

REPUBLIC OF KENYA



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REPORT

OF

THE AUDITOR-GENERAL

ON

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

**FOR THE YEAR ENDED
30 JUNE 2014**

Paper Laid

On Wednesday
26/8/2015 By the
the Leader of Majority
Party

Ⓢ



KITUI WATER AND SANITATION COMPANY LTD

ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 30TH JUNE 2014

**Prepared in accordance with the Accrual Basis of Accounting
Method under the International Public Sector Accounting
Standards (IPSAS)**



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I. Key Entity Information and Management

(a) Background Information

The enactment of the Water Act 2002 introduced policy changes in the management of water and sanitation. The Act vested the ultimate power of water and sanitation administration to the Minister in charge of water. The authority of Minister was manifested through the Gazettment of five regulatory bodies: the Water Services Regulatory Board, the Water Service Boards, the Water Appeals Board, Water Resources Management Authority and Water Services Trust Fund. These bodies have the role of setting policy standards, licensing, monitoring, supervising, allocating and development of water resources. However, the management of operations and maintenance of water supplies was delegated to Water Service Providers' such as KITWASCO. According to the Act all local authorities who were water undertakers, National Water Conservation and Pipeline Corporation and Government water supply projects were required to surrender or lease their water infrastructure to the respective regional Water Service Board. Kitui – Masinga Water Supply area falls within the jurisdiction of Tanathi Water Service Board.

In order to act compliant, the Kitui Municipal Council registered KITWASCO as a company on August 2006. KITWASCO is currently operating as an agent of Tanathi Water Services Board.

In August 2010, a new Constitution was promulgated. The Ministry of Water and Irrigation is re-aligning the Water Act 2002 to the new constitution. This is meant to considerably change the operation of the Company since water provision and sanitation services has been placed on the County Governments.

(b) Principal Activity

The principal activity / mission is to provide sustainable, safe and adequate water services for domestic, industrial and commercial use in a cost effective manner and effectively manage the resultant waste water with a committed and motivated human resources.

The mandate of the Company is; -

- To ensure that it possesses and retains all the necessary expertise necessary to fulfil the technical, commercial, financial and administrative functions.
- To provide the services within the KITWASCO's Defined Service Area.
- To meet all the required standards, guidelines and provisions of the SPA.
- To obtain all necessary licenses, permits and warranties necessary to carry out its obligations in accordance with statutes in force.
- To maintain the assets in good working order and not to dispose of any assets without the authorization of Tanathi Water Services Board.
- To fulfil the Performance Targets set in Performance Contract signed and achieve them within a time frame agreed upon with Tanathi Water Services Board.
- To come up with proposals for improvement of the assets so as to enhance service delivery.

Kitui Water and Sanitation Company Limited
Financial Statements for the year ended 30th June, 2014

- To carry out connection and disconnection of services to properties for non-payment for water and sanitation services.
- To take legal action for breach of obligations by customers and others causing damage or adversely affecting the services.
- To ensure that appropriate measures for the protection of the environment are adhered to in line with appropriate legislations.
- To maintain, exercise all statutory powers within the area, in relation to works, assets, pipe work and appurtenances of the water supply and sanitation systems.
- To have access to land, property and water sources within the KITWASCO jurisdiction subject to rules on public security.

(c) Key Management

The key management staff comprises of a Managing Director who is the accounting officer. The Company is organized into the following Departments:-

- Technical Department – Headed by the Technical Manager
- Commercial Department – Headed by Commercial Manager.
- Human Resources Department – Headed by the Human Resources and Administration Manager.
- Directorate Department – Officers reporting to the Managing Director.

(d) Registered Office:

Manyenyoni off Kitui School – Majengo Road
Near KEWI Campus and Opposite Meteorological Department Offices
P.O. Box 341 – 90200

KITUI

(e) Corporate Contacts:

Telephone: (+254) 701545554, 73233330
E-mail: kitwasco@gmail.com

Kitui Water and Sanitation Company Limited
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(f) Bankers:

Kenya Commercial Bank
P.O Box 683 - 90200
KITUI

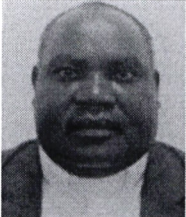


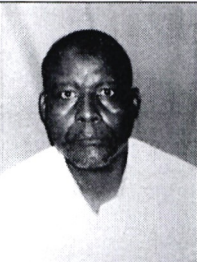
Co-operative Bank.
P.O. Box 1432 - 90200
KITUI

Kenya Post Office Savings Bank
P.O Box 668 – 90200
KITUI



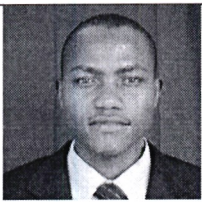
(g) Auditors:

Auditor General
Kenya National Audit Office
P.O Box 30084 -00100
NAIROBI.


