

REPUBLIC OF KENYA



OFFICE OF THE AUDITOR-GENERAL

REPORT

OF

THE AUDITOR-GENERAL

ON

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

**FOR THE YEAR
ENDED 30 JUNE 2015**



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KWALE WATER & SEWERAGE COMPANY LIMITED

**REPORT AND FINANCIAL STATEMENTS FOR
THE FINANCIAL YEAR ENDED 30 JUNE 2015**

KWALE WATER & SEWERAGE COMPANY LIMITED
REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2015

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COMPANY INFORMATION

Establishment

Kwale water and sewerage company Limited is a company registered under the company act Cap 486 of the laws of Kenya. It is domiciled in Kenya.

Currently under the devolved system of government, the company is controlled by the County Government pursuant to Public Finance Management Act (2012).

Company Vision

To be a leading water company that provides quality and sufficient water and sewerage services in a reliable and sustainable manner to the residents of Kwale, Kinango and Msambweni districts.

Company Mission

To be the most efficient company in the provision of clean, safe, sufficient and affordable water and sewerage services to the residents of Kwale, Kinango and Msambweni districts

COMPANY SECRETARY

J.O. Magolo & Company Advocates

Electricity House 5th Floor

P.O. Box 935 – 80100

Mombasa

REGISTERED OFFICE AND PRINCIPAL PLACE OF BUSINESS

Sida Camp

Kwale Area

P.o. Box 18 – 80403

KWALE

BANKERS

Kenya Commercial Bank

Ukunda Branch

P.O. Box 150-80400

Ukunda

Equity Bank

Ukunda Branch

P.O. Box 1476-80400

Ukunda

INDEPENDENT AUDITORS

AUDITOR GENERAL

Kenya National Audit Office

Anniversary Towers

P.O. Box 30084

NAIROBI.

LEGAL ADVISORS

Lewa and Associates
Off Sauti ya Kenya road
Ganjoni (Near Jahazi Hotel)
P.o. Box 2937 - 80100
Mombasa

DIRECTORS

1. Nyundo Katemboh
Managing Director up to Feb 2015
KWAWASCO
P.O. Box 18 - 80403
KWALE
2. Erick Parmet
Ag. Managing Director
County Government of Kwale
From February 2015 to June 2015
3. Francis Nzai Mjera
Chairman of Board of Directors
P.o. Box 4 -80403
KWALE
Diploma-School Management at Kenyatta University(ongoing)
4. Ntembe Makoti
Women Representative
P.o. Box 562 - 80400
UKUNDA
Holds a masters of education and currently pursuing Doctor of
Philosophy (PhD) at Kenyatta University
5. Dr Athuman Chiguzo
Minister for Water
P.o. Box 4 -80403
MOMBASA
6. Bakari Sebe
Minister for Finance
P.o. Box 4 -80403
KWALE
Currently a PhD student of Business Administration at JKUAT
7. Bakari Gowa
Professional Representative
P.o. Box 4 -80403
MOMBASA
Professional accountant (CPA-K) CPS-K
Holds master's degree in strategic management
8. Luciana Parazzi Basile
South Coast Residents Association (Hotels)
P.o. Box
UKUNDA
9. Mbito Mongo
P.o. Box 96
Pemba Primary School
MARIAKANI
Vast experience in administration
10. Farida Jadi
P.o. Box 699 - 80400
UKUNDA
Holds a degree in law

MANAGEMENT TEAM

1. Nyundo Katemboh -Managing Director, Bachelor Of Commerce Accounts Option
2. Erick Parmet - Ag Managing director Feb-June 2015
3. Hassan Mwatondo-Ag Finance Manager Feb-June 2015
4. Mwanasha Mbwiza - Commercial Manager – Bachelor of Arts (Sociology And Public Administration)
5. William Jefwa - Finance Manager – CPA(K) Bachelors In Business Administration Accounting Option (on- going)
6. Philip Nyakundi - Human Resource Officer – Higher Diploma In Human Resource Management
7. Hussein Mwavadu - ICT Officer – Degree In Information And Technology (Diploma in IMIS)
8. Swaleh Kidzuga - Technical Manager – Diploma In Civil Engineering And Building And Construction

CHAIRMAN'S STATEMENT

Technical Activities

Intensification by the technical department in responding rapidly on issues impacting negatively on the general output of the Company were the key contributors to the revamped company outlook.

Critical result oriented formations established and currently working include the rapid response team, the one stop meter servicing and testing unit, field inspection unit, meter utility unit and water quality assurance unit all under the technical department.

Through the rapid response team major bursts and serious leakages resulting from vandalism cases have been fixed promptly thereby reducing by a greater margin water and revenue loss. Major water production repairs were also handled by this department.

Over the year, the Company undertook major system improvement such as pipeline re- alignment along the main delivery line from Mwadabara2. A direct connection to our customers was provided to ensure prompt response on water shortages to all corners of Kwale Township. This alternative allows for any maintenance work be undertaken at Godoni tank without interrupting water flow to our consumers.

The revival into operation of Msambweni police borehole that had sunk and needed fishing was a great plus to the Company. Since its revival over 90% of the populace of Msambweni residents are adequately served with water thereby increasing the overall revenue accrued from that Msambweni station.

