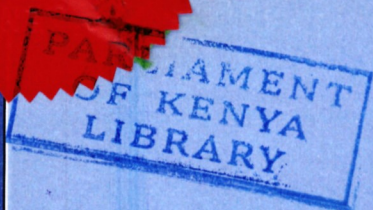


REPUBLIC OF KENYA



OFFICE OF THE AUDITOR-GENERAL



REPORT

OF

THE AUDITOR-GENERAL

ON

**THE FINANCIAL STATEMENTS OF
EMBE WATER AND SANITATION COMPANY**

**FOR THE YEAR ENDED
30 JUNE 2015**

KENYA NATIONAL AUDIT OFFICE
EMBU HUB
10 MAY 2015
1346
Tel: 068 - 39260
P. O. BOX 113, EMBU

EMBE WATER AND SANITATION COMPANY LIMITED

REPORTS AND FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED

JUNE 30, 2015

CONTENTS	PAGE
Key Entity Information	2-3
Board of Directors	4
Management Team	5
Chairman's Statement	6
Report of the Chief Executive Officer	7-8
Corporate Governance Statement	9-10
Corporate Social Responsibility Statement	11
Report of the Directors	12
Statement of Directors' Responsibilities	13
Report of the Independent Auditor/Auditor General	14
Statement of Comprehensive Income	15
Statement of Financial Position	16
Statement of Changes in Equity	17
Statement of Cash Flows	18
Summary of Significant Accounting Policies	19-21
Notes to the Financial Statements	22-35

Embe Water and Sanitation Company
Reports and Financial Statements
For the year ended June 30, 2015

KEY ENTITY INFORMATION

Background information

Embe water and sanitation company (EMBEWASCO) is a water service provider (WSP) which was incorporated in June 2006 and falls under Tana water services Board. EMBEWASCO covers an area of over 362 km² which has a population of about 47,067. The head office is at Siakago Town, Embu County.

Principal Activities

The principal activity of EMBEWASCO is provision of water and sanitation services within the designated SPA region of Mbeere sub-counties of Embu County.

Directors

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

1.	Joel Julius Ngatiari-Ogw	- Chairman	Appointed on December,2006
2.	Dominic M. Kiura	- Director	Appointed on December,2012
3.	Anthony A. Murithi	- Director	Appointed on December,2012
4.	Grace Nginda Ita	- Director	Appointed on December,2006
5.	Genesio Njuki Njiru	- Director	Appointed on December,2012
6.	Embu county Representative	-Director	Appointed on December,2012
7.	DWO-Mbeere North(For CEO-TWSB)	-Director	Appointed on December,2012
8.	Christopher M. Ileri	-Director	Appointed on December,2012
9.	John Nyaga Nduma	-Director	(General manager)

Corporate Secretary.

Mr. Richard Gikuhi Kiana

P.o Box

Nyeri.

Registered Office And Headquarters

Mbeere North Sub- County Water Officer's Building

Siakago- Ugweri Road

P.O.Box 195-60104

SIKAGO

Corporate Contacts.

Telephone: +254 703 192338

Email embewater@yahoo.com

Website www.embewater.co.ke

Embe Water and Sanitation Company
Reports and Financial Statements
For the year ended June 30, 2015

Corporate Bankers

Co-operative Bank of Kenya
Siakago Branch
P.O. Box 1337 - 60104
Siakago.

Independent Auditors









Kenya National Audit Office
Anniversary Towers, University
Way
P.O Box 30084-00100
NAIROBI

Principal Legal Advisers

1. The Attorney General
State Law Office
Harambee Avenue
P.O. Box 40112





**Embe Water and Sanitation Company
Reports and Financial Statements
For the year ended June 30, 2015**

THE BOARD OF DIRECTORS

NO.	NAME OF THE DIRECTOR	PROFESSION
1.	 JOEL JULIUS NGATIARI-OGW	EDUCATIONIST
2.	 DOMINIC M. S. KIURAH	BUSINESS MAN
3.	 GENESIO NJIRU NJUKI	FARMER
4.	 CHRISTOPHER IRERI	CAREER TEACHER
5.	 ANTHONY A. MURITHI	CAREER TEACHER
6.	 GRACE NGINDA ITA	CAREER TEACHER
7.	 ENG. STEPHEN NJIRU JOHN NYAGA NDUMA	CHIEF OFFICER LAND, ENVIRONMENT WATER & NATURAL RESOURCES- EMBU COUNTY GOVERNMENT
8.		GENERAL MANAGER

Embe Water and Sanitation Company
Reports and Financial Statements
For the year ended June 30, 2015

MANAGEMENT TEAM

NO.	NAME	DESIGNATION
1.	 JOHN NYAGA NDUMA	GENERAL MANAGER
2.	 VICTOR MURITHI IRERI	ACCOUNTANT
3.	 LENNY KAMAU MIKINYANGO	HUMAN RESOURCE & ADMINISTRATION.
4.	 ALICE MUTHONI MWAKIRIE	DISTRIBUTION MANAGER

Note: The CEO and the Company Secretary will feature both under the 'Board' and 'Management'.

BOARD CHAIRMAN'S REPORT

INTRODUCTION

The WSP is contracted by Tana Water Services Board to provide provision of water and sewerage services in Mbeere North Sub County of Embu County.

Since the contracting of the Water service provider, Embe water and Sanitation Company has been endeavouring to offer quality provision water services within legal and regulatory framework.

It is worthwhile noting that the provision of water services is entering a critical phase with the implementation of the Constitution of Kenya 2010 and therefore the gains made in the provision of water services since the inception of water sector reforms needs to be safe guarded.

Over the period under review, the water consumption has recorded remarkable improvement and is projected to rise higher in the medium term. Our sales recorded improvement which was attributed to reliable water supply to the consumers, growth in unit sales and enhanced revenue collection mechanisms.

Improving access to services does not only call for creation of institutions and provision of resources, it should include a change in attitudes, managerial practices and organizational capacities. It is in these regard the WSP has aspired and is eager to change the status quo through sustainable commitment to ensure that sector objectives are achieved.

The recognition of the human right to water and sanitation in the constitution implies that investments and financing plans have to be aligned towards realization of this right. The WSP as a duty bearer on behalf of the Government is reinforcing its effort to extend services to currently un served areas.