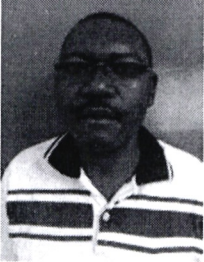

II. The Board of Directors:

Director's passport-size photo and name	Director's date of birth, key qualifications and work experience
 1. Rev. Joseph M. Simba	Born in 1962 EACE, P1 (Teacher) and Reverend
2. Lucy Waema	Born in 1974 BA, Government & Public Administration, Town Clerk, Deputy County Assembly Clerk
 3. Khadija Abdallah	Born in 1959 KCE Community Development Officer
 4. Patrick Kiusya	Born in 1972 BSC, BSc (Agriculture), Development Coordinator
 5. Said Abdalla Mwikaa	Born in 1957 EACE, Accountant

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Financial Statements for the year ended 30th June, 2014

6.	 <p>Evelyn Mutia</p>	<p>Born in 1952</p> <p>KCE, P1 Teacher- retired</p>
7.	 <p>Teresia Kavutha Mathuu</p>	<p>Born in 1962</p> <p>EACE, Pursuing BCOM, Accountant</p>
8.	 <p>Nthuku Mutiso</p>	<p>Born in 1978</p> <p>B.Tech in Civil & Structural Engineering Masters of Philosophy Water Engineering Registered Graduate Engineer</p>

III. Management Team:

Manager's passport-size photo and name, and key profession/academic qualifications	Responsibility
 <p>1. John Kameta 'O' level Diploma Water supply</p>	<p>In charge of Technical Department</p>
 <p>2. Urbanus Mutisya BA Public admin, Higher Dip HRM Certified HR Consultant.</p>	<p>In charge of Human resource & Administration Department</p>
 <p>3. Victor Muteti Bachelor of commerce MBA(awaiting graduation) CPA sec IV ACCA II</p>	<p>In charge of Commercial Department</p>

IV. Chairman's Statement

I, on behalf of the Board of Directors of Kitui Water and Sanitation Company Ltd, have the pleasure to present the financial results and annual statements for the Year ended 30th June 2014 as follows: -

Review of Operations

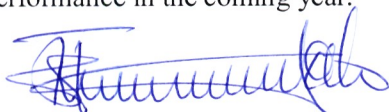
The Company like any other organisation operated under turbulent environment where inflation and taxation regime changed to our disadvantage. In particular fuel prices and electricity costs went up with the same water tariff structure. Reduction of subsidy levels and increased cost of inputs like pipes and chemicals exerted immeasurable pressure on operations of the Company.

However, despite the foregoing the Company registered 8.8% increase in revenues and implemented some of the recommendations of the Energy Audit conducted like connection of Ikanga Booster Station to the National Grid.

Due to the financial challenges, the Company employed austerity measures cutting across all her operations. As a result, the Company made a deficit of Kshs 8,506,051 and therefore does not declare dividends.

Conclusion

On behalf of the Board of Directors and Management, I wish to thank all our customers, staff, stakeholders and partners for their support during the year under review. I wish to assure stakeholders that the Board of Directors has implemented appropriate strategies to boost and sustain improved performance geared towards self-sustainability and anticipate a better performance in the coming year.



Rev. Joseph Simba
CHAIRMAN

V. Report of the Managing Director

The year under review has proved to be one of the most successful since inception. Notable achievements are as briefly described below: -

Integrity Management Toolkit Implementation

The Company successfully piloted the implementation of the Integrity Management Toolkit taking eight tools, namely; work culture training, sanctions catalogue for unethical behavior, integrity training for staff and management, anti-corruption policy, improved meter reading procedures, training and sensitization on procurement procedures, training on accounting skills for financial staff and asset management policy.

This has resulted to gradual improvement in work culture and integrity standards translating to improved organizational performance.

Financial Performance

The Company was operating under a subsidized water tariff from the Government of Kenya. During the year, the Company received an amount totaling to Kshs 40,494,384 as subsidy from the County Government of Kitui translating to a decrease of 8.5% compared to last Financial Year. Total revenues increased by Kshs. 8,822,031 translating to 8.8% revenue increment.

Energy costs continue being a threat to sustainability and took approximately 57.2% of total revenues. The Company conducted an Energy Audit of all its installations and key among the recommendations is the connection of Ikanga Station to the national grid. During the period therefore the Company paid Kshs. 1,239,643 for installation of power to Ikanga borehole which has diesel driven Engine to reduce on fuel and maintenance expenses. The Company also made recommendations to Tanathi Water Services Board to replace motors in Masinga Treatment Works with high efficiency ones.