Other major developments that were undertaken by key stakeholders but geared towards improvement of service delivery by the Company include:-

1. Construction of water storage reservoir capacity 500m³, 4No standard water kiosks and 2km of 2" diameter UPVC distribution lines at Ukunda through the support of WSTF.
2. System improvement and laying of 4" diameter UPVC line from Kaya bombo to Matuga Research Centre by the support of the County Government of Kwale.
3. Augmentation of the new Kibaoni – Kinango rising main, installation of a ground steel tank at Kiziamonzo, installation of an elevated steel tank at Kinango Baraza park grounds and laying distribution network within Kinango town and its environs through collaboration of the County Government of Kwale and Coast Water Services Board will contribute immensely in ensuring water flow to Kinango is nonstop.

These developments and systems being put in place by the Company are aimed at revamping its service provision to its clients, boost revenue collections hence self-sustaining.

Commercial Activities

- Customers

We increased our customer base to 11,582 from 10,433 . The subtle increase of water volumes after WASSIP 1 projects and our take water services to the people approach saw customer numbers soar.

We expect more customers with upcoming development project of the county government at Magodzoni Tiwi and Makondeni area of Matuga and after the completion of the Mwache Dam.

-Billings and Collections

Billings are prompt. We have recorded tremendous improvements on our billing and collection efficiencies.

Effects of tourism on KWAWASCO revenues

The tourism slump at the South Coast hit KWAWASCO so hard and directly.

Our water tariff is pro-poor and the hotels used to cushion the low sales from the domestic consumers. With low bed occupancies and closures sales in our commercial hub area of Diani went down and affected the entire financial projections and actual cash flows of the company.

-Tariff

KWAWASCO has been operating on a new water tariff from 25 March 2014.

Strategic plan 2013 -017

KWAWASCO is in the process of implementing its second strategic plan. The SP in place needs be in tandem with county government development plans now that water is devolved to the county

CHIEF EXECUTIVE OFFICER'S REPORT

Kwale Water and Company Limited, KWAWASCO was incorporated on the 26th September 2005. The company's mandate is to efficiently and effectively provide quality, reliable and adequate water services to the residents of Kwale County in accordance with a versatile service provision agreement (SPA) with Coast Water Services board.

The Company has got 8 board members representing the County Government of Kwale, women representative, business community, hotel industry, professional's representative and farming community.

The population within KWAWASCO's service area is about 700,000 people based on the last census by the national government, while the company's estimated population served is about 52%. Kwale water and Sewerage Company receives bulky water from Coast Water Services board from its various sources namely Marere Springs, Mzima Springs and the Tiwi Boreholes.

KWAWASCO also operates water schemes in Msambweni, Lungalunga and Vanga all of which are served by boreholes from Msambweni, Mwalewa and Tsuni respectively.

KWAWASCO is headed by a Managing Director and has five (5) departments namely Operations and Maintenance, Commercial and Business Development, Finance and Administration, Human Resource and Quality Assurance.

The need to take services closer to the people and improve on the company performance and service delivery, the company has the following area offices across the county which are manned by able and hard working Area Managers. These are;

Station	Area Office	Location	Area Manager	Tel. Contact
1	Lunga Lunga/Vanga	Lunga Lunga town	Hassan Mwachuo	0715692176
2	Tiwi	Tiwi	Mbarak chipanga	0722838873
3	Msambweni	Msambweni	John Lugho	0722279743
4	Ukunda	Ukunda	Mtama Hamisi	0725427267
5	Kombani	Kombani	Mwanasiti Mtama	0728217434
6	Mazeras	Mazeras	Grace Mule	0718784877
7	Mariakani	Mariakani	Tsuma Mgutu	
8	Samburu/Taru	Samburu	Jacob Tsimba	0710596419
9	Kwale	Kwale	Julius Mzungu	0720905937
10	Kinango	Kinango	Kombo Mwayama	0723174509

It is worth noting that Tiwi and Kombani are two in one areas of operations.

The Company is currently operating on a new tariff approved by the Water Services Regulatory Board (WASREB), through the Coast Water Services Board (CWSB).


15.3.2016

Athman Gunda Chembea
Managing Director

CORPORATE GOVERNANCE STATEMENT

The previous board mandates ended in November 2013. In line with the new constitution promulgated on 27 August 2010, the county government got involved with water services when functions were devolved from the national government to county governments. A new board came into office through Kenya Gazette Notice No. 2509 of 17th April 2014 by the then CEC Member in charge of water services Dr. Athman Chiguzo and immediately the board took office. The board constituted three committees namely Audit Committee chaired by Director Bakari Gowa, Finance and Human Resource Committee chaired by Director Ntembe Makoti and Technical Committee chaired by none other than Director Mbiti Mongo. The board committees articulate the board's views and take its right place in governance of the company.

CORPORATE SOCIAL RESPONSIBILITY STATEMENT

In the spirit of giving back to the society the company took water free of charge to Masjid Markaz Diani during their annual festivals.

Water boozers were sent to the far flung and remote secondary schools in Nyango, mbita in Kinango district and also areas in Samburu.