BUSSINESS ENVIRONMENT

Water policy of 1999 and water act 2002 introduced extensive reforms in water sector in line with international best practice by separating functions, introducing commercialization, decentralization and professionalism of water services and introducing a strong pro - poor focus in line with human right to water and sanitation.

On the basis of this enabling environment, significant progress have been made in t he provision of formalized water services to citizens. Water Services Regulatory Board (Wasreb) has made it a priority agenda to emphasis the need to preserve and build on the gains made in the pre devolution period.

LEGAL

Early in the year 2013, Kenya held its first election under the Constitution 2010. The election saw the creation of County Governments with the responsibility on management of water services among others.

The Constitution of Kenya 2010 devolved the responsibility for provision of water services to the County Government. In order to sustain and improve on the significant gains made by the water sector reforms of 2002 in the application of devolved principles, a legal framework such as a new water policy and water Bill aligned to the requirements of the Constitution 2010 to guide and support the devolution process is important.

GOVERNANCE

Takeover of WSP by the County Government is supported by the Constitution of Kenya 2010, it is prudent that the process be carried out within the existing legal structures and framework so that the flow of services to the customers are not compromised.

Embu County Government the successor's of Mbeere County Council, holds powers as stakeholder and have one representative who seat on the Board of Directors.

COMMERCIAL

The WSP has built a sustainable business environment based on the principles of accountability, efficiency and effectiveness. In this respect, the WSP has acquired operational License and Service Provisional Agreement (SPA) and Regular Tariff Adjustment (RTA). These are the main regulatory instruments that establish standards for the operations and guide towards financial sustainability.

Embe Water and Sanitation Company
Reports and Financial Statements
For the year ended June 30, 2015

In collaboration with stakeholders such as Ministry of Water and Irrigation, Water Services Regulatory Board, Tana Water Services Board (TWSB), Water Services Trust Fund (WSTF), National Drought Management Authority (NDMA) and Mbeere North Constituency Fund (CDF), the WSP has strengthened its governance framework, promoted professional management and improved on water services assets.

SECTOR PERFORMANCE OVERVIEW

In the year under review the WSP posted positive improvement in most areas as indicated in the following key performance indicators as illustrated below.


Item	Description	Units	2013/14	2014/15	% age increase
1.	Water coverage	%	45	48	3
2.	Sanitation coverage	%	89	91	2
3.	Drinking water quality	%	92	92	0
4.	Hours of services	No	17	17	0
5.	Non Revenue Water	%	56	49	7
6.	Metering ratio	%	100	100	-
7.	Annual turnover	Kshs(M)	25.557	29.12	28
8.	Collection Efficiency	%	74	78	4
9.	Staffing per 1,000 connections	No	16	13	3

APPRECIATION

In concurrence with the emerging issues, let me take this opportunity to thank you most sincerely for entrusting us with your investment and assure you that we will always endeavour to give you a fair return.

In conclusion I would like to recognize all the respective stakeholders, public, Board of Directors and management who have made Embe Water and Sanitation Company to realize the achievements it has made within the period under review and request that to provide critical insight on how to move forward in improving the provision of water services.

Thank you and God bless us all.



JOEL JULIUS NGATIARI OGW

REPORT OF THE GENERAL MANAGER

OVERVIEW

The Financial Year 2014 – 2015 marked an improved performance by posting increase in water coverage from 45% to 49%, revenue collection by 8% and reduction in Non Revenue Water by 4%. This has reduced reliance on Government of Kenya subsidy. This move indicates a positive trend towards water service provider sustainability.

Change of altitude by employees, application of best management and professional practices and strengthened organization capacities as resulted to better service delivery by your WSP for the period under review.

Low Budgetary allocation by the Government toward improvement of dilapidated water system infrastructure remains ever bigger challenge.

There is need to recognize the important role that the private sector can play in increasing access either directly in water services provision or indirectly through financing.

FINANCIAL PERFORMANCE

The operating revenue increased significantly driven by the improved unit sales and operation efficiency. The operating income increased from Kshs 25,557,291.00 to Kshs. 29,122,581.00. increased collection efficiency and recovery of debts has been the core contributor to this.

INSTITUTIONAL CAPACITY

Among the company's core values is the continued improvement in customer services and innovation. The company has initiated information technology platform and is implementing web based billing and accounts software which will offer a competitive advantage and ensure superior customer services.

Our staffs are the greatest resource the company attaches great importance toward its productivity. The WSP encourages staff training and development as a means of ensuring that the organization is fully and appropriately staffed with employees who have requisite competence to perform their jobs and that all members of staff feel valued and supported.

SOCIAL AND ENVIRONMENTAL RESPONSIBILITIES STATEMENT

The water service Provider recognizes that it has a corporate social and environmental responsibility. The company is partnering with groups with similar objectives towards social development and empowerment of the broader community through various corporate social initiatives, staff welfare and environmental conservation and improvement.

SERVICE DELIVERY

In the period under review, the WSP served 18,973 persons out 47,058 persons with total active connection of 1,993.

These customers are served with 157 Kilo metres pipeline network of various sizes, several storage tanks and other civil engineering infrastructure. The status of these infrastructures pauses a challenge and therefore requires attention for them to work efficiently.

With increased partnership between various stakeholders such as Sub County water office Mbeere North and National Drought Management Authority Embu county, scaling up of both Ena - Siakago and Ishiara water schemes were achieved and promoted customers served from 1,615 to 1,993 in the year 2013an 2015 respectively.

FUNDING

The main sources of income for the WSP are Government of Kenya, Development partners and revenue generated.

Embe Water and Sanitation Company
Reports and Financial Statements
For the year ended June 30, 2015

Traditionally the WSP funds its operations expenditure with revenue generated and capital expenditure from the Government and development partners. In the spirit of fulfillment and protection of this Constitutional duty of the right to water, I acknowledge this obligation and realize the need to strengthen the participation and empowerment of our Board of Directors, customers, collaborators and business partners.


John Nduma

CORPORATE GOVERNANCE STATEMENT

Good corporate governance is key to the integrity of water sector institutions and markets and is central to the health of our economics and their stability. Corporate governance plays a leading role in making certain how corporations and their boards and management are directed, controlled and held to account. Corporate governance therefore encompasses the systems, practices and procedures by which the individual corporation regulates itself in order to remain competitive, ethical, sustainable and fair.

