

REPUBLIC OF KENYA



KENYA NATIONAL AUDIT OFFICE

REPORT

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THE AUDITOR-GENERAL

ON

**THE FINANCIAL STATEMENTS OF
NAKURU RURAL WATER AND SANITATION
COMPANY LIMITED**

**FOR THE YEAR ENDED
30 JUNE 2014**



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NAKURU RURAL WATER AND SANITATION COMPANY LIMITED

P.O. BOX 386 – 20100

NAKURU, KENYA

STANLEY MATHENGE ROAD

Tel. +254 51 2 213 214, +254 721 344 898, +254 771 626 545

Email: nakurururalwater@gmail.com

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED

30TH JUNE, 2014

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

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KEY ENTITY INFORMATION

Background information:

NARUWASCO a wholly owned company by Nakuru County Government is an agent of Rift Valley Water Services Board (RVWSB) and responsible for provision of water and sanitation services within the rural part of Nakuru County covering an approximate service area of 7,406km². NARUWASCO assumed this responsibility with effect from 1st April 2007 after the signing of the Service Provision Agreement (SPA) between it and the RVWSB and subsequent approval by Water Services Regulatory Board (WASREB). The WSP is governed by a Board of Directors with the day to day management being undertaken by the Managing Director.

NARUWASCO is represented at the county government by the County Executive member (CEC) in charge of Water, environment and energy, who is responsible for the general policy and strategic direction of the company.

The total population within our service area is 511,586. However, we only provide water to an estimated population of 304,693. The rest are served by CBO's through community projects.

Principal Activities:

The principal activity of the company is water service provision within its area of jurisdiction.

Directors:

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

- | | | |
|-----|-----------------------|---------------------|
| 1. | Mr. Geoffrey Kahoro | - Chairman |
| 2. | Ms. Frida Mwangi | - Vice-Chair person |
| 3. | Mr. Stephen Ngeno | - Member |
| 4. | Mr. Kariuki Thiga | - Member |
| 5. | Dr. Nelson Maara | - Member |
| 6. | Mr. Kenneth Kamuren | - Member |
| 7. | Ms. Catherine Thumbi | - Member |
| 8. | Ms. Monicah Cherutich | - Member |
| 9. | Mr. Michael Karanja | - Member |
| 10. | Eng. Japheth Mutai | - Member |
| 11. | CPA. Reuben K Korir | - Managing Director |

Corporate Secretary:

Registered Office:

NARUWASCO Plaza
Stanley Mathenge Road off Nakuru - Eldoret Highway
NAKURU, KENYA

Corporate Headquarters:

NARUWASCO Plaza
Stanley Mathenge Road off Nakuru - Eldoret Highway
NAKURU, KENYA



**Annual Report and Financial Statements
For the year ended 30th June, 2014**

Corporate Contacts:

P O Box 386-20100,
NAKURU, KENYA
Telephone: (254) 51 2 213 214, 721 344 898, 771 626 545,
E-mail: nakurururalwater@gmail.com

Corporate Bankers:

Kenya Commercial Bank
Nakuru Branch
P.O. Box 18-20100,
NAKURU, KENYA

Independent Auditors:

Auditor General,
Kenya National Audit Office,
Anniversary Towers, University Way
P.O. Box 30084,
GOP 00100
NAIROBI, KENYA

Principal Legal Advisers

1. The Attorney General
State Law Office
Harambee Avenue
P.O. Box 40112
City Square 00200
Nairobi, Kenya
2. Githiru Advocates
Nakuru, Kenya



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THE BOARD OF DIRECTORS

Insert each Director's passport-size photo and name, and key profession/academic qualifications	Provide a concise description of each Director's date of birth, key qualifications and work experience
1. Mr. Geoffrey Kahoro	
2. Ms. Frida Mwangi	
3. Mr. Stephen Ngeno	
4. Mr. Kariuki Thiga	
5. Dr. Nelson Maara	
6. Eng. Japheth Mutai	
7. Mr. Kenneth Kamuren	
8. Ms. Catherine Thumbi	
9. Ms. Monicah Cherutich	
10. Mr. Michael Karanja	
11. CPA. Reuben K Korir	



