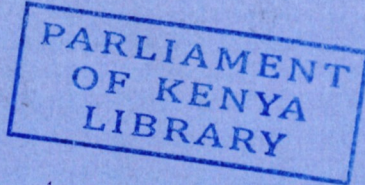


REPUBLIC OF KENYA



OFFICE OF THE AUDITOR-GENERAL



REPORT

OF

THE AUDITOR-GENERAL

ON

**THE FINANCIAL STATEMENTS OF
AMATSI WATER SERVICES COMPANY
LIMITED**

**FOR THE YEAR ENDED
30 JUNE 2015**

AMATSI WATER SERVICES COMPANY LIMITED

P.O. BOX 740 – 50300

MARAGOLI



TEL: +254 (0728- 811-523)

EMAIL: amatsiwaterco@gmail.com

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



2015

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REPUBLIC OF KENYA

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P.O. Box 30084-00100
NAIROBI

OFFICE OF THE AUDITOR-GENERAL

REPORT OF THE AUDITOR-GENERAL ON AMATSI WATER SERVICES COMPANY LIMITED FOR THE YEAR ENDED 30 JUNE 2015

REPORT ON THE FINANCIAL STATEMENTS

I have audited the accompanying financial statements of Amatsi Water Services Company Limited set out on pages 1 to 11, which comprise the statement of financial position as at 30 June 2015, and the statement of comprehensive income, statement of accumulated funds 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 8 of the Public Audit Act, 2003.

Management's Responsibility for the Financial Statements

The Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and for such internal control as management determines is necessary to enable 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 7 of the Public Audit Act, 2003.

Auditors-General's Responsibility

My responsibility is to express an opinion on the financial statements based on the audit and report 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. The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). Those standards require compliance with ethical requirements and that the audit be planned and performed to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

purpose of expressing an opinion on the effectiveness of the Company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the management, as well as evaluating the overall presentation of the financial statements.

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

Basis for Disclaimer of Opinion

1. Late Submission of Financial Statements

The Public Audit Act 2003 and the Public Finance Management Act, 2012 requires every state corporation to prepare and submit its accounts to the Auditor-General within three months after the end of each financial year to which the accounts relate. The financial statements of the company for the year ended 30 June 2015 were submitted on 25 January 2016, four months after the statutory deadline of 30 September 2015. The Company therefore breached the law and no proper explanation was given for the late submission of the financial statements.

2. Accuracy and Completeness of the Financial Statements

The closing balances of 2013/2014 were not correctly brought forward to 2014/2015 financial statements resulting to a difference of Kshs.8,000,225. Further, the financial statements presented for audit did not conform to the approved and adopted format by the Public Sector Accounting Standards Board as the details of the share premium, bad debt and revenue reserves of Kshs.29,400.00, Kshs.5,190,137.00 and Kshs.23,400,327.00 (for notes 12 to 14) respectively were not provided for audit review.

In addition, the financial statements balances were not supported by properly maintained primary records of accounts such as Cash book, Ledgers and Trial balances which were not prepared and availed for audit verification. Most processed payment vouchers and invoices were not well serialized and itemized hence difficult to vouch. Consequently, various balances audited in the financials statement could not be verified and confirmed as detailed below:-

Item	Amount (Kshs)
Administration and establishment expenses	16,428,546.00
Government Grants-Salaries of seconded staff, materials from the ministry and electricity	13,034,070.00
Trade and other payables balance	22,378,000.00
Trade and other receivable balances	46,824,890.00
Inventory	3,502,400.00
Cash and bank balance	771,174.00

Furthermore, the excess of income over expenditure figure of shs.14,860,695 in the statement of comprehensive income differed with the statement of changes in equity balance of Kshs.11,083,907 resulting in an unexplained variance of Kshs.3,776,588.00.

Bank reconciliation statements were not availed for audit verification to support the cash and bank balances. Further, the cash and cash equivalents balance of Kshs.771,174 differs with Kshs.836,679 in the statement of cash flow. In view of the foregoing, the accuracy and completeness of the financial statements for the year ended 30 June 2015 could not be confirmed.

