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**MURANG'A SOUTH WATER AND
SANITATION COMPANY
LIMITED**

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





MURANG'A SOUTH WATER & SANITATION COMPANY LIMITED

KANDARA HEAD OFFICE

P.O BOX 87-01034 KANDARA

OFFICE MOBILE: 0716-645345 CUSTOMER CARE NO: 0716-645343(KANDARA) 0719-503859(KIGUMO)

EMAIL: murangasouth@gmail.com, murangasouthwater@yahoo.com OR maraguawater@yahoo.com

MURANG'A SOUTH WATER AND SANITATION COMPANY LIMITED ANNUAL REPORT 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)

**MURANG'A SOUTH WATER AND SANITATION COMPANY LIMITED
REPORTS AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2020**

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**MURANG'A SOUTH WATER AND SANITATION COMPANY LTD.
FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2020**

KEY COMPANY INFORMATION AND MANAGEMENT

(a) Background information

The company is incorporated in Kenya under the Kenyan Companies Act CAP 486 of the laws of Kenya, and is domiciled in Kenya, in Murang'a County and administered by Athi Water Services board.

(b) Principal Activities

The principal mission of the Company is to provide quality, affordable, reliable and sustainable water and sanitation services to our customers within Murang'a South, Kandara and Kigumo Sub-counties.

(c) Key Management

The Company's day-to-day management is under the following key Departments;

<u>Department</u>	<u>Name</u>
- Technical Services Department	- John Macharia
- Commercial Services Department	- Tabitha Nderitu
- Audit, Risk & Governance Department	- Paniel Mbogo

(d) Directors

<u>Name</u>	<u>Designation</u>
1. Mr. Julius K Manyeki	Chairman
2. Mr. Mathew Chege	Director
3. Ms. Nancy Muhoro	Director
4. CEO Representative ,AWSB	Principal
5. Ms. Beatrice Gicheha	Director
6. Ms. Mary Mwai	Director
7. Mr. John Kahiu	Director
8. Ms. Mary Nyaga	Managing Director

(e) Company secretary

Gikuhi Kiana & Company
Certified Public Secretaries
P.O. BOX 1271-10100
Nyeri – Kenya

**MURANG'A SOUTH WATER AND SANITATION COMPANY LTD.
FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2020**

(f) Registered office

Muswasco Offices
Kandara Water Office
P.o. Box 87 – 01034
Kandara.
Telephone: 0716 645 345
Email: murangasouth@gmail.com

(g) Independent auditor

Auditor - General
Office of the Auditor General
P.O. Box 30084 – 00100
Nairobi – Kenya

(h) Company Bankers

Equity Bank Ltd
Thika Branch
P.O Box 253-01000
Thika

Kenya Commercial Bank Ltd
Thika Branch
P.O Box 271-01000
Thika





Unaitas Sacco Limited
Kangari Branch
P.O Box 1145-10200
Murang'a

Amica Sacco Ltd
Kandara Branch
P.O. Box 4062
Kandara




Sidian Bank Ltd
Thika Branch
P.O. Box 6043- 01000
Thika

**MURANG'A SOUTH WATER AND SANITATION COMPANY LTD.
FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2020**

THE BOARD OF DIRECTORS





DIRECTOR'S NAME AND PASSPORT-SIZE PHOTO	DIRECTOR'S DATE OF BIRTH, KEY QUALIFICATIONS
 <p>Julius K. Manyeki (BOD Chairman – Representing the Business Community)</p>	<p>Year of Birth: 1956 Bachelor of Commerce MBA (On going)</p>
 <p>Mathew Chege (Director - Representing Farmers)</p>	<p>Year of Birth: 1966 Bachelors of Education Masters of Education Planning Management & Administration</p>
 <p>Nancy Muhoro (Director – Representing Religious organisations)</p>	<p>Year of Birth: 1975 Diploma in Community Development</p>
 <p>Beatrice Gicheha (Director – Representing Murang'a County Government)</p>	<p>Year of Birth: 1985 Undergraduate Bachelor of Education</p>

**MURANG'A SOUTH WATER AND SANITATION COMPANY LTD.
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 <p>Mary Mwai (Director – Representing Women organisations)</p>	<p>Year of Birth: 1956 Certificate in Strategic Planning and Management of Projects</p>
 <p>John Kahiu (Director – Representing Professional bodies)</p>	<p>Year of Birth: 1960 Bachelor of Counselling and Psychology Diploma in Education Management</p>
 <p>Mary Gathoni (Managing Director – Secretary to the BOD)</p>	<p>Year of Birth: 1958 BBA (Entrepreneurship) Diploma In Water Engineering</p>

**MURANG'A SOUTH WATER AND SANITATION COMPANY LTD.
FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2020**

MANAGEMENT TEAM

NAME & PROFESSIONAL QUALIFICATION	AREA OF RESPONSIBILITY
 <p>Mary Gathoni Nyaga BBA (Entrepreneurship) Dip. Water Engineering (KEWI)</p>	<p>Managing Director</p>
 <p>CPA Paniel Mbogo Munyi CPA (K), Dip. Project Management (KIM) B.COM (Finance Option)-KCA</p>	<p>Head of Internal Audit</p>
 <p>John Macharia Wanjiku B.S.C(Water & Environmental Engineering)-Egerton University</p>	<p>Head of Technical Services Department</p>
 <p>CPA Tabitha Waithera Nderitu Bachelor of Commerce (Finance Option)- Mount Kenya University. CPA (K)</p>	<p>Head of Commercial Services Department</p>

MURANG'A SOUTH WATER AND SANITATION COMPANY LTD.
FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2020

CHAIRMAN'S REPORT

It gives me pleasure to release our Annual Report and Financial Statements for the year ended 30th June 2020. We have seen another year of improved growth and have made significant progress towards our service delivery in both the level and sustainability of growth. The revenues were hard hit by Covid 19 pandemic between March 2020 and June 2020 and as evidenced in the report we realized Kshs 139 million from Kshs 146 million. This was due to inability of most of the customers unable to meet their water bills due to the negative impact brought by Covid 19, though the company is on a recovery process to have the debts cleared by the customers.

Achievements

- The company has completed Kinyona treatment expansion project with a capacity to supply 10,000m³/day, sedimentation tank and a pipeline of 3.7km from the sedimentation which connects to a main tank in Mareira. This has enabled over 2500 connection to have access to clean and affordable water in Kamahuha area.
- The company is implementing a decentralized treatment facility (DTF 50) in Sabasaba to treat waste water generated in Kenol, Kabati, Sabasaba and Maragua. This will improve sanitation of over 6000 persons.
- The company has an ongoing Maragua Bulk Water supply project construction of 15m high dam and pipelines to feed towns and environs of Maragua, Maragua Ridge, Kambiti, Kamahuha and Makuyu.
- The company has completed- Kenol Makuyu Ciumbu pipeline construction of length 17 Km (10Km of 200mm and 7Km of 160mm) works involved include, construction of distribution lines of length 5Km, Rehabilitation of Thangira tank of 90m³ and construction of masonry Tank of capacity 250m³.
- The company is implementing UPC project on 5 No. water kiosks construction in Kimorori , Maragua, Kamahuha, Igikiro and Kiambamba area which will be of great benefits to the surrounding residents.
- Increase in number of active connections from 30,606 connections in June 2019 (FY 2018/2019) to 33,403 connections by the end of June 2020.

