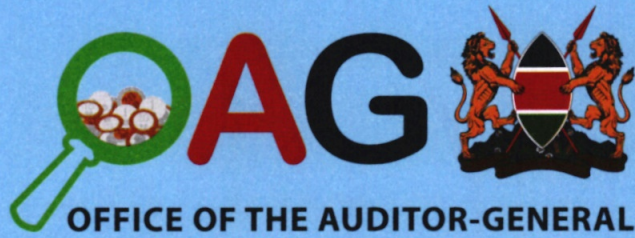


REPUBLIC OF KENYA



Enhancing Accountability

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REPORT

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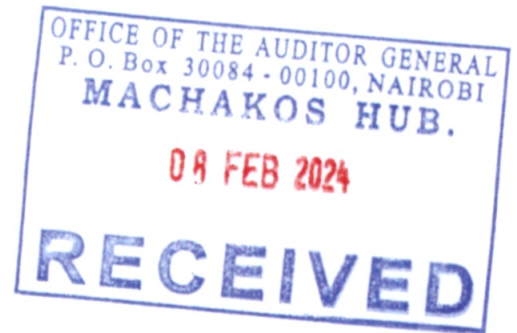
OF

THE AUDITOR-GENERAL

ON

**MATUNGULU KANGUNDO WATER AND
SEWERAGE COMPANY LIMITED**

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



MATUNGULU KANGUNDO WATER & SEWERAGE COMPANY

ANNUAL REPORT

AND

FINANCIAL STATEMENTS

30 JUNE 2023

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

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1. Acronyms and Glossary of Terms

ICPAK Institute of certified Public Accountants of Kenya

MD Managing Director

WRA Water Resources Authority

WASREB Water Services Regulatory Board

2. KEY ENTITY INFORMATION

Background information

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

Principal Activities

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

Directors

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

- | | |
|---------------------------|---|
| 1. Daniel Kimomo Nginga | -Chairman-Resigned |
| 2. Agnes Muteti | -Chief Executive Officer |
| 3. Samuel Muneene | Acting Chairman Appointed 13 September 2021 |
| 4. Catherine Mutuku | Appointed 13 September 2021 |
| 5. Edna M.Mwanzia | Appointed 13 September 2021 |
| 6. Magdalene Emma Nthenge | Appointed 13 September 2021 |

Registered Office

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

Corporate Headquarters

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

Corporate Contacts

Telephone: +254719212720
Email:kamwasco@gmail.com

Corporate Bankers

Kenya Commercial Bank

P.O Box 173-90131

Tala, Kenya

Independent Auditors

Auditor General

Kenya National Audit Office

Anniversary Towers, University Way

P.O Box 30084

GOP 00100

Nairobi, Kenya

Principal Legal Advisers

The Attorney General

State Law office



Harambee Avenue

PO Box 40112



City Square 00200

Nairobi, Kenya

3. THE BOARD OF DIRECTORS

	<p><u>SAMUEL MUNEENE Appointed 13th September 2021</u> Mr. Samuel Katumo Muneene chairs the board of the company and represents business community.</p> <p><u>ACTING CHAIRMAN(BOD)</u> Academic Qualification : EACE Professional Qualification: Educational officer Age : 68 years</p>
	<p><u>CATHERINE MUTUKU Appointed 13 September 2021</u> Miss Catherine Mutuku is a director of the company and chairs the audit committee of the company.</p> <p>Academic Qualification : Bachelor of Laws Professional Qualification: Lawyer Age : 34 years</p>
	<p><u>MAGDALENE EMMA. NTHENGE appointed 13th sept 2021</u> Miss Emma M. Mwanzia is a director of the company and chairs the Financial committee. She represents community organizations.</p> <p>Academic Qualification : O level Professional Qualification: Secretary Age : 60 years</p>
	<p><u>EDNA M Mwanzia Appointed 13September 2021</u> Mrs. Magdalene E. Nthenge is a director of the company. She chairs Technical committee of the company and represents women organizations.</p> <p>Academic Qualification : O level Professional Qualification: Farmer Age : 59 years</p>

MATUNGULU KANGUNDO WATER AND SEWERAGE COMPANY LIMITED
Annual Reports and Financial Statements
For the year ended June 30 2023

	<p><u>AGNES K. MUTETI</u> Mrs. Agnes Muteti is the Managing Director and the secretary to the Board of Directors. She holds a certificate in water supply from Kenya Water institute.</p> <p>Left : 30 June 2023</p>
	<p><u>MARGARET MUNYIVA MULI</u> Mrs. Margaret Muniyiva Muli is the Ag. Managing Director and the secretary to the Board of Directors. She holds a Diploma in water Engineering from Kenya Water institute.</p> <p>Appointed: 22 July 2023</p>

4. KEY MANAGEMENT TEAM

	<p><u>AGNES MUTETI</u></p> <p><u>Date of Birth:1968</u></p> <p><u>MANAGING DIRECTOR</u></p> <p>Agnes Muteti is the Managing Director and is in charge of the day to day operations of the company and also head of commercial department. She holds a certificate in Water Supply from the Kenya Water Institute.</p>
	<p><u>PATRICK KIMITI</u></p> <p><u>Date of Birth: 1969</u></p> <p><u>TECHNICAL MANAGER</u></p> <p>Patrick Kimiti is the manager in charge of Technical Operations within the company. He holds a certificate in Water Supply from the Kenya Water Institute.</p>
	<p><u>ANTHONY MUEMA</u></p> <p><u>Date of Birth:1982</u></p> <p><u>ACCOUNTANT</u></p> <p>Anthony Muema is the company's accountant in charge of the finance department. He holds a Bachelor of commerce (Finance Option) degree from KCA University and is a Certified Public Accountant of Kenya (CPA K).</p>
	<p><u>MARGARET MUNYIVA MULI</u></p> <p>Mrs. Margaret Munyiva Muli is the Ag. Managing Director and the secretary to the Board of Directors. She holds a Diploma in water Engineering from Kenya Water institute.</p> <p>Appointed: 22 July 2023</p>

5. CHAIRMAN'S STATEMENT

I feel honored for God to give me this golden opportunity to give out the report of Matungulu Kangundo Water and Sewerage Company limited as at the year ended 30 June 2023.

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

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

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

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

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

I must say that I am thankful to the organizations which have come very handy to our rescue in terms of the company water infrastructure namely; Machakos County Government and Water Sector Trust Fund who have tirelessly assisted in improving new pipes network that have led to minimized Non-revenue water.

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

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

Regards,



Samuel Muneene Katumo
Chairman, Board of Director

6. REPORT OF THE MANAGING DIRECTOR

It is my pleasure to present to you Matungulu Kangundo water and sewerage company management report for the year ended June 30 2023. The Company is mandated to provide water services within Matungulu and Kangundo sub counties to a coverage area of approximately 924km² targeting a current estimated population of 234,388 people.

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

Notably, between 2008 and June 2023, the company had connected 1595 customers. With a view to taking services to our customers and improving efficiency, the company created customer care services (Offices) throughout its three service areas. In our operation we continue to be guided by our mission of sustaining efficient, effective, save and affordable water services to the community for bettering their lives.