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MANAGEMENT TEAM

Insert each key manager's passport-size photo and name, and key profession/academic qualifications	Indicate the main area of responsibility – without details
1. CPA. Reuben K Korir	Managing Director
2. Mr. Willy K Kamau	Technical Manager
3. CPA. Johnson Muraya	Commercial Manager
4. Ms. Selina Nkatha	Human Resource and Administration Manager
5. CPA. George K Keter	Internal Auditor
<i>Note: The CEO/MD and the Company Secretary will feature both under the 'Board' and 'Management'.</i>	



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For the year ended 30th June, 2014**

CHAIRMAN'S STATEMENT

It is my pleasure to present the Annual Report and Financial Statements of Nakuru Rural Water and Sanitation Company Limited (NARUWASCO) for the year ended 30th June, 2014.

The organization has continued to play its part in providing water services in accordance to the service provision agreements between itself and the license holder i.e. Rift Valley Water Services Board (RVWSB). The new constitution recognizes access to water as a basic human right to all citizens. The Board is aware that this presents a major challenge in effectively responding to our responsibilities.

In this regard, the Board has put in place measures to ensure that its strategic plans are aligned to this fact. In order to increase access to water services and reduce Non-Revenue Water (NRW), the company, in collaboration with Rift Valley Water Services Board, Nakuru County Government, development partners and other stakeholders have implemented various programs within its service area.

Mr. Geoffrey Kahoro
Chairman

Date: 30.09.2014.



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For the year ended 30th June, 2014**

REPORT OF THE CHIEF EXECUTIVE OFFICER/MANAGING DIRECTOR

NARUWASCO is wholly owned by Nakuru County Government and an agent of RVWSB responsible for provision of water and sanitation services within the rural part of Nakuru County, covering an approximate area of 7,406km². NARUWASCO assumed this responsibility with effect from 1st April 2007 after the signing of the Service Provision Agreement (SPA) between it and the RVWSB and subsequent approval by WASREB. The WSP is governed by a Board of Directors with the day to day management being undertaken by the Managing Director.

The total population within our service area is approximately 511,586. However, we only provide water to an estimated population of 304,693. The rest are served by CBO's through community projects.

Devolved system:

Constitution of Kenya 2010 classifies water as a human right. In addition, the fourth schedule of the same constitution sets out water provision as a devolved function of the county governments. In cognisance to this fact, the company together with other key partners has continued to put in place programs to ensure improvement of water service provision to its customers and the general citizenry of Nakuru County.

Coverage (Water Supply Schemes):

The Company operates ten (10) Water Supply schemes within its area of jurisdiction. The water supply covers the following areas: Njoro, Elburgon, Molo, Sachangw'an, Salгаа, Kampi ya Moto, Rongai, Mangu, Kirobon, Kiamunyi, Bahati, Subukia, Mbaruk and Gilgil town. Kuresoi is part of our service area although we do not run any water supply in the area.

Sources:

The company runs both gravity systems as well as pumping schemes mostly on the western side which includes a combination of both gravity and pumping with some schemes having double pumping systems. Only four water supply schemes are purely gravity systems (i.e. Bahati, Subukia, West Acre and Rongai South), the remaining six (6) schemes, are a combination of gravity and pumping schemes. The company spends almost 30% of revenue generated on power bills of pumping schemes.



**Annual Report and Financial Statements
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Most of the gravity systems are greatly affected during the rainy seasons due to the high turbidities experienced as a result of siltation from upstream due to high farming activities in the catchment areas; hence a lot of chemicals are required for treatment of the water to acceptable WHO standards.

Gravity Systems:

- i. Turasha/Gilgil –15,000M3/day
- ii. Rongai South – 1460 M3/day
- iii. Nguso Springs – 4600M3/day
- iv. Bahati Systems: estimated to be 1440m3/day.

Pumping Systems:

- i. Njoro B/holes, 4No, 252M3/day
- ii. Elburgon B/h, 3No, 576M3/day
- iii. Molo B/h 4No 750M3/day
- iv. Nguso Pumping, 800m3 /day three times a week to Molo.

A summary of water production from both gravity and pumping schemes of the company is given here-below:

Daily Production in all areas is approx.	24,000M ³
Monthly Production:	734,000M ³
Annual Production:	8,808,000m ³ .
Annual water sales:	3.3 million m ³ .
Annual NRW:	5.4 million m ³ .

