

REPUBLIC OF KENYA



**KENYA NATIONAL AUDIT OFFICE**

**REPORT**

**OF**

**THE AUDITOR-GENERAL**

**ON**

**THE FINANCIAL STATEMENTS OF  
KERICHO WATER AND SANITATION  
COMPANY LIMITED**

**FOR THE YEAR ENDED  
30 JUNE 2014**



24 AUG 2015

**KERICHO WATER AND SANITATION COMPANY LIMITED**



*"Maji safi Kila Wakati"*

**FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED**

**30TH JUNE 2014**

**(Amended)**

**KERICHO WATER AND SANITATION COMPANY LIMITED  
ANNUAL REPORT AND FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2014**

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## **Board of Directors**

### **Eng. Collins Cheruiyot, B.Tech – Electrical & Comm. (Hons) - Chairman**

Eng. Collins Cheruiyot (47 years), joined the Board of Directors of the Company in July 2010 and was appointed Chairman of the Board in July, 2011 a position he has held to date. He has over 25 years experience in Private Sector Management, having worked in a Multinational Corporations - Unilever Tea Kenya Limited and KETEPA Limited where he is currently serving as the Managing Director. Eng. Cheruiyot also sits in the Board of Directors for East African Tea Trade Association (EATTA).

### **Hon. Patrick Mutai, B.Com – Finance (Hons), MBA**

Hon. Patrick Mutai (33 years) joined the Board of Directors in December 2013 representing the County Government of Kericho. He has over 7 years experience in Finance and Operations Management. Currently he is the County Executive in Charge of Finance and Economic Planning/ Head of County Treasury – a critical portfolio in the County Government. Hon. Mutai also sits in the Board of Directors for Tililbei Water & Sanitation Co. Ltd.

### **Hon. Gilbert Tuwei, BSc. Computer Science, MSc. Computer Science**

Hon. Gilbert Tuwei (33 years) joined the Board of Directors in December 2013 representing the County Government of Kericho. He has over 7 years experience in ICT in the WASH and Health Sector. Currently he is the County Executive in Charge of Water, Energy, Forestry, and Environment & Natural Resources. Hon. Tuwei also sits in the Board of Directors for Tililbei Water & Sanitation Co. Ltd.

### **Paul Chepkwony, BSc. (Hons), PgD, MSc**

Paul Chepkwony (63 years) joined the Board of Directors in December 2013 representing the Resident Organizations/Consumers. He has over 25 years in Public Service having rose through the ranks to be a Senior Deputy Director at the Ministry of Agriculture and at one time was the Ag. Managing Director, Horticultural Crops Development Authority (HCDA).

### **Evaline Soi**

Evaline Soi joined the Board of Directors in December 2013 representing the Institutions. She has over 10 years in Accounting and Finance – wealth of experience in Financial Management. She currently works with Kericho Teachers' Training College in the Finance Department as an Accountant.

### **Joyce Mutai, BA (Hons)**

Joyce Mutai joined the Board of Directors in December 2013. She is a seasoned professional having served in the not-profit, banking and public sectors. She has over 10 years experience in leadership positions having worked with World Vision (Kenya), Equity Bank and currently serving as Sub-county administrator in the public service department of the County Government of Kericho.

### **Maureen Nyigei, LLB**

Maureen Nyigei joined the Board of Directors in December 2013. She is an advocate of the High court of Kenya with over 6 years experience. She is currently working with the Judiciary having practiced with her own firm, M/S Nyigei & Co. Advocates, before her appointment. She has previously served as a member of Board of Governors for various institutions, youth representative to the National Youth Fund and is currently the Chairperson of the poverty eradication committee in Kericho East District.



### **Eng. Festus Ng'eno, BSc, MSc, PgD – Managing Director/ Board Secretary**

Eng. Festus Ng'eno (35) is the Managing Director and Secretary to the Board. He was appointed on November, 2011 a position he has held to date. He has a wealth of experience in Water, Sanitation, Environment and GIS having worked for over 5 years as the Water and Sanitation Engineer in the Private Sector prior to his appointment to as the Managing Director for KEWASCO.

## **Key Management Staff**

### **Eng. Festus K. Ng'eno**

Eng. Festus Ng'eno is the Managing Director and Secretary to the Board. He was appointed to head the Company on November, 2011 - a position he has held to date. He is a Water, Sanitation & Environmental Engineer with a Master of Science (MSc.) Degree in Environmental & Biosystems Engineering and Bachelor of Science (BSc.) Degree in Environmental & Biosystems Engineering from the University of Nairobi and Post Graduate Diploma Certificate in Leadership & Corporate Governance from KCA University. He is currently pursuing Doctor of Philosophy (PhD) Degree in Environmental Engineering at the University of Nairobi. He is Registered Lead Expert on Environmental Impact Assessment and Audit (EIA, EA) Expert with the National Environmental Management Authority (NEMA – License No. 6753) and has Eight (8) years' in-depth and wealth of experience in the Water, Sanitation, Environmental and GIS Sector. Previously, he worked as the Branch Manager and Water Treatment Engineer at Davis & Shirliff Ltd.

### **Cornelius K. Ng'etich**

CPA Cornelius K. Ng'etich is the Commercial and Finance Manager. He holds Bachelor of Commerce (Accounting) degree from Jomo Kenyatta University of Agriculture and Technology and a Certified Public Accountant of Kenya (CPA – K). Before his appointment, he served as the Financial Accountant. Previously worked with S.G.R.R – South C, Nairobi.

### **Peter Karanja**

Mr. Karanja is the Technical Services Manager. He holds Master of Science (Project Management) from Jomo Kenyatta University of Agriculture and Technology and Bachelor of Science (Water Engineering). He is a Trained and Certified Member of the National Association of Sewer Service Companies (NASSCO) – North America. Certified Project Management Professional (PMP). Prior to his appointment he worked with Seureca (E.A) as a Water engineer.

### **Linda Korir**

Ms. Korir is the Human Resources and Administration Manager. She holds an MBA (Strategic Management and Human Resources Management) from the United States International University in Nairobi and Bachelor of Business Management and Information Technology from Kabarak University.

### **Rasto Chepkwony**

Mr. Chepkwony is the Manager responsible for Information and Communication Technology. He holds a Bachelor of Science Degree in Information Technology from Jomo Kenyatta University of Agriculture and Technology.

### **Mercy Cherotich**

Ms. Cherotich is in charge of Internal Audit. She holds Bachelor of Arts (Economics and Sociology) and also a Certified Public Accountant of Kenya (CPA-K).