Most of the people live in areas with unsafe and unreliable water services with limited access to legal connections. The company has therefore been exploring and implementing sustainable innovations to provide quality, reliable and affordable water to those areas in partnership with the water services trust fund, Machakos County Government and internally generated funds. This far the company has constructed 18 water Kiosks/stand pipes throughout its service area to ensure water is available to all.

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

Challenges faced during the reporting period

1. High cost of pumping (Power bills)
2. Vandalism of water infrastructures
3. Water theft
4. Inflation (High cost of materials)
5. Insufficient sources resulting to water rationing
6. Dilapidated infrastructures contributing to non-revenue water
7. High non-revenue water contributed by vandalism, theft and dilapidated pipelines among others

Undertakings during the reporting period

The company held several barazas to sensitize community and address the issue of vandalism and water theft.

The company was funded by water sector trust fund under the Urban Project Concept (UPC 8th call) after submitting a proposal to extend a 10km pipeline from Kangundo (Kwa Akamba market) to Syanthi market.

The company managed to reduce the non-revenue water from the previous 48% to 37%

Through the support of water sector trust fund under conditional liquidity support grant during the covid19 period, the company did a 3km pipeline extension in Nguluni and several customers were able to get sufficient supply.

The company managed to apply for water service provision license from water services regulatory board (WASREB) and also applied for review of its tariff which all went through and awaiting approval by Wasreb.

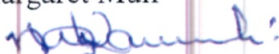
Future Plans

- 1) Solarization of the boreholes
- 2) Procurement of a billing and accounting software
- 3) Reduction of non-revenue water from 37% to 35%
- 4) Rehabilitation of the dilapidated pipelines
- 5) Complete overhaul of Ndovoini B return pipe and rerouting of all the pipelines passing through homesteads
- 6) Installation of zone meters to help establish specific areas water is lost

Way forward, we will continue reaching out and engaging all our stakeholders especially the community within our area of coverage mainly in conserving our sources of water and infrastructure. We also look forward to more collaboration and support from the two levels of Government, development partners, and other institutions in the sector.

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

Margaret Muli



Ag. Managing Director

7. STATEMENT OF PERFORMANCE AGAINST PREDETERMINED OBJECTIVES FOR THE YEAR 2023/2022

Matungulu Kangundo water and Sewerage Company limited operates under Five (5) strategic pillars and objectives for the year 2018/2019 and 2021/2023. These pillars are as follows;

Pillar 1: Operational Efficiency and Affordability of water services

Pillar 2: Asset maintenance for continuous service delivery

Pillar 3: Financial Sustainability

Pillar 4: Water infrastructure development

Pillar 5: Effective Corporate Governance

Matungulu Kangundo water and sewerage company limited develops its annual work plan based on the above 5 key pillars. Assessment of the board's performance against its annual work plan is done on a quarterly basis. Matungulu Kangundo water and sewerage co. Limited achieved its performance targets for the finance year 2023/2022 as per the table below;

Strategic Pillar	Objective	Key performance indicator	Activities	Achievements
Operational Efficiency and Affordability of Water Services	Constant supply of portable water that meets the expectations of our customers	Reduced customer complaints	Carry out customer satisfaction survey and also ensuring that repairs are done at the right time	Power bills and other repair costs settled in time
Water Infrastructure Development	Provide water and Sanitation Services	Increase water and Sanitation coverage	Drilling Boreholes, Extension of Pipeline and Construction of Sanitation facilities	Extension of pipeline in Nguluni area for 3300m.
Effective Corporate Governance	Board of Directors adhere to the board meeting schedules and pass important resolutions in time	Four board Meetings in every quarter.	Board Meetings held as per schedule.	Four board meetings were held during the year and key resolutions passed.

8. CORPORATE GOVERNANCE STATEMENT

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

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

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

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

Board of Directors

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

Committees of the Board

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

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

1. Technical Committee

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

2. Finance and Administration Committee

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

3. Audit Committee

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

9. MANAGEMENT DISCUSSIONS AND ANALYSIS

Matungulu Kangundo water and Sewerage Company limited provides water and sanitation services to Matungulu and Kangundo sub counties. The company engages with development partners and local community to ensure it fulfills its mandate. The company’s operations are sustained by funds that are collected from payments from customers for services rendered and also from its partners through grants, subsidies and donations.

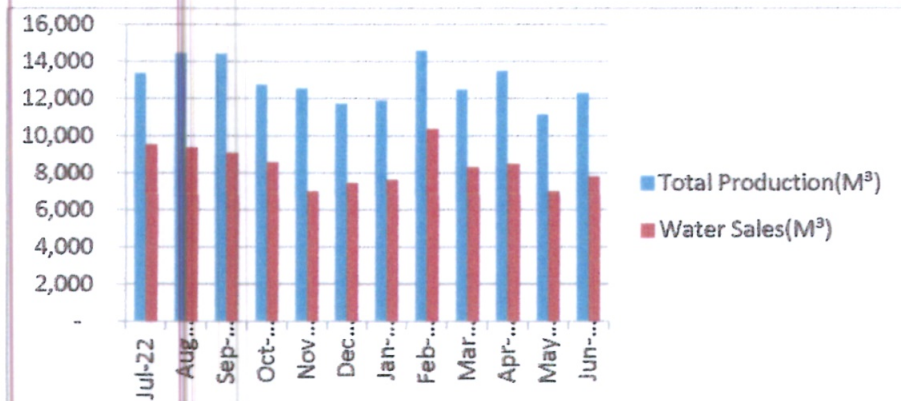
During the year the utility managed to produce 155,155M³ of water and billed 100,965M³ of water resulting to Non-Revenue water (NRW) of 56,190M³ equivalents to 37%. This is illustrated by the table and chart below;

Month	Jul 22	Aug 22	Sep 22	Oct 22	Nov 22	Dec 22	Jan 23	Feb 23	Mar 23	Apr 23	May 23	Jun 23
Production(M ³)	13,369	14,467	14,442	12,749	12,528	11,714	11,882	14,589	12,490	13,482	11,152	12,291
Billing(M ³)	9,559	9,412	9,128	8,588	7,032	7,478	7,654	10,412	8,340	8,519	7,013	7,830
NRW(M ³)	3,810	5,055	5,314	4,161	5,496	4,236	4,228	4,177	4,150	4,963	4,139	4,461

Summary

Total Production(M ³)	155,155
Total Billing(M ³)	100,965
Total NRW(M ³)	54,190

Production versus Billing (Water Sales)



MATUNGULU KANGUNDO WATER AND SEWERAGE COMPANY LIMITED
 Annual Reports and Financial Statements
 For the year ended June 30 2023

