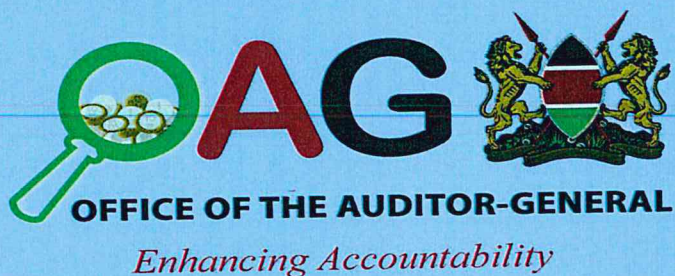


REPUBLIC OF KENYA



## REPORT

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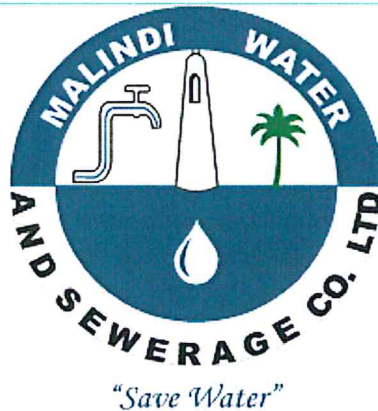
**THE AUDITOR-GENERAL**

ON

**MALINDI WATER AND SEWERAGE  
COMPANY LIMITED**

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





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**MALINDI WATER AND SEWERAGE COMPANY LIMITED**

**ANNUAL REPORTS AND FINANCIAL STATEMENTS**

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

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



**Malindi Water and Sewerage Company Limited**  
**Annual Reports and Financial Statements**  
**For the year ended June 30, 2020**

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## 1. KEY ENTITY INFORMATION

### Background information

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

### Principal Activities

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

### Vision

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

### Mission

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

### Core values

The core values of the Company are:

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

### Directors

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

|     | <u>Name</u>     | <u>Position</u>    | <u>Appointment Date</u>                   |
|-----|-----------------|--------------------|---|
| 1.  | Anderson Kasiwa | - Chairperson      | Appointed on 5 <sup>th</sup> March 2019.  |
| 2.  | Gerald Mwambire | -Managing Director | Appointed on 1 <sup>st</sup> July 2018    |
| 3.  | Barka Ali       | -Member            | Appointed on 5 <sup>th</sup> March 2019   |
| 4.  | Anthony Chutta  | -Member            | Appointed on 5 <sup>th</sup> March 2019   |
| 5.  | Thurea Tora     | -Member            | Appointed on 5 <sup>th</sup> March 2019   |
| 6.  | Loice Wanje     | -Member            | Appointed on 5 <sup>th</sup> March 2019   |
| 7.  | Maureen Obunga  | -Member            | Appointed on 5 <sup>th</sup> March 2019   |
| 8.  | Ken Kazungu     | -Member            | Appointed on 1 <sup>st</sup> June 2019    |
| 9.  | Ben Kai         | -Member            | Reappointed on 5 <sup>th</sup> March 2019 |
| 10. | Felix Charo     | -Member            | Reappointed on 5 <sup>th</sup> March 2019 |





**Malindi Water and Sewerage Company Limited**  
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**KEY ENTITY INFORMATION (Continued)**

**Corporate Secretary**

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

**Registered Officer**

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

**Corporate Headquarters**

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

**Corporate Contacts**

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

**Corporate Bankers**

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



**Malindi Water and Sewerage Company Limited**  
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**KEY ENTITY INFORMATION (Continued)**

**Independent Auditors**








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

**Principal Legal Advisers**

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







2. THE BOARD OF DIRECTORS

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



**Malindi Water and Sewerage Company Limited**  
**Annual Reports and Financial Statements**  
**For the year ended June 30, 2020**








**THE BOARD OF DIRECTORS** *Continued*

|   |  |
|---|--|
|    | <p>Director Maureen Awour Obunga, Member Human Resource and Administration Committee member. She was born on 17th August 1982. She is a Certified Public Accountant with vast knowledge in the Hospitality Industry. She represents Hotel Industry in the board of directors.</p>  |
|    | <p>Director Ben Kai was born in November 1973. He is the County Government of Kilifi Chief Officer Finance. Appointed as a director in October 2010. He holds a Bachelors' Degree in Commerce and a Certified Public Accountant. He represents County Government of Kilifi Finance Department in the board of directors</p>  |
|   | <p>Director Ken Kazungu was born on 26<sup>th</sup> December 1978. He is the County Government of Kilifi Chief Officer for Roads, Transport and Public Works. He is also the Acting Chief Officer for Water and Sanitation. He holds a degree in Planning and Environment Management and a masters' degree in Project Planning and Management. He was appointed as a Director on 1<sup>st</sup> June 2019. He represents the County Government of Kilifi Water and Irrigation Department in the board of directors</p> |
|  | <p>Caroline Gladwell, Advocate of the high Court, Secretary to the Board of Directors. She was appointed in March 2019. She is also a Certified Public Secretary (CS) and a member of the Institute of Arbitrators. She also holds a Masters in Business Administration, Strategic Option.</p>   |

C



3. MANAGEMENT TEAM

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



#### **4. CHAIRMAN'S STATEMENT**


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

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

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

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

God bless MAWASCO and Kilifi County.



Andy Kasiwa  
Chairperson Board of Directors



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

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

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

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


During the period, the continued with the pipeline network intensification covering the underserved areas. The Company received the first disbursement under the Water and Sanitation Development Project – WSDP which covers goods, consultancy on projects, Sanitation works and pipeline intensification within Malindi and Magarini Areas. Other projects that were at an advanced stage include the Kakuyuni Kilifi and Gongoni projects which are being undertaken by the National Government in MAWASCO. The county government of Kilifi under took several interventions to make water accessible to all residents within Malindi and Magarini area of operations.

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

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

### **CHALLENGES**

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

  
Gerald Mwambire  
Managing Director



## 6. REVIEW OF THE COMPANY'S PERFORMANCE FOR FY 2019/20

Malindi Water and Sewerage Company Limited has strategic pillars and objectives within its strategic plan for the FY 2019 to 2023. The strategic pillars are as follows:

1. Strategic Pillar1: Financial perspective
2. Strategic Pillar2: Customer Perspective
3. Strategic Pillar3: Internal (process) perspective
4. Strategic Pillar4: Learning and growth perspective

The Company develops its annual work plans based on the above four pillars. Assessment of the Board's performance against its annual work plan is done on a quarterly basis. The Company achieved its performance targets set for the FY 2019/2020 period for its four strategic pillars, as indicated in the diagram below:

Review of Strategic Objective Performance for the year 2019 2020

| Strategic Pillar                | Objective   | Key Performance Indicators          | Activities   | Achievements   |
|---------------------------------|---|-------------------------------------|--|--|
| Financial perspective           | Increase length of pipeline from 1087km to 1213 km          | Increased pipeline                  | Construction of Mpendakula pipeline in Mida Area within Malindi Township | Pipeline completed   |
| Customer Perspective            | Maintain the hours of supply to 22 hrs per day              | Supply water above 22 hours per day | Pumping done for 22 hours per day  | Maintained at 22 hours per day                                     |
| Internal (process) perspective  | Fortify and internalize Organizational capacity and process | Develop 10No. policies              | Present for approval policies  | 10 Policies presented for approval                                 |
| Learning and growth perspective | Capacity build and develop employee skills                  | Staff training                      | Undertake staff training   | Staff taken for training in various relevant training institutions |





## **7. CORPORATE GOVERNANCE STATEMENT**

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

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

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

The Finance and Administration Committees' main duties are to ensure that Company's budget is prepared, approved and enforced, that there is harmony within the organisation. The Committee is responsible for reviewing and setting medium- and long-term strategic directions and financial prudence. The Committee includes all aspects of projects planning.

### **AUDIT AND RISK COMMITTEE**

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

### **HUMAN RESOURCE COMMITTEE**

The main duty of the Human Resource Committee is to clearly define the Company's organizational structure within which individual responsibilities are defined in relation to the Company's mandate. The structure will be complemented by documented policies. The Committee deals with appointments, dismissal, conflicts, dispute, promotion and demotion.

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



**Malindi Water and Sewerage Company Limited**  
**Annual Reports and Financial Statements**  
**For the year ended June 30, 2020**

**8. MANAGEMENT DISCUSSION AND ANALYSIS**

**a) Operational and financial Performance**

**i) Number of Consumer Accounts Billed**

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

Total Number of Consumer Accounts

| Month/ Period    | Accounts On Supply |                      |              | New Con-<br>nections<br>Paid For | Total A/C<br>Off<br>Supply | Active<br>A/Cs Off<br>Supply | Term-<br>inated. Off<br>Supply | Total<br>A/c's |
|------------------|--------------------|----------------------|--------------|----------------------------------|----------------------------|------------------------------|--------------------------------|----------------|
|                  | Actual<br>Reading  | Estimat'd<br>Reading | Total Billed |                                  |                            |                              |                                |                |
|                  | (1)                | (2)                  | (3)=(1)+(2)  |                                  |                            |                              |                                |                |
| AVG FY 2019 2020 | 21,197             | 2,303                | 23,500       | 146                              | 10,193                     | 7,547                        | 2,646                          | 33,693         |
| AVG FY 2018 2019 | 20,259             | 1,935                | 22,184       | 171                              | 9,415                      | 6,994                        | 2,421                          | 31,599         |