THE BOARD OF EMBEWASCO limited follows, principles of openness, integrity and accountability in its stewardship of the company's affairs. It recognizes the developing nature of corporate governance and assesses the company's compliance with generally accepted corporate governance practice on a regular basis, directly and through its board committees and management. The role of the board is to ensure conformance by focusing on and providing the company's overall strategic direction and policy-making as well as performance review through accountability and ensuring appropriate monitoring and supervision. The board is also responsible for the overall system of internal control and for the reviewing its effectiveness. The controls are designed to both safeguard the company's assets and ensure the reliability of financial information.

A management team, comprising the general manager, heads of departments and senior staff meets regularly to consider issues of operational and strategic importance to the company. Here below are the key features of the existing corporate governance practices within **EMBE WATER AND SANITATION COMPANY LIMITED** which are reviewed and improved on a regular basis:-

1. Board Of Directors

The board of directors consists of one executive director and eight non-executive directors, who have been appointed in accordance with the Water Act 2002. The chairman of the board is a non-executive director and the board meets formally at least four times a year.

The board is responsible for setting the direction of the company through the establishment of strategic objectives, key policies and approval of budgets. It monitors the implementation of strategies and policies through a structured approach to reporting by management and consequent accountability.

The non-executive directors are actively involved in and bring strong independent judgment on board deliberations and discussions. These directors have a wide range of knowledge and experience of local markets that is applied to the formulation of strategic objectives and decision making.

The board meets regularly and retains full and effective control over the company in all strategic, financial, operational and compliance areas. In 2015, four board meetings were held and all directors attended the four meetings

To assist the board in the discharge of its responsibilities, board committees have been established. All the board committees meet at least two times a year. The committees are as follows:-

a) Audit Committee

The audit committee comprises of three non-executive directors and a senior manager. The committee is responsible for inter alia, developing and advising an audit and financial controls and compliance issues of the company. It also defines the scope of the internal audit function and acts as a liaison between the external auditors and management. The current members of the committee are: - Dominic Kiurah, (Chairman), Embu county representative and Anthony Murithi.

b) Finance And Technical Committee

The finance and technical committee comprises of four non-executive directors and the general manager. The committee provides guidance to the board on finance and technical requirements for the company. The current members are Christopher Ileri (Chairman), Grace N. Ita, Genesis Njuki, CEO Tana Representative.

2. Internal Controls

The company has implemented and maintained internal controls designed to provide reasonable assurance as to the integrity and reliability of the financial statements and to adequately safeguard and maintain accountability of the company's assets. Such controls are based on established policies and procedures and are implemented by trained personnel with appropriate segregation of duties. The effectiveness of the system of internal controls is monitored regularly through internal audit functions, operational meetings and the annual external audit.

3. Related Party Transactions And Directors Remuneration.

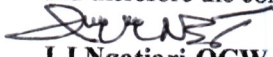
The related party transactions with the company during the year ending 30th June 2015 are detailed under note 18 on page 30 of these annual report and financial statements.

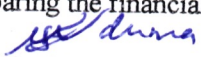
The remuneration for directors consists of sitting allowances for their services in connection with the Board and committee meetings.

The aggregate amount of director's remuneration for services rendered during the year ending 30th June 2015 are contained under note 18 on page 30 of these annual report and financial statements.

4. Going Concern

The directors confirm that the company has adequate resources to continue in business for the feasible future and therefore the continued use of going concern as a basis of preparing the financial statements.


J.J Ngatiari-OGW
Chairman


J.N. Nduma
Director.

CORPORATE SOCIAL RESPONSIBILITY STATEMENT

The company upholds its core values which enshrine ethical business practices, compliance with regulatory and other legal requirements and respect for humanity, communities and the environment. The company's corporate social responsibility (CSR) hinges on two key pillars, employees and welfare programmes.

During the year, our employees have become an important part of this noble objective. The employees are the backbone of our success.

Therefore, we have unrelentingly ensured that they have a favourable work environment. That has seen the construction of a new office block to ensure each staff has ample space to work effectively. Training and development of staff has continued to be an important part of our business. All staff are encouraged to attend internal and external training sessions in order to upgrade themselves technically and professionally. The internship placement programmes has continued with several students working as interns in various departments. Those students are drawn from various colleges.

Embe Water and Sanitation Company
Reports and Financial Statements
For the year ended June 30, 2015

REPORT OF THE DIRECTORS

The Directors submit their report together with the audited financial statements for the year ended June 30, 2015 which show the state of the Company's affairs.

Principal activity

The principal activity of the entity is provision of water and sanitation services within the SPA area.

Results

The results of the entity for the year ended June 30, 2015 are set out on page 15

Directors

The members of the Board of Directors who served during the year are shown on page 4 In accordance with Regulation of the company's Articles of Association.

Auditors

The Auditor General is responsible for the statutory audit of the company in accordance with the Public Finance Management (PFM) Act, 2012, which empowers the Auditor General to nominate other auditors to carry out the audit on his behalf.

By Order of the Board



Director

Date: 09/05/16

Embe Water and Sanitation Company
Reports and Financial Statements
For the year ended June 30, 2015

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

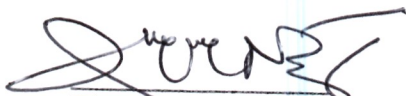
The Directors are responsible for the preparation and presentation of the company's financial statements, which give a true and fair view of the state of affairs of the company for and as at the end of the financial year ended on June 30, 2015. This responsibility includes: (i) maintaining adequate financial 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 company; (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 June 30, 2015, 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 were approved by the Board on 4th September 2015 and signed on its behalf by:


Director


Director


Director

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 EMBE WATER AND SANITATION COMPANY FOR THE YEAR ENDED 30 JUNE 2015

REPORT ON THE FINANCIAL STATEMENTS

The financial statements of Embe Water and Sanitation Company Limited set out on pages 15 to 30, which comprise the statement of financial statement of financial position as at 30 June 2015, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information have been audited on my behalf by Wamutu & Associates, auditors appointed under Section 39 of the Public Audit, 2003. The audit has been carried out in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 14 of the Public Audit Act, 2003. The auditors have duly reported to me the results of their audit and on the basis of their report, I am satisfied that all the information and explanations which to the best of my knowledge and belief, were necessary for the purpose of the audit were obtained.