MURANG'A SOUTH WATER AND SANITATION COMPANY LTD.
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FOR THE YEAR ENDED JUNE 30, 2020

We are operating under the Water Act 2016. It is worth noting that the water services have been devolved and we are directly reporting to the County government.

It has been a year of further progress-strategically, operationally and financially. There is, however, no complacency, and in such rapidly changing environment we continue to need to focus our energies on shorter decision timelines, rapid deployment and strong customer focus. We can only do this successfully with excellent people and, on behalf of the Board, I take this opportunity to acknowledge the support of all stakeholders, Athi Water Services Board (AWSB), Murang'a County Government, Water Services Regulatory Board (WASREB), Water Sector Trust Fund (WSTF), CDF, Ministry of Water & Irrigation (MWI) through the District Water Officers (DWO). Not disregarding our suppliers and our esteemed customers for continued support and patience with us.

I also extend my gratitude to the Board of Directors, management and staff of MUSWASCO for their very considerable efforts, dedication and hard work in the past year. I look forward with confidence to your continued cooperation and support in the year ahead. God Bless.


.....
JULIUS K. MANYEKI
BOD CHAIRMAN

MURANG'A SOUTH WATER AND SANITATION COMPANY LTD.
FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2020

MANAGING DIRECTOR'S REPORT

INTRODUCTION.

Murang'a South Water and Sanitation Company has now been in existence for eleven years and has since achieved tremendous improvement despite various challenges faced. The total area of our Company is 934Km² with a population of 495,849 out of which the Company has managed to cover all in service provision, but has progressively grown in service coverage and is managing the water supplies of Kandara, Kigumo and Maragua (Murang'a South) sub-counties within Murang'a County.

During the year the Company achieved the following among others;

- We have implemented a functional web based Integrated customer relations module, that allows access from any location offering improved and eased efficiency, timely solving of customer requests, eliminating redundancies and duplicated roles.
- The company has upgraded to a fully functional website in line with the regulator's (WASREB) requirements. This has assisted in improving the company's corporate image and will go in hand towards the implementation of the company's strategic plan.
- Through implementation of GIS the company have been able to digitize all laid down pipelines and proposed pipelines to be laid down in all our eleven branches. This can be viewed in Google earths.
- Performance management and staff capacity building through trainings was enhanced thus improving staff productivity.
- The management through collaboration with Kenya Market Trust fund have been able to source for funding to upgrade the current financial accounting system sage pastel partner to sage pastel evolution which will have a great impact in the company's financial management processes.
- The company is in the process of implementing Performance Based Contract project in Kenol & Kabati to reduce NRW through Public Private Partnership.

MURANG'A SOUTH WATER AND SANITATION COMPANY LTD.
FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2020

CHALLENGES

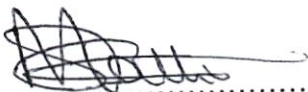
- The company is still faced with high levels of NRW that has been contributed by bursts due to high pressures from bulk water into our dilapidated infrastructure, illegal connections/theft of water.
- High operational costs caused by operations and maintenance of dilapidated infrastructure, chemicals that are now funded internally after devolution.
- Lack of enough resources to address issues like augmentation of distribution lines, proper treatment facilities, rehabilitation and metering that require huge sums of money.
- Culture of our customers that is delay in payments of their water bills hence affecting the normal running of our operations.
- Political interference which has delayed approval of the new tariff.
- Rural road upgrade by KERRA has led to destruction of laid down pipes hence affecting the supply of water.
- Implementation of County Directive Tariff that revised our tariff downwards hence affecting our billing and revenue performance.

Staffing

The company operated with an average of 157 staffs who worked tirelessly to provide the services and worked as a team to achieve the targets of the company.

Appreciation

I take this opportunity to register my gratitude to the Board of Directors for their unwavering support, the corporate management team and MUSWASCO staff for their hard work, efforts, support and commitments which has made us register a positive growth, AWSB for their contribution and support both in kind and cash, County Government, CDF, DWO'S from the three sub-counties of Kandara, Kigumo, and Murang'a South (Maragua) for their continued support. We cannot forget the consumers of our services and suppliers who supported us throughout the year.



.....
MARY NYAGA
MANAGING DIRECTOR.

MURANG'A SOUTH WATER AND SANITATION COMPANY LTD.
FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2020

CORPORATE GOVERNANCE STATEMENT

Approach to Corporate Governance

Murang'a South Water & Sanitation Company Limited (MUSWASCO) and its Board of Directors are committed to achieving and upholding the highest standards of corporate governance.

The Board of Directors and entire management have committed themselves to act honestly, ethically, diligently and in accordance with the law, WASREB issued regulatory guidelines and Service Provision Agreement (SPA) requirements in serving the interests of MUSWASCO's stakeholders, i.e employees, customers and the communities within our area of jurisdiction (Kandara, Kigumo and Murang'a South Sub counties).

MANAGEMENT DISCUSSION AND ANALYSIS

Murang'a South Water and Sanitation Company is a registered Company operating under Water Act 2016 and manages the water supplies of Kandara, Kigumo and (Murang'a South) sub-counties within Murang'a County. The company consists of four Corporate management team who heads four major key departments as shown above.

The company has 11 schemes which run as branches to the company though they are centrally managed at Kandara headquarter office. This due to the wide geographical area that the company covers of 934Km².

The company also has 157 hardworking and committed staff who operate on the 11 branches the company has within Murang'a South area. The staff are employed under permanent and pensionable basis.

In addition, the management is committed to ensure the company complies with statutory obligations such as payment of PAYE, NHIF, NSSF and taxes are compiled to on monthly basis.

During the year the company was hit by political interference which hindered implementation of a new Tariff approved by WASREB. The County Government downgraded the current tariff in the previous year and is yet to approve the new proposed tariff by WASREB hence making it difficult for the company to meet most of its operation costs.

The company has an Africa Development Bank (ADB) loan which it was not able to start financing due to lack of implementation of the new tariff

MURANG'A SOUTH WATER AND SANITATION COMPANY LTD.
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FOR THE YEAR ENDED JUNE 30, 2020

Functions and Responsibilities of the Board of Directors

The implementation of corporate strategies and day-to-day management of MUSWASCO affairs are delegated to management through the managing director, however the Board retains specific responsibility for:

- Defining the limits of authority of the Managing Director and the other corporate management team members in a schedule of duties;
- Reviewing and approving business plans and (annual) budgets in accordance with the Service Provision Agreement;
- Reviewing and approving major expenditure, capital management and acquisitions;
- Reviewing and approving systems of risk management, internal controls and compliance, codes of conduct and legal compliance;
- Approving the Company's financial and accounting policies and financial statements;
- Monitoring the Company's operational and financial position and performance;
- Monitoring compliance with statutory requirements, regulatory directives and guidelines issued by WASREB and ethical standards;
- Evaluating its own performance at least once every year based on the Service Provision Agreement;
- Approving the Company's financial and accounting policies and financial statements;
- Monitoring the Company's operational and financial position and performance;
- Monitoring compliance with statutory requirements, regulatory directives and guidelines issued by WASREB and ethical standards;
- Deciding on any matters which exceed the authority limits delegated to the Managing Director.

Board Composition and Succession

Directors constituting a professional mix are appointed from the Stakeholders through a competitive stakeholder participation procedure (advertisement for positions) such that no individual or group of individuals or interests can dominate its decision making.

Tana Water Services Board is responsible for advertising in the local media positions for the Board of directors and setting the criteria for those eligible to apply in accordance with the corporate governance guidelines.