Treatment Works:

The company operates two conventional water treatment systems i.e. Turasha and Rongai South while the others are partial treatment systems i.e. only Chlorination is done.

Storage:

The company has 40 No. storage reservoirs with capacity ranging from 3,000M³ to 10M³ across all the water supplies.

Distribution Systems:

Size of our pipeline distribution systems varies in sizes from 600mm (24 inches) to 25mm (1 inch) of different materials (GI, PVC, DI, AC).



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Chemical Usage:

Aluminium Sulphate:	21.5 Tones/month. Equivalent to Ksh 1 million
Chlorine:	1.3 Tones/month. Equivalent to Ksh 0.8 million
Soda Ash:	250kg/month. Equivalent to Ksh 0.1 million

Revenue, Billing and Expenditure:

The company has in place an old computerized billing system acquired in the late 1990s. The billing system is not compatible with the current technological advances in the area of IT i.e. payment solutions (mpesa, bank transfers), sms query and GIS etc. We are now in the process of acquiring new billing software.

Metering:

The metering level of the company stands at approx. 30%. We have put in place programs to ensure that we raise this ratio by approximately 10% points in the coming financial year.

Non-Revenue Water:

Currently, the non-revenue water stands at 65% on average. It is estimated that 20% and 80% of the current NRW % is technical and commercial respectively. During the year, we developed proposals related to reduction of NRW and presented to our development partners.

Staffing:

The Company is run by a management team called the Corporate Management Team (CMT) headed by the Managing Director. NARUWASCO has a staff establishment of 140 spread across all our 16 stations.

During the year under review, we completed development and approval of the Human Resources manuals. We expect to start implementation of the organisational structure proposals contained in the manuals during the coming financial year.



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Challenges:

Some of the challenges faced by the company include but not limited to:

- a) Old and poor reticulation system in most areas resulting in huge water losses due to frequent leakages and bursts, hence reducing revenue and coverage;
- b) Low metering ratio (currently at 30%), resulting in low revenues because majority of consumers are billed on either flat rate or average assessments which are not accurate.
- c) Lack of efficient transportation. The organization requires additional means of transport, mainly motor cycles so as to be able to work efficiently by reaching our customers on time and attending to other operational issues promptly,
- d) Lack of production and zone meters to aid in identification and management of None Revenue Water (NRW) and other losses,
- e) Low technical capacity of current staff on various skills required for efficient management of the utility company, among the skills required are commercial, project development, GIS, operational and consumer management skills,
- f) Obsolete billing software and hardware which is not compatible to current technological advances i.e. payment solutions (mpesa, bank transfers), sms query and billing etc,
- g) Poor energy efficiency due to aged pumping units with low efficiency
- h) Poor quality of water affecting meters due to lack of water treatment facilities in some stations,
- i) Silted dams (Turasha) and old dilapidated filter media at treatment works leading to high consumption of chemicals and low water quality



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For the year ended 30th June, 2014**

CORPORATE GOVERNANCE STATEMENT

The Board of Directors of the NARUWASCO has the responsibility of enhancing corporate governance practices to bring the level of governance in line with International Standards. The essence of good corporate governance practice is to promote and protect stakeholders' interests, among them are Nakuru County Government, RVWSB, WASREB, development Partners, Communities and water consumers.

The Board of Directors exercise leadership, enterprise, integrity and judgment in directing the company and acts in its best interest in a transparent, accountable and responsible way. To ensure the efficient running of the Board's operations, the company has established three standing Committees which meet and make recommendations to the full Board on issues delegated to them. We are in the process of developing a Charter for each committee to guide its operations. During the year under review the company had the following Committees in place;

1. Finance and General Purposes Committee
2. Technical Committee
3. Audit and Risk Management Committee

In order to ensure that the board expenses are within the approved budget for 2013/2014 and regulatory levels, a calendar of the Board meetings was developed and adhered to.

The Board of Directors are paid sitting allowance for every meeting attended as well as accommodation allowance while on Board duty as per Government and regulatory guidelines. The Chairman is paid a monthly honorarium.

Mr. Geoffrey Kahoro

Chairman

Date: 30.09.2014.