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 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 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.

Embe Water and Sanitation Company - Annual Report and Financial Statements for the year ended 30 June 2015

An audit involves performing procedures to obtain audit evidence about amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment for 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 the purpose of expressing an opinion on the effectiveness of the Company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the management, as well as evaluating the overall presentation of the financial statements.

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

Basis for Qualified Opinion

1. Accuracy of the Opening Balances

Note 2 of the notes to the financial statements for the certified 2013/2014 financial statements reflects plant, property and equipment with a total cost price of Kshs.101,167,172. However, note 2 of the notes to the financial statements for the year under review reflects an opening balance of Kshs.110,893,502 for the same item resulting in an unexplained and unreconciled variance of Kshs. 9,726,330.

Further, the statement of changes in equity for the audited financial statements for 2013/2014 reflects capital and retained earnings of Kshs.189,892,018 and Kshs.(77,081,576) respectively while the same statement for the financial year under review reflects capital and retained earnings opening balances of Kshs.192,498,690 and Kshs.85,290,873 respectively. The resultant variances of Kshs.2,606,692 for the capital balance and Kshs.(8,209,297) for the retained earnings has not been explained or reconciled.

In view of the stated differences, the accuracy of the financial statements balances as at 30 June 2015 could not be ascertained.

2.0 Budgetary Control and Performance

The Company's approved budgeted income for the year was Kshs.32,987,640 while the actual income was Kshs.24,930,386 resulting to an under collection of Kshs.8,057,254 as detailed in Appendix I (attached).

Further, the Company had budgeted to spend Kshs.33,155,516 comprising of Kshs.25,107,076 and Kshs.8,048,440 for recurrent and development expenditure

respectively but the actual expenditure was Kshs.43,159,673 resulting to net over expenditure of Kshs.10,004,157. The required supplementary budget covering the Kshs.10,004,157 over – expenditure was not made available for audit review.

In view of the approved budgeted expenditure of Kshs.33,155,516 against budgeted income of Kshs.32,987,640 resulting to a budget deficit of Kshs.167,876, the whole budget is rendered unrealistic. It was not clear where the extra revenue was to be sourced from.

In addition, the company incurred a total expenditure of Kshs.736,758 on three (3) recurrent items not budgeted for while six (6) other items with a budgeted total expenditure of Kshs.2,841,836 did not have any expenditure.

In view of the foregoing, the Company did not contain its operations within the approved budget during the year ended 30 June 2015.

3.0 Receivables

As previously reported, the receivables balance of Kshs.8,972,456 as at 30 June 2015 includes gross trade receivables amounting to Kshs.1,893,821 inherited from the Ministry of Water and Irrigation and which has remained outstanding for a considerably long period of time.

Although a general provision for bad and doubtful debts of 5% of gross trade receivables amounting to Kshs.472,235 has been made in the financial statements, the respective debtors age analysis was not made available for audit review. Therefore, the bad and doubtful debts provision of 5% is deemed inadequate. Consequently, the accuracy and recoverability of the receivables balance of Kshs.8,972,456 as at 30 June 2015 could not be confirmed.

4. Property, Plant and Equipment

4.1 Ownership

As previously reported, the property, plant and equipment balance of Kshs.93,004,375 as at 30 June 2015 includes Kshs.4,850,000 and Kshs.14,411,802 for land and buildings respectively, inherited from the Ministry of Water and Irrigation and maintained by the Company but whose ownership had not been transferred to the Company as at the time of this report.

4.2 Water Distribution Infrastructure

The property, plant and equipment balance of Kshs.93,004,375 as at 30 June 2015 includes capital expenditure of Kshs.70,645,548 incurred in respect of plant and machinery which is composed of water distribution infrastructure.

However, as per the vesting agreement, the ownership of water distribution infrastructure vests in Tana Water Services Board and that any capital expenditure relating to water distribution infrastructure needs prior approval of the Water Board before expenditure is incurred by the company which may place a reimbursement claim of the expenditure with the Board. However, this prior approval was not made available for audit confirmation.

In view of the foregoing, the accuracy and ownership of the property, plant and equipment balance of Kshs.93,004,375 as at 30 June 2015 could not be confirmed.

5.0 Non – Revenue Water (NRW)

The Company produced 842,241 M3 cubic meter (m³) of water during the year under review at a production cost of Kshs.8.10 per cubic meter (m³). However, records made available for audit indicated that only 431,108m³ of water was distributed and charged to the customers. The balance of 411,133m³ was not charged which translates to 49 % loss of water.

Further, the Water Service Regulatory Board (WASREB) guidelines allows a maximum loss of 25% for every cubic meter (m³) of water produced and hence only 210,560m³ loss was allowable for the 842,241 cubic meter (m³) produced by the Company. The loss of 411,133m³ of water produced at a cost of Kshs.3,330,177 during the year under review was therefore a non-allowable loss. Although water production increased by 27,382m³ from 814,859m³ in the financial year 2013/2014 to 842,241m³ in 2014/2015, the Company seems not able to deal with the NRW.

In the circumstances, significant level of NRW may negatively impact on the Company's profitability and its long-term sustainability.

6.0 Weak Internal Control System

A review of the Company's internal control system revealed serious weaknesses especially in its internal checks and lack of an Internal Audit Unit which lead to the following irregularities;

(i) Unsupported Payments

A review of sampled payment vouchers reflected unsupported payments amounting to Kshs.122,054.00 as follows;

Date	Voucher Number	Amount (Kshs)
28/07/2014	24	29,000
31/07/2014	34	28,485
25/08/2014	67	33,489
25/08/2014	68	31,080
Total		122,054

It was not possible to ascertain whether the Kshs. 122,054 was expended as appropriated.

(ii) Loss of Cash

Under Minute 16/06/04 of the Board meeting held on 18 November 2014, it was reported that two cashiers had defrauded the Company of Kshs.782,385 as follows;

Name	Amount (Kshs.)
Joseph Gitonga	341,750
Dennis Mugambi	<u>440,635</u>
Total	<u>782,385</u>

Further, the Company incurred Kshs.30,000 on private auditors to investigate the loans.

