

REPUBLIC OF KENYA



OFFICE OF THE AUDITOR-GENERAL

PARLIAMENT
OF KENYA
LIBRARY

REPORT

OF

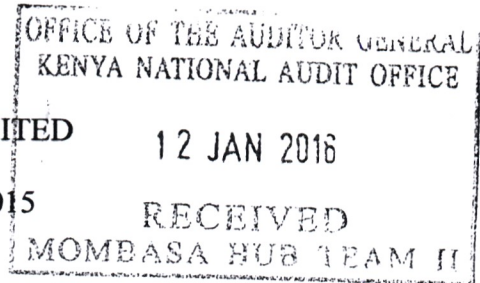
THE AUDITOR-GENERAL

ON

**THE FINANCIAL STATEMENTS OF
TAVEVO WATER AND SEWERAGE
COMPANY LIMITED**

**FOR THE YEAR ENDED
30 JUNE 2015**

TAVEVO WATER & SEWERAGE COMPANY LIMITED
REPORTS AND FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED JUNE 30, 2015

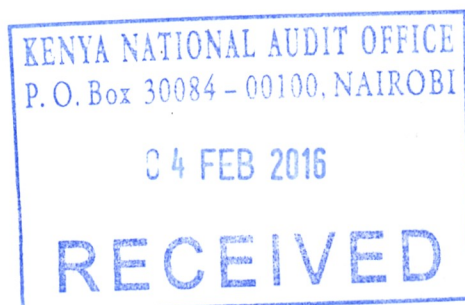


TAVEVO WATER & SEWERAGE COMPANY LIMITED

REPORTS AND FINANCIAL STATEMENTS

**FOR THE FINANCIAL YEAR ENDED
JUNE 30, 2015**

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



**TAVEVO WATER & SEWERAGE COMPANY LIMITED
REPORTS AND FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED JUNE 30, 2015**

Contents	Page
1. KEY ENTITY INFORMATION.....	1-3
2. DIRECTORS' REPORT.....	4-5
3. REPORT OF THE INDEPENDENT AUDITORS.....	6
4. STATEMENT OF COMPREHENSIVE INCOME.....	7
5. STATEMENT OF FINANCIAL POSITION.....	8
6. STATEMENT OF CHANGES IN EQUITY.....	9
7. STATEMENT OF CASHFLOWS.....	10
8. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES.....	11-14
9. NOTES TO THE FINANCIAL STATEMENTS.....	15-24

**TAVEVO WATER & SEWERAGE COMPANY LIMITED
REPORTS AND FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED JUNE 30, 2015**

KEY ENTITY INFORMATION

Background information

The Company was established in March 2006 under the Water Act 2002, and was registered on 7th April, 2006 under the Companies Act (Cap 486). It is licensed by Water Services Regulatory Board (WASREB) as a Water Service Provider (WSP).

Principal Activities

The principal activity of Tavevo is to provide portable Piped Water and Sanitation Services to the residents of Taita Taveta County.

Board of Directors

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

1.	Dr. Seif Hamisi	- Chairman	- Appointed on December 2014.
2.	Peter Shwashwa	- Managing Director	- Appointed on December 2010
3.	Mohamed Abdi	- Director	- Appointed on December 2014
4.	Sophi Mnene	- Director	- Appointed on December 2014
5.	Charles Mwangoma	- Director	- Appointed on December 2014
6.	Emily Mbashu	- Director	- Appointed on December 2014
7.	Pascal Mtula	- Director	- Appointed on December 2014
8.	Janet Chilumo	- Director	- Appointed on March 2014
9.	Rosinah Katema	- Chairlady	- Resigned on December 2014
10.	Killian Mwalasha	- Director	- Resigned on December 2014
11.	Mercy Mwamburi	- Director	- Resigned on December 2014
12.	Andrew Masamo	- Director	- Resigned on December 2014

Corporate Secretary

Kioko Munyithia Ngugi & Co. Advocates
P.O. Box 43370
Mombasa.

Registered Office

National Water Camp, Voi, Sofia Road,
P.O. Box 6-80300
Voi, KENYA

**TAVEVO WATER & SEWERAGE COMPANY LIMITED
REPORTS AND FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED JUNE 30, 2015
Corporate Headquarters**

National Water Camp, Voi, Sofia Road,
P.O. Box 6-80300
Voi, KENYA

Corporate Contacts

Telephone: (254) 043-30500, 254-020 2024355
E-mail: info@tavevowater.co.ke
Website: www.tavevowater.co.ke

Corporate Bankers

1. Kenya Commercial Bank
P.O. Box 137-80300
Voi, Kenya.
2. Cooperative Bank of Kenya
P.O. Box -80300
Voi, Kenya.

Independent Auditors

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

Principal Legal Advisers

Kioko Munyithia Ngugi & Co. Advocates
4th Floor, N.S.S.F Bldg, Nkrumah Road,
P.O. Box 43370-80100
Mombasa.