3. Share Capital

The Company's share capital of Kshs.100,000.00 comprising of 5,000 shares of Kshs.20 each issued to the Defunct County Council of Vihiga (1,668), Municipal Council of Vihiga (1,666), and Town Council of Luanda (1,666) has not been paid for as at 30 June 2015. However, under the new dispensation of the constitution, the company was acquired by the County Government of Vihiga and a new shareholding structure has not been updated to reflect the change of ownership. Under the circumstances, it has not been possible to confirm whether or not the company meet its objective as outlined in the Memorandum and Articles of Association.

4. Outstanding Audit Fees

Note 10 reflects Trade and other Payables balance of kshs.22,378,600.00 as at 30 June 2015 including audit fees amounting to Kshs.1,198,000.00 which have remained outstanding for 8 years. The company is therefore in breach of Section 19(1) of the Public Audit Act, 2003 which requires all State Corporations to pay for the costs of the audit services.

5. Service Sustainability

The certificate of operation for the company under the Service Provision Agreement with Lake Victoria North Water Services Board approved on 26 June 2012 expired on 25 June 2015 and had not been renewed as at the time of the audit. Therefore, the company is operating in contravention with the Water Act. In the circumstances, the sustainability of services by the company is doubtful.

6. Contingent Liability

A Contingent liability of Kshs. 2,219,878.00 from an industrial court award was not recognized nor disclosed in the Financial Statements. As a result, the financial statement are misleading to the users.

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.

Other Matter

Weakness in Internal Control Systems

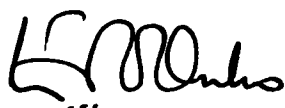
The Company operated without a full-fledged internal audit department. There were no policy and strategic plan, on Information Technology, the management lacked steering and strategic committee in place. The control environment was therefore weak and not in compliance with the Public Finance Management Act 2012.

My opinion is not qualified in respect of this matter.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

As required by the Kenyan Companies Act, I report based on the audit, that;

1. I have not obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit,
2. In my opinion, proper books of account have not been kept by the Company, so far as appears from my examination of those books, and
3. The Company's statement of financial position and statement of comprehensive income are not in agreement with the books of accounts.



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

Nairobi

29 July 2016

Amatsi Water Services Company Annual Report &

Financial statement for the year ended 30th June 2015

PRINCIPAL ACTIVITY

The principal activity of the company is to provide water services as licensed under the water Act.

REGISTERED OFFICE

Maji house

Opposite Vihiga District Hospital

P.O. Box 740 – 50300

MARAGOLI

BANKERS

Kenya Commercial Bank

Mbale Branch

P.O. Box 1123 -50300

MARAGOLI

Barclays Bank

Mbale Branch

P.O. Box 285 – 50300

MARAGOLI

AUDITORS

Kenya National Audit Office

Anniversary Towers – Nairobi

P.O. Box 30084 – 00100

NAIROBI

Tel no. 020-2227383

Kenya National Audit Office will continue to audit the company in accordance with the provisions of article 229 of constitution of Kenya

AMATSI WATER SERVICES COMPANY LIMITED

Financial Statements for the Year Ended 30th June 2015

DIRECTORS

Rev. Peter Adolwa	Chairman Appointed in July 2014
Mrs. A. Grace Idala	Director Appointed in July 2014
Mr. Luke A. Andeka	Director Appointed in July 2014
Mr. Isaiah Arula	Director Appointed in July 2014
Mr. Boaz M. Amuhaya	Director Appointed in July 2014
Chief Officer County Treasury Vihiga County	Director Appointed in July 2014. Representing Vihiga County
Chief Officer Ministry Of Environment, Natural Resources, Water & Forestry Vihiga County	Director Appointed in July 2014 Representing Vihiga County

KEY MANAGEMENT STAFF

Mr. Naftali Agalomba	Managing Director
Mr. Julias Kebohere	Ag. Technical Manager
Mr. Herbert Mutiva	Ag. Commercial Manager
Mr. Protus Wasike	Procurement Officer



AMATSI WATER SERVICES COMPANY LIMITED.