Except for the unreplied letters to the culprits, no other documents were made available to show actions being taken to recover the amount. In the circumstances, the recovery of the Kshs.782,385 cash loss could not be ascertained.

Qualified Opinion

In my opinion, except for the effects of the matter described in the Basis for Qualified Opinion paragraph, the financial statements present fairly, in all material respects, the financial position of Embe Water and Sanitation Company Limited as at June 30 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 the Water Act, 2002 and the Companies Act, Cap 486 of the Laws of Kenya.

Other Matter

Financial Performance

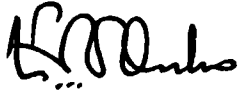
As previously reported, the company recorded a loss of Kshs.13,034,642 in 2014/2015 (2013/2014 loss of Kshs.8,028,222 and 2012/2013 loss of Kshs.9,527,256) thereby increasing retained earnings to negative Kshs.99,528,865 as at 30 June 2015. Although the Company reported a positive working capital of Kshs.570,451 as at 30 June 2015, its going concern is doubtful as it places heavy reliance on continued support from the Government and creditors.

My opinion is not qualified in respect of these matters.

REPORTING ON OTHER LEGAL AND REGULATORY REQUIREMENT

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

- i. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit; and
- 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 is in agreement with the books of account.



FCPA Edward R.O Ouko, CBS
AUDITOR-GENERAL

Nairobi

23 June 2016

Appendix I: Budget Analysis

A) Water Revenue Analysis

No.	Item	Budget Kshs.	Actual Kshs	Variance Kshs
1	Water charges	27,840,000	23,707,400	(4,132,600)
2	GOK Subsidy for Staff Salary	387,960	387,960	-
3	Other incomes	4,759,680	835,026	(3,924,654)
		32,987,640	24,930,386	(8,057,254)
B) Expenditures Analysis				
No.	Item	Budget Kshs.	Actual Kshs	Overspent Kshs
1	Entertainment	324,612	517,490	192,878
2	Bank charges	76,800	525,410	448,610
3	Regulatory board levy	89,868	279,999	190,131
4	Water levy (WASREB)	2,505,600	2,516,983	11,383
5	Maintenance of water supply system	2,727,900	3,269,700	541,800
6	Directors allowance	413,000	569,500	156,500
7	Staff welfare	84,000	190,609	106,609
8	Casual labour	1,693,164	2,513,385	820,221
9	Staff travel and subsistence	1,722,744	2,162,082	439,338
10	Printing and stationery	-	670,918	670,918
11	Consultant and freelance	160,000.00	182,979	22,979
12	Postage and courier	-	20,240	20,240
13	Laboratory apparatus, chemical and reagents	1,314,156.00	1,735,820	421,664
14	Computer repairs and maintenance	132,000.00	139,510	7,510
15	Provision for gratuity	485,784.00	556,872	71,088
16	Staff uniforms and protective cloths	-	45,600	45,600
17	Building and furniture repairs & maintenance	120,000.00	335,903	215,903
18	Depreciation	-	11,520,175	11,520,175
	Total Overspent Kshs	11,849,628	27,753,175	15,903,547

No.	Item	Budget Kshs.	Actual Kshs	Under spent Kshs
1	Audit fees	150,000	100,000	(50,000)
2	Raw water charge (WARMA)	278,400	179,169	(99,231)
3	Salaries	9,077,952	7,670,997	(1,406,955)
4	Staff training	96,000	-	(96,000)
5	Telephone, fax and mobile	450,000	276,700	(173,300)
6	Advertisement, publicity and newspapers	52,728	25,440	(27,288)
7	Transport hire and equipment	264,192	157,800	(106,392)
8	Insurance	240,000	11,225	(228,775)
9	Stakeholders meeting and exhibition	402,583	178,000	(224,583)
10	Legal fees	120,000	-	(120,000)
11	Water quality analysis	160,000	-	(160,000)
12	Office general expenses (misc) and supplies	61,044	27,200	(33,844)
13	Electricity and Motor vehicles running (fuel)	945,732	824,358	(121,374)
14	Bicycle repairs and maintenance	20,533	19,500	(1,033)
15	Motor repairs and maintenance	477,916	463,044	(14,872)
16	Security services	436,368	294,500	(141,868)
17	Miscellaneous, contingencies and penalties	24,000	14,400	(9,600)
18	Increase in provision for bad debts	-	(418,439)	(418,439)
	Total Underspent Kshs	13,257,448	9,823,894	(3,433,554)
	Total Recurrent Expenditure	25,107,076	37,577,069	12,469,993
C) Development Expenditure				
No.	Item	Budget Kshs.	Actual Kshs	Variance Kshs
1	Pipeline Extensions	1,944,229	2,521,290	577,061
2	Water Meters	350,000	-	(350,000)
3	Computers	300,000	103,000	(197,000)
4	Motor vehicles & Cycles	3,100,000	2,951,314	(148,686)
5	Assorted tools	35,000	7,000	(28,000)

6	Laboratory apparatus	40,000	-	(40,000)
7	Pipeline rehabilitation	1,819,211	-	(1,819,211)
8	Building renovations	120,000	-	(120,000)
9	Photocopier	120,000	-	(120,000)
10	Electrical Installations	220,000	-	(220,000)
	Total Dev. Expenditure	8,048,440	5,582,604	(2,465,836)
	Total Recu & Dev Expenditure	33,155,516	43,159,673	10,004,157
	Net Surplus / (Deficit)	(167,876)	(18,229,287)	(18,061,411)

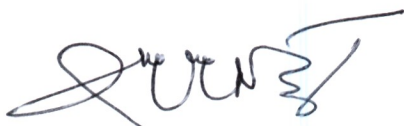
STATEMENT OF COMPREHENSIVE INCOME

INCOME	NOTES	30.06.2015	30.06.2014
		KSHS	KSHS
Water Revenue	10	23,707,400.00	21,886,489.00
Grants and subsidies	11	387,960.00	3,057,960.00
Miscellaneous incomes	12	835,026.00	612,842.00
TOTAL INCOMES		24,930,386.00	25,557,291.00
LESS:			
EXPENSES			
Other operating expenses	13	647,490.00	558,340.00
Finance costs	14	525,410.00	95,027.00
Indirect Expenses	15	387,960.00	1,077,960.00
Administrative expenses	17	36,404,168.00	31,854,186.00
TOTAL EXPENDITURE		37,965,028.00	33,585,513.00
Operating profit/(Loss) before Taxation		(13,034,642.00)	(8,028,222.00)