The Board has also adopted a policy on the appointment, tenure and retirement of Directors.

MURANG'A SOUTH WATER AND SANITATION COMPANY LTD.
FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2020

Director Orientation

All directors undergo formal training on their role, duties, responsibilities and obligations as well as Board practices and procedures on first appointment and subsequently at least once every three years. This includes full briefings on current and emerging issues, meetings with key managers and tours of operational sites.

Board Committees and Meetings

The Board convenes an average of four meetings per year. The agenda, frequency and length of meetings are determined by the Chairman in consultation with the Managing Director.

To assist in the execution of its responsibilities and to allow detailed consideration of complex issues, the Board has established three committees:

- o Technical Committee
- o Finance /HR Committee
- o Audit Committee.

The Board committees meet at least four times each financial year to discuss various issues on performance and position of the company. Ad hoc Board and committee meetings may be convened to consider particular unforeseen matters. Unless expressly delegated by the Board to one of its committees, all matters determined by committees are submitted to the full Board as recommendations for Board decision and approval.

MURANG'A SOUTH WATER AND SANITATION COMPANY LTD.
FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2020

CORPORATE SOCIAL RESPONSIBILITY STATEMENT

We, at MUSWASCO are committed to providing reliable water supply services in the best interest of our esteemed customers and to continually improve quality standards in all aspects of our services to the satisfaction of our customers and stakeholders.

Besides striving to fulfill our primary mandate, the Company implemented its Corporate Social Responsibility agenda for FY 2019/20 by partnering with charitable organizations/institutions involved in undertaking targeted interventions that empower communities' social welfare and development causes.

Touching Lives:

The company was involved through improving sanitation in Sabasaba and Maragua areas which ensured over 3,000 people have access to clean sanitation through construction of over 300 toilets and upgrading of the dilapidated toilets in the regions. This was achieved through a subsidy of Kshs. 6,775,250 obtained from Water Sector Trust Fund (WSTF).

The company under an initiative Murang'a county government initiative program gave an internship program to three students who had performed exemplary well in 2018 KSCE examination as a way of encouraging other students and youths in the county. The company paid them a monthly stipend for three months.

The company was involved in National celebrations-Jamuhuri day on 12th day of December 2019 and Mashujaa Day on 20th day of October 2019 where a contribution was made towards a kitty aimed at improving the livelihood of elderly persons in Kandara sub-county.

To ensure CSR is run efficiently and effectively and that community activities driven by commercial gain are separate from those that principally target to benefit the community, MUSWASCO plans to commission and complete an impact and needs assessment across our service area as a start point to understand the obtaining situation on the ground so as to develop a robust CSR plan and strategy for activities to be enshrined in our Strategic Plan (currently under review).

REPORT OF THE DIRECTORS

The directors submit their report together with the draft financial statements for the year ended June 30, 2020 which disclose the state of affairs of the company.

**MURANG'A SOUTH WATER AND SANITATION COMPANY LTD.
FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2020**

Incorporation

The company is incorporated in Kenya under the Kenyan Companies Act CAP 486 of the laws of Kenya, and is domiciled in Kenya. The address of the registered office is set out on page iv to v.

Principal activities

The principal mission of the Company is to provide quality, affordable, reliable and sustainable water and sanitation services to our customers within Murang'a South, Kandara and Kigumo Sub-counties.

Results of the year

The net deficit for the year was Kshs (10,466,793). The directors do not recommend the declaration of dividend.

Dividends

The Company does not declare dividends, where surplus is recognized it's normally added to the retained earnings.

Directorate

The directors who held office during the year and to the date of this report are set out on the page iv to v.

Auditor

The books of accounts for the Financial year 19/20 were audited by the Office of the Auditor General.

By order of the Board

.....
Director/Company Secretary
Kandara

.....
Dated 29/9/2020

MURANG'A SOUTH WATER AND SANITATION COMPANY LTD.
FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2020

Section 15 of the Public Finance Management Act, 2012 require the Directors to prepare financial statements in respect of Murang'a South Water & Sanitation Company, which give a true and fair view of the state of affairs of the Company at the end of the financial year/period and the operating results of the Company for that year/period. The Directors are also required to ensure that the Company keeps proper accounting records which disclose with reasonable accuracy the financial position of the Company. The Directors are also responsible for safeguarding the assets of Murang'a South Water & Sanitation Company.

The Directors are responsible for the preparation and presentation of the Murang'a South Water & Sanitation Company financial statements, which give a true and fair view of the state of affairs of the Company for and as at the end of the financial year 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 entity; (iii) designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of the financial statements, and ensuring that they are free from material misstatements, whether due to error or fraud; (iv) safeguarding the assets of the Company; (v) selecting and applying appropriate accounting policies; and (vi) making accounting estimates that are reasonable in the circumstances.

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

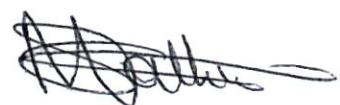
Nothing has come to the attention of the Directors to indicate that Murang'a South Water & Sanitation Company will not remain a going concern for at least the next twelve months from the date of this statement.

Approval of the financial statements

Murang'a South Water & Sanitation Company financial statements were approved by the Board and signed on its behalf by:


Chairman

29/9/2020
Managing Director



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 MURANG'A SOUTH WATER AND SANITATION COMPANY LIMITED FOR THE YEAR ENDED 30 JUNE, 2020

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of Murang'a South Water and Sanitation Company Limited set out on pages 1 to 25, which comprise the statement of financial position as at 30 June, 2020 and the statement of profit or loss and other comprehensive income, statement of changes in equity, statement of cash flows and statement of comparison of budget and actual amounts, and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, 2015. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

In my opinion, except for the effect of the matters described in the Basis for Qualified Opinion section of my report, the financial statements present fairly, in all material respects, the financial position of the Murang'a South Water and Sanitation Company Limited 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, and comply with the Water Act, 2016, the Companies Act, 2015 and the Public Finance Management Act, 2012.

Basis for Qualified Opinion

1.0 Unexplained and Unreconciled Differences Between the Financial Statements and Ledger

The statement of profit or loss and other comprehensive income for the year ended 30 June, 2020 reflects total expenses of Kshs.143,889,441. However, review of the ledger balance revealed unexplained and unreconciled variances in respect of three items as follows:

Item	Financial statements (Kshs.)	Ledger balance (Kshs.)	Variance (Kshs.)
Water sales	133,981,553	142,561,805	(8,580,252)
Administrative Cost	15,894,437	16,799,437	(905,000)
Direct Costs	24114282	23409281	705,001

As a result, the accuracy and completeness of the expenditure of Kshs.143,889,441 for the year ended 30 June, 2020 could not be confirmed.

2.0 Unconfirmed Other Income- Grants received

The statement of profit or loss and other comprehensive income and as disclosed in Note 9 to the financial statements reflects other income amount of Kshs.11,849,695 in respect water lines extensions grants in form of pipes and other fittings from Athi Water Services

Board. However, documentary evidence in form of letters of grants, certificate of works completed or delivery notes were not provided for audit review.

As a result, the accuracy and completeness of the grants of Kshs.11,849,695 for the year ended 30 June, 2020 could not be confirmed.

