

REPUBLIC OF KENYA



KENYA NATIONAL AUDIT OFFICE

REPORT

OF

THE AUDITOR-GENERAL

ON

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

**FOR THE YEAR ENDED
30 JUNE 2014**

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OF KENYA
LIBRARY





TILILBEI WATER AND SANITATION COMPANY LIMITED



REPORTS AND FINANCIAL STATEMENTS

**FOR THE FINANCIAL YEAR ENDED
JUNE 30, 2014**

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



**Reports and Financial Statements
For the year ended June 30, 2014**

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**Reports and Financial Statements
For the year ended June 30, 2014**

KEY COMPANY INFORMATION

Background information

Tililbei Water and Sanitation Company was established on 5th August 2011 under the Companies Act (Cap. 486) as a limited company. The company is headed by the Board of Directors who are responsible for the general policy and strategic direction of Tililbei.

Principal Activities

The principal activity of the company is to offer water services and sanitation to the residents of Kericho and Bomet Counties.

Directors

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

- | | | |
|-----|------------------------------------|---|
| 1. | Mr. Stephen Sitonik - Chairman | - Appointed on 6 th February 2012 |
| 2. | Mr. Antony Ambugo- Chief Executive | - Appointed on 25 th February 2013 |
| 3. | Mr. Johnstone Koech -Member | - Appointed on 6 th February 2012 |
| 4. | Mr. Joseah Letting -Member | -Appointed on 6 th February 2012 |
| 5. | Mr. Isaak Ngetich -Member | -Appointed on 6 th February 2012 |
| 6. | Mr. Livingstone Kombich-Member | -Appointed on 6 th February 2012 |
| 7. | Mr. Johnstone Kering -Member | -Appointed on 6 th February 2012 |
| 8. | Mr. Titus Korir -Member | -Appointed on 6 th February 2012 |
| 9. | Ms. Jolly Chepkirui - Member | -Appointed on 19 th December 2013 |
| 10. | Mrs Susan Koech | - Appointed on 25 th February 2013 |
| 11. | Eng Moses Agumba -member | -Appointed on 6 th February 2012 |

Company Secretary

Equity Registrars And Secretaries,
P.O. Box 18-40107,
Muhoroni

Registered Office

Tililbei Water and Sanitation Company Limited,
Kapkatet Market,
Off Kericho-Sotik Road
P.O. Box 199-20210
Litein, Kenya.

Company Contacts

Telephone: (254) 700269559
E-mail: info@tililbeiwat.go.ke, tilwasco@gmail.com
Website: www.tililbeiwat.go.ke

TILILBEI WATER AND SANITATION COMPANY LIMITED

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Company Bankers

1. Equity Bank,
P.O. Box 396-20210,
Litein, Kenya.





2. Kenya Commercial Bank
Sotik Branch.
Sotik.

3. Co-operative Bank of Kenya
Kericho Branch



Independent Auditors

Auditor General
Kenya National Audit Office
Anniversary Towers, University Way
P.O. Box 30084
GOP 00100
Nairobi, Kenya

THE BOARD OF DIRECTORS


NAME	Professional/Academic qualifications	Date of birth	Work Experience
<p>1. Stephen Sitonik</p> 	<p>Bachelor of Education Diploma in Carpentry and wood working Diploma in Education Certificate in Computer Applications Certificate in Entrepreneurship</p>	1943	<ul style="list-style-type: none"> Chairman Tililbei Water 2010 to date Principal Chebonei Girls 2004-2012 Principal Bomaville Training College 2004-2012 Admin and Academic Registrar Eldoret Polytechnic 1996-1998 Deputy Principal RVIST 1992-1996
<p>2. Isaack Ngetich</p> 	<p>Diploma in Agricultural Education</p>	31 st July 1952	<ul style="list-style-type: none"> Seed Production Manager Pyrethrum Board of Kenya-2004-2007 Regional Pyrethrum Officer Pyrethrum Board of Kenya-2003-2004 Provincial Pyrethrum Officer 2000-2003 Nurseries Coordinator 1997-1982 Agricultural Master –Likoni Approved School Ministry of Home Affairs 1980-1981
<p>3. Johnsonsone Koech</p> 	<p>BA economics and Political Science Post Graduate Diploma in Human Resource Management</p>	14 th Nov 1961	<ul style="list-style-type: none"> Personnel Officer at The Office of the President 1988-1995 Personnel Admin Manage-Chemelil Sugar Co Ltd 1995-2004 Human Resource Manager-Patriotic Guards 2004-2005 Program Officer Rural Project Support Facility 2004-2005 Director ,TILWASCO 2012 to date
<p>4. Livingstone Kombich</p> 	<p>Diploma in Water Supply Treatment, Reticulation and Metering Diploma in Land Surveying and Draughtmanship</p>	1942	<ul style="list-style-type: none"> KCC Director –south and Central Rift 1999-1966 Family Planning Association of Kenya. Branch Chairman 1994-2003 Assistant Town Engineer Bomet Municipal 1991-1992 Water Engineer Kericho Municipal Council 1984-1990