# The Board Of Directors



**Eng. Collins Cheruiyot**  
Chairman/ Director  
(Business Community)



**Eng. Festus Ng'eno**  
Managing Director/ Board Secretary



**Hon. Gilbert Tuwei**  
Director /CEC Water,  
County Government of Kericho



**Hon. Patrick Mutai**  
Director / CEC Finance, County Government of Kericho



**Joyce Mutai**  
Director (County Government of Kericho)

# The Board Of Directors

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**Maureen Nyigei**  
Director (Professionals)



**Paul Chepkwony**  
Director (Resident organizations)



**Evaline Soi**  
Director (Intitutions)



## Corporate Management Team

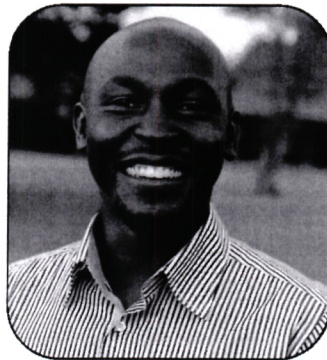
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**Eng. Festus K. Ngeno**  
*Managing Director / Team Leader*



**CPA Cornelius K. Ngetich**  
*Finance and Commercial Manager*



**Eng. Peter Karanja**  
*Technical Service Manager*



**Rasto Chepkwony**  
*Information And Comm. Tech. Manager*



**CPA Mercy Cherotich**  
*Internal Audit Manager*



**Linda Korir**  
*Human Resources And Administration Manager*



**Rose Chemutai**  
*Procurement Manager*

## **1. Chairman Statement**

It's my great pleasure to present to you my 3<sup>rd</sup> report as the Chairman of your Company. I wish to most sincerely thank you for getting time to attend this very important meeting. It's a good opportunity for Company's Management, Shareholders as well as other stakeholders to review the Company's performance as we also shape up its future.

### **I. Investment Climate**

Kenya's real GDP is estimated to have expanded by 4.7 per cent in 2013 compared to 4.6 per cent in 2012. Depressed performance of the rains, decline in exports resulting to worsening of trade and comparatively higher interest rates are some of the major factors that slowed down the economic growth. Despite these, the economy remained on a growth trajectory attributed to a stable macroeconomic environment for the part of the year, low and stable inflation supported by improved supply of basic foods, lower international oil prices and lower costs of electricity.

Despite the improved economic performance in the Country, the outlined challenges continue to impact negatively on the KEWASCO performance as the costs continue to rise mainly informed by the rising cost of production and wages whilst the tariff structure has remained rigid for the past seven (7) years and is expected to remain so till June, 2015.

### **II. Financial Results for the Year 2013/14**

The following is a summary of the key highlights of the financial results.

#### **a) Turnover**

The Company's Sales turnover during the year was KShs135, 417, 646 (averaging about KShs11, 284,804 monthly) against KShs126, 170, 641 (averaging about KShs10, 514, 220 monthly) in the FY 2012/2013. This is about 7% increase. The increase on sales was very minimal and purely as a result of new connections within the service provision area. Water charges have relatively remained the same over the last seven (7) years and my Board has already lodged a tariff review application with the Water Services Regulatory Board (WASREB) as the situation may not be sustainable in the long run.

#### **b) Expenses**

The operating expenses during the period under review were KShs145,354,835 (about KShs12,112,902 monthly average). The high costs were significantly mitigated by the income from miscellaneous sources and V.A.T refunds that the company gets through the zero rating of Water charges by the Minister for Finance. Other income during the period was KShs12, 398,282 (FY 2012/2013 was KShs7,115,437)

#### **c) Profit/ Loss**

The Company made a profit of KShs2, 461,037 before tax, compared to a loss of KShs12, 639,190 made in 2012/13. Whilst the Board recognizes an improvement of the company performance compared to the prior year, it is important to note that this is only enough to cover the operational costs whereas depreciation is not gathered for. It therefore means the company is not able to invest back in the maintenance and development of minor capital works.

## **III. Strategy**

My Board together with the Management continued to implement the Company's 2<sup>nd</sup> Five-year Corporate Strategic Plan covering the period January, 2013 – December, 2017.

The following are highlights of the company in 2<sup>nd</sup> Five-year Corporate Strategic Plan

#### **a) Vision**

To be a Model of Excellence in Water and Sanitation Services Provision

#### **b) Mission**

To Optimally Provide Adequate, Safe and Reliable Water and Sanitation Services to our customers at a Commercially Sustainable Level.

#### **c) Core Values**

- ✦ "Altiora Peto" – Seeking Higher Things
- ✦ Professionalism
- ✦ Efficiency
- ✦ Integrity
- ✦ Team spirit
- ✦ Accountability
- ✦ Innovativeness
- ✦ Customer focus

#### **d) Corporate Strategic Objectives**

- i) To ensure an Efficient and Effective Water Supply and Sanitation
- ii) To ensure the Provision of Quality Water and Sewerage Services at a Cost – Effective Rate to Satisfaction of the Stakeholders
- iii) To enhance Financial Sustainability and Commercial Viability. (Business units operating on Cost Recovery and Pricing Principles)
- iv) To ensure Optimal, Motivated and Productive Workforce
- v) To embrace Information Technology in all areas of Operation

#### **IV. Management**

A Corporate Management Team comprising of the Managing Director and Heads of Department meets regularly to consider issues of operational and strategic importance to the company. The terms for most of the managers came to an end during the year under review and I'm happy to report that the company transitioned smoothly after recruitment of the new Professional Top Management Team

#### **V. Company Position in the Kenyan Water Services Sector**

The Company was ranked position Number Twenty Two (22) out of sixty five (65) public-owned urban WSPs in WASREB Performance Impact Report No.7 of Kenya's Water Sector, released for the year 2012/2013. The Company has continued to improve its performance in the industry and will continue to ensure that we post much improvement in future.

#### **VI. Appreciation**

I would to sincerely thank my fellow Directors both the current and retired for their selfless service to the Company. The importance of the continued support from the County Government of Kericho, the shareholder of the Company cannot be overemphasized. I also thank the Management for steering the Company to greater heights through their great teamwork. Last but not least is to recognize and appreciate

Fr.



Eng. Collins Kipkoech Cheruiyot  
**Chairman, Board of Directors**



## **2. Managing Director's Report**

Kericho Water & Sanitation Company Ltd prepared this annual report to fulfill its obligation of providing information in conformance to the SPA License and the Water Service Regulatory Board (WASREB). Generally, in the reporting period 2013/2014, there was regular, reliable and quality provision of adequate water and sanitation services throughout the period.

### **Development Projects**

During the period funding of the sewer network extension and pledged donor support for expansion projects for Kericho town were realized.

- a) Building of 3 no. water reservoirs – Funded by WSTF
- b) Rehabilitation of Water Treatment Works – Funded by AfDB through LAVWATSAN Phase II
- c) Rehabilitation of Sewerage Treatment Works Funded by AfDB through LAVWATSAN Phase II

### **Water Distribution & Maintenance**

Water was supplied to customers on 23hr continuous basis during the wet months and rationing was done during the dry months of January, 2014 to March, 2014. Routine and corrective maintenance of the infrastructure was carried out in accordance with a maintenance program in place.

### **Staff Establishment**

The staff establishment stood at 134No. at the end of the financial year. The optimum staffing level for the company is 118No. Employees as per WASREB Guidelines. The company adopted natural attrition as the only policy in reducing the staff numbers to the optimum level.

### **Office Accommodation**

Office accommodation has been and is still a major problem being faced by the company. It is critical for the company to acquire new office space in order to boost staff works performance.