**ii) Water Production and Billing Efficiency**

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

Water Production, Billed and Billing Efficiency

| Month/Period    | Water Production | Water Sales    | Billing Efficiency | Unaccounted for<br>Water (UfW) |
|-----------------|------------------|----------------|--------------------|--------------------------------|
|                 | m <sup>3</sup>   | m <sup>3</sup> | %                  | %                              |
| Total 2019 2020 | 5,687,450        | 4,786,513      | 84%                | 16%                            |
| Total 2018 2019 | 6,817,236        | 4,917,099      | 72%                | 28%                            |

**iii) Revenue and Collection Efficiency**

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

Revenue Collection and Collection Efficiency

| Month/Period | BILLING (KShs) |            |            |               |                          | COLLECTION (KShs) |            |             |
|--------------|----------------|------------|------------|---------------|--------------------------|-------------------|------------|-------------|
|              | Water Sale     | Meter Rent | Misc.      | Total Billing | Average<br>Tariff/m<br>3 | Water sale        | Misc.      | Total       |
| Fy 2019-2020 | 421,797,446    | 14,903,650 | 9,517,250  | 446,218,346   | 93.22                    | 393,869,376       | 9,517,250  | 403,386,626 |
| Fy 2018-2019 | 452,084,756    | 14,141,700 | 11,436,321 | 477,662,777   | 97.14                    | 448,826,076       | 11,436,821 | 460,262,897 |

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**b) Compliance with statutory and other financial obligations**

**i) Service Provision Agreement**

The Company operates under a Service Provision Agreement with the Coast Water Services Board which approved by the regulator. The renewal process for the service provision agreement for the period July 2019 to June 2024 is underway and is expected to be completed in the first quarter of the 2020/21 financial year.

**ii) Tariff Regime**

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

**C) Major risks facing the Company**

**i) Non cost recovery tariff**

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

**ii) Negative working cash-flow**

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

**iii) Closure of major customers in the operation area**

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



## 9. CORPORATE SOCIAL RESPONSIBILITY STATEMENT / SUSTAINABILITY REPORTING

Malindi Water and Sewerage Company exists to transform lives. The Company's mission is to provide sufficient high-quality water and efficient sewerage services in the most cost-effective way that exceed our customers' expectations. To deliver the above, the company has developed four pillars that are driving force in everything we do. Below is a brief highlight of our achievements in each pillar

### 1. Sustainability strategy and profile -

The Company has partnered with development agencies to improve on the service delivery in the under-served areas. To increase the financial sustainability, the partnership is meant to increase the water coverage hence increase revenue base in the area of operation.

### 2. Environmental performance

The Company obtained funding from the world-bank under the Water and Sanitation Development Program. The funding is for use in construction of 10 ablution block and 2 decentralized treatment facility in various parts of the service area. The Company is desirous of maintain a clean environment in its operation.

### 3. Employee welfare

Malindi Water and Sewerage Company is an equal opportunity employer. The Company encourages women to apply for vacant positions in all areas and does not discriminate against any group. The Company has a reward and penalty system and complies with the Occupational Safety and Health Act of 2007 in keep safe with the welfare of the staff.

### 4. Market place practices-

The Company regularly conducts customer and stakeholder forums that ensure inclusivity and consultatively in its undertaking. All major projects are undertaken once the stakeholders have been consulted. The Company has an anti-corruption policy in place and does not condone acts of corruption in its trading.

### 5. Community Engagements-

The Company has a Company Social Responsibility Policy which ensures it gives back to the society. The Company delivers free water to community establishments like schools and hospitals to ensure there is a positive impact in the society.

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**10. REPORT OF THE DIRECTORS**

The Directors submit their report together with the audited financial statements for the year ended June 30, 2020 which show the state of the Malindi Water and Sewerage Company Limited's affairs.

**Principal activities**

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

**Results**

The results of the entity for the year ended June 30, 2020 are set out on page 1. The results show a net loss of Ksh 45,646,359

**Dividends**

The Directors do not recommend the payment of dividends for the financial year 2019/20.


**Directors**

The members of the Board of Directors who served during the year are shown on page iii. In accordance with Regulation of the Memorandum and Articles of Association of the Company, three directors resign after three years and are eligible for reappointment. No director resigned in the current year as they are serving their first term of three years in office.

**Auditors**

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

By Order of the Board

  
Caroline Gladwell Wangari  
Corporate Secretary  
Malindi

Date:



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## **11. STATEMENT OF DIRECTORS' RESPONSIBILITIES**

The Public Finance Management Act, 2012 and the State Corporations Act, require the Directors to prepare financial statements in respect of Malindi Water and Sewerage Company Ltd, which give a true and fair view of the state of affairs of Malindi Water and Sewerage Company Ltd at the end of the financial year ended 30 June 2020 and the operating results of Malindi Water and Sewerage Company for year ended 30 June 2020. The Directors are also required to ensure that Malindi Water and Sewerage Company Ltd keeps proper accounting records which disclose with reasonable accuracy the financial position of Malindi Water and Sewerage Company Ltd. The Directors are also responsible for safeguarding the assets of the Company.


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

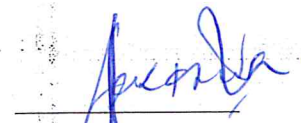
Nothing has come to the attention of the Directors to indicate that MAWASCO will not remain a going concern for at least the next twelve months from the date of this statement. The Directors note that the Company reported a negative working cash flow as a result of the non-cost recovery tariff. A new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

### **Approval of the financial statements**

The Company's financial statements were approved by the Board on 28 September 2020 and signed on its behalf by:



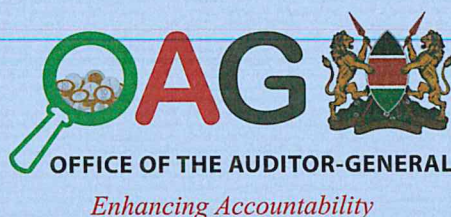
Director



Director

(

# REPUBLIC OF KENYA



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Website: www.oagkenya.go.ke

**HEADQUARTERS**  
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P.O. Box 30084-00100  
NAIROBI

## **REPORT OF THE AUDITOR-GENERAL ON MALINDI WATER AND SEWERAGE COMPANY LIMITED FOR THE YEAR ENDED 30 JUNE, 2020**

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

#### **Qualified Opinion**

I have audited the accompanying financial statements of Malindi Water and Sewerage Company Limited set out on pages 1 to 38, which comprise 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 for the year then ended, and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, 2015. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

In my opinion, except for the effect of the matters described in the Basis for Qualified Opinion section of my report, the financial statements present fairly, in all material respects, the financial position of Malindi Water and Sewerage 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 (IFRS) and comply with the Water Act, 2016, the Companies Act, 2015 and the Public Finance Management Act, 2012.

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

##### **1.0 Bank and Cash Balances**

The statement of financial position reflects a balance of Kshs.18,102,328 under bank and cash balances which, as disclosed in Note 21(b) to the financial statements, includes an amount of Kshs.1,582,740 held in the operations bank account. However, the latter balance of Kshs.1,582,740 differs with the amount of Kshs.1,213,140 reflected in the bank reconciliation statement. The resultant variance of Kshs.369,600 has not been reconciled or explained.

Under the circumstances, the accuracy of the bank and cash balance of Kshs.18,102,328 as at 30 June, 2020 could not be confirmed.

## **2.0 Undisclosed Going-Concern Material Uncertainty**

During the year under review, the Company reported a net loss of Kshs.45,646,359 (2019 - a net loss of Kshs.10,044,658) resulting to a cumulative retained deficit of Kshs.404,440,666 as at 30 June, 2020 (2019 - Kshs.358,794,307). Further, the current liabilities of Kshs.692,731,824 exceeded the current assets balance of Kshs.313,136,798, resulting in a negative working capital of Kshs.379,595,026, an indication that the Company may be experiencing financial difficulties in settling financial obligations as and when they may fall due.

The existence of the above material uncertainty may cast a significant doubt on the Company's ability to continue as a going concern. 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 of Kilifi, its creditors and bankers. 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.

## **3.0 Property, Plant and Equipment**

### **3.1 Leased Assets**

The statement of financial position reflects a balance of Kshs.515,948,124 under property, plant and equipment. However, and as previously reported, included in the balance are leased assets from the Coast Water Works Development Agency (formerly Coast Water Services Board) whose value has not been disclosed. The ownership documents for the assets and professional valuation reports to support the values assigned to the assets were not provided for audit verification.

### **3.2 Revaluation of Assets**

As disclosed in Note 16 to the financial statements, the property, plant and equipment balance of Kshs.515,948,124 was arrived at after revaluation of assets completed on 20 June, 2019. However, the revalued assets include motor vehicles, motorcycles, land and buildings of unknown value owned by the Coast Water Works Development Agency. The Management did not separate these assets from the Company's assets and did not provide details of the assets for audit review.

Further, disclosures on revaluation including the effective date of the revaluation; whether an independent valuer was involved; the carrying amount for each revalued class of property, plant and equipment; and the assumptions used in asset valuation were not provided for audit review.

### **3.3 Exclusion of Additional Assets Acquired**

Records provided for audit review indicated that during the financial year 2018/2019, the Company revalued its assets to a value of Kshs.617,510,554 as at 30 June, 2019. However, this value excluded additional assets acquired at a cost of Kshs.13,622,724 during the year. As such, the property, plant and equipment balance of Kshs. 515,948,124 as at 30 June, 2020 is not fairly stated.