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<p>5. Johnstone Kering</p>			
<p>6. Joseah Letting</p> 	<p>Diploma In Education</p>	<p>1948</p>	<ul style="list-style-type: none"> • Primary School teacher-Kaitui Primary 1982-1986 • Teacher Tenges Secondary 1989-1990 • Zonal Inspector –Kiptere 1991-1993 • Divisional Inspector – Fortenan 1993-2001 • Councillor –Kipsigis County Council 2003-2007
<p>7. Titus Korir</p>			
<p>8. Susan Koech</p>			
<p>9. Eng Moses Agumba</p> 	<p><input type="checkbox"/> Registered Engineer, Engineers Registration Board, Reg. No. A 2112.</p> <p><input type="checkbox"/> Corporate Member, Institution of Engineers of Kenya, IEK, Membership No. M 1900.</p> <p>MSc. Eng (On-going course), BSc. (Civil) Eng. (Hons). University of Nairobi, 1993.</p> <p>Certificates in “Storm water Drainage Technology with sewerage systems”, JICA Course, Osaka- Japan, 1999.</p>	<p>1970</p>	<ul style="list-style-type: none"> • Ag CEO Lake Victoria South Water Services Board Dec 2011 to date • Chief Manager Technical Services-LVSWB-May 2010 to Dec 2011 • Municipal Engineer in Kisumu 1996-2001), the General Manager, Water and Sewerage Department, Kisumu (2001-2003), • Founder Managing Director, Kisumu Water and Sewerage Company Limited (2003) • Technical Manager (2003-2005).

TILILBEI WATER AND SANITATION COMPANY LIMITED

Reports and Financial Statements For the year ended June 30, 2014

	“Non- revenue water management”, JICA Course, Nagoya- Japan, 2001.		
 10. Ambugo Antony	CPA Sect 2 ACCA Part 1 ICDL Bachelor in Business Administration –Accounting Option Masters in Business Admin- Ongoing	10 th May 1976	<ul style="list-style-type: none">• MD Tililibei Water Feb 2013 to date• MD Sibo Water Oct 2009 to Jan 2013• Finance and Admin Officer Eregi Teachers Training College Jan 2009-Oct 2009• Bursar John Osogo Sec School 1998-2008
11. Solomon Okeyo			
12. Jolly Chepkirui			

MANAGEMENT TEAM

Name	Professional and Academic qualifications	Main area of responsibility
<p>1. Ambugo Antony- Managing Director</p> 	<p>Professional CPA Sect 2 ACCA Part 1 ICDL</p> <p>Academic Bachelor in Business Administration –Accounting Option Masters in Business Admin- Ongoing</p>	<p>Effective management of the Company so as to ensure achievement of its set goals and objectives</p>
<p>2. Marigat Saul- Technical Manager</p> 	<p>Professional NEMA Expert ISO –Lead Auditor</p> <p>Academic Bsc Aquatic Science Masters in Conflict Resolution and Peace Building</p>	<p>Effective and efficient utilization of resources through development of production methods, reduction of downtime of equipment and continuous improvement of water process in order to meet customer demand/needs.</p>
<p>3. Chelangat Philis- Commercial and Finance Manager</p> 	<p>Professional Registered Accountant and member of ICPAK</p> <p>Academic Diploma in Business Management Bachelor in Business Management-Accounting Option</p>	<p>Ensure prudent management of financial resources and continuous improvement of administration and accounting systems in the company</p>
<p>4. Rotich Robert- Procurement Officer</p> 	<p>Professional Member of CIPS Level 4</p> <p>Academic Bachelor in Business Management-Supplies and Procurement Diploma In Purchasing and Supplies Certificate in Purchasing and Supplies</p>	<p>Effective management of procurement systems and sourcing of materials at competitive and economic prices</p>

CHAIRMAN'S STATEMENT.

I take immense pleasure at this opportunity to present to you the Annual Report and Financial Statement for the year ended 30th June, 2014.

Financial Review

One of the Company's strategic objective is achieving operation and financial sustainability, the Company continued to post good collection efficiencies but continued to rely heavily on government subsidies to cover its cost of operations.

Customer Focus

The Company continued to focus its activities on improving service delivery by implementing M-pesa payment platform and M-Banking services for all the company accounts.

Report of Kenya's Water Services

The Company performance was fair as compared to the year 2012. As per WASREB Impact report issue No. 7 of 2014, the Company was ranked number thirty eight (38) out of sixty two (62) Water Companies over all an improvement from no. 49.

Water Quality

Numerous tests were carried out on water prior to and after treatment in order to ensure that the water produced and supplied is of high quality and meets the National KEBS standards. The tests results of samples taken from customer points. The challenge on raw water schemes where tests could not be conducted.

Future Prospects

In the Company's future outlook, the following will be the highlights;

1. We have proposed amendments to the Articles and memorandum of Association to enable the company fit with the devolved structures
2. The company has secured funding to the tune of 2.2 million Euros Billion from KfW through LVSWSB for Litein Town under the water sector development program – LVS for augmentation of Litein Water Supply, Mini hydro power generation and rehabilitation of the reticulation network in Litein town. The Consultant CES Mangat is finalizing the feasibility study report.
3. The company is in the process of launching a new billing software commonly known as ERP which will improve efficiency in the billing with added features such as e-billing, SMS dispatching of bills, email and also M-pesa integration.

The software will also be integrated with the GIS, accounting, payroll and other software's within the company.