### **HIV & AIDS Workplace Policy**

The HIV& AIDS workplace policy review commenced during the financial year with the funding of GIZ. During the period under review, the company re – launch the policy for improved performance and engagement with staff.

### **Water Production**

The amount of water produced during the period was 2,609, 374 m<sup>3</sup> while the amount of water sold was 1,418,402 m<sup>3</sup> representing 54% of total production for billing. The Unaccounted For Water decreased to 46%.

### **Conclusion**

The future is bright for KEWASCO. The Board of Directors has laid up strategies that will see the company offering the best services to consumers which shall be the envy of the industry in the region.



Eng Festus K. Ng'eno

**Managing Director**

### **3. Corporate Social Responsibility Statement**

KEWASCO acknowledges its responsibility to society in its capacity as a Corporate Citizens. Consequently, it endeavors to play an active role in water service provision and sanitation matters as per its mandate besides contributing to various worthy causes.

In the financial year under review, KEWASCO offered both advisory and technical support on water issues to County Government of Kericho through the CEC responsible for water and also to a host of other stakeholders.

The Company complies fully with requirements of NEMA, KEBS and Water Resources Management Authority (WARMA). The Company also contributed to the Governor's Christmas tree Fund and National Government Functions.

Just like other years, the Company concern for charity causes was reflected in donations to Kenya Red Cross for the annual hunger walk.

### **4. Corporate Governance Statement**

Kericho Water & Sanitation Company Limited is committed to the values and principles of Good Corporate Governance. Good Corporate Governance requires that the Board of Directors must govern the corporation with integrity and enterprise in a manner which entrenches and enhances the mandate it has and as set out by the Water Services Regulatory Board (WASREB), the Water Act 2002 and the Constitution of Kenya, 2010.

The Directors and Management of KEWASCO regard Corporate Governance as pivotal to the successes of the organization and are unreservedly committed to ensuring that Good Corporate Governance is practiced so that KEWASCO remains a sustainable and viable water and sanitation services provider in Kericho County and Kenya at large.

#### **i) Board of Directors**

The Board of Directors consists of seven (7) non executive members plus the Managing Director. The directors represent the shareholder and diverse stakeholders.

The role of the Board is to ensure performance by focusing on and providing the company overall strategic direction and policy making as well as performance review through proper accountability and ensuring appropriate monitoring and supervision. The Board is also responsible for overall system of internal controls designed to safeguard the assets.

To execute their roles, the board meets at least four times in a year. The directors are given appropriate information so that they can maintain full and effective control over strategic, financial, operational and compliance issues. Except for direction and guidance on general policy, the board has delegated authority for conduct of day to day business to the Managing Director. The board nonetheless retains oversight responsibility for establishing and maintaining the control over strategic, financial, operational and compliance issues.

#### **ii) Committees of the Board**

The board has set up the following committees which meet under well defined terms of reference set by the board. This is intended to facilitate efficient decision making of the board in discharging its duties and responsibilities.

##### **a) Technical Services Committee**

There is Technical Services Committee whose membership comprises Mr.Paul Chepkwony (Chairman), Hon. Gilbert Tuwei, Mrs. Joyce Mutai, Eng. Festus Ng'eno (Managing Director). Its responsibilities include; overseeing development and ensuring compliance with sector standards in matters Technical and Projects that are being undertaken by the Company.

#### **b) Finance and Administration Committee**

The Finance and Administration Committee deals with strategic, financial, employment and administrative issues. It meets at a minimum of four times a year or as necessary. Its Membership comprises of Mrs. Evaline Soi (Chairperson), Eng. Collins Cheruiyot, Hon. Patrick Mutai, Eng. Festus Ng'eno. Its responsibilities include; Performance Contract negotiation; Reviewing of Annual Accounts; Reviewing Development and Recurrent Budgets; Opening and Closure of Bank Accounts; Recommendation of Board's strategic plan and all staff matters.

#### **c) Internal Audit & Risk Management Committee**

The Board has constituted an Internal Audit & Risk Management Committee which meets four times a year or as necessary. Its membership comprises of Mrs. Maureen Nyigai (Chairperson), Hon. Patrick Mutai, Mrs. Evaline Soi. Its responsibilities include; examining and assessing the effectiveness of the internal control system; approving the internal Audit programs; carry out special audits, verifying company assets and liabilities and receiving reports from Internal Auditor.

#### **5. Report of Directors**

The Directors present their report together with the audited financial statements of Kericho Water & Sanitation Company Limited for the year ended 30 June, 2014 which show the company state of affairs.

#### **6. Principal Activities**

The core business of the Company continues to be the provision of water and sanitation services. The water source is Timbilil in Mau forest with Water Treatment Plant based at Kapcheptoror.

#### **7. Auditors**

The Auditor – General is responsible for the statutory audit of the Company's books of accounts in accordance with Section 14 of the Public Audit Act, 2003.



**KERICHO WATER AND SANITATION COMPANY LIMITED  
REPORT OF THE DIRECTORS  
FOR THE YEAR ENDED 30 JUNE 2014**

The directors submit their report and the audited financial statements for the year ended 30 June 2014, which show the state of the company's affairs.

**1. PRINCIPAL ACTIVITY**

The company continues to provide water and sewerage services within Kericho Municipality and its environs

**2. RESULTS**

The results of the company are set out on page 2.

**3. DIVIDEND**

The directors do not recommend the payment of a dividend in respect of the year ended 30 June 2014.

**4. RESERVES**

The reserves of the company are set out on page 8.

**5. DIRECTORS**

The directors who served during the year and to the date of this report were:

Eng. Collins Cheruiyot	- Chairman & Manufacturers'/Business Representative
Mr. Festus K. Ng'eno	- Managing Director
Hon. Gilbert Tuwei	- CEC, Water, Energy, Forestry, Environment and Natural resource - County Government of Kericho
Hon. Patrick Mutai	- CEC, Finance and Economic Planning - County Government of Kericho
Mrs Joyce Mutai	- Town Administrator- Kericho
Mrs Maureen Nyigei	- Professionals Representative
Mr. Paul Chepkwony	- Representing Resident Organisations
Mrs Evaline Soi	- Representing Institutions
Mr. Onesmus Lang'at	- Farmers'/Residents' Representative (Retired on 20th December 2013)
Dr. Joel Surum	- Institutions Representative (Retired on 20th December 2013)
Mr. Richard Mutai	- Town Clerk, Municipal Council of Kericho (Retired on 20th December 2013)
Mr. Richard Sang	- Town Treasurer, Municipal Council of Kericho (Retired on 20th December 2013)
Mrs. Rose Mutai	- Professionals Representative (Retired on 20th December 2013)

**6. AUDITORS**

The Office of the Auditor General will continue to be the auditors in fulfillment of their constitutional mandate as per article 229 of the Constitution of Kenya and the Public Audit Act, Cap. 421A 2009 (2003) Part III.

