

REPUBLIC OF KENYA



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REPORT

OF

THE AUDITOR-GENERAL

ON

**THE FINANCIAL STATEMENTS OF
WESTERN WATER SERVICES COMPANY**

**FOR THE YEAR ENDED
30 JUNE 2014**



**Western Water Services
Company**

FINAL AMENDED 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)**



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**Key Entity Information of Western Water Services
Company
Background Information**

The Western Water Services Company (WWSC) is a water service provider incorporated in 2006 with technical assistance from the MWI/GTZ Water Sector Reform Program (WSRP). The company is appointed by LVNWSB as a water service provider with a mandate of delivering water and sanitation services within the municipal councils of Kakamega, Mumias, Busia, Nambale, Butere and Shitoli. The core mandate is to ensure provision of water and sanitation services, ensuring good customer relations and sensitization, adequate maintenance of assets and reaching a performance level set by regulation. This mandate will successfully be achieved through standards and guidelines set by LVNWSB to provide for financial sustainability, capital cost recovery and a return on investment.

In carrying out its contractual obligations, Western Water Services Company is expected in providing

- i). Provide water and sanitation services in an effective, efficient and economical manner and shall report to LVNWSB (Licensee) in accordance with the provisions in the Act.
- ii). Comply with all the provisions of the Laws of Kenya relating to the performance of its obligations, including those relating to occupational health and safety of employees. In addition, the company shall operate a quality monitoring and assurance system in accordance with the International standards.
- iii). Ensure that all assets entrusted to the company by the Licensee are maintained and are in good working condition.
- iv). The development and management of programmes for the advancement of skills and competencies of employees of the company
- v). Establish mechanisms for promoting customer relations including the development of agreements with customers.

The powers and rights of WWSC include,

- i). Rights of disconnection of services to properties for non-payment of charges for water or sewerage
- ii). Rights of entry to premises and properties
- iii). Rights to abstract water and control discharges to sewers and make discharges to watercourses
- iv). Rights to manage, use and operate the Assets
- v). Rights to take legal action for breach of obligations by customers and others causing damage or adversely affecting provision of services.

Western Water Services Company is a corporate entity established in 2006 under the Companies Act, Cap. 486 of the Laws of Kenya. It is wholly owned by the Municipal Councils of Kakamega, Mumias, Busia and Nambale. The Company also operates the Butere and Shitoli schemes and is scheduled to expand and take over additional schemes in the region in the near future. The core business is the provision of water and sewerage services to the residents of the above named urban and rural areas.

In March, 2006, the company was appointed by LVNWSB through a contractual agreement (Service Provision Agreement) to provide water and sewerage services to the six schemes. Through this agreement, WWSC has leased assets from the LVNWSB which can be summarized in figure 1.

Figure 1: Assets from the LVNSWSB

Kakamega Water Supply	T/works, 4 no. B/holes, 2 no. sewerage works, Storage tank 1705m ³ , 90 km distribution pipeline of various sizes and type, 13.7 km of sewerage pipe network of various sizes and type and 7200 connections.
Shitoli Water supply	Treatment works, 3 no. B/holes, 50 km of pipe network of various sizes, storage tanks of total capacity of 1680m ³ and 2967 connections.
Busia Water supply	Treatment works, 8 no. B/holes, 1 no. sewerage works, storage tanks of capacity 550m ³ for Busia and 120m ³ F/Bumala, 24 km of pipe network of various sizes and types and 2683 connections.
Butere Water Supply	5 no. B/holes, storage tanks 96m ³ , 13.75 km of pipe network of various sizes and type and 428 connections.
Nambale Water Supply	4 no. B/holes, storage tanks of capacity 62m ³ , 11 km of distribution Network of various sizes and types and 564 connections.
Mumias Water supply	Treatment works, 2 no. B/holes, storage tanks of capacity 820m ³ , of pipe network of various sizes and type and small sewerage facility and 1266 connections.

All schemes are operational but the current production level is unable to meet the ever-increasing demand for water. The infrastructure in most of the schemes is in dire need of rehabilitation which has already commenced in Kakamega and Busia. This has been made possible by the support of the GOK and KFW through LVNWSB. Rehabilitation works are almost complete and the major works involving the construction of gravity fed systems in Kakamega are set to be completed by August 2010. The current water supply schemes were previously owned and maintained by the Ministry of Water and Irrigation. The NWPC also took over the running of the schemes in the 1980s until the enactment of the Water Sector Reforms in 2002. The reforms clearly separated matters of policy formulation from roles and responsibilities in the provision of water services. WWSC has a total number of 110 members of staff most of whom were drawn from the MWI and NWPC. The Core management team comprising the Managing Director and Heads of Department have been selected through a competitive selection procedure. The Board of Directors is charged with the responsibility of policy formulation, implementation and review. This can be achieved through embracing good governance and providing visionary and transformational leadership. The Core Management team is responsible for overall planning, implementation, monitoring and evaluation of the company's performance, productivity and customer satisfaction.