REPORT OF THE MANAGING DIRECTOR

Introduction

Tililbei Water and Sanitation Company prepared this annual report to fulfill its obligation of providing information on performance to the licensee, WASREB, the Government of Kenya, the shareholders and the stakeholders. In the period covered by the financial report, there was regular provision of water services save for Interruptions occasioned by power outages, power fluctuations and power disconnections.

Development Projects

During the period, WSTF funded the following project;

Longisa Mulot Water Project

The scope of works included:

- Construction of 1 No. Closed insitu water Kiosk
- 100 m³ Masonry tank 1. N0.
- 18.3 km Pipeline extension
- Provision of 220 No. Consumer Water Meters

Litein Public Sanitation Facility

The scope of works included:

- Sanitation Block
- Septic Tank 1 No. 50m³

Water Distribution And Maintenance

Water was supplied to customers for a minimum of 8 hours to a maximum of 24hours depending on the uniqueness of each scheme. Breakdown maintenance has been the practice however planned preventive maintenance of the infrastructure was embraced during the period.

Staff Establishment

The staff establishment stood at 102 at the end of the financial year representing 1000 connections to 9 staff. The company is working towards complying with WASREB guidelines of 8 staff per 1000 connections through connecting more consumers.

Collaborations, Partnership And Networking

Wasreb

The Regulator (Wasreb) is in the process of approving Regular Tariff Adjustment (RTA) to enable the Company recover its full costs of operation this RTA is subsidized by the GOK/ County Government to make water affordable and at the same time drive the company towards financial viability.

Waspa

Energy Audits carried out in Partnership with WASPA and Bfz – from Federal Republic of Germany once implemented will reduce the Power bills drastically or thereabout which currently stands at 81% of revenue collected for surface. Through this partnernship Tililbei benefited from Subsidized IGA Energy Audit in may 2014 which recommended installation of a Mini Hydro Power at Itare falls

Conclusion

The company future survival depends on the implementation of Regular Tariff Adjustment and investment in sustainable conventional water infrastructure especially in area with raw water systems.

CORPORATE GOVERNANCE STATEMENT

Tililbei Water and Sanitation Company Ltd is committed to the values and principles of good corporate governance. Good corporate governance requires that the board of directors must govern the company with integrity and enterprise in a manner which entrenches and enhances the mandate it has.

The directors and management of TILWASCO regard corporate governance as pivotal to the successes of the Board and are unreservedly committed to ensuring that good corporate governance is practised so that TILWASCO remains a sustainable and viable vehicle for provision of water and sanitation services in Kericho County.

Board of Directors

The Board of directors meets at least four times a year. The directors are given appropriate information so that they maintain full and effective control over strategic, financial, operational and compliance issues.

CORPORATE SOCIAL RESPONSIBILITY STATEMENT

TILWASCO acknowledges its responsibility to the society in its capacity as a corporate citizen: consequently, it endeavours to play an active role in county matters .In the financial year under review TILWASCO continued to offer advices to various stakeholders in the sector to facilitate continous access and improvement to quality and affordable water.

REPORT OF THE DIRECTORS

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

Principal activities

The principal activity of the company continues to be the provision of water services and sanitation services to the residents of Kericho and Bomet Counties.

Results

The results of the company for the year ended June 30, 2014 are set out on page 12-15

Dividends

The Directors do not recommend the payment of dividend for the year.

Directors

The members of the Board of Directors who served during the year are shown on page 4 In accordance with Regulation of the company's Articles of Association, a third of the board members other than those from the County Governments shall retire from office by rotation after every three years. The retiring members shall be determined on the basis of those who have served longest and, if they have served for the same time, then the retirement will be determined by lot.

Auditors

The Auditor General is responsible for the statutory audit of the company in accordance with section 159(2) of the Companies Act (Cap. 486).

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Companies Act, require the Directors to prepare financial statements in respect of the company, which give a true and fair view of the state of affairs of the company at the end of the financial year/period and the operating results of the company for that year/period. The Directors are also required to ensure that the company keeps proper accounting records which disclose with reasonable accuracy the financial position of the company. The Directors are also responsible for safeguarding the assets of the company.

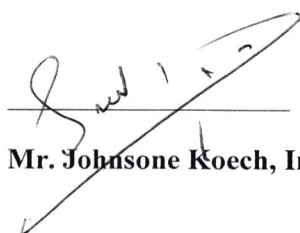
The Directors are responsible for the preparation and presentation of the company's financial statements, which give a true and fair view of the state of affairs of the company for and as at the end of the financial year (period) ended on June 30, 2014. This responsibility includes: (i) maintaining adequate 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 company; (iii) designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of the financial statements, and ensuring that they are free from material misstatements, whether due to error or fraud; (iv) safeguarding the assets of the company; (v) selecting and applying appropriate accounting policies; and (vi) making accounting estimates that are reasonable in the circumstances.

The Directors accept responsibility for the company's financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity with International Financial Reporting Standards (IFRS), and in the manner required by the Companies Act. The Directors are of the opinion that the company's financial statements give a true and fair view of the state of company's transactions during the financial year ended June 30, 2014, and of the company's financial position as at that date. The Directors further confirm the completeness of the accounting records maintained for the company, which have been relied upon in the preparation of the company's financial statements as well as the adequacy of the systems of internal financial control.

