

REPUBLIC OF KENYA



Paper laid
By the leader of
Majority Party
on wed 26/8/15

KENYA NATIONAL AUDIT OFFICE

REPORT

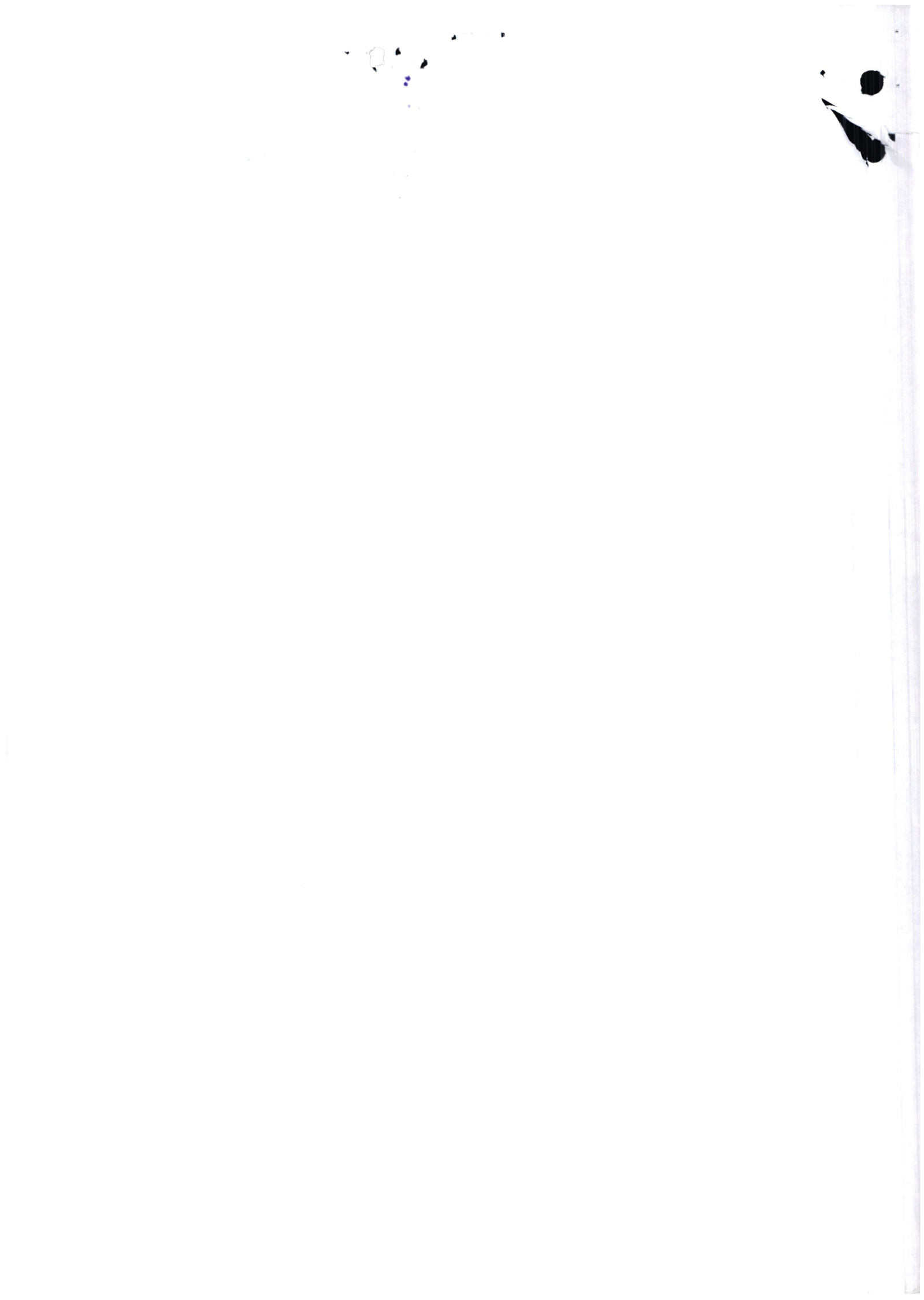
OF

THE AUDITOR-GENERAL

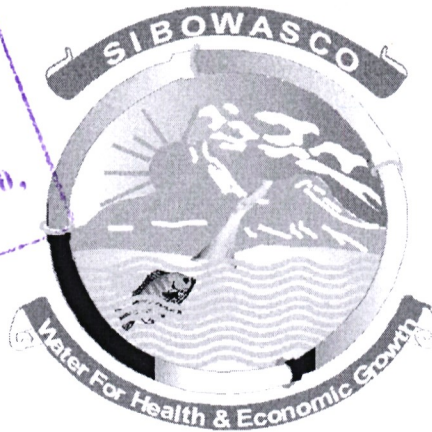
ON

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

**FOR THE YEAR ENDED
30 JUNE 2014**



KENYA NATIONAL AUDIT OFFICE
RECEIVED
14 MAY 2015
P.O. Box 1188 - 40100,
KISUMU



SIBO 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)

SIBO WATER AND SANITATION COMPANY LIMITED
Reports and Financial Statements

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SIBO WATER AND SANITATION COMPANY LTD
Reports and Financial Statements

KEY ENTITY INFORMATION

Background information

Sibo Water and Sanitation Company Ltd was established by the 2006 Act of Parliament on 12th June, 2006. The Company was formed by Lake Victoria South Water Services Board and given the mandate of providing water and sanitation services within 2 Districts, Siaya and Bondo. The County Government is the major shareholder of the Company.

Principal Activities

The principal activity of the Company is to provide water and sanitation services within the County.

Directors

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

- | | | | |
|----|-----------------------------|------------|---------------------|
| 1. | Prof. Francis Ang'awa | - Chairman | - Appointed in 2011 |
| 2. | Mr. Julius Nyadiango | - MD | - Appointed in 2013 |
| 3. | Mr. Paul Nyambala | - Member | - Appointed in 2011 |
| 4. | Mrs. Jane Rogo | - Member | - Appointed in 2011 |
| 5. | Mr. Silas Odhiambo | - Member | - Appointed in 2011 |
| 6. | Mr. John Okoth | - Member | - Appointed in 2011 |
| 7. | Mr. Philip Adundo | - Member | - Appointed in 2011 |
| 8. | Mr. Agapitus Milewa | - Member | - Appointed in 2011 |
| 9. | The Chief Executive Officer | - LVSWSB | - Appointed in 2011 |

Registered Office

Company's Building
