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REPORT

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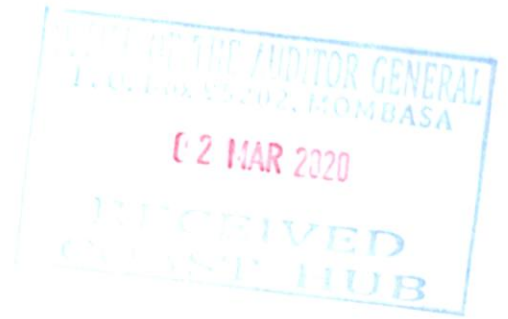
OF

THE AUDITOR-GENERAL

ON

**TAVEVO WATER AND SEWERAGE
COMPANY LIMITED**

**FOR THE YEAR ENDED
30 JUNE, 2019**



TAVEVO WATER AND SEWERAGE COMPANY LIMITED

ANNUAL REPORTS AND FINANCIAL STATEMENTS

**FOR THE FINANCIAL YEAR ENDING
JUNE 30, 2019**

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

Tavevo Water and Sewerage co. ltd
Annual Reports and Financial Statements
For the year ended June 30, 2019

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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) as a public limited company. It is licensed by Water Services Regulatory Board (WASREB) as a Water Service Provider (WSP) under the current Water Act, 2016. The entity is domiciled in Taita Taveta County, Kenya.

Oversight and strategic direction responsibilities lie with the Board of directors under the leadership of the Chairperson.

Principal Activities

The principal activity of Tavevo is to provide adequate Portable Piped Water and Sanitation Services to the residents of Taita Taveta County in Kenya.

Vision

To be the leading provider of quality affordable water and sewerage services in Taita Taveta County.

Mission

To provide adequate portable piped water and sewerage services efficiently and economically to the community in Taita Taveta County.

Core Objectives

- i. To provide our customers with adequate and clean water.
- ii. To achieve financial sustainability and improved management information systems.
- iii. To attract and retain competent and motivated staff.
- iv. To seek review of institutional and legal framework for improved performance.

Directors

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

- | | | | |
|-----|-------------------------------------|---------------------|---|
| 1. | Constantine Malai | - Chairman | -Appointed on 15 th March 2018 |
| 2. | Benson Mwangoi | - Managing Director | -Appointed on 15 th March 2018 |
| 3. | Mohamed Ali | -Director | -Appointed on 15 th March 2018 |
| 4. | Dr. Jimmy Kihara | -Director | -Appointed on 15 th March 2018 |
| 5. | Agnes Mwasi | -Director | -Appointed on 15 th March 2018 |
| 6. | Elistone Mwamtunge | -Director | -Appointed on 15 th March 2018 |
| 7. | Peter Mbogho | -Director | -Appointed on 15 th March 2018 |
| 8. | Charles Mwangoma | -Director | -Appointed on 15 th March 2018 |
| | left October 2018. | | |
| 9. | Justus Singi | -Director | -Appointed on 15 th March 2018 |
| 10. | Joyce Mwachia | -Director | -Appointed on 15 th March 2018 |
| | left 25 th October 2018. | | |
| 11. | Leornard Langat | -Director | -Appointed on 25 th October 2018 |
| 12. | Elipidah Mwakamba | -Director | -Appointed on July 2018 left |
| | February 2019. | | |

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Corporate Secretary

Mr. Justus Munyiya
P.O. Box 43370-80100 Mombasa
4th Floor, N.S.S.F Building, Nkrumah Road Msa.
I.C.P.S.K membership number – P/CPSB/1434

Registered Office

National Water Camp
Voi, Sofia road before Coast institute of Technology.
P.O. Box 6-80300,
Voi, KENYA.

Corporate Headquarters

National Water Camp
Voi, Sofia road before Coast institute of Technology.
P.O. Box 6-80300,
Voi, Kenya.

Corporate Contacts

Telephone: (254) 713676213/780676213
E-mail: info@tavevowater.co.ke
Website: www.tavevowater.co.ke

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KEY ENTITY INFORMATION (Continued)

Corporate Bankers

1. Kenya Commercial Bank,
Next to K.R.A Voi branch.
P.O. Box 137-80300
Voi Town, Kenya.
2. Co-operative Bank of Kenya,
Next to K.C.B Voi.
P.O. Box 770-80300
Voi Town, Kenya.
3. Equity Bank Kenya,
Opposite Voi Bus park.
P.O. Box 325-80300,
Voi Town, Kenya.
4. Post Bank Kenya,
Opposite Maghamba plaza,
Next to K.P.L.C.
Voi Town branch.

Independent Auditors

The Auditor General
Office of the Auditor General.
Anniversary Towers, University Way
P.O. Box 30084
GPO 00100
Nairobi, Kenya.

Principal Legal Advisers







Mr. Justus Munyithya,
Advocate/CPS (K), LLM, LLB.
I.C.P.S.K membership number – P/CPSB/1434
4th Floor, N.S.S.F Building, Nkrumah Road P.O. Box 43370 - 80100 Mombasa.

Tavevo Water and Sewerage co. ltd

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For the year ended June 30, 2019

THE BOARD OF DIRECTORS

PHOTO	NAME/POSITION	QUALIFICATION
	Constantine A. Malai Chairman Board of Directors from 15-3-2018 to date	Bachelor's Degree Business Administration
	Mohamed Abdirahman Ali Chair Audit Committee from 15-3-2018 to date.	Bachelor of commerce (Accounting option) C.P.A (K)
	Dr. Jimmy Kihara Hussein Chair Human resource Committee from 15-3-2018 to date October 2018 Chair Finance and Technical committee from October 2018 to date	Doctor of Philosophy (Parasitology)
	Charles Mwangoma Chair, Finance & Technical Committee- from 15-3-2018 and left Tavevo in October 2018.	Tourism and Wildlife Management
	Elistone Mwamungu Mwanyuma - Member from 15-3-2018 to date.	Special Groups representative of People living with disabilities.
	Peter Mwang'ombe Mbogho Mwang'ombe - Member From 15-3-2018 , Chair Human resource committee from October 2018 to date	Business Man

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For the year ended June 30, 2019

	<p>Joyce K. Mwachia Member from 15-3-2018 to 25th October 2018 as new C.C.O was appointed.</p>	<p>Ag. County Chief Officer Finance and Planning Taita Taveta County Government. Master of Business Administration</p>
	<p>Leonard Langat Member from 25th October 2018.</p>	<p>County Chief Officer Finance and Planning Taita Taveta County Government. Master of Business Administration.</p>
	<p>Elpidah Mwakamba Ag. C.C.O Water and Sanitation from July 2018 to February 2019.</p>	<p>Ag. CCO Water & Sanitation</p>
	<p>Justus Mwengea Singi Member from 15-03-2018 as Ag. C.C.O Water & Sanitation to July 2018. He was later duly appointed as C.C.O in March 2019.</p>	<p>County Chief Officer Water & Sanitation Taita Taveta County Government. Water Engineering.</p>
	<p>Agnes Mwasi – Member From 15-3-2018 to date.</p>	<p>Business Lady</p>

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	Felix Mwachinga Mwarema Ag. Managing Director from 2-02-2018 to 31-07-2018.	Bachelor of Science Agro-Engineering
	Benson Mwangoi Ag. Managing Director from 1 st August 2018 to date.	Higher National Diploma Water Engineer.
	Mr. Justus Munyithya Company Secretary	Kioko Munyithya Ngugi & Co. Advocates, Advocate/CPS (K), LLM, LLB. I.C.P.S.K membership number – P/CPSB/1434

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MANAGEMENT TEAM

Photo	Name	Qualification
	Benson Mwangoi Ag. Managing Director from 1 st August 2018 to date.	Higher National Diploma Water Engineer.
	Mr. Justus Munyiya Company Secretary	Kioko Munyiya Ngugi & Co. Advocates, Advocate/CPS (K), LLM, LLB. I.C.P.S.K membership number – P/CPSB/1434
	Felix Mwarema Ag. Managing Director from 2-02-2018 to 31-07-2018. Technical Manager. Left Tavevo in October 2018.	Bachelor of Science Agro- Engineering
	Priscillah K. Saidi Commercial Manager. Left in October 2018.	Masters Strategic Management.