REPORT OF THE DIRECTORS

The directors present their report together with the audited financial statements of the company for the year ended 30 June 2015.

PRINCIPAL ACTIVITIES

The principal activity of the company is sale of water to the residents of kwale County, Kenya.

FINANCIAL RESULTS

Deficit for the year

Kshs. (10,034,934)

DIRECTORS

The current members of the Board are as shown on page

BY ORDER OF THE BOARD

Chairman of the Board

Francis Nzai Mjera



16/3

2016

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Kenyan Companies Act requires the directors to prepare financial statements 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. It also requires the directors 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 are responsible for the preparation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards and the requirements of the Kenyan Companies Act, and for such internal controls as directors determine are necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The directors accept responsibility for the annual 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 and in the manner required by the Kenyan Companies Act. The directors are of the opinion that the financial statements give a true and fair view of the state of the 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 systems of internal financial control.

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



Chairman of the Board

16/3

.....2016



Managing Director

15-2

.....2016

REPUBLIC OF KENYA

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NAIROBI

OFFICE OF THE AUDITOR-GENERAL

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

REPORT ON THE FINANCIAL STATEMENT

I have audited the accompanying financial statements of Kwale Water and Sewerage Company Limited set out on pages 12 to 27 which comprise the statement of financial position as at 30 June 2015, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 14 of the Public Audit Act, 2003. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and for such internal control as management determines is necessary to enable the preparation and fair presentation of the 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 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). These 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 risks of material misstatement in 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 appropriateness of accounting policies used and the reasonableness of accounting estimates made by the management, as well as evaluating the overall presentation of the financial statements.

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

Basis for Qualified Opinion

1. Administrative Costs

The statement of profit or loss and other comprehensive income reflected an expenditure of Kshs.42,853,175 as administrative cost. Included under this cost is transport, traveling and subsistence allowance of Kshs.5,122,757 out of which Kshs.1,143,095 was not supported with documentary evidence. Consequently, the propriety of Kshs.1,143,095 spent on transport, traveling and subsistence allowance for the year ended 30 June 2015 could not be confirmed.

2. Employment Cost

The statement of profit or loss and other comprehensive income reflects employment cost of Kshs.36,185,674 which includes an amount of Kshs.3,185,000 paid to officers whose employment contracts had expired and not renewed. Further, the payroll for the month of March was not availed for audit verification although the management explained that it had been sent to Ethics and Anticorruption Commission (EACC). In addition, the Company did not have an approved salary structures, and as a result, disparities in salaries for officers in the same cadre were noted. Under the circumstances the validity and accuracy of employment cost of Kshs.36,185,675 for the year ended 30 June 2015 could not be confirmed.

3. Board's Emoluments

The statement of profit or loss and other comprehensive income reflects administrative cost of Kshs.42,853,175 which includes an amount of Kshs.3,065,100 paid as directors' emoluments under Note 7 out of which Kshs.2,064,000 was paid as sitting allowance. However, there was no attendance register to support the number of meetings held and the board members who attended the board meetings. Further, letters of appointment indicated that each

director was to be paid allowance of Kshs.11,000 per sitting. However, the board members were paid Kshs.20,000 per sitting and no explanation was provided for this anomaly. Under the circumstances it was not possible to confirm that Kshs.2,064,000 paid as sitting allowance for the year ended 30 June 2015 was appropriately applied.

4. Irregular Cash Payments

Records availed for audit review indicated that a total of Kshs.6,470,176 was withdrawn in form of cash. This amount was for procurement of items above Kshs.10,000 and was expended using petty cash vouchers and recorded in petty cashbook. These payments contravened the Public Procurement and Disposal Regulation, 2006 Section 26 clause 6(3) which requires that all low value procurement above Kshs.10,000 be made by cheque to prequalified suppliers. Consequently, the propriety of Kshs.6,470,176 drawn in cash for the year ended 30 June 2015 could not be confirmed.

5. Customer Deposits

The statement of financial position reflects an amount of Kshs.6,611,425 in respect of customer deposit. During the year, the Company received Kshs.1,338,000 in respect of customer deposits, however, no deposit register was availed for audit verification. Further, Kshs.6,067,939 was withdrawn from the customer deposit cashbook to expenditure account although the management indicated that the funds will be refunded, the cash had not been refunded as at 10 February 2016.

In absence of customer deposit register it was not possible to ascertain the correctness and completeness of Kshs.6,611,425 received as customers' deposit.

6. Trade and Other Receivables

As reported in the previous year, trade and other receivable balance of Kshs.112,362,471 as at 30 June 2015 reflects a figure of Kshs.67,376,047 in respect of a provision of bad and doubtful debts. The Company had a total of Kshs.178,679,005 owing from various trade debtors as at 30 June 2015 prior to this provision. However, there was no evidence that the management had made any effort to collect these long outstanding debts. Further, included in the trade and other receivable is Kshs.454,920 staff imprest and Kshs.263,793 staff debtors. These amounts have been outstanding for a very long time and the Company has made no effort to recover the same. Consequently, the recoverability of trade and other receivable balances of Kshs.112,362,471 as at 30 June 2015 could not be confirmed.