Adjacent to Siaya DC's Residence Avenue/Road/Highway
P.O. Box 214, 40600
Siaya, KENYA

Corporate Headquarters

Sibo Water and Sanitation Co. Ltd
P.O. Box 214, 40600
Siaya, KENYA

Corporate Contacts

Telephone: (254) 708558944
E-mail: sibo_wasco@yahoo.com

SIBO WATER AND SANITATION COMPANY LTD
Reports and Financial Statements

Corporate Bankers

1. Kenya Commercial Bank
Siaya Branch,
P.O Box 52,
Siaya.
2. Co-operative Bank of Kenya,
Siaya Branch,
P.O Box 847,
Siaya.
3. Diamond Trust Bank,
Kisumu Branch,
P.O Box 1081,
Kisumu.

Independent Auditors

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

Principal Legal Advisers

1. Kirui Registrars
Certified Public Secretaries & Management Consultant
Ground Floor Murkiyeny Building
P.O. Box 1087-20200
Kericho, Kenya

THE BOARD OF DIRECTORS

1. Prof.Francis Ang'awa	<p>Age : 55 years</p> <p>Academic/Professional Qualification:</p> <ul style="list-style-type: none"> - Ph.D - Professor
2. Mr.Paul Nyambala	<p>Academic/Professional Qualification:</p> <ul style="list-style-type: none"> - O level - Bachelors Degree - Teacher
3. Mrs. Jane Rogo	<p>Age: 58 years</p> <p>Academic/Professional Qualification:</p> <ul style="list-style-type: none"> - O level - Teacher
4. Mr.Silas Odhiambo	<p>Age: 45 years</p> <p>Academic/Professional Qualification:</p> <ul style="list-style-type: none"> - MBA(HR) - Town clerk
5. Mr. Philip Adundo	<p>Age: 41 years</p> <p>Academic/Professional Qualification:</p> <ul style="list-style-type: none"> - MBA(HR) - County clerk
6. Mr. John Okoth	<p>Age: 64 years</p> <p>Academic/Professional Qualification:</p> <ul style="list-style-type: none"> - Diloma in Water Engineering
7. Mr.Agapitus Milewa	<p>Age: 69 years</p> <p>Academic/Professional Qualification:</p> <ul style="list-style-type: none"> - O level - Water Inspector
8. Mr. Julius Nyadiango	<p>Age: 49 years</p> <p>Academic/Professional Qualification:</p> <ul style="list-style-type: none"> - B.Com. Marketing - Managing Director