**By Order of the Board**

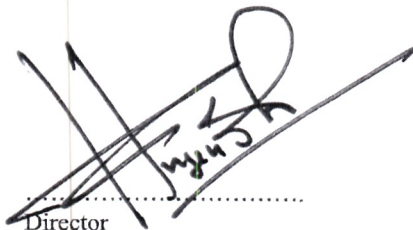
**EQUITY REGISTRARS**  
Secretaries

**KERICHO WATER AND SANITATION COMPANY LIMITED  
STATEMENT OF DIRECTORS' RESPONSIBILITIES  
ON THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2014**

The Kenyan Companies Act requires the directors to prepare financial statements for each financial year, which give a true and fair view of the state of affairs of the company as at the end of the financial year and of its operating results for that year. It also requires the directors to ensure that the company keeps proper accounting records which disclose, with reasonable accuracy, the financial position of the company. They are also responsible for safeguarding the assets of the company.

The directors accept responsibility for the annual 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 and in the manner required by the Kenyan Companies Act. The directors are of the opinion that the financial statements give a true and fair view of the state of the financial affairs of the company and of its operating results. The directors further accept responsibility for the maintenance of accounting records which may be relied upon in the preparation of financial statements, as well as adequate systems of internal control.

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



.....  
Director



.....  
Director

24.08.15  
.....  
Date



# REPUBLIC OF KENYA

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NAIROBI

## OFFICE OF THE AUDITOR-GENERAL

### REPORT OF THE AUDITOR-GENERAL ON KERICHO WATER AND SANITATION COMPANY LIMITED FOR THE YEAR ENDED 30 JUNE 2014

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#### REPORT ON THE FINANCIAL STATEMENTS

I have audited the accompanying financial statements of the Kericho Water and Sanitation Company Limited set out on pages 1 and 12, which comprise the statement of financial position as at 30 June 2014, and the statement of comprehensive income, statement of changes in equity and statement of cash flows 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 14 of the Public Audit Act, 2003.

#### **Management's Responsibility for the Financial Statement**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and for such 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.

The management is also responsible for the submission of the financial statements to the Auditor-General in accordance with the provisions of Section 13 of the Public Audit Act, 2003.

#### **Auditor-General's Responsibility**

My responsibility is to express an opinion on these financial statements based on the audit and report in accordance with the provisions of Section 15(2) of the Public Audit Act, 2003. The audit was conducted in accordance with International Standards on Auditing. Those standards require compliance with ethical requirements and that the audit be planned and performed to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. An audit also includes evaluating the appropriateness of



accounting policies used and the reasonableness of accounting estimates made by the management, as well as evaluating the overall presentation of the financial statements.

Because of the matters described in the Basis for Disclaimer of Opinion paragraph, however, I am not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

## **Basis for Disclaimer of Opinion**

### **1. Inaccuracies in Statement of Comprehensive Income**

#### **(i) Cost of Sales**

The statement of comprehensive income for the year ended 30 June 2014 reflects cost of sales amount of Kshs.47,315,009 which has not been supported by records to confirm what constitutes the amounts as reported in note 17 to the financial statements.

#### **(ii) Administration and Establishment Expenses**

The statement of comprehensive income further reflects administration and establishment expenses of Kshs.98,039,826 which has also not been supported by schedules confirming what constitutes the amounts as reported in note 19 to the financial statements. In addition, staff costs amounting to Kshs.47,489,142 have not been supported by monthly payrolls.

### **2. Non-Current Assets**

As previously reported in the year 2012/2013, the Company holds sixteen (16) parcels of land of undetermined value of which it does not have title deeds. The parcels are therefore not included in the non-current assets balance of Kshs.20,431,898 as at 30 June 2014. Consequently, the accuracy and completeness of the non-current assets balance of Kshs.20,431,898 could not be confirmed.

In addition, Note 2 to the financial statements reflects total depreciation charge for the year of Kshs.4,849,584. However, re-computation of the depreciation charge for the year using the reducing balance method as indicated in significant accounting policy 1(c) revealed total depreciation of Kshs.4,871,639 resulting to unexplained and unreconciled difference of Kshs.22,055. In the circumstance, the accuracy of the depreciation charge for the year and the net book value of non current assets as at 30 June 2014 could not be ascertained.

### **3. Inventories**

The statement of financial position as at 30 June 2014 reflects inventories balance of Kshs.1,205,313. However, this balance has not been supported by stock taking records to confirm the existence of stocks held and their corresponding cost. In the circumstance, the accuracy and completeness of the inventories balance of Kshs.1,205,313 could not be confirmed.



#### **4. Trade Receivables**

Note 4 to the financial statements reflects provision for dormant trade receivables of Kshs.17,330,929 the basis of which has not been supported by an explanation in the significant account policies to confirm the computation. In the circumstance, the accuracy of the trade and other receivables balance of Kshs.81,599,601 could not be confirmed.

#### **5. Agency Current Account**

The statement of financial position as at 30 June 2014 reflects agency current account balance of Kshs.60,027,016 owed to Lake Victoria South Water Services Board in respect of lease fees and remittances. However, no reconciliation has been made available to confirm whether the balance agrees with the books of the Board in respect of the agency account. In the circumstance, the accuracy of the agency current balance of Kshs.60,027,016 could not be confirmed.

#### **6. Cash and Bank Balances**

The statement of financial position as at 30 June 2014 reflects cash and bank balance of Kshs.1,916,441 comprised of various balances as reported in note 5 to the financial statements. However, the bank balances as reported have not been supported by bank reconciliation statements. In addition, the cash in hand balance of Kshs.417,000 has not been supported by a cash count certificate. In the circumstances, the accuracy of the cash and bank balance of Kshs.1,916,441 could not be confirmed.

#### **7. Share Capital**

The statement of financial position as at 30 June 2014 reflects share capital of Kshs.8,000,000. However, this amount has not been supported by a share certificate. Although, note 15 to the financial statements indicates that the Company is fully owned by the Municipal Council of Kericho which is now defunct and therefore does not exist, no documentation has been produced to confirm change to the present ownership. In the circumstance, the share capital balance of Kshs.8,000,000 could not be confirmed.

#### **8. Unsupported Liabilities**

The statement of financial position reflects the following credit balances as at 30 June 2014:

	<b>Kshs.</b>
Hire Purchase Loan	2,848,202
Customer Deposit Account	7,982,325
Staff Gratuity	1,982,325
Trade and other Payables	15,898,481

However, these balances were not analysed or supported by relevant schedules. Consequently, the indebtedness of the Company as at 30 June 2014 could not be ascertained.



## 9. Unaccounted for Water

During the year under review, the Company produced 3,200,573 cubic meters (m<sup>3</sup>) of water. However, out of this volume, only 1,612,451m<sup>3</sup> were billed to customers. The balance of 1,518,122 m<sup>3</sup> or approximately 50 % of the total volume represented unaccounted for water (UFW). This quantity is 25 % above the allowable loss of 25 % by the Water Services Regulatory Board guidelines. The significant level of UFW may negatively impact on the Company's profitability and long run sustainability.

### Disclaimer of Opinion

Because of the significance of the matters described in the Basis for Disclaimer of Opinion paragraph, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, I do not express an opinion on the financial statements.