To ease on bill payment and improve on collection efficiency, the Company opened an account with Post Bank. As a way of improving on financial discipline, the Company continues to employ austerity measures and entered into Centralised Banking System for payment of licensee remuneration to Tanathi Water Services Board.

For the last 12 months (financial year) the Company made a Deficit of Kshs 8,506,051. The Company continues to operationalise extra modules of Promics.

Operation and Maintenance

The Company continues to ration its customers hoping supplies will improve with the completion Masinga – Kitui Water and Sanitation Project currently underway. Tanathi Water Services Board allocated a 7-ton lorry (KBU 827T) to the Company as a source of revenue and ease transportation of operation and maintenance materials.

To comfortably and effectively address customer complaints, a spacious customer care shed was constructed.

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Financial Statements for the year ended 30th June, 2014

The Company has taken over the operation and maintenance of Thua-Kinakoni Water Supply Project.

Corporate Governance

The Company Board made a tour of all the Company installations and meetings adhered to the provisions of the Company's Articles of Association and good corporate practices. The Company was supposed to hold an Annual General Meeting (AGM) on 12th June 2014 but was postponed as the review of the Articles of Association and Memorandum of Understanding was not ready.

To improve on performance the entire management was placed on performance contract. The Financial Statements have been prepared in-house.

Non-Revenue Water Reduction

The Company continues to experience high levels of Non-Revenue Water of 58.65% way above the sector benchmark of 20%. Comparatively, the level has been dropping from 73% in 2010/2011FY, 61% in 2011/2012FY and 56% in 2012/2013FY. Avenues have been identified and mitigative measures budgeted for in the following Financial Year Budget though all activities are now geared towards reduction of the same.

Conclusion

On behalf of the entire Management, I wish to thank all staff, customers, Tanathi Water Services Board, County Government of Kitui and stakeholders for being there for us. It is my hope that a performance-enabling environment shall continue being provided as we soldier on towards self-sustainability. Even better results are expected this coming Financial Year.

Nthuku Mutiso

Managing Director



VI. Corporate Governance Statement

The Company is in the process of developing a Corporate Governance Statement.

VII. Corporate Social Responsibility Statement

The Company is in the process of developing a Corporate Social Responsibility Statement.

VIII. Report of the Directors

The status of the Company at the inception had appreciably improved by the end of June, 2013. The achievements motivated by the existing challenges can be summarized as follows: -

Establishment Issues

The key establishment issues in the period were:-

- The Company developed a Finance Manual.
- The Company developed a Technical and Operations Manual.
- The Company developed a five year Business Strategic Plan.
- The Company is currently operating under a robust software called Promics.

General Planning Issues

- A one year budget was prepared.

Water Treatment Works

- The entire treatment works maintenance and facilities were in good state.

Capacity Improvement

- The Company trained its Board of Directors and Senior Management on corporate governance.
- The Company has been able to internally generate bills and distribute by 5th of every month.
- Customers can now view their bills through Mobile SMS and pay the same through M-PESA.

Finance

- The Company was operating under a subsidized water tariff from the Government
- During the year, the company received an amount totaling to Kshs 40,494,384 as subsidy from the County Government of Kitui.
- Total revenues increased by Kshs. 8,822,031.
- For the last 12 months (financial year) the Company made a Deficit of kshs 8,506,051.
- During the period the Company has paid Kshs. 1,239,643 for installation of power to Ikanga borehole which has diesel driven engine to reduce on fuel expense.

Aspirations: Opportunities and Challenges

- The achievements are as a result of support from the GOK, Tanathi Water Services Board, the staff and our esteemed customers. The members of staff showed commitment, focus and self sacrifice.
- Being a total pumping system from Masinga Treatment Works to Katheka Booster Station, Ilusya, Ikanga – Mutomo; it has been a great challenge to settle our large electricity bills and fuel cost.
- The Company lacks adequate transport means for monitoring, operations and maintenance within our area of jurisdiction.

Kitui Water and Sanitation Company Limited
Financial Statements for the year ended 30th June, 2014

- It has been a great challenge to repair the old pipeline along Kathivo area. Burst is quite often along this area, and the Company has been pushing the Board to do a complete overhaul of the section. The Board through Africa Development Bank (ADB) is currently rehabilitating the existing lines to double production, double storage, cut costs on pumping and construct a wet sewer system.

Considerable long strides measuring in thousands of meters have been made. There is however great opportunities to make them wider and longer. Strategies are being developed and implemented to face the future.

I beg for your support as the Company owners so that we can together render adequately the basic services needed by our people. Finally I thank you sincerely for the past vibrant support and conclude by a call for all of us to rededicate ourselves for the common good.