SIBO WATER AND SANITATION COMPANY LTD
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MANAGEMENT TEAM

1.	Mr.Julius Nyadiango	<u>Qualification:</u> BCom, Marketing <u>Responsibility:</u> Managing Director
2.	Mr.Jeremiah Oteng	<u>Qualification:</u> BCom, <u>Responsibility:</u> Technical Manager
3.	Edwin Omondi	<u>Qualification:</u> BBA-Accounting, CPA <u>Responsibility:</u> Finance Manager
4.	Isaiah Adipo	<u>Qualification:</u> BBA-Accounting CPA <u>Responsibility:</u> Commercial Manager
5.	Mr. Michael Oduwo	<u>Qualification:</u> CPA <u>Responsibility:</u> Internal Auditor
6.	Ms Grace Kariuki	<u>Qualification:</u> Bachelor of Arts (Social Science) <u>Responsibility:</u> Human Resource Manager
7.	Miss.Jane Oyugi	<u>Qualification:</u> Diploma (Supplies Management) <u>Responsibility:</u> Supplies Officer
<p><i>Note: The CEO and the Company Secretary will feature both under the 'Board' and 'Management'.</i></p>		

SIBO WATER AND SANITATION COMPANY LTD
Reports and Financial Statements

CHAIRMAN'S STATEMENT

Sibo Water and Sanitation Company Ltd was established in 2006 after the water sector forum to provide efficiently clean, safe, affordable drinking water supply and sanitation services in our Siaya County

We have succeeded in improving our water provision and sanitation services because of the help and support we receive from the Asset developer Lake Victoria South Water Services Board and the Government of Kenya ,Other stakeholders like Water Services Trust Fund and Water Services Regulatory Board have also played a very key role in the water sector. I wish to sincerely thank all the stakeholders, Development Partners / Donors for their most kind heart in providing financial and material help. We received mobile water boozers, motor bikes,. All these were realized in the short, medium and long term interventions.

The ADB (African Development Bank) funded project is about to be completed and this will improve our water production in the County and also reduce the high electricity pumping power bills.

Despite the fact that the Company has been growing from time to time, since we took over as members of the Board of Directors, we experienced several challenges like; high debts owed by the Company, Non-Revenue Water, Poor infrastructure and limited resources but we have sailed through the difficulties up to this level.

We are still working hard and hopefully, we shall achieve our core mandate of water service provision.



Thank you.

Chairman – Board of Directors

REPORT OF THE MANAGING DIRECTOR

We have come to the end of the financial year and our unaudited results for FY 2014 have been produced. I considered it appropriate to say a few words about our journey so far in this Company as well as my vision for the future of this Company. We have provided to you a snapshot of the financial results of the Company for FY 2014 and their comparison with the results for FY 2013 showing how the company has gone through.

However, for us to completely comprehend and appreciate what we have achieved so far, we have to first understand where we were when it all started. When I joined the Company, the revenue collections were low but since then, there has been a growing trend in Revenue base. The Company had consistently been incurring losses for the last five years, due to the high costs of operations with no matching Income as the Tariff is not cost based.

I had come up with strategies when I had joined the Company as the Managing Director setting out what I saw as the key issues which marred the Company and the strategic direction that we needed to take in order to get out of troubled waters. It is through the implementation of these ideas and the strategic direction that I want this Company to take, that which will see us deliver quite phenomenal results in a short span of time.

