME

Annual Reports and Financial Statements

For the year ended June 30, 2020

NOTES TO THE FINANCIAL STATEMENTS (Continued)

9. TRADE AND OTHER PAYABLES.

	2019/2020	2018/2019
	Ksh	Ksh
WARMA	3,917,380	3,465,130
Kel chemicals LTD	121,700	-
Earthview Limited	425,000	
Kenya national audit Office	-	290,000
Neema Hardware	429,000	225,150
Salary arrears & gratuity	6,119,918	3,417,715
WASREB	3,086,862	1,423,079
Bromak general marchants	1,679,780	550,850
MAN U	352,000	192,600
WASPA Subscription	150,000	205,000
Aquatreat Solutions LTD	133,664	
Francisco & Pats Consultants	375,000	450,000
Aquila Group Redefining Excellence	129,000	
Accounts Payable	16,919,304	10,219,564
income tax	178,623	178,623
Total Accounts Payable	17,097,927	10,398,187

10. Customer Deposits

9,760,393

9,261,093

11. Provision Account

AWSB-Lease

18,007,644

15,511,965

Audit provisions

1,720,000

1,720,000

AGM

FKE subscription

30,000

30,000

KFS Way leave

Total Provision Account

19,757,644

17,261,965

GATANGA COMMUNITY WATER SCHEME

Annual Reports and Financial Statements

For the year ended June 30, 2020

NOTES TO THE FINANCIAL STATEMENTS (Continued)

12. SHORT TERM DEPOSITS

		2019/2020	2018/2019
		Kshs	Kshs
Water sale	A/C -1226975	938,961	181,090
Customers deposit a/c	A/C- 1226967	124,570	1,154,681
Expenditure a/c	A/C- 1226983	44,552	47,472
Total Bank Balance		1,108,083	1,383,243
Cash Balance at hand on 30th June 2019			
Office cash		8,252	47,227
Total Cash and cash Equivalnets		1,116,335	1,430,470

All our accounts are in Barclays bank

12b) BANK AND CASH BALANCES

	2019-2020	2018-2019
	Kshs	Kshs
Cash at bank	1,108,083	1,383,243
Cash in hand	8,252	47,227
	1,116,335	1,430,470
	=====	=====

All the cash at bank was held at Barclays Bank of Kenya as the main banker

13. REVALUATION RESERVE

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

14. FAIR VALUE ADJUSTMENT RESERVE

The fair value adjustment reserve arises on the revaluation of available-for-sale financial assets, principally the marketable securities. When a financial asset is sold, the portion of the reserve that relates to that asset is reduced from the fair value adjustment reserve and is recognised in profit or loss. Where a financial asset is impaired, the portion of the reserve that relates to that asset is recognised in profit or loss.

15. RETAINED EARNINGS

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

GATANGA COMMUNITY WATER SCHEME

Annual Reports and Financial Statements

For the year ended June 30, 2020

16. RETIREMENT BENEFIT OBLIGATIONS

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

17. RELATED PARTY DISCLOSURES

(a) Government of Kenya

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

Other related parties include:

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

GATANGA COMMUNITY WATER SCHEME

Annual Reports and Financial Statements For the year ended June 30, 2020

18. FINANCIAL RISK MANAGEMENT

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

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

(i) **Credit risk**

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

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

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

GATANGA COMMUNITY WATER SCHEME

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For the year ended June 30, 2020

NOTES TO THE FINANCIAL STATEMENTS (Continued)

18. FINANCIAL RISK MANAGEMENT (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 entity's directors, who have built an appropriate liquidity risk management framework for the management of the entity's short, medium and long-term funding and liquidity management requirements. The entity manages liquidity risk through continuous monitoring of forecasts and actual cash flows.

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.

GATANGA COMMUNITY WATER SCHEME

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For the year ended June 30, 2020

NOTES TO THE FINANCIAL STATEMENTS (Continued)

18. FINANCIAL RISK MANAGEMENT (Continued)

(iii) Market risk

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

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

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

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

GATANGA COMMUNITY WATER SCHEME

Annual Reports and Financial Statements

For the year ended June 30, 2020

NOTES TO THE FINANCIAL STATEMENTS (Continued)

INCOPORATION

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

EVENTS AFTER THE REPORTING PERIOD

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

CURRENCY

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

GATANGA COMMUNITY WATER SCHEME

Annual Reports and Financial Statements

For the year ended June 30, 2020

APPENDIX 1: PROGRESS ON FOLLOW UP OF AUDITOR RECOMMENDATIONS

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

Reference No. on the External Audit Report	Issue / Observations from Auditor	Management comments	Focal Point person to resolve the issue (Name and designation)	Status (Resolved / Not Resolved)	Timeline (Partially resolved / Not resolved)
Basis of qualified opinion					
1.	Revision of financial statements	Financial statement was revised as recommended	Wilson Mwangi-Accountant	Resolved	done
2.	There was non-revenue water of 54%	The system that we operate is dilapidated and we have made several proposals to Athi Water for finances and also we have customers who are unmetered and we have written proposals also for funding.	Mr. G Njoroge- Managing Director	resolved	Continuous
Basis for conclusion					
1.	Personnel over expenditure above required rate of 40%	The system is dilapidated and require a lot casual labour to maintain which is forming substantive part of the personnel cost. As the trust increase its operation and the projects in place start giving economic benefit the trust will reduce personnel cost.	Mr. G Njoroge- MD	In progress	
2.	Spending of customer deposit	The Trust has the approval of the board and the is also a standing order of Kes. 100,000 every month to repay the money	Mr. G Njoroge- M.D	resolved	

GATANGA COMMUNITY WATER SCHEME

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Reference to the external audit Report	Issue/ Observations from Auditor	Management comments	Responsible person to resolve the issue (Name and Designation)	Status (Resolved/ Not Resolved)	Date
3.	Control on management of replaced water fitting and pipes	<p>The Trust spent an amount of Kes. 1,034,594 on repair and maintenance of water system. During the year under review the Trust followed the laid down procedure from requisition of the water fitting and pipes until they are issued. Water fitting and pipes were issued through the Issue Voucher (Form S11). The documents were provided at the time of Audit which clearly indicate proper procedures were being followed.</p>	Samuel Mugo - procurement officer	resolved	

M.D

Date... 15/9/2020

Chairman of the Board

Date... 15/9/2020