Directors

The Directors were appointed through elections but the Company through the County Government of Kitui and Tanathi Water Services Board are amending the Articles of Association and Memorandum of Understanding to adhere to Corporate Governance Guidelines.

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

1.	Rev. Joseph M. Simba	Chairman	- Appointed on 28 th March 2006
2.	Nthuku Mutiso	Managing Director	-Appointed on 3 rd September 2010
3.	Lucy Waema	Director	- County Employee
4.	Khadija Abdallah	Director	- Appointed on 7 th June 2011
5.	Patrick Kiusya	Director	- Appointed on 15 th May 2008
6.	Said Abdalla Mwikaa	Director	- Appointed on 28 th March 2006
7.	Evelyn Mutia	Director	- Appointed on 23 rd June 2010
8.	Teresia Kavutha Mathuu	Director	- County Employee

IX. Statement of Directors' Responsibilities

The Directors are responsible for preparing Financial Statement 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 the operating results of the Company for that year. The Directors are required to ensure that the Company keeps proper accounting records, which disclose with reasonable accuracy at any time 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.

The Directors are of the opinion that the Financial Statements give a true and fair view of the state of 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 system of internal financial controls.

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.



Nthuku Mutiso

Managing Director



Rev. Joseph M. Simba

Board Chairman





X. Statement of Comprehensive Income

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 KITUI 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 Kitui Water and Sanitation Company Limited set out on pages 18 to 33, 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. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Public Sector Accounting Standards and for such internal control as management determines is necessary to enable preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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 provisions of Section 15(2) of the Public Audit Act, 2003 and submit the audit report in compliance with Article 229(7) of the Constitution of Kenya. 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 auditor's 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.

I believe that the audit evidence obtained is sufficient and appropriate to provide a basis for my adverse audit opinion.

Basis for Adverse Opinion

1. Accuracy and completeness of the Financial Statements

The statement of comprehensive income reflects operating expenses of Kshs.93,940,709 as at 30 June 2014 which includes an expenditure of Kshs.4,515,162 referred to as chemicals whose supporting schedules amounted to Kshs.4,870,362 resulting to an unexplained difference of Kshs.355, 200.

Further, the management did not provide expenditure schedules for audit verification for the following items under operating expenses; Water Resource Management Authority (WARMA) Kshs.1,464,570, Tanathi Water Service Board (9% TWSSB) Kshs.9,382,510 and 1% Regulatory Board levy (WASREB) Kshs.1,042,501.

In addition, the company has not prepared a statement of budget as required by IPSAS 24.

In the circumstances, the accuracy and completeness of the financial statements as at 30 June 2014 could not be confirmed.

2. Receivables and Prepayment

Included in the receivables and prepayment balance of Kshs.28,955,322 as at 30 June 2014 are water debtors inherited from National Water Conservation and Pipeline Corporation in 2006 amounting to Kshs.16,322,542. However, the management did not provide sufficient documentary evidence to support them. Further, the company made a provision for bad and doubtful debts at the rate of 15% or Kshs.228,193 of gross debtors' balance of Kshs.29,106,796 as at 30 June 2014.

In addition, although the company has disclosed under note 1 (e) to the financial statements that a provision of 15% general reserve has been made on bad and doubtful debts, no Board approval of the policy has been provided for audit verification.

In the circumstances, it has not been possible to confirm the accuracy and recoverability of the receivables and prepayments balance of Kshs.28,955,322 as at 30 June 2014.

Adverse Opinion

Because of the significance of the matters described in the Basis for Adverse Opinion paragraph, the financial statements do not present fairly, in all material respects, the financial position of the Kitui Water and Sanitation Company Limited as at 30 June 2014 and of its financial performance and its cash flows for the year then ended, in accordance with the International Public Sector Accounting Standards (Accrual Basis) and do not fully comply with both the Water Act, 2002 and the Companies Act, Cap 486 of the laws of Kenya

Other Matters

1. Unaccounted For Water (UFW)

During the year under review, the company produced 2,929,158 cubic meters of water. However, and out of this volume only 985,883 cubic meters was billed to customers.

The balance of 1,943,275 cubic meters or approximately 66% of the total volume is unaccounted for water (UFW), which is 41% over and above the allowable loss of 25% in accordance with the Water Services Regulatory Board guidelines.

The UFW of 66% may have resulted in a loss of sales estimated at Kshs.172,621,118. The significant level of UFW if not cleared may negatively impact on the Company's profitability and its long term sustainability.