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For the year ended June 30, 2019

	<p>Catherine Nyambu Internal Auditor Left Tavevo in August 2018.</p>	<p>Bachelor of Commerce , CPA (K).</p>
	<p>Patrick Mwangoe Wadu Assistant Technical Manager</p>	<p>Bachelor of Science, Water Engineering</p>
	<p>Odlinah Mwakina Ponga Ag. Commercial Manager November 2018 to date.</p>	<p>Diploma in Water Engineering</p>
	<p>Jenta Mlambo Wamvua Procurement Officer. Seconded to Taita Taveta County Government from January 2019 to date.</p>	<p>Bachelor Purchasing and Supplies management.</p>
	<p>Paul Fredrick Ngondo Ag. Finance Manager</p>	<p>Bachelor of Commerce, Finance , CPA 3.</p>

Tavevo Water and Sewerage co. Ltd

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	Evans Mwashighadi Ag. Procurement Officer from February 2019 to July 2019	Bachelor's degree in Procurement and supply chain management
	Henry Mutiso Mutinda Ag. Internal Audit Manager 1 st September 2018 to date.	C.P.A 3
	Emily Mkangoma Katambo Human Resource Officer	Diploma Human Resource Management
	Gerald Mwandagha Michigan I.C.T Officer	Diploma Information Technology

CHAIRMAN'S STATEMENT

It is now sixteen years since the Company started operating and managing water services in Taita Taveta County. Undoubtedly, the company has made tremendous strides in the management and delivery of water services despite the difficult operating environment brought about by slow economic growth and increase in basic commodity prices.

We do affirm as a Company to work closely with the County Government and other key stakeholders in order to ensure clean, portable and affordable water is available to all within the Company's area of jurisdiction.

Water Coverage

The Company has strived to expand coverage to those areas who currently do not have piped water hence the increase of coverage to 92% in the urban and peri-urban areas. However, the rural areas has been left behind with water coverage at 18%.

We will continue to sensitize the residents to use our water for drinking purposes only since this is treated and offers many benefits over untreated water and use the community projects for irrigation purposes

Non Revenue Water

During the reporting period our Non-Revenue Water which is the difference between the water produced for distribution and the water billed was 44% against a national average of 54.6%. This is a record improvement compared to the previous year at 59%. However, 44% is still high which is highly attributed to the old and dilapidated water supply infrastructure dating over 50 years which are prone to frequent bursts and leakages. Despite the challenge the company endeavours to reduce it to sector benchmark levels of less than 25%.

Metering

It is the policy of the Company to meter all consumer connections in addition to metering major supply lines to monitor losses due to pipeline leakages and illegal connections. Our metering level ~~the~~ is 76%. Metering is a critical tool for managing Non Revenue water and is also essential in managing per capita water consumption.

Drinking Water Quality

The quality of drinking water has a direct impact on the health of our consumers. This company has made commendable efforts in ensuring that the water we provide our customers is free of disease-causing organisms by chlorinating our water and ensuring that the required residual chlorine is maintained all over the supply area.

Infrastructure Development

During the report period, the company did not undertake much in terms of major infrastructural development but in minor scale like rehabilitation and extension of service lines.

Human Resource Capacity

The company has made reasonable strides to improve its terms and conditions of service, while scrupulously keeping to its staffing ceiling level in order to maintain competent and well-motivated human resource capacity.

Tavevo Water and Sewerage co. ltd

Annual Reports and Financial Statements

For the year ended June 30, 2019

Recent Achievements

- Reduction of NRW levels from 59% to 44%
- Increase in water supply hours from 12 to 15 hours

Current Challenges

Notwithstanding our stated achievements, we have some key challenges to address as we plan for the future of the company. These include:

1. High cost of electricity due to pumping cost
2. Operational Costs
3. Low Supply Coverage
4. High Number of Inactive connections
5. High Non Revenue Water
6. Old infrastructural system and inadequate treatment sewer capacity.
7. High cost of Bulk water

WAY FORWARD

I would like to state that TAVEVO continues to be guided by the principles of good corporate governance as provided for under WASREB's Guidelines.

Our new constitution enacted in 2010 clearly devolved the water sector to the County Government and the transmission of ownership from the defunct local authorities can present some challenges but am pleased to note that our case it has been without hitches and much appreciation is to the County Government and the Board.

According to Article 43 (d) of the new constitution and Water Act 2016, every person has a right "to clean and safe water in adequate quantities". TAVEVO has to fully rise up to this challenge.

I would also like to thank the management team and staff for their continued commitment to the business and our customers. I would like to see us continue to outperform the expectations others have of us and for these efforts to be recognized.

We, the Directors of this Company, shall continue to work hard for your company. Your confidence is our mandate and duty. Thank you for your time and attention and God bless you all.

Date: 28/2/2020



CHAIRMAN;

TAVEVO WATER AND SEWERAGE COMPANY LTD BOARD OF DIRECTORS

Tavevo Water and Sewerage co. ltd
Annual Reports and Financial Statements
For the year ended June 30, 2019

REPORT OF THE MANAGING DIRECTOR

Since inception in 2006 Tavevo water & sewerage co. ltd has always had clear objectives, to supply safe, clean and reliable drinking water to the people of Taita-Taveta county. This task has not been easy, considering that the infrastructure is old thus prone to frequent breakdown. In some places there isn't any pipeline for water supply existed before.

However, since the coming in of the county government a lot of improvement has been experience in terms of access to clean piped water. As the Water company for the Taita Taveta County Government, Tavevo water & sewerage co. ltd has had to Take over the management of community-based water projects. Good examples being the Mwasinenyi borehole, Eldoro water project, Kaloleni water project just but to mention a few, all which share the same story of success, which is efficient and reliable supply of water.

Going forward, Tavevo through its partners, government agencies and Taita Taveta County Government will continually develop a reliable water infrastructure and take over most if not all community-based water projects for efficient management so as to benefit the people its intended. We shall also work with the communities to conserve our environment and protect water catchment area

For our partners and other stakeholders, I reiterate our commitment to ethical and professional conduct as we go about fulfilling our mandate, and that we will leave every group satisfied.

Warm regards.

Date.....28/02/2020



MANAGING DIRECTOR

TAVEVO WATER AND SEWERAGE COMPANY LTD

Tavevo Water and Sewerage co. ltd

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CORPORATE GOVERNANCE STATEMENT

The role of the Board of Directors is to determine the Company's policy and strategy, to monitor the attainment of company objectives and ensure that the company meets its obligations to its customers, stakeholders and shareholders. The Board is also responsible for overseeing the company's internal control systems designed to safeguard the company's assets and to ensure the reliability of the financial information provided by the company.

The Board has 3 committees namely:

- (a) Finance and Technical Committee
- (b) Audit Committee.
- (c) Human Resource Committee

FINANCE AND TECHNICAL COMMITTEE

The Finance and Technical Committee whose main duties are to ensure that;

1. Company's budget is prepared, approved and enforced,
2. Review of financial reports and adoption on the same,
3. Planning of water infrastructure,
4. Approval of water and sewerage designs,
5. Monitoring of development infrastructure,
6. Set appropriate performance targets.

The Committee is responsible for reviewing and setting medium and long term strategic directions and financial prudence. The Committee includes all aspects of projects planning as all projects will require Planning & Financing.

AUDIT AND RISK COMMITTEE

The main duties of the Internal Audit Committee are to ensure that the systems of internal controls are effectively administered. The committee defines the responsibilities of the Internal Auditors and to review and recommend to the Board the approval of interim financial results and annual financial statements. The Internal Audit is a department operating independently of other departments and sections of the Company.