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For the year ended 30th June, 2014**

CORPORATE SOCIAL RESPONSIBILITY STATEMENT



**Annual Report and Financial Statements
For the year ended 30th June, 2014**

REPORT OF THE DIRECTORS

The Directors submit their report together with the audited financial statements for the year ended 30th June, 2014 which show the state of the company's affairs.

Principal activities

During the year under review, the company continued with its core mandate of water service provision.

Results

The results of the entity for the year ended June 30, 2013 are set out on page

Dividends

Subject to the approval of the shareholders, the Directors do not recommend the payment of dividends.

Directors

The members of the Board of Directors who served during the year are shown on page 4 (four) above.

Auditors

The Auditor General is responsible for the statutory audit of the company in accordance with the provisions of the Public Audit Act 2003 and the Public Finance Management (PFM) Act, 2012.



Annual Report and Financial Statements
For the year ended 30th June, 2014

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Directors are responsible for the preparation and presentation of the company's financial statements, which give a true and fair view of the state of affairs of the company for and as at the end of the financial year (period) on 30th June, 2014.

This responsibility includes:


- i. maintaining adequate financial management arrangements and ensuring that these continue to be effective throughout the reporting period;
- ii. maintaining proper accounting records, which disclose with reasonable accuracy at any time the financial position of the entity;
- iii. designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of the financial statements, and ensuring that they are free from material misstatements, whether due to error or fraud;
- iv. safeguarding the assets of the *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 company's financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity with International Financial Reporting Standards (IFRS), and in the manner required by the PFM Act and the State Corporations Act. The Directors are of the opinion that the company's financial statements give a true and fair view of the state of company's transactions during the financial year ended 30th June, 2014, and of the company's financial position as at that date. The Directors further confirm the completeness of the accounting records maintained for the company, which have been relied upon in the preparation of the company's financial statements as well as the adequacy of the systems of internal financial control.

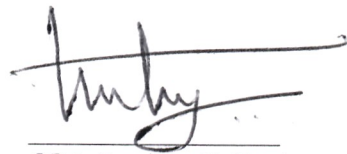
Nothing has come to the attention of the Directors to indicate that the company will not remain a going concern for at least the next twelve months from the date of this statement.

Approval of the Financial Statements

The company's financial statements in pages 24 to 33 were approved by the Board on 23rd September, 2014 and signed on its behalf by:


Mr. Geoffrey Kahoro
Chairman

Date: 30.09.2014.


CPA Reuben K Korir
Managing Director
Date: 30/9/2014

REPUBLIC OF KENYA

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



P.O. Box 30084-00100
NAIROBI

OFFICE OF THE AUDITOR-GENERAL

REPORT OF THE AUDITOR-GENERAL ON NAKURU RURAL WATER AND SANITATION COMPANY LIMITED FOR THE YEAR ENDED 30 JUNE 2014

REPORT ON THE FINANCIAL STATEMENTS

I have audited the accompanying financial statements of the Nakuru Rural Water and Sanitation Company Limited set out on pages 24 and 33, which comprise the statement of financial position as at 30 June 2014, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 14 of the Public Audit Act, 2003.

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 the directors determine necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The management is also responsible for the submission of the financial statements to the Auditor-General in accordance with the provisions of Section 13 of the Public Audit Act, 2003.

Auditor-General's Responsibility

My responsibility is to express an opinion on these financial statements based on the audit and report in accordance with the provisions of Section 15 (2) of the Public Audit Act, 2003 and submit the report in compliance with article 229 (7) of the Constitution of Kenya. The audit was conducted in accordance with International Standards on Auditing. Those standards require compliance with ethical requirements and that the audit be planned and performed to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Basis for Disclaimer of Opinion

1. Non-Current Assets

The statement of financial position as at 30 June 2014 reflects non-current assets balance of Kshs.20,620,858. However, the Company did not maintain fixed assets register to record the cost or valuation, accumulated depreciation and location of assets. Consequently, the carrying value and completeness of the non-current assets balance of Kshs.20,620,858 as at 30 June 2014 could not be confirmed.

In addition, Note 4 to the financial statement reflects computer and equipment depreciation charge for the year of Kshs.98,402. However, recomputation of this charge using the straight line policy at the rate of thirty (30%) percent results to a figure of Kshs.657,363. The depreciation for the year has therefore not been correctly stated. In the circumstance, the accuracy of the statements of cash flow and the carrying values of the net non current assets as at 30 June 2014 could not be confirmed.