3.0 Undisclosed African Development Bank Loan

The statement of financial position and as disclosed in Note 16 to the financial statements reflects non-current liabilities balance of Kshs.32,540,074 as at 30 June, 2020 in respect of a loan borrowed from a local commercial bank at an interest rate of 13%, repayable over a period of four years up to 2024. Review of the Management discussions and analysis information on page xi indicates that the Company has an outstanding loan from the African Development Bank of Kshs.607,180,337. However, relevant information relating to the Company's loan liability amounting to Kshs.607,180,337 and accrued arrears, interest due and repayments made, have not been disclosed in the statement of financial position as at 30 June, 2020.

Consequently, the accuracy and completeness of the non-current liabilities balance of Kshs.32,540,074 as at 30 June, 2020 could not be confirmed.

4.0 Failure to Disclose Material Uncertainty in Relation to Going Concern

During the year under review, the Company recorded a loss of Kshs.10,466,793 thereby reducing the retained earnings to negative amount of Kshs.11,174,801 as at 30 June, 2020 down from negative amount of Kshs.708,008 as at 30 June 2019. Further the Company's current liabilities balance of Kshs.145,980,817 exceeded the current assets balance of Kshs.103,639,924 resulting in a negative working capital of Kshs.42,340,893 as at 30 June, 2020. This is an indication that the Company's financial position is precarious and may be experiencing financial difficulties in meeting its obligations as and when they fall due.

The financial statements have been prepared on a going concern basis on the assumption that the Company will continue to receive financial support from the County Government and its creditors. However, this material uncertainty in relation to going concern and any mitigating measures put in place by the Company's directors to reverse the undesirable financial position have not been disclosed in the financial statements.

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

Key Audit Matters

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

Other Matter

1.0 Prior Year Issues

In the audit report of the previous year, several issues were raised under Report on Financial Statements, Report on Lawfulness and Effectiveness in Use of Public Resources and Report on Effectiveness of Internal Controls, Risk Management and Governance. However, the Management has not resolved the issues or explained its failure to report on the progress made in resolving the issues as prescribed in the reporting requirements set by the Public Sector Accounting Standards Board.

2.0 Budgetary Control and Performance

The statement of comparative budget and actual amounts reflects final receipts budget and actual on comparable basis of Kshs.167,886,002 and Kshs.139,163,404 respectively resulting to an under-realization of Kshs.28,722,598. Similarly, the Company expended Kshs.168,003,723 against an approved budget of Kshs.157,615,662 resulting to an over-expenditure of Kshs.10,330,340 which did not have relevant approvals.

The under-realization affected the planned activities and may have impacted negatively on service delivery to the public.

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. I have nothing to report in this regard.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

As required by Article 229(6) of the Constitution, based on the audit procedures performed, except for the effect of 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

1.0 Non-Revenue Water

During the financial year under review, the company produced 5,193,495 cubic meters (m³) of water out of which only 2,484,316 cubic meters (m³) of water was billed to customers. The balance of 2,709,179 cubic meters (m³) or 52% of the total volume of water produced represented Non-Revenue Water which was 27% over and above the allowable water loss of 25% as per the Water service Regulatory Board guidelines. The UFW of 52% may have resulted in a loss of sales estimated at Kshs.94,821,265.

2.0 Non-Compliance with Law on Ethnic Composition

Review of the human resource records revealed that during the year under audit, the Company had one-hundred and sixty-eight employees out of which one-hundred and sixty-four or ninety five percent 95% were from the dominant community. This is contrary to Section 7(1) and (2) of the National Cohesion and Integration Act, 2008 which states that, "all public offices shall seek to represent the diversity of the people of Kenya in employment of staff and that no public institution shall have more than one third of its staff establishment from the same ethnic community".

3.0 Non-Compliance with the Law on Fiscal Responsibility - Wage Bill

The Company incurred personnel costs of Kshs.76,514,166 reflecting fifty-three percent (53%) of the annual total expenses of Kshs.143,889,441 as at 30 June, 2020. This is contrary to the provisions of Regulation 25(1) (a) and (b) of the Public Finance Management (County Governments) Regulations, 2015 which limits the County Executive's expenditure on wages and benefits to not more than 35% of the total revenue for the year and the recommended rate of 35% in accordance with the WASREB guidelines. The excess personnel costs may negatively impact on the Company's profitability and sustainability of services if measures are not put in place to contain the cost within the acceptable level.

Consequently, Management was in breach of law.

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

REPORT ON INTERNAL CONTROLS EFFECTIVENESS, GOVERNANCE AND RISK MANAGEMENT SYSTEMS

Conclusion

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

Basis for Conclusion

The audit was conducted in accordance with ISSAI 2315 and ISSAI 2330. The standards require that I plan and perform the audit to obtain assurance about whether 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 Company, so far as appears from the examination of those books;
- (iii) The Company'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 xiv and xv is consistent with the financial statements.

Responsibilities of Management and Board of Directors

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and the requirements of the Companies Act, 2015 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 assessment of the effectiveness of internal control, risk management and governance.

In preparing the financial statements, Management is responsible for assessing the Company's ability to sustain its services, disclosing, as applicable, matters related to sustainability of services and using the going concern basis of accounting unless the Directors intends to liquidate the Company or to cease operations.

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

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

Those charged with governance are responsible for overseeing the Company's financial reporting process, reviewing the effectiveness of how Management monitors compliance

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

Auditor-General's Responsibilities for the Audit

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

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

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

Because of its inherent limitations, internal control may not prevent or detect misstatements and instances of non-compliance. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the 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 directors.
- Conclude on the appropriateness of the Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in the auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my audit report. However, future events or conditions may cause the Company to cease 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 Company to express an opinion on the financial statements.
- Perform such other procedures as I consider necessary in the circumstances.

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

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


CPA Nancy Gathungu, CBS
AUDITOR-GENERAL

Nairobi

08 February 2022

MURANG'A SOUTH WATER AND SANITATION COMPANY LTD
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STATEMENT OF PROFIT & LOSS AND OTHER COMPREHENSIVE INCOME

	Note	2019 /2020 Kshs	2018 /2019 Kshs
Operating Income	8	139,163,404	146,932,927
Less Direct Costs	10 f.	24,114,282	10,547,008
Gross profit		115,049,122	136,385,919
Other income	9	18,373,526	12,860,618
TOTAL		133,422,648	149,246,537
Personnel Costs	10 a.	76,514,166	71,901,411
Directors Expenses	10 b.	1,501,577	2,784,361
Operating Expenses	10 c.	39,596,568	39,695,128
Administrative expenses	10 b.	15,894,437	18,876,096
Legal and Professional Expenses	10 d.	1,629,811	1,213,484
Finance costs	10 e.	8,752,881	4,672,633
TOTAL EXPENSES		143,889,441	139,143,113
Loss for Year Before Tax Expense		(10,466,793)	10,103,424

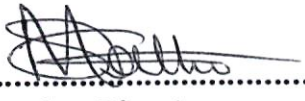
MURANG'A SOUTH WATER AND SANITATION COMPANY LTD
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For the Year ended 30th June 2020