**Edward R.O. Ouko, CBS**  
**AUDITOR-GENERAL**


**Nairobi**

**15 October 2015**

**KERICHO WATER AND SANITATION COMPANY LIMITED  
STATEMENT OF FINANCIAL POSITION  
AS AT 30 JUNE 2014**

	Note	2014	2013
<b>ASSETS</b>			
<b>NON - CURRENT ASSETS</b>			
Property, Plant & Equipment	2	20,409,842	24,823,908
		<u>20,409,842</u>	<u>24,823,908</u>
<b>CURRENT ASSETS</b>			
Inventories	3	1,205,313	2,538,718
Trade and other receivables	4	73,703,461	60,581,290
Cash and Bank balances	5	1,916,441	3,670,301
		<u>76,825,214</u>	<u>66,790,309</u>
<b>TOTAL ASSETS</b>		<u><b>97,235,056</b></u>	<u><b>91,614,217</b></u>
<b>SHAREHOLDERS' FUNDS AND LIABILITIES</b>			
<b>CAPITAL AND RESERVES</b>			
Share capital	6	8,000,000	8,000,000
Capital Reserves	7a	(2,429,375)	(2,429,375)
Revenue Reserves	7b	(16,900,982)	(19,340,020)
		<u>(11,330,357)</u>	<u>(13,769,395)</u>
<b>NON - CURRENT LIABILITIES</b>			
Loan	8	2,849,202	5,763,947
Deferred liability	9	17,007,359	17,007,359
Customer deposits	10	7,982,325	7,122,475
Staff gratuity	11	1,296,694	5,155,150
		<u>29,135,580</u>	<u>35,048,931</u>
Trade and other payables	12	15,898,481	6,712,005
Overdraft	13	3,504,335	3,152,869
Agency current account	14	60,027,016	53,928,466
Amounts due to related party	15	-	6,541,340
		<u>79,429,833</u>	<u>70,334,680</u>
<b>TOTAL SHAREHOLDERS' FUNDS AND LIABILITIES</b>		<u><b>97,235,056</b></u>	<u><b>91,614,217</b></u>

The financial statements were approved by the Board of Directors on.....2014 and signed on its behalf by:-

  
 ..... )  
 ..... )  
 ..... ) Directors  
 ..... )  
 ..... )

**KERICHO WATER AND SANITATION COMPANY LIMITED**  
**STATEMENT OF COMPREHENSIVE INCOME**  
**FOR THE YEAR-ENDED 30 JUNE 2014**

		<b>2014</b>	<b>2013</b>
		<b>KShs.</b>	<b>KShs.</b>
	<b>Note</b>		
<b>INCOME</b>	<b>16</b>	135,417,646	126,170,641
<b>COST OF SALES</b>	<b>17</b>	(47,315,009)	(49,878,647)
		-----	-----
<b>GROSS PROFIT</b>		<b>88,102,637</b>	<b>76,291,994</b>
<b>OTHER INCOME</b>	<b>18</b>	12,398,282	7,115,437
		-----	-----
		<b>100,500,919</b>	<b>83,407,431</b>
<b>EXPENSES:-</b>			
<b>Administration and establishment</b>	<b>19</b>	(98,061,882)	(96,046,620)
		-----	-----
<b>(LOSS)/PROFIT BEFORE TAXATION</b>	<b>20</b>	<b>2,439,037</b>	<b>(12,639,190)</b>
Events afer reporting date	<b>21</b>		
		-----	-----
<b>TAXATION</b>	<b>22</b>	-	-
		-----	-----
<b>(LOSS)/PROFIT FOR THE YEAR</b>		<b>2,439,037</b>	<b>(12,639,190)</b>
		=====	=====
<b>(Loss) /Earnings per share</b>	<b>23</b>	<b>6.10</b>	<b>(31.60)</b>
		=====	=====

**KERICHO WATER AND SANITATION COMPANY LIMITED**  
**STATEMENT OF CASH FLOW**  
**FOR THE YEAR ENDED 30 JUNE 2014**

	Note	2014 KShs.	2013 KShs.
<b>Cash flows from operating activities</b>			
( Loss)/Profit before taxation		2,439,037	(12,639,190)
Adjustments for:-			
Depreciation		4,871,640	6,222,501
Staff gratuity		(3,324,117)	2,759,999
		<u>3,986,560</u>	<u>(3,656,690)</u>
<b>Operating profit before working capital changes</b>			
<b>Working capital changes</b>			
Inventories		1,333,405	2,418,352
Trade and other receivables		(13,122,171)	(5,566,450)
Trade and other payables		9,186,476	(6,614,447)
Agency current account : Cash item		6,098,550	18,150,477
Amounts due to related party		(6,541,340)	1,332,600
		<u>(3,045,079)</u>	<u>9,720,532</u>
<b>Net cash from operating activities</b>		<u>941,481</u>	<u>6,063,843</u>
<b>Cash flows to investing activities</b>			
Purchase of equipment		(457,574)	(7,805,279)
<b>Net cash flows to investing activities</b>		<u>(457,574)</u>	<u>(7,805,279)</u>
<b>Cash flows from/(to) financing activities</b>			
Hire purchase loan		-	4,000,000
Deferred income			
Loan repayment		(3,449,083)	(1,922,652)
Customer deposits		859,850	821,319
<b>Net cash flows from financing activities</b>		<u>(2,589,233)</u>	<u>2,898,667</u>
Net (decrease)/increase in cash and cash equivalents		(2,105,327)	1,157,231
Cash and cash equivalents at the beginning of the year		517,432	(639,799)
<b>Cash and cash equivalents at the end of the year</b>		<u>(1,587,895)</u>	<u>517,432</u>

**KERICHO WATER AND SANITATION COMPANY LIMITED**  
**STATEMENT OF CHANGES IN EQUITY**  
**FOR THE YEAR ENDED 30 JUNE 2014**

	<b>Share Capital</b>	<b>Capital Reserves</b>	<b>Revenue Reserves</b>	<b>Total Equity</b>
	<b>KShs.</b>	<b>KShs.</b>	<b>KShs.</b>	<b>KShs.</b>
At 1 July 2012	8,000,000	(2,429,375)	(6,700,830)	(1,130,206)
Loss/Profit for the year		-	(12,639,190)	(12,639,190)
<b>At 30 June 2012</b>	<b>8,000,000</b>	<b>(2,429,375)</b>	<b>(19,340,019)</b>	<b>(13,769,396)</b>
At 1 July 2013	8,000,000	(2,429,375)	(19,340,019)	(13,769,396)
Events after reporting date			-	
Loss/Profit for the year		-	2,439,037	2,439,037
<b>At 30 June 2014</b>	<b>8,000,000</b>	<b>(2,429,375)</b>	<b>(16,900,982)</b>	<b>(11,330,359)</b>



**KERICHO WATER AND SANITATION COMPANY LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
**FOR THE YEAR ENDED 30 JUNE 2014**

**1. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Cash and cash equivalents**

Cash and cash equivalents comprise cash at bank and short term deposits with an original maturity of three months or less.

For the purpose of the cash flow statement, cash and cash equivalents comprise of cash and cash equivalents as defined above, net of bank overdrafts.

**Interest-bearing loans and bank overdraft**

Interest-bearing loans and bank overdraft are recorded at the net proceeds received. The finance cost is charged to the income statement at a variable rate of interest on the outstanding amount of the debt.