TAVEVO WATER & SEWERAGE COMPANY LIMITED
 REPORTS AND FINANCIAL STATEMENTS
 FOR THE FINANCIAL YEAR ENDED JUNE 30, 2015

MANAGEMENT TEAM

1.Peter Shwashwa-B.Com (Accounting option)	Managing Director. (Left September 2015)
2. Duncan M.Maghanga- B.Com (Finance), CPA (K),	Finance & Administration Manager (Appointed April 2014)
4.John Barchiba- Bsc. Water Eng.	Technical Manager. (Appointed March 2014)
6.Priscillah Kamene	Commercial Manager. (Appointed January 2015).
7.Gerald Michigan-Diploma ICT	ICT officer.
8. Jentah Mlambo- Dip. Purchasing & Supplies	Procurement officer.

TAVEVO WATER & SEWERAGE COMPANY LIMITED
REPORTS AND FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED JUNE 30, 2015
DIRECTORS' REPORT

The Directors submit their report together with the audited financial statements for the year ended June 30, 2015 which show the state of the *Company's* affairs.

Principal activities

The principal activities of the entity are provision of adequate and portable safe Piped Water and Sanitation Services to the residents of Taita Taveta County.

Results

The results of the entity for the year ended June 30, 2015 are set out on page 7-10.

Dividends

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

Directors

The members of the Board of Directors who served during the year are shown on page 1.


Auditors

The Auditor General is responsible for the statutory audit of the Company in accordance with the Section 164 (4) a of the Public Finance Management (PFM) Act, 2012 and Section 15 of the Public Audit Act, 2003.

By Order of the Board

Kioko Munyithia Ngugi & Co. Advocates
Mombasa.
Date: 19th September, 2015.

The *company's* financial statements were approved by the Board on 21st 2016 and signed on its behalf by:



Chairman



Director

TAVEVO WATER & SEWERAGE COMPANY LIMITED
REPORTS AND FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED JUNE 30, 2015
STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

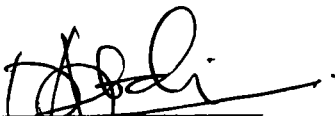
The Directors are responsible for the preparation and presentation of the *company's* financial statements, which give a true and fair view of the state of affairs of the company for and as at the end of the financial year ended on June 30, 2015. This responsibility includes: (i) maintaining adequate 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, 2015, 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 21.01 2016 and signed on its behalf by:


Chairman


Director



OFFICE OF THE AUDITOR-GENERAL

REPORT OF THE AUDITOR-GENERAL ON TAVEVO WATER AND SEWERAGE COMPANY LIMITED FOR THE YEAR ENDED 30 JUNE 2015

REPORT ON THE FINANCIAL STATEMENTS

I have audited the accompanying financial statements of Tavevo Water and Sewerage Company Ltd set out on pages 7 to 24, which comprise the statement of financial position as at 30 June 2015, 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.

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 of Supreme Audit Institutions (ISSAI). 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

1.0 Operations and Maintenance Expenses

1.1 Procurement of Goods and Services

Included in the operations and maintenance expenses figure of Kshs.13,703,527 as shown in the statement of comprehensive income is an amount of Kshs.1,518,347 paid to various suppliers/service providers for supply of water pipes and fittings, water meters and service of water pumps using direct procurement method. Section 74 (b) and (c) of the Public Procurement and Disposal Act, 2005 allows the use of direct procurement method only when other methods are impractical, the procurement is urgent and the circumstances giving rise to the urgency were not foreseeable. However, management did not provide evidence to confirm that these conditions were met before using direct procurement method. Further, the inspection reports were not provided for audit verification.

Consequently, the propriety of expenditure of Kshs.1,518,347 on supply of water pipes and fittings, water meters and service of water pumps for the year ended 30 June 2015 could not be confirmed.

1.2 Casual Wages

Included in the operations and maintenance figure of Kshs.13,703,527 as shown in the statement of comprehensive income are casual wages of Kshs.2,186,547. However, the amounts were not supported with signed muster roll and casual wages ledger. Consequently, the propriety of Kshs.2,186,547 spent on casual wages during the year ended 30 June 2015 could not be confirmed.

2.0 Professional Expenses

Included in the professional expenses figure of Kshs.1,299,137 as shown in the statement of comprehensive income is Kshs. 835,137 in respect of commission paid to a firm to facilitate collection of debts owed to the Company by the Prisons Department within Taita Taveta County. However, the Board's approval of the appointment and invoices issued by the debt collector were not provided for audit verification.

Consequently, the propriety of expenditure totalling Kshs.835,137 on professional fees could not be confirmed for the year ended 30 June 2015.

3.0 Directors' Emoluments

Included in directors' emoluments of Kshs.5,494,344 as shown in the statement of comprehensive income for the year ended 30 June 2015 is sitting allowance totaling Kshs.581,050 on five(5) Special Board meetings held during the year under review. However, the management did not provide for audit review the requisite approval from Coast Water Services Board in accordance with Section 4.9.2 of Corporate Governance Guidelines for the Water Service Sector. Further, included in the Directors' emoluments of Kshs.5,494,344 is sitting allowance totaling Kshs.472,000 paid to a Board member for performing staff evaluation duties. This is contrary to Section 7.8.2 of Tavevo Water and Sewerage Company Limited Human Resources Policy Manual which provides that staff evaluation shall be done by Staff Advisory Committee.