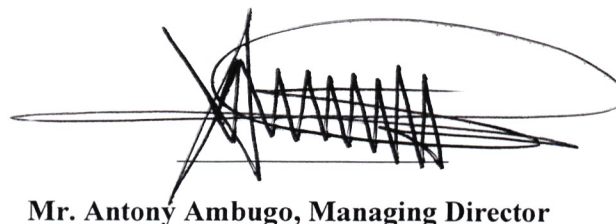
Nothing has come to the attention of the Directors to indicate that the company will not remain a going concern for at least the next twelve months from the date of this statement.

Approval of the financial statements

The company's financial statements were approved by the Board on 26th September 2014 and signed on its behalf by:



Mr. Johnsone Koech, Interim Chairman



Mr. Antony Ambugo, Managing Director

REPUBLIC OF KENYA

Telephone: +254-20-342330
Fax: +254-20-311482
E-mail: oag@oagkenya.go.ke
Website: www.kenao.go.ke



P.O. Box 30084-00100
NAIROBI

OFFICE OF THE AUDITOR-GENERAL

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

REPORT ON THE FINANCIAL STATEMENTS

I have audited the accompanying financial statements of the Tililbei Water and Sanitation Company Limited set out on pages 12 and 30, 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 Statements

The Directors of Tililbei Water and Sanitation Company Limited are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The directors are 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 Section 15 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 directors, as well as evaluating the overall presentation of the financial statements.

Because of the significance 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. Trade and Other Receivables

As previously reported, the trade and other receivables balance of Kshs.75,567,283 as at 30 June 2014 includes long outstanding receivables totaling Kshs.31,421,989 inherited from the Ministry of Water and whose recoverability is doubtful. Consequently, the accuracy and recoverability of the trade and other receivables balance of Kshs.75,567,283 as at 30 June 2014 could not be confirmed.

2. Customers Water Deposit Account

Included in the trade and other payables balance of Kshs.73,072,189 as at 30 June 2014 is an amount of Kshs.6,927,015 in respect of customer deposits. The corresponding deposits bank accounts show amounts of totaling Kshs.1,244,329.15. The difference of Kshs.5,682,685.90 has not been explained or reconciled. Consequently, the accuracy of customer's deposit balance of Kshs.6,927,015 as at 30 June 2014 could not be confirmed.

3. Unaccounted for Water

During the year under review, the Company produced 1,574,034 cubic meters (m³) of water. However, out of this volume, only 630,233 m³ were billed to customers. The balance of 943,801 m³ or approximately 60 % of the total volume represented unaccounted for water (UFW). This quantity is 35 % above the allowable loss of 25 % by the Water Services Regulatory Board guidelines. The UFW has resulted to a loss of sales estimated at Kshs.51,437,155. The significant level of UFW has negatively impacted on the Company's profitability and long run sustainability.

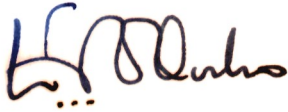
4. Sustainability

I wish to draw your attention to the fact that during the year under review, the company had a sharp drop in revenue from Kshs.92,225,275 reported in 2012/2013 to Kshs.39,608,379 in 2013/2014. Further, the profit position deteriorated from Kshs.6,298,632 in 2012/2013 to a loss of Kshs.27,292,521 in 2013/2014 or a negative change in Kshs.33,591,151. Additionally 60% of water produced was lost or could not be accounted for. Furthermore the water revenues were not enough to pay the salaries and wages yet there were other operational costs. Apparently the company's operational sustainability is at risk.

Disclaimer of Opinion

Because of the significance of the matter 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.

A handwritten signature in blue ink, appearing to read 'E. O. Ouko', with three small red dots below the first part of the signature.

Edward R. O. Ouko, CBS
AUDITOR-GENERAL

Nairobi

21 September 2015

**Reports and Financial Statements
For the year ended June 30, 2014**
STATEMENT OF COMPREHENSIVE

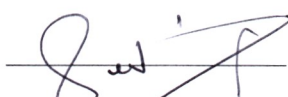
	Note	2014 Kshs	2013 Kshs
REVENUES			
Sales	1	34,641,848	56,355,677
Grants from National Government	2	9,322,035	27,875,685
Other Income	3	(4,355,504)	7,993,913
TOTAL REVENUES		39,608,379	92,225,275
OPERATING EXPENSES			
Administration Costs	4	34,278,342	37,253,694
Operation and Maintenance Costs	5	32,365,764	48,578,803
Depreciation of property, plant and equipment	6	135,222	115,223
Amortisation of Intangible Assets	7	37,740	175,200
TOTAL OPERATING EXPENSES		66,817,068	86,122,920
OPERATING PROFIT/(LOSS)	8	(27,208,689)	6,102,356
Finance Income	9	2,763	31,794
Finance Costs	10	86,595	164,482
PROFIT/(LOSS) BEFORE TAXATION		(27,292,521)	6,298,632
INCOME TAX EXPENSE/(CREDIT)	13	0	0
PROFIT/(LOSS) AFTER TAXATION		(27,292,521)	6,298,632