2. Debtors

As previously reported, the debtors balance of Kshs.281,095,471 as at 30 June 2014 includes an amount of Kshs.167,206,140 or 59% of total debtors which has remained outstanding from the Director of Water of the then Ministry of Water since the Company's inception in 2006. The recoverability of this debt is doubtful. In addition, no schedule of debtors confirming the names of persons, entities and a break down from each individual person. Therefore, the accuracy and full recoverability of the debtor's balance of Kshs.281,095,471 as at 30 June 2014 could not be confirmed.

3. Creditors

The creditors balance of Kshs.248,807,367 as at 30 June 2014 includes amount owed to Rift Valley Water Services Board amounting to Kshs.153,680,891 in respect of an agency account. However, no reconciliation has been made available to confirm whether the balance agrees with the books of the Board for this agency account. In the circumstance, the accuracy of the creditor's balance of Kshs.248,807,367 could not be confirmed.

4. Customer Deposit

The statement of financial position as at 30 June 2014 reflects customer deposits of Kshs.23,039,384 which has not been supported by a listing indicating the persons and entities that paid the deposit, bank reconciliation statement and a bank certificate to confirm existence of the amount of Kshs.23,039,384. In the circumstance, the accuracy of the customer deposit balance of Kshs.23,039,384 could not be confirmed.

5. Unsupported Expenditure

The statement of comprehensive income for the year ended 30 June 2014 reflects expenditure in respect of supply for production of Kshs.13,956,685. However, the Company did not provide supporting documents including goods received notes, purchase

invoices, stores requisition vouchers and store ledger cards in respect of expenditure amounting to Kshs.1,627,731 for audit verification. Consequently, the propriety of the expenditure as at 30 June 2014 could not be confirmed.

6. Unaccounted for Water

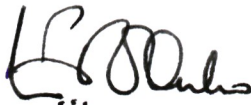
During the year under review, the Company produced 8,368,557 cubic meters (m³) of water. However, only 3,017,802 m³ was billed to customers. The balance of 5,350,755 m³ or approximately 64% of the total volume represented unaccounted for water (UFW). This quantity is 37% above the allowable loss of 25% by the Water Services Regulatory Board guidelines. The UFW may have resulted in a loss of sales estimated at Kshs.140,457,319 at the M3 rate of Kshs.35 billing. The significant level of UFW has negatively impacted on the Company's profitability and long run sustainability.

Sustainability

During the year under review, the Company recorded a loss of Kshs.21,947,641 which increased its accumulated loss to negative Kshs.261,570,045 as at 30 June 2014 from negative Kshs.194,622,404 as at 30 June 2013. In addition, the Company was not able to remit statutory deduction of Pay As You Earn (PAYE) and other deductions of Kshs.25,667,349 and Kshs.30,742,989 respectively. In addition, the company is operating with negative working capital considering huge doubtful debts from Ministry of Water. It is evident that the company's performance is dismal and is also experiencing difficulties in settling its obligations as and when they fall due. However, the financial statements have been prepared on a going concern basis, on the assumption that the company will continue to receive support from the Government and creditors.

Disclaimer of Opinion

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



Edward R.O. Ouko, CBS
AUDITOR-GENERAL

Nairobi

21 September 2015



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For the year ended 30th June, 2014

STATEMENT OF COMPREHENSIVE INCOME

	NOTES	2013/2014	2012/2013
INCOME		Ksh	Ksh
Revenue	2	<u>154,171,203</u>	<u>159,833,893</u>
COST OF PRODUCTION			
Electricity-Production		17,131,893	11,376,039
Supply for Production		13,956,685	11,291,235
Total cost of Production		31,088,579	22,667,274
Gross Revenue		123,082,624	137,166,619
EXPENDITURE			
Administrative Costs	3	81,162,011	90,261,578
Bank Charges		373,926	608,252
Contracted Professional Services		3,351,491	4,889,601
Hire of Transport, Plant & Machinery		51,628	128,200
Training Expenses		223,390	352,000
Lease and License fees		44,293,062	44,877,903
Water user fees		4,184,274	4,259,003
Honoraria		514,284	424,285
Repairs and Maintenance		8,290,316	11,941,874
Board Expenses		1,452,750	1,609,960
Depreciation		1,070,097	1,089,783
Water Quality Tests		-	44,097
Audit Fees		<u>348,000</u>	<u>348,000</u>
TOTAL EXPENDITURE		<u>145,315,229</u>	<u>160,834,537</u>
(DEFICIT)		(22,232,604)	(23,667,918)