Consequently, the propriety of expenditure totalling Kshs.1,053,050 for the year ended 30 June 2015 on Directors' emoluments could not be confirmed.

4.0 Transport Expenses

4.1 Unaccounted for Fuel

Included in the transport expenses figure of Kshs.12,260,935 as shown in the statement of comprehensive income is an amount of Kshs.578,000 relating to fuel purchased during the year under review. However, the fuel purchase was not recorded in fuel register or stores ledger card and as such the propriety of expenditure of Kshs.578,000 incurred on fuel for the year ended 30 June 2015 could not be confirmed.

4.2 Travelling and Subsistence Allowances

Included in the transport expenses figure of Kshs.12,260,935 as shown in the statement of comprehensive income are travelling and subsistence allowances totalling Kshs.1,268,550 paid to various officers attending workshops and training. However, the expenditure was not supported with letters of invitation, work tickets and or bus tickets. Consequently, the propriety of expenditure totalling Kshs.1,268,550 on subsistence and travelling allowances for the year ended 30 June 2015 could not be confirmed.

5.0 Budgetary Controls

Records availed for audit review indicated that management spent a total of Kshs. 10,381,515 on various items against a budget of Kshs.7,082,093 resulting to excess expenditure of Kshs.3,299,422 (46.6%).

The necessary approvals of the excess expenditure from the Board were not availed for audit review.

As a result, the validity of total excess expenditure of Kshs.3,299,422 incurred by management of the Company during the year ended 30 June 2015 could not be confirmed.

6.0 Trade and Other Receivables

Included in the trade and other receivables balance of Kshs.153,295,882 as at 30 June 2015 and as disclosed in note 12 to the financial statements are long overdue amounts totaling Kshs.9,117,860 comprising old staff imprests of Kshs.470,061, old staff debtors of Kshs.2,610,496 and short banking of Kshs.6,037,303. Further, the provision that would have been necessary in relation to this uncertainty has not been incorporated in these financial statements.

In the circumstances, the recoverability and accuracy of the trade and other receivables balance of Kshs.9,117,860 as at 30 June 2015 could not be confirmed.

7.0 Cash and Bank

The cash and bank balance of Kshs.5,318,062 as shown in the statement of financial position as at 30 June 2015 includes MPESA balance of Kshs.78,900 of which the statement of balance was not provided for audit verification. Further, the bank reconciliation statement as at 30 June 2015 for Kenya Commercial Bank Ltd Collection Account reflects unpresented cheques of Kshs.932,847 whose dates of clearance by the bank were not indicated.

Consequently, it has not been possible to ascertain the accuracy and completeness of MPESA balance of Kshs.78,900 and validity of unpresented cheques amounting to Kshs.932,847 as at 30 June 2015.

8.0 Trade and Other Payables

The trade and other payables balance of Kshs.230,061,018 as shown in the statement of financial position as at 30 June 2015 includes Kshs.201,932,076 payable to Coast Water Services Board for bulk supply of water costing Kshs.148,824,563 and lease fees of Kshs.53,107,513. However, the financial statements of Coast Water Services Board availed for audit review reflected a total of Kshs.274,219,605 as receivable from Tavevo Water and Sewerage Company Ltd, resulting to a difference of Kshs.72,287,529 which has not been explained nor reconciled as at 30 June 2015. Further, included in the trade and other payables balance of Kshs.230,061,018 and as disclosed under note 20 to the financial statements are payroll liabilities totaling Kshs.5,904,611 out of which National Water Conservation and Pipeline Corporation Staff Pension Scheme totaled Kshs.1,558,125 and PAYE deductions on Board allowances totaled Kshs.947,627 all of which have been

outstanding for between one year and four years. Management has not indicated when these long outstanding pension liabilities will be settled and the PAYE remitted. Under the circumstances, the accuracy, and validity of the trade and other payables balance of Kshs.230,061,018 as at 30 June 2015 could not be confirmed.

9.0 Capital Reserves

As similarly reported in previous years, the fair value adjustment reserve balance of Kshs.97,214,636 as shown in the statement of financial position as at 30 June 2015 represents unsupported assets and liabilities transferred from the Ministry of Water and Irrigation and National Water Conservation and Pipeline Corporation to the Company.

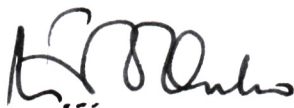
In the circumstances, it was not possible to confirm the carrying value of the capital reserve balance of Kshs.97,214,636 reflected in these financial statements.

10.0 Financial Performance

The statement of financial position as at 30 June 2015 reflects current liabilities amounting to Kshs.230,061,018 while the current assets amounted to Kshs.160,262,214 resulting to a negative working capital of Kshs.69,798,804, an indication that the Company may be experiencing financial difficulties in settling its obligations as and when they fall due. The Company's financial position is therefore precarious and its existence depends on continued support from Government, creditors and bankers.

