

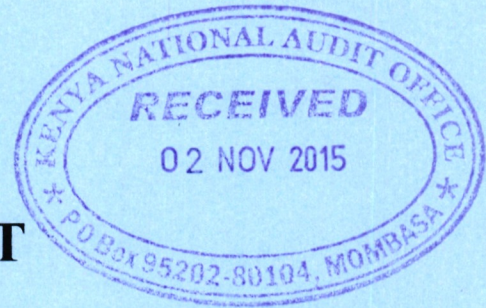
REPUBLIC OF KENYA



KENYA NATIONAL AUDIT OFFICE



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REPORT

OF

THE AUDITOR-GENERAL

ON

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

**FOR THE YEAR ENDED
30 JUNE 2014**



Original.

TAVEVO WATER & SEWERAGE 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)

TAVEVO WATER & SEWERAGE CO.LTD

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

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TAVEVO WATER & SEWERAGE CO.LTD

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

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 the *Company* is to provide and portable Piped Water and Sanitation Services to the residents of Taita Taveta County

Directors

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

- | | | | |
|----|------------------|---------------------|--------------------------------|
| 1. | Rosinah Katema | - Chairman | - Appointed on September 2011. |
| 2. | Peter Shwashwa | - Managing Director | - Appointed on December 2010 |
| 3. | Killian Mwalasha | - Director | - Appointed on September 2011 |
| 4. | Andrew Masamo | - Director | - Appointed on September 2011 |
| 5. | Mercy Mwamburi | - Director | - Appointed on September 2011 |
| 6. | Janet Chilumo | - Director | - Appointed on March 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

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

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TAVEVO WATER & SEWERAGE CO.LTD

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

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 CO.LTD

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

THE BOARD OF DIRECTORS

1. Rosina Katema	Chairperson B.Sc(Botany/Zoology)-UON.
2. Peter Shwashwa- Managing Director/Secretary to the Board	B.comm (Accounting option)
3. Killian Mwalasha	Diploma in Hotel Operations & Management Distinction
4. Andrew Masamo	Diploma in Leadership & Management at Strathmore College.
5. Mercy Mwamburi.	Diploma in Education
6. Janet Chilumo.	M.A in Project planning and Management

MANAGEMENT TEAM

1. Peter Shwashwa-B.Com (Accounting option)	Managing Director
2. Duncan M.Maghanga-B.Com (Finance), CPA (K), Member ICPAK.	Finance & Administration Manager
3. John Barchiba-B .Civil Eng.	Asst.Technical Manager
4. Odlinah Mghulo-Dip.Water Engineering	Ag.Commercial Manager
5. Gerald Michigan-Certificate1 STAGE 5	ICT officer
6. Jentah Mlambo- Dip. Purchasing & Supplies	Procurement officer

TAVEVO WATER & SEWERAGE CO.LTD

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

CHAIRMAN'S STATEMENT

One page

REPORT OF THE CHIEF EXECUTIVE OFFICER

Two-to-three pages

CORPORATE GOVERNANCE STATEMENT

Two-to-three pages

CORPORATE SOCIAL RESPONSIBILITY STATEMENT

Two-to-three pages

TAVEVO WATER & SEWERAGE CO.LTD

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

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 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, 2014 are set out on page 9-12.

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 2.

Auditors

The Auditor General is responsible for the statutory audit of the *entity* in accordance with the Section ... of the Public Finance Management (PFM) Act, 2012, which empowers the Auditor General to nominate other auditors to carry out the audit on his behalf.

By Order of the Board

Kioko Munyithia Ngugi & Co. Advocates
Mombasa.
Date: 19th September, 2014

TAVEVO WATER & SEWERAGE CO.LTD

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

STATEMENT OF DIRECTORS' RESPONSIBILITIES

Section 44 of the Public Finance Management Act, 2012 and section ... of the State Corporations 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, 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.

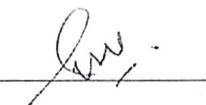
Nothing has come to the attention of the Directors to indicate that the *company* will not remain a going concern for at least the next twelve months from the date of this statement.