There have been substantial investments to rehabilitate the infrastructure. In this regard, this strategic plan has been developed to deal with the effects of new technologies and an expanded customer base which would lead to improved quality and reliability of our services

Effective, efficient and sustainable water service provision is dependant on a participatory and conclusive bottom-top planning process in line with the implementation of the water sector reforms following the enactment of the Water Act 2002. The Act was hinged on the principles of efficiency, sustainability and affordability. The company's vision, mission, strategic goals and objectives are presented in a simplified and straight forward manner following the latest Water Sector institutional framework. Emphasis has been put on inclusion of flagship projects relevant to the water services sub-sector as articulated in Vision 2030 and the Medium Term Plan 2008-2012

This strategic plan was inspired by the ever-increasing demand for water attributed to a rapidly growing population, urbanization, dilapidated water/sewerage infrastructure and other socio-economic activities. Millennium Development Goals (MDGs) number 7 seeks to halve the proportion of people without sustainable access to safe drinking water and sanitation services

by 2015. It therefore became necessary for the company to develop a five year strategic plan to ensure it is fully equipped to implement the water sector reforms following the enactment of the Water Act 2002 by adopting the following process:

- To remain relevant, the strategic plan was aligned with the overall vision and mission of Ministry of Water and Irrigation(MWI), National Water and Sanitation Strategy(NWSS), Water Services Regulatory Board(WASREB), Lake Victoria North Water Services Board(LVNWSB) and the Millennium Development Goals(MDGs)
- The strategic team performed an environmental analysis, a process of monitoring the company's environment to identify both present and future threats and opportunities that may influence the company's ability to achieve its goals.
- In developing this strategic plan the management gathered and considered the implications of data related to important environmental factors.
- Having envisaged that organizations are open systems and environmental factors inevitably influence them, it was imperative that managers ensure that this influence is channelled in a positive direction and contributes to organizational success.
- The strategies formulated were linked to the implementation framework with particular focus on financial resources, human capital, organizational structure, governance, leadership, operational processes and risk management.
- Action and operational plans were developed based on the objectives and strategic goals. Individual departments were allocated responsibilities and the time frame within which the specific activities should be accomplished.
- It was proposed that regular reviews should be conducted to ensure that the strategic plan adapts to the dynamic environment.

MANAGEMENT TEAM

1.	George Kwedho	Chief Executive Officer(LVNWSB)
2.	Anthony Kisaka	Chief Finance &Strategy Manager(LVNWSB)
3.	Eng Peter Ouma	Technical Services Manager(LVNWSB)
4.	Naomi Jelimo	Manager Human Capital Planning and Development(LVNWSB)
5	Shadrack Wegulo Juma	Managing Director(WESTERN)
6	Kenneth Indusa	Commercial &Finance Manager(WESTERN)
7	Kennedy Opio	Human Resource & Administration Manager(WESTERN)
8	Michael Ogol	Ag. Technical Manager(WESTERN)

(a) Company Headquarters

Kenfinco Complex

Kakamega-Kisumu Road

P.O Box 1189 - 50100

KAKAMEGA

Tel: 254- 56-30355

Fax: 254-056-31506

(b) Bankers

Co-operative Bank

Kakamega Branch

P.O Box 595- 50100

KAKAMEGA

Barclays Bank

Kakamega Branch

PO BOX 1815-50100

KAKAMEGA

Equity Bank

P.o Box 2512-50100

KAKAMEGA

(c) Independent Auditors

Auditor General

Kenya National Audit Office

Anniversary Towers, University Way

P.O. Box 30084

GOP 00100

Nairobi, Kenya

(d) Principal Legal Adviser

The Attorney General

State Law Office

Harambee Avenue

P.O. Box 40112

City Square 00200

Nairobi, Kenya

Directors and Advisors

Directors

During the year under audit the Company did not have a Board of Directors.

There is a court injunction by members of the previous Board that had been dissolved. The matter remains pending in the courts of law.