FINANCIAL STATEMENT FOR THE YEAR ENDED 30TH JUNE 2015

STATEMENT OF DIRECTORS RESPONSIBILITIES

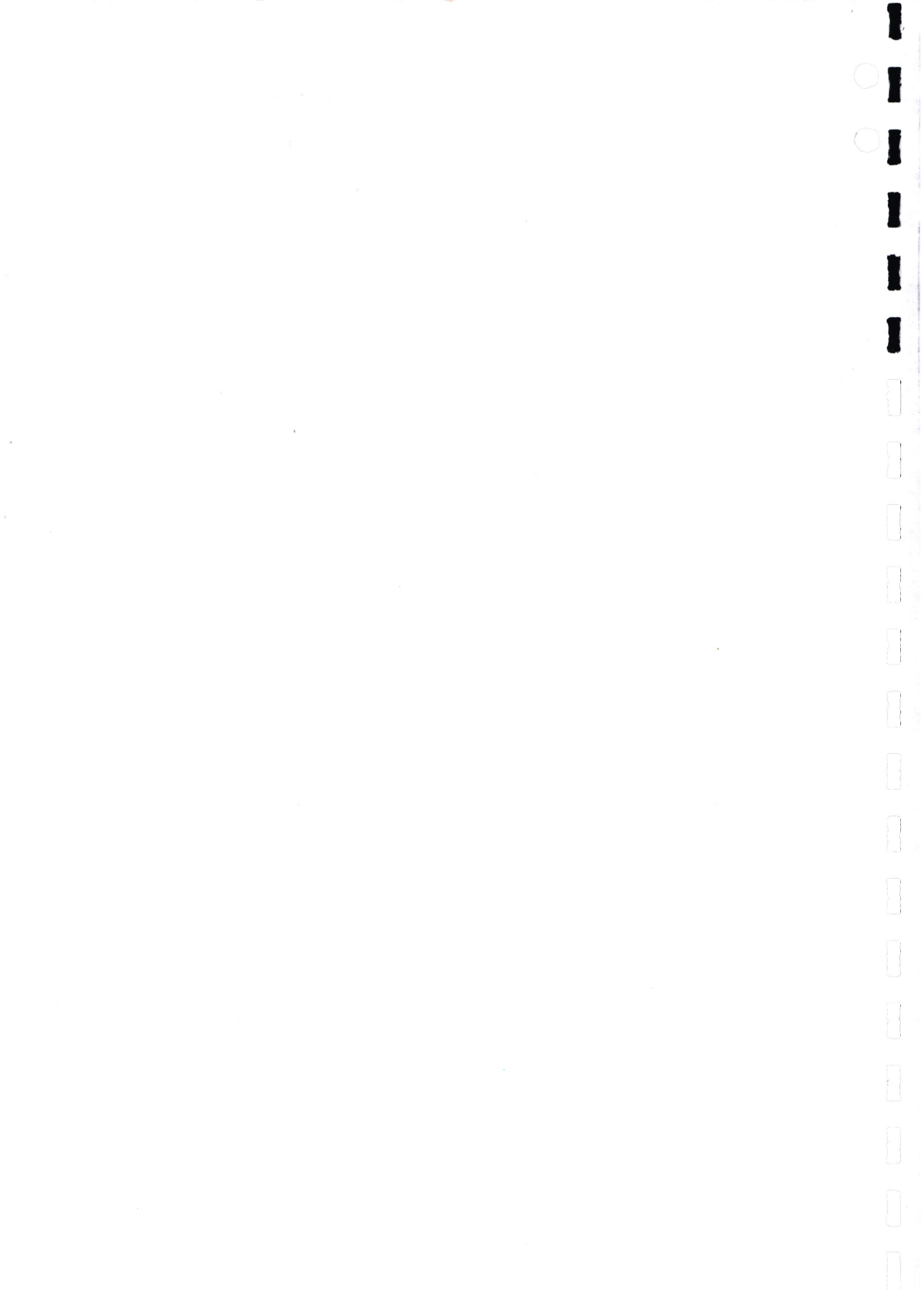
The Kenya companies Act requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company as at the end of the financial year and of the operating results of the company for that year. It also requires the directors to 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 and fair presentation of this financial statement in accordance with International Financial Reporting Standards. This responsibility includes; designing, implementing and maintaining internal control relevant to preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error, selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances. The director's accept responsibility for the annual financial statement, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgments and estimates, in conformity with International Financial Reporting Standards and the manner required by the Kenya 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 accepts 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 controls.