Reports and Financial Statements
For the year ended June 30, 2014

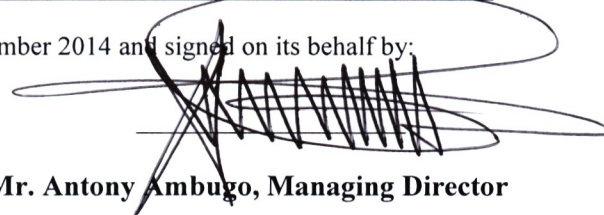
STATEMENT OF FINANCIAL POSITION

	Note	2014 Kshs	2013 Kshs
ASSETS			
Non-Current Assets			
Property, plant and equipment	7	810,298	8,654,745
Intangible assets	8	150,960	188,700
Staff receivables due after one year	10(c)		
Total Non-Current Assets		961,258	8,843,445
Current Assets			
Inventories	9	638,883	673,911
Trade and other receivables	10(a)	75,567,283	75,247,354
Bank and cash balances	11	13,539,868	7,038,065
Total Non-Current Assets		89,746,034	82,959,330
		90,707,292	91,802,775
EQUITY AND LIABILITIES			
Capital and Reserves			
Ordinary share capital	12	100,000	100,000
Capital Reserve		31,421,989	31,421,989
Retained earnings	13	-20,142,351	7,150,170
		11,379,638	38,672,159
Capital and Reserves			
Current Liabilities			
Trade and other payables	14	73,072,189	50,687,870
Retirement benefit obligations	15	6,255,464	2,442,745
Total Current Liabilities		79,327,653	53,130,616
TOTAL EQUITY AND LIABILITIES		90,707,292	91,802,775

The financial statements were approved by the Board on 26TH September 2014 and signed on its behalf by:



Mr. Johnsone Koech, Interim Chairman



Mr. Antony Ambugo, Managing Director

TILILBEI WATER AND SANITATION COMPANY LIMITED**Reports and Financial Statements
For the year ended June 30, 2014**

STATEMENT OF CHANGES IN EQUITY

	Ordinary share capital	Retained earnings	Total
At July 1, 2012	100,000	851,538	951,538
Total comprehensive income		6,298,632	6,298,632
At June 30, 2013	100,000	7,150,170	7,250,170
At July 1, 2013	100,000	7,150,170	7,250,170
Total comprehensive income		(27,292,521)	(27,292,521)
At June 30, 2014	100,000	(20,142,351)	(20,042,351)

STATEMENT OF CASH FLOWS

	Note		
OPERATING ACTIVITIES			
Cash generated from/(used in) operations	18	6,985,895	9,267,886
Net cash generated from/(used in) operating activities		6,985,895	9,267,886
INVESTING ACTIVITIES			
Purchase of property, plant and equipment	7	(484,092)	(8,303,220)
Proceeds from disposal of property, plant and equipment			57,840
Net cash generated from/(used in) investing activities		(484,092)	(8,245,380)
FINANCING ACTIVITIES			
Net cash generated from/(used in) financing activities		0	0
INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		6,501,803	1,022,506
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	19	7,038,065	6,015,559
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	19	13,539,868	7,038,065

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

1. Statement of compliance and basis of preparation

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

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

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

2. Revenue recognition

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

- i) **Revenue from the water services billed** is recognised in the year in which the company delivers products to the customer, the customer has accepted the products and collectability of the related receivables is reasonably assured.
- ii) **Grants from National Government** are recognised in the year in which the company actually receives such grants.
- iii) **Other income** is recognised as it accrues.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3. 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-evaluation less any subsequent accumulated depreciation and impairment losses. Where re-measurement at re-valued amounts is desired, all items in an asset category are re-valued through periodic valuations carried out by independent external valuers.

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

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

4. Depreciation and impairment of property, plant and equipment

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

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

Buildings and civil works	10%
Water Infrastructure	2.5%
Plant, Machinery and equipment	20%
Motor vehicles, including motor cycles	30%
Computers and related equipment	30%
Office equipment	12.5%
Furniture and fittings	12.5 %

Depreciation is charged to the period which the item was bought ie on prorate basis

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

5. Intangible assets

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

6. Amortisation and impairment of intangible assets

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

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

7. Inventories

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

8. Trade and other receivables

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

9. 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 recognised directly in equity is recognised in equity and not in the income statement.

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

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

10. Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and cash at bank, at various commercial banks at the end of the financial year. For the purposes of these financial statements, cash and cash equivalents also include short term cash imprests and advances to authorised public officers and/or institutions which were not surrendered or accounted for at the end of the financial year.

11. Trade and other payables

Trade and other payables are non-interest bearing and are carried at amortised cost, which is measured at the fair value of contractual value of the consideration to be paid in future in respect of goods and services supplied, whether billed to the *company* or not, less any payments made to the suppliers.

12. Retirement benefit obligations

The company operates a defined contribution scheme for all permanent employees from July 1, 2013. The company also contributes to the statutory National Social Security Fund (NSSF). This is a defined contribution scheme registered under the National Social Security Act. The company's obligation under the scheme is limited to specific contributions legislated from time to time and is currently at Kshs.200 per employee per month.

13. Provision for staff leave pay

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

14. Comparative figures

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

15. 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, 2014.