STATEMENT OF FINANCIAL POSITION AS AT 30TH JUNE 2020

	Note	2019 /2020 Kshs	2018 /2019 Kshs
Non-Current Assets			
Property, Plant and Equipment	14	151,766,657	127,513,972
		<u>151,766,657</u>	<u>127,513,972</u>
Current Assets			
Inventories	10g	1,763,362	3,203,749
Trade and Other Receivables	13	97,987,212	89,259,937
Cash at bank and in hand	11b	3,889,350	1,066,816
		<u>103,639,924</u>	<u>93,530,502</u>
TOTAL ASSETS		<u>255,406,581</u>	<u>221,044,474</u>
Financed by:			
Equity			
Capital Reserves		10,791,181	10,791,181
Retained Earnings		(11,174,801)	(708,008)
Total equity		<u>(383,620)</u>	<u>9,880,521</u>
Non-Current Liabilities			
Loan-Non Current	16	32,540,074	41,322,437
		<u>32,540,074</u>	<u>41,322,437</u>
Current Liabilities			
Trade and Other Payables	12	131,080,348	113,931,929
Current Loan	16	14,900,469	1,594,576
Overdraft	11b(2)	0	843,630
		<u>145,980,817</u>	<u>116,370,134</u>
Deferred Income			
Capital Grant	17 b.	77,269,310	53,268,730
		<u>77,269,310</u>	<u>53,268,730</u>
Total Equity and Liabilities		<u>255,406,581</u>	<u>221,044,474</u>

The financial statements set out on pages 1 to 24 were signed on behalf of Board of Directors by


.....
Chairman
Date: 29/9/2020


.....
Managing Director
Date: 29/09/2020

MURANG'A SOUTH WATER AND SANITATION COMPANY LTD
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STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30TH JUNE 2020

	Capital Reserves Kshs	Retained earnings Kshs	Total Kshs
Changes in equity in 2019/2020			
As previously reported At 1st July 2018	10,791,181	(10,811,432)	(20,251)
Profit/(loss) for the year		10,103,424	10,103,424
At 30th June 2019	<u>10,791,181</u>	<u>(708,008)</u>	<u>10,083,173</u>
As previously reported At 1st July 2019	10,791,181	(708,008)	10,083,173
Profit/(loss) for the year		(10,466,793)	(10,466,793)
At 30th June 2020	<u>10,791,181</u>	<u>(11,174,801)</u>	<u>(383,620)</u>

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for the Year ended 30th June 2020

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30TH JUNE 2020

	Note	2019/ 2020 Kshs	2018 / 2019 Kshs
Cash flows from operating activities			
Loss before income tax		(10,466,793)	10,103,424
Adjustments for:			
Depreciation of property, plant and equipment	14	4,884,119	5,508,627
Share capital adjustment	13	-	-
Operating profit/(loss) before working capital changes		(5,582,674)	15,612,051
Decrease/(increase) in:			
Inventories	10g	1,440,387	517,132
Trade and other receivables	13	(8,727,275)	(22,362,707)
Increase/(decrease) in:			
Trade and other payables	12	17,148,419	18,077,800
Deferred Income		24,000,580	(2,803,376)
Cash generated from operations		33,862,112	(6,571,151)
Net cash generated from operating activities		28,279,438	9,040,900
Cash flows from investing activities			
Purchase of property, plant and equipment	14	(29,136,805)	(29,993,954)
Net cash generated used in investing activities		(29,136,805)	(29,993,954)
Cash flows from financing activities			
Borrowings	16	38,740,771	27,275,861
Repayments of loan	16	(34,217,242)	(4,640,964)
Net cash generated used in financing activities		4,523,529	22,634,897
Net (decrease)/increase in cash and cash equivalents		3,666,164	1,681,842
Cash and cash equivalents at 1st July 2019		223,186	(1,458,656)
Cash and cash equivalents at 30th June 2020	11C	3,889,350	223,186

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STATEMENT OF COMPARISON OF BUDGET FOR THE FINANCIAL YEAR 2019-2020

INCOME STATEMENT - Actual vs. Budget : 01/07/19 to 30/06/20

	ACTUALS	BUDGETED	VARIANCE	COMPLIANCE
INCOME				
Operating Income	139,163,404	167,886,002	(28,722,598)	83%
Other Incomes: Misc. Income & Interest received	42,569	60,000	(17,431)	71%
Revenue grants, County grants, Athi water services Board	18,330,957			
TOTAL INCOME	157,536,930	167,946,002	(28,740,029)	94%
EXPENSES				
Direct Costs	12,009,267	10,950,000	(1,059,267)	110%
Direct costs grants -Expenses	12,105,015			
Personnel Costs	76,514,166	81,196,218	4,682,052	94%
Directors Costs	1,501,577	2,940,000	1,438,423	51%
Administrative Costs	15,894,437	19,169,002	3,274,566	83%
Other Operating Expenses	39,596,568	32,502,843	(7,093,725)	122%
Legal and Professional Expenses	1,629,811	2,760,000	1,130,189	59%
Finance Costs	8,752,881	8,097,599	(655,282)	108%
	168,003,723	157,615,662	(10,388,061)	107%
DEFICIT/ SURPLUS	(10,466,793)	10,330,340		

Expalanations to Budget notes Variances

Operating Income	The company completed Saba saba urban water project in the last quarter which will boost the revenues since it had an additionalm 2,500 connections,still there was political interference whereby customers had been urged not to pay for the water during the COVID 19 pandemic period
Direct cost grants	This are grants received from Muranga county government and Athi water services board. This have been captured as revenue grants and expensed as direct costs grants hence have a zero effect.
Directors Cost	Due to COVID 19 pandemic directors meetings and activities were minimised hence reduction in costs.
Administrative Costs	COVID 19 pandemic led to some staff working from home and on alternate shifts leading to a reduction in administrative costs.
Legal & professional expenses	It was anticipated that the legal expenses would increase due to the occurrence of landslides experienced in the prior year
Other operating expenses	Unexpected rises of regulatory levy from 1% of (water sale+reconnection fee+labour charge) was increased to 4 % from the month of November 2019 by WASREB .

MURANG'A SOUTH WATER AND SANITATION COMPANY LIMITED
FINANCIAL STATEMENTS
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NOTES TO THE FINANCIAL STATEMENTS

1. Summary of significant accounting policies

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

(a) Statement of compliance and basis of preparation

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

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

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

(b) Revenue recognition

Revenue represents the fair value of consideration received or receivable for the sale of goods and services in the course of the company's activities. It is recognized when it is probable that future economic benefits will flow to the company and the amount of revenue can be measured reliably.

- (i) Revenue from provision of water services** is recognized in the year in which the Company provides water and the customer has accepted the commodity and collectability of related receivables is reasonably assured.
- (ii) Transfer from other Government entities /Grants from National Government.** Recurrent grants are recognized in the statement of comprehensive income. Capital grants are recognized in the statement of financial position and realized in the statement of comprehensive

MURANG'A SOUTH WATER AND SANITATION COMPANY LIMITED
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income over the useful life of the assets that has been acquired using such funds.

- (iii) **Other income** is recognized as it accrues.

(c) Property, plant and equipment

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

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

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

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

(d) 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.

(e) 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.

(f) 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

MURANG'A SOUTH WATER AND SANITATION COMPANY LIMITED
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maturity of three months or less, which are readily convertible to known amounts of cash and are subject to insignificant risk of changes in value. Bank account balances include amounts held at various commercial banks at the end of the financial year.

(g) 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.

(h) Budget information

The original budget for FY 2019-2020 was approved by the BOD. 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.

MURANG'A SOUTH WATER AND SANITATION COMPANY LIMITED
FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30TH JUNE 2020

(i) 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.

(j) Comparative figures

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

(k) Nature and purpose of reserves

The company creates and maintains reserves of Kshs. 10,791,181 which are normally disclosed in the Statement of Financial position as part of the Equity.