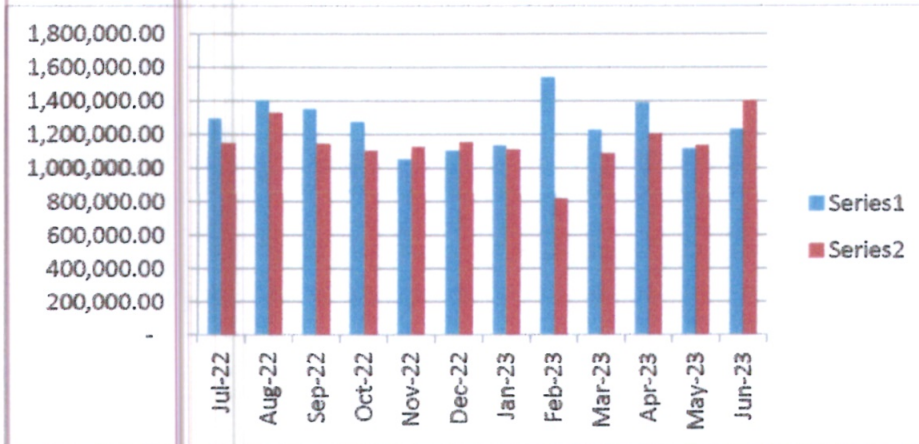
Billing versus Collections

Month	Jul 22	Aug 22	Sep 22	Oct 22	Nov 22	Dec 22	Jan 23	Feb 23	Mar 23	Apr 23	May 23	Jun 23
Billing (kshs)	1,293,200	1,44,290	1,350,910	1,273,350	1,052,730	1,104,040	1,136,100	1,538,610	1,229,380	1,388,620	1,118,120	1,230,371
Collection(kshs)	1,150,002	1,332,095	1,147,230	1,108,875	1,129,791	1,158,490	1,112,825	819,580	1,090,075	1,207,425	1,137,051	1,402,505

Summary

Total Billing(Kshs)	15,119,721
Total Collections(kshs)	13,795,944

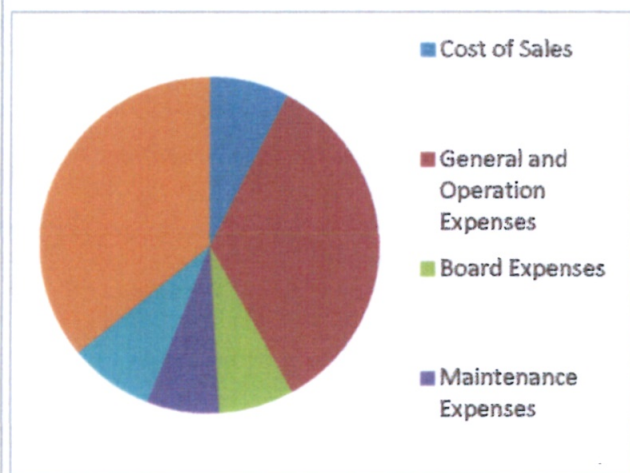
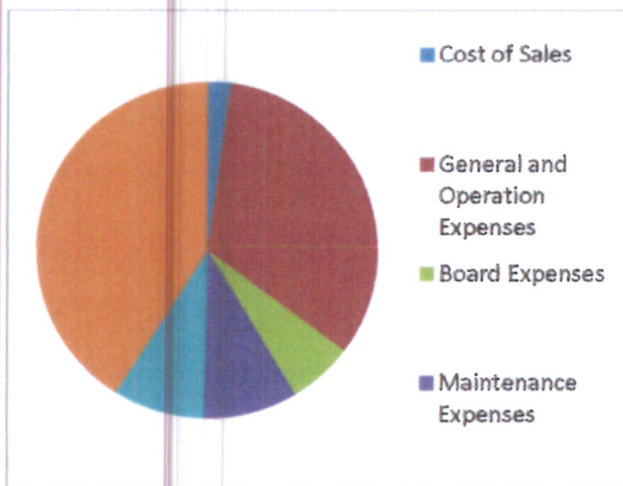
Billing versus Collections graphically



Collections Efficiency-91.0%

Cost Summary Comparison for FY 2023/2022 and FY 2022/2021

Cost Item	Amount 2022/2021	Amount 2021/2020
Cost of sales	355,308	1,505,540
General and Operation expenses	5,744,715	6,847,566
Board Expenses	1,087,663	1,452,508
Maintenance Expenses	1,548,553	1,369,890
Depreciation Expenses	1,509,788	1,619,411
Staff Costs	7,127,344	7,176,391



10. ENVIROMENTAL AND SUSTAINABILITY REPORTING

Matungulu Kangundo water and Sewerage Company limited (Makawasco) exists to transform lives through the provision of quality, affordable, reliable, portable and sustainable water and sanitation services to the residents of Matungulu and Kangundo sub counties. This is the purpose; the driving force behind everything we do. That is what guides us to deliver on our mandate. The following is a brief of our achievements in delivering our pillars;

i. **Sustainability strategy and profile**

MAKAWASCO is committed on providing quality, affordable, reliable, portable and sustainable water and sanitation services to our customers within our jurisdiction. This will be achieved through extension of services, sinking of more boreholes, harvesting of rain water and Construction of dams and weirs. This will be achieved by collaboration with the National government, County Government of Machakos and donor partners to extend our services to the underserved and also increase our water and sanitation coverage.

ii. **Environmental Performance**

The management believes that the operations of the company has a minimal impact on the environment; however we acknowledge that there are inevitable environmental impacts associated with the daily operations. Our aim is to ensure we minimize any harmful effects on the environment as we continue with our operations. This will be attained by partnering with established environmental organizations such as NEMA to guide on developing environmental standards to be used by the company.

iii. **Employee Welfare**

Employee hiring is done competitively as all positions are advertised and employment is on merit. The 1/3 gender rule is always put into consideration. Employee hiring also takes in stakeholder engagement and this helps to improve the company's relationship with the stakeholders. Job placement is done on the skills possessed by employees.

iv. **Market Place Practices**

a) **Responsible competition practice**

The company has put in place to measures to discourage malpractices both within and outside the organization. In an effort to discourage corruption and other malpractices the company does not accept cash payments and bill payments are done directly to the bank. Further to this the company does not engage in political activities though it recognizes leaders elected by the people as part of the stakeholders of the entity.

b) Responsible supply chain and supplier relations

The entity treats its suppliers with impartiality and ensures it has maintained its supply chain. Suppliers are engaged on competitive bids or quotations and are paid at the right time.

c) Responsible Marketing and advertisement

The company ensures that there is advertisement for its products and services either locally or through the media. This is enhanced through public participation exercise.

d) Product Stewardship

The constitution of Kenya under article 43 1(d) provides for a right to clean, safe water in adequate quantities. The company in compliance with the constitution and customer needs has undertaken to provide clean, safe and affordable water to its residents within its jurisdiction and in places where it has not covered its operations; it has allowed community based organizations to assist in serving those residents.

v. **Corporate social responsibility/Community Engagements**

The company did not participate in corporate social activities for the year ended 30th June 2023.

11. REPORT OF THE DIRECTORS

The Directors submit their report for the year ended June 30, 2023 which show the state of the entity's affairs.

Principal Activities

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

Results

The results of the entity for the year ended June 30, 2023 are set out on page 1-21

Dividends

In line with the company's articles and Memorandum of association, the company does not pay dividends to the shareholders.