TILILBEI WATER AND SANITATION COMPANY LIMITED

Reports and Financial Statements For the year ended June 30, 2014

NOTES TO THE FINANCIAL STATEMENTS (Continued)

1. Sales	2014 KSHS	2013 KSH
Water Sales	34,371,270	51,777,612
Exhaust Works	270,578	4,578,065
	<u>34,641,848</u>	<u>56,355,677</u>

- In the year 2013/14 water sales reduced since the County Government of Bomet took over operations in eight water supplies(Litein, Bomet, Longisa, Sotik,Ndanai,Chepalungu, Sigor and Chebangang) within Bomet County from September 2, 2013 hence all the revenue generated was due to the County Government of Bomet from the said date)
- Exhaust works reduced during the same period since the exhauster truck registration number KBB 522S was taken over by the County Government of Bomet on 1st July 2013

2. Grants

Salaries	-	2,502,948
Chemicals	457,000	2,073,700
Electricity	8,862,272	23,151,287
Others		147,750
	<u>9,319,272</u>	<u>27,875,685</u>

From September 2013 the National Government stopped giving us grants for Chemicals and Electricity. This was done through a circular from the MEWNR to LVSWSB advising the counties to take over the responsibility since provision of water and sanitation services was a constitutional county function. During the period we received grants of Kshs 3,828,587.78 and Kshs 5,490,684 for Chemicals and Electricity from the National and County Governments respectively.

TILILBEI WATER AND SANITATION COMPANY LIMITED**Reports and Financial Statements
For the year ended June 30, 2014****3. Other Incomes**

WSTF Grant	715,468	6,921,080
Prior year adjustment	(6,297,358)	
Sale of Tender Documents	81,000	294,000
Others ie Connection /Reconnection	631,179	778,833
New customer connection	516,008	
	-	
	4,353,703	7,993,913

The income from new customer is as a result for the connection policy in which customers.

4.a. Administration costs

Staff cost (4 b)	22,764,017	27,712,265
Directors Emoluments	1,046,127	1,375,465
Electricity and water	71,629	139,829
Communication services and supplies	1,039,431	753,190
Transportation travelling and subsistence	3,426,562	3,593,043
Advertising printing and Stationery	707,066	1,111,501
Rent Expenses	26,000	27,600
Staff Training Expenses	88,524	25,030
Hospitality supplies and services	89,861	39,000
Insurance costs	93,697	188,230
Office general supplies and services	525,426	494,387
Auditors remuneration	496,960	328,000
Consultancy fees	38,000	275,500
Repairs and Maintenance	124,810	149,010
Provision for bad and doubtful debts	2,482,175	0
WSTF Expenses	551,200	620,670
New customer Installation Expenses	457,278	0
Other Operating Expenses	268,019	420,974
	34,296,782	37,253,694

TILILBEI WATER AND SANITATION COMPANY LIMITED

Reports and Financial Statements For the year ended June 30, 2014

Administration expenses reduced in the year as compared to the other year. In the year we made a provision for bad and doubtful debts.

4(b) STAFF COSTS

Salaries and allowances of permanent employees	15,794,219	24,854,447
Salaries and allowances of employees on contract	2,999,472	0
Wages of temporary employees	493,527	1,201,266
Compulsory national social security schemes	85,250	121,400
Other pension contributions	2,027,013	1,258,352
Leave pay and gratuity provisions	1,163,836	276,800
Staff welfare	200,700	
	<u>22,764,016</u>	<u>27,712,265</u>

The average number of employees at the end of the year was:

Contract employees – Management	3
Permanent employees – Unionisable	47
Temporary employees	3

A reduction in staff cost is evident since some staff were taken over by the County Government of Bomet.

5. MAINTENANCE AND DISTRIBUTION COSTS

Water chemicals	1,506,126	4,522,631
Electricity	20,805,816	27,156,477
Maintenance and repairs ro distribution lines	2,848,632	4,805,677
Repair of Pumps	114,110	650,588
Security	1,498,140	2,435,420
Lease fees	2,544,294	4,117,824
Vehicle running expenses	2,294,640	3,539,457
Regulatory Levy Expense	306,602	560,296
WRMA LEVY	270,073	743,401
Standard Levy	177,332	47,032
	<u>32,365,764</u>	<u>48,578,803</u>

TILILBEI WATER AND SANITATION COMPANY LIMITED

Reports and Financial Statements For the year ended June 30, 2014

This comprises of expenses used in the routine and maintenance of the water system ,the major expense is electricity cost.

6. OPERATING PROFIT/ (LOSS)

The operating profit/(loss) is arrived at after charging/(crediting):

Staff costs (note 9)	22,764,016	27,712,265
Depreciation of property, plant and equipment	135,221	83,845
Amortization of intangible assets	37,740	175,200
Provision for bad and doubtful debts	2,482,175	
Directors' emoluments - fees	1,046,127	1,375,465
- other		
Auditors' remuneration - current year fees	380,480	328,000
- prior year under-provision	116,480	
Loss on disposal of property, plant and equipment	0	31,378
	26,962,239	29,706,153

7. PROPERTY, PLANT AND EQUIPMENT

2014	Buildings & civil works	Computers & related equipment	Office equipment	Furniture and fittings	Total
COST OR VALUATION					
At July 1, 2013	12,000	391,340	289,675	259,083	952,098
Additions		148,000	13,500	246,995	408,495
Transfers					-
Disposals					-
At June 30, 2014	12,000	539,340	303,175	506,078	1,360,593
DEPRECIATION					
At July 1, 2013	4,783	194,290	118,999	97,001	415,073
Charge for the year	722	69,015	21,334	44,150	135,222
Impairment loss					-
Eliminated on disposal					-
At June 30, 2014	5,505	263,305	140,333	141,151	550,295

