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REPORT

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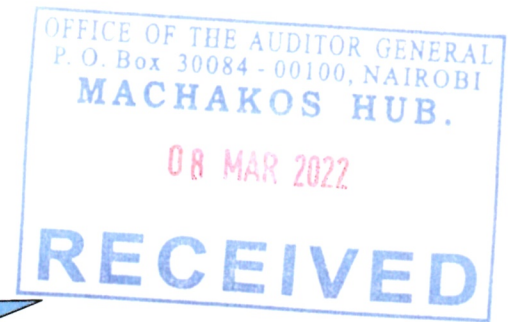
OF

THE AUDITOR-GENERAL

ON

**MATUNGULU-KANGUNDO WATER AND
SEWERAGE COMPANY LIMITED**

**FOR THE YEAR ENDED
30 JUNE, 2021**



MATUNGULU KANGUNDO WATER & SEWERAGE COMPANY

ANNUAL REPORT

AND

FINANCIAL STATEMENTS

30 JUNE 2021

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

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KEY ENTITY INFORMATION

Background information

The entity is established by the Water Act of 2016 as an agent of the County Government of Machakos to provide water and sewerage services within Kangundo and Matungulu sub counties. The County Government has appointed a Board of Directors who are responsible for the general policy and strategic direction of the entity.

Principal Activities

The principal activity of the entity is to provide water and sewerage services within its jurisdiction.

Directors

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

- | | |
|---------------------------|--------------------------|
| 1. Daniel Kimomo Nginga | -Chairman |
| 2. Agnes Muteti | -Chief Executive Officer |
| 3. Samuel Munene | |
| 4. Catherine Mutuku | |
| 5. Edna Mwanzia | |
| 6. Wilson Kasimu | |
| 7. Magdalene Emma Nthenge | |

Registered Office

Tala Plaza
Kangundo Road
P.O Box 561-90131
Tala, Kenya

Corporate Headquarters

P.O Box 561-90131
Tala Plaza
Kangundo Road
Tala, Kenya

Corporate Contacts

Telephone: +254719212720
Email:kamwasco@gmail.com

Corporate Bankers

Kenya Commercial Bank

P.O Box 173-90131

Tala, Kenya

Independent Auditors

Auditor General

Kenya National Audit Office




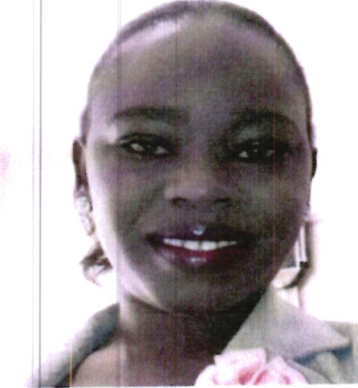
Anniversary Towers, University Way

P.O Box 30084




GOP 00100

Nairobi, Kenya

THE BOARD OF DIRECTORS

	<p><u>DANIEL KIMOMO NGINGA</u></p> <p><u>CHAIRMAN(BOD)</u></p> <p>Mr. Daniel Kimomo Nginga chairs the board of the company. He is a career teacher and in charge of Kenya union of Teachers of south eastern branch.</p>
	<p><u>SAMUEL MUNENE</u></p> <p>Mr. Samuel Munene is a director in charge of Audit committee of the company. He is a retired career teacher.</p>
	<p><u>WILSON KASIMU</u></p> <p>Mr. Wilson Kasimu is a director in charge of Finance and administration committee of the company.</p>
	<p><u>CATHERINE MUTUKU</u></p> <p>Miss Catherine Mutuku is a director of the company in charge of legal and advisory committee of the company.</p>

MATUNGULU KANGUNDO WATER AND SEWERAGE COMPANY LIMITED
Annual Reports and Financial Statements
For the year ended June 30 2021

	<p><u>EMMA M. MWANZIA</u> Miss Emma M. Mwanzia is a director of the company in charge of technical operations.</p>
	<p><u>MAGDALENE EDNA NTHENGE</u> Mrs. Magdalene E. Nthenge is a director of the company. She is a member in the finance committee of the company.</p>
	<p><u>AGNES K. MUTETI</u> Mrs. Agnes Muteti is the Managing Director and the secretary to the Board of Directors. She holds a certificate in water supply from Kenya Water institute.</p>

MANAGEMENT TEAM

	<p><u>AGNES MUTETI</u></p> <p><u>Date of Birth:1968</u></p> <p><u>MANAGING DIRECTOR</u></p> <p>Agnes Muteti is the Managing Director and is in charge of the day to day operations of the company and also head of commercial department. She holds a certificate in Water Supply from the Kenya Water Institute.</p>
	<p><u>PATRICK KIMITI</u></p> <p><u>Date of Birth: 1969</u></p> <p><u>TECHNICAL MANAGER</u></p> <p>Patrick Kimiti is the manager in charge of Technical Operations within the company. He holds a certificate in Water Supply from the Kenya Water Institute.</p>
	<p><u>ANTHONY MUEMA</u></p> <p><u>Date of Birth:1982</u></p> <p><u>ACCOUNTANT</u></p> <p>Anthony Muema is the company's accountant in charge of the finance department. He holds a Bachelor of commerce (Finance Option) degree from KCA University and is a Certified Public Accountant of Kenya (CPA K).</p>

CHAIRMAN'S STATEMENT

The company started in 2008 by the then water officer Mr. Nicholas Mageto. The water Management was handed over to him by the Kangundo urban council. The company popularly known as MAKAWASCO comprises of three water sources namely; Nguluni, Tala and Kangundo.

This young company was handed over with a lot of challenges which have kept on manifesting themselves for quite a long time and which so far we have managed to change.

- a) Unskilled labour
- b) Poorly paid workers and therefore unmotivated to perform better
- c) Poor and unorganized water management systems
- d) Old and dilapidated pipes
- e) Lack of pipes network sketch maps
- f) Illegal connections

The list of the old challenges that existed during the initial stages were very many. However, I am proud and pleased to announce with confidence that I can see light at the end of the tunnel because there is a lot of improvement in terms of:-

- Skilled Personnel
- Personnel are moderately motivated
- Organized management team in place
- Illegal connections almost dealt with completely
- Workers with better remuneration

I must say that I am thankful to the organizations which have come very handy to our rescue in terms of the company water infrastructure namely; Machakos County Government and Tanathi Water services board who have tirelessly assisted in improving not only new pipes network but have minimized Non-revenue water.

Finally, let me thank all our esteemed water customers and the rest of stakeholders for being on our side on this long journey since the inception of the company in 2008. Your cooperation, opinion and assistance has taken us this far. The sky is our limit; we shall never rest until every customer/household gets water regardless of the distance one is from the water source.