Managing Director's Report

Western Water Services Limited was incorporated in 2006 under the Companies Act, Cap. 486. with the technical assistance from the MWI/GTZ Water Sector Reform Program (WSRP) to provide water and sanitation in Kakamega, Busia, Mumias, Nambale, Shitoli, Shinyalu, Muranda, Butere, Matayos and Tindinyo (Nandi County). The company has the following mandates to discharge;

- i). Provide water and sanitation services in an effective, efficient and economical manner and to report to LVNWSB (Licensee) in accordance with the provisions in the Act.
- ii). Comply with the provisions of the Laws of Kenya relating to performance of its obligations, including those relating to occupational health and safety of employees. In addition, the company operates a quality monitoring and assurance system with the legal requirements.
- ii). To Manage and maintain assets entrusted to the company by the Licensee, Lake Victoria north water services board.
- v). Establish mechanisms for promoting customer relations including development of agreements with customers.

KBWS currently has a total of 15,000 customers distributed in areas of operation, most of who are drawn from the urban population. The company key stakeholders include Government of Kenya, donor community WSTF, KEWI, LVNWSB WASREB and WRMA. These stakeholders are involved in regulation, supervision and funding of the company's activities. Their activities have centered on rehabilitation and expansion works, institutional restructuring and capacity building. This is intended to develop the company's capacity to discharge its mandate.

During financial year 2013/2014, the company experienced significant progress in advancement of its objective. Revenue collection efficiency increased to 94% that in effect increased revenue by 31% that was reinvested back into the operation of the company and discharge of various creditors who had been outstanding for long. Additional capacity was achieved in Mumias with the gravity system becoming operational during the year, Additional storage tanks were constructed in kakamega and Mumias while various kiosks were constructed to serve customers without connections.

The major challenge that the company faced was the non-revenue water problem where the company could not account for 52% of its production. This was to a great extent contributed by non-metered accounts and stuck meters. Water theft also contributed significantly while Grading of road network in Kakamega Mumias and Busia had a devastating effect in the months of May and June 2014. While there were additional customers who required connections, inadequate funds limited the company's ability to expand thus reach all

customers. In the next financial year, the company expects to advance its objectives by;

- Increasing water access in urban areas by 20% from the current 53%
- Reducing unaccounted for water (UFW) from 52% to 30%
- Attain 70% and 65% access to safe sanitation; and 40% sewerage access in urban areas
- Improve revenue collection efficiency.
- Improve efficiency effectiveness in its operations

CORPORATE GOVERNANCE.

The company recognizes the importance of corporate governance in creating balance between economic and social goals and between individual and communal goals while encouraging efficient use of resources, accountability in use of power and stewardship and as far as possible to align the interests of individuals, corporation and the society. Good corporate governance is intended to ensure that the powers of the corporation is exercised in the stewardship of the corporation's total portfolio of assets and resources with the objective of maintaining and increasing customer satisfaction and other stakeholders in the context of corporate mission.

Since 2010, The Company has had no board of directors when the licence of Western Water Services Company was cancelled by the Lake Victoria North water services board, for failure to comply with WASREB guidelines. During the year 2012 the Licensee (LVNWSB) advertised for interested companies to apply for a water service provision where subsequently Western Water Services Company applied and won. The positions of directors were advertised and new directors recruited. However, the former directors obtained a court injunction to stop the new board of directors from assuming office. The case has since been withdrawn but the injunction remains effective until after the directors have paid for the cost of the suit. Consequently, the new board of directors remained suspended in 2013-2014 .

To manage, the situation, board of directors through the key management committee has continued to provide oversight over the running of the company. The board has over time provided oversight over;

- Guiding policy formulation, implementation and review
- ensuring good governance and accountability in the operations of the company
- providing mentorship to management
- overseeing the company's long term plans and programmes for growth and development
- Upholding integrity, corporate social responsibility and public image of the company.

Management Structures

- Overall planning implementing, monitoring and evaluating company performance, productivity and customer satisfaction
- Ensuring that company's policies, plans and programme are implemented as directed by the Board of Directors
- Advising the Board on all matters of the company and reporting to the Board on the same regularly.
- Responsible for overall growth and development of the company
- Ensuring that the company has adequate resource capacity (human and non-human) to its business profitable

CORPORATE SOCIAL RESPONSIBILITY STATEMENT

Western Water Services company recognizes its obligations to act responsibly, ethically and with integrity in its dealings with staff, customers, neighbors and the environment as a whole.