7. Trade and Other Payables

Included in trade and other payables of Kshs.129,794,463 is trade creditors of Kshs.92,136,720 out of which Kshs.5,000,000 is advance from Kwale County and Kshs.62,000,000 payable to Coast Water Board. However, there was no evidence or agreement to indicate the Company entered into an agreement with the County for the advance. Further, records held at Coast Water Services Board indicates that the Company owes the board Kshs.110,430,875 resulting to unreconciled balance of Kshs.48,430,875 which the Company has indicated as old balances inherited from Coast Water Board. There is no evidence to confirm this assertion. In addition, included in the trade and other payables are trade creditors totaling to Kshs.11,400,000 whose invoices, delivery notes and Local purchase orders were not availed for audit verification. Under the circumstances the accuracy and completeness of trade and other payables balance of Kshs.129,794,463 as at 30 June 2015 could not be confirmed.

8. Unremitted Statutory Deductions

As reported in the previous year, the trade and other payable balance of Kshs.129,794,463 as at 30 June 2015 includes an unremitted deduction amounting to Kshs.37,657,743 out of which Kshs.35,482,883 is in respect of Pay As You Earn. Kenya Revenue Authority (KRA) has instituted a recovery process for unpaid taxes and imposed a tax penalty of Kshs.14,805,454.

The amount which may be paid as penalty in the process constitutes a nugatory expenditure and no value for money.

Qualified Opinion

In my opinion, except for the effect of the matters described in the Basis for Qualified Opinion paragraph, the financial statements present fairly, in all material respects, the financial position of the Company as at 30 June 2015, and of its financial performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards and comply with both the Water Act, 2002 and the Companies Act, Cap.486 of the Laws of Kenya.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

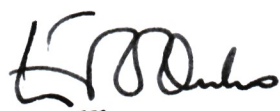
Emphasis of Matter

I draw your attention to the statement of profit or loss and other comprehensive income for the year ended 30 June 2015 indicated that the water company made a net loss of Kshs.10,034,934 resulting to accumulated deficit of Kshs.50,063,600 (2013/2014 – accumulated deficit; Kshs.40,028,666). In addition, the Company's current liabilities of Kshs.129,794,463 exceeded the current assets of Kshs.117,476,535 resulting to a negative working capital of Kshs.12,317,928, an indication that the company may not be able to settle its obligations as and when

they fall due. Therefore, the company's going concern is threatened and its continued existence depends on continued financial support from the creditors and bankers.

As required by the Companies Act, I report, based on my audit, that:-

- i. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.
- ii. In my opinion, proper books of account have been kept by the company, so far as appears from my examination of those books; and,
- iii. The Company's statement of financial position and comprehensive income are in agreement with the books of account.



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

Nairobi

04 April 2016

**STATEMENT OF PROFIT OR LOSS AND OTHER
COMPREHENSIVE INCOME FOR THE YEAR ENDED 30 JUNE
2015**

	NOTES	2014/2015 Kshs	2013/2014 Kshs
REVENUES	3	107,247,055	83,524,914
DIRECT COSTS	4	<u>(65,872,214)</u>	<u>(52,170,133)</u>
GROSS PROFIT		41,374,841	31,354,781
OTHER INCOME	5	27,629,074	35,732,595
EMPLOYMENT COSTS	6	(36,185,674)	(32,520,078)
ADMINISTRATIVE COSTS	7	(42,853,175)	(33,355,838)
PROFIT/LOSS BEFORE TAX		<u>(10,034,934)</u>	<u>1,211,460</u>
CORPORATE TAX 30%		-	363,438
PROFIT /LOSS AFTER TAX		<u><u>(10,034,934)</u></u>	<u><u>848,022</u></u>

**STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2015**

ASSETS		2014/2015	2013/2014
Non-Current Assets	NOTES	Kshs	Kshs
Property, Plant & Equipment	8	10,903,021	9,014,266
Current Assets			
Trade and Other Receivables	9	112,362,471	88,707,822
Cash and Bank	10	5,114,064	1,316,650
Total Current Assets		<u>117,476,535</u>	<u>90,024,472</u>
TOTAL ASSETS		<u><u>128,379,556</u></u>	<u><u>99,038,738</u></u>
EQUITY AND LIABILITIES			
Capital and Reserves			
Share Capital	11	2,000,000	5,000,000
Accumulated Revenue Reserves (Deficit)		(50,063,600)	(40,028,666)
Capital Reserve	12	<u>36,719,864</u>	<u>36,719,864</u>
Total Capital and Reserves		<u>(11,343,736)</u>	<u>1,691,198</u>
Non Current Liabilities			
Service gratuity	13	3,317,404	2,480,404
Customer Deposits	14	<u>6,611,425</u>	<u>5,273,325</u>
Total Non Current Liabilities		<u>9,928,829</u>	<u>7,753,729</u>
Total Current Liabilities			
Trade and Other Payables	15	<u>129,794,463</u>	<u>89,230,373</u>
Tax		<u>-</u>	<u>363,438</u>
TOTAL EQUITY AND LIABILITIES		<u><u>128,379,556</u></u>	<u><u>99,038,738</u></u>