Thank you once again and hope that you will give your help where it is most needed to make MAKAWASCO the water company in this region.

Regards,



Daniel Kimomo Nginga
Chairman, Board of Directors

REPORT OF THE CHIEF EXECUTIVE OFFICER

It is my pleasure to present to you Matungulu Kangundo water and sewerage company management report for the year ended June 30 2021. The Company is mandated to provide water services within Matungulu and Kangundo sub counties to a coverage area of approximately 924km² targeting a current estimated population of 234,388 people.

Water is a key driver of social and economic development and over the years, supply of reliable and affordable water to our customers, improvement of customer service and acceleration of water access to the public remains at the centre stage of our operations.

Notably, between 2008 and June 2021, the company had connected 1595 customers. With a view to taking services to our customers and improving efficiency, the company created customer care services (Offices) throughout its three service areas. In our operation we continue to be guided by our mission of sustaining efficient, effective, save and affordable water services to the community for bettering their lives.

Most of the people live in areas with unsafe and unreliable water services and with limited access to legal connections. The company has therefore been exploring and implementing sustainable innovations to provide quality, reliable and affordable water to those areas in partnership with the water sector trust fund, Machakos County Government and internally generated funds. This is done through Water kiosks, stand points and/or individual connections.

We continue to implement programs aimed at improving our service delivery, efficiency and customer convenience in line with our vision 'To be the best water service provider in the region' by providing quality services that delights our customers. The company is continuously exploring for ways to improve customer convenience in the payment of water services through use of KCB pay bill (Mpesa) and bill payment through Kenya commercial Bank.

Finally, I wish to appreciate our stakeholders and corporate partners for the solid commitment and support. To our esteemed customers, we thank you for your loyalty and support. It is through the hard work and dedicated effort of the MAKAWASCO team that we are now able together with our stakeholders to mark the achievements made during the year. Therefore, to the management and staff of MAKAWASCO, let us keep this momentum, to the Board; I thank you for your guidance and leadership.



Agnes Muteti
Managing Director

CORPORATE GOVERNANCE STATEMENT

The board of Directors actively shapes the company's mission and the strategic direction. The board has set out clear agenda to ensure its overall control of the company's affairs. The responsibilities and limitations of the directors are primarily set out in the articles of association of the company and corporate governance guidelines by the sector regulator.

The board is responsible for policy formulation, approval of utilization of the company funds, administration of the company and protection of the property and assets of the company.

The executive management committee chaired by the managing Director comprises head of departments and sections reporting directly to the Managing Director. The committee meets at least once per month to review performance and to consider policy and business issues including strategic measures while also reviewing papers before they are tabled before the Board for consideration and approvals.

The independence of the Board from the company's corporate management is ensured by separation of the functions of the chairman and Managing Director and a clear definition of their responsibilities. The chairman is primarily responsible for providing leadership of the Board of Directors while the Managing Director is responsible for the day to day management of the company. This helps in achieving an appropriate balance of authority, increased accountability and improved capacity for decision making.

Board of Directors

On a quarterly basis the Board of Directors considers management reports from the managing Director, Management accounts, and reports of each Board committee, specific proposals for capital expenditure and acquisition as well as strategic planning for the company. The Board meets at least once per quarter. The calendar of meetings is prepared annually and approved in advance.

Committees of the Board

The Board oversees the monitoring system and has set specific responsibilities for itself and its committees. Board committees have been established with formal written terms of reference and observe the rules of conduct and procedures of the Board.

The Board committees are constituted by the Board which sets out the responsibilities delegated by the Board to the committee and the committee's structure and operation. The role of the committee is to operate within the terms of its charter and to make recommendations to the Board for approval or ratification. The committee may determine on behalf of the Board certain matters with prior approval of the Board.

1. Technical Committee

The committee deals with strategic planning, operations and technical issues. Its responsibilities include infrastructure development, reviewing and evaluating of water service standards and ensuring service efficiency and effectiveness, monitoring and evaluating performance of both the service provision agreement and the performance contract. This committee is chaired by Mrs. Emma M. Mwanzia

2. Finance and Administration Committee

The committee deals with financial, recruitment and administrative issues of the company. Its responsibilities include reviewing and evaluation of performance of the approved recurrent budget, opening and closure of bank accounts, financial performance and sustainability of the company, facilitate for the application of tariff and related charges for water services and all staff matters. The committee is chaired by Mr. Wilson Kasimu.

3. Audit Committee

The committee deals with compliance issues. Its responsibilities include examining and assessing the effectiveness of the internal control, evaluate internal audit programs, carry out special audits, receive and consider audit reports, verify the company's assets and liabilities and adopt a proactive risk based approach to internal audit systems. This committee is chaired by Mr. Samuel Munene

CORPORATE SOCIAL RESPONSIBILITY STATEMENT

The company did not participate in corporate social activities for the year ended 30th June 2021.

REPORT OF THE DIRECTORS

The Directors submit their report for the year ended June 30, 2021 which show the state of the entity's affairs.

Principal Activities

The principal activities of the entity are the provision of water and sewerage services

Results

The results of the entity for the year ended June 30, 2021 are set out on page 1-19

Directors

The members of the Board of Directors who served during the year are shown on page 2. In accordance with regulation 59 of the entity's Articles of Association; one director who is the longest serving is required to retire by rotation, however, all the directors are serving their last term in office.

Auditors

The Auditor General is responsible for the statutory audit of the entity in accordance with section 81 Of the Public Finance Management (PFM) Act, 2012 which empowers the Auditor General to nominate other auditors to carry out the audit on his behalf.

STATEMENT OF DIRECTORS RESPONSIBILITIES

Section 23 of the public audit Act, 2015 and the Kenya Company's Act; require the Directors to prepare financial statements in respect of that entity, which give a true and fair view of the state of affairs of the entity at the end of the financial year and the operating results of the entity that year. The Directors are also required to ensure that the entity keeps proper accounting records which disclose with reasonable accuracy the financial position of the entity. The Directors are also responsible for safeguarding the assets of the entity.

The Directors are responsible for the preparation and presentation of the entity's financial statements, which give a true and fair view of the state of affairs for and as at the end of the financial year ended on June 30, 2021. This responsibility includes:

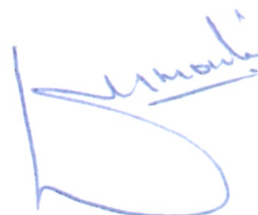
- i. Maintaining adequate financial management arrangements and ensuring that these continue to be effective throughout the reporting period
- ii. Maintaining proper accounting records, which disclose with reasonable accuracy at any time the financial position of the entity;
- iii. Designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of the financial statements, whether due to error or fraud;
- iv. Safeguarding the assets of the entity
- v. Selecting and applying appropriate accounting policies; and
- vi. Making accounting estimates that are reasonable in the circumstances.