Directors

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

Auditors

The Auditor General is responsible for the statutory audit of the entity in accordance article 229 of the Kenyan Constitution and public audit act 2015

Name..... *Margaret Muli*.....
Signature..... *[Handwritten Signature]*.....
Date..... *8/2/2024*.....

Managing Director/Board Secretary

12. STATEMENT OF DIRECTORS RESPONSIBILITIES FOR YEAR ENDED JUNE 30,2023

Section 164 of the public finance management Act, 2012 and the Kenya Company's Act 2015; require the Directors to prepare financial statements in respect of that entity, which give a true and fair view of the state of affairs of the entity at the end of the financial year and the operating results of the entity that year. The Directors are also required to ensure that the entity keeps proper accounting records which disclose with reasonable accuracy the financial position of the entity. The Directors are also responsible for safeguarding the assets of the entity.

The Directors are responsible for the preparation and presentation of the entity's financial statements, which give a true and fair view of the state of affairs for and as at the end of the financial year ended on June 30, 2023. This responsibility includes:

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

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

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

Approval of the financial statements

The entity's financial statements were approved by the Board on 08/08.....2023 and signed on its behalf.

Signature: 

Name: Samuel Katumo Muneene

Chairperson of the Board

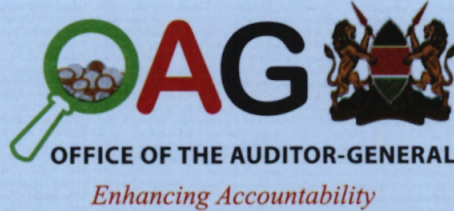
Signature: 

Name: Margaret Muli

Managing Director

REPUBLIC OF KENYA

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



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

REPORT OF THE AUDITOR-GENERAL ON MATUNGULU KANGUNDO WATER AND SEWERAGE COMPANY LIMITED FOR THE YEAR ENDED 30 JUNE, 2023

PREAMBLE

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

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

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

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

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of Matungulu Kangundo Water and Sewerage Company Limited as at 30 June, 2023 set out on pages 1 to 21, which comprise

Report of the Auditor-General on Matungulu Kangundo Water and Sewerage Company for the year Ended 30 June, 2023

of the statement of financial position as at 30 June, 2023 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 the Matungulu Kangundo Water and Sewerage Company Limited as at 30 June, 2023, and of its financial performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards (IFRS) and comply with Public Finance Management Act, 2012, the Companies Act, 2015 and the Water Act, 2016.

Basis for Qualified Opinion

1. Inaccuracies in the Financial Statements

Review of the financial statements presented for audit revealed the following anomalies:

- i. The statement of financial position, statement of changes in equity and as disclosed in Note 19 to the financial statements reflects negative retained earnings of Kshs.18,001,125 while the recalculated amount is negative 16,160,778 resulting to an unexplained difference of Kshs.1,840,347.
- ii. Note 21 to the financial statements reflects increase in inventories balance of Kshs.206,593 which differs with the recalculated decrease of Kshs.1,785,210 resulting to unexplained difference of Kshs.1,578,617. This affects the net cash flow from operating activities amount of Kshs.8,232,605 in the statement of cash flow by a similar margin.

2. Long Outstanding Trade and Other Receivables

The statement of financial position reflects a balance of Kshs.8,432,108 in respect of trade and other receivables and as disclosed in Note 16(i) to the financial statements. The balance is net of provision for bad and doubtful debts of Kshs.81,528. However the ageing analysis provided shows that debts totalling Kshs.5,713,624 representing 70% of the balance had remained outstanding for over 90 days implying that their recoverability was doubtful, and casts doubt on adequacy of the provision made for the bad and doubtful debts.

In the circumstances, the accuracy, recoverability and fair statement of trade and other receivables balance of Kshs.8,432,108 could not be confirmed.

3. Unsupported General and Operation Expenses

The statement of profit or loss and other comprehensive income and as disclosed in Note 9 to the financial statements reflects Kshs.5,711,545 as general and operation expenses. However, included in the amount is unsupported expenditure of Kshs.4,390,044 lacking requisitions and inspection and acceptance reports for the goods and services to be procured during the financial year.

In the circumstances, the accuracy and occurrence of the expenditure of Kshs.4,390,044 could not be confirmed.

4. Accuracies of Customer Deposits.

The statement of financial position reflects customer deposits balance of Kshs.4,672,920 as disclosed in Note 20(a) to the financial statements and supported by customer deposit ledgers. However, a review of the bank statements and certificate of bank balance as at 30 June, 2023 shows the deposits bank account maintained at Kenya Commercial Bank reflected only a balance of Kshs.816,207. The variance of Kshs.3,856,713 has not been explained or reconciled.

In the circumstances, the accuracy and completeness of the customer deposit balance of Kshs.4,672,920 could not be confirmed.

5. Unconfirmed Value and Ownership of Assets

Note 14 to the financial statements reflects property, plant, and equipment balance of Kshs.21,970,445 which differs from the statement of financial position balance of Kshs.20,573,437 resulting in unreconciled variance of Kshs.1,397,008. However, the Company does not maintain an asset register making it difficult to ascertain the basis of valuation. Further, the Company disclosed land valued at cost Kshs.2,350,000 and motor bikes at Kshs.232,000 whose ownership documents were not provided for audit review.

In the circumstances, the ownership and fair statement of assets balance of Kshs.21,970,445 disclosed in the financial statements could not be confirmed.

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

Emphasis of Matter

Budgetary Control and Performance

The statement of comparison of budget and actual amounts reflects budgeted and actual revenues on comparable basis of Kshs.35,359,677 and Kshs.23,812,067 respectively resulting into shortfall in revenue collection of Kshs.11,547,610 or 33% of the budget. Similarly, the statement shows budgeted and actual expenditure in the year amounted to Kshs.19,555,882 and Kshs.15,830,413 respectively resulting to an underperformance of Kshs.3,725,469 or 19% of the budget.

In the circumstances, the underfunding and underperformance affected the planned activities and may have impacted negatively on service delivery to the public.

My opinion is not modified in respect of this matter.

Key Audit Matters

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

Other Matter

Unresolved Prior Year Matters

In the audit reports of the previous year, several issues were raised under the Report on Financial Statements, Report on Lawfulness and Effectiveness in Use of Public Resources, and Report on Effectiveness of Internal Controls, Risk Management and Governance. However, Management has not resolved the issues or given any explanation for failure to adhere to the provisions of the standards prescribed by the Public Sector Accounting Standards Board template.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

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

Basis for Conclusion

1. Non-Compliance with National Cohesion and Integration Act, 2008

Review of human resource documents revealed that the Company has seven (7) permanent employees out of whom six (6) representing 86% of the workforce were from the local dominant community. This is contrary to the provisions of Section 7(2) of the National Cohesion and Integration Act, 2008 which stipulates that no public establishment shall have more than one third of its staff from the same ethnic community.