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STATEMENT OF FINANCIAL POSITION

ASSETS	Notes	2013/2014 Ksh	2012/2013 Ksh
Non Current Assets			
Total Non Current Assets	4	<u>21,710,641</u>	<u>21,125,680</u>
Current Assets			
Debtors	5	281,095,471	274,948,492
Deposits	6	1,032,000	1,032,000
Cash and Cash Equivalents	8	<u>539,103</u>	<u>1,462,547</u>
Total Current Assets		<u>282,666,574</u>	<u>277,443,039</u>
Less:			
Current Liabilities			
Creditors	12	247,597,840	214,101,713
Consumer Deposits	13	23,039,384	20,683,836
Accruals (Provision for Audit Fees)		948,000	600,000
Loan	17	625,800	625,800
Overdraft (KCB)		<u>864,629</u>	<u>9,023,204</u>
Total Current Liabilities		<u>273,075,653</u>	<u>245,034,553</u>
Working Capital		<u>9,590,921</u>	<u>32,408,486</u>
Net Working Capital		<u>31,301,562</u>	<u>53,534,166</u>
EQUITY AND LIABILITIES			
Capital			
Share capital	9	500,000	500,000
Capital Reserve		231,240,256	231,240,256
Revenue Reserve	10	(216,855,008)	(194,622,404)
WSTF Fund	11	16,416,314	16,416,314
Capital Employed		<u>31,301,562</u>	<u>53,534,166</u>

.....
Mr. Geoffrey Kahoro
CHAIRMAN

30.09.2014.
Date

.....
CPA Reuben K Korir
MANAGING DIRECTOR

30/9/2014
Date



Annual Report and Financial Statements
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STATEMENT OF CHANGES IN EQUITY

	Share Capital Ksh	Capital Reserve Ksh	Revenue Reserves Ksh	WSTF Grant Ksh	Total Ksh
As at 30 June 2013	500 000	231,240,256	(194,622,404)	16,416,314	53,534,166
As at 1st July 2013	500 000	231,240,256	(194,622,404)	16,416,314	53,534,166
Loss for the Year			(22, 232,604)		(22,232,604)
As at 30 June 2014	500 000	231,240,256	(216,855,008)	16,416,314	31,301,562



Annual Report and Financial Statements
For the year ended 30th June, 2014

STATEMENT OF CASH FLOWS

OPERATING ACTIVITIES	NOTES	2013/2014	2012/2013
		Ksh	Ksh
Cash generated from operations		(22,232,604)	(23,667,918)
Add: Depreciation		1,070,097	1,089,783
Decrease/ (Increase) in debtors		(6,146,979)	(5,280,549)
Decrease/ (Increase) in Prepayments		-	421,823
Increase in creditors		34,253,233	21,069,791
Increase in consumer deposits (payable)		2,355,548	1,261,989
Increase in Accruals		348,000	300,000
NET CASH FLOW FROM OPERATING ACTIVITIES		<u>9,647,295</u>	<u>(4,805,081)</u>
INVESTING ACTIVITIES			
Fixed assets acquired		(565,276)	(7,910,245)
NET CASH FLOW FROM INVESTING ACTIVITIES		<u>(565,276)</u>	<u>(7,910,245)</u>
FINANCING ACTIVITIES			
Increase in overdraft		(8,158,575)	(4,496,293)
WSTF FUND		-	2,922,653
NET CASH FLOW FROM FINANCING ACTIVITIES		<u>(8,158,575)</u>	<u>(7,418,946)</u>
MOVEMENT IN CASH AND CASH EQUIVALENTS			
Cash and cash equivalents brought forward		1,462,547	6,758,927
Increase (decrease) in cash and cash equivalents for the year		(923,444)	(5,296,380)
ACTUAL BALANCE		<u>539,103</u>	<u>1,462,547</u>



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Plant and machinery	12.5 years
Motor vehicles, including motor cycles	4 years
Computers and related equipment	3 years
Office equipment, furniture and fittings	12.5 years

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

5 Depreciation and impairment of property, plant and equipment (Continued)

Items of property, plant and equipment are reviewed annually for impairment. Where the carrying amount of an asset is assessed as greater than its estimated recoverable amount, an impairment loss is recognised so that the asset is written down immediately to its estimated recoverable amount.

