

REPUBLIC OF KENYA



OFFICE OF THE AUDITOR-GENERAL

REPORT

OF

THE AUDITOR-GENERAL

ON

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

**FOR THE YEAR ENDED
30 JUNE 2015**



OFFICE OF THE AUDITOR GENERAL
P. O. Box 30084 - 00100, NAIROBI
29 MAR 2016

RECEIVED

KITUI WATER AND SANITATION COMPANY LTD

ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 30TH JUNE 2015

KENYA NATIONAL AUDIT OFFICE
EMBU HUB
04 FEB 2015
1216
Tel: 068 - 30260
P. O. BOX 113, EMBU

**Prepared in accordance with the Revised International Financial
Reporting Standards (IFRS)**

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I. Key Entity Information and Management

(a) Background Information

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

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

In August 2010, a new Constitution was promulgated. The Ministry of Water and Irrigation is re-aligning the Water Act 2002 to the new constitution. This is meant to considerably change the operation of the Company since water provision and sanitation services has been placed on the County Governments. A legal notice to that effect was gazetted on 9th August 2013.

(b) Principal Activity

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

The mandate of the Company is; -

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

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

(c) Key Management

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

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

(d) Registered Office:

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

KITUI

(e) Corporate Contacts:

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

Kitui Water and Sanitation Company Limited
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(f) Bankers:

Kenya Commercial Bank
P.O Box 683 - 90200
KITUI





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

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



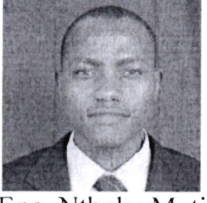
(g) Auditors:

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




II. The Board of Directors:

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

Kitui Water and Sanitation Company Limited
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6.	 Evelyn Mutia	Born in 1952 KCE, P1 Teacher- retired
7.	 Teresia Kavutha Mathuu	Born in 1962 EACE, Pursuing BCOM, Accountant
8.	 Eng. Nthuku Mutiso	Born in 1978 B.Tech in Civil & Structural Engineering Masters of Philosophy Water Engineering Registered Engineer

III. Management Team:

Manager's passport-size photo and name, and key profession/academic qualifications	Responsibility
 <p>1. John Kameta '0' level Diploma Water supply</p>	<p>In charge of Technical Department</p>
 <p>2. Urbanus Mutisya BA Public admin, Higher Dip HRM Certified HR Consultant.</p>	<p>In charge of Human resource & Administration Department</p>
 <p>3. Victor Muteti Bachelor of commerce MBA(awaiting graduation) CPA sec IV ACCA II</p>	<p>In charge of Commercial Department</p>

IV. Chairman's Statement

I, on behalf of the Board of Directors of Kitui Water and Sanitation Company Ltd, have the pleasure to present the financial results and annual statements for the Year ended 30th June 2015 as follows: -

Review of Operations

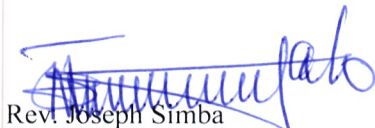
The Company like any other organisation operated under turbulent environment where inflation and taxation regime changed to our disadvantage. In particular taxation of water treatment inputs like chemicals, fuel prices and electricity costs went up with the same water tariff structure. Increased cost of inputs like pipes and chemicals exerted immeasurable pressure on operations of the Company. I would like to thank the County Government of Kitui for the support during the financial year.

However, despite the foregoing the Company registered 1.8% increase in revenues and implemented most of the budget items.

Due to the financial challenges, the Company employed austerity measures cutting across all her operations. Even though the Company made a surplus of Kshs 20, 932 it does not declare dividends.

Conclusion

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



Rev. Joseph Simba

CHAIRMAN

V. Report of the Managing Director

The year under review was proved successful despite the numerous challenges that the Company faced. Notable achievements are as briefly described below: -

Integrity Management Toolkit Implementation

The Company has continued to implement the Integrity Management Toolkit specifically the Sanctions Catalogue developed during the pilot phase.