The Directors accept responsibility for the entity's financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgments and estimates, in conformity with international Financial Reporting standards (IFRS), and in the manner required by the PFM Act and the company's Act. The Directors are of the opinion that the entity's financial statements give a true and fair view of the state of entity's transactions during the financial year ended June 30, 2021 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 relied upon in the preparation of the entity's 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 the entity will not remain a going concern for at least the next twelve months from the date of this statement.

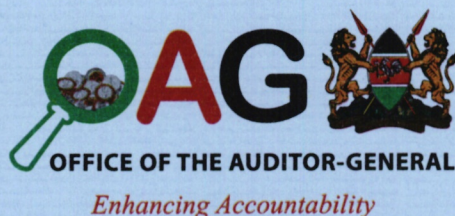
Approval of the financial statements

The entity's financial statements were approved by the Board on2021 and signed on its behalf by:



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 MATUNGULU-KANGUNDO WATER AND SEWERAGE COMPANY LIMITED FOR THE YEAR ENDED 30 JUNE, 2021

PREAMBLE

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

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

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

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

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of Matungulu-Kangundo Water and Sewerage Company Limited set out on pages 1 to 19, which comprise of the statement of financial position as at 30 June, 2021, 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 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 that, 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 Matungulu-Kangundo Water and Sewerage Company Limited as at 30 June, 2021, and of its financial performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards (IFRS) and comply with the Water Act, 2016 and the Companies Act, 2015.

Basis for Qualified Opinion

1. Errors in Presentation and Misstatements in the Financial Statements

Scrutiny of the financial statements presented for audit revealed errors in presentation and misstatements as follows:

- i. The statement of Directors responsibilities on page xiii referred to Section 23 of the Public Audit Act, 2015, instead of Section 164(1) which is the correct reference for responsibility of preparation of financial statements.
- ii. Board of Directors information on pages iv and v does not include details such as education and experience on each Board member as required by the approved financial reporting template.
- iii. The financial statements do not include required reports such as; management discussion and analysis, statement of performance against predetermined objectives.
- iv. The statement of cash flows reflects (Kshs.445,350) as cash generated from operations and refers to Note 12(a). However, casting error was noted under Note 12(a) which shows a total of (Kshs.445,350) instead of (Kshs.62,218) confirmed on re-casting. In addition, the Note indicates amounts of (Kshs.61,373) and Kshs.962,042 as the changes in trade receivables and trade payables instead of the recomputed amounts of (Kshs.302,940) and Kshs.706,542 respectively. Further, the Note describes movement in inventories as decrease instead of increase.
- v. Financial statements do not include the appendices as per the Public Sector Accounting Standards Board (PSASB) template including appendices on progress on follow of auditor recommendation and projects implemented by the Company.
- vi. The financial statements do not include a disclosure Note for capital reserves balance of Kshs.34,368,491 (2020 - Kshs.34,368,491) and no supporting documents were provided for audit review.

- vii. Opening balances in the statement of changes in equity totalling Kshs.11,190,713 differs from a total of Kshs.11,332,278 confirmed from the previous year's audited financial statements.

In the circumstances, the financial statements as presented do not fully comply with the reporting requirements prescribed by the Public Sector Accounting Standards Board. In addition, the fair statements of balances included in the financial statements could not be confirmed for the year ended 30 June, 2021.

2. Long outstanding Trade Payables

The statement of financial position reflects trade and other payables balance of Kshs.9,869,877 and as disclosed in Note 11(b) to the financial statements. However, scrutiny of the creditors' statements reflects, an accumulated amount of Kshs.7,669,722 in respect of trade payables which had remained outstanding for two years of which some are dated back to 2014 as shown below:

Creditor	Outstanding Amount Kshs.	Date
WARMA	694,812	30 June, 2014
Tanathi Water Service Board	5,866,865	30 June, 2018
Thika Water and Sewerage Company Limited	296,045	30 June, 2019
Office of the Auditor-General	812,000	30 June, 2016
Total	7,669,722	

Management did not provide explanation for failure to settle the long outstanding creditors which casts doubt on their validity. Further, failure to settle obligations as and when they arise exposes the Company to litigations and interests claim from the creditors.

In the circumstances, the accuracy, completeness and validity of trade and others payables balance of Kshs.9,869,877 as at 30 June, 2021 could not be confirmed.

3. Property, Plant and Equipment

The statement of financial position reflects Kshs.13,490,050 in respect to property, plant and equipment (PPE) and as disclosed in Note 5 to the financial statements. Review of the PPE schedule indicated a net book value of Kshs.13,490,050 as at 30 June, 2021. However, netting off the net book value of Kshs.14,755,162 at the beginning of the year against the accumulated depreciation amount of Kshs.18,980,379 results in negative net book value of Kshs.4,225,217 at the close of the year.

Further, Management did not provide fixed assets register to show details of acquisition dates, costs, description and other information relating to individual assets.

In addition, title deeds for the land and log books for motor bikes with book values of Kshs.2,350,000 and Kshs.42,538 respectively were not provided for audit review.

In the circumstances, the accuracy, completeness and ownership of assets of Kshs.13,490,050 as at 30 June, 2021 could not be confirmed.

4. Unsupported Customer Deposits

The statement of financial position reflects a balance of Kshs.4,020,760 in respect to customer deposits that was not supported by way of ledger and relevant documents. In addition, the customers' deposits bank account maintained at Kenya Commercial Bank (KCB) had a bank balance of Kshs.785,738 as at 30 June, 2021 resulting in unexplained variance in customer deposits of Kshs.3,235,022.

In the circumstances, the accuracy and completeness of the Kshs.4,020,760 customers' deposits balance could not be confirmed.

5. Long Outstanding Trade and Other Receivables

The statement of financial position reflects a balance of Kshs.8,317,775 in respect to trade and other receivables and as disclosed in Note 9 to the financial statements. The balance is net of provision for bad and doubtful debts of Kshs.82,121 representing 1% of gross receivables. However, the ageing analysis provided under Note 9 to the financial statements shows that debts totalling Kshs.4,483,679 representing 55% of the balance had remained outstanding for over 90 days implying that their recoverability was doubtful and casts doubt on adequacy of the provision made for the bad debts.