The financial statements on pages 9 – 28 were approved by the Board on _____ 2016 and signed on its behalf by:



Francis Nzai Mjera
(Chairman)

DATE 16.3.16



Gunda Athman Chembea
(Managing Director)

DATE 15.3.16

**STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 JUNE 2015**

	Capital Reserve Kshs	Accumulated Revenue Reserve (Deficit) Kshs	Share Capital Kshs	Total Kshs
AS AT 01.07.2013	36,719,864	(40,876,688)	5,000,000	843,176
SURPLUS FOR THE YEAR	-	848,022	-	848,022
AS AT 30.06.2014	36,719,864	(40,028,666)	5,000,000	1,691,198
AS AT 01.07.2014	36,719,864	(40,028,666)	5,000,000	1,691,198
DEFICIT FOR THE YEAR	-	(10,034,934)	-	(10,034,934)
ADJUST UNPAID CAPITAL			(3,000,000)	(3,000,000)
AS AT 30.06.2015	36,719,864	(50,063,600)	2,000,000	(11,343,736)

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

	Capital Reserve Kshs	Accumulated Revenue Reserve (Deficit) Kshs	Share Capital Kshs	Total Kshs
AS AT 01.07.2012	36,719,864	(43,683,986)	5,000,000	(1,964,122)
DEFICIT FOR THE YEAR	-	2,807,298	-	2,807,298
AS AT 30.06.2013	36,719,864	(40,876,688)	5,000,000	843,176
AS AT 01.07.2013	36,719,864	(40,876,688)	5,000,000	843,176
SURPLUS FOR THE YEAR	-	848,022	-	848,022
AS AT 30.06.2014	36,719,864	(40,028,666)	5,000,000	1,691,198

KWALE WATER & SEWERAGE COMPANY LIMITED
REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2015

STATEMENT OF CASHFLOWS FOR THE YEAR ENDED 30 JUNE 2015

		2014/2015	2013/2014
		Kshs	Kshs
Profit / (Loss) before Tax		(10,034,934)	1,211,460
<u>Adjustment for items not involving Movement of cash</u>			
Depreciation	<u>8</u>	2,035,116	839,649
Cash flow from operations before Working Capital Changes		(7,999,818)	2,051,109
Changes in Working Capital			
Increase in Trade and Other Receivables	<u>9</u>	(23,654,649)	(18,763,508)
Increase in Customer Deposits	<u>14</u>	1,338,100	1,396,500
Increase in Trade and Other Payables	<u>15</u>	40,564,090	21,234,509
<u>Decrease in tax</u>		<u>(363,439)</u>	
Net Cash Flow from operations after Working Capital Changes		9,884,285	5,918,610
Cash flow from Investing Activities			
Property, Plant and Equipment Acquired	8	(3,923,871)	(6,518,000)
Net cash utilized from investing activities		<u>(3,923,871)</u>	<u>(6,518,000)</u>
Cash flow from Financing Activities			
Long term liabilities	13	837,000	(461,809)
Adjustment of unpaid share capital		(3,000,000)	
Net cash utilized from financing activities		(2,163,000)	(461,809)
Increase in Cash and Cash Equivalents		3,797,414	(1,061,199)
Cash and Cash Equivalents- At start of the year	10	1,316,650	2,377,849
Cash and Cash Equivalents- At end of the year		<u>5,114,064</u>	<u>1,316,650</u>

1 ACCOUNTING POLICIES

Statement of compliance

The financial statements are prepared in accordance with International Financial Reporting Standards (IFRS).

For the Kenyan Companies Act reporting purposes, in these financial statements the balance sheet is equivalent to the statement of financial position and the profit and loss account is included in the statement of profit or loss and other comprehensive income.

Adoption of new and revised International Financial Reporting Standards and Interpretations

(a) New standards and amendments to published standards effective for the year ended 31 December 2013

Amendments to IFRS 7 Disclosures - The amendments to IFRS 7 require entities to disclose information about rights of offset and related arrangements (such as collateral posting requirements) for financial instruments under an enforceable master netting agreement or similar arrangement.

Offsetting Financial Assets and Financial Liabilities - The application of the amendments had no effect on the company's financial statements as the company did not have any offsetting arrangements in place.

IFRS 13 Fair Value Measurement - The scope of IFRS 13 is broad; the fair value measurement requirements of IFRS 13 apply to both financial instrument items and non-financial instrument items for which other IFRSs require or permit fair value measurements and disclosures about fair value measurements, except for share-based payment transactions that are within the scope of IFRS 2 Share-based Payment, leasing transactions that are within the scope of IAS 17 Leases, and measurements that have some similarities to fair value but are not fair. IFRS 13 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions. Fair value under IFRS 13 is an exit price regardless of whether that price is directly observable or estimated using another valuation technique. Also, IFRS 13 includes extensive disclosure requirements.