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 Tavevo Water and Sewerage Company Ltd as at 30 June 2015 and of its financial performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards and comply with the Water Act, 2002 and Companies Act Cap. 486 of the Laws of Kenya.



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

Nairobi

23 February 2016

**TAVEVO WATER & SEWERAGE COMPANY LIMITED
 REPORTS AND FINANCIAL STATEMENTS
 FOR THE FINANCIAL YEAR ENDED JUNE 30, 2015
 STATEMENT OF COMPREHENSIVE INCOME**

FOR THE YEAR ENDED 30 JUNE 2015

	Note	2015 Kshs	2014 Kshs Restated
Revenues			
	1	146,978,208	113,649,163
		<u>146,978,208</u>	<u>113,649,163</u>
TOTAL REVENUES		146,978,208	113,649,163
COST OF SALES	2	(114,098,664)	(82,194,353)
		<u>32,879,544</u>	<u>31,454,810</u>
GROSS PROFIT		32,879,544	31,454,810
Operating Expenses			
Administration Expenses	3	10,972,812	(a) 7,522,423
Operations and Maintenance Expenses	4	13,703,527	7,824,846
Professional Expenses	5	1,299,137	(b) 1,253,080
Staff Expenses	6	43,300,639	(c) 36,273,591
Directors' Emoluments	7	5,494,344	4,188,508
Financial Expenses	8	14,376,826	(d) 12,276,895
Transport Expenses	9	12,260,935	(e) 9,757,924
		<u>101,408,220</u>	<u>79,097,267</u>
TOTAL OPERATING EXPENSES		101,408,220	79,097,267
OPERATING PROFIT/ (LOSS)		<u>(68,528,676)</u>	<u>(47,642,457)</u>

* For restated figures 2013/14 refer to note 24 (1) a, b, c, d, e.

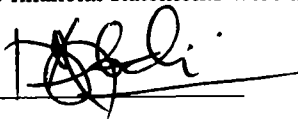
TAVEVO WATER & SEWERAGE COMPANY LIMITED
 REPORTS AND FINANCIAL STATEMENTS
 FOR THE FINANCIAL YEAR ENDED JUNE 30, 2015
STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2015

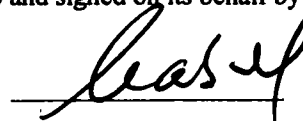
	Note	2015 Kshs	2014 Kshs
ASSETS			
Non-Current Assets			
Property, plant and equipment	10	3,532,697	(f) 2,075,412
Intangible assets	11	214,902	125,860
Total Non-Current Assets		3,747,599	2,201,272
Current Assets			
Trade and other receivables	12	153,295,882	(g) 145,087,101
Bank and cash balances	13	5,318,062	(h) 3,013,366
Other current assets	14	<u>1,648,270</u>	(i) 1,348,031
Total Current Assets		160,262,214	149,448,498
Total Assets		164,009,813	151,649,770
EQUITY AND LIABILITIES			
Capital and Reserves			
Ordinary share capital	15	100,000	100,000
Fair value adjustment reserve	16	97,214,636	(j) 97,214,636
Retained earnings	17	(170,326,996)	(95,764,097)
Capital and Reserves		(73,012,360)	1,550,539
Non-Current Liabilities			
Customer Deposits	18	5,209,526	3,333,426
Service Gratuity	19	1,751,628	(k) 2,805,958
Total Non-Current Liabilities		6,961,154	6,139,384
Current Liabilities			
Trade and other payables	20	230,061,018	(l) 143,959,848
Bank overdraft	21	-	-
Total Current Liabilities		230,061,018	143,959,848
TOTAL EQUITY AND LIABILITIES		164,009,812	151,649,771

* For restated figures 2013/14 refer to note 24 (II) f, g, h, i, j, k, l.

The financial statements were approved by the Board on 21/01 2016 and signed on its behalf by:



Chairman



Director

TAVEVO WATER & SEWERAGE CO. LTD
 Reports and Financial Statements
 For the year ended June 30, 2015

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 JUNE 2015

	Ordinary share capital-Kshs	Retained earnings-Kshs(Restated)	Fair value adjustment Reserve(Kshs)	Total Kshs(Restated)
At July 1, 2013	100,000	*(54,155,861)	97,214,636	43,158,775
Surplus for the Year	-	(47,642,457)	-	(47,642,457)
	-	-	-	
At June 30, 2014	100,000	(101,798,318)	97,214,636	(4,483,682)
At July 1, 2014	100,000	** (101,798,318)	***97,214,636	****(4,483,682)
Surplus for the year	-	(68,528,678)	-	(68,528,678)
	-	-	-	
AS at June 30, 2015	100,000	(170,326,996)	97,214,636	(73,012,360)

* For restated figures see note 24(III) m.