2. Going Concern

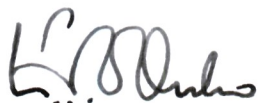
The company made a deficit of Kshs.8,506,051 during the financial year ending 30 June 2014 as compared to a deficit of Kshs.5,013,334 during the year ended 30 June 2013. This has resulted to a decrease of revenue reserve from Kshs.4,746,135 as at 30 June 2013 to negative Kshs.3,759,916 as at 30 June 2014.

The Company's financial position is therefore precarious and its continued existence as a going concern is dependent upon continued support from the Government and its creditors. My opinion is not qualified in respect to these matters.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

As required by the Kenya companies Act. I report based on the audit that;

- i. I have obtained all the information and explanations which, to the best of my knowledge and belief were necessary for the purpose of the audit ;
- ii. In my opinion, proper books of account have not been kept by the company, so far as appears from my examination of those books; and
- iii. The company's statement of financial position and statement of comprehensive incomes are not in agreement with the books of account.



Edward R.O. Ouko, CBS
AUDITOR-GENERAL

Nairobi

20 July 2015

KITUI WATER AND SANITATION CO. LTD
STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 30TH JUNE 2014

		2013/2014	2012/2013
<u>Income</u>	Note		
Revenue	2(a)	100,591,107.00	91,769,076.00
Other Income	2(b)	44,153,393	48,847,422
		<u>144,744,500</u>	<u>140,616,498</u>
Administrative expenses	3	57,238,084	57,707,164
Advertisement and promotions	4	23,000	266,358
Other Operating Expenses	5	93,940,709	85,267,524
		<u>151,201,793</u>	<u>143,241,046</u>
Operating Surplus / Deficit		<u>(6,457,293)</u>	<u>(2,624,548)</u>
Finance cost	6	<u>449,661</u>	<u>387,846</u>
B.O.D Allowances and expenses	7	<u>1,599,097</u>	<u>2,000,940</u>
Net Surplus/Deficit		<u>(8,506,051)</u>	<u>(5,013,334)</u>

XI. Statement of Financial Position

KITUI WATER AND SANITATION CO. LTD
STATEMENT OF FINANCIAL POSITION AS AT 30TH JUNE 2014

<u>Assets</u>	Note	2013/2014	2012/2013
Non-Current Assets			
Plant , Property and Equipment	8	2,916,154	4,964,384
Intangible assets	9	894,450	
Total Non Current Asset		3,810,604	4,964,384
CURRENT ASSETS			
Inventory	10	218,851	307,042
Receivables & prepayments	10	28,955,322	26,033,871
Cash and Cash equivalent	12	13,152,132	7,915,502
Total Current Assets		42,326,304	34,256,415
TOTAL ASSETS		46,136,908	39,220,799
EQUITY & LIABILITIES			
Capital and Reserves ;			
Capital Fund		11,845,658	11,845,658
Surplus Reserve		(3,759,916)	4,746,135
Total equity & Reserves		8,085,742	16,591,793
Non current liabilities			
Loan from Deposit	13	1,897,658	2,626,082
Total Non current liabilities		1,897,658	2,626,082
Current liabilities			
Payables & Accruals	14	36,153,508	20,002,924
Total current Liabilities		36,153,508	20,002,924
TOTAL EQUITY & LIABILITIES		46,136,908	39,220,799



Nthuku Mutiso
 Managing Director (KITWASCO)

Date: 6/5/15



Rev. Joseph M. Simba
 Board Chairman (KITWASCO)

Date: 6/5/15



XII. Statement of Changes in Equity



**KITUI WATER AND SANITATION CO. LTD
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30TH JUNE 2014**

	Capital Fund <u>Kshs</u>	Surplus Reserve <u>Kshs</u>	Total <u>Kshs</u>
Balance as at 1st July 2012	11,845,658	9,759,469	21,605,127
Surplus/Deficit for the Period	0	(5,013,334)	(5,013,334)
Balance as at 30th June 2013	<u>11,845,658</u>	<u>4,746,135</u>	<u>16,591,793</u>
Balance as at 1st July 2013	11,845,658	4,746,135	16,591,793
Surplus/Deficit for the Period	0	(8,506,051)	(8,506,051)
Balance as at 30th June 2014	<u>11,845,658</u>	<u>(3,759,916)</u>	<u>8,085,742</u>