KWALE WATER & SEWERAGE COMPANY LIMITED
REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2015

ACCOUNTING POLICIES (Continued)

Adoption of new and revised International Financial Reporting Standards and Interpretations (Continued)

(a) New standards and amendments to published standards effective for the year ended 30 June 2014 (Continued)

IFRS 13 Fair

Value

Measurement

(Continued)

IFRS 13 requires prospective application from 1 January 2013. In addition, specific transitional provisions were given to entities such that they need not apply the disclosure requirements set out in the Standard in comparative information provided for periods before the initial application of the Standard. In accordance with these transitional provisions, the Company has not made any new disclosures required by IFRS 13 for the 2012 comparative period

The company does not have any financial and non financial instruments carried at fair value, thus the application of IFRS 13 did not have any material impact on the amounts recognised in the financial statements

Amendments to IAS 1 Presentation of Items of Other Comprehensive Income to The Company has applied the amendments to IAS 1, Presentation of Items of Other Comprehensive Income, for the first time in the current year. The amendments introduce new terminology, whose use is not mandatory, for the statement of comprehensive income and income statement. Under the amendments to IAS 1, the 'statement of comprehensive income' is renamed as the 'statement of profit or loss and other comprehensive income' (and the 'income statement' is renamed as the 'statement of profit or loss'). The amendments to IAS 1 retain the option to present profit or loss and other comprehensive income in either a single statement or in two separate but consecutive statements. However, the amendments to IAS 1 require items of other comprehensive income to be grouped into two categories in the other comprehensive income section: (a) items that will not be reclassified subsequently to profit or loss and (b) items that may be reclassified subsequently to profit or loss when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the same basis - the amendments do not change the option to present items of other comprehensive income either before tax or net of tax.

The new terminologies have been adopted in these financial statements. The application of the other amendments to IAS 1 did not have any impact on profit or loss, other comprehensive income and total comprehensive income.

Amendments to The Annual Improvements to IFRSs 2009 - 2011 have made a number of amendments to IFRSs. The amendments that are relevant to the Company are the amendments to IAS 1 regarding when a statement of financial position as at the beginning of the preceding period (third statement of financial position) and the related notes are required to be presented. The amendments specify that a third statement of financial position is required when a) an entity applies an accounting policy retrospectively, or makes a retrospective restatement or reclassification of items in its financial statements, and b) the retrospective application, restatement or reclassification has a material effect on the information in the third statement of financial position. The amendments specify that related notes are not required to accompany the third statement of financial position.

This amendment did not have any impact on the company's financial statements as the company did not restate its prior period financial statements.

Adoption of new and revised International Financial Reporting Standards and Interpretations (Continued)

(b) New standards and amendments to published standards and interpretations in issue but not yet effective in the year ended 30 June 2014

	Effective for annual periods beginning on or after
<i>New standards and amendments to standards</i>	
IFRS 9	1 January 2018
Amendments to IAS 32	1 January 2014

(c) Impact of relevant new and amended standards and interpretations in issue but not yet effective on the financial statements for future annual periods.

IFRS 9 Financial Instruments

IFRS 9, issued in November 2009, introduced new requirements for the classification and measurement of financial assets. IFRS 9 was amended in October 2010 to include requirements for the classification and measurement of financial liabilities and for de-recognition.

Key requirements of IFRS 9:

- All recognised financial assets that are within the scope of IAS 39 Financial Instruments: Recognition and Measurement are required to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting periods. In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity

investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

- With regard to the measurement of financial liabilities designated as at fair value through profit or loss, IFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Under IAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss is presented in profit or loss.

The application of this standard is likely to have an impact on amounts reported in these financial statements. However it is not practicable to provide a reasonable estimate on the effects of IFRS 9 until a detailed review has been completed. Amendments to IAS 32 Offsetting Financial Assets and Financial Liabilities

The amendments to IAS 32 clarify the requirements relating to the offset of financial assets and financial liabilities. Specifically, the amendments clarify the meaning of 'currently has a legally enforceable right of set-off' and 'simultaneous realisation and settlement'.

The Directors of the company do not anticipate that the application of these amendments to IAS 32 will have a significant impact on the company's financial statements as the company does not have any financial assets and financial liabilities that qualify for offset

(d) Early adoption of standards

The company did not early-adopt any new or amended standards in 2015.

Basis of preparation

The financial statements are prepared in accordance with the International Financial Reporting Standards (IFRS) under the historical cost convention.

Revenue recognition

Revenue represents the invoiced value of water services rendered net of Value Added Tax (VAT), service charge and catering levy and discounts where applicable and is recognised upon the performance of services. Expenses are recognized when incurred.

Retirement benefit costs

The company contributes to the statutory National Social Security Fund. This is a defined contribution scheme registered under the National Social Security Fund Act. The company's obligations under the scheme are limited to specific contributions legislated from time to time and are currently at Kshs 200 per employee per month. The company's contributions to all staff retirement benefits schemes are charged to the profit or loss in the year to which they relate.

Service gratuity provision

Staffs are paid gratuity on the expiry of their employment contracts as stipulated in their appointment letters. The applicable rate is 31% and the cost charged to the statement of comprehensive income in the year to which they relate.

Taxation

Current taxation is provided on the basis of the results for the year as shown in the financial statements adjusted in accordance with tax legislation.