(l) Employee benefits

The company provides retirement benefits plan to its employees through a defined contribution plan. The benefits are paid on monthly basis to LAPTRUST whereby the company contributes 10% and the employee contributes 5% on the basic salary.

(m) Loans/Borrowing costs

Borrowing costs are capitalized against qualifying assets as part of property, plant and equipment.

Such borrowing costs are capitalized over the period during which the asset is being acquired or constructed and borrowings have been incurred. Capitalization ceases when construction of the asset is complete. Further borrowing costs are charged to the statement of financial performance.

MURANG'A SOUTH WATER AND SANITATION COMPANY LIMITED
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2. Application of new and revised International Financial Reporting Standards (IFRSs) and interpretations (IFRIC)

(i) Relevant new standards and amendments to published standards effective for the year ended 30th June 2017

The following new and revised IFRSs were effective in the current year and had no material impact on the amounts reported in these financial statements.

Amendments to IAS 32 Offsetting Financial Assets and Financial Liabilities	The amendments to IAS 32 clarify the requirements relating to the offset of financial assets and financial liabilities. Specifically, the amendments clarify the meaning of 'currently has a legally enforceable right of set-off' and 'simultaneous realisation and settlement'. The amendments require retrospective application. The application of the new standard has not had any impact on the disclosures or the amounts recognised in these financial statements as the Group does not have any offsetting arrangements.
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MURANG'A SOUTH WATER AND SANITATION COMPANY LIMITED
FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30TH JUNE 2020

Amendments to IAS 36
Recoverable Amount
Disclosures for Non-
Financial Assets

The amendments to IAS 36 remove the requirement to disclose the recoverable amount of a cash-generating unit (CGU) to which goodwill or other intangible assets with indefinite useful lives had been allocated when there has been no impairment or reversal of impairment of the related CGU. Furthermore, the amendments introduce additional disclosure requirements applicable to when the recoverable amount of an asset or a CGU is measured at fair value less costs of disposal. These new disclosures include the fair value hierarchy, key assumptions and valuation techniques used which are in line with the disclosure required by IFRS 13 Fair Value Measurements. The amendments require retrospective application

The application of the new standard has not had any impact on the disclosures or the amounts recognized in these financial statements as the Company does not have any goodwill or other intangible assets with indefinite useful lives

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Amendments to
IFRS 10, IFRS
12 and IAS 27
Investment
Entities

The amendments to IFRS 10 define an investment entity and introduce an exception from the requirement to consolidate subsidiaries for an investment entity. In terms of the exception, an investment entity is required to measure its interests in subsidiaries at fair value through profit or loss. The exception does not apply to subsidiaries of investment entities that provide services that relate to the investment entity's investment activities.

To qualify as an investment entity, certain criteria have to be met. Specifically, an entity is an investment entity when it:

- obtains funds from one or more investors for the purpose of providing them with investment management services;
- commits to its investor(s) that its business purpose is to invest funds solely for returns from capital appreciation, investment income, or both; and
- measures and evaluates performance of substantially all of its investments on a fair value basis.

Consequential amendments to IFRS 12 and IAS 27 have been made to introduce new disclosure requirements for investment entities.

Application of these standard has not had any impact on the disclosures or the amounts recognised in these financial statements as the Company is not an investment entity (assessed based on the criteria set out in IFRS 10 as at 1st January 2014).

MURANG'A SOUTH WATER AND SANITATION COMPANY LIMITED
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FOR THE YEAR ENDED 30TH JUNE 2020

IFRIC 21 Levies IFRIC 21 addresses the issue of when to recognise a liability to pay a levy. The Interpretation defines a levy, and specifies that the obligating event that gives rise to the liability is the activity that triggers the payment of the levy, as identified by legislation. The Interpretation provides guidance on how different levy arrangements should be accounted for, in particular, it clarifies that neither economic compulsion nor the going concern basis of financial statements preparation implies that an entity has a present obligation to pay a levy that will be triggered by operating in a future period. IFRIC 21 requires retrospective application. The application of the new standard has not had any impact on the disclosures or the amounts recognized in these financial statements as the Company did not have any levies accounted for as a liability

(ii) New and amended standards and interpretations in issue but not yet effective in the year ended 30th June 2018

New and Amendments to standards	Effective for annual periods beginning on or after
IFRS 9	1 January 2018
IFRS 14	1 January 2016
IFRS 15	1 January 2017
Amendments to IAS 16 and IAS 38	1 January 2016
Amendments to IFRS 11	1 January 2016

The adoption of these standards and interpretations, when effective, is not expected to have a significant impact on the financial statements of the organization.

MURANG'A SOUTH WATER AND SANITATION COMPANY LIMITED
FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30TH JUNE 2020

(iii) Early adoption of standards

The Company did not early-adopt any new or amended standards in 2019.

3. Significant Judgements and Sources of Estimation Uncertainty

(a) Depreciation

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

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

	<u>Rate - %</u>
Furniture, Fittings & Equipments	12.5%
Water Kiosks and Equipments	12.5%
Water Meters	12.5%
Motor Vehicle / Cycles	25%
Computer & Computer Equipments	30%
Infrastructure Pipeline	2.50%

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

(b) Impairment of property, plant and equipment

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

(c) Provision for bad debts

The company made a general provision for bad debts at a rate of 10%.

4. Financial risk management objectives

The organisation's overall risk management programme focuses on unpredictability of changes in the operating environment and seeks to minimise the potential adverse effect of such risks on its performance by setting acceptable levels of risk.

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The major types of financial risks faced by the organisation are:

- Market risk
- Credit risk
- Liquidity risk

(a) Market risk management

(i) Currency risk

The organisation is not exposed to currency risk since it does not trade with foreign countries.

(ii) Interest rate risk

The company is exposed to interest rate risk as it has borrowed. As at 30th June 2020, an increase/decrease of 5 % on average borrowing rates would have resulted in an increase/decrease in the surplus of Kshs 393,369, (FY 2018/2019: Kshs 224,222).

F/Year	2019/2020	2018/2019
Interest	7,867,373	4,484,440
Increase of 5%	393,369	224,222

(iii) Price risk

The Company does not hold investments that would be subject to price risk hence there is no exposure to price risk.

(b) Credit risk management

Credit risk refers to the risk that a counter party will default on its contractual obligations resulting in financial loss to the organisation. The organisation measures, monitors and manages credit risk for each receivable. The organisation's credit risk is primarily attributable to bank balances, trade and other receivables. The amounts presented in the statement of financial position are net of allowances for doubtful receivables, estimated by the organisation's management based on prior experience and their assessment of the current economic environment. The credit risk on trade receivables is limited because the nature of the organisation's business is such that the services provided are not chargeable. The bulk of income to the organisation relates to grants from various donors. The credit risk on grants receivable is limited because funds are sourced from credible donors.

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As at 30th June 2020

	Total Amount Kshs	Fully performing Kshs	Past due Kshs	Impaired Kshs
Receivables	105,717,303	97,987,212	-	7,730,091
Cash in bank	24,600	-	-	-
	=====	=====	=====	=====

As at 30th June 2019

Receivables	96,758,743	89,259,937	-	7,498,806
Cash in bank	223,186	-	-	-
	=====	=====	=====	=====

(c) Liquidity risk management

Ultimate responsibility for liquidity risk management rests with the Board of Directors through the senior management of the company. Management has built an appropriate liquidity risk management framework for the management of the company's short, medium and long-term funding and liquidity management requirements. The company manages liquidity risk by maintaining banking facilities through continuous monitoring of forecast and actual cash flows.