Embe Water and Sanitation Company
Reports and Financial Statements
For the year ended June 30, 2015

STATEMENT OF FINANCIAL POSITION

ASSETS	NOTES	<u>30.06.2015</u> KSHS	<u>30.06.2014</u> KSHS
NON CURRENT ASSETS			
Property, Plant and Equipments	2	93,004,375	90,362,264
CURRENT ASSETS			
Bank Guarantee	3	220,000	220,000
Stores (stock)	SCH 1	617,232	306,627
Receivables	4	8,972,456	16,922,803
Cash & Bank balances	5	2,090,783	2,279,267
TOTAL CURRENT ASSETS		<u>11,900,471</u>	<u>19,728,697</u>
TOTAL ASSETS		<u><u>104,904,846</u></u>	<u><u>110,090,961</u></u>
EQUITY AND LIABILITIES			
CAPITAL AND RESERVES			
Accumulated funds	8	193,103,690	192,498,690
Retained earnings	9	(99,528,865)	(85,290,873)
TOTAL ACCUMULATED FUNDS EMPLOYED		<u><u>93,574,825</u></u>	<u><u>107,207,817</u></u>
CURRENT LIABILITIES			
Customer deposit	6	2,441,510	1,890,410
Bank Overdraft		3,284,723	-
Payables and accruals	7	5,603,788	992,734
TOTAL CURRENT LIABILITIES		<u>11,330,021</u>	<u>2,883,144</u>
TOTAL EQUITY AND LIABILITIES		<u><u>104,904,846</u></u>	<u><u>110,090,961</u></u>



Chairman



General Manager

Embe Water and Sanitation Company
Reports and Financial Statements
For the year ended June 30, 2015

STATEMENT OF CHANGES IN EQUITY

30.06.2014	CAPITAL KSHS	RETAINED EARNINGS KSHS	TOTAL KSHS
OPENING BALANCE	192,498,690	(77,262,650)	115,236,040
Additions during the year	-	(8,028,223)	(8,028,223)
TOTAL	192,498,690	(85,290,873)	107,207,817
30.06.2015	CAPITAL KSHS	RETAINED EARNINGS KSHS	TOTAL KSHS
OPENING BALANCE	192,498,690	(85,290,873)	107,207,817
Restated amount on creditors		(1,203,349)	(1,203,349)
Additions during the year	605,000	(13,034,643)	(12,429,643)
TOTAL	193,103,690	(99,528,865)	93,574,825

STATEMENT OF CASH FLOWS

	NOTES	30.06.2015 Kshs	30.06.2014 Kshs
Cash flows from operating activities			
Net surplus / (deficit) realised from operations		(13,034,643)	(8,028,223)
Adjustments on non-cash items:			
Provisions		11,658,606	10,804,908
Prior period Adjustments		(9,921,464)	
Net cash from operating activities before working capital changes		<u>(11,297,499)</u>	<u>2,776,685</u>
working capital changes			
Decrease (Increase) in stock		(310,606)	10,879
Decrease (Increase) in trade and other receivables	4	7,950,348	(416,363)
Increase/(Decrease) in customer deposits	6	551,100	513,410
Increase(Decrease)in trade payables	7	4,611,054	(732,974)
Cash flows from working capital		<u>12,801,896</u>	<u>(625,048)</u>
Net cash from operating activities after working capital changes		1,504,397	2,151,637
Investing Activities			
Purchase of non current assets	2	(5,582,604)	(2,225,226)
Cash flow generated from (used in) investing activities		(5,575,604)	(2,225,226)
Net cash generated /(used in)financing activities	8	605,000	
Net (decrease)/increase in cash and cash equivalent		605,000	
Movement in cash and cash equivalents		(3,473,207)	(73,589)
Cash and cash equivalents at start of year		2,279,267	2,352,856
Cash and cash equivalents at end of year		<u>(1,193,940)</u>	<u>2,279,267</u>

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1. The principle accounting policies adopted in the preparation of these financial statements are set out below:

1.1 Statement of compliance and basis of preparation

The financial statements have been prepared on a historical cost basis in conformity with International Financial Reporting Standards (IFRS) which allows the use of estimates and assumptions. It also requires management to exercise judgement in the process of applying the company's accounting policies.

The financial statements have been prepared and presented in Kenya Shillings, which is the functional and reporting currency of the company.

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

1.2. Revenue recognition

Revenue is recognised to the extent that it is probable that future economic benefits will flow to the company and the revenue can be reliably measured. Revenue is recognised at the fair value of consideration received or expected to be received in the ordinary course of the company's activities, net of value-added tax (VAT), where applicable, and when specific criteria have been met for each of the company's activities as described below.

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

1.3. In-kind contributions

In-kind contributions are donations that are made to the company in the form of actual goods and/or services rather than in money or cash terms. These donations may include vehicles, equipment or personnel services. Where the financial value received for in-kind contributions 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.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

1.4 Property, plant and equipment

All categories of property, plant and equipment are recorded at cost less accumulated depreciation and impairment losses.

Gains and losses on disposal of items of property, plant and equipment are determined by comparing the proceeds from the disposal with the net carrying amount of the items, and are recognised in profit or loss in the income statement.

1.5 Depreciation and impairment of property, plant and equipment

Depreciation on property, plant and equipment is recognised in the income statement on a reducing balance basis to write down the cost of each asset to its residual value over its estimated useful life. The annual rates in use are:

Buildings and civil works	2.5%
Plant and machinery	12.5%
Motor vehicles, including motor cycles	25%
Computers and related equipment	30%
Office equipment, furniture and fittings	12.5%

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

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 amounts.

1.6 Finance 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.

1.7 Inventories

Inventories are stated at the lower of cost and net realisable value.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

1.8. 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 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.

1.9. 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 various commercial banks at the end of the financial year. For the purposes of these financial statements, cash and cash equivalents also include short term cash imprests and advances to authorised public officers and which were not surrendered or accounted for at the end of the financial year.