### 3.4 Transfers and Adjustments

As disclosed in Note 16 to the financial statements, transfers or adjustments to plant and machinery totalling Kshs.18,313,354 were made as detailed below:

| <b>Works</b>                                | <b>Valuation Amount<br/>(Kshs.)</b> | <b>Year of Last<br/>Payment</b> |
|---|-------------------------------------|---------------------------------|
| Booster Station and Watamu Junction Project | 3,250,906                           | 2010                            |
| Jimba Pipeline                              | 1,691,040                           | 2009                            |
| Mayungu Pipeline                            | 9,912,804                           | 2014                            |
| Watamu South Pipeline                       | 3,458,604                           | 2012                            |
| <b>Total</b>                                | <b>18,313,354</b>                   |                                 |

However, certificates of completion of the four (4) projects as well as handing over reports were not provided for audit review.

Under the circumstances, the accuracy, completeness, valuation and ownership of property, plant and equipment balance of Kshs.515,948,124 as at 30 June, 2020 could not be confirmed.

### 4.0 Trade and Other Receivables

#### 4.1 Long Outstanding Receivables

The statement of financial position reflects a balance of Kshs.245,283,116 under trade and other receivables which, as disclosed in Note 18 to the financial statements, includes receivables of Kshs.174,596,925 which was over 120 days old as at 30 June, 2020. However, the Company has not developed a debtor's collection strategy on how to improve efficiency in collections or recoveries of the debts.

Under the circumstances, the recoverability and completeness of trade and other receivables balance of Kshs.174,596,925 as at 30 June, 2020 could not be confirmed.

#### 4.2 Unsupported Share Capital Receivable

As previously reported and as disclosed in Note 22 to the financial statements, the statement of financial position reflects authorized share capital of Kshs.5,000,000 divided into 5,000 shares of Kshs.1,000 each, all issued to County Government of Kilifi but which had not been paid for as at 30 June, 2020.

In the circumstances, the validity of share capital of balance of Kshs.5,000,000 reflected in the statement of financial position as at 30 June, 2020 could not be confirmed.

### 5.0 Trade and Other Payables

The statement of financial position reflects a balance of Kshs.555,247,049 under trade and other payables which, as disclosed in Note 28 to the financial statements, comprised of trade payables and tax payables of Kshs.551,512,186 and Kshs.3,734,863 respectively. Included in the trade payables balance of Kshs.551,512,186 is an amount of Kshs.500,785,439 due to the Coast Water Works Development Agency. However, records and financial statements for the Coast Water Works Development Agency as at

30 June, 2020 reflected an amount of Kshs.571,809,922 as due from the Company, resulting in an unreconciled and unexplained variance of Kshs.71,024,483. Further, supporting schedules for the tax payables of Kshs.3,734,863 were not provided for audit review.

Consequently, the accuracy, completeness and validity of trade and other payables balance of Kshs.555,247,049 as at 30 June, 2020 could not be confirmed.

## 6.0 Variances Between Financial Statement Balances and Supporting Schedules

Review of the financial statements revealed variances between balances reflected in the financial statements and the supporting schedules as detailed below:

| Item                         | Financial Statements Balance (Kshs.) | Supporting Schedule Balance (Kshs.) | Variance (Kshs.) |
|------------------------------|--------------------------------------|-------------------------------------|------------------|
| Trade and Other Payables     | 555,247,049                          | 552,248,299                         | 2,998,750        |
| Customer Deposits            | 49,362,364                           | 0                                   | 49,362,364       |
| Electricity                  | 2,661,060                            | 2,871,769                           | (210,709)        |
| Office and General Supplies  | 17,713,151                           | 18,238,555                          | (525,404)        |
| Bank Charges and Commissions | 395,570                              | 982,803                             | (587,233)        |

No reconciliation or explanation was provided for the variances casting doubt on the accuracy of the financial statements for the year ended 30 June, 2020.

## 7.0 Cost of Sales

The statement of profit or loss and other comprehensive income reflects cost of sales amounting to Kshs.137,807,268 which, as disclosed in Note 7 to the financial statements, includes an amount of Kshs.111,204,763 in respect of cost of water. The latter balance includes an amount of Kshs.76,906,932 paid to the Coast Water Works Development Agency. However, records maintained by the Agency indicated the amount paid by the Company as Kshs.82,405,712, thus resulting in unreconciled and unexplained variance of Kshs.5,498,780.

Consequently, the accuracy and completeness of cost of water paid to the Coast Water Works Development Agency of Kshs.76,906,932 could not be confirmed.

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



## **Key Audit Matters**

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

## **Other Matter**

### **Budgetary Control and Performance**

The statement of comparison of budget and actual amounts reflects final receipts budget and actual on comparable basis of Kshs.449,015,648 and Kshs.450,921,746 respectively resulting in a net over-collection of Kshs.1,906,098. Similarly, the statement reflects final expenditure budget and actual on comparable basis of Kshs.449,015,648 and Kshs.496,568,104 respectively resulting to an over expenditure of Kshs.47,552,456 or 11% of the budget. The over expenditure is attributed to increased distribution of water in the vast rural areas.

## **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 matter 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**

### **Non-Compliance to a Third Rule on Salary Deductions**

Review of the Company's payroll revealed that net pay for fifty-nine (59) employees totalling Kshs.908,161 was less than a third of their corresponding basic pay of Kshs.1,190,103. This is contrary to Section 19(3) of the Employment Act, 2007 which provides that the total amount of all deductions made by an employer from the wages of his employee at any one time shall not exceed two-thirds of such wages.

In the circumstance, the Company was in breach of the 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 EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE**

#### **Conclusion**

As required by Section 7(1)(a) of the Public Audit Act, 2015, based on the audit procedures performed, I confirm that nothing has come to my attention to cause me to believe that internal controls, risk Management and 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, overall governance and risk Management 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 financial statements are in agreement with the accounting records and returns; and

- (iv) In my opinion, the information given in the report of the Directors on page xvi, is consistent with the financial statements.

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

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

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

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

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

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

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

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

In addition to the audit of the financial statements, a compliance audit is planned and performed to express a conclusion about whether, in all material respects, the activities,

financial transactions and information reflected in the financial statements are in compliance with the authorities that govern them and that public resources are applied in an effective way, in accordance with the provisions of Article 229(6) of the Constitution and submit the audit report in compliance with Article 229(7) of the Constitution.

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

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Management.
- Conclude on the appropriateness of the Management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in the auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my audit report. However, future events or conditions may cause the Company to cease to continue as a going concern.

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

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

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

  
CPA Nancy Gathungu, CBS  
AUDITOR-GENERAL

Nairobi

10 February, 2022



Malindi Water and Sewerage Company Limited  
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For the year ended June 30, 2020

**13. STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME  
FOR THE YEAR ENDED 30 JUNE 2020**

|  | Note | 2019-2020           | 2018-2019           |
|--|------|---------------------|---------------------|
|  |      | KShs                | KShs                |
| <b>REVENUES</b>                                |      |                     |                     |
| Revenue  | 6    | 436,701,096         | 466,226,456         |
| Cost of sales                                  | 7    | (137,807,268)       | (161,493,817)       |
| Gross Profit                                   |      | 298,893,828         | 304,732,639         |
| In-Kind Contributions                          | 8    | 4,703,400           | 4,240,560           |
| Other Income                                   | 9    | 9,517,250           | 11,436,321          |
| <b>TOTAL REVENUES</b>                          |      | <b>313,114,478</b>  | <b>320,409,520</b>  |
| <b>OPERATING EXPENSES</b>                      |      |                     |                     |
| Administration Costs                           | 10   | 311,268,199         | 329,886,424         |
| Amortization of Intangible Assets              | 11   | 675,582             | 567,754             |
| Depreciation of fixed Assets                   | 12   | 46,817,056          | -                   |
| Finance Costs                                  | 13   | -                   | -                   |
| <b>TOTAL OPERATING EXPENSES</b>                |      | <b>358,760,837</b>  | <b>330,454,178</b>  |
| <b>PROFIT/(LOSS) BEFORE TAXATION</b>           |      | <b>(45,646,359)</b> | <b>(10,044,658)</b> |
| <b>INCOME TAX EXPENSE/(CREDIT)</b>             |      | <b>-</b>            | <b>-</b>            |
| <b>PROFIT/(LOSS) AFTER TAXATION</b>            | 14   | <b>(45,646,359)</b> | <b>(10,044,658)</b> |
| <b>OTHER COMPREHENSIVE INCOME</b>              |      |                     |                     |
| Fair value through comprehensive income        |      | -                   | -                   |
| Surplus on revaluation of PPE                  |      | -                   | 447,264,384         |
| <b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR</b> |      | <b>(45,646,359)</b> | <b>437,219,726</b>  |
| Earnings per share-basic and diluted           |      | -                   | -                   |
| Dividend per share                             |      | -                   | -                   |