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

Financial Performance

The Company was operating under a subsidized water tariff from the Government of Kenya. During the year, the Company received an amount totaling to Kshs 50,027,025 as subsidy from the County Government of Kitui translating to a increase of 13.3% compared to last Financial Year. Total revenues increased by Kshs. 2,613,801 translating to 1.8% revenue increment.

Energy costs continue being a threat to sustainability and took approximately 81.1% of total internally generated revenues. The Company continues to implement the recommendations of the Energy Audit.

To ease on bill payment and improve on collection efficiency, the Company opened a MPESA Paybill number. As a way of improving on financial discipline, the Company continues to employ austerity measures.

For the last 12 months (financial year) the Company made a surplus of Kshs 20, 932. The Company performance was affected by interruptions during testing of Phase II.

Operation and Maintenance

The Company continues to ration its customers hoping supplies will improve with the completion Masinga – Kitui Water and Sanitation Project currently underway. The Company six new motorbikes.

The Company has taken over the operation and maintenance of Mutitu Water Supply Project.

Corporate Governance

The Company Board and senior management made a benchmarking tour of Mombasa Water Supply and Sanitation Company Ltd. The Company's Board meetings adhered to the provisions of the Company's Articles of Association and good corporate practices. The Company was supposed to hold an Annual General Meeting (AGM) on 13th November 2014 but was postponed as the review of the Articles of Association and Memorandum of Understanding had not been completed.

Kitui Water and Sanitation Company Limited
Financial Statements For the Year Ended 30th June, 2015

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

Non-Revenue Water Reduction

The Company continues to experience high levels of Non-Revenue Water of 45.65% way above the sector benchmark of 20%. Comparatively, the level has been dropping from 73% in 2010/2011FY, 61% in 2011/2012FY, 56% in 2012/2013FY and 58.65% in 2013/2014FY. Avenues have been identified and mitigative measures budgeted for in the following Financial Year Budget though all activities are now geared towards reduction of the same. A lot of water got wasted during the testing of Phase II.

Relocation to Manyenyoni Sewerage Treatment Site

Due to lack of office space and the fact that Phase II had done some office space, the Company relocated her headquarters to Manyenyoni Sewerage Treatment Site.

Phase II Implementation

The Company experienced a lot down times due to implementation of Phase II. The situation became worse from the month of April to June 2015 after Phase I and II were interconnected at Masinga Treatment Works and diversion to Kwamuthumba reservoir.

Conclusion

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

Eng. Nthuku Mutiso

Managing Director

VI. Corporate Governance Statement

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

VII. Corporate Social Responsibility Statement

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

VIII. Report of the Directors

The status of the Company at the inception had appreciably improved by the end of June, 2015. The achievements motivated by the existing challenges can be summarized as follows: -

Establishment Issues

The key establishment issues in the period were:-

- The Company relocated to Manyenyoni Sewerage Treatment Site.

General Planning Issues

- A one year budget was prepared.

Water Treatment Works

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

Capacity Improvement

- The Company Board of Directors and Senior Management made a benchmarking tour to Mombasa Water Supply and Sanitation Company Ltd.
- The Company has been able to internally generate bills and distribute every month.

Finance

- The Company was operating under a subsidized water tariff from the Government
- During the year, the company received an amount totaling to Kshs 50,027,025 as subsidy from the County Government of Kitui.
- Total revenues increased by Kshs. 2,613,801.
- For the last 12 months (financial year) the Company made a surplus of kshs 996,930.

Aspirations: Opportunities and Challenges

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

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

Kitui Water and Sanitation Company Limited
Financial Statements For the Year Ended 30th June, 2015

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

Directors

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

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

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

IX. Statement of Directors' Responsibilities

The Directors are responsible for preparing Financial Statement for each Financial Year which give a true and fair view of the state of affairs of the Company as at the end of the Financial Year and of the operating results of the Company for that year. The Directors are required to ensure that the Company keeps proper accounting records, which disclose with reasonable accuracy at any time the financial position of the Company.