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

2. Non-Compliance to the Approved Staff Establishment

The statement of profit or loss and comprehensive income reflects an amount of Kshs.7,127,344 under staff costs. However, the approved staff establishment provided for audit showed that the Company had in-post staff totaling 14 while the number in the approved staff establishment was 48 hence a deficit of 34 staff. The deficit in key positions mainly in procurement, human resource, internal audit, finance, clerk and legal offices may imply that the Company may not be able to execute key operations in a timely and efficient manner.

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

3. Delay in the Implementation of Kang'undo Water Supply Project

Note 14 (b) of the financial statements discloses work in progress valued at 5,769,997. The Company in conjunction with the County Government of Machakos received financing from the Water Sector Trust Fund amounting to Kshs.16,071,560 made up of Kshs.2,571,449 for Value Added Tax payable by the Company and Kshs.13,500,110 being the funds under Urban Project Concept Programme. The purpose of the fund was to lay 10,800m of pipeline extension, construct 3 closed kiosks, purchase 200 consumer meters and undertake other accompanying costs. The contract validity period was one year starting April 2022. Review of the project records and inspection during the month of January, 2024 revealed that an extension for five (5) months was sought and granted ending on 6 September, 2023. The extension period has since lapsed yet the project is incomplete. The contractor has since been paid two interim certificates totalling Kshs.5,157,400. Further, the following anomalies were observed:

- i. Only one kiosk instead of two had been constructed but finishing, painting and signage have yet to be done.
- ii. All 200 water meters had been purchased and are in the stores.
- iii. Pipeline extensions were at 45% completion level.
- iv. Storage tank has been renovated but the pump house is yet to be constructed.

- v. The progress report dated 10 July, 2023 show that the actual cost of materials for the renovation of the pump house and storage tank amounted to Kshs.850,000 against an approved budget of Kshs.551,700 leading to an over expenditure of Kshs.298,300.
- vi. The Company requested for variation of works on August 2023 with varied works estimated at Kshs.2,785,595. The financing partner (WSTF) has yet to officially respond on the issue. Further, Management has to explain why the variations were justifiable since all bidders were required to visit the project sites before placing their bid.

In the circumstances, the residents of Machakos County have been denied the benefits that would accrue from the project and value for money spent on the project could not be confirmed.

4. Non-Revenue Water

During the year under review, the Water Company produced a total of 155,093 cubic meters (m³) of water out of which 100,965 cubic meters was billed to customers leaving a balance of 54,128 m³ about 35% as non-revenue water worth Kshs.8,660,480 (at the rate of Kshs.160 per m³). The level of non-Revenue Water (NRW) is over and above the allowable loss thresholds of 25% by 15,465 m³ as provided for by Water Services Regulatory Board (WASREB) Guidelines, 2018.

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

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

REPORT ON THE EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

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

Basis for Conclusion

1. Weaknesses in Internal Control Systems

The statement of profit or loss and other comprehensive income reflects total expenses amounting to Kshs.17,344,348. Review of financial records relating to the expenditure revealed internal control weaknesses in payment processing cycle as detailed below;

- i. Payment vouchers were not serialized for control purposes.
- ii. Payment vouchers were not stamped / labeled as paid to avoid incidents of double payments.
- iii. There were no details of cheque numbers and accounts to which payments were charged.
- iv. The payment vouchers did not provide for budget expenditure controls for items being paid.

Weak internal controls expose the Company to possible loss of public funds through misappropriation.

2. Lack of Both Internal Audit and Effective Audit Committee

The Company has not put in place appropriate arrangements for conducting internal audits as required by the Public Sector Accounting Standards Board. Further, the Company Board constituted an Audit Committee vide minutes dated 19 May, 2022. However, the Audit Committee has never held any meeting since its conception.

Lack of internal audit arrangements and Audit Committee means management activities are not appraised independently and inefficiencies in operations and losses through fraudulent practices could be occasioned.

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

The Company lacks a risk management policy, disaster recovery and business continuity plan. Further, there were no corrective actions which may be taken to recover lost data and allow for business operations to be restored in an event of a disaster.

In the circumstances, there were no preventive measures in place to mitigate or reduce the impact of losses in an event of a disaster or other unforeseen occurrence.

4. Weakness in Information Communication Technology (IT) Environment

Review of the information technology internal controls revealed that the Company did not have an approved ICT Policy, IT security policy, policy on physical access to IT environment and IT continuity and disaster recovery plan in place to guide ICT operations.

Such policies are vital in effective and efficient management of the institution's IT resources. Further, most of the procedures and functions in the finance and accounting department are manually performed as the Company is yet to embrace information communication technology in all its operational areas.

Manual processes are open to manipulation leading to lack of integrity of data processed through the system.

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

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

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

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

Responsibilities of Management and the 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 to cease its operations.

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

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

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

Auditor-General's Responsibilities for the Audit

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

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

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

occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

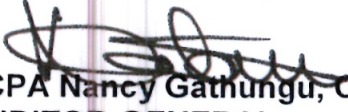
Because of its inherent limitations, internal control may not prevent or detect misstatements and instances of non-compliance. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the 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 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 with a statement that I have complied with relevant ethical requirements regarding independence and to communicate with them all relationships and other matters that may reasonably be thought to bear on my independence and where applicable, related safeguards.


FCPA Nancy Gathungu, CBS
AUDITOR-GENERAL

Nairobi

21 March, 2024

14. Statement of Profit or Loss and Other comprehensive income For the Year ended 30 June 2023

		2023	2022
	Note	Kshs	Kshs
Revenue			
Operating Revenue	5	15,119,721	14,476,590
Decrease in Provision for bad & Doubtful debts 16(ii)		7,367	-
Grants income-County Government	7	3,574,849	1,003,400
Grants-WSTF	6	<u>5,117,497</u>	<u>6,819,959</u>
Total Revenue		23,819,434	22,299,949
Expenses			
Cost of Sales	8	(355,308)	(1,505,540)
General and Operation Expenses	9	(5,711,545)	(6,847,566)
Board Expenses	12	(1,087,663)	(1,452,508)
Maintenance Expenses	11	(1,548,553)	(1,369,890)
Depreciation Expenses	10	(1,513,935)	(1,619,411)
Staff Costs	13	<u>(7,127,344)</u>	<u>(7,176,391)</u>
Total expenses		<u>17,344,348</u>	<u>19,971,306</u>
Profit before Taxation		<u>6,475,086</u>	<u>2,328,643</u>
Taxation		-	-
Profit/Loss after tax for the year		<u>6,475,086</u>	<u>2,328,643</u>