6. Intangible assets

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

7. Amortisation and impairment of intangible assets

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

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

8. Finance and operating leases

Leases which confer substantially all the risks and rewards of ownership to the company are classified as finance leases. Upon initial recognition, the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments, and the asset is subsequently accounted for in accordance with the accounting policy applicable to that asset.

All other leases are treated as operating leases and the leased assets are recognised in the statement of financial position to the extent of prepaid lease rentals at the end of the year. Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense over the term of the lease.

9. Inventories

Inventories are stated at the lower of cost and net realisable value. The cost of inventories comprises purchase price, import duties, transportation and handling charges, and is determined on the moving average price method.

10. Trade and other receivables

Trade and other receivables are recognised at fair values less allowances for any uncollectible amounts. These are assessed for impairment on a continuing basis. An estimate is made of



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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.

11. Taxation

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the tax authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantially enacted as at the reporting date. Current income tax relating to items recognised directly in equity is recognised in equity and not in the income statement.

Deferred income tax is provided using the liability method on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

12. Cash and Cash Equivalents

Cash and cash equivalents comprise cash on hand and cash at bank, short-term deposits on call and highly liquid investments with an original maturity of three months or less, which are readily convertible to known amounts of cash and are subject to insignificant risk of changes in value. Bank account balances include amounts held at Kenya commercial bank at the end of the financial year. For the purposes of these financial statements, cash and cash equivalents also include short term cash imprests and advances to authorised officers and/or institutions which were not surrendered or accounted for at the end of the financial year.

13. Trade and other payables

Trade and other payables are non-interest bearing and are carried at amortised cost, which is measured at the fair value of contractual value of the consideration to be paid in future in respect of goods and services supplied, whether billed to the company or not, less any payments made to the suppliers.

14. Retirement benefit obligations

The entity operates a defined contribution scheme for all full-time employees. The scheme is administered by an appointed 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.

15. Provision for staff leave pay

Employees' entitlements to annual leave are recognised as they accrue at the employees. At provision is made for the estimated liability for annual leave at the reporting date.

16. Comparative figures

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

17. 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 30th June, 2014.



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NOTES TO THE FINANCIAL STATEMENTS

	2013/2014	2012/2013
	Ksh	Ksh
1. Revenue		
Water Bills	151,775,240	153,965,503
Other Income (Miscellaneous collection)	2,395,963	1,764,862
Subsidies- Chemicals		<u>4,103,528</u>
	<u>154,171,203</u>	<u>159,833,893</u>
2. Administration Costs		
Official Entertainment	249,410	745,450
Gratuity and Pension	4,422,272	4,386,716
Electricity and Water	368,644	396,768
Telephone Expenses	1,054,445	1,636,793
Internet Connections	299,472	252,000
Postal and Courier Services	34,820	41,090
Traveling and Accommodation	6,196,462	9,396,297
Publishing and Printing Services	327,197	658,997
Subscription to Newspapers	50,140	129,131
Advertisement and Publicity	303,585	144,941
Rent and Rates	603,000	591,000
Personal Emoluments	62,524,960	66,684,200
Staff Welfare	261,304	393,149
Insurance	5,485	158,028
Supply of Uniforms	152,600	95,030
General Office Supplies	1,047,269	1,655,210
Computer Stationery and accessories	288,484	323,835
Trade Show & Exhibitions	6,000	20,800
Miscellaneous & Other Charges	105,992	120,415
Transport and Operating Expenses	2,663,349	2,253,474
Refund of medical expenses	197,121	<u>178,255</u>
	<u>81,162,010</u>	<u>90,261,578</u>