**Borrowing costs**

Borrowing costs during the period of construction are capitalised as part of the cost of the project. Other borrowing costs incurred in the financing of working capital and ready to use fixed assets are recognised as an expense in the period in which they are incurred.

**Trade and other receivables**

Trade and other receivables are recognised at original invoice amount less an allowance for any uncollectible amount. An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written off when identified.

**Foreign currency transactions**

Transactions during the year are converted into Kenya Shillings at rates ruling at the transactions dates. Assets and liabilities at the balance sheet date which are expressed in foreign currencies are translated into Kenya Shillings at rates ruling at that date. The resulting differences from conversion and translation are dealt with in the income statement.

**KERICHO WATER AND SANITATION COMPANY LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
**FOR THE YEAR ENDED 30 JUNE 2014**

**Pronouncements from the Public Sector Accounting Standards Board (PSASB)**

The Public Finance Management (PFM) Act 2012 Section 192 provided the setting up of the Public Sector Accounting Standards Board (PSASB). The Cabinet Secretary National Treasury, gazetted members of the Board through Gazette Notice No. 1199 of 28 February, 2014. Following the Board's approval on the adoption of the International Financial Reporting Standards (IFRS) for state organs operating as Commercial Business Entities and The International Public Sector Accounting Standards (IPSAS) for non-commercial entities, the pronouncements made by the board have no significant impact on the entity's financial statement as Kericho Water and Sanitation Company Limited has been preparing its financial statements in accordance to IFRS.

**KERICHO WATER AND SANITATION COMPANY LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
**FOR THE YEAR ENDED 30 JUNE 2014**

**Adoption of new and revised International Financial Reporting Standards (IFRS)**

*i) New standards and amendments to published standards effective for the year ended 30 June 2014*

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

**Amendment** The amendments to IFRS 10 define an investment entity and require a reporting entity to IFRS 10, that meets the definition of an investment entity not to consolidate its subsidiaries but IFRS 12 instead to measure its subsidiaries at fair value through profit or loss in its consolidated and IAS 27 and separate financial statements.

**Investment** To qualify as an investment entity, a reporting entity is required to:

**Entities**

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

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

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

**Amendment** The amendments to IAS 32 clarify the requirements relating to the offset of financial assets and to IAS 32 financial liabilities. Specifically, the amendments clarify the meaning of 'currently has a legally  
**Offsetting** enforceable right of set-off' and 'simultaneous realisation and settlement'. The amendments have  
**Financial** been applied retrospectively.  
**Assets &** *As the company does not have any financial assets and financial liabilities that qualify for offset.*  
**Financial** *the application of the amendments has had no impact on the disclosures or on the amounts*  
**Liabilities** *recognised in the company's financial statements.*

**Amendment** The amendments to IAS 36 remove the requirement to disclose the recoverable amount of a  
to IAS 36 cash-generating unit (CGU) to which goodwill or other intangible assets with indefinite useful lives  
**Recoverable** had been allocated when there has been no impairment or reversal of impairment of the related CGU.  
**Amount** Furthermore, the amendments introduce additional disclosure requirements applicable to when the  
**Disclosures** recoverable amount of an asset or a CGU is measured at fair value less costs of disposal.  
**for Non-** These new disclosures include the fair value hierarchy, key assumptions and valuation techniques  
**Financial A:** used which are in line with the disclosure required by IFRS 13 Fair Value Measurements.  
*As the company does not have any cash-generating units (CGU) to which goodwill or other  
intangible assets with indefinite useful lives had been allocated, the application of the amendments  
has had no impact on the disclosures or on the amounts recognised in the company's financial  
statements.*

**KERICHO WATER AND SANITATION COMPANY LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
**FOR THE YEAR ENDED 30 JUNE 2014**

**Adoption of new and revised International Financial Reporting Standards (IFRS) (Continued)**

**Amendments to IAS 39** The amendments to IAS 39 provide relief from the requirement to discontinue hedge accounting when a derivative designated as a hedging instrument is novated under certain circumstances.

**Novation of Derivatives** The amendments also clarify that any change to the fair value of the derivative designated as a hedging instrument arising from the novation should be included in the assessment and measurement of hedge effectiveness.

**of Hedge Accounting** *The application of the new standard has not had any impact on the disclosures or the amounts recognised in these financial statements as the company does not have any derivatives.*

**IFRIC 21 Lev** IFRIC 21 addresses the issue as to when to recognise a liability to pay a levy imposed by a government. The Interpretation defines a levy, and specifies that the obligating event that gives rise to the liability is the activity that triggers the payment of the levy, as identified by legislation. The Interpretation provides guidance on how different levy arrangements should be accounted for, in particular, it clarifies that neither economic compulsion nor the going concern basis of financial statements preparation implies that an entity has a present obligation to pay a levy that will be triggered by operating in a future period.

*The application of this Interpretation has had no material impact on the disclosures or on the amounts recognised in the company's financial statements.*

**ii) Relevant new and amended standards and interpretations in issue but not yet effective in the year ended 30 June 2014.**

<i>New and Amendments to standards</i>	<i>Effective for annual periods beginning on or after</i>
IFRS 9	01 January 2018
IFRS 15	01 January 2017
Amendments to IFRS 11	01 January 2016
Amendments to IAS 16 and IAS 38	01 January 2016

**ii) Impact of new and amended standards and interpretations on the financial statements for the year ended 30 June 2014 and future annual periods**

**IFRS 9 Financial Instruments**

IFRS 9, issued in November 2009, introduced new requirements for the classification and measurement of financial assets. IFRS 9 was amended in October 2010 to include the classification and measurement of requirements for financial liabilities and for derecognition.

Key requirements of IFRS 9:

- All recognised financial assets that are within the scope of IAS 39 Financial Instruments: Recognition and Measurement are required to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity



**KERICHO WATER AND SANITATION COMPANY LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
**FOR THE YEAR ENDED 30 JUNE 2014**

**Adoption of new and revised International Financial Reporting Standards (IFRS) (Continued)**

investments are measured at their fair value at the end of subsequent accounting periods. In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

- With regard to the measurement of financial liabilities designated as at fair value through profit or loss, IFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Under IAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss is presented in profit or loss.

*The directors of the Company do not anticipate that the application of IFRS 9 in the future may have a significant impact on amounts reported in respect of the company's financial assets and financial liabilities.*

**IFRS 15 Revenue from Contracts with Customers**

In May 2014, IFRS 15 was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. IFRS 15 will supersede the current revenue recognition guidance including IAS 18 Revenue, IAS 11 Construction Contracts and the related Interpretations when it becomes effective.

The core principle of IFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the Standard introduces a 5-step approach to revenue recognition:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

Under IFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in IFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by IFRS 15. However, it is not practicable to provide a reasonable estimate of the effect of IFRS 15 until a detailed review has been completed.