**TAVEVO WATER & SEWERAGE COMPANY LIMITED
 REPORTS AND FINANCIAL STATEMENTS
 FOR THE FINANCIAL YEAR ENDED JUNE 30, 2015
STATEMENT OF CASH FLOWS**

FOR THE YEAR ENDED 30 JUNE 2015

	2015 Kshs	2014 Kshs
CASH FLOW FROM OPERATING ACTIVITIES		Restated
Profit/ (loss) before tax	(68,528,676)	(47,642,457)
Depreciation	1,647,232	1,472,859
Net cash generated from/ (used in) operating activities	(66,881,444)	(n) (46,169,598)
Changes in Working Capital		
(Increase)/Decrease in Receivables	(8,208,781)	(29,749,121)
(Increase) /Decrease in Prepayments	315,761	(o) (40,643)
Increase/ (Decrease) in Customer deposits	1,876,100	489,000
Increase / (Decrease) in payables	86,101,170	(p) 74,318,276
2014/15 creditors not captured in the financial statements	(6,034,221)	-
Increase in Gratuity payable	(1,054,330)	
Net cash flow from operations after working capital changes	<u>72,995,699</u>	<u>45,017,512</u>
CASH FLOW FROM INVESTING ACTIVITIES		
	6,114,255	(1,152,086)
(Purchase) / Disposal of property, plant and equipment	(3,193,560)	(q) (685,500)
(Increase)/decrease in deposits receivable	(616,000)	-
CASH FLOW FROM FINANCING ACTIVITIES		
Increase / (decrease) in Overdraft	-	(490,255)
Net cash generated from/ (used in) financing activities	-	(490,255)
INCREASE/ (DECREASE) IN CASH AND CASH EQUIVALENTS	2,304,695	(2,327,841)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	3,013,366	5,341,207
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	<u>5,318,061</u>	(r) <u>3,013,366</u>

* For restated figures 2013/14 refers to note 24 (IV) n, o, p, q, r.

**TAVEVO WATER & SEWERAGE COMPANY LIMITED
REPORTS AND FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED JUNE 30, 2015
SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

FOR THE YEAR ENDED 30 JUNE 2015

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

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.

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 Water** is recognised in the year in which the *entity* delivers products to the customer, the customer has accepted the products and collectability of the related receivables is reasonably assured.
- ii) **Other income** is recognised as it accrues.

**TAVEVO WATER & SEWERAGE COMPANY LIMITED
REPORTS AND FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED JUNE 30, 2015
SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)
FOR THE YEAR ENDED 30 JUNE 2015**

Property, plant and equipment

All categories of property, plant and equipment are initially recorded at cost less accumulated depreciation and impairment losses.

Certain categories of property, plant and equipment are subsequently carried at re-valued amounts, being their fair value at the date of re-evaluation less any subsequent accumulated depreciation and impairment losses. Where re-measurement at re-valued amounts is desired, all items in an asset category are re-valued through periodic valuations carried out by independent external valuers.

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

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

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	25 years or the unexpired lease period
Plant and machinery	12.5 years
Motor vehicles, including motor cycles	4 years
Computers and related equipment	3 years
Office equipment, furniture and fittings	12.5 years

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

**TAVEVO WATER & SEWERAGE COMPANY LIMITED
REPORTS AND FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED JUNE 30, 2015
SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)
FOR THE YEAR ENDED 30 JUNE 2015**

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.

Amortisation and impairment of intangible assets

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

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

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.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and cash at bank. Bank account balances include amounts held 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 which were not surrendered or accounted for at the end of the financial year.

**TAVEVO WATER & SEWERAGE COMPANY LIMITED
REPORTS AND FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED JUNE 30, 2015
SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)
FOR THE YEAR ENDED 30 JUNE 2015**

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.

Retirement benefit obligations

The entity operates a defined contribution scheme for all full-time employees from July 1, 2012. The scheme is administered by a registered fund Manager 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 and is currently at Kshs.200 per employee per month.

Comparative figures

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

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, 2015.

**TAVEVO WATER & SEWERAGE COMPANY LIMITED
 REPORTS AND FINANCIAL STATEMENTS
 FOR THE FINANCIAL YEAR ENDED JUNE 30, 2015
 NOTES TO THE FINANCIAL STATEMENTS**

FOR THE YEAR ENDED 30 JUNE 2015

	2015 Kshs	2014 Kshs
1 REVENUES		
a). Water sale	137,314,593	108,060,290
b). Meter rent	4,922,350	4,081,100
c). Miscellaneous Income	4,741,265	1,507,773
Total revenue	<u>146,978,208</u>	<u>113,649,163</u>
<i>[Miscellaneous income comprises, connection fees, reconnection fees, illegal connection penalty, Account succession, bowser income, collapsible tank hire, meter testing fee & account termination fee]</i>		
2. COST OF SALES		
Bulk water fees	78,836,460	57,692,260
Electricity Pumping	31,953,752	22,130,330
Water Treatment	1,039,757	159,880
Abstraction fees (Warma)	2,268,695	2,211,883
Total Cost of sales	114,098,664	82,194,353