**Malindi Water and Sewerage Company Limited**

**Annual Reports and Financial Statements**

**For the year ended June 30, 2020**

**14. STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2020**

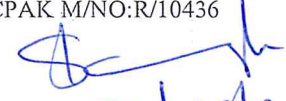
|                                     | Note | 2019-2020          | 2018-2019          |
|-------------------------------------|------|--------------------|--------------------|
|                                     |      | KShs               | KShs               |
| <b>ASSETS</b>                       |      |                    |                    |
| <b>Non-Current Assets</b>           |      |                    |                    |
| Intangible assets                   | 15   | 2,134,575          | 2,271,015          |
| Property, plant and equipment       | 16   | 515,948,124        | 549,470,432        |
| <b>Total Non-Current Assets</b>     |      | <b>518,082,699</b> | <b>551,741,447</b> |
| <b>Current Assets</b>               |      |                    |                    |
| Inventories                         | 17   | 36,307,754         | 8,217,916          |
| Trade and other receivables         | 18   | 245,283,116        | 192,531,563        |
| Share Capital Receivable            | 19   | 5,000,000          | 5,000,000          |
| Customer Deposit Receivable         | 20   | 8,443,600          | 8,443,600          |
| Bank and cash balances              | 21   | 18,102,328         | 17,658,610         |
| <b>Total Current Assets</b>         |      | <b>313,136,798</b> | <b>231,851,689</b> |
| <b>Total Assets</b>                 |      | <b>831,219,497</b> | <b>783,593,136</b> |
| <b>EQUITY AND LIABILITIES</b>       |      |                    |                    |
| <b>Capital and Reserves</b>         |      |                    |                    |
| Ordinary share capital              | 22   | 5,000,000          | 5,000,000          |
| Retained earnings                   | 23   | (404,440,666)      | (358,794,307)      |
| Project Grant Fund                  | 24   | 26,128,959         | 26,128,959         |
| Capital Reserve Fund                | 25   | 39,534,996         | 39,534,996         |
| Revaluation Reserve                 | 26   | 447,264,384        | 447,264,384        |
| <b>Capital and Reserves</b>         |      | <b>113,487,674</b> | <b>159,134,033</b> |
| <b>Non-Current Liabilities</b>      |      |                    |                    |
| WSDP Loan                           | 27   | 25,000,000         | -                  |
| <b>Current Liabilities</b>          |      |                    |                    |
| Trade and other payables            | 28   | 555,247,049        | 506,029,445        |
| Provision for leave pay             | 29   | -                  | 2,000,133          |
| Customer Deposit                    | 30   | 49,362,364         | 43,914,064         |
| Retirement benefit obligations      | 31   | 88,122,411         | 72,515,460         |
| <b>Total Current Liabilities</b>    |      | <b>692,731,824</b> | <b>624,459,102</b> |
| <b>TOTAL EQUITY AND LIABILITIES</b> |      | <b>831,219,498</b> | <b>783,593,135</b> |

The financial statements were approved by the Board on 28 September 2020 and signed on its behalf by:

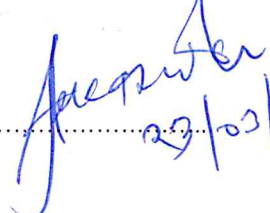
Managing Director  
Name: Gerald Mwambire

  
Date: 23/03/2021

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

  
Date: 23/03/2021

Chairman of the Board  
Name: Andy Kasiwa

  
Date: 23/03/2021

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Malindi Water and Sewerage Company Limited

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

| Particulars           | Ordinary share capital | Revaluation Reserve | Capital Reserve Fund | Retained earnings | Total         |
|-----------------------|------------------------|---------------------|----------------------|-------------------|---------------|
| At July 1, 2018       | 5,000,000              | -                   | 39,534,996           | (348,749,649)     | (304,214,653) |
| Net Loss For The Year | -                      | -                   | -                    | (10,044,658)      | (10,044,658)  |
| Revaluation Gain      | -                      | 447,264,384         | -                    | -                 | 447,264,384   |
| At June 30, 2019      | 5,000,000              | 447,264,384         | 39,534,996           | (358,794,307)     | 133,005,073   |
| At July 1, 2019       | 5,000,000              | 447,264,384         | 39,534,996           | (358,794,307)     | 133,005,073   |
| Net Loss For The Year | -                      | -                   | -                    | (45,646,359)      | (45,646,359)  |
| Revaluation Gain      | -                      | -                   | -                    | -                 | -             |
| At June 30, 2020      | 5,000,000              | 447,264,384         | 39,534,996           | (404,440,667)     | 87,358,713    |

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Malindi Water and Sewerage Company Limited

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16. STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2020

| OPERATING ACTIVITIES                                      | Note | 2019-2020<br>KShs | 2018-2019<br>KShs |
|---|------|-------------------|-------------------|
| Cash generated from/(used in) operations                  | 34   | (10,722,390)      | 9,363,805         |
| Net cash generated from/(used in) operating activities    |      | (10,722,390)      | 9,363,805         |
| <b>INVESTING ACTIVITIES</b>                               |      |                   |                   |
| Purchase of property, plant and equipment                 | 14   | (13,294,749)      | -                 |
| Purchase of Intangible assets                             | 15   | (539,142)         | (2,838,769)       |
| Net cash generated from/(used in) investing activities    |      | (13,833,891)      | (2,838,769)       |
| <b>FINANCING ACTIVITIES</b>                               |      |                   |                   |
| Increase/(Decrease) in project grant reserve              |      | -                 | -                 |
| WSDP Loan   | 27   | 25,000,000        | -                 |
| Net cash generated from/(used in) financing activities    |      | 25,000,000        | -                 |
| <b>INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS</b>   |      | <b>443,719</b>    | <b>6,525,036</b>  |
| <b>CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR</b> |      | <b>17,658,610</b> | <b>11,133,574</b> |
| <b>CASH AND CASH EQUIVALENTS AT END OF THE YEAR</b>       | 22   | <b>18,102,330</b> | <b>17,658,610</b> |



Malindi Water and Sewerage Company Limited

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For the year ended June 30, 2020

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

|                               | Original Budget    | Adjustments        | Final Budget       | Actual on Comparison | Performance                      |
|-------------------------------|--------------------|--------------------|--------------------|----------------------|----------------------------------|
|                               | Fy 2019/20<br>KShs | Fy 2019/20<br>KShs | Fy 2019/20<br>KShs | Fy 2019/20<br>KShs   | Difference<br>FY 2019/20<br>KShs |
| Revenues                      |                    |                    |                    |                      |                                  |
| Water Sale and Meter:rent     | 545,454,195        | 110,822,957        | 434,631,238        | 436,701,096          | 2,069,858                        |
| In Kind Donation              | 4,240,560          | -                  | 4,240,560          | 4,703,400            | 462,840                          |
| Miscellaneous receipts        | 12,280,829         | 2,136,979          | 10,143,850         | 9,517,250            | (626,600)                        |
| <b>Total income</b>           | <b>561,975,584</b> | <b>112,959,936</b> | <b>449,015,648</b> | <b>450,921,746</b>   | <b>1,906,098</b>                 |
|                               |                    |                    |                    |                      | <b>a</b>                         |
| Expenses                      |                    |                    |                    |                      |                                  |
| Compensation of Employees     | 209,904,654        | 17,913,336         | 191,991,318        | 193,627,044          | 1,635,726                        |
| Rent paid                     | 360,000            | -                  | 360,000            | 375,000              | 15,000                           |
| Other payments                | 293,064,886        | 59,061,495         | 234,003,391        | 289,271,311          | 55,267,920                       |
| Investment made               | 32,526,044         | 10,865,105         | 21,660,939         | 13,294,749           | (8,366,191)                      |
| Loan Repayment                | 26,120,000         | 25,120,000         | 1,000,000          | -                    | (1,000,000)                      |
| <b>Total Expenditure</b>      | <b>561,975,584</b> | <b>112,959,936</b> | <b>449,015,648</b> | <b>496,568,104</b>   | <b>47,552,456</b>                |
| <b>Surplus for the period</b> | <b>-</b>           | <b>-</b>           | <b>-</b>           | <b>(45,646,358)</b>  | <b>(45,646,358)</b>              |

Explanation of variance

- a) **Loss on Revenue**  
The Company did not meet its expected revenues as the major clients closed down operations due to the decline in the tourism sector which forms the main industry in the trading area
- b) **General Expenses**  
The increase in budget expenditure to actual was caused by increase in overheads in the service area including the cost of production and electricity. The Company increased operations that were necessary for the distribution of water in the vast rural areas. Unnecessary expenses were deferred.
- c) **Investment Expenditure**  
There was reduced expenditure on investment as a result of the missed revenue collection targets in the financial year. The bulk of the income was channelled to maintenance





## 18. NOTES TO THE FINANCIAL STATEMENTS

### 1. GENERAL INFORMATION

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

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

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

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

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

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

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

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

##### *IFRS 16: Leases*

The new standard, effective for annual periods beginning on or after 1st January 2019, introduces a new lessee accounting model, which requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognise 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.



NOTES TO THE FINANCIAL STATEMENTS (Continued)

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

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

Application of IFRS 16 requires right-of-use assets and lease liabilities to be recognised in respect of most operating leases where the Company is the lessee. The Company does not have a lease agreements

*IFRIC 23: Uncertainty Over income tax treatments*

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

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

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

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

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

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

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

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



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

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

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

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

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

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

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

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

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

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



NOTES TO THE FINANCIAL STATEMENTS (Continued)

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

*Amendments to IAS 1 and IAS 8 Definition of material*

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

The Company is not affected by the application of the above standards.

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

*IFRS 17 Insurance Contracts (Issued 18 May 2017)*

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

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

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

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





NOTES TO THE FINANCIAL STATEMENTS (Continued)

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

iii) Early adoption of standards

The entity did not early – adopt any new or amended standards in year 2019.

iii) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

a) Revenue recognition

Revenue is recognised 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 recognised at the fair value of consideration received or expected to be received in the ordinary course of the *entity's* activities, net of value-added tax (VAT), where applicable, and when specific criteria have been met for each of the *entity's* activities as described below.