In the circumstances, the accuracy and recoverability of trade and other receivables of Kshs.8,317,775 as at 30 June, 2021 could not be confirmed.

6. Material Uncertainty Related to Going Concern

The statement of profit or loss and other comprehensive income shows that operations of the Company for the year resulted in a loss of Kshs.2,166,640 which was a continuation of a negative trend in 2019/2020 and 2018/2019 financial years whereby a deficit of Kshs.3,432,884 and Kshs.1,819,518 was recorded in the previous two years respectively. In addition, the statement of financial position reflects accumulated losses of Kshs.25,228,458;(2020 - Kshs.23,036,253). Further, current liabilities as at 30 June, 2021 of Kshs.9,869,877 exceeded current assets totalling Kshs.9,540,661 implying that the Company was operating at a negative working capital of Kshs.329,216.

These factors indicate that, the Company is facing financial challenges and casts significant doubt on its ability to sustain operations in the foreseeable future. However, no disclosure has been made in the financial statements on this material uncertainty related to going concern and measures in place to address it.

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

The statement of comparison of budget and actual amounts for the year ended 30 June, 2021 reflects budgeted and actual revenue for the year of Kshs.16,768,008 and Kshs.14,942,310 respectively giving rise to a shortfall of Kshs.1,825,698 of the approved budget.

Failure to realize the budgeted revenue affected negatively the financial performance of the Company and also implies that some of the planned activities were not undertaken thereby denying effective services to stakeholders.

2. Unresolved Prior Year Matters

Various prior year audit issues remained unresolved as at 30 June, 2021. Management has not provided reasons for the delay in resolving the prior year audit issues. Further, the unresolved prior year issues are not disclosed under the progress on follow up of auditor's recommendations section of the financial statements as required by the Public Sector Accounting Standards Board.

Other Information

The Directors are responsible for the other information, which comprises the Chairman's report, Directors' report, the statement of corporate governance, Management discussions and responsibilities, statement of Corporate Social Responsibility and the statement of Directors' responsibilities. The other information does not include the financial statements and my auditor's report thereon.

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

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

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

Basis for Conclusion

1. Late Submission of the Financial Statements

The financial statements of Matungulu-Kangundo Water and Sewerage Company for the year ended 30 June, 2021 were submitted to the Auditor-General on 08 December, 2021, more than two months after the statutory deadline. This is a contravention of Section 149(2)(k) of Public Finance Management Act, 2012 which stipulates that, Accounting Officer of a County Government entity shall not later than three months after the end of each financial year, prepare annual financial statements for that financial year and submit them to the Auditor-General for audit.

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

2. Unclear Ownership of the Company

Background information indicates that the Company was established in April, 2007 as a Limited Company under the Companies Act. Further, Note 9 to the financial statements discloses that the Company has 5,000 authorized ordinary share capital of Kshs.20 par value each totalling Kshs.100,000, out of which only two are issued and fully paid. However, share certificates in support of ownership of the Company were not provided for audit review. Further, Management did not provide documents to confirm that ownership was changed to the County Government of Machakos in order to comply with the Water Act, 2016.

In the circumstances, the ownership of the Company and compliance with the Water Act, 2016 could not be confirmed.

3. Failure to Lodge Returns with the Registrar of Companies

Background information indicates that the Company was established in April, 2007 as a limited company under the Companies Act. However, no documents were provided to confirm that the Company has been filing annual returns with the Registrar of Companies as stipulated under Section 705(1) of the Companies Act, 2015.

In the circumstances, the Company is in breach of the law.

4. Non-Revenue Water

During the year, the Company produced a total of 185,631 cubic meters (M³) of water, out of which 90,679 M³ was billed to customers leaving a balance of 94,952 M³ (approximately 51.1%) as non-revenue water worth Kshs.13,293,280 (at the rate of Kshs.140 per M³). The level of Non-Revenue Water (NRW) is over and above the allowable loss thresholds of 25% by 48,544 M³ as provided for by Water Service Regulatory Board (WASREB) Guidelines, 2018.

Further, high level of NRW undermines the Company's ability to achieve its mission of providing water and sewerage services within its jurisdiction.

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

5. Operations of Ngalalya Water Project

Physical verification of water facilities under the Company's jurisdiction revealed that, Ngalalya Water Project which is implemented by Tanathi Water Works Development Agency at an estimated cost of Kshs.124 million was not handed over to Matungulu-Kangundo Water and Sewerage Company in line with the provisions of the Water Act, 2016. A field inspection carried out in January, 2021 revealed that water was being sold to the residents from a water kiosk and connections from the project had been made to individual households and businesses between Matuu and Kisukioni. It was not clear who was in charge of the operations of the project and how the accruing revenue was accounted for. In addition, a leakage was observed at the main water reservoir on Matuu Water Hills and a pipe had burst along the main water pipeline. Further, it was not explained who had the responsibility for repair and maintenance of the water system infrastructure.

In the circumstances, the Company has failed to account for Ngalalya Water Project which is within its jurisdiction.

6. Unauthorized Expenditure

Review of expenditure for the year against the approved budget revealed instances where the approved budget was exceeded without the requisite authority as detailed out below:

Item	Approved Budget Kshs.	Actual Amount Kshs.	Unauthorized Expenditure Kshs.
Operating Costs	5,203,853	5,486,492	(282,639)
Staff Costs	7,068,394	7,337,039	(268,645)
Total	12,272,247	12,823,531	(551,284)

In the circumstances, Management is in breach of the law and the expenditure of Kshs.551,284 was incurred irregularly.

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

As required by Section 7(1)(a) of the Public Audit Act, 2015, based on the audit procedures performed, except for the matters described in the Basis for Conclusion on

Effectiveness of Internal Controls, Risk Management and Governance section of my report, I confirm that, nothing else has come to my attention to cause me to believe that internal controls, risk management and overall governance were not effective.

Basis for Conclusion

1. Lack of Human Resource Policy Manual

During the year under audit, the Company incurred expenditure totalling Kshs.7,337,039 in respect to staff costs as disclosed in Note 4(b) to the financial statements. However, review of human resource documents revealed that the Company did not have in place Human Resource Policy Manual to guide in staffing needs assessment, recruitment, remuneration and management. Further, it was noted that, during the year under audit, Management had engaged casual employees for the whole year without placing them under term contracts as provided for in the Employment Act, 2007.

In the absence of Human Resources Policy Manual, the Company lacks basis for staff recruitment and salaries determination. Further, engagement of employees on casual basis beyond the stipulated timelines is contrary to the provisions of the Employment Act, 2007.