1.10. 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 amortised cost using the effective interest rate method. Amortised 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 on accrual basis and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise. Loan interest accruing during the construction of a project is capitalised as part of the cost of the project.

1.11. 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.

1.12. Retirement benefit obligations

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.1,080 per employee per month.

1.13. Provision for staff leave pay

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

Embe Water and Sanitation Company
Reports and Financial Statements
For the year ended June 30, 2015

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

1.14. Comparative figures

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

1.15. Subsequent events

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

2. PROPERTY, PLANT AND EQUIPMENTS

	LAND	BUILDING	PLANT/ MACHINERY	COMPUTERS & ACCESSORIES	MOTOR & BI- CYCLE	FURNITURE/ FITTING.	TOTAL
D.V 01/07/2014	4,850,000	15,160,344	89,390,262	807,250	567,064	118,582	110,893,50
ditions	-	-	2,521,290	103,000	2,951,314	7,000	5,582,60
	4,850,000	15,160,344	91,911,552	910,250	3,518,378	125,582	116,476,10
PRECIATION							
arge in prior							
irs	-	1,140,718	48,899,710	686,670	673,812	67,582	51,468,49
arge for the year	-	369,533	10,092,221	200,423	844,153	13,845	11,520,30
tal charge	-	1,510,251	58,991,931	887,093	1,517,965	81,427	62,988,66
IV 30/06/15	4,850,000	14,411,802	70,645,548	467,653	2,532,459	96,914	93,004,37
D.V 01/07/2014	4,850,000	14,781,335	78,216,479	565,075	425,298	103,759	98,941,946

3. BANK GUARANTEE.

Balance b/f		220,000	70,000
ADD:Additions during the year		-	150,000
		220,000	220,000

[The above amount is withheld by the bank (co-operative bank of kenya-Siakago) on behalf of tana water service board. Therefore, treated as an asset in the statement of financial position.]

4 ACCOUNT RECEIVABLES

Receivables as at 30/06/2014	9,444,690	17,813,477
LESS: 5% Provision	472,235	890,674
Balance as at 30TH JUNE 2014	8,972,456	16,922,803

Embe Water and Sanitation Company
Reports and Financial Statements
For the year ended June 30, 2015

5 CASH AND CASH EQUIVALENTS		
Cash at hand	275,277	366,120
Cash in bank-Current Account	-	295,362
-Savings Account	1,815,506	1,617,785
	<u>2,090,783</u>	<u>2,279,267</u>
6 CUSTOMER DEPOSITS		
Balance b/f	1,890,410	1,377,000
ADD:Additions during the year	551,100	528,700
Less: Refunds during the year	0	(15,290)
	<u>2,441,510</u>	<u>1,890,410</u>
7 ACCOUNTS PAYABLES AND ACCRUALS		
Tana water services Board	4,460,063	892,734
Accrued Gratuity	1,043,725	-
Provision for Audit	100,000	100,000
	<u>5,603,788</u>	<u>992,734</u>
8 CAPITAL FUNDS		
Balance b/f	192,498,690	192,498,690
ADD:Additions during the year	605,000	-
	<u>193,103,690</u>	<u>192,498,690</u>
9 RETAINED EARNINGS		
Balance b/f	(85,290,873)	(77,262,650)
Less: Restated amount on opening balances	(1,203,349)	-
ADD:Additions during the year	(13,034,643)	(8,528,760)
	<u>(99,528,865)</u>	<u>(85,791,410)</u>
10 WATER REVENUE		
Water charges	23,153,100	21,650,489
Reconnection fees	554,300	236,000
	<u>23,707,400</u>	<u>21,886,489</u>
11 GRANTS AND SUBSIDIES		
Mbeere North Constituency Development Fund	-	1,980,000
GOK subsidy on staff salaries	387,960	1,077,960
	<u>387,960</u>	<u>3,057,960</u>
12 MISCELLENEOUS INCOME		
Bank interests	16,845	17,755
Surcharges	553,050	415,937
Application fees	69,600	64,400
Labour	125,400	83,000
Others	70131	31,750
	<u>835,026</u>	<u>612,842</u>

Embe Water and Sanitation Company
Reports and Financial Statements
For the year ended June 30, 2015

13 OTHER OPERATING EXPENSES		
Audit fees	130,000	100,000
Official Entertainment	517,490	458,340
	<u>647,490</u>	<u>558,340</u>
14 FINANCIAL COSTS		
Bank charges	525,410	95,027
	<u>525,410</u>	<u>95,027</u>
15 INDIRECT EXPENSES		
GOK Subsidy on staff salary	387,960	1,077,960
	<u>387,960</u>	<u>1,077,960</u>
16 WATER PRODUCTION AND DISTRIBUTION IN CUBIC METRES		
Water received from intake	899,237	868,611
Less: Water used in treatment works	56,996	53,752
Volume of water produced for consumption	<u>842,241</u>	<u>814,859</u>
Less: volume of water billed	431,108	327,795
Un-accounted for water (water not billed)	<u>411,133</u>	<u>487,064</u>
Percentage of U F W	49	56
17 ADMINISTRATIVE EXPENSES		
i) Water management		
9% Board Administration fees	2,516,983	1,046,166
1% Water Regulatory fees	279,999	
Raw water charge (WARMA)	179,169	214,394
Maintenance of water supply system	3,269,700	2,359,426
Directors allowance	569,500	479,100
	<u>6,815,351</u>	<u>4,099,086</u>
ii) Staff emoluments		
Salaries	7,670,997.00	7,012,560.00
Casual labour	2,513,385	1,953,050
Staff welfare	190,609	101,014
Staff travel and subsistence	2,162,082	1,825,130
	<u>12,537,073</u>	<u>10,891,754</u>
iii) Establishment costs		
Electricity	145,763	177,948
Printing and stationery	670,918	447,569
Telephone, fax and mobile	276,700	186,880

Embe Water and Sanitation Company
Reports and Financial Statements
For the year ended June 30, 2015

Advertisement, publicity and newspapers	25,440	142,946
Transport hire and equipment	157,800	180,650
Insurance	11,225	44,146
Office cleaning and miscellaneous	27,200	28,515
Postage and courier	20,240	19,405
Stakeholders' meeting and exhibition	178,000	106,000
Consultant and Freelance	182,979	-
Laboratory apparatus, chemicals and reagents	1,735,820	1,504,132
Computer repairs and maintenance	139,510	121,600
Building, grounds and General repairs	335,903	208,703
Motor vehicles & cycles running expenses	463,044	430,960
Motor vehicles running (fuel)	678,595	631,200
Security services	294,500	327,278
Miscellaneous penalties and contingencies	14,400	-
Office Furnitures Repairs	-	3,500
Staff uniforms and protective clothes	45,600	51,575
Bicycle repairs and maintenance	19,500	18,600
Provision for Gratuity	556,872	486,849
Increase/ (Decrease) in provision for bad debts	(418,439)	21,914
Depreciation	11,520,175	10,804,908
Total establishment costs	17,051,745	15,945,278
TOTAL ADMINISTRATIVE EXPENSES	36,404,169	30,936,118

18. RETIREMENT BENEFIT OBLIGATIONS

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 is at a maximum of Kshs.1, 080 per employee per month.