HUMAN RESOURCE COMMITTEE

Due to an increase in the Company's activities, the Board however identified the need for introducing a Human Resource Committee which shall clearly define the Company's organizational structure within which individual responsibilities are defined in relation to the Company's mandate. There is human resource planning, and that there are policies on Human Resource and to review. The structure will be complemented by documented policies. The Committee will deal with appointments, dismissal, conflicts, dispute, promotion and demotion.

Tavevo Water and Sewerage co. ltd

Annual Reports and Financial Statements

For the year ended June 30, 2019

MANAGEMENT DISCUSSION AND ANALYSIS

Introduction

TAVEVO is a public company fully owned by the county Government of Taita Taveta and licensed by Water Services Regulatory Board to provide water and sewerage services in Taita Taveta County. Currently, the company has its operations in the urban and peri-urban areas of Voi, Mwatate, Wundanyi and Taveta and also serves upcoming towns of Maungu, Mackinnon and Mbololo.

Mission of the company is to provide adequate potable water and sanitation services efficiently to the residents of Taita Taveta County with a vision to be a leading provider of quality and affordable water and sanitation services in Kenya.

The Company has strived to expand coverage to those areas who currently do not have piped water hence the increase of coverage to 92% in the urban and peri-urban areas. However, water coverage in the rural areas has been very low bringing down the county water coverage to 18%. Although our long-term goal is to ensure universal access to water and sewerage services, financing challenges and existing economic conditions have caused us to fall short in achieving that goal.

We continued to face challenges in the past year which include unacceptable levels of non-revenue water as a result of old water supply infrastructure, water theft through illegal connections, vandalism of water infrastructure; inadequate cash flows (revenue collection), supplier's debts, old customer debts (*add more*) which has consequently resulted in underachievement of our set goals and objectives. Despite the challenges, the management has been able to successfully implement strategies which include but not limited to active leakage control, implementing DMA approach in managing NRW, GIS mapping of water infrastructure and mobile meter reading which has been reflected in positive reduction of NRW and increased revenues.

Our future outlook is positive, given the health of the entity, the company has been engaging with stakeholders in the water sector (which include the World Bank, government of Kenya through the ministry of water and sanitation, county government of Taita Taveta, Kenya Red Cross Society, Water Sector Trust Fund among others) to finance projects which will improve access water supply and sewerage services. Through partnerships with the stakeholders the institutional capacity of the company will be strengthened by reducing NRW, improving revenue collection and billing systems, developing business plans and changing the organization culture.

Future Opportunities, Risks, Obligations and Outlook

Opportunities

In November 2019, the company started provision of sewerages services in Taita Taveta County. The company revenues are set to increase by over 50% after full implementation of the sewerage mandate. The company is now implementing the Kenya Water and Sanitation Development Project (WSDP), Climate Proofed water and sanitation infrastructure project in ending drought emergencies and the upscaling of basic sanitation to the urban poor – the projects will improve water supply and sanitation services. These will be achieved by investing in water supply and sanitation infrastructure in urban

Tavevo Water and Sewerage co. ltd

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For the year ended June 30, 2019

centres of Voi, Mwatate, Wundanyi and Taveta. The project will also improve services by strengthening institutional capacity in areas such as reducing non-revenue water, improving billing and revenue collection systems, and developing medium-term business plans. After completion of the project the project will achieve the following:

- Over 100,000 people in urban areas provided with access to improved water sources under the project
- Over 50,000 people provided with improved sanitation facilities under the project—urban.
- People benefiting under the project from either a connection to the sewage system or from improved septic sludge management (number). People benefiting from improved septic sludge management are those whose sludge is taken to a sludge management facility.
- People with existing connections benefiting from more reliable water services (number).

CORPORATE SOCIAL RESPONSIBILITY STATEMENT/SUSTAINABILITY REPORTING

The Company remained a social responsible corporate citizen by conducting its business in a socially acceptable and responsible manner. The company contributed and participated in various forums at the County level that include;

HIV /AIDS Sensation

The company has taken active participation in sensitizing the community within its area of mandate against the spread of the HIV/AIDS scourge. The company organized for and conducted sensitization campaigns at Maungu, Voi Taveta Mwatate and Wundanyi.

During the dry season the company distributed water via water boozers to drought prone areas.

Establishment of a pro-poor unit

The company has been keen to provide water and sanitation services to the pro-poor residents of Taita Taveta County and its environs. In response to this, Tavevo has established a pro-poor unit tasked with the responsibility of developing appropriate strategies for effective services delivery to the poor.

Women Empowerment

TAVEVO has taken an active role in empowering women in the provision of water and sanitation services through conducting workshops for women Water operators. This has improved women skills in Management of Water Services at the community levels.

Tavevo Water and Sewerage co. ltd
Annual Reports and Financial Statements
For the year ended June 30, 2019
REPORT OF THE DIRECTORS

The Directors submit their report together with the audited financial statements for the year ended June 30, 2019 which show the state of the Tavevo 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.

Vision

To be the leading provider of quality affordable water and sewerage services in Taita Taveta County.

Mission

To provide adequate portable piped water and sewerage services efficiently and economically to the community in Taita Taveta County.

Core Objectives

- i. To provide our customers with adequate and clean water.
- ii. To achieve financial sustainability and improved management information systems.\
- iii. To attract and retain competent and motivated staff.
- iv. To seek review of institutional and legal framework for improved performance.

Results

The Company made a surplus during the financial year 2018/2019 was kshs. 1,612,074.

Dividends

The Directors did not recommend payment of dividends in the financial year 2018/2019 having made a loss during the year.

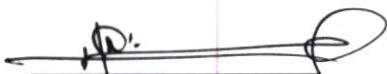
Directors

The members of the Board of Directors who served during the year are shown on page VI-VII In accordance with Regulation.

Auditors

The Auditor General is responsible for the statutory audit of the *entity* in accordance with Article 229 of the Constitution of Kenya and the Public Audit Act 2015.

By Order of the Board on.....28/02.....2020.



Chairman; Board of Directors



Ag. Managing Director

STATEMENT OF DIRECTORS' RESPONSIBILITIES

Section 81 of the Public Finance Management Act, 2012 and *section 14 of the State Corporations Act*, require the Directors to prepare financial statements in respect of that *entity*, which give a true and fair view of the state of affairs of the *entity* at the end of the financial year/period and the operating results of the *entity* for that year/period. The Directors are also required to ensure that the *entity* keeps proper accounting records which disclose with reasonable accuracy the financial position of the *entity*. The Directors are also responsible for safeguarding the assets of the *entity*.

The Directors are responsible for the preparation and presentation of the *entity's* financial statements, which give a true and fair view of the state of affairs of the *entity* for and as at the end of the financial year (period) ended on June 30, 2019. 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 *entity*; (v) selecting and applying appropriate accounting policies; and (vi) making accounting estimates that are reasonable in the circumstances.

The Directors accept responsibility for the *entity'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, 2012 and the State Corporations Act section 14. The Directors are of the opinion that the *entity's* financial statements give a true and fair view of the state of *entity's* transactions during the financial year ended June 30, 2018, and of the *entity's* financial position as at that date. The Directors further confirm the completeness of the accounting records maintained for the *entity*, which have been relied upon in the preparation of the *entity'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 *entity* will not remain a going concern for at least the next twelve months from the date of this statement.