To this end: -

1. The company minimizes health and safety risks to staff and visitors through the implementation and adherence to Work place occupational safety and health policy and the Government of Kenya's OHSAS 18001:2007.
2. The Company has a separate environmental policy statement clarifying its commitment to delivering a net positive impact on the environment.
3. The Company has established a Corporate Social Responsibility budget line within its annual budget through which it supports its social responsibility objectives.
4. The company undertakes annual health and safety workplace audits

MANAGEMENT RESPONSIBILITY

The Directors are responsible for the preparation and presentation of the Company 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.

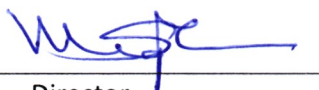
The Directors accept responsibility for the Company's financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgments and estimates, in conformity with International Financial Reporting Standard (IFRS). The Directors are of the opinion 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

Chairman

Director



Director

REPUBLIC OF KENYA

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NAIROBI

OFFICE OF THE AUDITOR-GENERAL

REPORT OF THE AUDITOR-GENERAL ON WESTERN WATER SERVICES COMPANY FOR THE YEAR ENDED 30 JUNE 2014

REPORT ON THE FINANCIAL STATEMENTS

I have audited the accompanying financial statements of the Western Water Services Company set out on pages 14 to 28, 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 Financial Reporting Standards and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor-General's Responsibility

My responsibility is to express an opinion on these financial statements based on the audit and report in accordance with the provisions of Section 15(2) of the Public Audit Act, 2003 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 qualified audit opinion.

Basis for Qualified Opinion

1. Customers' Deposits

Included in the current liabilities of Kshs.262,033,464 as at 30 June 2014 are customers' deposits amounting to Kshs.26,791,720. The balance however, differs by Kshs.1,058,335 from that of Kshs.27,850,055 extracted from the SULIS M@jics billing software. Further, the Customers Deposits Bank Account at Barclays Bank of Kenya had a balance of only Kshs.4,209,977.80 resulting in an unexplained difference of Kshs.23,640,077.20.

Under the circumstances, the accuracy, completeness and guarantee of the customers' deposits balance of Kshs.26,791,720 could be confirmed.

2. Loss of Funds – Unauthorized withdrawal

As similarly reported in prior years, payments totalling Kshs.44,828,774 between 1 July, 2009 and 16 November, 2011 remain unaccounted for. The figure includes an amount of Kshs.24,203,160 misappropriated by the then former Finance Manager whose case is still pending before a court of law.

3. Unrealized Water Revenue and Unaccounted for Water

During the year the Company produced a total of 4,763,540.00 cubic metres (m³) valued at Kshs.462,484,848.75 for distribution. However, only 2,372,605.00m³ or 50% of the water valued at Kshs.230,352,608.47 formed the billed water consumption. The balance of the unbilled water totalling 2,390,935.00m³ valued at Kshs.232,132,240.28 is beyond the allowable standard for leaks, bursts and other unforeseen but acceptable losses of 25% or 1,190,885m³ valued at Kshs.115,621,212.19. Therefore, the balance of 1,200,050m³ of water valued at Kshs.114,731,396.28 is a loss to the Company. Management has not indicated any measures to address this adverse situation.

In the circumstances, it has not been possible to confirm the completeness and accuracy of the water income of Kshs.201,644,239 as at 30 June 2014.

Qualified Opinion

In my opinion, except for the effect of the matters described in the Basis for Qualified Opinion paragraph, the financial statements present fairly, in all material respects, the financial position of the Company as at 30 June 2014 and of its performance and cash flows for the year then ended, in accordance with International Financial Reporting Standards and comply with the Water Act, 2002.

Other Matter

Going Concern and Financial Performance

During the year under review, the Company operated without a board of directors and has no approved budget for its operations. Its license for operations as a Water

Service Provider was cancelled and the Shareholders prevented the Company from exercising its mandate through a Court Suit. It has continued to operate through a board which has not been legally constituted and recognized. Further, the Company made a net loss of Kshs.80,912,940 (2013: Kshs.30,209,844) while current assets stood at Kshs.164,241,903 and current liabilities at Kshs.262,033,464 resulting in a negative working capital of (Kshs.91,567,544) as at 30 June 2014. In addition, the Company did not pay its obligations as and when they fell due and in particular statutory deductions of Kshs.82,417,714.

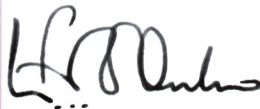
As a result, the company's continued existence as a going concern is dependent upon legally constituting a Board of Directors and financial support to meet its obligations.

My opinion is not qualified in respect to this matter.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

As required by the Kenyan Company Act, I report based on my audit, that:

- i. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit,
- ii. In my opinion, proper books of account have been kept by the Company, so far as appears from my examination of those books, and
- iii. The Company's statement of financial position is in agreement with the books of accounts.