Taxation (Continued)

Deferred taxation is provided using the liability method, for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be generated against which the temporary differences can be utilised.

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and any accumulated impairment losses.

Depreciation

Depreciation on other items of property, plant and equipment is calculated on the straight line basis to write off the cost of the assets over their estimated useful lives at the following annual rates: -

Computers	30%
Motor cycles	12.5%
Furniture and fittings	12.5%
Machinery and Equipment	12.5 %

Impairment

At the end of each reporting period date, the company reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any).

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Impairment losses are recognised as an expense immediately.

Financial instruments

Financial assets and liabilities are recognised on the company's statement of financial position when the company has become a party to the contractual provisions of the instrument.

Trade receivables

Trade receivables are carried at anticipated realisable value. An estimate is made for doubtful receivables based on the review of all outstanding amounts at the year end. Bad debts are written off when all reasonable steps to recover them have failed.

Financial risk management

The board of directors in reducing the risk associated, established an audit committee which reports to the full board on quarterly basis on issues of compliance of the company with statutory bodies and as well as its ability in meeting its financial obligations. The audit committee is assisted in these functions by the County government audit staff who undertake regular controls and reviews on the procedures the results which are reported to the Audit committee.

Related party disclosures

(a) County Government of Kwale

The County Government of Kwale is the major shareholder of KWA W A S C O, holding 98% of the company equity interest. The County Government has provided grants to offset bulky electricity power bills and also granted 2 motor pumps to our pumping stations at Madabara.

(b) Coast Water Service Board

Coast Water Services board operates as a principle and Kwawasco as an agent as per the Service providers Agreement (SPA). The board sales bulky water to the company in order to sale to consumers. As at the end of the financial year the company had not yet paid the amount which was due to them.

Financial instruments

Trade payables

Trade payables are initially stated at their nominal value.

Cash and cash equivalents

For the purpose of the statement of cash flows, cash and cash equivalents comprise cash in hand, bank balances and short term deposits net of outstanding bank overdrafts. Short term deposits are liquid investments which are readily convertible into known amounts of cash and which were within three months of maturity when acquired.

2 CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the company's accounting policies, which are described in note 1, the directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

The key areas of judgment in applying the entities accounting policies are dealt with below:

Critical judgements in applying accounting policies

There are no critical judgments, apart from those involving estimations (see b below), that the directors have made in the process of applying the company's accounting policies and that have the most significant effect on the amounts recognised in financial statements.

(a) Key sources of estimation uncertainty

Impairment losses

At the end of each reporting period date, the company reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. Where it is not possible to estimate the recoverable amount of an individual asset, the company estimates the recoverable amount of the cash generating unit to which the asset belongs.

Property, plant and equipment

Critical estimates are made by the directors in determining depreciation rates for property, plant and equipment.

KWALE WATER & SEWERAGE COMPANY LIMITED
REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2015

NOTES TO THE FINANCIAL STATEMENTS

	2014/ 2015	2013/2014
3. WATER SALES	Ksh	Ksh
Minor	73,296,188	58,515,596
Major	<u>33,950,867</u>	<u>25,009,318</u>
	<u>107,247,055</u>	<u>83,524,914</u>

There was increase in revenue due to raise in volumes of water as a result of the completion of Vambeko line extra connections.

4 DIRECT COSTS:

Cost of bulky water	19,645,959	18,556,256
Cost of bulky electricity	35,501,550	33,613,877
CWSB/WASREB	<u>10,724,705</u>	
	<u>65,872,214</u>	<u>52,170,133</u>

The company buys bulky water from Coast Water Services Board at Ksh 20 per cubic meter, production and pumping of water is by use of large power supply in all the pumping stations, Kshs. 9,625, 235 and Ksh. 1,072,470 being CWSB administrative fee and WASREB levy respectively were charged in the financial year.

5 OTHER INCOME

Connection	1,292,050	1,966,783
Meter Rent	3,920,636	5,769,812
Sale of Tender	93,000	18,000
Grant –In – Aid	22,323,388	27,978,000
	<u>27,629,074</u>	<u>35,732,595</u>

Connections were high due to increase in water volumes experienced during this financial period and also the raise in client confidence in the company. Grants – the County Government of Kwale paid for the company electricity bills for its various pumping stations, this meant steady supply of power.

6 EMPLOYMENT COSTS

Salaries and wages for permanent employee	32,789,191	30,941,188
Casual Wages	2,318,483	1,411,090
NSSF contributions	241,000	167,800
Staff provision	837,000	-
	<u>36,185,674</u>	<u>32,520,078</u>

Gratuity – provision made for one and a half year contract extension of the former managing director.