15. Statement of financial position as at 30 June 2023

		2023	2022
	Note	Kshs	Kshs.
ASSETS			
Non-current assets			
Property, Plant and Equipment	14	<u>20,573,437</u>	<u>15,952,874</u>
		<u>20,573,437</u>	<u>15,952,874</u>
Current assets			
Inventories	15	2,056,070	270,860
Trade and other receivables	16(i)	8,432,108	9,082,355
Cash and Bank balances	17	<u>1,681,354</u>	<u>1,863,953</u>
		<u>12,169,532</u>	<u>11,217,168</u>
Total assets		<u>32,742,969</u>	<u>27,170,042</u>
EQUITY AND LIABILITIES			
Capital and Reserves			
Share capital	18	40	40
Capital Reserves		34,368,491	34,368,491
Retained earnings	19	<u>(18,001,125)</u>	<u>(22,635,864)</u>
		<u>16,367,406</u>	<u>11,732,667</u>
Non-current Liabilities			
Customer Deposits	20(a)	4,672,920	4,421,970
Current liabilities			
Trade and other payables	20(b)	<u>11,702,643</u>	<u>11,015,405</u>
		<u>11,702,643</u>	<u>11,015,405</u>
Total equity and liabilities		<u>32,742,969</u>	<u>27,170,042</u>

Managing Director

Name Margaret Muli

Sign: [Signature]

Head of Finance

Name ANTHONY MUEMA

Sign: [Signature]
 I.C.P.A.K. No. 14005

Chairman of the Board

SAMUEL MUNEENE
[Signature]

16. Statement of changes in equity For the Year Ended 30 June 2023

	Share Capital Kshs	Capital reserves Kshs	Retaining earning Kshs	Total Kshs
Balance as at July1, 2021	40	34,368,491	(26,804,855)	7,563,676
Loss for the year	-	-	<u>2,328,643</u>	<u>2,328,643</u>
Balance as at June 30, 2022	<u>40</u>	<u>34,368,491</u>	<u>(24,476,212)</u>	<u>9,892,319</u>
Balance as at July1, 2022	40	34,368,491	(24,476,211)	9,892,319
Profit for the year	-	-	6,475,086	6,475,086
Balance as at June 30, 2023	<u>40</u>	<u>34,368,491</u>	<u>(18,001,125)</u>	<u>16,367,406</u>

17. Statement of cash flows for the year ended 30 June 2023

	Note	2022-2023	2022-2021
CASH FLOW FROM OPERATING ACTIVITIES		Kshs	Kshs
Receipts			
Operating Revenue		15,119,721	14,476,590
Grants Income-County Government(Machakos)		3,574,849	1,003,400
Grants from WSTF		5,117,497	6,819,959
Customer Deposits		250,951	401,210
Total Receipts		24,063,018	22,688,112
Payments			
Staff costs		7,127,344	7,176,391
Board Expenses		1,087,663	1,452,508
General and Operation Expenses		5,711,545	6,847,566
Maintenance Expenses		1,548,553	1,369,890
Cost of Sales		355,308	1,505,540
Refund of Customer deposits		-	4,790
Total Payments		15,830,413	18,356,685
Net Cash from Operating Activities		8,232,605	4,331,427
CASHFLOW FROM INVESTING ACTIVITIES			
Purchase of Property, Plant and Equipment		(8,415,204)	(3,551,500)
Net Cash Used in Investing Activities		(8,415,204)	(3,551,500)
CASHFLOW FROM FINANCING ACTIVITIES			
Net Cash from(used) in financing Activities		-	-
Increase(Decrease) in Cash and Cash Equivalents		(182,599)	779,927
Cash and Cash Equivalents at the beginning of the Year		1,863,953	1,084,026
Cash and Cash Equivalents at the End of the Year		1,681,354	1,863,953

18. Statement of Comparison of Budget and Actual Amounts For the year Ended 30 June 2023

	Original Budget	Adjustments	Final Budget	Actual on Comparable basis	Performance Difference	% of Utilization
	2022-23	2022-23	2022-23	2022-23	2022-23	
	Kshs	Kshs	Kshs	Kshs	Kshs	%
Revenue						
Water Sales	15,604,294	-	15,604,294	15,119,721	484,573	97
Sale of Annual Tenders	50,000	-	50,000	-	50,000	100
Grants from Water sector trust Fund	13,500,110	-	13,500,110	5,117,497	8,382,613	37
Grants from County Government	5,201,873	1,003,400	6,205,273	3,574,849	2,630,424	58
Total Income	34,356,278	1,003,400	35,359,677	23,812,067	11,547,610	67
Expenses						
Staff Costs	7,063,020	1,003,400	8,066,420	7,127,344	939,076	60
General Operations expenses	7,715,509	-	7,715,509	5,711,545	2,003,964	74
Maintenance Expenses	1,899,685	-	1,899,685	1,548,553	351,132	82
Board Expenses	1,288,960	-	1,288,960	1,087,663	201,297	84
Cost of Sales	-	355,308	355,308	355,308	-	100
Pending Bills	230,000	-	230,000	-	230,000	0
Total Expenditure	18,197,174	1,358,708	19,555,882	15,830,413	3,725,469	81
Surplus for the Period	16,159,104	(355,308)	15,803,795	7,981,654	7,822,141	

19. Notes to the financial statements

1. General information

Matungulu Kangundo Water and Sewerage Company Ltd is established by and derives its authority and accountability from the water Act of 2016. The Company is wholly owned by the Machakos County Government and is domiciled in Kenya. The Company's principal activity is Provision of water and sanitation Services.

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

2. Statement of compliance and basis of preparation

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

The financial statements have been prepared and presented in Kenya Shillings, which is the functional and reporting currency of the Company. The figures are rounded to the nearest Kenyan shilling.

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

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

i. New and amended standards and interpretations in issue effective in the year ended 30 June 2023

TITLE	DESCRIPTION	EFFECTIVE DATE
IFRS 17 Insurance Contracts (issued in May 2017)	The new standard establishes principles for the recognition, measurement, presentation and disclosure of insurance contracts issued. It also requires similar principles to be applied to reinsurance contracts held and investment contracts with discretionary participation features issued. The objective is to ensure that entities provide relevant information in a way that faithfully represents those contracts. <i>The Company does not issue insurance contracts.</i>	Effective for annual periods beginning on or after 1 st January 2023.
IAS 8- Accounting Policies, Errors, and Estimates	The amendments, applicable to annual periods beginning on or after 1st January 2023, introduce a definition of ‘accounting estimates’ and include other amendments to IAS 8 to help entities distinguish changes in accounting policies from changes in accounting estimates. <i>(Entity to state the effect of amendments on their financial statements for the year ended.)</i>	The amendments are effective for annual reporting periods beginning on or after January 1, 2023.
Amendments to IAS 1 titled Disclosure of Accounting Policies (issued in February 2021)	The amendments, applicable to annual periods beginning on or after 1st January 2023, require entities to disclose their material accounting policy information rather than their significant accounting policies. <i>(entity to state whether this has brought about changes to the accounting policies disclosed)</i>	The amendments are effective for annual periods beginning on or after January 1, 2023.
Amendments to IAS 12 titled Deferred Tax Related to Assets and Liabilities arising from	The amendments, applicable to annual periods beginning on or after 1st January 2023, narrowed the scope of the recognition exemption in paragraphs 15 and 24 of IAS 12 (recognition	The amendments are effective for annual periods beginning on or after January 1, 2023.

a Single Transaction (issued in May 2021)	exemption) so that it no longer applies to transactions that, on initial recognition, give rise to equal taxable and deductible temporary differences.	
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(The Directors have assessed the applicable standards and amendments. Based on their assessment of impact of application of the above, they do not expect that there will be a significant impact on the company's financial statements. Or the following has been assessed to be significant for the company and has been addressed as follows....)