For permanent staff, in addition to N.S.S.F there exists registered provident fund where the company contributes 12.5 percent of the employees' basic pay and employee 7.5 percent.

19. RELATED PARTY DISCLOSURES

Parties related to the organisation include those parties who have the ability or where the organisation has the ability to exercise control or exercise significant control over the operating and financial decisions. Related parties include the management personnel, their principals and close family members.

The organisation is related to:

- (i) Water services regulatory board
- (ii) Tana water services board

(iii) Directors and key management personnel of the organisation

NOTES TO THE FINANCIAL STATEMENTS (Continued)

19. RELATED PARTY BALANCES AND TRANSACTIONS (Continued)

	2015 Kshs	2014 Kshs
(a) Due from related parties	-	-
	=====	=====
(b) Due to related parties		
Tana water services board	4,460,063	892,734
Water services regulatory board	178,283	16,257
Accrued Gratuity	1,043,721	486,849
Audit Fees	<u>100,000</u>	<u>100,000</u>
	5,782,067	1,495,840

Tana water services board being the principal is paid 9% of the total revenue collections while Water services regulatory board is paid 1% of the same. The above refers to outstanding balances as at the end of the year. Staffs under terms of contract are paid gratuity calculated at 31% of their Basic salaries at the end of their contract hence the figures shown above relates to the accrued gratuity over the period. Audit fees is the provision for the financial year.

20. FINANCIAL RISK MANAGEMENT POLICIES

Financial risk management objectives

The organisation's overall risk management programme focuses on unpredictability of changes in the operating environment and seeks to minimise the potential adverse effect of such risks on its performance by setting acceptable levels of risk.

The major types of financial risks faced by the organisation are:

- Market risk
- Credit risk
- Liquidity risk

NOTES TO THE FINANCIAL STATEMENTS (Continued)

20. FINANCIAL RISK MANAGEMENT POLICIES (Continued)

Market risk management

(i) Foreign exchange risk

The organisation is not exposed to foreign exchange risk since it does not have foreign currency transactions.

(ii) Interest rate risk

The organisation is exposed to interest rate risk since it has borrowings from family bank.

(iii) Price risk

The organisation does not hold investments that would be subject to price risk hence there is no exposure to price risk.

Credit risk management

Credit risk refers to the risk that a counter party will default on its contractual obligations resulting in financial loss to the organisation. The organisation measures, monitors and manages credit risk for each receivable. The organisation's credit risk is primarily attributable to bank balances, trade and other receivables. The amounts presented in the statement of financial position are net of allowances for doubtful receivables, estimated by the organisation's management based on prior experience and their assessment of the current economic environment.

The credit risk on liquid funds with financial institutions is also low, because the counter parties are banks with high credit-ratings.

The amount that best represents the organisation's maximum exposure to credit risk is made up as follows:

	Total amount Kshs	Fully performing Kshs	Past due Kshs	Impaired Kshs
	30.06.2015	30.06.2015	30.06.2015	30.06.2015
Trade receivables	14,834,311.	-	9,444,690	(5,389,621)
Bank balances	1,815,506 782,385	-	-	
	<u>14,834,311</u>	<u> </u>	<u>9,444,690</u>	<u>(5,389,621)</u>
	=====	=====	=====	=====

NOTES TO THE FINANCIAL STATEMENTS (Continued)

20. FINANCIAL RISK MANAGEMENT POLICIES (Continued)

Credit risk management (Continued)

The debtors under the fully performing category are paying their debts.

The receivables that are past due relate to receivables overdue by over 30 days. The finance department is actively following these receivables. No collateral is held with respect to the debt. The debt that is impaired has been fully provided for.

Liquidity risk management

Prudent liquidity risk management includes maintaining sufficient cash to meet organisation obligations.

The organisation manages liquidity risk through continuous monitoring of forecast and actual cash flows.

The liquidity risk is also managed through the continuous receipts from water revenue.

The table below analyses the organisation's financial liabilities that will be settled on a net basis into relevant maturity groupings based on the remaining period at the statement of financial position date to the contractual maturity date. The amounts disclosed in the table below are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances, since the impact of discounting is not significant.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

20. FINANCIAL RISK MANAGEMENT POLICIES (Continued)

Liquidity risk management (Continued)

Capital risk management

The organization manages its capital to ensure that it is able to continue as a going concern while maximizing the return to stakeholders.

The organization is not exposed to capital risk since it has got no borrowings.

The capital structure of the organisation consists of:

	2015	2014
	Kshs	Kshs
Capital fund/Reserves	193,103,690	192,498,690

21. CONTINGENT LIABILITIES

The organization is exposed to various contingent liabilities in the normal course of operations. Management evaluates the status of these exposures on a regular basis to assess the probability of the organization incurring related liabilities. However, provisions are only made in the financial statements where, based on the management's evaluation, a present obligation has been established.

In May 2014, two cashiers had defrauded the Company of Kshs. 782,385. However, the matter together with Audited statement on the fraud was submitted to Siakago police station procedurally for the culprits to be apprehended and tried. Despite several visits to the Station by our Human Resource and Administration Manager on progress of the case, the company is yet to receive positive report. Recovery of the stolen money therefore, is dependent on prosecution of the two in the coming future.

22. CAPITAL COMMITMENTS

The company did not have capital commitments as at 30 June 2015.

23. CURRENCY

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

24. INCOPORATION

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