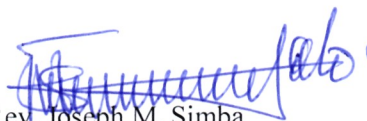
They are also responsible for safeguarding the assets of the Company. The Directors accept responsibility for the Annual Financial Statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent Judgments and estimates, in conformity with International Financial Reporting Standards.

The Directors are of the opinion that the Financial Statements give a true and fair view of the state of financial affairs of the Company and of its operating results. The Directors further accept responsibility for the maintenance of accounting records, which may be relied upon in the preparation of Financial Statements, as well as adequate system of internal financial controls.

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



Eng. Nthuku Mutiso
Managing Director



Rev. Joseph M. Simba
Board Chairman

X. Statement of Comprehensive Income

REPUBLIC OF KENYA

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NAIROBI

OFFICE OF THE AUDITOR-GENERAL

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

REPORT ON THE FINANCIAL STATEMENTS

I have audited the accompanying financial statements of Kitui Water and Sanitation Company Limited set out on pages 18 to 32, which comprise the statement of financial position as at 30 June 2015, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 14 of the public audit Act 2003. I have obtained all the information and explanations which to the best of my knowledge and belief, were necessary for the purpose of the audit.

Management's Responsibility for the Financial Statements

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of

material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the management, as well as evaluating the overall presentation of the financial statements.

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

Basis for Adverse Opinion

1.0 Accuracy and Completeness of the Financial Statements

A review of the financial statements and the respective supporting schedules revealed differences in 19 items which were not explained resulting to an overall understatement of Kshs.17,844,732.

In the circumstances, the accuracy of the financial statements as at 30 June 2015 could not be confirmed.

2.0 Non-Compliance to the Public Sector Accounting Standards Board (PSASB) Regulations

The Public Sector Accounting Standards Board (PSASB) guidelines require companies incorporated under the Companies Act to prepare their financial statements using the International Financial Reporting Standards (IFRS). However, as stated in note no. 1(a) of the notes to the accounts, Kitui Water and Sanitation Co. Ltd, which is incorporated under the Companies Act, prepared its accounts on the basis of the International Public Sector Accounting Standards (Accrual Basis) contrary to the requirements of the IPSASB guidelines. The Company is therefore in breach of the PSASB guidelines.

3.0 Receivables and Prepayments

As reported in the previous year, the receivables and prepayments balance of Kshs.37,618,171 includes water debtors inherited from National Water Conservation and Pipeline Corporation in 2006 amounting to Kshs.16,322,542. However, the management did not provide sufficient documentary evidence to support them. Further, the receivables and prepayments increased by Kshs.8,662,849 from Kshs.28,955,322 as at 30 June 2014 to Kshs.37,618,171 as at 30 June 2015. Evidently, the Company did not Institute proper mechanisms in the collection of its debts during the year under review.

In addition, the Company made a provision for bad and doubtful debts at the rate of 15% of Kshs.1,502,007 of gross debtors balance of Kshs.39,120,178 as at June 2015.

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

In the circumstances, it has not been possible to confirm the accuracy and recoverability of the receivables and prepayments balance of Kshs.37,618,171 as at 30 June 2015.

4.0 Directors' Expenses

Included in the Directors' expenses of Kshs.2,159,226 is an amount of Kshs.180,700 for purchase of air tickets for board members and senior management staff trip to Mombasa whose supporting documents were not availed for audit review. In the circumstances the propriety of the board expense figure of Kshs.2,159,226 as at 30 June 2015 could not be confirmed.

5.0 Cash and Cash Equivalents

The cash and cash equivalents balance of Kshs.14,855,650 as at 30 June 2015 could not be confirmed as no bank confirmation certificate for the post office collection account was made available for audit review. Similarly Mpesa paybill balance of Kshs.87,551 was not supported by any documentary evidence. The customers' deposit account balance of Kshs.11,286,913 in the financial statements differs with the balance in the adjusted cashbook of Kshs.11,256,134 by Kshs.30,779.