KWALE WATER & SEWERAGE COMPANY LIMITED
REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2015

	2014/2015 Kshs	2013/2014 Kshs
7. ADMINISTRATION EXPENSES		
Directors' emoluments	3,065,100	1,572,800
Electricity for offices	98,450	89,341
Communication services and supplies	1,087,649	418,485
Transportation, travelling and subsistence	5,122,757	6,482,501
Advertising, Printing, Stationary and photocopying	973,178	1,547,510
Rent Expenses	94,000	944,000
Staff training and Seminars expenses	447,780	306,930
Hospitality supplies and services	250,496	868,951
Insurance costs	536,403	553,715
Bank charges and commissions	772,484	654,958
Office and general supplies and services	532,261	703,660
Fines and penalty- KRA	14,805,454	-
Auditors' remuneration	232,000	232,000
Legal fees	1,050,000	1,243,580
Consultancy fees	366,000	157,500
Repair and Maintenance	2,202,073	1,335,379
Other operating expenses	7,540,973	15,404,879
Depreciation charge	2,035,116	839,649
Provision for doubtful debts	1,641,000	-
	<u>42,853,175</u>	<u>33,355,838</u>

NOTE 8: PROPERTY, PLANT AND EQUIPMENT

	Motor cycles	Computers	Machinery & Equipment	Furniture and Fittings	Total
	KShs	KShs	KShs	KShs	KShs
	12.50%	30%	12.50%	12.50%	
Cost					
As at 01.07.2014	1,049,136	64,000	8,670,675	2,275,459	12,059,270
Additions	-	148,712	3,704,174	70,985	3,923,871
As at 30.06.2015	1,049,136	212,712	12,374,849	2,346,444	15,983,141
Depreciation					
As at 01.07.2014	262,284	57,600	820,194	1,904,926	3,045,004
Charge for the year	131,142	63,813	1,546,856	293,305	2,035,116
As at 30.06.2015	393,426	121,413	2,367,050	2,198,231	5,080,120
Net Book Value					
At 30.06.2015	655,710	91,299	10,007,799	148,213	10,903,021
At 30.06.2014	786,852	6,400.00	7,850,481	370,533	9,014,266

PROPERTY, PLANT AND EQUIPMENT 2013/2014

	Motor cycles	Computers	Machinery & Equipment	Furniture and Fittings	Total
	KShs	KShs	KShs	KShs	KShs
	12.50%	30%	12.50%	12.50%	
Cost					
As at 01.07.2013	1,049,136	64,000	2,152,675	2,275,459	5,541,270
Additions	-	-	6,518,000	-	6,518,000
As at 30.06.2014	1,049,136	64,000	8,670,675	2,275,459	12,059,270
Depreciation					
As at 01.07.2013	131,142	38,400	415,319	1,620,494	2,205,355
Charge for the year	131,142	19,200	404,875	284,432	839,649
As at 30.06.2014	262,284	57,600	820,194	1,904,926	3,045,004
Net Book Value					
At 30.06.2014	786,852	6,400	7,850,481	370,533	9,014,266
At 30.06.2013	917,994	25,600	1,737,356	654,965	3,335,915

KWALE WATER & SEWERAGE COMPANY LIMITED
REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2015

NOTES TO THE FINANCIAL STATEMENTS (Continued)

NOTE 9: TRADE AND OTHER RECEIVABLES	2014/2015	2013/2014
	Kshs	Kshs
Trade Receivables	178,679,005	150,366,828
Provision for doubtful debts	(67,376,047)	(65,735,047)
Shareholders Receivables	-	3,000,000
Prepayments	340,800	340,800
Staff Imprest	454,920	565,726
Staff Debtors	263,793	169,515
Total	112,362,471	88,707,822

NOTE: 10 CASH AND BANK

Cash at Bank	4,371,723	456,413
Cash In Hand	742,341	860,237
	5,114,064	1,316,650

KWALE WATER & SEWERAGE COMPANY LIMITED
REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2015

NOTES TO THE FINANCIAL STATEMENTS (Continued)

	2014/2015 Ksh	2013/2014 Ksh
11. SHARE CAPITAL		
Authorised, and Issued 5,000 Ordinary shares	5,000,000	5,000,000
2000 ordinary shares of Ksh 1000 each fully paid	2,000,000	2,000,000
12. CAPITAL RESERVE	2014/ 2015 Ksh	2013/ 2014 Ksh
Capital Reserve	36,719,864	36,719,864
Customer third party balances at takeover		
13. SERVICE GRATUITY	2014/ 2015 Ksh	2013/ 2014 Ksh
Opening balances	2,480,404	2,942,213
Movement	837,000	(461,809,)
Closing balance	3,317,404	2,480,404
14. CUSTOMER DEPOSIT	2014/ 2015 Ksh	2013/ 2014 Ksh
Customer deposit	6,611,425	5,273,325
Amount held by the company refundable at termination of contract		
15. TRADE AND OTHER PAYABLES	2014/ 2015 Ksh	2013/ 2014 Ksh
Trade Creditors	92,136,720	67,568,373
Accruals and Sundry	-	2,800,799
Other payables	37,657,743	18,861,201
Other payables	129,794,463	89,230,373
	2014/ 2015 Ksh	2013/2015 Ksh
Pan African & Madison Insurance	52,615	23,830
National Social Security Fund	74,250	26,945
NSSF Contribution	41,600	37,200
PAYE	35,482,883	16,911,253
CWSSWG	48,800	41,000
Pension	1,277,569	1,277,569
KUCFAW	34,050	21,060
Ukulima Sacco	645,976	522,344
	37,657,743	18,861,201