Approval of the financial statements

The *company's* financial statements were approved by the Board on 18/09 2014 and signed on its behalf by:



Chairman



Managing Director

REPUBLIC OF KENYA

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



P.O. Box 30084-00100
NAIROBI

OFFICE OF THE AUDITOR-GENERAL

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

REPORT ON THE FINANCIAL STATEMENTS

I have audited the accompanying financial statements of Tavevo Water and Sewerage Company Ltd set out on pages 8 to 29, which comprise the statement of financial position as at 30 June 2014, and the statement of financial performance, 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 13 of the Public Audit Act, 2003.

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 14 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 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 Auditing. Those standards require compliance with ethical requirements and that the audit be planned and performed to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting

estimates made by the management, as well as evaluating the overall presentation of the financial statements.

Because of the matters described in the Basis for Disclaimer of Opinion paragraph, however, I am not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

Basis for Disclaimer of Opinion

1. Bank and Cash Balances

Included in the financial statements as at 30 June 2014 is cash and bank balance of Kshs.2,945,099 out of which a bank balance of Kshs.2,915,427 had not been supported with bank reconciliation statements. Further, Note 13 to the financial statements show cash in hand balance of Kshs.29,672 whereas end of year board of survey report indicated a balance of Kshs.97,939, resulting to unexplained variance of Kshs.68,267.

Consequently, the accuracy and completeness of bank and cash balance of Kshs.2,945,099 as at 30 June 2014 could not be confirmed.

2. Trade and Other Receivables

Included in the trade and other receivables balance of Kshs.139,064,124 as at 30 June 2014 are long overdue amounts totaling Kshs.135,593,753. Further, the provision that would have been necessary in relation to this uncertainty has not been incorporated in these financial statements.

In the circumstance, the recoverability and accuracy of the trade and other receivables balance of Kshs.135,593,753 as at 30 June 2014 could not be confirmed.

3. Trade and Other Payables

The trade and other payables balance of Kshs.143,164,458 shown in the financial statements includes Kshs.121,538,202 payable to Coast Water Services Board for bulk water supply costing Kshs.81,216,484 and lease fees of Kshs.40,321,718. However, the financial statements of Coast Water Services Board availed for audit review reflected a total of Kshs.192,375,530 as receivable from Tavevo Water and Sewerage Company Ltd, resulting to a difference of Kshs.70,837,328 which has not been explained nor reconciled as at 30 June 2014. Further, included under other payables of Kshs.9,817,123 under Note 20 to the financial statements is an amount of Kshs.5,170,736 in respect of levies owed to Water Regulatory Management Authority and Water Services Regulatory Board. The management has not explained why the levies which have been outstanding for long have not been remitted.

Under the circumstances, the accuracy and validity of the trade and other payables balance of Kshs.143,164,458 as at 30 June 2014 could not be confirmed.

4. Management of Imprests

Examination of payment vouchers for the year under review indicated that expenditure totaling Kshs.5,908,065 was incurred in form of imprests issued to various staff for

accommodation and travelling expenses. However, details of and reasons for the journeys were not availed for audit review. It was, therefore, not possible to confirm the propriety of expenditure totaling Kshs.5,908,065 for the year ended 30 June 2014 incurred through imprest.

5.0 Staff Costs

5.1 Non-Deduction of PAYE

Included in staff costs of Kshs.36,231,741 under Note 7 to the financial statements are employee salary top-ups amounting to Kshs.3,859,685 of which no PAYE was deducted and therefore the Company is in contravention of Income Tax Act. Further, PAYE not deducted and remitted to Kenya Revenue Authority may attract interest and penalties which were not factored in these financial statements.

5.2 Staff Wages

The staff costs of Kshs.36,231,741 includes staff wages of Kshs.3,062,933. However, no supporting documents were availed for audit review to support this figure. Further, during the year under review, the Company allocated Kshs.9,267,055.80 for casual wages and spent Kshs.10,697,112.00, resulting to over-expenditure of Kshs.1,430,056.20(15.4%) as at 30 June 2014. No evidence was provided as proof that the over-expenditure was approved by the board of directors.

Consequently, the propriety of expenditure on staff wages of Kshs.3,062,933 and the over-expenditure of Kshs.1,430,056.20 for the year ended 30 June 2014 could not be confirmed.