2. Lack of Finance and Information Communication and Technology (ICT) Policy Manuals

Audit revealed that the Company did not have a finance manual, which is a necessary guide in financial procedures and definition key controls. In addition, the Company lacked ICT policy manual to guide in management of Information Technology assets.

In the absence of finance manual, there is lack of certainty and clarity on procedures necessary to guide in financial process and to safeguard the resources of the Company. In addition, lack of ICT policy manual implies that optimal investment and utilization of ICT assets may not be achieved.

3. Lack of Risk Management Policy, Disaster Recovery and Business Continuity Plan

Audit review revealed that, the Company does not have a risk management policy, disaster recovery and business continuity plan in place. In addition, there was no document to show that any formal risk identification and assessment process was undertaken during the year.

In the circumstances, the Company is exposed to loss and interruption of operations as it lacks mechanisms for identification, assessment and response to risks and disasters when they occur.

4. Lack of Internal Audit Function

Audit revealed that the Company does not have an internal audit function to provide oversight over Management activities as stipulated under Section 155 of the Public Finance Management Act, 2012.

Failure to put in place a robust internal audit function denies the Company the benefits associated with independent oversight over management activities and assurance on design and functioning of internal controls.

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

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

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

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

Responsibilities of 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 (IFRS) and for maintaining effective internal control as Management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error and for its assessment of the effectiveness of internal controls, risk management and governance.

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

The Board of Directors is responsible for overseeing the Company'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 controls 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 controls may not prevent or detect misstatements and instances of non-compliance. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the Company's 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 applicable basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in the auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my audit report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information and business activities of the Company to express an opinion on the financial statements.
- Perform such other procedures as I consider necessary in the circumstances.

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

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


 CPA Nancy Oathungu, CBS
AUDITOR-GENERAL

Nairobi

14 July, 2022


Statement of Profit or Loss and Other Comprehensive income for the year ended June 30, 2021

		2021	2020
	Note	Kshs	Kshs
Revenue	2(i)	13,448,880	12,529,710
Cost of Sales	3	<u>(793,501)</u>	<u>(625,613)</u>
Gross Profit		12,655,379	11,904,097
Other Income			
Grants from the County Government	2(iii)	1,000,640	942,920
Other income	2(ii)	<u>120,805</u>	-
TOTAL REVENUES		13,776,824	12,847,017
OPERATING EXPENSES			
Administration Expenses	4	15,943,464	16,279,901
TOTAL OPERATING EXPENSES		<u>15,943,464</u>	<u>16,279,901</u>
PROFIT/ (LOSS) BEFORE TAXATION		<u>(2,166,640)</u>	<u>(3,432,884)</u>
Income Tax Expense		-	-
Loss after tax for the year		<u>(2,166,640)</u>	<u>(3,432,884)</u>

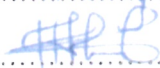
Statement of financial position as at 30, June 2021

		2021	2020
	Note	Kshs	Kshs.
ASSETS			
Non-current assets			
Property, Plant and Equipment	5	<u>13,490,050</u>	<u>14,755,162</u>
		<u>13,490,050</u>	<u>14,755,162</u>
Current assets			
Inventories	6	138,860	77,500
Trade and other receivables	7	8,317,775	8,014,835
Cash and Bank balances	8	<u>1,084,026</u>	<u>1,529,376</u>
		<u>9,540,661</u>	<u>9,621,711</u>
Total assets		<u>23,030,710</u>	<u>24,376,873</u>
EQUITY AND LIABILITIES			
Capital and Reserves			
Share capital	9	40	40
Capital Reserves		34,368,491	34,368,491
Retained earnings	10	<u>(25,228,458)</u>	<u>(23,036,253)</u>
		<u>9,140,073</u>	<u>11,332,278</u>
Non-current Liabilities			
Customer Deposits	11(a)	4,020,760	3,881,260
Current liabilities			
Trade and other payables	11(b)	<u>9,869,877</u>	<u>9,163,335</u>
		<u>9,869,877</u>	<u>9,163,335</u>
Total equity and liabilities		<u>23,030,710</u>	<u>24,376,873</u>

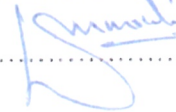
Managing Director

Name: Agnes Mutati
 Sign: 

Head of Finance

Name: Anthony Mueni
 Sign: 
 ICPAK M/NO: 14005

Chairman of the Board

Name: DANIEL K. NGINGA
 Sign: 

Statement of changes in equity for the year ended June 30, 2021

	Share Capital Kshs	Capital reserves Kshs	Retaining earning Kshs	Total Kshs
Balance as at July1, 2019	40	34,386,491	(19,628,934)	14,623,597
Loss for the year	-	-	(3,432,884)	(3,432,884)
Balance as at June 30, 2020	<u>40</u>	<u>34,368,491</u>	<u>(23,061,818)</u>	<u>11,190,713</u>
Balance as at July1, 2020	40	34,368,491	(23,061,818)	11,190,713
Loss for the year	-	-	(2,166,640)	(2,166,640)
Balance as at June 30, 2021	<u>40</u>	<u>34,368,491</u>	<u>(25,228,458)</u>	<u>9,140,073</u>

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED JUNE 30, 2021

	Note	2021 Kshs	2020 Kshs
CASHFLOWS FROM OPERATING ACTIVITIES			
Cash generated from operations	12(a)	(445,350)	(1,751,955)
Income tax paid	13	<u>-</u>	<u>-</u>
CASH GENERATED FROM (USED IN) OPERATING ACTIVITIES		<u>(445,350)</u>	<u>(1,751,955)</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property, plant and equipment		<u>-</u>	<u>-</u>
NET CASH GENERATED FROM (USED IN) INVESTING ACTIVITIES		<u>-</u>	<u>-</u>
CASH FLOWS FROM FINANCING ACTIVITIES			
Capital introduced		<u>-</u>	<u>477,500</u>
NET CASH GENERATED FROM (USED) FINANCING ACTIVITIES		<u>-</u>	<u>477,500</u>
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		(445,350)	(1,274,455)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR			
		1,529,376	2,803,831
Cash inflow /outflow during the period		(445,350)	(1,274,455)
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR			
	12(b)	<u>1,084,026</u>	<u>1,529,376</u>

Statement of Comparison of Budget and Actual Amounts For the year Ended 30 June 2021