In the circumstances, the cash and cash equivalents balance of Kshs.14,855,650 as at 30 June 2015 could not be confirmed.

6.0 Unsupported Expenditures

Included in the administrative expenses figure of Kshs.52,316,023 as at 30 June 2015 is Kshs.3,167,815 and Kshs.770,452 for staff transport and subsistence and entertainment expenses respectively. Further, included in the Kshs.3,167,815 and Kshs.770,452 is Kshs.1,454,417 and Kshs.260,440 paid out as subsistence allowance and to an hotel respectively without supporting documents.

Consequently, the administration expenses balance of Kshs.52,316,023 for the year ended 30 June 2015 could not be confirmed.

Adverse Opinion

In my opinion, because of the significance of the matters discussed in Basis for Adverse Opinion paragraph, the financial statements do not present fairly, the

financial position of the Kitui Water and Sanitation Company Limited 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 do not comply with both the Water Act, 2002 and the Companies Act, Cap 486 of the laws of Kenya.

Other Matter

1. Unaccounted for Water (UFW)

During the year under review, the Company produced 2,667,185 cubic meters of water. According to the Company's records the volume sold was 1,532,095 cubic meters of water resulting to UFW of 1,135,190 cubic meter which is 42.56%. However, the billing statement made available showed a consumption of 1,168,693 while the actual consumption revealed a consumption of 1,093,181 cubic meters. The balance of 1,574,004 cubic meters or approximately 59% of the total volume is UFW which is 34% over and above the allowable loss of 25% in accordance with the Water Services Regulatory Board guidelines. The UFW of 59% may have resulted in a loss of sales estimated at Kshs.98,260,395.

The significant level of UFW if not cleared may negatively impact on the Company's profitability and its long term sustainability.

2. Irregularities in Billing

A review of some of the billings made during the year revealed that some customer accounts were billed even though the current and previous meter readings were the same. The explanation given was that the affected meters could have been faulty and that the readings were an estimate. Failure by the Company to replace the faulty meters may lead to huge losses of revenue as some clients may not be billed at all despite having used the water.

3. Irregularities in the Management of the Billing System

The Company contracted a firm known as Computing Development Strategies of P.O Box 379106- 0200 Nairobi for the supply and implementation of a billing system known as Promics Billing Software. The signed contract was not made available for audit review. However, on enquiry the procurement of the system was done in the financial year 2012/2013 through quotation number KITWASCO/016/012-013. The supplier had quoted in his proposal that the cost of the supply was to be Kshs 1,500,000 exclusive of VAT.

In a letter dated 9/09/2014, the supplier wrote to the Company indicating their intention to hand over the project implementation to another company - Open Arch Systems of P.O Box 1355- 10400 Nanyuki. On 27 October 2014, the Company wrote to the supplier requesting for his commitment to continue with the project implementation with the terms and conditions of the contract as per the tender document. No communication was obtained again from the supplier. In a letter

dated 1 November 2014, the firm, Open Arch Systems, wrote to the Company indicating their willingness to take over the project and adhere to the terms of the original contract. No other communication was made available for audit in review respect of this matter. However, it was reported that Open Arch Systems took over the project and continued with its implementation. On 30 June 2015, the Open Arch Systems switched off the system reportedly due to the Company not being able to meet annual maintenance fees of Kshs.300,000, an amount which the Company was not willing to pay.

In the absence of the contract document, it was not possible to confirm the terms and conditions of the contract agreement.

4. Overall Financial Performance

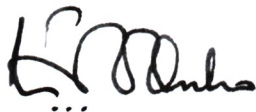
During the year under review, the Company made a surplus of Kshs.20,932 as compared to a deficit of Kshs.8,506,051 in the previous year. However, the overall financial performance of the Company appeared wanting as its revenue went down by Kshs.3,259,831 from Kshs.100,591,107 as at 30 June 2014 to Kshs.97,331,276 as at 30 June 2015 even as its current liabilities went up by Kshs.10,832,027 from Kshs.36,153,508 as at 30 June 2014 to Kshs.46,985,535 as at 30 June 2015. This trend, if not reversed, does not augur well for the company's future.