	Total Amount Kshs	Less than 1month Kshs	Between 1-3months Kshs	Over 3months Kshs
As at 30th June 2020				
Accounts payables	131,080,348	221,109	2,061,852	128,797,387
	=====	=====	=====	=====
As at 30th June 2019				
Accounts payables	113,931,929	1,447,038	2,227,229	110,257,662
	=====	=====	=====	=====

5. Related Party Disclosure

(a) Government of Kenya

MUSWASCO is one of the County WSPS under Murang'a County Government and contracted by Tana Water Services Board (TWSB) under the Water Act 2016.

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(b) Key Management

There are no benefits given to management on terms more favourable than available in the market.

(c) Directors

Fees paid to the directors in the year amounted to Kshs. 1,501,577 compared to previous financial year which amounted to Kshs. 2,784,361 as shown in the Financial Statements note 10(b). There was no related party transaction involving the directors.

6. Currency

The Financial Statements are presented in Kenyan Currency that is Shillings.

7. Incorporation

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

8. Projects Implemented by the Entity.

Projects implemented by the Company included the following

Project title	Project Number	Donor	Period/duration	Donor commitment	Separate donor reporting required as per the donor agreement (Yes/No)	Consolidated in these financial statements (Yes/No)
1. Maragua Bulk water supply project	001	National Government	Two years	Excellent	NO	NO
2. Decentralized treatment facility(DTF 50)	002	WSTF	6 months	Excellent	NO	NO
3. Construction of 300 toilets in Maragua & Sabasaba	003	WSTF	6 months	Excellent	NO	NO

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Status of Projects completion

Both projects are ongoing with project 001 being at 1% complete, project 002 being 30% complete and project 003 being 65% complete.

The reason they are not yet consolidated in the financial statements is because they are still ongoing and recognition is normally done upon completion and handing over of the project done by relevant donors.

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		2019/ 2020 Kshs	2018/ 2019 Kshs
8 Revenue			
(a) Operating income			
Water Sales		133,981,553	145,222,186
Connection fee		3,902,332	1,266,800
Reconnection fee		1,279,519	443,941
		139,163,404	146,932,927
9 Other income			
Misc Income- Contra Compensation for damages(KERRA) & other incomes		1,260,930	4,701,510
Other Misc Income			64,148
Interest income		42,569	33,608
WSTF Sanitation subsidy			5,257,976
Water lines extensions grants from Athi Water Services Board-Pipes and fittings		11,849,695	0
Covid -19 mitigation grants from Athi Water services board and Murang'a County-Water Tanks		765,500	0
Covid -19 mitigation grants from Murang'a County-Water treatment chemicals		269,320	0
Revenue Grants	17 (a)	4,185,512	2,803,376
Total Other Incomes		18,373,526	12,860,618

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10. SCHEDULE OF OPERATING EXPENDITURE	2019 / 2020	2018 / 2019
	Kshs	Kshs
10 a. PERSONNEL COST		
a) Regular Salaries	73,913,502	70,866,760
b) Casual wages	1,301,664	1,034,651
c) G.O.K Salary grant	1,299,000	0
Total Personnel Costs	76,514,166	71,901,411
10 b. ADMINISTRATIVE EXPENSES		
Directors Costs		
Directors Allowances	732,000	442,200
Meeting and Conferences	769,577	2,342,161
	1,501,577	2,784,361
Administrative Costs		
Staff training	497,614	763,485
Travelling & Subsistence	2,687,465	3,134,455
Staff Welfare & Staff Uniforms	2,395,041	2,718,364
Telephone & E-mails	2,855,741	2,682,679
Computer repairs & Accessories	1,895,330	1,757,540
Advertising & Publicity	791,583	963,300
Electricity (Production)	588,927	1,198,022
Electricity (Lighting)	161,361	162,186
Security services	1,593,103	1,593,103
End Year Party	0	795,000
(Decrease)/Increase in Provision for Bad debts	231,285	1,668,631
Postage	19,006	26,956
General office supplies-Office Tea	459,610	639,650
Billing Software Maintenance	300,000	375,000
Payroll maintenance- ISOFT	86,000	86,000
Pastel Maintenance	60,000	60,000
Generator Maintenance	21,200	25,000
Website Development & Hosting	85,500	181,724
ICT Enhancement	0	245,000
Insurance Compensation	0	(200,000)
Covid -19 Mitigation expenses	386,170	0
Covid-19 mitigation expenses from Muranga County-Hand sanitizers,Liquid soap and face masks	14,000	0
Covid-19 mitigation expenses from Athi Water Services Board-Hand sanitizers,Liquid soap	765,500	0
Total other administrative expenses	15,894,437	18,876,096
TOTAL ADMINISTRATIVE EXPENSES	17,396,014	21,660,457

SCHEDULE OF OPERATING EXPENDITURE (CONTINUED)

OPERATING EXPENSES	2019 /2020 Kshs	2018 /2019 Kshs
Regulatory Levy	5,918,375	4,473,218
Water Resources Levy	1,242,058	1,380,639
Printing & Stationeries	2,925,586	3,509,571
Motor Vehicle/Cycle running expenses	2,885,088	2,997,607
Fuels and Oils	8,686,901	7,284,621
Insurance(Staff covers & Motor Vehicles/Cycles)	1,046,160	1,720,463
Corporate Social Responsibility	85,550	106,192
Provision for Depreciation	4,884,121	5,508,626
Subscription (Waspa)	134,400	254,640
Billing & Printing Services	1,399,578	1,235,293
Repairs & Maintenance of Water pumps	28,500	83,000
Repairs & Maint. of Water Pipe Lines(NRW) & Installation of meters	2,352,864	3,228,706
Repairs & Maintenance-Office	384,990	571,151
Chamber Construction & Airvalves & Installation of solar panels	655,887	414,400
Bank Charges	1,427,984	343,270
Licences & permits	149,793	
Water quality	360,275	522,620
Bulk Water Purchase-Gatanga Community	525,035	314,875
Meter accessories and water fittings	2,992,839	(1,233,967)
Compensation of KERRA activities	402,283	1,536,678
WSTF Sanitation Expense		5,283,524
Civil Works	1,108,300	160,000
	39,596,568	39,695,128
d. LEGAL AND PROFESSIONAL FEES		
Legal Fees	1,038,418	360,819
Consultancy Services	-	206,408
Audit Fees - D K Wambua & Associates	-	545,507
Provision for Audit fees	591,394	
Customer Satisfaction Baseline Survey		100,750
	1,629,811	1,213,484
10 e. FINANCE COSTS		
Loan Interest	7,867,373	4,484,440
Loan Charges	727,045	37,531
Interest Charge Paid	158,463	150,661
	8,752,881	4,672,633
11 f. DIRECT COSTS		
Chemicals and Treatment	226,067	474,750
Water maintenance Costs	8,475,059	6,969,296
Water Lines rehabilitation	3,308,141	3,102,962
Water lines extensions expenses from Athi Water Services Board-Pipes and fittings	11,849,695	0
Covid -19 mitigation expenses from Murang'a County-Water treatment chemicals	255,320	0
	24,114,282	10,547,008
11 g. INVENTORY		
UPVC,GI pipes & Water fittings	1,571,075	2,943,409
Stationeries	192,287	193,340
Aluminium Sulphate	-	67,000
	1,763,362	3,203,749

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NOTES (CONTINUED)