XIII. Statement of Cash Flows

KITUI WATER AND SANITATION CO. LTD
STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30TH JUNE 2014

	2013/2014	2012/2013
	Kshs	Kshs
<u>Cashflow from Operating activities</u>		
Operating surplus / deficit before Working Capital Changes	(8,506,051)	(5,013,334)
Add: Depreciation	978,000	1,250,745
Amortization	440,550	
Operating surplus before Working Capital Changes	<u>(7,087,501)</u>	<u>(3,762,589)</u>
<u>Working Capital Changes</u>		
Decrease/(increase) in Inventories	88,191	751,778
Decrease/(increase) in Receivables & prepayments	(2,921,450)	9,638,234
(Decrease)/increase in Payables & Accruals	16,150,584	(1,378,583)
Net Working Capital Changes	<u>13,317,325</u>	<u>9,011,429</u>
Net Cash generated from Operating activities	<u>6,229,824</u>	<u>5,248,840</u>
<u>Cashflow from Investing activities</u>		
Purchase of Fixed Assets	<u>(264,770)</u>	<u>(2,425,915)</u>
Net Cash outflow used by Investing activities	<u>(264,770)</u>	<u>(2,425,915)</u>
<u>Cash flow from Financing Activities</u>		
Loan from deposit account		
Loan repayments from deposit account	<u>(728,424)</u>	-
Net cash flow from Financing Activities	<u>(728,424)</u>	<u>-</u>
Net (Decrease)/Increase in Cash and Cash Equivalent	<u>5,236,630</u>	<u>2,822,925</u>
Net Cash & cash Equivalent at beginning of period	<u>7,915,502</u>	<u>5,092,577</u>
Net Cash & cash Equivalent at year End	<u>13,152,132</u>	<u>7,915,502</u>

XIV. Notes to the Financial Statements

KITUI WATER & SANITATION CO. LTD
NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 30TH JUNE 2014

1. SIGNIFICANT ACCOUNTING POLICIES:

The principle accounting policies adopted in the preparation of these Financial Statements are set on below:

a). Basis of preparation

The Financial statements are prepared in accordance with and comply with International Public sector Accounting Standards under Accrual Cost Convention . Previously the financial statements were prepared under International Financial reporting standards.

b). Revenue Recognition

Revenue is recognized on water bills fully invoiced.

c). Depreciation

Depreciation is calculated using the reducing balance method to write down their cost amounts to their residual values over their estimated useful lives as follows:

i	Bicycles	12.5%
ii	Furniture & fittings	20%
iii	Computer accessories	33%
iv	Motorcycles and Vehicles	25%

Amortization on intangible non current assets is calculated using the reducing balance method to write down their cost amounts to their residual values over their estimated useful lives as follows:

v	Computer Software	33%
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d). Retirement Benefits

The retirement benefits to the statutory defined contribution pension scheme (N.S.S.F,P & P and Gratuity) contributions are determined by the the local statute and are currently limited to Kshs 200/= per Month per employee and a similar amount by the employer to the contracted per employees. 31% of contracted staff basic pay is payable as gratuity and 7.5% self and 15% by Employer for Permanent and Pensionable Staff.

e). Receivable and Prepayments

Receivables and prepayments are carried at accrued balances, some were inherited from National Water Conservation and Pipeline Corporation and might not be realized in full. A provision of 15% has been made as a general reserve for Bad and Doubtful Debts.

f). Payables and Accruals

Payables and accruals are carried at accrued balances less payments made during the period.

g). Non - Current Assets

The Current Assets shown in the opening balance in the fixed asset schedule were all aquired by the company.

h). Comparatives

The comparative figures to the accounts relates to the audited statements of **2012/2013** financial statements.

i). Provision for Bad and doubtful debts

15% provision for bad and doubtful debts has been made based on recevables (Note 9).

j). Inventory Valuation Policy

The stock is valued at lower of the cost and net realizable / market value.

KITUI WATER & SANITATION COMPANY LIMITED
NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 30TH JUNE 2014

k). Cash and Cash Equivalent

For the purpose of cash flow statement, cash and cash equivalent comprises cash in hand and cashbook balances.

l). Capital Reserve

The capital fund shows the value of assets and liabilities acquired from the G.O.K and National water company as follows:-

	Debtor	16,322,452
Add	Inventories	115,594
Less	Creditors	[4,592,388]
	CAPITAL FUND	<u>11,845,658</u>

The Company has no share capital.

m). Currency

The financial statements are presented in Kenya shillings

n) Financial Risk Management

The company has exposure to: credit risk, liquidity risk and Market Risk
The Board of Directors have established an audit committee charged with the responsibility of identifying risks and advising on risk management.

o). Significant Accounting Estimates and Judgement

Under the carrying amounts of Assets and liabilities the company makes assumption of uncertain future events on her assets and liabilities at the statement of financial position date.

p). Taxation

The company is subject to a corporate tax at a rate of 30% of surplus realised
During the year under review the company made a deficit and therefore no corporate tax has been charged.