KERICHO WATER AND SANITATION COMPANY LIMITED  
 NOTES TO THE FINANCIAL STATEMENTS (Continued)  
 FOR THE YEAR ENDED 30 JUNE 2013

2 PROPERTY, PLANT & EQUIPMENT

	Heavy duty Tractors Kshs.	Computers & accessories KShs.	Furniture, fittings, tools and equipment KShs.	Motor Vehicles KShs.	Computer Software KShs.	Total KShs.
<b>30 JUNE 2013</b>						
<b>Cost or valuation</b>						
At 1 July 2013	5,471,624	5,305,501	22,071,704	10,082,613	8,210,758	51,142,200
Additions	-	253,879	114,695	89,000	-	457,574
At 30 June 2014	<u>5,471,624</u>	<u>5,559,380</u>	<u>22,186,399</u>	<u>10,171,613</u>	<u>8,210,758</u>	<u>51,599,774</u>
<b>Depreciation</b>						
Depreciation Rates	<b>37.5%</b>	<b>30.00%</b>	<b>12.5%</b>	<b>25.00%</b>	<b>20%</b>	
At 1 July 2013	3,334,271	3,699,182	9,982,614	6,760,202	2,542,024	26,318,292
For the year	801,507	558,060	1,525,473	852,853	1,133,747	4,871,640
Depreciation as at 30 June 2014	<u>4,135,778</u>	<u>4,257,241</u>	<u>11,508,087</u>	<u>7,613,054</u>	<u>3,675,771</u>	<u>31,189,932</u>
<b>Net Book Value</b>						
At 30 June 2014	<u>1,335,846</u>	<u>1,302,139</u>	<u>10,678,312</u>	<u>2,558,559</u>	<u>4,534,987</u>	<u>20,409,842</u>
At 30 June 2013	<u>2,137,353</u>	<u>1,606,319</u>	<u>12,089,090</u>	<u>3,322,412</u>	<u>5,668,734</u>	<u>24,823,908</u>

**KERICHO WATER AND SANITATION COMPANY LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
**FOR THE YEAR ENDED 30 JUNE 2014**

**Adoption of new and revised International Financial Reporting Standards (IFRS) (Continued)**  
**Amendments to IAS 16 and IAS 38 *Clarification of Acceptable Methods of Depreciation and Amortisation***

The amendments to IAS 16 prohibit entities from using a revenue-based depreciation method for items of property, plant and equipment. The amendments to IAS 38 introduce a rebuttable presumption that revenue is not an appropriate basis for amortisation of an intangible asset. This presumption can only be rebutted in the following two limited circumstances:

- a) when the intangible asset is expressed as a measure of revenue; or
- b) when it can be demonstrated that revenue and consumption of the economic benefits of the intangible asset are highly correlated.

The amendments apply prospectively for annual periods beginning on or after 1 January 2016. Currently, the company uses the straight-line method for depreciation and amortisation for its property, plant and equipment, and intangible assets respectively.

The directors of the company do not anticipate that the application of the standard will have a significant impact on the company's consolidated financial statements

**iii) *Early adoption of standards***

The company did not early-adopt new or amended standards in 2014.

**KERICHO WATER AND SANITATION COMPANY LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
**FOR THE YEAR ENDED 30 JUNE 2014**

<b>3. INVENTORIES</b>	<b>2014</b>	<b>2013</b>
	<b>KShs</b>	<b>KShs</b>
Pipes and spares	522,263	2,317,962
Chemicals	683,050	220,756
Stationery	-	-
	<u>1,205,313</u>	<u>2,538,718</u>
<b>4. TRADE AND OTHER RECEIVABLES</b>		
Trade receivables	81,599,601	74,824,806
Less: Provision for dormant trade receivables	(17,330,929)	(17,330,929)
	<u>64,268,672</u>	<u>57,493,877</u>
Other receivables	9,434,789	3,087,413
Unpaid share capital	-	-
	<u>73,703,461</u>	<u>60,581,290</u>
<b>5 CASH &amp; BANK BALANCES</b>	<b>2014</b>	<b>2013</b>
	<b>Kshs</b>	<b>Kshs</b>
Cash in hand	417,000	476,405
Petty Cash	136,315	53,155
Bank -cooperative Revenue a/c	200,666	817,520
Bank-cooperative-deposit	368,988	1,855,652
KCB Bank-refuse	245,732	250,772
Family Bank - Exhauster	92,305	131,863
Family Bank - Gratuity	284,467	48,950
Cooperative Bank-GIZ	170,969	29,416
Cooperative Bank-Salaries	-	6,569
	<u>1,916,441</u>	<u>3,670,301</u>
<b>6 SHARE CAPITAL</b>		
Authorized and issued:	8,000,000	8,000,000
400,000 Ordinary shares of KShs.20/= each	<u>8,000,000</u>	<u>8,000,000</u>
<b>7 RESERVES</b>		
<b>a Capital Reserve</b>	<u>(2,429,375)</u>	<u>(2,429,375)</u>
<b>b Revenue reserve</b>	<u>(16,900,982)</u>	<u>(19,340,020)</u>



**KERICHO WATER AND SANITATION COMPANY LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
**FOR THE YEAR ENDED 30 JUNE 2014**

	<b>2014</b>	<b>2013</b>
	<b>Kshs</b>	<b>Kshs</b>
<b>8 HIRE PURCHASE LOAN</b>		
Hire Purchase loan	5,763,947	4,220,929
Unsecured Loan - Family Bank		4,000,000
Hire Purchase loan repayment	(2,914,745)	(2,456,982)
	<u><b>2,849,202</b></u>	<u><b>5,763,947</b></u>
<b>9 DEFERRED LIABILITY</b>		
Due to Municipal Council of Kericho	<u><b>17,007,359</b></u>	<u><b>17,007,359</b></u>
The deferred liability relates to debtors taken over by the company from the Municipal Council of Kericho on 1 July 2004. No amount has been remitted to the Municipal Council of Kericho this year.		
<b>10 CUSTOMER DEPOSITS</b>		
Balance brought forward	7,122,475	6,301,156
Deposit receipts	859,850	821,319
Deposit refunds	-	-
Balance carried forward	<u><b>7,982,325</b></u>	<u><b>7,122,475</b></u>
<b>11 STAFF GRATUITY</b>		
Balance brought forward	4,620,811	1,860,812
Less payments	(3,324,117)	(534,339)
Provision this year	-	3,294,338
Balance carried forward	<u><b>1,296,694</b></u>	<u><b>4,620,811</b></u>
Comprising :		
Current	1,296,694	1,860,812
Non-current	-	3,294,338
Total	<u><b>1,296,694</b></u>	<u><b>5,155,150</b></u>
<b>12 TRADE AND OTHER PAYABLES</b>		
Trade payables	8,011,075	658,976
Other payables	4,419,328	2,584,950
Provision of accrued leave days	3,468,079	3,468,079
	<u><b>15,898,481</b></u>	<u><b>6,712,005</b></u>
<b>13 OVERDRAFT</b>		
This refers to overdrawn cashbook as at the close of the year	<u><b>3,504,335</b></u>	<u><b>3,152,869</b></u>
<b>14 AGENCY CURRENT ACCOUNT</b>		
At 1 July	53,928,466	35,777,989
Lease fees - Kericho Municipal Council	-	13,103,651
- Lake Victoria South Water Services Board	6,098,550	5,046,826
	<u><b>60,027,016</b></u>	<u><b>53,928,466</b></u>
Remittances - Kericho Municipal Council	-	-
- Lake Victoria South Water Services Board	-	-
At 30 June	<u><b>60,027,016</b></u>	<u><b>53,928,466</b></u>