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

- ii. *New and amended standards and interpretations in issue but not yet effective in the year ended 30 June 2023.*

TITLE	DESCRIPTION	EFFECTIVE DATE
Amendments to IAS 1 titled Classification of Liabilities as Current or Non-current (issued in January 2020, amended in October 2022)	The amendments, applicable to annual periods beginning on or after 1st January 2024, clarify a criterion in IAS 1 for classifying a liability as non-current: the requirement for an entity to have the right to defer settlement of the liability for at least 12 months after the reporting period	The amendments are effective for annual periods beginning on or after January 1, 2024. Earlier application is permitted.
Amendment to IFRS 16 titled Lease Liability in a Sale and Leaseback (issued in September 2022)	The amendment, applicable to annual periods beginning on or after 1st January 2024, requires a seller-lessee to subsequently measure lease liabilities arising from a leaseback in a way that it does not recognize any amount of the gain or loss.	The amendments are effective for annual periods beginning on or after January 1, 2024. Earlier application is permitted.
Amendments to IAS 1 titled Non-current Liabilities with Covenants (issued in October 2022)	The amendments, applicable to annual periods beginning on or after 1st January 2024, improve the information an entity provides about liabilities arising from loan arrangements for which an entity's right to defer settlement of those liabilities for at least twelve months after the reporting period is subject to the entity complying with conditions specified in the loan arrangement.	The amendments are effective for annual periods beginning on or after January 1, 2024. Earlier application is permitted.

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

Notes to the Financial Statements (Continued)

b (iii) Early adoption of Standards

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

4. Summary of Significant Accounting Policies

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

a) Revenue recognition

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

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

Notes to the Financial Statements (Continued)

b) In-Kind Contributions

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

c) Property, plant and equipment

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

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

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

Notes to the Financial Statements (Continued)

d) Depreciation of property, plant and equipment

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

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

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

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

e) Intangible assets

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

f) Amortization and impairment of intangible assets

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

g) Inventories

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

h) Trade and Other receivables

Trade and other receivables are recognized at fair values less allowances for any uncollectable amounts. These are assessed for impairment on a continuing basis. An estimate is made of doubtful receivables based on a review of all outstanding amounts at the year end. Provision of doubtful debts is at 1% of the outstanding debtors at the end of the year.

Notes to the Financial Statements (Continued)

i) Taxation

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

j) Cash and Cash equivalents

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

k) Trade and other payables

Trade and other payables are measured at the fair value of contractual value of the consideration to be paid in future in respect of goods and services supplied, whether billed to the entity or not, less any payments made to the suppliers.

l) Subsequent events

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

m) Comparative Figures

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

n) Cash and cash equivalents

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

o) Budget information

The original budget for FY 2023-2022 was approved by the Board of Directors on 25th August 2022. Subsequent revisions or additional appropriations were made to the approved budget in accordance with specific approvals from the appropriate authorities. The additional appropriations are added to the original budget by the entity upon receiving the respective approvals in order to conclude the final budget. Accordingly, the Company recorded additional appropriations on the 2022-2021 budgets following the governing body's approval. The Company's budget is prepared

MATUNGULU KANGUNDO WATER AND SEWERAGE COMPANY LIMITED
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on a different basis to the actual income and expenditure disclosed in the financial statements. The financial statements are prepared on accrual basis using a classification based on the nature of expenses in the statement of financial performance, whereas the budget is prepared on a cash basis. The amounts in the financial statements were recast from the accrual basis to the cash basis and reclassified by presentation to be on the same basis as the approved budget. A comparison of budget and actual amounts, prepared on a comparable basis to the approved budget, is then presented in the statement of comparison of budget and actual amounts. In addition to the Basis difference, adjustments to amounts in the financial statements are also made for differences in the formats and classification schemes adopted for the presentation of the financial statements and the approved budget. A statement to reconcile the actual amounts on a comparable basis included in the statement of comparison of budget and actual amounts and the actual as per the statement of Comprehensive income has been presented under page 1 of these financial statements.

	2023 Kshs	2022 kshs
5. REVENUE		
Gross water sales	15,085,131	14,423,390
Connection fees	<u>34,590</u>	<u>53,200</u>
	<u>15,119,721</u>	<u>14,476,590</u>
6. OTHER INCOMES		
Water Services Trust Fund (CLSG)	5,117,497	6,775,176
Weston Contractors	<u>-</u>	<u>44,783</u>
	<u>5,117,497</u>	<u>6,819,959</u>
7. Grants from County Government		
Salaries for seconded staff	1,003,400	1,003,400
Kangundo water project (Vat component)	<u>2,571,449</u>	
	<u>3,574,849</u>	
8. COST OF SALES		
Opening Stock	270,860	138,400
Purchases	<u>2,140,518</u>	<u>1,637,540</u>
Cost of Goods Available for Sale	2,411,378	1,776,400
Closing Stock	<u>(2,056,070)</u>	<u>(270,860)</u>
	<u>355,308</u>	<u>1,505,540</u>

Notes to the Financial Statements (Continued)

9. GENERAL AND OPERATION EXPENSES

Water Agents commission	503,685	493,289
Professional Fees	-	622,912
Advertisement	96,640	-
Staff uniform	-	15,750
Office tea & cleaning	16,134	12,971
Provision for audit	116,000	116,000
IT expenses	770	4,800
Subscriptions	-	45,000
Newspapers & Periodicals	14,820	15,120
Postage, Telephone & Internet	108,130	75,200
Printing & Stationeries	172,365	75,430
Travelling & Accommodation	948,486	959,405
Increase in Provision for Doubtful debts	-	6,774
Rent	254,730	249,450
Lease fee	682,366	655,364
Running Expenses	163,345	92,620
Bank charges	52,620	66,789
Electricity & Water	2,403,404	2,804,929
License Application fees	88,550	-
Levies and Penalties	-	520,763
Public Participation expenses	89,500	-
Chemicals & Testing	-	15,000
	<u>5,711,545</u>	<u>6,847,566</u>

10. Depreciation and Amortization

Depreciation on PPE	1,513,935	1,619,411
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11. MAINTENANCE EXPENSES

Repair and Maintenance	1,548,553	1,369,890
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12. Board Allowances and Expenses

Chairman Honoraria	428,568	428,568
Board Sitting Allowances	651,380	763,105
Board Other Expenses	7,715	260,835
	<u>1,087,663</u>	<u>1,452,508</u>

Notes to the Financial Statements (Continued)

13. STAFF COSTS

Salaries and allowances of permanent employees	5,066,764	5,097,003
Salaries for Seconded staff	1,003,400	1,003,400
Wages of temporary employees	819,770	882,908
Staff Welfare	99,890	57,000
Nssf Company	<u>137,520</u>	<u>136,080</u>
	<u>7,127,344</u>	<u>7,176,391</u>