6. Operations and Maintenance Costs

Included in the operations and maintenance costs of Kshs.7,824,846 are payments totalling Kshs.508,760 to various suppliers for whose procurement was sourced direct, contrary to Public Procurement and Disposals Act, 2005. Further, an amount of Kshs.131,900 was paid to a garage for repair of motor vehicle registration number KAL 843U based on a Company officer's cost estimate whose basis could not be ascertained. A further Kshs.162,360 was spent on pipes and fittings which were not delivered. In addition, included in the operations and maintenance figure of Kshs.7,824,846 is Kshs.890,188 being payment to casuals whose documentary evidence was not availed for audit verification.

Consequently, the propriety of operations and maintenance cost totalling Kshs.1,693,208 for the year ended 30 June 2014 could not be confirmed.

7. Directors' Emoluments

Included in the directors' emoluments of Kshs.4,188,508, are board allowances totalling Kshs.485,500 paid to board members as sitting allowances. However, supporting documentation in support of the sitting allowances amounting to Kshs.485,500 was not

availed for audit review. In the circumstances, the propriety of the expenditure totalling Kshs.485,500 for the year ending 30 June 2014 could not therefore be confirmed.

8. Property, Plant and Equipment

Included in the property, plant and equipment balance of Kshs.2,855,622 are additions of Kshs.685,500 which are at variance with the computed figure of Kshs.505,500, resulting to overstatement by Kshs.180,000. Further, the Company applied a reducing balance method of depreciation instead of a straight line method as provided for in the Company's accounting policies. This resulted to Kshs.780,210 under charge of depreciation expense for the year and over statement of property, plant and equipment by the same amount as at 30 June 2014.

Consequently, the accuracy of the property, plant and equipment balance of Kshs.2,855,622 as at 30 June 2014 could not be confirmed.

9. Other Current Assets

Included in other current assets figure of Kshs.7,385,334 is Kshs.6,037,303 relating to unbanked collections brought forward from the previous financial year. No supporting documents were, however, availed to support this figure. Further, information available indicates that an amount of Kshs.206,748 was recovered from an individual during the year and the same has not been banked intact.

In the circumstances, the accuracy, completeness and validity of the figure of other current assets of Kshs.7,385,334 as at 30 June 2014 could not, therefore, be confirmed.

10. Capital Reserves

As similarly reported in previous years, the capital reserve balance of Kshs.89,870,532 as at 30 June 2014 (2012/2013: Kshs.97,214,636) 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 ascertain the carrying value of the capital reserve as reflected in these financial statements.

11. Inaccuracies in the Financial Statements

The following differences have been noted in the financial statements:

Item	Financial Statements Balance (Kshs)	Schedule/Audited/ Recomputed/ Opening Balance (Kshs)	Difference (Kshs)
Statement of Comprehensive Income			
Operations and Maintenance Expenses (Difference between Financial Statements and Audited Accounts of 2012/2013)	9,927,062	11,202,514	1,275,452
Statement of Financial Position (Difference between financial statements figure and Note 13 Figure)	109,300,627	103,056,576	6,244,051
Statement of Cash Flows			
Trade and Other Receivables (Difference between Financial Statements and Recomputed Figure)	29,552,905	29,763,497	210,592
Trade and Other Payables (Difference between Financial Statements Figure and Recomputed Figure)	74,110,457	70,550,959	3,559,498
Staff Costs (Difference between Financial Statements Figure and Recomputed Figure)	36,231,711	36,004,149	227,562
Property, Plant & Equipment) - Difference between Financial Statements Figure and Note 10)	865,300	685,500	179,800
Intangible Assets (difference between financial statements figure and Note 11 figure)	nil	53,940	53,940
Total	<u>259,988,062</u>	<u>251,317,135</u>	<u>8,670,927</u>

As a result of the above unreconciled difference of Kshs.8,670,927, it has not been possible to ascertain the accuracy and completeness of these financial statements as at 30 June 2014.

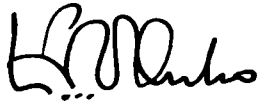
12. Un-explained Adjustments

Included in the fair value adjustment reserve balance of Kshs.89,870,532 is opening balance adjustment of Kshs.7,344,104 which has not been explained or supported. Similarly, the retained earnings debit balance of Kshs.87,651,872 includes opening balance adjustment totaling Kshs.13,547,425 which has also not been explained.

Consequently, it has not been possible to ascertain the validity and accuracy of the fair value adjustment of Kshs.89,870,532 and accumulated loss balance of Kshs.87,651,872 as at 30 June 2014.

Disclaimer of Opinion

Because of the significance of the matters described in the Basis for Disclaimer of Opinion paragraph, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, I do not express an opinion on the financial statements.