Approval of the financial statements

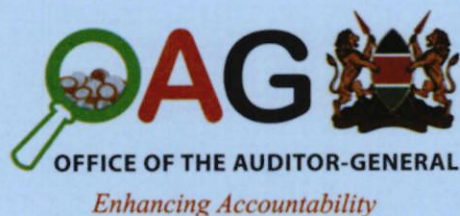
The *entity's* financial statements were approved by the Board on 28/07 2020 and signed on its behalf by:


Chairman; Board of Directors


Ag. Managing Director

REPUBLIC OF KENYA

Telephone: +254-(20) 3214000
E-mail: info@oagkenya.go.ke
Website: www.oagkenya.go.ke



HEADQUARTERS
Anniversary Towers
Monrovia Street
P.O. Box 30084-00100
NAIROBI

REPORT OF THE AUDITOR-GENERAL ON TAVEVO WATER AND SEWERAGE COMPANY LIMITED FOR THE YEAR ENDED 30 JUNE, 2019

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of Tavevo Water and Sewerage Company Limited set out on pages 1 to 24, which comprise the statement of financial position as at 30 June, 2019, and the statement of profit and loss and other comprehensive income, statement of changes in equity, statement of cash flows and statement of comparison of budget and actual amounts 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 35 of the Public Audit Act, 2015. 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.

In my opinion, except for the effects of the matter described in the Basis for Qualified Opinion section of my report, the financial statements present fairly, in all material respects, the financial position of the Tavevo Water and Sewerage Company Limited as at 30 June 2019, 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 Companies Act, 2015. The Water Act, 2016 and Public Finance Management Act, 2012

Basis for Qualified Opinion

1.0 Unsupported Prior Year Adjustment

The statement of changes in equity for the year ended 30 June, 2019 reflects prior year adjustments of Kshs.196,114. However, the adjustment was effected in the current financial year instead of prior year. This was contrary to Paragraph 48 of International Public Sector Accounting Standard (IPSAS) No.3 which provides that a prior period error should be corrected by retrospective restatement except to the extent that it is impracticable to determine either the period specific effects or the cumulative effect of the error. Further, supporting journal voucher and explanatory note for the adjustment were not provided for audit review.

Consequently, the financial statements presented for audit for the year ended 30 June, 2019 do not comply with International Public Sector Accounting (IPSAS) No.3 as prescribed and published by the Public Sector Accounting Standards Board.

2.0 Long Outstanding Trade and Other Receivables

The statement of financial position as at 30 June, 2019 reflects trade and other receivables balance of Kshs.261,815,872. Included in this balance are debtors amount of Kshs.41,096,214 which have been outstanding for more than one year. However, the provision for bad and doubtful debts was not made in respect of these debts.

In the circumstances, it has not been possible to ascertain the accuracy, fair statement and recoverability of the trade and other receivables balance of Kshs.261,815,872 as at 30 June, 2019.

3.0 Inaccuracies in Customer Deposits

The statement of financial position as at 30 June, 2019 reflects customer deposits balance of Kshs.18,095,969, out of which only Kshs.2,778,087 was confirmed banked in the deposit account in Co-operative Bank of Kenya Ltd, thus leaving a balance of Kshs.15,317,882 unbanked as at 30 June, 2019.

Consequently, the accuracy and completeness of the customer deposits balance of Kshs.18,095,969 as at 30 June, 2019 could not be confirmed.

4.0 Inaccuracies in Trade and Other Payables

The statement of financial position and as disclosed in Note 19 to the financial statements reflects trade and other payables balance of Kshs.489,119,790 as at 30 June, 2019. The balance includes Kshs.450,481,103 owed to Coast Water Works Development Agencies (Formerly, Coast Water Services Board) for supply of bulk water costing Kshs.326,558,889 and lease fees of Kshs.123,922,214. However, the financial statements of Coast Water Works Development Agencies reflect a balance of Kshs.529,211,732 as the sum receivable from the Company resulting to an unexplained and unreconciled variance of Kshs.78,730,629.

Further, included in the trade and other payables balance is payroll liabilities amount of Kshs.7,687,592. The payroll liabilities include salary deduction arrears owed to National Water Conservation and Pipeline Corporation Staff Pension Scheme of Kshs.1,541,238 and Pay As You Earn (PAYE) deductions on Board allowances of Kshs.947,627 which have been outstanding for over three years.

In addition, the respective interest and penalties due on late payment of PAYE have not been accrued in these financial statements.

As a result, the accuracy and completeness of trade and other payables balance of Kshs.489,119,790 as at 30 June, 2019 could not be confirmed.

5.0 Irregular Treatment of Grant as a Long-Term Loan

The statement of financial position reflects a long-term loan balance of Kshs.5,983,542 from Taita Taveta County Government as at 30 June, 2019. However, records from County Government indicate that this was an emergency grant given to the water company by Taita Taveta Emergency Fund to pay a water debt that had led to the

disconnection of water supply in the whole County. It is not clear why the Management decided to treat the grant as a long-term loan instead of a grant.

Consequently, the validity of the long-term loan of Kshs.5,983,542 as at 30 June, 2019 could not be confirmed.

6.0 Going Concern

The statement of financial position reflects current liabilities balance of Kshs.489,119,790 and current assets balance of Kshs.280,992,327 resulting to negative working capital of Kshs.208,127,463. Further, the accumulated deficit stands at Kshs.262,865,933 as at 30 June, 2019. Management has not provided satisfactory explanation why the revenue targets could not be achieved.

Consequently, the Company is technically insolvent and its continued existence as a going concern depends on continued support from the County Government and creditors.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the Tavevo Water and Sewerage Company limited Management in accordance with ISSAI 130 on Code of Ethics. I have fulfilled other ethical responsibilities in accordance with the ISSAI and in accordance with other ethical requirements applicable to performing audits of financial statements in Kenya. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

Key Audit Matters

Key audit matters are those matters that, in my professional judgment, are of most significance in the audit of the financial statements. There were no key audit matters to report in the year under review.

Other Matter

1.0 Budgetary Control and Performance

The statement of comparative budget and actual amounts reflects final receipts budget and actual on comparable basis of Kshs.761,101,964 and Kshs.23,613,105 respectively resulting to un-realised of Kshs.497,488,859 or 65% of the budget. Similarly, the Company expended Kshs.262,001,031 against an approved budget of Kshs.721,548,562 resulting to an under-expenditure of Kshs.459,547,531 or 64% of the budget. The under collection of revenue and low utilization of funds affected the planned activities and may have impacted negatively on service delivery to the public.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

As required by Article 229(6) of the Constitution, based on the audit procedures performed, except for the matter described in the Basis for Conclusion on Lawfulness and Effectiveness in Use of Public Resources section of my report, I confirm that, nothing else

has come to my attention to cause me to believe that public resources have not been applied lawfully and in an effective way.

Basis of Conclusion

1.0 Non-Revenue Water

The Company produced 3,458,581 cubic meters of water out of which only 1,910,521 cubic meters approximately 55% was billed to customers. The unbilled amount of 1,548,060 cubic meters or 45% represented Non-Revenue Water which is more than the maximum allowable loss of 25% by the Water Services Regulatory Board (WASREB). The excess UFW of 20% resulted to abnormal loss of water sales of 691,716 cubic meters or Kshs.38,044,380, using the rate of Kshs.55 per cubic meter.

The significant level of non-revenue water is an indication of inefficiency and lack of effectiveness in the use of public resources and, may negatively impact negatively on the Company's profitability and its long-term sustainability.

2.0 Anomalies in Appointment of Board Members

Review of appointment of members of the Board of Directors revealed that three (3) Board members did not have a Bachelor's degree qualification required for appointment as a Board member. Also, one of the Board Members was not a gazetted member of the Board but continued to perform duties of a member of the Board. Further, the appointment letters for nine (9) Board Members who served during the year were not provided for audit review.

This is in contravention of Mwongozo Code of Governance for State Corporations which requires the Board to provide strategic direction to the Company, exercise control and remain accountable to shareholders. In addition, the Code requires each Board member to have been formally appointed to the Board through a Gazette Notice and be issued with an appointment letter.