My opinion is not qualified in respect to these matters.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

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

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



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

Nairobi

31 March 2016


TUI WATER AND SANITATION CO. LTD
STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 30TH JUNE 2015

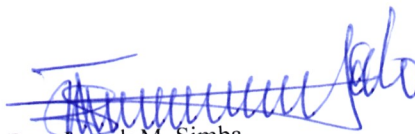
		2014/2015 Kshs	2013/2014 Kshs
Income			100,591,107.00
Revenue	2(a)	97,331,276	
Other Income	2(b)	50,027,025	44,153,393
		<u>147,358,301</u>	<u>144,744,500</u>
Administrative expenses	3	52,316,023	57,238,084
Advertisement and promotions	4	257,200	23,000
Other Operating Expenses	5	<u>91,960,357</u>	<u>93,940,709</u>
		<u>144,533,580</u>	<u>151,201,793</u>
Operating Surplus / Deficit		<u>2,824,721</u>	<u>(6,457,293)</u>
Finance cost	6	<u>644,563</u>	449,661
B.O.D Allowances and expenses	7	<u>2,159,226</u>	1,599,097
Net Surplus/Deficit		<u>20,932</u>	<u>(8,506,051)</u>

XI. Statement of Financial Position

KITUI WATER AND SANITATION CO. LTD
STATEMENT OF FINANCIAL POSITION AS AT 30TH JUNE 2015

<u>Assets</u>	Note	2014/2015 Kshs	2013/2014 Kshs
Non-Current Assets			
Plant , Property and Equipment	8	3,185,872	2,916,154
Intangible assets	9	599,282	894,450
Total Non Current Asset		3,785,154	3,810,604
CURRENT ASSETS			
Inventory	10	118,250	218,851
Receivables & prepayments	11	37,618,171	28,955,322
Cash and Cash equivalent	12	14,855,650	13,152,132
Total Current Assets		52,592,070	42,326,304
TOTAL ASSETS		56,377,224	46,136,908
EQUITY & LIABILITIES			
Capital and Reserves ;			
Capital Fund		11,845,658	11,845,658
Surplus Reserve		(3,738,983)	(3,759,916)
Total equity & Reserves		8,106,675	8,085,742
Non current liabilities			
Loan from Deposit	13	1,285,014	1,897,658
Total Non current liabilities		1,285,014	1,897,658
Current liabilities			
Payables & Accruals	14	46,985,535	36,153,508
Total current Liabilities		46,985,535	36,153,508
TOTAL EQUITY & LIABILITIES		56,377,224	46,136,908


 Nthuku Mutiso
 Managing Director (KITWASCO)
 Date.....18/11/16.....


 Rev. Joseph M. Simba
 Board Chairman (KITWASCO)
 Date...18/11/2016.....

XII. Statement of Changes in Equity

KITUI WATER AND SANITATION CO. LTD
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30TH JUNE 2015

	Capital Fund <u>Kshs</u>	Surplus Reserve <u>Kshs</u>	Total <u>Kshs</u>
Balance as at 1st July 2012	11,845,658	9,759,469	21,605,127
Surplus/Deficit for the Period	0	(5,013,334)	(5,013,334)
Balance as at 30th June 2013	<u>11,845,658</u>	<u>4,746,135</u>	<u>16,591,793</u>
Balance as at 1st July 2013	11,845,658	4,746,135	16,591,793
Surplus/Deficit for the Period	0	(8,506,051)	(8,506,051)
Balance as at 30th June 2014	<u>11,845,658</u>	<u>(3,759,916)</u>	<u>8,085,742</u>
Balance as at 1st July 2014	11,845,658	(3,759,916)	8,085,742
Surplus/Deficit for the Period	0	20,932	<u>20,932</u>
Balance as at 30th June 2015	11,845,658	(3,738,983)	8,106,675