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

Nairobi

23 October 2015

TAVEVO WATER & SEWERAGE CO.LTD

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

STATEMENT OF COMPREHENSIVE

	Note	2014 Kshs	2013 Kshs
REVENUES			
Sales	1	108,060,290	95,093,470
Meter rent	1	4,081,100	3,526,600
Other Income	2	1,507,773	1,523,980
		<hr/>	<hr/>
TOTAL REVENUES		113,649,163	100,144,050
COST OF SALES	3	82,194,353	41,040,552
		<hr/>	<hr/>
OPERATING EXPENSES			
Administration Expenses	4	24,477,341	21,409,538
Operations and Maintenance	5	7,824,846	9,927,062
Professional Expenses	6	1,120,800	691,945
Staff Expenses	7	36,231,741	31,728,773
Directors' emoluments	8	4,188,508	3,364,890
Transport Expenses	9	4,485,910	3,547,169
		<hr/>	<hr/>
TOTAL OPERATING EXPENSES		78,329,146	70,669,377
OPERATING PROFIT/(LOSS)		<u>(46,874,336)</u>	<u>(11,565,879)</u>

TAVEVO WATER & SEWERAGE CO.LTD

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

STATEMENT OF FINANCIAL POSITION

	Note	2014 Kshs	2013 Kshs
ASSETS			
Non-Current Assets			
Property, plant and equipment	10	2,855,622	2,988,633
Intangible assets	11	125,860	-
Total Non-Current Assets		<u>2,981,482</u>	<u>2,988,633</u>
Current Assets			
Trade and other receivables	12	139,064,124	109,300,627
Bank and cash balances	13	2,945,099	5,341,207
Other current assets	14	7,385,334	1,307,388
Total Non-Current Assets		<u>152,376,040</u>	<u>118,937,855</u>
EQUITY AND LIABILITIES			
Capital and Reserves			
Ordinary share capital	15	100,000	100,000
Fair value adjustment reserve	16	89,870,532	97,214,636
Retained earnings	17	(87,651,872)	(54,324,961)
Capital and Reserves		<u>2,318,660</u>	<u>42,989,675</u>
Non-Current Liabilities			
Customer Deposits	18	3,333,426	2,844,426
Service Gratuity	19	2,764,108	-
Total Non-Current Liabilities		<u>6,097,534</u>	<u>2,844,426</u>
Current Liabilities			
Trade and other payables	20	143,164,458	72,613,499
Bank overdraft	21	-	490,255
Stale cheques	22	795,390	-
Total Current Liabilities		<u>143,959,848</u>	<u>73,103,754</u>
TOTAL EQUITY AND LIABILITIES		<u>152,376,040</u>	<u>118,937,855</u>

The financial statements were approved by the Board on 18/09 2014 and signed on its behalf by:

B. M. Kateru
Chairman

[Signature]
Managing Director

TAVEVO WATER & SEWERAGE CO.LTD

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

STATEMENT OF CHANGES IN EQUITY

	Ordinary share capital	Fair value adjustment reserve	Retained earnings	Total
At July 1, 2012	100,000	(106,854,136)	(42,759,082)	64,195,054
Total comprehensive income	-	-	(11,565,879)	(11,565,879)
Transfers to CWSB	-	(9,639,500)	-	(9,639,500)
At June 30, 2013	100,000	97,214,636	(54,324,961)	42,989,675
At July 1, 2013	100,000	97,214,636	(54,324,961)	42,989,675
Total comprehensive income	-	-	(46,874,336)	(46,874,336)
Opening balance adjustment	-	(7,344,104)	13,547,425	6,203,321
At June 30, 2014	100,000	89,870,532	(87,651,872)	2,318,660