The audit was conducted in accordance with ISSAI 4000. The standard requires that I comply with ethical requirements and plan and perform the audit to obtain assurance about whether the activities, financial transactions and information reflected in the financial statements are in compliance, in all material respects, with the authorities that govern them. A review is limited primarily to analytical procedures and to inquiries, and therefore provides less assurance.

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

As required by Section 7(1)(a) of the Public Audit Act, 2015, based on the audit procedures performed, except for the matters described in the Basis for Conclusion on

Effectiveness of Internal Controls, Risk Management and Governance section of my report, I confirm that, nothing else has come to my attention to cause me to believe that internal controls, risk management and overall governance were not effective.

Basis for Conclusion

1.0 Lack of Approved Information Technology Security Policy

A review of governance and Information Technology (IT) environment revealed the Company did not have an approved IT security policy to ensure that data stored in its systems is confidential, has integrity and is readily available when required. Also, the County Executive did not have a disaster recovery, backup and data retention plan.

2.0 Lack of Strategic Plan

Records availed for audit review indicated that the Company's strategic plan expired in the financial year 2015/2016 and none had been prepared as at the time of the audit in the month of December 2019. This means that the Company's annual work plan for the year under review lacked strategic direction which would effectively deliver the Company's core business objective of water supply to customers.

3.0 Lack of Approved Staff Establishment

Records provided for audit indicated that the Company staff establishment stood at one hundred and twenty-seven (127) staff as at 30 June, 2019, comprising twenty-one staff serving on permanent employment terms, one hundred (100) staff serving on contract and temporary engagement and six (6) staff on secondment as at 30 June, 2019. However, the Company did not have an approved staff establishment. It was therefore not possible to confirm whether the implemented level of establishment was optimal or not.

The audit was conducted in accordance with ISSAI 2315 and ISSAI 2330. The standards require that I plan and perform the audit to obtain assurance about whether effective processes and systems of internal control, risk management and governance were operating effectively, in all material respects. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

As required by the Kenyan Companies Act, 2015, 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 my audit;
- (ii) In my opinion, proper books of account have been kept by the Company, so far as appears from the examination of those books;
- (iii) The Company's statement of financial position and statement of profit or loss and other comprehensive income are in agreement with books of account; and

- (iv) In my opinion the information given in the report of the directors on page VXIII, is consistent with the financial statements.

Responsibilities of Directors and those Charged with Governance

The Directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and the requirements of the Kenyan Companies Act, and for maintaining effective internal control as the Directors determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error and for assessment of the effectiveness of internal control, risk management and governance.

In preparing the financial statements, the directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless Directors are aware of the intention to liquidate the Company or to cease operations.

The Directors are also responsible for the submission of the financial statements to the Auditor-General in accordance with the provisions of Section 47 of the Public Audit Act, 2015.

In addition to the responsibility for the preparation and presentation of the financial statements described above, the Directors are also responsible for ensuring that the activities, financial transactions and information reflected in the financial statements are in compliance with the authorities which govern them, and that public resources are applied in an effective way.

Those charged with governance are responsible for overseeing the Company's financial reporting process, reviewing the effectiveness of how Management monitors compliance with relevant legislative and regulatory requirements, ensuring that effective processes and systems are in place to address key roles and responsibilities in relation to governance and risk management, and ensuring the adequacy and effectiveness of the control environment.

Auditor-General's Responsibilities for the Audit

The audit objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion in accordance with the provisions of Section 48 of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISSAIs will always detect a material misstatement and weakness when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

In addition to the audit of the financial statements, a compliance audit is planned and performed to express a conclusion about whether, in all material respects, the activities, financial transactions and information reflected in the financial statements are in compliance with the authorities that govern them and that public resources are applied in an effective way, in accordance with the provisions of Article 229(6) of the Constitution and submit the audit report in compliance with Article 229(7) of the Constitution.

Further, in planning and performing the audit of the financial statements and audit of compliance, I consider internal control in order to give an assurance on the effectiveness of internal controls, risk management and governance processes and systems in accordance with the provisions of Section 7(1)(a) of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution. My consideration of the internal control would not necessarily disclose all matters in the internal control that might be material weaknesses under the ISSAIs. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Because of its inherent limitations, internal control may not prevent or detect misstatements and instances of non-compliance. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies and procedures may deteriorate.

As part of an audit conducted in accordance with ISSAIs, I exercise professional judgement and maintain professional skepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.
- Conclude on the appropriateness of the Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in the auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my audit report. However, future events or conditions may cause the Company to cease as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information and business activities of Company to express an opinion on the financial statements.
- Perform such other procedures as I consider necessary in the circumstances.

I communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that are identified during the audit.

I also provide the Directors with a statement that I have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on my independence, and where applicable, related safeguards.


CPA Nancy Gathungu, CBS
AUDITOR-GENERAL

Nairobi

28 December, 2021

Tavevo Water and Sewerage co. ltd
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STATEMENT OF PROFIT AND LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 30 JUNE 2019

	Note	2018-2019	2017-2018
		Kshs	Kshs
REVENUES			
Revenue	1	242,998,333	225,184,250
Cost of sales	2	(119,042,483)	(125,062,606)
Gross profit		123,955,850	100,121,644
Other Income	3	20,614,772	13,303,707
TOTAL REVENUES		144,570,622	113,425,351
OPERATING EXPENSES			
Administration Costs	4	142,958,548	146,530,844
TOTAL OPERATING EXPENSES		142,958,548	146,530,844
PROFIT/(LOSS) BEFORE TAXATION		1,612,074	(33,105,493)
INCOME TAX EXPENSE/(CREDIT)	5	483,622	-
PROFIT/(LOSS) AFTER TAXATION		1,128,452	-
OTHER COMPREHENSIVE INCOME			
Fair value through comprehensive income		-	-
Surplus or deficit on revaluation of PPE		-	-
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		-	-

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STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2019

	Note	2018-2019 Kshs	2017-2018 Kshs
ASSETS			
Non-Current Assets			
Property, plant and equipment	6	60,231,698	60,541,503
Intangible assets	7	890,557	1,903,772
Prepaid operating lease rentals	8	16,396,460	-
Total Non-Current Assets		77,518,714	62,445,275
Current Assets			
Inventories	9	-	-
Trade and other receivables	10	261,815,872	237,972,358
Short-term deposits	11	2,349,725	6,646,007
Bank and cash balances	12	16,826,730	4,996,998
Total Non-Current Assets		280,992,327	249,615,363
Total Assets		358,511,041	312,060,637
EQUITY AND LIABILITIES			
Capital and Reserves			
Ordinary share capital	13	100,000	100,000
Fair value adjustment reserve	14	97,214,636	97,214,636
Retained earnings	15	(262,865,933)	(264,674,121)
Capital and Reserves		(165,551,297)	(167,359,485)
Non-Current Liabilities			
Long-term loan	16	5,983,542	5,983,542
Customer deposits	17	18,095,969	13,331,549
Service Gratuity	18	10,863,037	9,546,865
Total Non-Current Liabilities		34,942,548	28,861,956
Current Liabilities			
Trade and other payables	19	489,119,790	450,558,166
Total Current Liabilities		489,119,790	450,558,166
TOTAL EQUITY AND LIABILITIES		358,511,041	312,060,637

The financial statements were approved by the Board on 28/07 2020 and signed on its behalf by:

Ag. Finance Manager

Name: Paul Ngonelo

Ag. Managing Director

Name: David Nyumbao

Chairman of the Board

Name: [Signature]

Tavevo Water and Sewerage co. ltd

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STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 JUNE 2019

	Ordinary share capital	Fair value adjustment reserve	Retained earnings	Total
As at 1-07-2017	100,000	97,214,636	(233,912,968)	(136,598,332)
Surplus /(deficit for the year	-	-	(33,105,493)	(33,105,493)
Prior year adjustments	-	-	2,344,340	2,344,340
As at 30-06-2018	100,000	97,214,636	(264,674,121)	(167,359,485)
As at 1-07-2018	100,000	97,214,636	(264,674,121)	(167,359,485)
Surplus/(deficit for the year	-	-	1,612,074	1,612,074
Prior year adjustments	-	-	196,114	196,114
As at 30-06-2019	100,000	97,214,636	(262,865,933)	(165,551,297)