**KERICHO WATER AND SANITATION COMPANY LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
**FOR THE YEAR ENDED 30 JUNE 2014**

**15 RELATED PARTY TRANSACTIONS**

The company is fully owned by the Municipal Council of Kericho. The following transactions were carried out with the related party:

	<b>2014</b>	<b>2013</b>
	<b>Kshs</b>	<b>Kshs</b>
Balance Brought forward	6,541,340	5,208,740
Add:		
i)	2,145,400	2,014,200
	<u>8,686,740</u>	<u>7,222,940</u>
Less:		
ii)	8,686,740	681,600
	<u>8,686,740</u>	<u>681,600</u>
Amount due to Municipal Council of Kericho	<u>-</u>	<u><b>6,541,340</b></u>
<b>16 INCOME</b>		
Water income	122,627,326	116,773,516
Exhauster income	12,790,320	9,397,125
	<u><b>135,417,646</b></u>	<u><b>126,170,641</b></u>
<b>17 COST OF SALES</b>		
Opening stock	2,358,718	1,010,000
Consumables	4,029,607	6,915,055
	<u>6,388,325</u>	<u>7,925,055</u>
Closing stock	1,205,313	(2,358,718)
	<u><b>7,593,638</b></u>	<u><b>5,566,337</b></u>
Add: Direct costs		
Staff salaries & wages	26,736,931	24,854,153
Water analysis expenses	190,900	67,000
Lease fees	6,098,550	15,232,951
Electricity	4,430,197	2,450,905
Warma Levies	1,731,473	1,637,002
Standards Levy	533,320	70,300
	<u><b>47,315,009</b></u>	<u><b>49,878,647</b></u>

The consumables cost reflected is the cost of chemicals purchased during the period net of the changes in the closing stock figures.

	<b>2014</b>	<b>2013</b>
	<b>Kshs</b>	<b>Kshs</b>
<b>18 OTHER INCOME</b>		
Capital grant	-	-
Miscellaneous income	12,398,282	6,587,637
Rent income		
Bulk Water Sale	-	270,800
Overpaid refuse fees	-	-
Tender sales	-	257,000
	<u><b>12,398,282</b></u>	<u><b>7,115,437</b></u>

**KERICHO WATER AND SANITATION COMPANY LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
**FOR THE YEAR ENDED 30 JUNE 2014**

	<b>2014</b>	<b>2013</b>
	<b>Kshs</b>	<b>Kshs</b>
<b>19 ADMINISTRATION AND ESTABLISHMENT EXPENSES</b>		
Staff costs (note 23)	47,489,142	53,740,635
CEO's remuneration	3,353,142	3,690,210
Advertisement	2,123,318	739,248
Audit and accountancy	580,451	141,320
Cleaning	438,841	151,400
Depreciation	4,871,640	6,222,501
Insurance	2,687,491	1,556,420
Legal and professional fees	4,166,147	2,247,619
Newspapers and periodicals	75,030	65,450
Subscription & donations	218,800	275,940
Postage and telephone	1,042,136	1,117,913
Computer expense	2,099,551	926,746
Printing and stationery	1,900,390	1,013,625
Repairs and maintenance	5,282,270	6,540,361
Functions and celebrations	110,013	634,000
Travel and nightout allowances	2,769,864	3,192,575
Vehicle running and maintenance	3,084,093	1,765,372
Fuel	4,969,356	3,614,562
Conference	68,455	16,795
Board meetings & Allowances	3,085,045	2,598,241
Environment impact assessment	20,000	120,000
Interest & penalties	-	160,890
Rent expense	60,000	60,000
Bank charges	546,217	1,275,222
Hire Purchase interest	-	62,171
Security Services	3,238,101	1,776,724
Access & Registration	19,500	2,800
Ground maintenance	37,500	184,500
Sports	544,470	800,408
WASREB Levy	3,180,919	1,352,973
	<b><u>98,061,882</u></b>	<b><u>96,046,620</u></b>
<b>20 PROFIT/(LOSS) BEFORE TAXATION</b>		
Profit/(loss) before taxation is stated after charging:-		
Depreciation	4,871,640	6,222,501
Auditors' remuneration	300,000	300,000
Directors' remuneration	3,353,142	3,690,210
	<b><u>8,524,782</u></b>	<b><u>10,212,711</u></b>
<b>21 TAXATION</b>		
No provision has been made in these financial statements in view of the losses incurred during the year		
<b>22 EARNINGS/(LOSS) PER SHARE</b>		
Earnings/(Loss) per share is calculated on the profit/(loss) after tax in each year and on the number of ordinary shares in issue at each balance sheet date. The basic and diluted earnings per shares are the same.		

**KERICHO WATER AND SANITATION COMPANY LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
**FOR THE YEAR ENDED 30 JUNE 2014**

	2014 KShs.	2013 KShs.
<b>23 STAFF COSTS</b>		
Staff costs comprise the following items:		
Staff salaries and wages	29,810,989	36,898,060
Employer's pension contributions	3,845,546	4,180,401
Temporary labour	1,494,621	1,084,146
Uniforms	621,209	819,348
Staff welfare	1,846,841	3,463,181
Staff training	750,298	1,685,667
Acting allowance and honorarium	1,109,397	138,458
Leave allowances	842,311	936,343
Overtime payments	2,428,097	1,334,368
Staff recognition	709,730	204,420
Payroll expense(increase in provision of leave days)	842,311	1,327,376
Salary Arrears	3,187,793	1,668,867
	<u><u>47,489,142</u></u>	<u><u>53,740,635</u></u>

The average number of employees during the year was 135.

**24. DURATION OF SERVICE PROVISION AGREEMENT**

The service provision agreement between the company and Lake Victoria South Water Service Board which was signed on April 2012 for the supply of water and sewage services will last for five years, and the contract is renewable. The contract has not yet been renewed and negotiations are ongoing.

**25. ISUZU LORRY (EXHAUSTER)**

During the year, in the month of February 2012, the company received an Isuzu lorry - Exhauster Registration Number : KBN 706E on temporary lease to ensure Efficient and economical provision of Water and Sanitation Services.

**26. COMPARATIVES**

Where necessary, comparative figures have been adjusted to conform with changes in presentation in the current year.

**27. INCORPORATION**

The company is incorporated in Kenya under the Kenyan Companies Act.

**28. CURRENCY**

These financial statements are presented in Kenya Shillings (KShs).

**29 FINANCIAL RISK MANAGEMENT POLICY**

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

**a) Significant accounting policies**

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognized, in respect of each class of financial asset and financial liability are disclosed in note 1 to the financial statements.

**b) Financial risk management objectives**

The Company Fund's activities expose it to a variety of financial risks including credit and liquidity risks and the effects of changes in foreign currency. The fund'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. In the current year the management met and drafted a risk management manual that will guide in the management of the risks affecting the fund.