	Original Budget	Adjustments	Final Budget	Actual on Comparable basis	Performance Difference
	2020-21	2020-21	2020-21	2020-21	2020-21
	Kshs	Kshs	Kshs	Kshs	Kshs
Revenue					
Water Sales	14,646,563	-	14,646,563	13,448,880	1,197,683
Sale of Annual Tenders	-	-	-	-	-
Grants from National Government	-	1,000,640	1,000,640	1,000,640	-
Debt Collections	1,000,000	-	1,000,000	371,985	628,015
Other Incomes	-	120,805	120,805	120,805	-
Total Income	15,646,563	1,121,445	16,768,008	14,942,310	1,825,698
Expenses					
Staff Costs	7,068,394	-	7,068,394	7,337,039	(268,645)
Administration Costs	3,338,013	-	3,338,013	3,119,933	218,080
Operating Costs	5,083,048	120,805	5,203,853	5,486,492	(278,639)
Pending Bills	150,000	-	150,000	-	150,000
Total Expenditure	15,639,455	120,805	15,760,260	15,943,464	
Surplus for the Period	7,108	-	1,007,748	(1,001,154)	

Notes to the financial statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principle accounting policies adopted in the preparation of these financial statement are set out below;

a) Statement of compliance and basis of preparation

The financial statements have been prepared on a historical cost basis and liabilities on the actual 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 judgment in the process of applying the entity’s accounting policies.

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

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

b (i) Adoption on New and Revised Standards

Standard/Amendment to a Standard	Effective Date	Impact
IFRS 14 Regulatory Deferral Accounts(Issued in January 2014)	1 st Jan 2016	The new standard, effective for annual accounting periods beginning on or after 1 January 2016, defines a regulatory deferral account balance and allows entities to continue to apply their existing policy for regulatory deferral account balances, but requires certain disclosures. The standard does not impact on the financial statements of the company.
Amendments to IFRS 11 titled Accounting for Acquisitions of interests in Joint operations(Issued in May 2014)	1 st Jan 2016	The amendments, require an acquirer of an interest in a joint operation in which the activity constitutes a business (as defined in IFRS 3) to apply all of the business combinations accounting principles and disclosure in IFRS 3 and other IFRSs, except for those principles that conflict with the guidance in IFRS 11.The amendments apply both to the initial acquisition of an interest in a joint operation, and the acquisition of an additional interest in a joint operation. The directors are of the opinion that the standard does not material effect on the financial statements of the company.
Amendments to IAS 16 and IAS 38 titled clarification of acceptable methods of Depreciation and Amortization (issued in May 2014)	1 st Jan 2016	The amendments add guidance and clarify that the use of revenue based methods to calculate the depreciation of an asset is not appropriate because revenue generated by an activity that includes the use of an asset generally reflects factors other than the consumption of the economic benefits embodied in the asset, and the revenue is generally presumed to be an inappropriate basis for measuring the consumption of the

MATUNGULU KANGUNDO WATER AND SEWERAGE COMPANY LIMITED

Annual Reports and Financial Statements

For the year ended June 30 2021

		economic benefits embodied in an intangible asset; However, this presumption can be rebutted in limited circumstances. The amendment did not affect the financial statements of the company.
Amendments to IAS 16 and IAS 41 titled Agriculture :Bearer plants(Issued in June 2014)	1 st Jan 2016	The amendments define bearer Plants as living plants which are used solely to grow produce over several periods and usually scrapped at the end of their productive lives (eg grape vines, rubber trees, oil palms) and include them in IAS 16's scope while the produce growing on bearer plants remains within the scope of IAS 41.The standard does not have effect on the operations of the company.
Amendments to IAS 27 titled Equity Method in separate Financial statements(issued in August 2014)	1 st Jan 2016	The amendment reinstate the equity method option allowing entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. This standard did not have any effect in the financial statements of the company.
Amendment to IAS 19(Annual improvements to IFRSs 2012-2014 cycle, issued in September 2014)	1 st Jan 2016	The amendment, clarifies that the high quality corporate bonds used in estimating the discount rate for post employment benefits should be denominated in the same currency as the benefits to be paid. The amendment does not have any effect on the financial statements of the company.
Amendments to IFRS 5(Annual improvements to IFRSs 2012-2014 cycle, issued in September 2014)	1 st Jan 2016	The amendment adds specific guidance when an entity reclassifies an asset (or a disposal group) from held for sale to held for distribution to owners, or vice versa, and for cases where held for accounting is discontinued. The amendment did not have any effect on the financial statements of the company.
Amendment to IFRS 7(Annual improvements to IFRSs 2012-2014 cycle, Issued in September 2014)	1 st Jan 2016	The amendment, applicable to annual periods beginning on or after 1 st January 2016, adds guidance to clarify whether a servicing contract is continuing involvement in a transferred asset. The amendment did not have impact on the financial statements of the company.
Amendments to IFRS 10,IFRS 12 and IAS 28 titled Investment Entities: Applying the Consolidation Exception(Issued in December 2014)	1 st Jan 2016	The amendments clarify guidance on materiality and aggregation, the presentation of subtotals, the structure of financial statements and the disclosure of accounting policies This amendment did not have impact on the financial statements of the company.
Amendment to IAS 1 titled Disclosure initiative (Issued in December 2014)	1 st Jan 2016	The amendments, clarify guidance on materiality and aggregation, the presentation of subtotals, the structure of financial statements and the disclosure of accounting policies. It is of the opinion of the directors that the amendment did not have impact on the financial statements of the entity.

MATUNGULU KANGUNDO WATER AND SEWERAGE COMPANY LIMITED
Annual Reports and Financial Statements
For the year ended June 30 2021

<p>Recognition of Deferred Tax assets for unrealized losses(Amendments to IAS12)</p>	<p>1st Jan2017</p>	<p>The amendments clarify that:</p> <ul style="list-style-type: none"> • Unrealized losses on debt instruments measured at fair value and measured at cost for tax purposes give rise to a deductible temporary difference regardless of whether the debt instrument’s holder expects to recover the carrying amount of the debt instrument by sale or by use. • The carrying amount of an asset does not limit the estimation of probable future taxable profits. • Estimates for future taxable profits exclude tax deductions resulting from the reversal of deductible temporary differences. <p>An entity assesses a deferred tax asset in combination with other deferred tax assets. Where tax law restricts the utilization of tax losses, an entity would assess a deferred tax asset in combination with other deferred tax assets of the same type. The amendment did not have an impact on the financial statements.</p>
<p>Disclosure initiative(Amendment to IAS 7: Statement of Cash flows)</p>	<p>1st Jan 2017</p>	<p>The amendments’ objective is that entities shall provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities. To achieve this objective, the IASB requires that the following changes in liabilities arising from financing activities are disclosed(to the extent necessary): i)changes from financing cash flows; ii) Changes arising from obtaining or losing control of subsidiaries or other businesses; iii) the effect of changes in foreign exchange rates; iv) changes in fair values; and v) other changes. The directors are of the opinion that this amendment did not affect the financial statements of the company.</p>
<p>Annual improvements to IFRS standards 2014-2016 cycle- Amendments to IFRS 12 Disclosure of interests in other entities</p>	<p>1st Jan 2017</p>	<p>Clarified the scope of the standard by specifying that the disclosure requirements in the standard, except for those in paragraph B10-B16, apply to an entity’s interests listed in paragraph 5 that are classified as held for sale, as held for distribution or as discontinued operations in accordance with IFRS 5 Noncurrent assets held for sale and Discontinued operations. The directors are of the opinion that this amendment does not affect the financial statements of the entity.</p>