TILILBEI WATER AND SANITATION COMPANY LIMITED

**Reports and Financial Statements
For the year ended June 30, 2014**

NET BOOK VALUE					
At June 30, 2014	6,495	276,035	162,842	364,927	810,298

Property, plant and equipment include the following items that are fully depreciation

	Cost or valuation	Normal annual depreciation charge
Buildings and civil works	12,000	722
Furniture and fittings	506,078	44,150
Computers and related equipment	539,340	69,015
Office equipment	303,175	21,334
	1,360,593	135,222

8. Intangible Assets

	2014 KSHS	2013 KSHS
COST		
At July 1,2013	876,000	876,000
Additions	0	0
Disposals	0	0
At June 30 2014	876,000	876,000
AMORTISATION		
At July 1,2013	687,300	512,100
Charge for the year	37,740	175,200
Disposals	0	0
Impairment loss	0	0
At June 30,2014	725,040	687,300
NET BOOK VALUE		
At June 3 0,2014	150,960	188,700

This relates to the billing, accounting and payroll software in use.

Reports and Financial Statements
For the year ended June 30, 2014

NOTES TO THE FINANCIAL STATEMENTS (Continued)

9. INVENTORIES

	2014	2013
	Kshs	Kshs
Pipes and fittings	311,035	129,978
Water Chemicals	139,508	1,244,425
Stationery and general stores	188,340	181,947
	<u>638,883</u>	<u>1,556,350</u>

10 (a) TRADE AND OTHER RECEIVABLES

	2014	2013
	Kshs	Kshs
Trade receivables (note 10(b))	77,639,954	74,856,257
Staff receivables (note 10 (c))	309,504	291,097.00
Other receivables	100,000	100,000
Gross trade and other receivables	78,049,458	75,247,354
Provision for bad and doubtful receivables	2,482,175	-
	<u>75,567,283</u>	<u>75,247,354</u>

This refers to amounts due from customers in the entire area. However an amount of Kshs 39,587,534 is arrears in Bomet County.

10 (b) TRADE RECEIVABLES

At June 30, the ageing analysis of the gross trade receivables was as follows:

Less than 30 days	2,457,300	4,881,737
Between 30 and 60 days	2,476,687	4,641,754
Between 61 and 90 days	2,577,030	3,638,884
Between 91 and 120 days	2,600,260	3,840,728
Over 120 days	67,628,677	57,953,154
	<u>77,739,954</u>	<u>74,956,257</u>

TILILBEI WATER AND SANITATION COMPANY LIMITED**Reports and Financial Statements
For the year ended June 30, 2014****10(c) STAFF RECEIVABLES**

	2014	2013
	Kshs	Kshs
Gross staff advances	309,504	291,097
Provision for impairment loss	0	0
	309,504	291,097
Less: Amounts due within one year	309,504	291,097
Amounts due after one year	-	-

11 .BANK AND CASH BALANCES

	2014	2013
	KSH	KSHS
Cash at bank	13,539,468	7,023,780
Cash in hand	400	14,285
	13,539,868	7,038,065

The bulk of the cash at bank was held at Equity Bank and Kenya Commercial Bank, the company's main bankers.

12. ORDINARY SHARE CAPITAL**Authorised:**

5000 ordinary shares of Kshs.20 par value each	100,000	100,000
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Issued and not paid:

13 ordinary shares of Kshs.20 par value each	260	260
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Only 13 shares were issued but have not been paid

TILILBEI WATER AND SANITATION COMPANY LIMITED

Reports and Financial Statements For the year ended June 30, 2014

13. CAPITAL RESERVE.

The capital reserve refers to the amount of debtors inherited from the Ministry of Water when the company was formed from the various schemes.

14. RETAINED EARNINGS

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

15. TRADE AND OTHER PAYABLES

	2014 KSH	2013 KSHS
Trade payables	41,054,414	28,874,673
Accrued expenses		
Other payables	32,017,776	21,813,198
	<u>73,072,189</u>	<u>50,687,870</u>

[Other payables relates to the payables to related parties i.e. Lake Victoria south Water Services Board, Water Services Regulatory Board, Water Resources Management Authority and Water Services Trust Fund)]

16. RETIREMENT BENEFIT OBLIGATIONS

The company operates a defined contribution scheme for all full-time employees from July 1, 2012. The scheme is funded by contributions from both the company and its employees. The balance of the defined contribution scheme is as analysed below.

	2014 KSH	2013 KSHS
Balance at beginning of the year	2,442,745	1,445,244
Company contributions during the year	1,714,946	1,291,941
Employee's contributions during the year	818,717	645,971
Prior year adjustment	1,552,890	0
Paid out during the year	(273,834)	(940,411)
Balance at end of the year	<u>6,255,464</u>	<u>2,442,745</u>

The company also contributes to the statutory National Social Security Fund (NSSF). This is a defined contribution scheme registered under the National Social Security Act. The company's obligation under the scheme is limited to specific contributions legislated from time to time and is currently at Kshs.200 per employee per month.