TAVEVO WATER & SEWERAGE CO.LTD

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

STATEMENT OF CASH FLOWS

	2014	2013
	Kshs	Kshs
OPERATING ACTIVITIES		
Profit/(loss) before tax	(46,874,336)	(11,565,879)
Depreciation	746,589	679,853
Net cash generated from/(used in) operating activities	<u>(46,127,747)</u>	<u>(10,886,026)</u>
Changes in Working Capital		
Decrease/Increase in Receivables	(29,552,905)	8,194,076
Prepayments	40,643	(884,555)
Increase in Customer deposits	489,000	423,076
Increase in payables	74,110,457	8,094,483
Net cash flow from operations after working capital changes	<u>45,087,195</u>	<u>15,827,080</u>
	<u>(1,040,553)</u>	<u>4,941,054</u>
INVESTING ACTIVITIES		
Purchase of property, plant and equipment	(865,300)	(1,042,382)
Net cash generated from/(used in) investing activities	<u>(865,300)</u>	<u>(1,042,382)</u>
FINANCING ACTIVITIES		
Increase/ decrease in Overdraft	(490,255)	488,207
Net cash generated from/(used in) financing activities	<u>(490,255)</u>	<u>(488,207)</u>
INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	<u>(2396,108)</u>	<u>4,386,879</u>
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	5,341,207	954,328
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	<u>2,945,099</u>	<u>5,341,207</u>

TAVEVO WATER & SEWERAGE CO.LTD

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

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

1. Statement of compliance and basis of preparation

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

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

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

2. Revenue recognition

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

- i) **Revenue from the sale of 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.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3. In-kind contributions

In-kind contributions are donations that are made to the *entity* in the form of actual goods and/or services rather than in money or cash terms. These donations may include vehicles, equipment or personnel services. Where the financial value received for in-kind contributions can be reliably determined, the *entity* includes such value in the statement of comprehensive income both as revenue and as an expense in equal and opposite amounts; otherwise, the contribution is not recorded.

4. 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.

5. 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 CO.LTD

Reports and Financial Statements

For the year ended June 30, 2014

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

6. Depreciation and impairment of property, plant and equipment (Continued)

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.

7. 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.

8. 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.

9. 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.

TAVEVO WATER & SEWERAGE CO.LTD

Reports and Financial Statements

For the year ended June 30, 2014

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

10. 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.

11. 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.

12. Unquoted investments

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

13. 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.

14. 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.

15. 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 CO.LTD

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

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

16. 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.

17. 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.

18. 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.

19. 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.

20. Comparative figures

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

21. 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, 2013.

TAVEVO WATER & SEWERAGE CO.LTD

Reports and Financial Statements

For the year ended June 30, 2014

NOTES TO THE FINANCIAL STATEMENTS (Continued)

4 ADMINISTRATION COSTS

Telephone		204,461
Airtime Allowance	495,100	609,800
Electricity Administration	366,250	251,095
Postal services & Courier	71,195	91,994
Transportation, travelling and subsistence	5,272,014	5,242,463
Advertising, awareness and publicity.	252,372	477,464
Publishing and printing	-	3,000
Newspapers	35,080	37,100
Refurbishment of Buildings	-	341,844
Bank charges and commissions	311,561	178,072
Office and general supplies and services	2,991,524	2,098,756
Entertainment	97,450	93,839
Burial expenses	60,000	171,000
Donations	24,190	-
Penalties-Warma	18,149	-
I.C.T	146,294	-
Membership fees	95,900	-
Contractual professional fees	132,280	90,200
Contracted Guards-Security	1,450,000	1,080,000
Depreciation	692,648	679,853
WASREB-Levy	1,702,648	979,529
Lease Fees-Coast Water Services Board	10,262,686	8,779,068
	<u>24,477,341</u>	<u>21,409,538</u>

TAVEVO WATER & SEWERAGE CO.LTD

Reports and Financial Statements

For the year ended June 30, 2014

NOTES TO THE FINANCIAL STATEMENTS (Continued)

5	OPERATIONS AND MAINTAINANCE	7,824,846	9,927,062
	Maintenance of water supplies and sewerage	<u>7,824,846</u>	<u>9,927,062</u>
6	PROFESSIONAL EXPENSES	192,800	188,945
	Legal Fees	464,000	400,000
	Provision for Audit Fees-Charge for the year	464,000	103,000
	Consultancy Fees & Membership	<u>1,120,800</u>	<u>691,945</u>