XIII. Statement of Cash Flows

KITUI WATER AND SANITATION CO. LTD
STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30TH JUNE 2015

	Note	2014/2015 Kshs	2013/2014 Kshs
<u>Cashflow from Operating activities</u>			
Operating surplus / deficit before Working Capital Changes		20,932	(8,506,051)
Add: Depreciation	5	937,277	978,000
Amortization	5	295,169	440,550
Operating surplus before Working Capital Changes		1,253,378	(7,087,501)
<u>Working Capital Changes</u>			
Decrease/(increase) in Inventories	10	100,601	88,191
Decrease/(increase) in Receivables & prepayments	11	(8,662,849)	(2,921,450)
(Decrease)/increase in Payables & Accruals	14	10,832,027	16,150,584
Net Working Capital Changes		2,269,779	13,317,325
Net Cash generated from Operating activities		3,523,157	6,229,824
<u>Cashflow from Investing activities</u>			
Purchase of Fixed Assets	8	(1,206,995)	(264,770)
Net Cash outflow used by Investing activities		(1,206,995)	(264,770)
<u>Cash flow from Financing Activities</u>			
Loan from deposit account			(728,424)
Loan repayments from deposit account	13	(612,644)	(728,424)
Net cash flow from Financing Activities		(612,644)	(728,424)
		1,703,518	5,236,630
Net (Decrease)/Increase in Cash and Cash Equivalent	12	13,152,132	7,915,502
Net Cash & cash Equivalent at beginning of period	12	14,855,650	13,152,132
Net Cash & cash Equivalent at year End			

XIV. Notes to the Financial Statements

KITUI WATER & SANITATION CO. LTD
NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 30TH JUNE 2015

1. SIGNIFICANT ACCOUNTING POLICIES:

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

a). Basis of preparation

The Financial statements are prepared in accordance with and comply with International financial reporting standards

b). Revenue Recognition

Revenue is recognized when the earning process is virtually complete and an exchange transaction has occurred.

c). Depreciation

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

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

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

v	Computer Software	33%
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d). Retirement Benefits

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

e). Receivable and Prepayments

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

f). Payables and Accruals

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

g). Non - Current Assets

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

h). Comparatives

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

i). Provision for Bad and doubtful debts

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

j). Inventory Valuation Policy

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

KITUI WATER & SANITATION COMPANY LIMITED
NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 30TH JUNE 2015

k). Cash and Cash Equivalent

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

l). Capital Reserve

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

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

The Company has no share capital.

m). Currency

The financial statements are presented in kenya shillings

n) Financial Risk Management

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

o). Significant Accounting Estimates and Judgement

Under the carrying amounts of Assets and liabilities the company makes assumption of uncertain future events on her assets and liabilities at the statement of financial position date. The company has had a systems challenge and as a result the recievables as at the end of the reporting period have been estimated

p). Taxation

The company is subject to a corporate tax at a rate of 30% of surplus realised
During the year under review the company made a surplus of kes 20,932 , However in the previous year the Company had made a loss of kes 8,506,051 and therefore no corporate tax has been charged.