Edward R.O. Ouko, CBS
AUDITOR-GENERAL

Nairobi

30 July 2015

WESTERN WATER COMPANY LIMITED

Reports and Financial Statements for the year ended June 30, 2014**STATEMENT OF COMPREHENSIVE INCOME****Turnover**

		2014	2013
	Notes	Ksh	Ksh
Sales	2	201,644,239	180,296,353
Cost of Sales	3	42,948,204	71,692,537
Gross Revenues		158,696,035	108,603,816
Other Operating Income	4	4,974,915	5,006,317
Total Gross Revenues		163,670,950	113,610,133
Administration/Operating Expenses	5	115,644,082.	142,820,807
Depreciation Expenses	6	2,744,988	999,170
TOTAL EXPENSES		118,389,070	143,819,977
OPERATING PROFIT/LOSS		45,281,880	(30,209,844.00)
-			
Finance Cost		(126,194,820.00)	-
Net Profit/loss		(80,912,940)	(30,209,844.00)

**WESTERN WATER SERVICES COMPANY
STATEMENT OF FINANCIAL POSITION AS AT JUNE 30, 2014**

ASSETS			
NON CURRENT ASSETS			
		2014	2013
		Ksh	Ksh
property, plant and equipment	6	6,224,017	5,576,505
TOTAL NON CURENT ASSETS		6,224,017	5,576,505
Current Assets			
Inventories	8	9,474,035	6,565,404
Receivables and Prepayments	9	142,491,878	99,426,281
Bank and Cash Balances	10	12,275,990	7,341,615
Total Current Assets		164,241,903	113,333,300
Current Liabilities			
Payables & Accruals	11	260,033,464	127,564,408
Short term Borrowing-LVNWSB		2,000,000	2,000,000
Total Current Liabilities		262,033,464	129,564,408
Net Current Asset		(91,567,544)	(16,231,107)
Financed By			
Share Capital		100,000	100,000
Revenue Reserve		(239,710,187)	(158,797,246)
Government Grant		148,042,643	148,042,643
Total Equity		(91,567,544)	(16,231,107)

The financial statements were approved by the board of directors on 26th September 2014 and signed on behalf by:



Chief Executive Officer



Managing Director



Commercial & Finance
Manager

WESTERN WATER COMPANY
STATEMENT OF CHANGES IN EQUITY

For the Year Ended 30th June 2014

	SHARE CAPITAL	RETAINED EARNINGS	GOVT GRANT	TOTAL
	Ksh	Ksh	Ksh	Ksh
As at 1st July 2012	100,000	(104,797,042)	148,042,643	43,345,601
for the year		(30,209,845)	-	(30,209,845)
Fixed Asset - Adjustment		412,800	-	412,800
w/o Fraudulent Payments		(24,203,160)	-	(24,203,160)
30th June 2013	100,000	(158,797,246)	148,042,643	(10,654,603)
Year ended 30 June 2013				
As at 1st July 2013	100,000	(158,797,246)	148,042,643	(10,654,603)
for the year	-	(80,912,940.67)	-	(80,912,940)
30th June 2014	100,000	(239,710,186.67)	148,042,643	(91,567,544)

WESTERN WATER COMPANY
STATEMENT OF CASH FLOW
For the Year Ended 30th June 2014

	30th June 2014	31st June 2013
Cash generated from operations		
Profit/(loss) before tax	(80,912,940)	(30,209,845)
ADD: Non cash adjustments		
Provision for Depreciation	2,744,988	999,170
	(78,167,952)	(28,207,462)
Changes in working capital		
Increase/(Decrease) in Creditors	132,469,056	42,489,936
Increase in Debtors	(40,465,597)	(6,151,306)
Decrease in Short Term Loan	-	-
Increase in Stocks	(2,908,631)	(2,013,956)
Net Cash from (used in) operating activities	89,094,828	34,324,674
Cash flow from Investing Activities		
Net Cash from investing activities		
Acquisition of Fixed Assets(meters)	5,796,377	697,678
Short term borrowing - LVNWSB	-	-
Government Grants	-	-
Net increase Cash and Cash Equivalents	5,130,499	5,419,533
Movement in Cash & Cash equivalents		
At the Start of the year	7,341,615	1,922,082
Increase/Decrease of cash at year end	5,130,499	5,419,533
Balance as at 30th June	12,472,114	7,341,615

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 entity's accounting policies.