The year 2014 has been a year full of challenges. Though from the statement it can be seen we have been able to grow our sales volumes and revenue as compared to the last year (FY 2013), Operational cost has shoot up this has led to increased losses. Despite the increased cost, the performance calls for more improved amidst the difficult challenges the company has faced in this financial year

Our operating deficit has risen significantly as a result of increased costs of operations and reduced subsidies by the government on chemicals. I would like to highlight the areas we target for improvements: The Revenue department must ensure that we plug our gaps in the sales and distribution infrastructure. The Technical departments should ensure that the plant is run in the most efficient and effective way. The production-Technical department must also ensure adherence to the production plan while minimizing wastages, losses and operational cost. Most of our cost is incurred at the productions and the managers must adhere to the culture of cost consciousness and bring in efficiencies in each aspect of plant operations. Admin and IR department should strive for earliest resolution of all admin related issues both within the organization as well as with the regulatory authorities. It should also ensure effective and smooth admin operations. The procurement department must ensure that we continue to buy the right volumes of the materials needed at the best possible prices and on the most competitive terms. It has to develop sustainable and long term relationships with strategic vendors so as to ensure that the Company always gets the best deals. It must work on development of alternate materials as well as alternate suppliers for the same materials as the Company currently has an over reliance on certain vendors. Finance has to act as the watchdogs of the Company's interest across all facets of business. An area which needs significant improvement is that the finance department needs to put in adequate and relevant controls wherever these are absent in the business. The Human Resources department should fulfill recruitment and staffing needs across the organization.

Thank you very much.



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 activities of the Company is to provide water and sanitation services within the County

Results

The results of the entity for the year ended June 30, 2014 are set out on page 10 to 24.

Directors

The members of the Board of Directors who served during the year are shown on page 2 in accordance with Regulation of the Company's Articles of Association.

Auditors

The Auditor General is responsible for the statutory audit of the Company in accordance with the Section 29 of the Exchequer and Audit Act,Cap412 and sections 14 and 15 the Public Finance Management (PFM) Act, 2012, which empowers the Auditor General to nominate other auditors to carry out the audit on his behalf.

STATEMENT OF DIRECTORS' RESPONSIBILITIES

Section 81 of the Public Finance Management Act, 2012 and section 50 of the State Corporations Act, require the Directors to prepare financial statements in respect of that entity, which give a true and fair view of the state of affairs of the entity at the end of the financial year/period and the operating results of the entity for that year/period. The Directors are also required to ensure that the entity keeps proper accounting records which disclose with reasonable accuracy the financial position of the entity. The Directors are also responsible for safeguarding the assets of the entity.


The Directors are responsible for the preparation and presentation of the 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 entity; (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 PFM Act and the State Corporations 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 4th August 2014 and signed on its behalf by:


Chairman


Managing Director

REPUBLIC OF KENYA

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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 SIBO 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 Sibbo Water and Sanitation Company Limited set out on pages 10 to 24, which comprise the statement of financial position as at 30 June 2014, and the statement of comprehensive income, statement of changes in equity, 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.

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

Auditor-General's Responsibility

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

During the year under review, the Company recorded a loss of Kshs.4,976,085 (2013 - loss Kshs.287,335) resulting in accumulated losses to Kshs.13,308,623 as at 30 June 2014. Further, the current liabilities balance of Kshs.34,756,761 as at 30 June, 2014 exceeded the current assets balance of Kshs.25,649,031 as at the same date resulting in a negative working capital of Kshs.9,107,730. The Company is therefore technically insolvent and the financial statements have been prepared on a going concern basis, on the assumption that the Company will continue to receive support from the Government and creditors.

2. Customer Deposits

Although the customers' deposit liability as at 30 June 2014 amounted to Kshs 3,184,845 the corresponding customers' deposit bank account reflects a balance of Kshs.589,861 resulting in an un-reconciled difference of Kshs.2,594,984.

3. Trade and other Payables

Included in the Trade and other payables figure of Kshs.34,756,761 is a current account balance of Kshs.20,140,331 as at 30 June 2014 in respect of Lake Victoria South Water Services Board. However, records maintained by the Board against the same account and as at the same date showed a balance of Kshs.18,512,021. The difference of Kshs.1,628,310 between the two sets of records has not been reconciled or explained. Consequently, the accuracy of the trade and other payables figure of Kshs.34,756,761 as at 30 June 2014 could not be confirmed.

4. Statement of Cash Flows

The statement of cash flows reflect a cash outflow of Kshs.365,710 under financing activities described as revenue reserves. The movement of the revenue reserve cannot be supported by the statement of comprehensive income for the two years. In view of the foregoing, the statement of cash flows for the year ended 30 June 2014, has not been

prepared as per the requirements of IAS 7 and the accuracy of cash and cash equivalent balance of Kshs.2,185,658 as at 30 June 2014 could not be confirmed.