Notes to the Financial Statements (Continued)

b (ii) Adoption of New standards

Standard	Effective Date	Impact
IFRS 15 Revenue from Contracts with Customers (issued in may 2014)	1 st Jan 2018	The new Standard, replaces IAS 11, IAS 18 and their interpretations (SIC -31 and IFRIC 13, 15 and 18). It establishes a single and comprehensive framework for revenue recognition to apply consistently across transactions, industries and capital markets, with a core principle (based on a five step model to be applied to all contracts with customers), enhanced disclosures, and new or improved guidance.
IFRS 16: Leases (issued in January 2016)	1 st Jan 2019	The new standard introduces a new lessee accounting model, and will require a lessee to recognize assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee will be required to recognize a right of use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments.

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.

b (iii) Early adoption of Standards

The entity did not early-adopt any new or amended standards in year 2021

Notes to the financial statements (continued)

c) Revenue recognition

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

- i. **Revenue from the sale of goods and services** is recognized in the year in which the entity delivers product to the customer, the customer has accepted the products and collectability of the related receivables is reasonably assured.
- ii. **Grants from the National Government** are recognized in the year in which the entity actually receives such grants.
The grants recognized in the statement of comprehensive income relate to gross salaries paid by the county Government of Machakos to two staff seconded in the company.
- iii. **Other income** is recognized as it accrues. The other income relates to funds received from contractors for relocation of pipeline to facilitate road works within Tala and Kangundo sub regions.

d) In-Kind Contributions

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

e) Property, plant and equipment

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

f) Depreciation of property, plant and equipment

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

Depreciation on property, plant and equipment is recognized in the income statement on a reducing basis. The annual rates in use are:

Plant and Machinery	12.5%
Computers and related Equipment's	30%
Furniture, Fittings and Pipeline	12.5%
Motorbikes	25%
Billing Software	20%
Buildings	2.5%

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

Notes to the financial statements (continued)

g) Inventories

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

h) Trade and Other receivables

Trade and other receivables are recognized at fair values less allowances for any uncollectable 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.

Provision of doubtful debts is at 1% of the outstanding debtors at the end of the year.

i) Taxation

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the tax authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantially enacted as at the reporting date. Current income tax relating to items recognized directly in equity is recognized in equity and not in the income statement.

j) Cash and Cash equivalents

Cash and cash equivalents comprise cash on hand and cash at bank. Cash at Bank comprise amounts held at Kenya commercial bank at the end of the financial year. For the purposes of the financial statements, cash and cash equivalents also include short term cash imp rests and advances to authorized public officers which were surrendered or accounted for at the end of the financial year.

k) Trade and other payables

Trade and other payables are 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.

l) Subsequent events

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

m) Reclassification of Expenses

The following expenses have been reclassified;

- Bank charges to Administration costs
- Staff Welfare to Personnel costs
- Office rent to Administration costs

n) Capital Reserves

The capital reserves shown in the financial statements relates to revaluation of assets done at inception of the company in the year 2008

Notes to the financial statements (continued)

	2021 Kshs	2020 kshs
2. I)REVENUE		
Gross water sales	13,393,080	12,488,910
Connection fees	<u>55,800</u>	<u>40,800</u>
	<u>13,448,880</u>	<u>12,529,710</u>
2ii) Other Incomes	120,805	-
2iii) Grants from County Government	1,000,640	942,920
3. COST OF SALES		
Opening Stock	77,500	202,965
Purchases	<u>854,861</u>	<u>500,148</u>
Cost of Goods Available for Sale	932,361	703,113
Closing Stock	<u>(138,860)</u>	<u>(77,500)</u>
	<u>793,501</u>	<u>625,613</u>
4. ADMINISTRATION COSTS		
Staff Costs (4b)	7,337,039	7,298,192
Directors Emoluments	1,589,424	1,510,025
Water Agents commission	439,984	483,741
Professional Fees	239,000	116,000
Subscriptions	35,000	-
Staff uniform	-	16,200
Office tea & cleaning	14,177	12,408
IT expenses	31,600	24,300
Newspapers & Periodicals	15,180	14,880
Postage, Telephone & Internet	77,155	86,695
Printing & Stationeries	76,195	42,070
Bank charges	24,897	72,692
Rent	249,450	246,450
Travelling & Accommodation	327,871	183,510

Notes to the financial statements (continued)

Depreciation	1,265,113	1,468,975
Increase in Provision for Doubtful debts	1,921	6,397
Lease fee	544,737	588,576
Running Expenses	77,660	93,750
Repair & Maintenance	1,029,825	1,163,628
Chemicals & Testing	15,255	-
Electricity & Water	<u>2,551,981</u>	<u>2,851,412</u>
Total Administration Expenses	<u>15,943,464</u>	<u>16,279,901</u>

4. b) STAFF COSTS

Salaries and allowances of permanent employees	5,348,611	5,466,492
Staff welfare	98,000	49,200
Salaries for Seconded staff	1,000,640	942,920
Wages of temporary employees	742,908	690,000
Nssf Company	<u>146,880</u>	<u>149,580</u>
	<u>7,337,039</u>	<u>7,298,192</u>

Notes to the financial statements (Continued)

5. PROPERTY, PLANT AND EQUIPMENT

	Land	Buildings (Water kiosk)	Borehole Equipment	Furniture, fittings & piping	Motor Bikes	Computers & accessories	Billing software	Total
Cost								
As at July 1, 2020	2,350,000	3,090,212	3,492,607	5,632,829	56,717	64,398	68,400	14,755,163
Additions	-	-	-	-	-	-	-	-
As at June 30, 2021	2,350,000	3,090,212	3,492,607	5,632,829	56,717	64,398	68,400	14,755,162
Accumulated depreciation								
As at July 1, 2020	-	114,236	6,605,841	10,441,796	157,079	266,724	129,600	17,715,266
Annual depreciation	-	77,255	436,576	704,104	14,179	19,319	13,680	1,265,113
As at June 30, 2021	-	191,491	7,042,417	11,145,890	171,258	286,043	143,280	18,980,379
Carrying amount								
As at June 30, 2021	2,350,000	3,012,957	3,056,031	4,928,725	42,538	45,079	54,720	13,490,050