14. PROPERTY, PLANT AND EQUIPMENT

	Land	Buildings (Water kiosk)	Borehole Equipment	Furniture, fittings & piping	Motor Bikes	Billing System	Computers & accessories	Total
Cost								
As at July 1, 2022	2,350,000	3,204,448	10,098,448	19,609,194	232,000	0	563,794	36,409,384
Additions	-	-	-	64,500	-	300,000	-	364,500
As at June 30, 2023	<u>2,350,000</u>	<u>3,204,448</u>	<u>10,449,948</u>	<u>19,673,694</u>	<u>232,000</u>	<u>300,000</u>	<u>563,794</u>	<u>36,773,884</u>
Accumulated Depreciation								
As at July 1,2022	-	266,815	7,468,358	12,161,981	189,988	0	369,368	20,456,510
Annual depreciation	-	73,441	372,699	938,964	10,503	60,000	58,328	1,513,935
As at June 30, 2023	-	<u>266,815</u>	<u>7,468,358</u>	<u>13,100,945</u>	<u>200,491</u>	<u>60,000</u>	<u>427,696</u>	<u>21,970,445</u>
Carrying amount								
As at June 30, 2023	<u>2,350,000</u>	<u>2,864,192</u>	<u>2,608,891</u>	<u>6,572,749</u>	<u>31,509</u>	<u>240,000</u>	<u>136,098</u>	<u>14,803,440</u>

b) Work in Progress

5,769,997

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15. INVENTORIES

Consumables

2,056,070

270,860

Notes to the Financial Statements (Continued)

16. I) TRADE AND OTHER RECEIVABLES	2023	2022
Trade Receivables	8,152,825	8,889,483
Prepayments (Rent deposit)	20,000	20,000
VAT asset	306,811	131,267
Salary Advances	34,000	130,500
Provision for bad and doubtful debts	<u>(81,528)</u>	<u>(88,895)</u>
	<u>8,432,108</u>	<u>9,082,355</u>
Gross Trade receivables	8,152,825	8,889,483
Provision for Doubtful debts	<u>(81,528)</u>	<u>(88,895)</u>
Net trade receivables	<u>8,071,297</u>	<u>8,800,588</u>
<u>Debtors aging analysis</u>		
0-----30 Days	1,685,945	1,216,600
30-----60 Days	213,416	832,063
60-----90 Days	539,840	1,578,385
Above 90 Days	5,713,624	5,262,435
ii) Increase/Decrease in Provision for bad and Doubtful debts	(7,367)	6,774
17. BANK AND CASH BALANCES		
Cash at Bank	1,681,354	1,863,943
Cash in hand	<u>-</u>	<u>-</u>
	<u>1,681,354</u>	<u>1,863,943</u>
The cash at Bank is held at Kenya commercial bank which is the companies' bankers. The cash at Bank is held in the following Bank accounts;		
	Balance	
a) Revenue Account (1107331072)	103,838	
b) Deposit Account (1107184711)	816,207	
c) Project Account (1297138619)	761,307	
18. ORDINARY SHARE CAPITAL		
Authorized:		
5000 ordinary shares of kshs 20 par value each	<u>100,000</u>	<u>100,000</u>
Issued and fully paid:		
2 ordinary shares of kshs 20 par value each	<u>40</u>	<u>40</u>

Notes to the Financial Statements (Continued)	2023	2022
19. RETAINED EARNINGS		
Balance as at July 2021	(24,476,212)	(25,225,458)
Profit for the year	<u>6,475,086,</u>	<u>2,328,643</u>
	<u>(18,001,125)</u>	<u>(22,635,864)</u>
20. a) NON CURRENT LIABILITIES		
Customer Deposits	4,672,920	4,421,970
20. b) TRADE AND OTHER PAYABLES		
Trade Payables	11,370,930	10,468,563
Accrued Expenses	<u>331,713</u>	<u>546,842</u>
	<u>11,702,643</u>	<u>11,015,405</u>
<u>Creditors aging analysis</u>		
0-----30 Days	359,930	697,476
30-----60 Days	52,061	52,008
60-----90 Days	49,429	48,553
Above 90 Days	11,241,223	9,670,527

Notes to the financial statements (continued)

21. NOTES TO THE STATEMENT OF CASHFLOWS

a) Reconciliation of operating Profit(loss) to cash used in operations

	2023 Kshs	2022 kshs
Operating Profit	6,475,086	2,328,643
Depreciation	<u>1,513,935</u>	<u>1,619,411</u>
Operating profit before working capital changes	7,989,021	3,948,054
Decrease in inventories	206,593	(132,000)
Increase in trade receivables	(650,247)	(764,580)
Increase in trade and other payables	<u>687,238</u>	<u>1,284,743</u>
Cash generated from operations	<u>8,232,605</u>	<u>4,336,217</u>

b) Analysis of cash and cash equivalents

Cash at bank	1,681,354	1,863,943
Cash in hand	<u>-</u>	<u>-</u>
	<u>1,681,354</u>	<u>1,863,943</u>

22. TAXATION

Net Surplus (Loss) as per the income statement	6,445,244	2,328,643
Depreciation	1,509,788	1,619,411
Provision for bad and doubtful debts	<u>81,528</u>	<u>88,895</u>
	8,036,560	4,036,949
Wear and Tear allowance	<u>(1,509,788)</u>	<u>(1,619,411)</u>
Taxable income	6,526,772	2,417,538

23. Notes to the Budget

I) Revenue

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

Notes to the financial statements (continued)

II) Administration Costs

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

24. 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 program me focus on unpredictability of changes in business environment and seeks to minimize the potential adverse effect of such risks on its performance by setting acceptable levels of risk. The company does not hedge any risks and has in place policies to ensure that credit is only extended to customers with an established credit history.

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

I. Credit Risk

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

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

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

	Total Amount(kshs)	Fully Performing (kshs)	Past Due(kshs)	Impaired(kshs)
At 30 June 2023				
Receivables from Exchange Transactions	8,152,825	2,439,201	5,713,624	81,528
Bank Balances	1,681,354	1,681,354	-	-
Total	9,834,179	4,120,555	5,713,624	81,528

Notes to the financial statements (continued)

II. Interest rate risk

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

Management of interest rate risk

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

25. RELATED PARTY DISCLOSURES

I. County Government of Machakos

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

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

II. Water Resources Authority

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

	<u>2023</u>	<u>2022</u>
Water Abstraction Balance	848,689	771,112

III. Water Services Regulatory Board(Wasreb)

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

	<u>2023</u>	<u>2022</u>
License Fee Balance	2,520,568	1,915,779

20. Appendices

Appendix1: PROJECTS IMPLEMENTED BY THE COMPANY

Project Title	Project No.	Donor	Project Duration	Donor Commitment	Separate Donor reporting required	Consolidated in Financial Statements
Kangundo water Project	1	WSTF(water sector Trust Fund)	12 Months		Yes	Yes

Status of Completion

	Project	Total Project Cost	Total Expended to date	Completion % date	Budget	Actual	Source of Funds
1	Kangundo Water Project	16,071,560	7,688,947	41	16,071,560	16,071,560	WSTF