5. Unaccounted For Water

During the year under review, the Company produced 2,084,576 cubic metres(m³) of water. However, out of this volume, only 721,667m³ were billed to customers. The balance of 1,362,909m³ or approximately 65% of the total volume represented Unaccounted For Water (UFW) which is 40% over and above the allowable loss of 25% in accordance with the Water Services Regulatory Board guidelines. The UFW of 1,361,909 m³ may have resulted in loss of sales estimated at Kshs.207,162,168.

The significant level of UFW may negatively impact on the company's profitability and its long term sustainability.

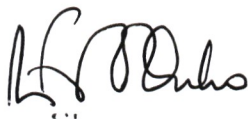
Qualified Opinion

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 financial performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards and comply with both the Water Act, 2002 and the Companies Act, Cap 486 of the Laws of Kenya.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

As required by the Kenya Companies 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 and statement of comprehensive income are in agreement with the books of account.



Edward R.O. Ouko, CBS
AUDITOR-GENERAL

Nairobi

26 May 2015

SIBO WATER AND SANITATION COMPANY LTD
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STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 30 JUNE 2014

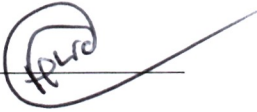
	Note	2014 Kshs	2013 Kshs
REVENUES			
Sales	1	48,915,214	45,037,879
Grants from National Government	2	39,609,249	26,937,212
Other Income	3	3,754,868	2,494,301
TOTAL REVENUES		92,279,331	74,469,392
OPERATING EXPENSES			
Administration Costs	4a	40,441,140	35,635,348
Selling and Distribution Costs	5	56,415,908	38,718,778
Depreciation of property, plant and equipment	6a	398,368	402,601
TOTAL OPERATING EXPENSES		97,255,416	74,756,727
OPERATING PROFIT/(LOSS)		(4,773,798)	(287,335)
PROFIT/(LOSS) BEFORE TAXATION		(4,976,085)	(287,335)
INCOME TAX EXPENSE		-	-
PROFIT/(LOSS) AFTER TAXATION		(4,976,085)	(287,335)

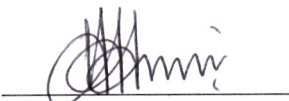
SIBO WATER AND SANITATION COMPANY LTD
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STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2014

	Note	2014 Kshs	2013 Kshs
ASSETS			
Non-Current Assets			
Property, plant and equipment	6a	948,009	1,249,420
Intangible Asset	6b	<u>193,943</u>	<u>-</u>
Total Non-Current Assets		1,141,952	1,249,420
Current Assets			
Inventories	7	962,378	73,760
Trade and other receivables	8	22,500,995	19,844,867
Bank and cash balances	9	<u>2,185,658</u>	<u>2,521,609</u>
Total Assets		26,790,983	23,689,656
EQUITY AND LIABILITIES			
Capital and Reserves			
Ordinary share capital	10	100,000	100,000
Capital reserve	11	2,058,000	2,058,000
Revenue reserve	12	<u>(13,308,623)</u>	<u>(7,966,828)</u>
Capital and Reserves		(11,150,623)	(5,808,828)
Non-Current Liabilities			
Customer Deposits	13	<u>3,184,845</u>	<u>2,789,345</u>
Total Non-Current Liabilities		3,184,845	2,789,345
Current Liabilities			
Trade and other payables	14	<u>34,756,761</u>	<u>26,709,139</u>
Total Current Liabilities		34,756,761	26,709,139
TOTAL EQUITY AND LIABILITIES		26,790,983	23,689,656

The financial statements were approved by the Board on 4th August 2014 and signed on its behalf by:


Chairman


Managing Director

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 JUNE 2014

	Ordinary share capital	Capital reserve	Revenue reserve	Total
At July 1, 2012	100,000	2,058,000	(7,679,493)	(5,521,493)
Loss for the year			(287,335)	(287,335)
At June 30, 2013	100,000	2,058,000	(8,332,538)	(5,808,828)
At July 1, 2013	100,000	2,058,000	(8,332,538)	(5,808,828)
Loss for the year			(4,976,085)	(4,976,085)
At June 30, 2014	100,000	2,058,000	(13,308,623)	(11,150,623)

SIBO WATER AND SANITATION COMPANY LTD
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STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2014