TILILBEI WATER AND SANITATION COMPANY LIMITED

**Reports and Financial Statements
For the year ended June 30, 2014**

NOTES TO THE FINANCIAL STATEMENTS (Continued)

17. PROVISION FOR LEAVE PAY

	2014	2013
	KSHS	KSHS
Balance at beginning of the year	0	0
Additional provision at end of year	234,000	276,800
Leave paid out or utilised during the year	234,000	276,800
Balance at end of the year	<u>-</u>	<u>-</u>

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

18. NOTES TO THE STATEMENT OF CASH FLOW

(a) Reconciliation of operating profit/(loss) to cash generated from/(used in) operations

	2014	2013
	KSH	KSH
Operating profit/(loss)	(27,292,521)	6,298,632
Depreciation	135,222	83,845
Amortisation	37,740	175,200
(Gain)/loss on disposal of property, plant and equipment	0	(26,462)
Operating profit/(loss) before working capital changes	(27,119,559)	6,531,215
(Increase)/decrease in inventories	35,028	882,439
(Increase)/decrease in trade and other receivables	(319,929)	(10,922,173)
Increase/(decrease) in trade and other payables	26,197,037	12,776,405
Increase/(decrease) in retirement benefit obligations	25,912,136	2,736,671
Cash generated from/(used in) operations	(1,207,423)	9,267,886

19. Analysis of cash and cash equivalents

	2014	2013
	KSH	KSHS
Cash at bank	13,539,468	7,023,778
Cash in hand	400	14,285
	<u>13,539,868</u>	<u>7,038,065</u>

20. RELATED PARTY DISCLOSURES

(a) Lake Victoria South Water Services Board(LVSWSB)

LVSWSB is the asset holder and it has contracted the Company to be its agent in the provision of water services within its authorised area through a five year Service Provision Agreement. In return the company pays 4% and 5% from revenue collected as Lease fees and Board Levy respectively.

b) Water Service Regulatory Board (WASREB)

WASREB is the regulator of the water sector .The relationship is that the company also pays 1% of the billing monthly as regulatory Levy.

c) Water Resources Management Authority (WRMA)

WRMA charges 50 cents for every cubic meter of raw water abstracted from the river from all the schemes.

d) Water Services Trust Fund (WSTF)

WSTF gives fund to the water company to improve service delivery to the Urban Poor. So far the company has been funded three projects from WSTF. The projects are done by the company and the asset will be finally transferred to LVSWSB. At the end of the year WSTF had transferred money to the company's account since the project was on going.

21 INCORPORATION

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

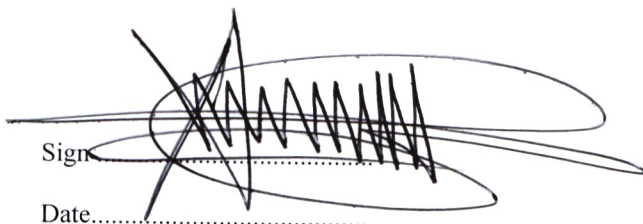
PROGRESS ON FOLLOW UP OF AUDITOR RECOMMENDATIONS

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

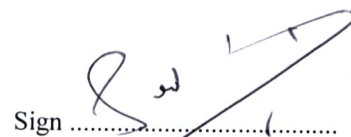
Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Focal Point person to resolve the issue (Name and designation)	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
TILWASC O/SRH/VO L1/3	Unaccounted For Water During the year under review the company produced 3,486,702 cubic meters of water. However out of this volume 1,380,600 cubic meters were billed to customers. The balance volume of 2,106,099 cubic meters was unaccounted for. The high level of UFW affects the company's profitability and its long term sustainability	The company experiences a range of challenges ranging from old dilapidated network, low metering ratio water theft among other. To curb this, the company established a Non Revenue Water in June 2013 with the mandate of reducing from the current 67% to 49% in the next four years. A pilot for Litein i.e. District metered areas has been done for major lines and its ongoing	Ambugo Antony – Managing Director	On going	
	Trade and Other Receivables Trade and Other receivables include a balance of Kshs 31,421,989 inherited from the Ministry of Water and whose recoverability is doubtful. Consequently the accuracy and recoverability of the receivables could not be confirmed	A provision for bad and doubtful debts has been provided in the year 2013/2014	Ambugo Antony – Managing Director	Resolved	
	Customers' Water Deposits Account The statement of financial position reflects customer deposits of Kshs 6,247,015 while the corresponding deposits in the bank amounted to Kshs 1,919,398.40. The accuracy of the customer deposit balance could not be confirmed.	The difference in the deposit was as a result of the bankings that were made in one account for a period of two years when the company was operating Under Lake Victoria South Water Services Board. We have provided a standing order of Kshs 40,000 per month in order to reduce the difference over the years.	Ambugo Antony – Managing Director	Resolved	

Guidance Notes:

- (i) Use the same reference numbers as contained in the external audit report;
- (ii) Obtain the “Issue/Observation” and “management comments”, required above, from final external audit report that is signed by Management;
- (iii) Before approving the report, discuss the timeframe with the appointed Focal Point persons within your company responsible for implementation of each issue;
- (iv) Indicate the status of “Resolved” or “Not Resolved” by the date of submitting this report to National Treasury.

Sign 

Date.....
Mr. Ambugo Antony
Managing Director

Sign 

Date.....
Mr. Johnson Koech,
Interim Chairman of the Board