- i) **Revenue from the sale of goods and services** is recognised in the year in which the *entity* delivers products to the customer, the customer has accepted the products and collectability of the related receivables is reasonably assured.
- ii) **Grants from National Government** are recognised in the year in which the *entity* actually receives such grants. Recurrent grants are recognized in the statement of comprehensive income. Development/capital grants are recognized in the statement of financial position and realised in the statement of comprehensive income over the useful life of the assets that has been acquired using such funds.
- iii) **Finance income** comprises interest receivable from bank deposits and investment in securities, and is recognised in profit or loss on a time proportion basis using the effective interest rate method.
- iv) **Dividend income** is recognised in the income statement in the year in which the right to receive the payment is established.
- v) **Rental income** is recognised in the income statement as it accrues using the effective lease agreements.
- vi) **Other income** is recognised as it accrues.

b) In-kind contributions

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



NOTES TO THE FINANCIAL STATEMENTS (Continued)

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

c) Property, plant and equipment

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

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

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

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

|  |  |
|--|--|
| Buildings and civil works                | 25 years or the unexpired lease period |
| Plant and machinery                      | 12.5 years                             |
| Motor vehicles, including motor cycles   | 4 years                                |
| Computers and related equipment          | 3 years                                |
| Office equipment, furniture and fittings | 12.5 years                             |

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

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



NOTES TO THE FINANCIAL STATEMENTS (Continued)

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

e) Intangible assets

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

f) Amortisation and impairment of intangible assets

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

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

g) Investment property

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

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

h) Leases

IFRS 16 introduces new or amended requirements with respect to lease accounting. It introduces significant changes to lessee accounting by removing the distinction between operating and finance lease and requiring the recognition of a right-of-use asset and a lease liability at commencement for all leases, except for short-term leases and leases of low value assets. In contrast to lessee accounting, the requirements for lessor accounting have remained largely unchanged.



NOTES TO THE FINANCIAL STATEMENTS (Continued)

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

i) Fixed interest investments (bonds)

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

j) Quoted investments

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

k) Unquoted investments

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

l) Inventories

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

m) Trade and other receivables

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

n) Taxation

*Current income tax*

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





NOTES TO THE FINANCIAL STATEMENTS (Continued)

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

n) Taxation (Continued)

*Current income tax (Continued)*

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

*Deferred tax*

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

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

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

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

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



NOTES TO THE FINANCIAL STATEMENTS (Continued)

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

n) Taxation (Continued)

*Deferred tax (Continued)*

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

o) Cash and cash equivalents

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

p) Borrowings

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

q) 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.



NOTES TO THE FINANCIAL STATEMENTS (Continued)

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

r) Retirement benefit obligations

The entity operates a defined contribution scheme for all full-time employees from July 1, 2013. The scheme is administered by County Pension Fund formerly LAPTRUST and is funded by contributions from both the company and its employees. The company also contributes to the statutory National Social Security Fund (NSSF). This is a defined contribution scheme registered under the National Social Security Act. The company's obligation under the scheme is limited to specific contributions legislated from time to time and is currently at Kshs.200 per employee per month.

s) Provision for staff leave pay

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

t) Exchange rate differences

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

u) Budget information

The original budget for FY 2019-2020 was approved by the Directors on 19 May 2019. Subsequent revisions or additional appropriations were made to the approved budget in accordance with specific approvals from the appropriate authorities. The additional appropriations are added to the original budget by the entity upon receiving the respective approvals in order to conclude the final budget. The Company later revised its annual budget in line with the trading for the first half year. The revised budget was at Ksh 449,015,648

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.



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

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

**u) Budget information (Continued)**

A statement to reconcile the actual amounts on a comparable basis included in the statement of comparison of budget and actual amounts and the actuals as per the statement of financial performance has been presented under note 17 on statement of comparison of budget and actual amounts in these financial statements.

**v) Service concession arrangements**

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

**w) Comparative figures**

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

**x) Subsequent events**

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

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

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





## 5 SIGNIFICANT JUDGEMENTS AND SOURCES OF ESTIMATION UNCERTAINTY (Continued)

### Estimates and assumptions

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

### Useful lives and residual values

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

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

### Provisions

Provisions were raised and management determined an estimate based on the information available. No additional disclosures of these estimates of provisions is included separately.

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



NOTES TO THE FINANCIAL STATEMENTS (Continued)

**6 REVENUE**

|            | 2019-2020          | 2018-2019          |
|------------|--------------------|--------------------|
|            | KShs               | KShs               |
| Water Sale | 421,797,446        | 452,084,756        |
| Meter Rent | 14,903,650         | 14,141,700         |
|            | <b>436,701,096</b> | <b>466,226,456</b> |

**7 COST OF SALES**

|                              | 2019-2020          | 2018-2019          |
|------------------------------|--------------------|--------------------|
|                              | KShs               | KShs               |
| Cost of Water                | 111,204,763        | 132,914,500        |
| Administrative fees to CWWDA | 9,326,441          | 12,996,446         |
| 4% WASREB Regulatory Levy    | 17,276,064         | 15,582,870         |
|                              | <b>137,807,268</b> | <b>161,493,817</b> |

**8 IN-KIND DONATION**

|                    | 2019-2020        | 2018-2019        |
|--------------------|------------------|------------------|
|                    | KShs             | KShs             |
| Seconded Personnel | 4,703,400        | 4,240,560        |
|                    | <b>4,703,400</b> | <b>4,240,560</b> |

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

**9 OTHER INCOME**

|                              | 2019-2020        | 2018-2019         |
|------------------------------|------------------|-------------------|
|                              | KShs             | KShs              |
| Other miscellaneous receipts | 9,517,250        | 11,436,321        |
|                              | <b>9,517,250</b> | <b>11,436,321</b> |



NOTES TO THE FINANCIAL STATEMENTS (Continued)

10 (a) OPERATING COSTS

|  | 2019-2020          | 2018-2019          |
|--|--------------------|--------------------|
|  | KShs               | KShs               |
| Advertising, printing, stationery and photocopying | 7,180,193          | 6,963,482          |
| Auditors' remuneration                             | 644,828            | 700,000            |
| Bank charges and commissions                       | 395,570            | 1,466,530          |
| Communication services and supplies                | 8,941,662          | 7,957,845          |
| Consultancy fees                                   | 1,183,148          | 1,691,450          |
| Corporate Social Responsibility                    | 2,595,345          | 3,208,570          |
| Directors' emoluments - Note 10 (a)                | 5,257,710          | 6,762,592          |
| Electricity and water                              | 2,661,060          | 5,592,070          |
| Hospitality supplies and services                  | 9,257,715          | 6,849,103          |
| Insurance costs                                    | 1,540,782          | 1,871,749          |
| Legal fees   | 572,800            | 1,109,151          |
| Occupational Safety & Health (OSH)                 | -                  | 1,320,544          |
| Office and general supplies and services           | 17,713,151         | 17,282,460         |
| Repairs, Maintenance & Minor Works & Others        | 32,498,602         | 26,952,045         |
| Other operating expenses                           | 8,821,403          | 9,552,717          |
| Provision for bad and doubtful debts               | -                  | -                  |
| Rent expenses                                      | 375,000            | 360,000            |
| Repairs and maintenance                            | -                  | 7,311,777          |
| Staff costs - note 10 (b)                          | 193,627,044        | 202,118,035        |
| Staff training expenses                            | 976,287            | 1,860,159          |
| Transportation, travelling and subsistence         | 17,025,899         | 18,956,146         |
|  | <b>311,268,199</b> | <b>329,886,424</b> |

| 10 (a). DIRECTORS EMOLUMENTS     | 2019-2020        | 2018-2019        |
|----------------------------------|------------------|------------------|
|                                  | KShs             | KShs             |
| Chairman's Honoraria             | 960,000          | 1,001,290        |
| Directors emoluments             | 2,820,000        | 3,020,000        |
| Other allowances                 | 1,477,710        | 2,741,302        |
| <b>Total director emoluments</b> | <b>5,257,710</b> | <b>6,762,592</b> |



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10. (b) STAFF COSTS

|  | 2019-2020          | 2018-2019          |
|--|--------------------|--------------------|
|  | KShs               | KShs               |
| Salaries and allowances of permanent employees                     | 159,329,840        | 170,884,561        |
| Wages of temporary employees                                       | -                  | -                  |
| Staff In-Patient and Out-Patient Medical Fund                      | 13,360,601         | 9,790,203          |
| Compulsory national social security schemes                        | 482,800            | 491,400            |
| Other pension contributions  | 17,062,803         | 17,254,871         |
| Leave pay  | 3,391,000          | 3,697,000          |
|  | <b>193,627,044</b> | <b>202,118,035</b> |
| <b>The average number of employees at the end of the year was:</b> |                    |                    |
| Permanent employees – Management                                   | 7                  | 7                  |
| Permanent employees – Unionisable                                  | 152                | 125                |
| Temporary and contract employees                                   | 47                 | 77                 |
|  | <b>206</b>         | <b>209</b>         |

11 AMORTIZATION OF INTANGIBLE ASSETS

|   | 2019-2020        | 2018-2019      |
|---|------------------|----------------|
|   | KShs             | KShs           |
| Amortization  |                  |                |
| At July 1   | 567,754          | -              |
| Charge for the year   | 675,582          | 567,754        |
| Disposals   | -                | -              |
| Impairment loss   | -                | -              |
| <b>At June 30</b>   | <b>1,243,336</b> | <b>567,754</b> |
| Detailed schedules on the Intangible Assets is found in note 15 |                  |                |

12 DEPRECIATION OF FIXED ASSETS

|   | 2019-2020          | 2018-2019 |
|---|--------------------|-----------|
|   | KShs               | KShs      |
| Depreciation  |                    |           |
| At July 1   | 68,040,122         | -         |
| Charge for the year   | 46,817,056         | -         |
| Disposals   | -                  | -         |
| Impairment loss   | -                  | -         |
| <b>At June 30</b>   | <b>114,857,178</b> | <b>-</b>  |
| Detailed schedules on the Intangible Assets is found in note 16 |                    |           |