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STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2019

	Note	2018-2019	2017-2018
		Kshs	Kshs
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash generated from/(used in) operations	19	9,283,016	(26,234,587)
Net cash generated from/(used in) operating activities		9,283,016	(26,234,587)
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property, plant and equipment		(5,936,063)	(17,934,577)
Proceeds from disposal of property, plant and equipment		-	-
Purchase of intangible assets		(411,858)	(1,659,312)
Prepaid operating lease rentals		(16,396,460)	-
Increase/decrease in receivables		(23,843,514)	(24,272,740)
Increase/decrease in prepayments		4,296,282	(5,281,248)
Increase/decrease in customer deposit		4,764,420	3,896,153
Increase/decrease in payables		38,561,624	64,837,311
Increase/decrease in gratuity payables		1,316,172	1,348,087
Prior year adjustments		196,114	(2,344,340)
Net cash generated from/(used in) investing activities		2,546,716	18, 589,334
CASH FLOWS FROM FINANCING ACTIVITIES			
Net cash generated from/(used in) financing activities		-	-
INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		11,829,732	(2,956,573)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		4,996,998	7,953,571
CASH AND CASH EQUIVALENTS AT END OF THE YEAR		16,826,730	4,996,998

Tavevo Water and Sewerage co. ltd

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**STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS FOR THE
PERIOD ENDED 30 JUNE 2019**

	Original Budget 2018/2019	Adjustments 2018/2019	Final Budget 2018/2019	Actual on comparable basis 2018/2019	Performance Difference 2018/2019
Revenues	Kshs	Kshs	Kshs	Kshs	kshs
Water sale	328,139,400	-	328,139,400	234,073,475	94,065,925
Meter rent	16,739,520	-	16,739,520	8,924,858	7,814,662
	344,878,920	-	344,878,920	242,998,333	101,880,587
Other income					
Miscellaneous income	16,228,246	-	16,228,246	20,478,552	(4,250,306)
WSDP Projects	399,994,798		399,994,798	-	-
SNV Netherlands grant	-	-	-	136,220	(136,220)
Total other income	416,223,044	-	416,223,044	20,614,772	(4,386,526)
Total	761,101,964	-	761,101,964	263,613,105	97,494,061
Cost o sales					
Bulk water fees	100,234,570	-	100,234,570	68,860,266	31,374,304
Electricity pumping	44,277,582	-	44,277,582	47,779,453	(3,501,871)
water treatment	1,260,000	-	1,260,000	546,964	713,036
Abstraction fees	1,172,961	-	1,172,961	1,855,800	(682,839)
Total	146,945,113	-	146,945,113	119,042,483	27,902,630
Gross profit	614,156,851	-	614,156,851	144,570,622	
Administration Costs					
Awards to retired staff	50,000	-	50,000	30,000	20,000
Airtime Allowance	1,514,400	600,000	2,114,400	1,748,100	366,300
Electricity Administration	-		-	41,033	(41,033)
Postal services & courier	43,848	-	43,848	61,380	(17,532)
Advertising, Awareness & publicity	150,000	-	150,000	691,359	(541,359)

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Insurance non-motor	816,584	-	816,584	892,527	(75,943)
Publishing and printing	20,223	-	20,223	44,410	(24,187)
Newspapers	64,800	-	64,800	51,720	13,080
Refurbishment of Buildings	238,934	-	238,934	35,700	203,234
Office & General	2,933,752	1,200,000	4,133,752	5,630,772	(1,497,020)
Entertainment	224,820	89,928	314,748	456,005	(141,257)
Burial expenses	-	-	-	-	-
Rent & Rates	396,000	-	396,000	432,000	(36,000)
Membership fees	85,000	-	85,000	326,584	(241,584)
Contracted Guards Security	4,266,000	-	4,266,000	4,162,500	103,500
Depreciation charge	5,976,878	-	5,976,878	6,245,868	(268,990)
End year gift vouchers	-	-	-	1,425,073	(1,425,073)
Wasco games	-	427,100	427,100	-	427,100
World Water day celebrations	250,000	-	250,000	427,100	(177,100)
Repairs of office equipment	10,000	-	10,000	3,235,038	(3,225,038)
Staff Uniforms	300,000	-	300,000	-	300,000
Electro-mechanical parts.	2,700,000	-	2,700,000	2,133,191	566,809
Maintenance of water supplies	16,671,681	-	16,671,681	12,028,756	4,642,925
Legal fees	800,000	1,781,800	2,581,800	2,081,300	500,500
Provision for Audit fees	464,000	-	464,000	464,000	-
Salary	60,522,984	-	60,522,984	53,521,206	7,001,778
Leave allowance	5,028,082	-	5,028,082	4,736,226	291,856
Gratuity	4,419,756	-	4,419,756	3,263,530	1,156,226
Pension	1,278,132	-	1,278,132	1,227,103	51,029
Casual wages	1,311,734	1,500,000	2,811,734	3,730,317	(2,418,583)
Training expenses	1,200,000	-	1,200,000	944,068	255,932
Staff Medical Scheme	8,300,000	-	8,300,000	796,300	7,503,700

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Recruitment cost	150,000	-	150,000	113,000	37,000
Chairman's Honoraria	420,000	-	420,000	420,000	-
Other Directors allowances	2,150,000	2,000,000	4,150,000	4,546,971	(2,396,971)
Bank Commission & charges	264,594	-	264,594	812,854	(548,260)
Wasreb-Levy	3,448,789	-	3,448,789	7,818,103	(4,369,314)
Lease fees-CWSB	17,378,768	-	17,378,768	-	17,378,768
Loan Repayment	11,406,600	-	11,406,600	-	11,406,600
Transportation, travelling and subsistence	3,272,800	-	3,272,800	6,775,967	(3,503,167)
Hire of transport plant & equipment	100,000	-	100,000	43,150	56,850
Fuel oils & lubricants	3,039,878	2,000,000	5,039,878	6,605,305	(3,565,427)
Maintenance of motor vehicles	2,170,786	-	2,170,786	4,082,937	(1,912,151)
Insurance costs	1,120,000	-	1,120,000	877,094	242,906
Transport claims	50,000	-	50,000	-	50,000
Total	165,009,823	9,598,828	174,608,651	142,958,548	(8,630,989)
WSDP Loans	399,994,798	-	399,994,798	-	
Total operating expenses	565,004,621	9,598,828	574,603,449	142,958,548	-
Surplus / (deficit)	49,152,230	-	39,553,402	1,612,074	-

NOTES TO THE FINANCIAL STATEMENTS
SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1. Revenue recognition

Revenue is recognized 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 recognized at the fair value of consideration received or expected to be received in the ordinary course of the *entity's* activities, net of value-added tax (VAT), where applicable, and when specific criteria have been met for each of the *entity's* activities as described below.

- i) **Revenue from the sale of goods and services** is recognized 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) **Grants from National Government** are recognized in the year in which the *entity* actually receives such grants. Recurrent grants are recognized in the statement of comprehensive income. Development/capital grants are recognized in the statement of financial position and realised in the statement of comprehensive income over the useful life of the assets that has been acquired using such funds.
- iii) **Finance income** comprises interest receivable from bank deposits and investment in securities, and is recognized in profit or loss on a time proportion basis using the effective interest rate method.
- iv) **Dividend income** is recognized in the income statement in the year in which the right to receive the payment is established.
- v) **Rental income** is recognized in the income statement as it accrues using the effective lease agreements.
- vi) **Other income** is recognized as it accrues.

2. 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.

Tavevo Water and Sewerage co. Ltd

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SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 recognized in profit or loss in the income statement.