TAVEVO WATER & SEWERAGE COMPANY LIMITED
 REPORTS AND FINANCIAL STATEMENTS
 FOR THE FINANCIAL YEAR ENDED JUNE 30, 2015
 NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 30 JUNE 2015	2015 Kshs	2014 Kshs RESTATED
3. ADMINISTRATION EXPENSES		
Awards to retired staff	30,000	-
Airtime Allowance	877,600	495,100
Electricity Administration	484,260	366,250
Postal services & Courier	124,740	71,195
Advertising, awareness and publicity.	513,999	252,372
Insurance non-motor	529,194	-
Publishing and printing	12,865	-
Newspapers	46,560	35,080
Refurbishment of Buildings	71,930	-
Office and general supplies and services	3,606,827	3,180,157
Entertainment	499,605	97,450
Burial expenses	60,000	60,000
Rent & Rates	9,000	-
Membership fees	142,000	95,900
Contracted Guards-Security	2,317,000	1,450,000
Depreciation charge for the year	1,647,232	1,418,919
	<u>10,972,812</u>	<u>7,522,423</u>

Kshs 17,681,189 reported under administration expenses 2013/14 now re-classified AS BELOW to conform to previous years' categorisation: Depreciation expense was also adjusted by Kshs. 726,271 due to change in depreciation method from reducing balance to straight line method.

1.	Bank Charges	311,561	Now reported under Financial expenses
3.	WASREB Levy	1,702,648	Now reported under Financial expenses
4.	Admin/Lease fees-CWSB)	10,262,686	Now reported under Financial expenses
5.	Professional fees	132,280	Now reported under Professional Expenses
6.	Travelling expenses	5,272,014	Now reported under Transport expenses

TAVEVO WATER & SEWERAGE COMPANY LIMITED
 REPORTS AND FINANCIAL STATEMENTS
 FOR THE FINANCIAL YEAR ENDED JUNE 30, 2015
 NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 30 JUNE 2015

	2015 Kshs	2014 Kshs RESTATED
4. OPERATIONS AND MAINTAINANCE EXPENSES		
Electro-mechanical parts	3,087,902	-
Maintenance of water supplies and sewerage	10,615,625	7,824,846
	<u>13,703,527</u>	<u>7,824,846</u>
5. PROFESSIONAL EXPENSES		
Legal Fees	835,137	192,800
Provision for Audit Fees-Charge for the year	464,000	464,000
Consultancy Fees & Membership	-	464,000
Contractual professional fees	-	132,280
	<u>1,299,137</u>	<u>1,253,080</u>

Contractual Professional fees 2013/14 Kshs. 132,280 previously reported under administration expenses Now reported under Professional Expenses

6. STAFF EXPENSES

Salary	27,661,096	19,783,834
Leave allowance	1,601,557	544,587
Gratuity	2,097,746	1,642,533
Pension	1,843,734	-
Casual wages	6,966,978	10,697,112
Training expenses	471,290	281,756
Staff Medical scheme	2,203,785	3,096,177
Recruitment cost	454,453	227,592
	<u>43,300,639</u>	<u>36,273,591</u>

Gratuity cost under stated 2013-14 Kshs 41,850 now adjusted from Ksh 1,600,683 to Kshs 1,642,533.

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

Permanent employees – Unionisable	155	68
Temporary and contract employees	9	94
	<u>164</u>	<u>162</u>

TAVEVO WATER & SEWERAGE COMPANY LIMITED
 REPORTS AND FINANCIAL STATEMENTS
 FOR THE FINANCIAL YEAR ENDED JUNE 30, 2015
 NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 30 JUNE 2015

	2015 Kshs	2014 Kshs RESTATED
7. DIRECTORS' EMOLUMENTS		
Chairman's Honoraria	420,000	420,000
Other Directors Allowances	5,074,344	3,768,508
	<u>5,494,344</u>	<u>4,188,508</u>
8. FINANCIAL EXPENSES		
Bank commission and charges	170,391	311,561
Wasreb-levy	1,420,643	1,702,648
Lease fees-Coast water services Board	12,785,792	10,262,686
	<u>14,376,826</u>	<u>12,276,895</u>
<i>Abstraction cost (Warma) previously reported under financial expenses now reported under Cost of sale being a direct cost Kshs. 2,211,883.</i>		
9. TRANSPORT EXPENSES		
Transportation, travelling and subsistence	4,044,500	5,272,014
Hire of Transport plant and Equipment	228,650	20,000
Fuel Oils and lubricants	4,115,579	1,674,760
Maintenance of Motor Vehicles	2,490,012	1,012,629
Insurance Costs	918,640	1,430,761
Transport Claims	463,554	347,760
	<u>12,260,935</u>	<u>9,757,924</u>

Transport, travelling & Subsistence Kshs 5,272,014 reported under administration expenses now reported under Transport expenses.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
NOTE 10: 2015 PROPERTY, PLANT AND EQUIPMENT MOVEMENT SCHEDULE.