TAVEVO WATER & SEWERAGE CO.LTD

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

	2014 Kshs	2013 Kshs
7 STAFF COSTS		
Basic salary	12,600,910	-
Commuter allowance	852,000	-
House allowance	1,400,227	-
Bicycle allowance	7,200	-
Acting allowance	40,199	-
Medical allowance	255,000	-
Special allowance	103,428	-
Salary top-ups	3,859,685	-
Transfer allowance	194,715	-
Compulsory national social security scheme	60,960	-
Other pension contributions	387,582	-
Total	19,761,906	21,894,707
<i>Previous year's salary cost was consolidated to 21,894,707.</i>		
Staff Recruitment cost	227,592	-
Leave allowance	544,587	220,156
Gratuity	1,600,683	-
Casual wages	10,697,112	7,216,084
Training expenses	281,756	144,650
Staff Medical scheme	3,096,177	2,253,176
Other staff expenses	21,928	-
	<u>36,231,741</u>	<u>31,728,773</u>
	=====	=====
The average number of employees at the end of the year was:		
Permanent employees – Union sable	68	-
Temporary and contract employees	94	-
	<u>162</u>	<u>-</u>

TAVEVO WATER & SEWERAGE CO.LTD

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

[Provide short appropriate explanations as necessary]

NOTES TO THE FINANCIAL STATEMENTS (Continued)

	2014 Kshs	2013 Kshs
8 DIRECTORS EMOLUMENTS		
Chairman's Honoraria	420,000	420,000
Other Directors Allowances	3,768,508	2,944,890
	<u>4,188,508</u>	<u>3,364,890</u>
9 TRANSPORT EXPENSES		
Hire of Transport plant and Equipment	20,000	36,200
Fuel Oils and lubricants	1,674,760	1,097,602
Maintenance of Motor Vehicles	1,012,629	702,593
Insurance Costs	1,430,761	1,471,790
Transport Claims	347,760	238,984
	<u>4,485,910</u>	<u>3,547,169</u>

TAVEVO WATER & SEWERAGE CO.LTD

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)
PROPERTY, PLANT AND EQUIPMENT (Continued)

NOTE: 10

2013	Land	Buildings	Computers	Plant and Machinery	Meters	Furniture and fittings	Office Equipment	Total
	KShs	KShs	KShs	KShs	KShs	KShs	KShs	KShs
Cost	2,450,000	7,189,500	1,681,420	1,003,108	1,332,639	1,253,870	286,520	15,197,057
As at 01.07.2012								-
Transfers to CWSB	(2,450,000)	(7,189,500)	-	-	-	-	-	9,639,500
Additions	-	-	536,500	-	-	-	505,882	1,042,382
As at 30.06.2013	-	-	2,217,920	1,003,108	1,332,639	1,253,870	792,402	6,599,939
Depreciation								
As at 01.07.2012	-	-	1,203,862	500,925	748,220	442,633	35,815	2,931,455
Charge for the year	-	-	304,217	62,773	116,884	101,405	94,574	679,853
As at 30.06.2013	-	-	1,508,079	563,698	865,104	544,038	130,389	3,611,308
NBV at 30.06.2012	2,450,000	7,189,500	477,558	502,183	584,419	811,239	250,705	12,265,604
NBV at 30.06.2013	-	-	709,841	439,410	467,535	709,833	662,014	2,988,633

TAVEVO WATER & SEWERAGE CO.LTD
Reports and Financial Statements
For the year ended June 30, 2014

PROPERTY, PLANT AND EQUIPMENT (Continued)

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

	Depreciation (%)	Cost or Valuation	Normal Annual Depreciation charge
Plant and machinery	12.5	1,003,108	62,773
Meters	20.0	1,332,639	116,884
Computers and related equipment	30.0	2,217,920	304,217
Office equipment	12.5	792,402	94,574
Furniture and fittings	12.5	1,253,870	111,405
		<u>6,599,939</u>	<u>679,853</u>

NOTES TO THE FINANCIAL STATEMENTS (Continued)

NOTE: 10 PROPERTY, PLANT AND EQUIPMENT

2014

	Land	Buildings	Computers	Plant and	Meters	Furniture	Office	Total
	KShs	Equipment	KShs	Machinery	KShs	and	Equipment	
		KShs	KShs	KShs	KShs	Fittings	KShs	KShs
Cost	-	-	2,217,920	1,003,108	1,332,639	1,253,870	792,402	6,599,939
As at 01.07.2012								
Transfers to CWSB	-	-	-	-	-	-	-	-
Additions	-	-	243,600	-	-	-	262,100	685,500
As at 30.06.2014	-	-	2,461,520	1,003,108	1,332,639	1,253,870	1,054,502	7,285,439
Depreciation								
As at 01.07.2013	-	-	1,508,079	563,698	865,104	544,038	130,389	3,611,308
Charge for the year	-	-	286,032	54,926	93,507	88,729	115,514	692,649
As at 30.06.2014	-	-	1,794,111	618,624	958,611	632,767	245,903	4,303,957
NBV at 30.06.2013	-	-	709,841	439,410	467,535	709,833	662,014	2,988,633
NBV at 30.06.2014	-	-	667,409	384,484	374,028	621,103	808,599	2,855,622