3. 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 recognized 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:

Plant and machinery	12.5%
Motor vehicles, including motor cycles	30%
Computers and related equipment	30%
Office equipment, furniture and fittings	12.5%
Intangible assets	30%
Buildings	2.5%
Water distribution systems	2.5%

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

5. Intangible assets.

Intangible assets comprise purchased computer software licenses, which are capitalized on the basis of costs incurred to acquire and bring to use the specific software. These costs are amortized over the estimated useful life of the intangible assets from the year that they are available for use, usually over three years.

6. 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.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

7. Trade and other receivables

Trade and other receivables are recognized 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.

8. 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 authorized public officers which were not surrendered or accounted for at the end of the financial year.

9. Trade and other payables

Trade and other payables are non-interest bearing and are carried at amortized 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.

10. 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.

11. Comparative figures

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

12. 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, 2018.

Tavevo Water and Sewerage co. ltd
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NOTES TO THE FINANCIAL STATEMENTS (Continued)

1. REVENUE

	2018/2019	2017/2018
	Kshs	Kshs
Water sale	234,073,475	214,864,470
Meter rent	8,924,858	10,319,780
Less: Value added tax on gross sales	-	-
Total	242,998,333	225,184,250

2. COST OF SALES

	2018/2019	2017/2018
	Kshs	Kshs
Bulk water fees	68,860,266	77,392,440
Electricity pumping	47,779,453	45,541,840
Water treatment	546,964	740,401
Abstraction fees	1,855,800	1,387,925
Total	119,042,483	125,062,606

3. OTHER INCOME

	2018- 2019	2017-2018
Description	Kshs	Kshs
Grants	136,220	1,642,847
Other miscellaneous receipts	20,478,552	11,660,860
Total	20,614,772	13,303,707

Miscellaneous income comprises, connection fees, reconnection fees, illegal connection penalty, Account succession, bowser income, collapsible tank hire, meter testing fee & account termination fee.

Grants relate amounts paid out to Tavevo suppliers by Kenya Market Trust Kshs 201,100 and SNV Netherlands Kshs. 1,441,747 in 2018. The 2019 grants kshs. 136,220 relates to previous year grants that had been expensed paid by SNV directly to suppliers for various goods/services.

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4. (a) ADMINISTRATION COSTS

	2018-2019	2017-2018
Description	Kshs	Kshs
Awards to retired staff	30,000	-
Airtime	1,748,100	1,160,540
Electricity	41,033	358,969
Postal services	61,380	48,720
Advertising, Awareness	691,359	235,245
Insurance non-motor	892,527	453,658
Publishing & printing	44,410	19,260
Newspapers	51,720	57,060
Refurbishment	35,700	122,745
Office & general	5,630,772	3,255,516
Entertainment	456,005	181,470
Burial expenses	-	97,000
Rent & rates	432,000	408,000
Membership fees	326,584	142,100
Contracted Guards	4,162,500	4,792,500
Depreciation for Tangible assets	6,245,868	6,870,906
Depreciation for Intangible assets	1,425,073	-
End year gift vouchers	-	402,000
Wasco games	427,100	608,106
World Water day	3,235,038	2,724,273
Electro-mechanical	2,133,191	1,459,155
Maintenance of water supplies	12,028,756	10,159,087
Legal fees	2,081,300	820,263
Provision of Audit fees	464,000	1,500,000
Chairman's Honoraria	420,000	297,500
Board of Directors Airtime	469,000	-
Other Directors allowances	4,077,971	2,464,938
Bank Commission & charges	812,854	535,645
Wasreb Levy	7,818,103	2,222,357
Lease fees-CWSB	-	16,200,000
Transportation, travelling and subsistence	6,775,967	4,819,437
Hire of transport plant & equipment	43,150	53,600
Fuel oils & lubricants	6,605,305	4,723,420
Maintenance of motor vehicles	4,082,937	3,233,992

Tavevo Water and Sewerage co. ltd

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Insurance costs	877,094	793,152
Transport claims	-	27,008
Salary	53,521,206	58,669,845
Leave allowance	4,736,226	4,475,102
Gratuity	3,263,530	4,717,756
pension	1,227,103	1,349,376
Casual wages	3,730,317	1,036,944
Training	944,068	444,300
Staff medical	796,300	4,589,899
Recruitment cost	113,000	-
Total	142,958,548	146,530,844

Tavevo Water and Sewerage co. ltd

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For the year ended June 30, 2019

NOTES TO THE FINANCIAL STATEMENTS (Continued)

5. INCOME TAX EXPENSE/(CREDIT)

(a) Current taxation

	2018-2019	2017-2018
	Kshs	Kshs
Current taxation based on the adjusted profit for the year at 30%	483,622	-
Current tax: prior year under/(over) provision	-	-
Current year deferred tax charge	-	-
Prior year under-provision for deferred tax	-	-
Total	483,622	-

b) Reconciliation of tax expense/ (credit) to the expected tax based on accounting profit

	2018-2019	2017-2018
	Kshs	Kshs
Profit before taxation	<u>1,612,074</u>	-
Tax at the applicable tax rate of 30%	(483,622)	-
Current tax		
Prior year under-provision	-	-
Tax effects of expenses not deductible for tax purposes	-	-
Tax effects of income not taxable	-	-
Tax effects of excess capital allowances over depreciation/amortization	-	-
Deferred tax prior year over-provision	-	-
Total	1,128,452	-

Tavevo Water and Sewerage co. ltd

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For the year ended June 30, 2019

NOTES TO THE FINANCIAL STATEMENTS (Continued)

6. PROPERTY, PLANT AND EQUIPMENT

	Computers	Plant and Machinery	Meters	Furniture & Fittings	Office equipment	Buildings	Water distribution systems	W.I.P Sikujuajuu	Total Tangible assets
	30%	12.50%	12.50%	12.50%	12.50%	2.50%	2.50%	2.50%	
	Kshs	Kshs	Kshs	Kshs	Kshs	Kshs	Kshs	Kshs	Kshs
Cost as at 1-07-2017	3,318,700	2,128,800	15,677,285	1,960,120	2,554,602	5,153,264	17,286,580	14,582,780	62,662,131
Additions 17/18	693,584	2,247,535	9,157,144	126,550	615,000	253,017	-	4,841,747	17,934,577
Re-classification from W.I.P TO water distribution systems	-	-	-	-	-	-	19,424,527	(19,424,527)	-
As at 1-07-2018	4,012,284	4,376,335	24,834,429	2,086,670	3,169,602	5,406,281	36,711,107	-	80,596,708
Additions 18/19	814,550	-	4,349,391	276,835	495,287	-	-	-	5,936,063
As at 30-06-2019	4,826,834	4,376,335	29,183,820	2,363,505	3,664,889	5,406,281	36,711,107	-	86,532,771
Depreciation									
As at 1-07-2018	3,481,275	1,893,718	9,990,788	1,608,370	1,467,122	263,989	1,349,943	-	20,055,205
Charge for the year 2019	244,365	547,042	3,647,978	295,438	458,111	135,157	917,778	-	6,245,868
As at 30-06-2018	3,725,640	2,440,760	13,638,766	1,903,808	1,925,233	399,146	2,267,721	-	26,301,073
NBV at 30.06.2019	1,101,194	1,935,575	15,545,055	459,697	1,739,656	5,007,135	34,443,386	-	60,231,698
NBV at 30.06.2018	531,009	2,482,617	14,843,641	478,300	1,702,480	5,142,292	35,361,164	-	60,541,503

Tavevo Water and Sewerage co. Ltd

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For the year ended June 30, 2019

NOTES TO THE FINANCIAL STATEMENTS (Continued)

7. INTANGIBLE ASSETS

	2018-2019	2017-2018
	Kshs	Kshs
COST		
At July 1-07-2018	4,338,386	2,679,074
Additions	411,858	1,659,312
Disposals	-	-
At June 30-06-2019	4,750,244	4,338,386
AMORTISATION		
At July 1-07-2018	(2,434,614)	(1,133,098)
Charge for the year	(1,425,073)	(1,301,516)
Disposals	-	-
Impairment loss	-	-
At June 30 ,2019	(3,859,687)	(2,434,614)
NET BOOK VALUE		
At June 30 ,2019	890,557	1,903,772

Intangible assets constitute Billing system, sms software, payroll software and QuickBooks.