	Computers	Plant and Machinery	Meters	Furniture and fittings	Office Equipment	Total
	Kshs	Kshs	Kshs	Kshs	Kshs	Kshs
Cost as at 1.7.2013	2,217,920	1,003,108	1,332,639	1,253,870	792,402	6,599,939
Additions	243,600	-	-	-	262,100	505,700
As at 01.07.2014	2,461,520	1,003,108	1,332,639	1,253,870	1,054,502	7,105,639
Additions	662,300	-	1,960,000	-	367,000	2,989,300
As at 30.06.2015	3,123,820	1,003,108	3,292,639	1,253,870	1,421,502	10,094,939
Depreciation						
As at 01.07.2014	2,246,535	689,087	1,131,632	700,772	262,202	5,030,229
Charge for the year 2015	413,675	125,389	658,528	156,734	177,688	1,532,014
As at 30.06.2015	2,660,210	814,476	1,790,160	857,506	439,890	6,562,242
NBV at 30.06.2015	463,610	188,632	1,502,479	396,364	981,612	3,532,697
NBV at 30.06.2014	214,985	314,022	201,007	553,098	792,300	2,075,412

(Charge for the year reported as Kshs 692,648 includes Depreciation for intangibles (Ksh 53,940) which is accounted for under Intangible Assets. Correct charge for the year is Kshs 1,418,919 (change from reducing balance to Straight line as per company policy). Difference (Kshs 780,211) adjusted accordingly.

TAVEVO WATER & SEWERAGE COMPANY LIMITED
 REPORTS AND FINANCIAL STATEMENTS
 FOR THE FINANCIAL YEAR ENDED JUNE 30, 2015
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 30 JUNE 2015

	2015 Kshs	2014 Kshs RESTATED
11. INTANGIBLE ASSETS		
COST		
At July 1 2014	179,800	-
Additions	204,260	179,800
Disposals	-	-
At June 30 2015	<u>384,060</u>	<u>179,800</u>
Depreciation		
At 1 st July 2014	(53,940)	-
Charge for the year	(115,218)	(53,940)
Disposals	-	-
Impairment loss	-	-
At June 30 2015	<u>(169,158)</u>	<u>(53,940)</u>
NET BOOK VALUE	<u>214,902</u>	<u>125,860</u>

Kshs 53,940 Depreciation charge for intangible assets accounted for twice in 2013-2014 now adjusted.

12. TRADE AND OTHER RECEIVABLES

Trade receivables	142,234,211	135,688,035
VAT recoverable	-	63,892
Taita Taveta County receivable	1,109,360	-
BOD Receivable	175,823	-
Staff Imprest	90,873	-
Old Staff Imprest	470,061	505,678
Old staff debts	2,610,496	1,311,815
Staff	567,755	1,480,378
Short banking	6,037,303	6,037,303
	<u>153,295,882</u>	<u>145,087,101</u>

Unbanked collections (Kshs 6,037,303) reported under OTHER CURRENT ASSETS now restated to Trade & Other receivables.

TAVEVO WATER & SEWERAGE COMPANY LIMITED
 REPORTS AND FINANCIAL STATEMENTS
 FOR THE FINANCIAL YEAR ENDED JUNE 30, 2015

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
 FOR THE YEAR ENDED 30 JUNE 2015**

	2015 Kshs	2014 Kshs RESTATED
13. BANK AND CASH BALANCES		
Cash at Bank		
Co-operative bank	4,022,069	1,000,125
Equity	21,052	26,041
KCB-collection	704,988	1,635,797
KCB-expenditure	294,909	221,823
M-pesa	78,900	31,641
Cash in Hand	196,144	97,939
	<u>5,318,062</u>	<u>3,013,366</u>

Castling error on Cash in Hand reported as Kshs 29,672 instead of 97,939 (Difference Kshs 68,266).

14. OTHER CURRENT ASSETS

Deposit receivable-KPLC	616,000	-
Prepayments	<u>1,032,270</u>	<u>1,348,031</u>
	<u>1,648,270</u>	<u>1,348,031</u>

Unbanked collections (Kshs 6,037,303) reported under OTHER CURRENT ASSETS now restated to Trade & Other receivables.

15. ORDINARY SHARE CAPITAL

Authorised:		
1,000 ordinary shares of Kshs.100/= par value each	100,000	100,000

16 FAIR VALUE ADJUSTMENT RESERVE

	97,214,636	97,214,636
--	------------	------------

TAVEVO WATER & SEWERAGE COMPANY LIMITED
 REPORTS AND FINANCIAL STATEMENTS
 FOR THE FINANCIAL YEAR ENDED JUNE 30, 2015

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
 FOR THE YEAR ENDED 30 JUNE 2015**