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

The financial statements have been prepared in accordance with the PFM Act, the State Corporations 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 entity and the revenue can be reliably measured. Revenue is recognised at the fair value of consideration received or expected to be received in the ordinary course of the entity's activities, net of value-added tax (VAT), where applicable, and when specific criteria have been met for each of the entity's activities as described below.

- i) **Revenue from the sale of goods and services** is recognised in the year in which the entity delivers services to the customer, the customer has accepted the services and collectability of the related receivables is reasonably assured.
- ii) **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-valuation less any subsequent accumulated depreciation and impairment losses. Where re-measurement at re-valued amounts is desired, all items in an asset category are re-valued through periodic valuations carried out by independent external valuers.

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

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

4. Inventories

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

5. 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.

6. Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and cash at bank, short-term deposits on call and highly liquid investments with an original maturity of three months or less, which are readily convertible to known amounts of cash and are subject to insignificant risk of changes in value. Bank account balances include amounts held at the Central Bank of Kenya and at various commercial banks at the end of the 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.

7. Borrowings

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

8. 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.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

9. Comparative figures

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

10. 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.

11. 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 straight-line basis to write down the cost of each asset or the re-valued amount to its residual value over its estimated useful life. The annual rates in use are:

Buildings and civil works	2%
Plant and machinery	10%
Motor vehicles, including motor cycles	25%
Computers and related equipment	33.3%
Office equipment, furniture and fittings	12.5%
Water supply infrastructure	4%

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

NOTES TO THE FINANCIAL STATEMENTS

2 SALES	2,014	2,013
	(Ksh)	(Ksh)
Gross sale of water	153,915,784.00	137,485,141.00
Gross sewer charges	38,609,604.61	35,085,562.00
Meter Rent	9,118,850.00	7,725,650.00
TOTAL REVENUE	201,644,238.61	180,296,353.00

3 Cost Of Sales

Opening Stock(chemicals)	955,330.00	4,551,448.00
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Add: Purchases

Water Levies: LVNWSB	7,464,657.00	32,612,547.00
WASREB	2,016,442.39	1,802,964.00
WARMA	8,495,180.00	4,060,022.00
Council Sewers	-	870,000.00
Electricity	20,561,464.39	17,509,435.94
Chemicals	12,929,166.00	11,241,450.00
Less: Closing stock	9,474,035.50	955,330.00

	42,948,204.28	71,692,536.94
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4 Other Revenue Income:**Exhauster**

Kakamega	2,511,900.00	4,324,220.00
Busia	79,000.00	-
shitoli	-	44,000.00
Mumias	704,500.00	382,097.00
Sale of Tender Documents	-	256,000.00

Total Income from Exhauster	3,295,400.00	5,006,317.00
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Water Bowser

Kakamega	1,679,515.00	-
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Total Income from Water Bowser	1,679,515.00	-
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Kindly note that the water bowser services started in the year of review 2013-2014 and it only received at Kakamega

Total other income	4,974,915.00	5,006,317.00
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5 ADMINISTRATION/OPERATIONS COSTS	2014	2013
	Ksh	Ksh
Staff costs	77,820,625.00	71,142,590.00
Casual Wages	6,140,503.00	6,355,001.00
Performance Reward	1,655,951.00	1,647,321.00
Directors' emoluments	-	2,067,800.00
Postage, Telephone and Internet	971,711.00	1,163,749.00
Transportation, travelling and subsistence	3,316,579.00	2,423,619.00
Newspaper & Periodicals	166,260.00	132,368.00
printing, stationery	1,102,354.00	1,062,785.00
Funeral Expense	90,000.00	-
Staff training expenses	1,584,010.00	339,237.00
security services	5,678,244.00	5,891,178.00
Fuel	4,714,530.00	4,934,705.00
Software maintenance	443,700.00	100,000.00
Lab Reagents	339,533.00	493,841.00
Domestic Requisites	1,047,766.00	2,314,094.00
Cross Cutting Issues	233,755.00	-
Grauity		440,200
Motor vehicle Repairs	3,794,712.00	1,522,665.00
Uniform & Protective Clothing	25,479.00	608,900.00
Office buildings repairs		165,515.00
Subscription Fees	177,508.00	138,750.00
Publicity & Advertisements	384,294.00	907,096.00
Customs Duty	100,000.00	755,205.00
Repairs & Maintenance	414,455.00	622,927.00
Operations & Maintenance	5,134,424.00	4,438,160.00
Computer Accessories	213,737.00	755,363.00
Motor vehicle inspections	60,533.00	-
Motor Vehicle Insurance	990,185.00	1,959,134.00
Bank charges and commissions	352,113.00	325,372.00
Auditors' remuneration	812,000.00	563,012.00
Legal fees	-	1,280,000.00
NEMA	300,000.00	
Consultancy fees	10,000.00	540,000.00
Provision for Doubtful debt	2,600,000.00	
LVNWSB-Understated	-	27,730,220.00