TUI WATER & SANITATION COMPANY LIMITED
NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 30TH JUNE 2015

Note	2014/2015 Kshs	2013/2014 Kshs
2(a) REVENUE		
Water Sale	84,923,066	82,357,067
Water Tank	12,408,210	18,234,040
	97,331,276	100,591,107
2(b) OTHER REVENUE		
This comprises of grant for electricity and chemicals which was paid by the County Government of Kitui, New connection, re-connection fee, tenders and Ecosan		
Electricity	48,060,345	40,494,384
New Connection	985,800	2,548,389
Re- Connection	286,200	291,900
Tender Sales	149,000	199,310
Ecosan	180,000	235,450
Penalty	365,680	383,960
	50,027,025	44,153,393
3 ADMINISTRATIVE EXPENSES		
Salaries	24,185,493	25,914,582
Top up Allowance (GOK Staff)	2,153,606	1,929,096
Casual Wages	3,488,843	2,685,110
Stepend Allowance	89,400	2,000
Training	412,737	-
Professional Fee	19,200	22,900
Official Airtime	780,639	722,316
Motor Vehicle running expenses	1,978,432	3,645,355
Postage Expenses and Kenya Postel Directories	88,177	202,603
Printing & Stationary	841,253	816,968
Staff Transport & Subsistence Expenses	3,167,851	2,873,228
Fuel Expenses	10,048,527	14,843,886
Staff Uniform & Branded /Promotional Materials	89,655	2,720
Kitui Water And Sanitation (Gratuity)	81,825	116,570
Medication	500	-
Entertainment	770,452	983,318
News paper and Periodicals	151,860	212,501
Security Services	3,041,950	1,799,616
Audit fee	232,000	232,000
WASPA	174,000	100,000
Cleaning Material	79,570	133,315
Legal Fee	26,798	-
Perfomance Contracting	142,000	-
Work benefit injury	271,255	-
	52,316,023	57,238,084

TUI WATER & SANITATION COMPANY LIMITED
NOTES TO THE FINANCIAL ACCOUNTS FOR THE YEAR ENDED 30TH JUNE 2015

	2014/2015 Kshs	2013/2014 Kshs
4 ADVERTISEMENT		23,000
Advertisement	257,200	23,000
	<u>257,200</u>	<u>23,000</u>
5 OPERATING EXPENSES		539,930
Transport Hire	470,680	772,160
Insurance Expenses		978,000
Depreciation	937,276	440,550
Amortization	295,169	228,193
Increase in Provision for bad and Doubtful debts	1,502,007	4,100
Net working	136,050	8,000
Social Corporate Responsibility	5,000	150,650
Internet services	65,900	362,197
Computer repairs and maintainance	268,515	2,000
Office Mobile Phone	2,000	42,000
Staff Welfare	10,000	5,230,060
Water Supply System Repair (pipes & fittings)	4,112,963	1,464,579
Water Resources Manament Authority	1,486,877	1,042,501
1% Regulatory Board Levy (WASREB)	849,231	9,382,510
9% Tanathi water services board	7,643,076	4,515,162
Chemicals	4,136,374	77,670
Building repairs & Maintainance	128,027	14,000
Repair of office furniture	9,000	68,686,447
Electricity expense	69,396,684	
Mapping	21,520	
Warma interst	484,008	
	<u>91,960,357</u>	<u>93,940,709</u>
6 FINANCE COST		449,661
Bank charges	<u>644,563</u>	<u>449,661</u>
7 B.O.D Allowances and Expenses	<u>2,159,226</u>	<u>1,599,097</u>

KITUI WATER AND SANITATION COMPANY LIMITED
FIXED ASSET MOVEMENT SCHEDULE FOR THE YEAR ENDED 30TH JUNE, 2015
NOTE 8

NAME/TYPE OF ASSET	MOTOR VEHICLES	MOTOR CYCLES	COMPUTER & ACCESSORIES	FURNITURE , FITTINGS AND OTHER EQUIPMENTS	BICYCLES	TOTAL
COST AS AT 1-7-2014	5,099,860	1,486,289	1,292,422	584,275	38,636	8,501,482
ADDITIONS		619,440	567,600	19,955		1,206,995
DISPOSAL						
COST AS AT 30-6-2015	5,099,860	2,105,729	1,860,022	604,230	38,636	9,708,477
ACCUMULATED DEPRECIATION AS AT 1-7-2014						
CHARGE FOR THE PERIOD	3,610,305	892,429	766,172	299,057	17,365	4,772,329
DEPRECIATION ON DISPOSAL	372,389	217,292	286,563	58,374	2,659	937,277
TOTAL ACCUMULATED DEPRECIATION AS AT 30-6-2015	3,982,694	1,109,721	1,052,735	357,431	20,024	5,709,606
NET BOOK VALUE AS AT 30-06-2015	1,117,166	996,008	807,287	246,799	18,612	3,185,872
NBV AS AT 30-06-2014	1,489,555	593,860	526,250	285,218	21,271	2,916,154