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


.....
Managing Director

30TH JUNE 2015.
.....
Date



AMATSI WATER SERVICES COMPANY LIMITED

FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH JUNE 2015

STATEMENT OF COMPREHENSIVE INCOME

AS AT 30TH JUNE 2015

	NOTES	2015 KSHS	2014 KSHS
Water sales	2	23,230,580	25,031,277
Less cost of sales	3	4,508,825	21,505,822
Gross profit		<u>18,721,755</u>	<u>3,525,455</u>
Add grants from the ministry	4	13,034,070	14,062,534
Total income		<u>31,755,825</u>	<u>17,587,989</u>
Less expenses			
Administration and Establishment expenses	5	16,428,546	19,093,566
Directors Emoluments	6	381,600	381,600
Finance costs	7	84,984	128,927
Total expenditure		<u>16,895,130</u>	<u>19,604,093</u>
Excess of income over expenditure		<u>14,860,695</u>	<u>(2,016,104)</u>

AMATSI WATER SERVICES COMPANY LIMITED

FINANCIAL STATEMENT FOR THE YEAR ENDED 30TH JUNE 2015

STATEMENT OF FINANCIAL POSITION

AS AT 30TH JUNE 2015

ASSETS	NOTES	2015	2014
		KSHS	KSHS
Current Assets			
Inventory	8	3,502,400	3,928,094
Trade and other receivables	9	46,824,890	33,824,756
Cash and bank balances		771,174	193,904
TOTAL ASSETS		<u>51,098,464</u>	<u>37,946,754</u>
LESS: CURRENT LIABILITIES			
Trade and other payables	10	22,378,000	25,500,934
NET ASSETS		<u>28,719,864</u>	<u>12,445,820</u>
FINANCED BY			
Issued and paid up share capital	11	100,000	100,000
Share premium	12	29,400	29,400
Reserve for bad debts	13	5,190,137	
Revenue reserve	14	23,400,327	12,316,420
Owners Funds		<u>28,719,864</u>	<u>12,445,820</u>

The Accounts approved and signed on behalf of the Board of Directors 30th June 2015 by:

Sign *Naftali M. Tgabomba*
 Name Naftali M. Tgabomba
Managing Director

Sign *Isaiah Arula*
 Name ISAIAH ARULA
Director

AMATSI WATER SERVICES COMPANY LIMITED.

FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH JUNE 2015

STATEMENTS OF CASH FLOW

FOR THE YEAR ENDED 30TH JUNE 2015

	2015	2014
	KSH	KSH
Cash flow from operating activities		
Profit(loss) for the period	14,860,695	(2,061,104)
Add: changes in working capital		
Increase in trade and other receivables	(13,000,134)	(58,383)
Increase in inventories	425,694	(147,603)
Increase in trade and other payables	(3,122,934)	1,823,711
	(836,679)	(443,379)
Cash flow from investing activities	-	-
Cash flow from financing activities		
Proceeds from customers deposits	-	-
Net cash inflow from financing activities		
Cash and cash equivalent	(836,679)	(443,379)
Net increase n cash at the beginning of the year	193,904	41,140
Net increase/decrease in cash and cash equivalent	642,775	(402,239)
Cash and cash equivalent at the end of the year	<u>771,174</u>	<u>193,904</u>



AMATSI WATER SERVICES COMPANY LIMITED.

FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH JUNE 2015

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30TH JUNE 2015

	Share capital KSH	Share premium KSH	Revenue reserve KSH	Capital reserve KSH	Bad debts KSH	TOTAL KSH
As at 1 st July 2013	100,000	29,400	14,332,524	-	3,919,965	18,381,889
Excess of the income for the year	-	-	(2,016,104)	-	-	(2,016,104)
Bad debts reserve	-	-	-	-	(3,919,965)	(3,919,965)
As at 30 th June 2014	100,000	29,400	12,316,420	-	-	12,445,820
As at 1 st July 2014	100,000	29,400	12,316,420	-	-	12,445,820
Bad debt reserve	-	-	-	-	5,190,137	5,190,137
Excess of income for the year	-	-	11,083,907	-	-	11,083,907
As at 30 th June 2015	100,000	29,400	23,400,327	-	51,190,137	28,719,864

AMATSI WATER SERVICES COMPANY LIMITED.

FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH JUNE 2015

1. Notes to the accounts

A. Statements of compliance and basis of preparation

The financial statements have been prepared on a historical cost basis except for the measurement at re-valued amounts of certain items of property, plant and equipment, marketable securities and financial instruments at fair value, impaired assets at their estimated recoverable amounts and actuarially determined liabilities at their present value. The preparation of financial statements in conformity with International Financial Reporting Standards (IFRS) allows the use of estimates and assumption.

The financial statements have been prepared and presented in Kenya shillings , which is the functional and reporting currency of the company, and all values are rounded to the nearest thousand (kshs '000)

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

B. Revenue recognition

Revenue is recognized to the extent that it is probable that future economic benefits will flow to the company and 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 company activities.

- i) **Revenue from the sale of goods and services** is recognized in the year in which the company delivers products /services to the customer, the customer has accepted the products and collectability of the related receivables is reasonably assured.
- ii) **Grants from the National Government** are recognized in the year in which the company actually received the grants.
- iii) **Other income** is recognized as it accrues.

C. In-kind contributions

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

D. Inventories

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

E. Trade and other receivables

Trade and other receivables are recognized at fair value 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.

F. Borrowings

Interest bearing loans and overdrafts are initially recorded at fair value being received, net of issue costs associated with the borrowing. Subsequently, these are measured at amortized cost using the effective interest rate method. Amortized cost is calculated by taking into account any issue cost and any discount or premium on settlement. Finance charges, including premiums payable of settlement or redemption are accounted for any accrual basis and are added to the carrying amount of the instrument to the extent that they are not settled in a period in which they arise. Loan interest accruing during the construction of a project is capitalized as part of the cost of the project.

G. 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

H. Retirement benefits obligations

The entity operates a defined contribution scheme for all full-time employees from July 1, 2013. The scheme is administered by an in-house term 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 400 per employee per month.

I. Provision of staff leave pay

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

J. Comparative figures

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

K. Subsequent events

There have been no events subsequent to the financial year end with significant impact on the financial statements for the year ended June 30, 2015.

AMATSI WATER SERVICE COMPANY LIMITED

FINANCIAL STATEMENT FOR THE YEAR ENDED 30TH JUNE 2015

2. Water sales

	2015	2014
This involves amount billed from the five schemes as under		
Maseno water supply	6,807,883	7,520,553
Mbale water supply	7,882,429	4,509,025
Kaimosi water supply	5,468,515	8,738,390
Sosian water supply	1,844,153	2,522,930
Vihiga water supply	1,227,600	1,740,379
Total	23230,580	2,5031,277

3. Cost of sales

labour	750,380	9,844,514
Materials	1,958,730	1,764,037
Electricity	1,799,715	9,897,271
Total	4,508,825	21,505,822

4. Government grants

Salaries of seconded staff	2,184,400	3,896,664
Materials received from the ministry	1,747,643	1,869,530
Electricity paid	9,102,027	8,062,534
	13,034,070	14,062,534

5. Administration & Establishment Expenses

Permits licenses and levies	2,271,200	5,089,115
Office expenses	472,635	52,260
Payroll expenses permanent step	10,027,147	9,862,643
Payroll expenses casuals	249,870	249,870
Payroll expenses health insurance scheme	204,351	204,351
Payroll expenses social security scheme	615,693	615,693
Payroll expenses leave allowance	840,000	840,000
Motor vehicle running expenses	91,700	479,999
Professional fees	580,000	649,835
Rent	90,000	76,500
Operations and Maintenance	36,000	-
Telephone, Postage and Internet	29,110	244,960
Transport and Accommodation	344,760	618,640
Electricity expenses	11,852	-
Stationary and printing	124,058	89,980
Computer expenses	-	19,720
	16,428,546	19,093,566

6. Directors emoluments 381,600 381,600

7. Finance cost

There are commission charges on bank transactions 84,984 128,927

8. Inventory 3,502,400 3,925,094

9. Trade and other receivable 46,824,890 33,328,094

10. Trade and other payables 22,100,600 25,300,934
278,000 200,000
22,378,600 25,500,934

11. Share capital Authorized and issued 5000 ordinary shares @Kshs. 20 100,000 100,000

12. Share premium

5000 ordinary shares issued at premium of kshs 5.85 29,400 29,400

13. Bad debts reserve 5,190,137 -

14. Revenue reserve 23,400,327 14,332,524

15. Currency: These financial statements have been presented in Kenya shilling.