TOTAT OPERATION COSTS

115,644,082

143,819,977

6. Property Plant and Equipment

2,014	Water Suppl11n frastructu re	Furniture & fittings	Plant and machinery	Motor vehicles, including motor cycles	Computers & r equipment	Office equipm ent	Water Meters	Total
COST OR VALUATION		1,811,000	385,860	7,365,900	868,312	183,902	2,957,000	13,571,974
At July 1, 2010	0		0	0	0	0	-	0
Additions	430,000	283,195	0	0	410,997	0		694,192
Transfers	0		-	-	-	-	0	-
Disposals	0		0	0	0	0	0	0
At July 2013	430,000	2,094,195	385,860	7,365,900	1,279,309	183,902	2,957,000	14,266,166
Additions		79,500	67,000		49,000		4,160,000	4,355,500
At July 1, 2012	0		0	0	0	0	0	0
Charge for the year	0		0	0	0	0	0	0
Impairment loss	0		0	0	0	0	0	0
Eliminated on disposal	0		0	0	0	0	0	0
At June 30, 2014	430,000	2,173,695	452,860	7,365,900	1,328,309	183,902	7,117,000	19,051,666
DEPRECIATION								0
At July 1, 2013	17,200	1,655,423	270,102	6,245,231	1,196,315	160,915	537,475	10,082,661
								0
Charge for the year 2014	17,200	271,712	45,286	1,841,475	442,327	22,988	104,000	2,744,988
ACC Depreciation as at June 2014	34,400	1,927,135	315,388	8,086,706	1,638,642	183,903	641,475	12,827,649
NET BOOK VALUE								
At June 30, 2013	412,800	438,772	115,758	1,120,669	245,994	22,987	3,219,525	5,576,505
At June 30, 2014	395,600	246,560	137,472	-720,806	-310,333	-1	6,475,525	6,224,017

7) The company had secured external financing from German government and Kenya governments as follows. The interest due to this date is Ksh 126,194,820

SUMMARY

The table below summarizes the costs above

ITEM	DESCRIPTION	COST IN KShs.	COST IN USD
1	Works	1,378,874,970	15,320,833
2	Goods	137,943,900	1,532,710
3	Consultancies and Capacity Building	233,399,970	
			2,593,333
4	Resettlement	54,000,000	600,000
5	LVNWSB Capacity/Support	32,185,125	357,613
	TOTAL	1,836,403,965	20,404,489

	Exchange rate USD=Ksh 90		
	Gok Contribution	183,640,397	2,040,449
	IDA Contribution	1,652,763,569	18,364,040
		1,836,403,965	20,404,489

8 Stock

	30th June 2014	30th June 2013
a) Total Chemicals	1,409,516	955,330
b) Stationery	636,347.00	440,381
c) Pipes and Fittings	7,428,173.00	5,169,693
To Balance Sheet	9,474,035.50	6,565,404

9 Debtors

	30th June 2014	30 th June 2013
Tindinyo		420,983
Shitoli	14,961,651	10,106,110
Shinyalu	2,430,879	2,588,014
Murhanda		-
Kakamega	69,691,194	50,869,503
Butere	3,847,033	2,768,595
Mumias	11,261,069	7,179,401
Nambale	3,435,996	2,085,404
Matayos	3,426,791	3,117,247
Busia	23,732,494	19,230,474
	132,787,107	98,365,731
Exhauster	340,500	420,000
Bowser	-	13,000
Staff Debtors	181,600	627,550
	133,309,207	99,426,281
VAT Claim	5,735,213	0
PAYE Claim	3,036,523	0
KPLC	410,935	0
TOTAL DEBTORS	142,491,878	99,426,280