	Note	2014 Kshs	2013 Kshs
OPERATING ACTIVITIES			
Cash generated from/(used in) operations	15	320,659	6,000,863
Net cash generated from/(used in) operating activities		<u>320,659</u>	<u>6,000,863</u>
INVESTING ACTIVITIES			
Purchase of property, plant and equipment-Software		(290,900)	373,250
Net cash generated from/(used in) investing activities		<u>290,900</u>	<u>373,250</u>
FINANCING ACTIVITIES			
Revenue reserves-reconciled		(365,710)	(8,332,538)
Customer deposits		-	507,750
Net cash generated from/(used in) financing activities		<u>(365,710)</u>	<u>(7,824,788)</u>
INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		(335,951)	7,824,788
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		2,521,609	(4,754,296)
CASH AND CASH EQUIVALENTS AT END OF THE YEAR		<u>2,185,658</u>	<u>2,521,609</u>

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 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 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 sale of goods and services** 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) **Finance income** comprises interest receivable from bank deposits and investment in securities, and is recognised in profit or loss on a time proportion basis using the effective interest rate method.
- iv) **Dividend income** is recognised in the income statement in the year in which the right to receive the payment is established.
- v) **Rental income** is recognised in the income statement as it accrues using the effective lease agreements.
- vi) **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. 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	25 years or the unexpired lease period
Plant and machinery	25%
Motor vehicles, including motor cycles	25%
Computers and related equipment	30%
Office equipment, furniture and fittings	12.5%

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

Items of property, plant and equipment are reviewed annually for impairment. Where the carrying amount of an 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.

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.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

6. Amortisation and impairment of intangible assets

Amortisation is calculated on the reducing balance basis over the estimated useful life of computer software at 33.33%.

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. Investment property

Buildings, or part of a building (freehold or held under a finance lease) and land (freehold or held under an operating lease) held for long term rental yields and/or capital appreciation, and which are not occupied by the *entity*, are classified as investment property under non-current assets.

Investment property is carried at fair value, representing open market value determined periodically by independent external values. Changes in fair values are included in profit or loss in the income statement.

8. Finance and operating leases

Leases which confer substantially all the risks and rewards of ownership to the *entity* are classified as finance leases. Upon initial recognition, the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments, and the asset is subsequently accounted for in accordance with the accounting policy applicable to that asset.

All other leases are treated as operating leases and the leased assets are recognised in the statement of financial position to the extent of prepaid lease rentals at the end of the year. Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense over the term of the lease.

9. Fixed interest investments (bonds)

Fixed interest investments refer to investment funds placed under Central Bank of Kenya (CBK) long-term infrastructure bonds and other corporate bonds with the intention of earning interest income upon the bond's disposal or maturity. Fixed interest investments are freely traded at the Nairobi Securities Exchange. The bonds are measured at fair value through profit or loss.

10. Quoted investments

Quoted investments are classified as non-current assets and comprise marketable securities traded freely at the Nairobi Securities Exchange or other regional and international securities exchanges. Quoted investments are stated at fair value

11. Unquoted investments

Unquoted investments stated at cost under non-current assets, and comprise equity shares held in other Government owned or controlled entities.

12. 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.

13. 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.

14. 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.

15. 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.

16. 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.

17. 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.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

18. Retirement benefit obligations

The entity operates a defined contribution scheme for all full-time employees. The scheme is administered by an in-house team and is funded by contributions from both the company and its employees. 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.

19. 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.

20. Exchange rate differences

The accounting records are maintained in the functional currency of the primary economic environment in which the *entity* operates, Kenya Shillings. Transactions in foreign currencies during the year/period are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Any foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

21. Comparative figures

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

22. 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 30 June 2014.