Tavevo Water and Sewerage co. ltd

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For the year ended June 30, 2019

NOTES TO THE FINANCIAL STATEMENTS (Continued)

8. PREPAID OPERATING LEASE RENTALS

	2018-2019	2017-2018
	Kshs	Kshs
COST		
At July 1	-	-
Additions	16,396,460	-
Transfer to investment property	-	-
Disposals	-	-
	_____	_____
At June 30	16,396,460	-
	_____	_____
AMORTISATION		
At July 1	-	-
Charge for the year	-	-
Transfer to investment property (note 19)	-	-
Disposals	-	-
	_____	_____
At June 30	-	-
	_____	_____
NET BOOK VALUE		
At June 30	16,396,460	-

Relates to lease fees invoiced from Coast Water Services Board.

Tavevo Water and Sewerage co. ltd

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For the year ended June 30, 2019

NOTES TO THE FINANCIAL STATEMENTS (Continued)

9. INVENTORIES

Tavevo did not undertake stock take and inventory at the end of the period.

10. TRADE AND OTHER RECEIVABLES

	2018-2019	2017-2018
	kshs	kshs
Trade receivables	259,459,880	235,533,025
Taita Taveta County receivable	1,783,674	1,783,674
BOD Receivable	240,728	240,729
Staff Imprest	47,100	176,036
Staff Debts	252,029	227,594
Kenya Commercial Bank	-	11,300
Pan-African Insurance co. Ltd	32,461	-
	261,815,872	237,972,358

11. OTHER CURRENT ASSETS

	2018-2019	2017-2018
	Kshs	Kshs
Deposit receivable - KPLC	1,222,297	1,222,297
Prepayments	<u>1,127,428</u>	<u>5,423,710</u>
	2,349,725	6,646,007

12. A) BANK AND CASH BALANCES

	2018-2019	2017-2018
	Kshs	Kshs
Cash at bank	16,774,675	4,905,192
Cash in hand	52,055	91,806
	16,826,730	4,996,998
	=====	=====

The bulk of the cash at bank was held at Kenya Commercial Bank, the entity's main bankers.

Tavevo Water and Sewerage co. ltd

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

BANK AND CASH BALANCES (Continued)

The make – up of bank balances is as follows:

	2018-2019 kshs	2017-2018 kshs
Co-operative Bank - Customer deposit a/c 01136220957300	2,778,087	400,954
Equity bank a/c- 0790299925910	738,386	24,442
KCB-collection a/c-1108161227	7,174,068	1,326,698
KCB-expenditure a/c-1108161332	2,919,457	1,447,523
M-PESA Paybill-913350	1,390,060	457,307
Posta Pay	1,562,302	1,009,503
Post Bank a/c-0744130013575	212,315	238,765
Cash in Hand	52,055	91,806
	<u>16,826,730</u>	<u>4,996,998</u>

13. ORDINARY SHARE CAPITAL

	2018-2019 kshs	2017-2018 kshs
Authorized:		
1,000 ordinary shares of Kshs.100/= par value each	100,000	100,000

Tavevo Water and Sewerage co. Ltd
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NOTES TO THE FINANCIAL STATEMENTS (Continued)

14. FAIR VALUE ADJUSTMENT RESERVE

	2018-2019 kshs	2017-2018 kshs
Fair value adjustment reserve	97,214,636	97,214,636

15. RETAINED EARNINGS

	2018-2019 kshs	2017-2018 kshs
Retained earnings	(262,865,933)	(264,674,121)

The retained earnings represent amounts available for distribution to the *entity's* shareholders. Undistributed retained earnings are utilised to finance the *entity's* business activities.

16. LONG-TERM LOAN

	2018-2019 kshs	2017-2018 kshs
Taita Taveta County Government	5,983,542	5,983,542

17. CUSTOMER DEPOSIT

	2018-2019 kshs	2017-2018 kshs
Refundable water connection deposits	18,095,969	13,331,549

18. SERVICE GRATUITY

	2018-2019 kshs	2017-2018 kshs
Service Gratuity	10,863,037	9,546,865

Tavevo Water and Sewerage co. ltd
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NOTES TO THE FINANCIAL STATEMENTS (Continued)

19. TRADE AND OTHER PAYABLES

	2018-2019	2017-2018
	kshs	kshs
Coast water services Board Bulk water supply	326,558,889	294,448,623
Coast water services Board-Lease fees	123,922,214	107,525,754
Other payables	21,631,889	29,477,544
KENAO fees	4,840,000	4,396,000
KPLC	4,413,900	4,211,375
Payroll Liabilities	7,687,592	10,498,870
KCB payable	65,306	-
	489,119,790	450,558,166

Tavevo Water and Sewerage co. Ltd

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For the year ended June 30, 2019

NOTES TO THE FINANCIAL STATEMENTS (Continued)

20. NOTES TO THE STATEMENT OF CASH FLOWS

	2018-2019	2017-2018
	Kshs	Kshs
(a) Reconciliation of operating profit/(loss) to cash generated from/(used in) operations		
Operating profit/(loss)	1,612,074	(33,105,493)
Depreciation	6,245,868	6,870,906
Amortization	1,425,073	-
(Gain)/loss on disposal of property, plant and equipment	-	-
Operating profit/(loss) before working capital changes	9,283,016	(26,234,587)
	=====	=====
(b) Analysis of changes in loans		
Balance at beginning of the year	5,983,542	-
Receipts during the year	-	-
Repayments during the year	-	-
Repayments of previous year's accrued interest	-	-
Foreign exchange (gains)/losses	-	-
Accrued interest	-	-
Balance at end of the year	5,983,542	-
	=====	=====
(c) Analysis of cash and cash equivalents		
Cash at bank	16,774,675	4,905,192
Cash in hand	52,055	91,806
Balance at end of the year	16,826,730	4,996,998
	=====	=====

Tavevo Water and Sewerage co. Ltd

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21. RELATED PARTY DISCLOSURES

(a) County Government

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

Other related parties include:

- i) The Parent department of Water and Sanitation.
- ii) Board of Directors.
- iii) Key management.

Transactions with related parties

	2018-2019	2017-2018
	Kshs	Kshs
a) Key management compensation		
Directors' emoluments	4,966,971	2,762,438
Compensation to the CEO	-	-
Compensation to key management	-	-
Total	4,966,971	2,762,438
	=====	=====

22. INCORPORATION

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

23. EVENTS AFTER THE REPORTING PERIOD

There were no material adjusting and non- adjusting events after the reporting period.

24. CURRENCY

The financial statements are presented in Kenya Shillings (**Kshs**).

Tavevo Water and Sewerage co. ltd

Annual Reports and Financial Statements

For the year ended June 30, 2019

APPENDIX 1: PROGRESS ON FOLLOW UP OF AUDITOR RECOMMENDATIONS

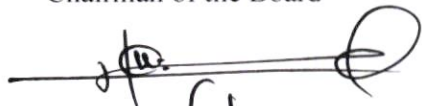
The management noted all the issues as observed by the Auditor general in the previous audit for the year 2017/2019.

Management has made efforts to clear the ranging from inaccuracies of the financial statements, UFW, asset tagging, customer deposits and have actually reached out to County Government on the long term loan and Coast water services board on capital reserves and payables reconciliation.

M.D
(enter title of head of entity)

Date..... 28/02/2020

Chairman of the Board


Date..... 28/02/2020