	2015 Ksh	2014 Kshs RESTATED
17. RETAINED EARNINGS		
	(170,326,996)	(95,764,097)
<i>Restated figure for retained earnings from Kshs 87,651,872 to Ksh 95,764,097 the difference being Kshs 7,344,104 re-classified to retained earnings and Ksh 768,121 which constitutes understated gratuity (Kshs 41,850) and Depreciation (Kshs 726,271).</i>		
18. CUSTOMER DEPOSITS		
	5,209,526	3,333,426
19. SERVICE GRATUITY		
Accrual for Gratuity payable to Contract Staff Rate 31%		
	1,751,628	2,805,958
<i>Under casted gratuity 2013/14 by Kshs. 41,850/- now adjusted.</i>		
20. TRADE AND OTHER PAYABLES		
Coast water services board Bulk water supply	148,824,563	81,216,484
Coast water services board-Lease fees	53,107,513	40,321,718
Accruals	-	513,656
Other payables	14,782,093	9,817,123
KENAO fees	2,432,000	1,040,000
KPLC	4,209,523	5,366,075
Payroll Liabilities	5,904,611	4,889,402
Stale cheques	800,715	795,390
	<u>230,061,018</u>	<u>143,959,848</u>
<i>The figure of Kshs 143,959,848 was adjusted as it was previously reported as Kshs 143,164,458 difference being Kshs 795,390 being the figure for stale cheques which has now been restated to Trade and other payables bringing the total figure to 143,959,848.</i>		
21. BANK OVERDRAFT		
K.C.B A/C NO. 1108161332	<u>-</u>	<u>-</u>

TAVEVO WATER & SEWERAGE COMPANY LIMITED
 REPORTS AND FINANCIAL STATEMENTS
 FOR THE FINANCIAL YEAR ENDED JUNE 30, 2015
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 30 JUNE 2015

22. RELATED PARTY DISCLOSURES

(a) Taita Taveta County Government

The County Government of Taita Taveta is the principal shareholder of the *company* holding 100% of the *company's* equity interest.

23. INCOPORATION

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

24. NOTES TO RESTATED FIGURES (2013-2014).

(I). Statement of comprehensive income.

Note (a)

Kshs 17,681,189 reported under administration expenses 2013/14 now reclassified AS BELOW to conform to previous years' categorisation: Depreciation expense was also adjusted by Kshs. 726,271 due to change in depreciation method from reducing balance to straight line method.

	Item	Kshs	Remarks
1.	Bank Charges	311,561	Now reported under Financial expenses
2.	WASREB Levy	1,702,648	Now reported under Financial expenses
3.	Admin/Lease fees-CWSB)	10,262,686	Now reported under Financial expenses
4.	Professional fees	132,280	Now reported under Professional Expenses
5.	Travelling expenses	5,272,014	Now reported under Transport expenses

Note (b)

Refer to Note (a) 4 above.

Note(c)

Under casted gratuity expense Kshs 41,850.

Note (d)

Refer to Note (a) 1,2,3 above.

Note (e)

Refer to Note (a) 5 above.

TAVEVO WATER & SEWERAGE COMPANY LIMITED
REPORTS AND FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED JUNE 30, 2015
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 30 JUNE 2015

(II). Statement of financial position.

Note (f)

(Charge for the year reported as Kshs 692,648 includes Depreciation for intangibles (Ksh 53,940) which is accounted for under Intangible Assets. Correct charge for the year is Kshs 1,418,919 (change from Reducing balance to Straight line as per company policy). Difference (Kshs 780,211) adjusted accordingly.

Note (g)

Unbanked collections (Kshs 6,037,303) reported under OTHER CURRENT ASSETS now restated to Trade & Other receivables.

Notes (h)

Casting error on Cash in Hand reported as Kshs 29,672 instead of 97,939 (Difference Kshs 68,266)

Note (i)

Unbanked collections (Kshs 6,037,303) reported under OTHER CURRENT ASSEST now restated to Trade & Other receivables.

Note (j)

Restated capital & reserves by 768,121 which is due to understated depreciation for intangible assets (726,271/-) & gratuity (41,850/-).

Note (k)

Restated due to under casting gratuity Kshs 41,850

Note(l)

The figure of kshs 143,959,848 was adjusted as it was previously reported as Kshs 143,164,458 .Stale cheque Kshs 795,390 previously reported separately as "Stale Cheques" has now been adjusted to Trade and other payables

(III) Statement of changes in Equity

Note(m)

*Balance as at 30.07.13 adjusted from **54,324,961** to **54,155,861**- Net of Kshs -7,344,104 and 13,547,425 reported under Fair value adjustment reserve and opening balance adjustment respectively, and Kshs 6,034,221 prior years' adjustments posted in 2014/15, have now been adjusted to opening balance.

**Restated figure for retained earnings from Kshs 87,651,872 to Ksh 101,798,318 due to Kshs 6,034,221, being items related to previous years posted in 2014/15, Kshs 7,344,104 re-classified to retained earnings (from Fair Value adjustment reserve in 2013/14) and Ksh 768,121 which constitutes understated gratuity (Kshs 41,850) and Depreciation (Kshs 726,271).

***Balance adjusted from 89,870,532 by transferring Kshs 7,344,104 to opening balance retained earnings.

****Opening balance for 2014/15 adjusted to Kshs 4,483,682 from 2,318,660

(IV) Statement of cash flows

Note (n)

Restated working cash flow from operations due to understated depreciation and gratuity expense (768,121).

Note (o)

Amount of Kshs. 40,643 captured as decrease but restated to (increase) in prepayments.

Note (p)

Payables under casted.

Note (q)

Amount for purchase of intangible asset 179,800/- captured twice hence overstatement of purchases.

Note (r)

Amount restated due to understated cash in hand by 68,266/- now restated.