Notes to the Financial Statements (Continued)

	2021	2020
6. INVENTORIES		
Consumables	<u>138,860</u>	<u>77,500</u>
7. TRADE AND OTHER RECEIVABLES		
Trade Receivables (note 7(a))	8,212,129	8,020,035
Prepayments (Rent deposit)	20,000	20,000
VAT asset	131,267	-
Salary Advances	<u>36,500</u>	<u>55,000</u>
Gross trade and other receivables	8,399,896	8,095,035
Provision for bad and doubtful debts	<u>(82,121)</u>	<u>(80,200)</u>
Net trade and other receivables	<u>8,317,775</u>	<u>8,014,835</u>
7. a) Gross trade receivables	8,212,129	8,020,035
Provision for bad and doubtful debts	<u>(82,121)</u>	<u>(80,200)</u>
Net trade receivables	<u>8,130,008</u>	<u>7,939,835</u>
<u>Debtors aging analysis</u>		
0-----30 Days	1,027,950	888,300
30-----60 Days	900,000	795,000
60-----90 Days	1,800,500	1,074,300
Above 90 Days	4,483,679	5,262,435
8. BANK AND CASH BALANCES		
Cash at Bank	1,084,026	1,529,376
Cash in hand	<u>-</u>	<u>-</u>
	<u>1,084,026</u>	<u>1,529,376</u>
<p>The cash at Bank is held at Kenya commercial bank which is the companies' bankers. The cash at Bank is held in the following Bank accounts;</p>		
	Balance	
a) Revenue Account (1107331072)	284,971	
b) Expenditure Account (1117663515)	13,317	
c) Deposit Account (1107184711)	785,738	

Notes to the financial statements (continued)

9. ORDINARY SHARE CAPITAL	2021	2020
Authorized:		
5000 ordinary shares of kshs 20 par value each	<u>100,000</u>	<u>100,000</u>
Issued and fully paid:		
2 ordinary shares of kshs 20 par value each	<u>40</u>	<u>40</u>
 10. RETAINED EARNINGS		
Balance as at July 2020	(23,061,818)	(19,603,369)
Loss for the year	<u>(2,166,640)</u>	<u>(3,432,884)</u>
	<u>(25,228,458)</u>	<u>(23,036,253)</u>
 11. a) NON CURRENT LIABILITIES		
Customer Deposits	4,020,760	3,881,260
 11. b) TRADE AND OTHER PAYABLES		
Trade Payables	9,286,437	8,615,700
Accrued Expenses	<u>583,440</u>	<u>547,635</u>
	<u>9,869,877</u>	<u>9,163,335</u>
 12. NOTES TO THE STATEMENT OF CASHFLOWS		
a) Reconciliation of operating loss to cash used in operations		
Operating loss	(2,166,640)	(3,432,884)
Depreciation	<u>1,265,113</u>	<u>1,468,975</u>
Operating profit before working capital changes	(901,527)	(1,963,909)
Decrease in inventories	(61,360)	125,465
Increase in trade receivables	(61,373)	(536,255)
Increase in trade and other payables	<u>962,042</u>	<u>622,744</u>
Cash generated from operations	<u>(445,350)</u>	<u>(1,751,955)</u>

Notes to the financial statements (continued)

2021

2020

b) Analysis of cash and cash equivalents

Cash at bank	1,084,026	1,529,376
Cash in hand	-	-
	<u>1,084,026</u>	<u>1,529,376</u>

13. TAXATION

Net loss as per the income statement	(2,166,640)	(3,432,884)
Depreciation	1,265,113	1,468,975
Provision for bad and doubtful debts	<u>82,121</u>	<u>80,200</u>
	(819,406)	(1,883,709)
Wear and Tear allowance	<u>(1,265,113)</u>	<u>(1,468,975)</u>
Tax Payable	-	-

14. Notes to the Budget

I) Revenue

The shortfall in the revenue was caused by low water production occasioned due to regular breakdowns of the company's borehole at Kangundo. The breakdown was brought about by road works in the region.

II) Administration Costs

The under absorption of administration costs was caused by low revenues which caused the company suspend some of its projects. ie Billing software

Notes to the financial statements (continued)

15. FINANCIAL RISK MANAGEMENT

The entity's activities expose it to a variety of financial risks including credit and liquidity risks. The company's overall risk management programme focus on unpredictability of changes in business environment and seeks to minimize 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 counter party will be unable to pay amounts in full when due. Credit risk arises from cash and cash equivalents, and deposits banks, as well as trade and other receivables and available for sale financial investments.

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

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

	Total Amount(kshs)	Fully Performing (kshs)	Past Due(kshs)	Impaired(kshs)
At 30 June 2021				
Receivables from Exchange Transactions	8,212,129	1,027,950	4,483,679	82,121
Bank Balances	1,084,026	1,084,026	-	-
Total	9,296,155	2,111,976	4,483,679	82,121

Notes to the financial statements (continued)

II. Interest rate risk

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

Management of interest rate risk

To manage the interest rate risk, the management has endeavored to bank with institutions that offer favorable interest rates.

16. RELATED PARTY DISCLOSURES

I. County Government of Machakos

The company is a wholly owned entity by the County Government of Machakos. The representation of the county in the entity has been attained by the County Executive Committee member taking one share and the Chief Officer in charge of water issues taking one share for a value of kshs 20 for per share.

	No. of Shares	@	Total Value
CEC MEMBER	1	20.00	20.00
CHIEF OFFICER	<u>1</u>	20.00	<u>20.00</u>
	<u>2</u>		<u>40.00</u>

II. Water Resources Management Authority

Water Resources Management Authority (WRMA) is in charge of water catchment areas and licenses the company to abstract water. The company is entitled to pay 50 cents for every 1 cubic of water abstracted.

	<u>2021</u>	<u>2020</u>
Water Abstraction Fee Balance	694,812	685,530

III. Water Services Regulatory Board(Wasreb)

The board regulates the company's tariffs and water quality to ensure that they conform high quality standards. The company pays 4% lease fee to the regulator.

	<u>2021</u>	<u>2020</u>
License Fee Balance	1,386,715	901,260