3. FIXED ASSETS MOVEMENT SCHEDULE

	FURNITURE & FITTING 12.5%	PROPERTY, PLANT & EQUIPMENT 12.5%	MOTOR CYCLES 25%	COMPUTER & EQUIPMENT 30%	WORK IN PROGRESS	TOTALS
	Ksh	Ksh	Ksh	Ksh	Ksh	Ksh
COST						
As at 1 July 2013	960,500	5,408,288	434,000	2,162,711	16,438,835	25,404,334
Additions	49,900	486,876	-	28,500		565,276
	<u>1,010,400</u>	<u>5,895,164</u>	<u>434,000</u>	<u>2,191,211</u>	<u>16,438,835</u>	<u>25,969,610</u>
LESS DEPRECIATION						
As at 1 July 2013	308,697	1,146,455	217,000	1,516,720		3,188,872
During the year	126,300	736,896	108,500	98,402		1,070,097
	<u>434,997</u>	<u>1,883,351</u>	<u>325,500</u>	<u>1,615,122</u>		<u>4,258,969</u>
NBV AS AT 30 JUNE 2014	<u>575,403</u>	<u>4,011,814</u>	<u>108,500</u>	<u>576,090</u>	<u>16,438,835</u>	<u>21,710,641</u>



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4. Debtors	2013/2014	2012/2013
	Ksh	Ksh
Director of Water	167,206,140	167,206,140
DOD	7,904,150	12,565,800
GOK Institutions	1,514,271	1,762,999
NAWASCO	22,158,527	16,346,210
Other Trade Debtors	<u>69,190,567</u>	<u>63,945,528</u>
	267,973,656	261,826,677
Water deposits held by Rift Valley Water Services	<u>13,121,815</u>	<u>13,121,815</u>
	<u>281,095,471</u>	<u>274,948,492</u>
6. Deposits	2013/2014	2012/2013
	Ksh	Ksh
Electricity	<u>1,032,000</u>	<u>1,032,000</u>
	<u>1,032,000</u>	<u>1,032,000</u>
7. Prepayments		
Rent	-	-
Electricity	-	-
Insurance	-	-
8. Cash and cash equivalents	2013/2014	2012/2013
	Ksh	Ksh
Cash in hand	-	-
KCB Deposit account	414,052	324,987
KCB Revenue Account	125,051	314,428
KCB Contingency Account		823,132
	<u>539,103</u>	<u>1,462,547</u>
9. Share capital	2013/2014	2012/2013
	Ksh	Ksh
Authorised		
5,000 ordinary shares of Ksh 100 each	500,000	500,000
Issued and fully paid Up	500,000	500,000
10. Revenue Reserve		
This item is made up of the following:		
Balance b/f (Capital Reserves)	(194,622,404)	(170,954,486)
Revenue Reserves	<u>(22,232,604)</u>	<u>(23,667,918)</u>
	<u>(216,855,008)</u>	<u>(194,622,404)</u>
11. WSTF GRANTS	2013-2014	2012-2013
Balance Brought Forward	16,416,314	13,493,661
Grants Received	<u>0</u>	<u>2,922,653</u>
Totals	<u>16,416,314</u>	<u>16,416,314</u>



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12. Creditors		
Trade Creditors	14,181,082	12,899,603
Statutory and other deductions	55,203,258	53,656,843
Kenya Power & Lighting Co. Ltd	8,573,580	3,819,652
WASREB	2,167,789	1,968,377
WARMA	13,791,239	10,788,578
Rift Valley Water Serv. Board	<u>153,680,891</u>	<u>131,968,660</u>
	<u>247,597,840</u>	<u>214,101,713</u>

13. **Consumer deposits** 23,039,384 20,683,836

14. Currency

The reporting is in Kenya Shillings

15. Comparison

The financial statements for the period ending June 30, 2014 have been compared to those of 12 months ending June 30, 2013

16. Fixed assets

Fixed assets held by Rift Valley Water Services Board on behalf of the government are not included in these accounts. The valuation of the said assets is also unknown.

17. Loan

Nakuru County Council had advanced Nakuru Rural Water and Sanitation Company Ksh, 1,125,800 towards formation costs. Out of these amount of Ksh 500,000 was capitalised.

18. Income tax expense

There is no provision for tax payable as the company incurred a net loss for the year.

19. Retirement benefits

NARUWASCO Staff other than members of CMT belong to a pension scheme with 7.5% individual contribution and 15% employer contribution. CMT members are on 3 year contracts and are paid 31% gratuity annually