KITUI WATER & SANITATION COMPANY LIMITED
NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 30TH JUNE 2014

Note	2013/2014	2012/2013
2(a) REVENUE	Kshs	Kshs
Water Sale	82,357,067	84,463,862
Water Tank	18,234,040	7,305,214
	<u>100,591,107</u>	<u>91,769,076</u>
2(b) OTHER REVENUE		
This comprises of grant for electricity and chemicals which was paid by the Ministry of Water and Irrigation, New connection, re-connection fee, tenders and Ecosan		
Electricity	40,494,384	45,081,222
Chemicals		1,633,000
New Connection	2,548,389	1,608,320
Re- Connection	291,900	139,680
Tender Sales	199,310	167,000
Ecosan	235,450	218,200
Penalty	383,960	
	<u>44,153,393</u>	<u>48,847,422</u>
3 ADMINISTRATIVE EXPENSES		
Salaries	25,914,582	26,421,897
Top up Allowance (GOK Staff)	1,929,096	1,746,167
Casual Wages	2,685,110	1,501,020
Stepend Allowance	2,000	303,000
Training		267,400
Professional Fee	22,900	39,400
Official Airtime	722,316	1,027,455
Motor Vehicle running expenses	3,645,355	1,871,515
Postage Expenses and Kenya Postel Directories	202,603	76,930
Printing & Stationary	816,968	915,129
Staff Transport & Subsistence Expenses	2,873,228	5,043,060
Fuel Expenses	14,843,886	14,394,330
Staff Uniform & Branded /Promotional Materials	2,720	259,800
Kitui Water And Sanitation (Gratuity)	116,570	148,541
Medication	-	400
Entertainment	983,318	642,367
News paper and Periodicals	212,501	143,750
Security Services	1,799,616	2,147,000
Audit fee	232,000	232,000
WASPA	100,000	77,300
Strategic Plan	-	300,000
Cleaning Material	133,315	146,702
Legal Fee	-	2,000
	<u>57,238,084</u>	<u>57,707,164</u>

KITUI WATER & SANITATION COMPANY LIMITED
NOTES TO THE FINANCIAL ACCOUNTS FOR THE YEAR ENDED 30TH JUNE 2014

	2013/2014	2012/2013
	Kshs	Kshs
4 ADVERTISEMENT		
Advertisement	23,000	266,358
	<u>23,000</u>	<u>266,358</u>
5 OPERATING EXPENSES		
Transport Hire	539,930	1,357,933
Insurance Expenses	772,160	171,496
Depreciation	978,000	1,250,745
Amortization	440,550	
Increase in Provision for bad and Doubtful debt	228,193	4,594,213
Net working	4,100	49,580
Social Corporate Responsibility	8,000	14,000
Internet services	150,650	191,010
Computer repairs and maintainance	362,197	344,175
Office Mobile Phone	2,000	6,000
Staff Welfare	42,000	45,400
Purchase of water		36,800
Water Supply System Repair (pipes & fittings)	5,230,060	5,901,934
Water Resources Manament Authority	1,464,579	1,427,846
1% Regulatory Board Levy (WASREB)	1,042,501	961,117
9% Tanathi water services board	9,382,510	8,650,049
Chemicals	4,515,162	3,904,500
Building repairs & Maintainance	77,670	191,957
Repair of office furniture	14,000	
Electricity expense	68,686,447	56,164,272
Hire of Hall		4,500
	<u>93,940,709</u>	<u>85,267,527</u>
6 FINANCE COST		
Bank charges	<u>449,661</u>	<u>387,846</u>
7 B.O.D Allowances and Expenses	<u>1,599,097</u>	<u>2,000,940</u>

KITUI WATER AND SANITATION COMPANY LIMITED
FIXED ASSET MOVEMENT SCHEDULE FOR THE TWELVE MONTH PERIOD ENDED 30TH JUNE,2014
NOTE 8

NAME/TYPE OF ASSET	MOTOR VEHICLES	MOTOR CYCLES	COMPUTER & ACCESSORIES	FURNITURE , FITTINGS AND OTHER EQUIPMENTS		BICYCLES	TOTAL
COST AS AT 1-7-2013	5,099,860	1,486,289	1,147,422	464,505		38,636	8,236,712
ADDITIONS			145,000	119,770			264,770
DISPOSAL							
COST AS AT 30-6-2014	<u>5,099,860</u>	<u>1,486,289</u>	<u>1,292,422</u>	<u>584,275</u>		<u>38,636</u>	<u>8,501,482</u>
ACCUMULATED DEPRECIATION AS AT 1- 7-2013	3,113,787	694,475	537,348	247,392		14,326	4,772,329
CHARGE FOR THE PERIOD	496,518	197,954	228,824	51,665		3,039	978,000
DEPRECIATION ON DISPOSAL							
TOTAL ACCULATED DEPRECIATION AS AT 30-6- 2014	<u>3,610,305</u>	<u>892,429</u>	<u>766,172</u>	<u>299,057</u>		<u>17,365</u>	<u>5,750,329</u>
NET BOOK VALUE AS AT 30-06-2014	<u>1,489,555</u>	<u>593,860</u>	<u>526,250</u>	<u>285,218</u>		<u>21,271</u>	<u>2,916,154</u>
NBV AS AT 30-06-2013	1,986,074	791,814	610,074	217,113		24,309	3,629,384