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**13 FINANCE COST**

|                                     | 2019-2020 | 2018-2019 |
|-------------------------------------|-----------|-----------|
|                                     | KShs      | KShs      |
| Interest expense on loans           | -         | -         |
| Interest expense on bank overdrafts | -         | -         |
| <b>Total</b>                        | <b>-</b>  | <b>-</b>  |

**14 OPERATING PROFIT**

|  | 2019-2020          | 2018-2019          |
|--|--------------------|--------------------|
|  | KShs               | KShs               |
| The operating profit/(loss) is arrived at after charging/ (crediting): |                    |                    |
| Staff costs (note 10b)   | 193,627,044        | 202,118,035        |
| Depreciation of property, plant and equipment                          | 46,815,681         | -                  |
| Amortization of intangible assets                                      | 675,582            | -                  |
| Directors' emoluments - fees   | 3,780,000          | 4,021,290          |
| - others   | 1,477,710          | 2,741,302          |
| Auditors' remuneration - current year fees                             | 644,828            | 700,000            |
| <b>Total</b>   | <b>247,020,846</b> | <b>209,580,628</b> |



NOTES TO THE FINANCIAL STATEMENTS (Continued)

15 INTANGIBLE ASSETS

|                                  | 2019-2020        |                  | 2018-2019 |  |
|----------------------------------|------------------|------------------|-----------|--|
|                                  | KShs             |                  | KShs      |  |
| <b>Cost</b>                      |                  |                  |           |  |
| At July 1                        | 2,838,769        | -                |           |  |
| Additions                        | 539,142          | 2,838,769        |           |  |
| Disposals                        | -                | -                |           |  |
| Transfers/adjustments            | -                | -                |           |  |
| <b>At end of year - 30 June</b>  | <b>3,377,911</b> | <b>2,838,769</b> |           |  |
| <b>Amortization</b>              |                  |                  |           |  |
| At July 1                        | 567,754          | -                |           |  |
| Depreciation                     | -                | -                |           |  |
| Disposals                        | -                | -                |           |  |
| Impairment loss                  | 675,582          | 567,754          |           |  |
| Transfer/adjustments             | -                | -                |           |  |
| <b>At 30 June</b>                | <b>1,243,336</b> | <b>567,754</b>   |           |  |
| <b>Net Book Value at June 30</b> | <b>2,134,575</b> | <b>2,271,015</b> |           |  |

This refers to the purchase of the accounting software and improvement on it



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**16 PROPERTY PLANT AND EQUIPMENT**

| 2020                           | Freehold Land, Buildings and Civil Works | Plant and Machinery | Motor Vehicles, Including Motor cycles | Computers & Related Equipment | Office Equipment, Furniture & Fittings | Total       |
|--------------------------------|--|---------------------|--|-------------------------------|--|-------------|
|                                | KShs                                     | KShs                | KShs                                   | KShs                          | KShs                                   | KShs        |
| Cost                           |  |                     |  |                               |  |             |
| At 30 June 2019                | 412,020,828                              | 102,104,832         | 33,550,000                             | 27,096,816                    | 42,738,078                             | 617,510,554 |
| Additions                      | 253,192                                  | 9,676,064           | 9,135                                  | 1,468,346                     | 1,888,012                              | 13,294,749  |
| Disposals                      | -  | -                   | -                                      | -                             | -                                      | -           |
| Transfers/adjustments          |  |                     |  |                               |  |             |
| Revaluation Reserve            |  |                     |  |                               |  |             |
| At end of year - 30 June 2020  | 412,274,020                              | 111,780,896         | 33,559,135                             | 28,565,162                    | 44,626,090                             | 630,805,303 |
| Depreciation                   |  |                     |  |                               |  |             |
| At 30 June 2019                | 2,408,327                                | 35,677,822          | 10,661,376                             | 10,610,765                    | 8,681,832                              | 68,040,122  |
| Depreciation                   | 10,306,851                               | 13,972,612          | 8,389,784                              | 8,569,549                     | 5,578,261                              | 46,817,056  |
| Disposals                      | -  | -                   | -                                      | -                             | -                                      | -           |
| Impairment                     | -  | -                   | -                                      | -                             | -                                      | -           |
| Transfer/adjustments           |  |                     |  |                               |  |             |
| At 30 June 2020                | 12,715,178                               | 49,650,434          | 19,051,160                             | 19,180,314                    | 14,260,093                             | 114,857,178 |
| Net Book Value at June 30 2020 | 399,558,843                              | 62,130,462          | 14,507,975                             | 9,384,848                     | 30,365,997                             | 515,948,124 |



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16 PROPERTY PLANT AND EQUIPMENT (Continued)

| 2019                          | Freehold Land,<br>Buildings and Civil<br>Works | Plant and<br>Machinery | Motor Vehicles,<br>Including Motor cycles | Computers &<br>Related Equipment | Office Equipment,<br>Furniture & Fittings | Total       |
|-------------------------------|--|------------------------|---|----------------------------------|---|-------------|
|                               | KShs   | KShs                   | KShs                                      | KShs                             | KShs                                      | KShs        |
| Cost                          |  |                        |   |                                  |   |             |
| At 1 July 2017                | 28,070,659                                     | 53,411,167             | 15,685,740                                | 14,930,847                       | 13,135,582                                | 125,233,995 |
| Additions                     | 82,150   | 13,612,572             | 868,981                                   | 738,061                          | 11,397,057                                | 26,698,821  |
| Disposals                     | -  | -                      | -   | -                                | -   | -           |
| Transfers/adjustments         | -  | -                      | -   | -                                | -   | -           |
| At 30 June 2018               | 28,152,809                                     | 67,023,739             | 16,554,721                                | 15,668,908                       | 24,532,639                                | 151,932,816 |
| Additions                     | -  | -                      | -   | -                                | -   | -           |
| Disposals                     | -  | -                      | -   | -                                | -   | -           |
| Transfer/adjustments          | -  | 18,313,354             | -   | -                                | -   | 18,313,354  |
| Revaluation Reserve           | 476,670,191                                    | (16,767,739)           | 16,995,279                                | (11,427,908)                     | (18,205,439)                              | 447,264,384 |
| At end of year - 30 June 2019 | 504,823,000                                    | 68,569,354             | 33,550,000                                | 4,241,000                        | 6,327,200                                 | 617,510,554 |
| Depreciation and impairment   |  |                        |   |                                  |   |             |
| At 30 June 2017               | 1,748,212                                      | 31,199,834             | 8,696,930                                 | 8,442,987                        | 6,417,433                                 | 56,505,395  |
| Depreciation                  | 660,115  | 4,477,988              | 1,964,448                                 | 2,167,776                        | 2,264,401                                 | 11,534,728  |
| Disposals                     | -  | -                      | -   | -                                | -   | -           |
| Impairment                    | -  | -                      | -   | -                                | -   | -           |
| Transfer/adjustment           | -  | -                      | -   | -                                | -   | -           |
| At 30 June 2018               | 2,408,327                                      | 35,677,822             | 10,661,377                                | 10,610,764                       | 8,681,833                                 | 68,040,123  |
| Depreciation                  | -  | -                      | -   | -                                | -   | -           |
| Disposals                     | -  | -                      | -   | -                                | -   | -           |
| Impairment                    | -  | -                      | -   | -                                | -   | -           |
| Transfer/adjustment           | -  | -                      | -   | -                                | -   | -           |
| At 30 June 2019               | 2,408,327                                      | 35,677,822             | 10,661,377                                | 10,610,764                       | 8,681,833                                 | 68,040,123  |
| Net book values               |  |                        |   |                                  |   |             |
| At 30 June 2018               | 25,744,482                                     | 31,345,917             | 5,893,344                                 | 5,058,144                        | 15,850,806                                | 83,892,693  |
| At 30 June 2019               | 502,414,673                                    | 32,891,532             | 22,888,623                                | 6,369,764                        | 2,354,633                                 | 549,470,432 |





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**17 INVENTORIES**

|                                   | 2019-2020         | 2018-2019        |
|-----------------------------------|-------------------|------------------|
|                                   | KShs              | KShs             |
| Appurtenances spares              | 305,760           | 69,206           |
| Building Materials                | 114,349           | 25,882           |
| Cleaning and Sanitation materials | 128,253           | 29,029           |
| Cold Water Meters Accessories     | 11,749,778        | 2,659,451        |
| Computers consumable parts        | 80,233            | 18,160           |
| Motor vehicle spare parts         | 211,999           | 47,984           |
| Office Equipment                  | 813,168           | 184,053          |
| Pipes and fittings                | 21,029,287        | 4,759,780        |
| Stationery and general stores     | 1,568,057         | 354,915          |
| Tools and Equipment               | 201,316           | 45,566           |
| Uniform and Boots                 | 17,827            | 4,035            |
| Water Analysis Equipment          | 87,727            | 19,855           |
|                                   | <b>36,307,754</b> | <b>8,217,916</b> |

**18 TRADE AND OTHER RECEIVABLES**

|  | 2019-2020          | 2018-2019          |
|--|--------------------|--------------------|
|  | KShs               | KShs               |
| Trade receivables - note 18 (a)            | 245,283,116        | 192,531,563        |
| Staff receivables                          | -                  | -                  |
| Gross trade and other receivables          | <b>245,283,116</b> | <b>192,531,563</b> |
| Provision for bad and doubtful receivables | -                  | -                  |
| <b>Net trade and other receivables</b>     | <b>245,283,116</b> | <b>192,531,563</b> |