SIBO WATER AND SANITATION COMPANY LTD
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NOTES TO THE FINANCIAL STATEMENTS

	2014	2013
	Kshs	Kshs
1 SALES		
Water Sales	48,915,214	45,037,879
	<u>48,915,214</u>	<u>45,037,879</u>
	=====	=====
2 GRANTS FROM NATIONAL GOVERNMENT		
Current grants received (Electricity)	37,804,249	24,064,600
Capital grants received (Chemicals)	1,805,000	2,872,612
	<u>39,609,249</u>	<u>26,937,212</u>
	=====	=====
3 OTHER INCOME		
Sale of tender documents	-	99,000
Bowser & exhauster	2,881,922	2,367,801
Connection fees	872,946	27,500
	<u>3,754,868</u>	<u>2,494,301</u>
	=====	=====
4(a) ADMINISTRATION COSTS		
Staff costs (note b)	16,878,550	13,369,656
Directors' emoluments	1,474,900	1,849,945
Electricity and water	82,170	56,495
Communication services and supplies	462,090	482,054
Transportation, travelling and subsistence	1,909,587	1,102,638
Advertising, printing, stationery and photocopying	1,689,525	1,003,365
LVSWSB levy	4,541,192	4,503,787
Staff training expenses	738,275	133,200
Hospitality supplies and services	802,513	622,423
Insurance costs	157,548	60,270
Bank charges and commissions	202,287	126,045
Auditors' remuneration	200,000	200,000
Security	1,007,920	824,013
Meetings	134,560	-
Repairs and maintenance	7,268,811	6,054,544
Provision for bad and doubtful debts	885,376	3,713,972
Fuel & oil	1,879,936	1,451,891
Leave & passage	<u>125,900</u>	<u>81,050</u>
	<u>40,441,140</u>	<u>35,635,348</u>
	=====	=====

SIBO WATER AND SANITATION COMPANY LTD
Reports and Financial Statements

	2014	2013
	Kshs	Kshs
4(b) STAFF COSTS		
Salaries and allowances of permanent employees	-	-
Salaries and allowances of contract employees	16,596,663	12,948,066
Compulsory national social security schemes	158,190	242,400
Other pension contributions	123,727	179,190
	<u>16,878,550</u>	<u>13,369,656</u>
	=====	=====

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

Permanent employees – Management	-	-
Permanent employees – Unionisable	-	-
Temporary and contract employees	98	101
	<u>98</u>	<u>101</u>
	=====	=====

5 PRODUCTION AND DISTRIBUTION COSTS

Salaries and Allowances	2,872,800	2,576,660
Treatment Chemicals	7,109,210	4,055,610
Abstraction charges	1,723,768	862,561
Electricity	44,710,130	31,223,947
	<u>56,415,908</u>	<u>38,718,778</u>
	=====	=====

SIBO WATER AND SANITATION COMPANY LTD
Reports and Financial Statements

NOTES TO THE FINANCIAL STATEMENTS (Continued)

6a PROPERTY, PLANT AND EQUIPMENT

2014	Plant and machinery 25%	Motor vehicles, including, motor cycles 25%	Computers & related equipment 30%	Office equipment, furniture & fittings 12.5%	Total
COST OR VALUATION					
	Kshs	Kshs	Kshs	Kshs	Kshs
At July 1, 2013	450,240	3,313,392	2,123,990	213,568	6,101,190
Additions	-	-	-	-	-
At June 30, 2014	450,240	3,313,392	2,123,990	213,568	6,101,190
DEPRECIATION					
At July 1, 2013	410,034	2,334,879	2,019,741	85,116	4,851,770
Charge for the year	10,051	244,628	30,675	16,057	301,411
At June 30, 2014	420,085	2,579,507	2,050,416	101,173	5,151,181
NET BOOK VALUE	30,155	733,885	71,574	112,395	948,009
At June 30, 2013	40,206	978,513	102,249	128,452	1,249,420

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

	Cost or valuation	Normal annual depreciation charge
Plant and machinery	30,155	10,051
Motor vehicles, including motor cycles	733,885	244,628
Computers and related equipment	71,574	30,675
Office equipment, furniture and fittings	112,395	16,057
Software	193,943	96,957
	1,141,952	398,368

6b Software

COST OR VALUATION	Software 33.33%
At July 1, 2013	-
Additions	290,900
At June 30, 2014	290,900
DEPRECIATION	
At July 1, 2013	-
Charge for the year	96,957
At June 30, 2014	96,957
NET BOOK VALUE	193,943
At June 30, 2013	-

SIBO WATER AND SANITATION COMPANY LTD
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NOTES TO THE FINANCIAL STATEMENTS (Continued)

	2014	2013
	Kshs	Kshs
7 INVENTORIES		
Treatment chemicals	962,378	73,760
	<u>962,378</u>	<u>73,760</u>
	=====	=====
8 TRADE AND OTHER RECEIVABLES		
Trade receivables	30,001,327	26,459,823
Gross trade and other receivables	<u>30,001,327</u>	<u>26,459,823</u>
Provision for bad and doubtful receivables (25%)	(7,500,332)	(6,614,956)
Net trade and other receivables	<u>22,500,995</u>	<u>19,844,867</u>
	=====	=====
9 BANK AND CASH BALANCES		
Cash at bank	1,949,033	2,244,878
Cash in hand	236,625	276,731
	<u>2,185,658</u>	<u>2,521,609</u>
	=====	=====

The bulk of the cash at bank was held at Co-operative Bank of Kenya and Kenya Commercial Bank.