KITUI WATER AND SANITATION COMPANY LIMITED
INTAGIBLE ASSETS
NOTE 9

NAME/TYPE OF ASSET	PROMICS SOFTWARE	TOTAL
COST AS AT 1-7-2013	1,500,000	1,500,000
ADDITIONS		-
DISPOSAL		
COST AS AT 30-6-2015	1,500,000	1,500,000
ACCUMULATED amortization AS AT 1- 7-2014	605,550	605,550
CHARGE FOR THE PERIOD	295,169	295,169
AMORTIZATION		
DEPRECIATION ON DISPOSAL		
TOTAL ACCULATED DEPRECIATION	900,719	900,719
AS AT 30-6- 2014		
NET BOOK VALUE AS AT 30-06-2015	599,282	599,282
NBV AS AT 30-06-2014	894,450	894,450

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

UI WATER AND SANITATION CO LTD
NOTES TO THE ACCOUNTS FOR THE PERIOD ENDED 30TH JUNE 2015

	2014/2015 Kshs	2013/2014 Kshs
10 INVENTORIES		
Inventories comprises chemicals, pipes and fittings, lab tools, stationary and loose tools.	118,250	218,851
	<u>118,250</u>	<u>218,851</u>
11 RECEIVABLES AND PREPAYMENTS		
Provision for Bad and Doubtful debts (15%) increase	39,120,178	29,106,796
	(1,502,007)	(228,193)
	<u>37,618,171</u>	<u>28,878,603</u>
Electricity		76,719
	<u>37,618,171</u>	<u>28,955,322</u>
12 CASH AND CASH EQUIVALENT		
Staff Gratuity A/c	261,253	492,355
Cash at Bank	2,804,166	3,336,432
Cash at Bank - Customer Deposit	11,286,913	8,466,523
Cash in hand	101,510	64,720
post office collection	314,257	792,102
mpesa paybill	87,551	
	<u>14,855,650</u>	<u>13,152,132</u>
13 LOAN FROM CUSTOMERS DEPOSIT ACCOUNT		
Purchase of New Motor vehicle KBN 544E	333,336	733,336
Purchase of Motor vehicle KBG 046 C	680,794	893,438
Payment of 10% lease fee	270,884	270,884
	<u>1,285,014</u>	<u>1,897,658</u>
The company has an outstanding loan amounting to kshs 1,239,643 to pay for electricity connection		
14 PAYABLES AND ACCRUALS FOR THE PERIOD		
Electricity	9,204,112	7,546,835
Customer deposit	13,666,396	11,520,546
Creditors	7,643,719	3,213,036
Staff Salary Payables	3,936,433	1,988,465
Top Up Allowance	227,271	265,649
Stepend Allowance	21,600	
Casual Wages	269,464	260,170
WARMA Abstraction Fee	3,624,197	2,433,604
1% Regulatory fee WASREB	1,050,817	674,718
9% Lease fee Tanathi WSB	6,753,288	7,478,349
Staff Gratuity	49,095	9,472
Audit fee	464,000	232,000
Customer Advance Payment	-	462,914
Chairmans Honoraria	52,000	40,000
directors allowances	23,143	27,750
	<u>46,985,535</u>	<u>36,153,508</u>

KITUI WATER AND SANITATION CO LTD
NOTES TO THE ACCOUNTS FOR THE PERIOD ENDED 30TH JUNE 2015

15 RELATED PARTY RELATIONSHIPS

The entity has related parties which includes :

1. The County Government of Kitui

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

2. Tanathi Water Services Board

The Company operates as an agent of Tanathi Water Services Board through a Service Provision Agreement (SPA) during the transition period. Hence, the Water Board is the Principal. The company pays lease fee to Tanathi Water services Board at a rate of 9% of the water billing.

3. Water Services Regulatory Board

The Company is regulated by Water Service Regulatory Board who is also the regulator for the water and sanitation sector. Further the company pays a regulatory levy of 1% of revenues billed