10 Cash and Bank Balances As at 30th Jun 2014

	2014	2013
M-pesa Balances	2,056,190	1,898,981
Cash in Hand	166,395	61,134

Bank Balances

10,053,405

5,381,500

Totals**12,275,990****7,341,615**11 **CREDITORS SUMMARY OF CREDITORS AS AT 30.06.2014**

DATE	SUPPLIER	2014	2013
African Airtouch		110,115	35,000
Aquatreat		30,624	
Avenue Electrical & Glazing		64,940	64,940
BEDROCK HOLDINGS LTD		2,220,015	1,976,343
Benjamin Makokha		-	9,000
Betco Engineering		-	21,600
Brother Marketing Ltd		-	35,880
Boada		102,470	
CADS Motors Ltd		-	89,979
COAST INDUSTRIAL & SAFETY SUPPLIES LTD		140,692	
COMPULYNX NYANZA LTD		32,000	
Davis & Shirliff		-	261,000
G4S		-	
GM BUSOLO CONTRACTORS		78,000	
Julika Automobiles		168,104	
KINETICS ENGINEERING LTD		397,326	2,139,778
KRA Arrears		589,952	2,989,952
NUPAXX SERVICES		3,050,000	
LAPTRUST		1,093,752	2,900,000
PAN AFRICA CHEMICALS LTD		909,116	371,500
LVNWSB Levies		67,896,085	74,808,220
LVNWSB - Customs Duty		344,958	444,958
Kakamega General Motors		478,315	719,569
CIC		200,000	-
KPLC		-	2,168,624
POLYPIPES LTD		1,451,750	
Pop In-Electricals		10,200	0
Lavinda Ltd		-	210,000
Legal Fee		1,000,000	1,000,000
MALCOMS AGENCIES		577,920	
Nation Media		-	118,320
Ngumbi Auto Tyres		91,200	140,000
NHIF Penalty		-	216,000
NWCPC Pension Arrears		222,439	-
REMIFAM SYSTEMS		18,369	
Payroll System Maintenance		-	42,000
Riverland Insurance Agencies		-	247,096
Safaricom		-	91,060
Standard Newspaper		-	163,560
Supply King Ltd		-	173,600
Provision for Audit Fees		812,000	700,000
Provision for Gratuity		1,447,080	440,200

provision for leave allowances	1,228,854	-
Vaghela H.M	-	44,159
WATER & SOLAR TECHNOLOGIES LTD	116,678	202,019
Westabruck	48,000	48,000
SAHAJANAND SPARES CORNER LIMITED SULIS EAST AFRICA	143,100.00	
	391,500	291,500
TERRANOVA AUTOSPARES	177,530	260,111
TRAWLERS LIMITED	166,610	
WARMA	11,650,000	7,054,820
WASREB	2,059,238	2,559,238
Zanjuki Stores		56,755
Provision For Finance cost	126,194,820	
LOSAL	2,000,000	-
Zebby Info System	15,000	15,000
Totals	227,728,754	103,109,782

Salary Related:

Salaries	2,457,248	
Ukulima	506,960	893,250.00
Wevarcity SACCO	88,532	125,010.00
Co-op Bank Loan	632,878	
HELB	6,827	1,028,304.80
Nuwase	37,359	-
casual wages	502,459	-
Welfare	382,625	-
Statutory Deductions		
NHIF - Jun	46,700	
NSSF - Jun	68,000	
PAYE - Jun	783,401	
	5,512,989	1,028,304.80
TOTAL	233,241,744	104,138,087

Customer Deposits		2014	2013
1-Jul-12	Bal b/fwd	22,564,320	17,516,167
30-Jun-13	Tindinyo		105,000
30-Jun-13	Shitoli		537,500
30-Jun-13	Shinyalu		281,000
30-Jun-13	Kakamega	2,592,500	3,057,903
30-Jun-13	Butere	123,700	113,550
30-Jun-13	Mumias	477,000	346,000
30-Jun-13	Nambale	190,500	97,500
30-Jun-13	Busia	843,700	691,700
Total Deposit	Bal c/fwd	26,791,720	22,746,320

TOTAL PAYABLES**260,033,464****126,884,407**

12 The company has been implementing two (2) Urban Project Concept (UPC) Projects in Mumias and Kakamega funded by Water Service Trust Fund (WSTF) under their 5TH Call. For Kakamega, the total funding received amounted was Kshs.9,699,266.00 as on 30th June 2014; Kshs.8,547,196.00 had been spent while ksh1,184,464,00 was at bank at the close of FY 2013/14.

For the Mumia's project, Kshs.9,747,676.00 was received of which Kshs.7,294,481 had been spent and a balance of Kshs.2,453,194.00 was balance at bank.

13.UN-Accounted for Water

We wish to state that the measuring devices (Master Meters) at Treatment Works are faulty and hence cannot reliably measure the unit's release for distributions and hence the units that have been submitted was based on Tanks capacities.

14.Status of The Company and Related Party

The Company is Western Water Services Company but the operations is run by Lake Victoria North Water Services Board pending the outcome of court cases involving its former directors.