10 ORDINARY SHARE CAPITAL

Authorised:

5000 ordinary shares of Kshs.20 par value each	100,000	100,000
	=====	=====

Issued and fully paid:

5000 ordinary shares of Kshs.20 par value each	-	-
	=====	=====

11 Capital Reserves

These refer to motor cycles donated to the Company by a donor, whose values are based on market prices at the time of acquisition.

<u>ITEM</u>	<u>KSHS</u>	<u>KSHS.</u>
Computers	234,000	234,000
Printers	126,000	126,000
Server	1,500,000	1,500,000
Motor cycles	198,000	198,000
	<u>2,058,000</u>	<u>2,058,000</u>
	=====	=====

SIBO WATER AND SANITATION COMPANY LTD
Reports and Financial Statements

	2014	2013
	Kshs	Kshs
12. REVENUE RESERVES		
Revenue Reserve B/f	(8,332,538)	(7,966,828)
Profit/(Loss) for the Year	(4,976,085)	-
Total balance at end of year	(13,308,623)	(7,966,828)
	=====	=====
13 Customer Deposits		
Balance b/d	2,789,345	2,281,595
Deposits received during the year	<u>395,500</u>	<u>507,750</u>
	3,184,845	2,789,345
14. TRADE AND OTHER PAYABLES		
K.P.L.C	3,220,767	4,321,490
Lake Victoria South Water Serv.Board	20,140,331	15,819,139
WARMA	4,282,120	3,185,392
Audit Fee	1,264,000	1,264,000
Other payables	5,849,543	2,119,117
	<u>34,756,761</u>	<u>26,709,138</u>
	=====	=====
15 NOTES TO THE STATEMENT OF CASH FLOWS		
(a) Reconciliation of operating profit/(loss) to cash generated from/(used in) operations		
Operating profit/(loss)	(4,976,085)	(287,335)
Depreciation	398,368	402,601
Operating profit/(loss) before working capital changes	<u>4,577,717</u>	<u>115,266</u>
(Increase)/decrease in inventories	(888,618)	521,709
Increase/(decrease) in trade and other receivables	(2,656,128)	738,934
Increase/(decrease) in trade and other payables	8,443,122	4,624,954
Cash generated from operations	<u>320,659</u>	<u>6,000,863</u>
	=====	=====
16 OPERATING PROFIT/(LOSS)		
The operating profit/(loss) is arrived at after charging/(crediting):		
Staff costs (note 9)	16,878,550	12,949,656
Depreciation of property, plant and equipment	398,368	402,601
Provision for bad and doubtful debts	885,376	3,713,972
Directors' emoluments - fees	-	-
- other	1,474,900	1,849,945
Auditors' remuneration - current year fees	200,000	200,000

NOTES TO THE FINANCIAL STATEMENTS (Continued)

17 RELATED PARTY DISCLOSURES

(a) Government of Kenya

The Government of Kenya is the principal shareholder of the Company, holding 99% of the *entity's* equity interest. The Government of Kenya has provided full guarantees to all long-term lenders of the *entity*, both domestic and external.

There were not other *entity* transactions involving the Government of Kenya.

(b) Employees

The *entity* provides certain qualifying employees with car and housing loans on terms more favourable than available in the market. The benefit obtained by staff is subjected to income tax as required under the Kenya Income Tax Act.

18 CAPITAL COMMITMENTS

Amounts authorised and contracted for	-	-
Less: Amounts incurred and included in work-in-progress	-	-
	-----	-----
	-	-
	=====	=====

19 CONTINGENT LIABILITIES

Bank guarantees	.	.
Legal claims against the <i>entity</i>	.	-
	-----	-----
	-	-
	=====	=====

20 INCOPORATION

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