The company previously had compined tangible and intagibe assets but this Financial year they have been separated.
See note 9 for intagible assets

KITUI WATER AND SANITATION COMPANY LIMITED
INTAGIBLE ASSETS
NOTE 9

NAME/TYPE OF ASSET	PROMICS SOFTWARE	TOTAL
COST AS AT 1-7-2013	1,500,000	1,500,000
ADDITIONS		-
DISPOSAL		
COST AS AT 30-6-2014	1,500,000	1,500,000
ACCUMULATED amortization AS AT 1- 7-2013	165,000	165,000
CHARGE FOR THE PERIOD	440,550	440,550
AMORTIZATION		
DEPRECIATION ON DISPOSAL		
TOTAL ACCULATED DEPRECIATION	605,550	605,550
AS AT 30-6- 2014		
NET BOOK VALUE AS AT 30-06-2014	894,450	894,450
NBV AS AT 30-06-2013	1,335,000	1,335,000

The Company has an agreement with Tanathi Water Services Board to use on a lease basis,boreholes and other Operational equipment.

KITUI WATER AND SANITATION CO LTD
NOTES TO THE ACCOUNTS FOR THE PERIOD ENDED 30TH JUNE 2014

	2013/2014	2012/2013
10 RECEIVABLES AND PREPAYMENTS		
Provision for Bad and Doubtful debts (15%) increase	29,106,796	30,628,084
	(228,193)	(4,594,213)
	<u>28,878,603</u>	<u>26,033,871</u>
Electricity	76,719	
	<u>28,955,322</u>	<u>26,033,871</u>
11 INVENTORIES		
Inventories comprises chemicals, pipes and fittings, lab tools, stationary and loose tools.	218,851	307,042
	<u>218,851</u>	<u>307,042</u>
12 CASH AND CASH EQUIVALENT		
Staff Gratuity A/c	492,355	351,818
Cash at Bank	3,336,432	741,693
Cash at Bank - Customer Deposit	8,466,523	6,793,191
Cash in hand	64,720	28,800
post office collection	792,102	
	<u>13,152,132</u>	<u>7,915,502</u>
13 LOAN FROM CUSTOMERS DEPOSIT ACCOUNT		
Purchase of New Motor vehicle KBN 544E	733,336	1,000,000
Purchase of Motor vehicle KBG 046 C	893,438	1,213,438
Payment of 10% lease fee	270,884	412,644
	<u>1,897,658</u>	<u>2,626,082</u>
During the financial year the company borrowed a loan amounting to kshs 1,239,643 to pay for electricity connection		
14 PAYABLES AND ACCRUALS FOR THE PERIOD		
Electricity	7,546,835	2,231,799
Customer deposit	11,520,546	9,345,486
Creditors	3,213,036	3,718,216
Staff Salary Payables	1,988,465	-
Top Up Allowance	265,649	
Stepend Allowance		6,000
Casual Allowance	260,170	106,295
WARMA Abstraction Fee	2,433,604	2,260,280
1% Regulatory fee WASREB	674,718	71,845
9% Lease fee Tanathi WSB	7,478,349	1,958,993
Staff Gratuity	9,472	72,010
Audit fee	232,000	232,000
Customer Advance Payment	462,914	
Chairmans Honoraria	40,000	
directors allowances	27,750	
	<u>36,153,508</u>	<u>20,002,924</u>

KITUI WATER AND SANITATION CO LTD
NOTES TO THE ACCOUNTS FOR THE PERIOD ENDED 30TH JUNE 2014

15 RELATED PARTY RELATIONSHIPS

The entity has related parties which includes :

1. The County Government of Kitui

The Company operates under a subsidised tariff whereby the County Government of Kitui subsidises by a way of paying a portion of the electricity bills. Under the New Constitution of Kenya 2010 and the Legal Notice No. 164 devolved the water and sanitation services to the County Governments. Hence, the Company is offering services on behalf of the County Government.

2. Tanathi Water Services Board

The Company operates as an agent of Tanathi Water Services Board through a Service Provision Agreement (SPA) during the transition period. Hence, the Water Board is the Principal.

3. Water Services Regulatory Board

The Company is regulated by Water Service Regulatory Board who is also the regulator for the water and sanitation sector.