1 Cash and cash equivalents

2019 / 2020
Kshs

2018 / 2019
Kshs

For the purpose of the cash flow statement, cash and cash equivalents comprise the following:
Cash and current account balances

Cash at bank and in hand

Cash in hand	11.a	24,600	-
Cash at bank	11.b	-	223,186
	11.c	<u>24,600</u>	<u>223,186</u>

Analysis of cash at bank

Bank Name	Account number	2018 / 2019	2018 / 2019
Equity Bank-Collection Account	0890269245257	90,870	67,850
K.C.B bank	1114420859	85,886	79,176
Unaitas Bank	002020037	8,494	2,417
Amica Sacco	006101000019618	74,338	208,202
Sidian Bank -1675	01012020001675	238,636	170,892
Equity Bank	0090292737794	1,243,184	306,509
Sidian Bank -3831	01012020003831	1,619,333	-
Sidian Bank	01012020005208	3,958	3,958
M-PESA Facility	346350	500,051	227,812
	11b (1)	<u>3,864,750</u>	<u>1,066,816</u>
Overdraft			(843,630)
Sidian Bank -3831	01012020003831		
	11b(2)	<u>3,889,350</u>	<u>223,186</u>

2 Trade and other payables

Trade payables	52,101,574	45,550,484
Development Creditors	0	713,927
Accruals	31,123,417	20,007,563
Other payables (Customer Deposit)	47,855,358	42,659,955
TWSB-guarantor 20% Contribution	0	5,000,000
	<u>131,080,348</u>	<u>113,931,929</u>

3 Trade Receivables

Water sales debtors	77,300,910	74,988,065
Less:10% General provision for bad debts	(7,730,091)	(7,498,806)
	<u>69,570,819</u>	<u>67,489,258</u>

Other Receivables

TWSB-customer deposit	775,751	775,751
WASREB-SPA deposit	100,000	100,000
Gatanga community water scheme deposit	100,000	100,000
Amica Sacco Shares	203,000	100,000
Investment Deposit Amica Sacco	2,000,000	500,000
Advance salaries and other pre-payments	2,520,571	2,335,271
WSTF	0	713,927
AWSB-Kirichiungu	0	896,576
VAT control account	22,717,071	16,249,154
	<u>28,416,393</u>	<u>21,770,679</u>

Trade and Other Receivables

	<u>97,987,212</u>	<u>89,259,937</u>
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NOTES (CONTINUED)

2019/2020

14 PROPERTY, PLANT AND EQUIPMENT

	MOTOR VEHICLE & MOTOR CYCLES	FURNITURE & EQUIPMENTS	EQUIPMENT S /WATER KIOSKS/WA TER PUMPS	WATER METERS	COMPUTERS	INFRASTRUCT URE	WORK-IN- PROGRESS	TOTAL
	KSHS	KSHS	KSHS	KSHS	KSHS	KSHS	KSHS	KSHS
COST								
As at 1st July 2019	5,797,136	750,767	8,518,673	34,971,456	7,491,573	77,362,644	39,048,090	173,940,339
Additions	209,685				186,349	-	28,740,771	29,136,805
As at 30th June 2020	6,006,821	750,767	8,518,673	34,971,456	7,677,922	77,362,644	67,788,861	203,077,144
DEPRECIATION								
As at 1st July 2019	4,414,242	452,856	5,295,720	21,916,495	4,201,520	10,145,535	-	46,426,367
Charge for the year	324,516	35,529	384,375	1,556,956	918,004	1,664,738		4,884,119
As at 30th June 2020	4,738,758	488,385	5,680,095	23,473,451	5,119,525	11,810,273	-	51,310,486
NBV								
As at 30th June 2020	1,268,063	262,382	2,838,578	11,498,005	2,558,397	65,552,371	67,788,861	151,766,657
As at 30th June 2019	1,382,894	297,911	3,222,953	13,054,961	3,290,053	67,217,109	39,048,090	127,513,972
COST								
As at 1st July 2018	5,797,136	750,767	8,518,673	34,971,456	4,773,480	77,362,644	11,772,229	143,946,385
Additions					2,718,093	-	27,275,861	29,993,954
As at 30th June 2019	5,797,136	750,767	8,518,673	34,971,456	7,491,573	77,362,644	39,048,090	173,940,339
DEPRECIATION								
As at 1st July 2018	4,025,306	412,515	4,859,296	20,148,707	3,033,397	8,438,519	-	40,917,741
Charge for the year	388,936	40,340	436,423	1,767,787	1,168,123	1,707,016	-	5,508,627
As at 30th June 2019	4,414,242	452,856	5,295,720	21,916,495	4,201,520	10,145,535	-	46,426,367
NBV								
As at 30th June 2019	1,382,894	297,911	3,222,953	13,054,961	3,290,053	67,217,109	39,048,090	127,513,972
As at 30th June 2018	1,771,831	338,252	3,659,377	14,822,749	1,740,083	68,924,125	11,772,229	103,028,644

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NOTES (CONTINUED)

15 .Tax expense/income

	2019 /2020	2018 /2019
	Kshs	Kshs
Current income tax	(3,140,038)	3,031,027
Deferred income tax	-	-
Income tax expense/(credit)	<u>(3,140,038)</u>	<u>3,031,027</u>

The tax on the company's profit/(loss) before income tax differs from the theoretical amount that would arise using the statutory income tax rate as follows:

Profit/(loss) before income tax	<u>(10,466,793)</u>	<u>10,103,424</u>
Tax calculated at the statutory tax rate of 30%	(3,140,038)	3,031,027

16. Borrowings

Included in the financial statements

	Kshs	Kshs
Not later than an year	14,900,469	1,594,576
Later than 1 year and no later than 5 years	<u>32,540,074</u>	<u>41,322,437</u>
	<u>47,440,543</u>	<u>42,917,013</u>

Loan Movement

As at beginning of the year	42,917,013	20,282,117
Borrowings in the year	38,740,771	27,275,861
Repayments during the year	<u>(34,217,242)</u>	<u>(4,640,964)</u>
	<u>47,440,542</u>	<u>42,917,013</u>

The lender of this borrowing is Sidian Bank Ltd, at an interest rate of 13% per annum on a reducing balance, four years and four months(52 Months),Security is debentures.

17. NOTE FOR GRANT SCHEDULE

17 a. TOTAL REVENUE GRANTS FY 2019/2020

	<u>2019 /2020</u>	<u>2018 /2019</u>
	Kshs	Kshs
Salaries GOK	1,299,000	0
Amortisation	2,886,512	2,803,376
TOTAL	<u>4,185,512</u>	<u>2,803,376</u>

17 b. TOTAL CAPITAL GRANTS AS AT 30TH JUNE 2020

Balance as at 1st July 2019	53,268,730	56,072,106
Additions during the year	26,887,092	0
Transfer to statement of comprehensive income	(2,886,512)	(2,803,376)
Balance as at 30th June 2020	<u>77,269,310</u>	<u>53,268,730</u>

The capital grants include Pipeline infrastructure, water kiosks, storage tanks, laboratory equipment & water meters that have been cumulatively granted by TWSB, NWCPC & WSTF (Tana Water Services Board, National Water Conservation And Pipeline Corporation & Water Services Trust Fund) from FY 2011-2012 to FY 2019-2020 and amortised annually at normal rates as below,

	<u>Rate - %</u>
Furniture, Fittings & Equipments	12.50%
Water Kiosks and Equipments	12.50%
Water Meters	12.50%
Infrastructure Pipeline	2.50%