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

|  | 2019-2020          | 2018-2019          |
|--|--------------------|--------------------|
|  | KShs               | KShs               |
| Trade receivables  | 245,283,116        | 192,531,563        |
| Provision for doubtful receivables   | -                  | -                  |
| <b>Net Trade Receivables</b>   | <b>245,283,116</b> | <b>192,531,563</b> |
| At June 30, the ageing analysis of the gross trade receivables was as follows: |                    |                    |
| Less than 30 days  | 39,767,875         | 27,339,482         |
| Between 30 and 60 days   | 24,746,224         | 8,086,326          |
| Between 60 and 90 days   | 6,172,091          | 12,514,552         |
| Between 90 and 120 days  | 13,053,902         | 6,738,605          |
| Over 120 days  | 161,543,023        | 137,852,599        |
|  | <b>245,283,116</b> | <b>192,531,564</b> |



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**19 ORDINARY SHARE CAPITAL RECEIVABLE**

|  | 2019-2020 | 2018-2019 |
|--|-----------|-----------|
|  | KShs      | KShs      |
| <b>Authorized:</b>                                 |           |           |
| 5,000 ordinary shares of Kshs.1,000 par value each | 5,000,000 | 5,000,000 |
| <b>Unpaid:</b>                                     |           |           |
| 5,000 ordinary shares of Kshs.1,000 par value each | 5,000,000 | 5,000,000 |

**20 CUSTOMER DEPOSIT RECEIVABLE**

|   | 2019-2020        | 2018-2019        |
|---|------------------|------------------|
|   | KShs             | KShs             |
| Customer Deposit Receivable   | 8,443,600        | 8,443,600        |
|   | <b>8,443,600</b> | <b>8,443,600</b> |
| These are Customer Fixed Deposit receivable before the inception of the Company. This is to be refunded by CWSB |                  |                  |

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

|   | 2019-2020         | 2018-2019         |
|---|-------------------|-------------------|
|   | KShs              | KShs              |
| Cash at bank                                      | 18,102,328        | 17,658,610        |
| Cash in hand                                      | -                 | -                 |
|   | <b>18,102,328</b> | <b>17,658,610</b> |
| See detailed cash and bank balances in note 20(b) |                   |                   |



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21 (b) Detailed analysis of the cash and cash equivalents

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

| NO. | BANK/BRANCH                    | ACCOUNT NAME                        | ACCOUNT NO.    | 2019-2020         |                   | 2018-2019 |  |
|-----|--------------------------------|-------------------------------------|----------------|-------------------|-------------------|-----------|--|
|     |                                |                                     |                | KShs              |                   | KShs      |  |
| 1   | KCB-MALINDI BRANCH             | MAWASCO REVENUE A/C.                | 1104220504     | 1,649,193         | 2,072,571         |           |  |
| 2   | KCB-MALINDI BRANCH             | MAWASCO OPERATIONS A/C.             | 1104220571     | 1,582,740         | 7,686,177         |           |  |
| 3   | KCB-MALINDI BRANCH             | MAWASCO DEPOSITS A/C.               | 1104220377     | 172,996           | 172,996           |           |  |
| 4   | KCB-MALINDI BRANCH             | MAWASCO SAVINGS A/C.                | 1103447661     | 708               | 708               |           |  |
| 5   | KCB-MALINDI BRANCH             | MAWASCO PROJECTS A/C.               | 1104224186     | 326,872           | 328,063           |           |  |
| 6   | KCB-MALINDI BRANCH             | MAWASCO UBSUP-KIBOKONI PROJECT A/C. | 1171300247     | 1,395             | 1,371,718         |           |  |
| 7   | KCB-MALINDI BRANCH             | MAWASCO-LOAN REPAYMENT ACCOUNT      | 1224619129     | 996,898           | 998,089           |           |  |
| 8   | KCB-MALINDI BRANCH             | MAWASCO-WORLD BANK ACCOUNT          | 1236141776     | 289,300           | -                 |           |  |
| 9   | EQUITY-MALINDI BRANCH          | MAWASCO REVENUE A/C.                | 045-0293125064 | 3,266,300         | 1,589,043         |           |  |
| 10  | POST BANK                      | POST BANK COLLECTION ACCOUNT        | 0744130013926  | 5,134,893         | 2,158,010         |           |  |
| 11  | SAFARICOM                      | SAFARICOM-MPESA ACCOUNT             | 708001         | 4,681,033         | 1,281,236         |           |  |
|     | <b>TOTALS AS PER STATEMENT</b> |                                     |                | <b>18,102,328</b> | <b>17,658,610</b> |           |  |





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22 ORDINARY SHARE CAPITAL

|  | 2019-2020 | 2018-2019 |
|--|-----------|-----------|
|  | KShs      | KShs      |
| <b>Authorized:</b>                                 |           |           |
| 5,000 ordinary shares of Kshs.1,000 par value each | 5,000,000 | 5,000,000 |
| <b>Unpaid:</b>                                     |           |           |
| 5,000 ordinary shares of Kshs.1,000 par value each | 5,000,000 | 5,000,000 |

23 RETAINED EARNINGS

|                                  | 2019-2020            | 2018-2019            |
|----------------------------------|----------------------|----------------------|
|                                  | KShs                 | KShs                 |
| As at the Start of the Year      | (358,794,307)        | (348,749,649)        |
| Net loss for the Year            | (45,646,359)         | (10,044,658)         |
| Prior Year Adjustment            | -                    | -                    |
| <b>As at the End of the Year</b> | <b>(404,440,666)</b> | <b>(358,794,307)</b> |

24 PROJECT GRANT FUND

|   | 2019-2020         | 2018-2019         |
|---|-------------------|-------------------|
|   | KShs              | KShs              |
| Projects Reserve Fund                   | 1,863,740         | 1,863,740         |
| WSTF- UBSUP-KIBOKONI PROJECT GRANT A/C. | 24,265,219        | 24,265,219        |
|   | <b>26,128,959</b> | <b>26,128,959</b> |

25 CAPITAL RESERVE FUND

|                      | 2019-2020         | 2018-2019         |
|----------------------|-------------------|-------------------|
|                      | KShs              | KShs              |
| Capital Reserve fund | 39,534,996        | 39,534,996        |
|                      | -                 | -                 |
|                      | <b>39,534,996</b> | <b>39,534,996</b> |



## 26 REVALUATION RESERVE

|                     | 2019-2020          | 2018-2019          |
|---------------------|--------------------|--------------------|
|                     | KShs               | KShs               |
| Revaluation Reserve | 447,264,384        | 447,264,384        |
|                     | <b>447,264,384</b> | <b>447,264,384</b> |

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

## 27 WATER AND SANITATION DEVELOPMENT PROJECT

|           | 2019-2020         | 2018-2019 |
|-----------|-------------------|-----------|
|           | KShs              | KShs      |
| WSDP Loan | 25,000,000        | -         |
|           | <b>25,000,000</b> | <b>-</b>  |

The Company obtained funding under the World Bank Water and Sanitation Development Project for infrastructure development.

## 28 TRADE AND OTHER PAYABLES

|                 | 2019-2020          | 2018-2019          |
|-----------------|--------------------|--------------------|
|                 | KShs               | KShs               |
| Trade payables  | 551,512,186        | 502,294,582        |
| Taxable payable | 3,734,863          | 3,734,863          |
|                 | <b>555,247,049</b> | <b>506,029,445</b> |

## 29 PROVISION FOR LEAVE PAY

|                                      | 2019-2020   | 2018-2019        |
|--------------------------------------|-------------|------------------|
|                                      | KShs        | KShs             |
| Balance at the start of the year     | 2,000,133   | 4,926,134        |
| Leave pay for the year               | 1,390,867   | 770,999          |
| Leave pay / Utilized during the year | (3,391,000) | (3,697,000)      |
| Balance at the end of the year       | -           | <b>2,000,133</b> |

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

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**30 CUSTOMER DEPOSIT**

|   | <b>2019-2020</b>  | <b>2018-2019</b>  |
|---|-------------------|-------------------|
|   | <b>KShs</b>       | <b>KShs</b>       |
| <b>Balance at the start of the year</b>           | <b>43,914,064</b> | <b>28,575,014</b> |
| Deposits paid before the inception of the Company | -                 | <b>8,443,600</b>  |
| Additional Deposit paid during the year           | 5,833,300         | 7,185,850         |
| Customer Deposits refunded during the year        | (385,000)         | (290,400)         |
| <b>Balance at the end of the year</b>             | <b>49,362,364</b> | <b>43,914,064</b> |

**31 RETIREMENT BENEFITS OBLIGATIONS**

|  | <b>2019-2020</b>  | <b>2017-2018</b>  |
|--|-------------------|-------------------|
|  | <b>KShs</b>       | <b>KShs</b>       |
| Balance at the start of the year                   | 72,515,460        | 58,806,269        |
| Additional Employer's and Employees' contributions | 31,321,113        | 31,661,255        |
| Benefit utilized during the year                   | (15,714,162)      | (17,952,064)      |
| <b>Balance at the end of the year</b>              | <b>88,122,411</b> | <b>72,515,460</b> |