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

	Depreciation (%)	Cost or Valuation	Normal Annual depreciation charge
Plant and machinery	12.5	1,003,108	54,926
Meters	20.0	1,332,639	93,507
Computers and related equipment	30.0	2,461,520	286,032
Office equipment	12.5	1,054,502	115,514
Furniture and fittings	12.5	1,253,870	88,729
		<u>7,105,639</u>	<u>638,709</u>

TAVEVO WATER & SEWERAGE CO.LTD

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

	2014	2013
	Kshs	Kshs
11 INTANGIBLE ASSETS		
COST		
At July 1	179,800	-
Additions	-	-
Disposals	-	-
At June 30	<u>179,800</u>	<u>-</u>
Depreciation		
At July 1	-	-
Charge for the year	(53,940)	-
Disposals	-	-
Impairment loss	-	-
At June 30	<u>(53,940)</u>	<u>-</u>
NET BOOK VALUE		
At June 30	<u>125,860</u>	<u>-</u>

[This comprises cost of payroll software purchase]

TAVEVO WATER & SEWERAGE CO.LTD

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

	2014 Kshs	2013 Kshs
12 TRADE AND OTHER RECEIVABLES		
Inherited Debtors	-	66,409,080
Provision for Bad debts-specific	-	(66,409,080)
Trade receivables	135,702,361	101,014,953
VAT recoverable	63,892	-
Staff Imprest	505,678	1,403,065
Old staff debts	1,311,815	-
Staff	1,480,378	638,558
Gross trade and other receivables	<u>139,064,124</u>	<u>103,056,576</u>

[Trade receivables comprises our major and minor customers balances]

NOTES TO THE FINANCIAL STATEMENTS (Continued)

	2014 Kshs	2013 Kshs
13 CASH AND BANK		
Cash at Bank	2,915,427	5,338,737
Cash in Hand	29,672	2,470
	<u>2,945,099</u>	<u>5,341,207</u>
14 OTHER CURRENT ASSETS		
Unbanked Collections	6,037,303	6,244,051
Prepayments	1,348,031	1,307,388
	<u>7,385,334</u>	<u>7,551,439</u>

TAVEVO WATER & SEWERAGE CO.LTD

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

	2014 Kshs	2013 Kshs
15. ORDINARY SHARE CAPITAL		
Authorised:		
1,000 ordinary shares of Kshs.100/= par value each	100,000 <u> </u>	100,000 <u> </u>
16 FAIR VALUE ADJUSTMENT RESERVE	89,870,532	97,214,636
17 RETAINED EARNINGS	(87,651,872)	(54,324,961)
NON-CURRENT LIABILITIES		
18 CUSTOMER DEPOSITS	3,333,426	2,844,426
	<u>3,333,426</u> <u> </u>	<u>2,844,426</u> <u> </u>
<i>[Being refundable customer deposit]</i>		
19 SERVICE GRATUITY	2,764,108	-
Accrual for Gratuity payable to Contract Staff Rate 31%	<u>2,764,108</u> <u> </u>	<u> </u> <u> </u>

TAVEVO WATER & SEWERAGE CO.LTD

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

	2014 Kshs	2013 Kshs
20 TRADE AND OTHER PAYABLES		
Coast water services board Bulk water supply	81,216,484	35,771,337
Coast water services board-Lease fees	40,321,718	30,059,032
Accruals	513,656	-
Other payables	9,817,123	2,541,013
KENAO fees	1,040,000	1,040,000
Taita Taveta County Council	-	185,000
KPLC	5,366,075	2,041,019
Payroll Liabilities	4,889,402	976,098
	<u>143,164,458</u>	<u>72,613,499</u>
21 BANK OVERDRAFT	-	490,255
22 STALE CHEQUES KCB A/C NO. 1108161332	795,390	-

These are cheques issued to suppliers but which have gone stale due to overstayng.

23 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.

24 INCOPORATION

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