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



32 NOTES TO THE STATEMENT OF CASH FLOWS

|   | 2019-2020           | 2018-2019          |
|---|---------------------|--------------------|
|   | KShs                | KShs               |
| Reconciliation of operating profit/(loss) to cash generated from/(used in) operations |                     |                    |
| Operating profit/(loss)   | (45,646,359)        | (10,044,658)       |
| Depreciation/Amortization   | 675,582             | 567,754            |
| Depreciation  | 46,817,056          | -                  |
| <b>Operating profit/(loss) before working capital changes</b>                         | <b>1,846,279</b>    | <b>(9,476,904)</b> |
| (Increase)/decrease in inventories  | (28,089,838)        | 4,000,010          |
| (Increase)/decrease in trade and other receivables                                    | (52,751,553)        | 357,950            |
| Increase/(decrease) in trade and other payables                                       | 49,217,604          | (3,195,891)        |
| Increase/(decrease) in Retirement Benefits Obligations                                | 15,606,951          | 13,709,191         |
| Increase/(decrease) in profits from Retained Earnings                                 | -                   | -                  |
| Increase/(decrease) in Staff leave provision  | (2,000,133)         | (2,926,001)        |
| Increase/(decrease) in Customer Deposit - old   | -                   | (8,443,600)        |
| Increase/(decrease) in Customer Deposit   | 5,448,300           | 15,339,050         |
| <b>Cash generated from/(used in) operations</b>                                       | <b>(10,722,390)</b> | <b>9,363,805</b>   |





### 33 REVALUATION RESERVE

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

### 34 RETAINED EARNINGS

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

### 35 RELATED PARTY DISCLOSURES

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

### 36 CAPITAL COMMITMENTS

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

### 37 FINANCIAL RISK MANAGEMENT

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

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

#### (i) Credit risk

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

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

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



### 36 FINANCIAL RISK MANAGEMENT (Continued)

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

#### ii) Liquidity risk management

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

#### (iii) Market risk

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

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

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

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

### 38 INCORPORATION

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

### 39 EVENTS AFTER THE REPORTING PERIOD

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

### 40 CURRENCY

The financial statements are presented in Kenya Shillings (Kshs)

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

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

| Reference No. on the external Audit Report | Issue/Observations from Auditor   | Management comments   | Focal Point person to resolve the issue (Name and designation) | Status: (Resolved / Not Resolved) | Timeframe: (Put a date when you expect the issue to be resolved) |
|--|---|---|--|-----------------------------------|--|
| 1.   | <p>Going-Concern</p> <p>The Company made a loss and is working on negative working capital an indication that the Company may be experiencing financial difficulties in settling financial obligations as and when they may fall due.</p>   | <p>The Company has had a non cost recovery tariff that has led to a negative working cashflow. The management applied for a tariff review which was implemented from October 2017. This expected to be reversed over the tariff period.</p> | Seith Kalume<br>Finance Manager                                | Partially Resolved                | 30th June 2020   |
| 2.1  | <p>Leased Assets</p> <p>No ownership documents for leased assets from Coast Water Services Board neither professional valuation reports to support the values assigned to the assets.</p>   | <p>The management has tendered for a professional valuation of the assets under Coast Water Services Board</p>  | Managing Director<br>Mr Gerald Mwambire                        | Resolved                          | 30 <sup>th</sup> June 2019                                       |
| 2.2  | <p>Unreconciled variance in property, Plant and Equipment</p> <p>The balance in the statement of financial position did not reconcile with the schedule provided</p>  | <p>The management carried out asset identification tagging and valuation. The complete list is now available for Audit</p>  | Managing Director<br>Mr Gerald Mwambire                        | Resolved                          | 30 <sup>th</sup> June 2019                                       |
| 3  | <p>Non-Current Receivables</p> <p>No documentary evidence was availed for audit review in support of the debtor balances inherited from Coast Water Services Board at the inception of the Company.</p>   | <p>The management has reconciled the balances as at inception of the Company and schedules of the debtors is now available</p>  | Finance Manager<br>Seith Kalume                                | Resolved                          | 30 <sup>th</sup> June 2019                                       |
| 4  | <p>Share Capital Receivable</p> <p>Shares had not been paid for as at 30 June 2018. In the circumstances, it was not possible to confirm whether or not the subscribers were desirous of having the Company</p>   | <p>The Management has engaged the County Government of Kilifi for the subscriptions as the owners of the Company through the County Legal Officer</p>   | Managing Director<br>Gerald Mwambire                           | Not Resolved                      | 30 <sup>th</sup> June 2020                                       |
| 5  | <p>Delegated Works</p> <p>The accuracy and validity of the expenditure of KShs. 18,313,353 in respect of delegated works carried out as at 30 June 2016 cannot be ascertained as records available from the Board do not reflect these debts as carried out by the Company on behalf of Coast Water Services Board.</p> | <p>The management is guided by the Service Provision Agreement which provides for a refund on the nature of works done. The management has however taken up the project in its books of accounts but still pursuing it with CWSB</p>        | Managing Director<br>Gerald Mwambire                           | Resolved                          | 30th June 2019   |



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| Reference No. on the external audit Report | Issue/Observations from Auditor  | Management comments   | Focal Point person to resolve the issue (Name and designation) | Status: (Resolved / Not Resolved) | Timeframe: (Put a date when you expect the issue to be resolved) |
|--|--|---|--|-----------------------------------|--|
| 6  | Customer Deposit Receivable<br>No schedules were availed for audit review to support these balances for deposits received from customers taken over by Coast Water Services Board when the Company was incorporated. | The management has reconciled the schedule of the Customer Deposit Receivable from Coast Water Services Board at the inception of the Company. The Company is still pursuing the refund from Coast Water Services Board | Managing Director<br>Gerald Mwambire                           | Resolved                          | 30 <sup>th</sup> June 2019                                       |
| 7  | Trade and Other Payables<br>There is an unreconciled amount between the accounts held by the Company and CWSB for the supply of bulk water in both amounts owed and amount paid.                                     | The difference in the amount due to Coast Water Services Board was reconciled and is awaiting incorporation and formal issuance of credit notes to the Company.   | Finance Manager<br>Seith Kalume                                | Resolved                          | 30 <sup>th</sup> June 2019                                       |
| 8.1  | Bank and Cash Balances<br>Kenya Commercial Bank – Revenue Account<br>There was non-disclosure of unpresented cheques and non-compliance to the GAAP in reconciliation format   | The Company has fully adopted the GAAP format in the preparation of the bank reconciliations  | Finance Manager<br>Seith Kalume                                | Resolved                          | 30 <sup>th</sup> June 2019                                       |
| 8.2  | Kenya Commercial Bank – Operations Account<br>There was non-disclosure of the dates which the unpresented cheques were cleared, a net off of an over drawn cash book against the bank account contrary to the GAAP   | The Company has fully adopted the GAAP format in the preparation of the bank reconciliations  | Finance Manager<br>Seith Kalume                                | Resolved                          | 30 <sup>th</sup> June 2019                                       |
| 8.3  | Kenya Commercial Bank – Deposit Account<br>There was net off the account against the GAAP in financial reporting standards.  | The Company has fully adopted the GAAP format in the preparation of the bank reconciliations  | Finance Manager<br>Seith Kalume                                | Resolved                          | 30 <sup>th</sup> June 2019                                       |
| 8.4  | Kenya Commercial Bank – Savings Account<br>There was a net off of overdraft against the cash book balance contrary to the GAAP   | The Company has fully adopted the GAAP format in the preparation of the bank reconciliations  | Finance Manager<br>Seith Kalume                                | Resolved                          | 30 <sup>th</sup> June 2019                                       |
| 8.5  | Post Bank Collection Account<br>There was no bank certificate to support the amount reflected in the bank statement as at the close of the financial year  | The Company has fully adopted the GAAP format in the preparation of the bank reconciliations and its supporting documentation   | Finance Manager<br>Seith Kalume                                | Resolved                          | 30 <sup>th</sup> June 2019                                       |
| 8.6  | Safaricom Mpesa Account<br>There was no Mpesa Statement and Confirmation certificates to support the Mpesa Balance reported  | The Company has fully adopted the GAAP format in the preparation of the bank reconciliations and its supporting documentation   | Finance Manager<br>Seith Kalume                                | Resolved                          | 30 <sup>th</sup> June 2019                                       |





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| Reference No. on the external audit report | Issue/Observations from Auditor   | Management comments   | Focal Point person to resolve the issue (Name and designation) | Status: (Resolved / Not Resolved) | Timeframe: (Put a date when you expect the issue to be resolved) |
|--|---|---|--|-----------------------------------|--|
| 8.7  | State Cheques<br>There was no reversal of state cheques   | The management has adopted the GAAP format for reporting on the cash and bank reconciliations. All the stale cheques have been reversed   | Finance Manager<br>Seith Kalume                                | Resolved                          | 30th June 2019   |
| 9  | Non-Revenue Water<br>The Company registered a Non-Revenue for Water loss (NRW) of 6%, loss amounting to an estimated 28,970,299 at a rate of 73.27 per cubic meter.   | The Management considers this loss as significant and has partnered with donor to help improve on the infrastructure to reduce this loss. The project is capital intensive and the management has approached the work in six phases. The target for the year is 30%   | Technical Manager<br>Isaac Chibule                             | Partially Resolved                | 30th June 2019   |
| 10.1                                       | Directors Emoluments<br>Directors had not retired in accordance to the M&E while some Directors appointed by the County Government of Kilifi to the Board were irregularly paid sitting allowances for attending Board Meetings even though they were employees of the County Government. | The management has engaged the County Government of Kilifi through the Legal Officer on the Annual General Meeting where the directors retire and others are appointed<br><br>The management has communicated to the directors seconded to the Company on the payment of sitting allowances and the payment stopped immediately | Managing Director<br>Gerald Mwambire                           | Resolved                          | 30th June 2019   |

**Notes:**

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

Managing Director

Chairman of the Board

Date..... 23/03/20

Date..... 23/03



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APPENDIX II: PROJECTS IMPLEMENTED BY THE ENTITY

Projects

Projects implemented by the Company Funded by development partners

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

