REPUBLIC OF KENYA

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26/8/15

KENYA NATIONAL AUDIT OFFICE

REPORT

OF

THE AUDITOR-GENERAL

ON

THE FINANCIAL STATEMENTS OF KISUMU WATER AND SEWERAGE COMPANY LIMITED

FOR THE YEAR ENDED 30 JUNE 2014

KENYA NATIONAL AUDIT OFFICE
P. O. Box 30084 - 00100, NAIROBI.
17 JUN 2015
RECEIVED

KISUMU WATER AND SEWERAGE COMPANY LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30TH JUNE 2014

These Financial Statements have been prepared in accordance with the International Financial reporting Standards (IFRS).

CONTENTS

COMPANY INFORMATION

BOARD OF DIRECTORS

Mr. Israel Agina	:	Chairman
Eng. Moses Agumba		Director (Retired 22nd August 2013)
Mr. Alfred Adongo	:	Director (Retired 22nd August 2013)
Mrs. Rhoda A. Obadha	:	Director
Ms. Magaret Osili		Director (Retired 22nd August 2013)
Mr. Arthur Anam Rateng	:	Director
Mr. Christopher Rusana		Director
Mr William Orondo		Director
Dr. Margaret Kaseje		Director
Eng. David Onyango	:	Managing Director
Mr. Francis Asunah		Director
Mr. George Ongaya		Director
Prof. Barrack Abonyo		Director

MANAGEMENT TEAM

Eng. David Onyango	:	Managing Director
Simon Ondigo	:	Head of Audit and Risk
James Okeyo	:	Head of Finance
Frank David Ochieng	:	Ag. Head of Commercial
Evelyne Opiyo	:	Head of Human Resources & Administration
Moses Jura	:	Head of Technical Services
Nicholas Moseti	:	Ag. Supply Chain Manager (Redeployed in Nov 2013)
Frank David Ochieng	:	Customer Care Manager
Eliud Obonyo		Supply Chain Manager (Appointed in Nov 2013)

REGISTERED OFFICE
: Nafaka House
: Oginga Odinga Street
: P.O. Box 3210, 40100
: KISUMU

AUDITORS
: Auditor General
: P.O. Box 30084, 40100
: NAIROBI

COMPANY SECRETARY
: Equity Secretaries and Registrars
: Certified Public Secretaries
: P.O. Box 14868, 00100
: NAIROBI

PRINCIPAL BANKER
: Co-operative Bank of Kenya Limited
: P.O. Box 1511, 40100
: KISUMU

LEGAL ADVISOR
: Ouma Njoga and Company Advocates
: P.O. Box 2536, 40100
: KISUMU

BOARD COMMITTEES

FINANCE AND COMMERCIAL COMMITTEE

Mr. William Orondo	: Chair
Mr. George Ongaya	
Prof. Barrack Abonyo	
Mr. Francis Asunah	
Eng. David Onyango	

AUDIT AND RISK COMMITTEE

Dr. Margaret Kaseje	: Chair
Mr. Christopher Rusana	
Mr. William Orondo	
Mrs. Rhoda Obadha	

TECHNICAL COMMITTEE

Mr. Francis Asunah	: Chair
Mr. Christopher Rusana	
Mr. Arthur Anam Rateng	
Prof. Barrack Abonyo	
Eng. David Onyango	

HUMAN RESOURCE AND LEGAL COMMITTEE

Mr. Arthur Anam Rateng	: Chair
Mrs. Rhoda Obadha	
Prof. Barrack Abonyo	
Dr. Margaret Kaseje	
Eng. David Onyango	

REPORT OF THE DIRECTORS

The directors submit their report and the audited financial statements for the year ended 30 June 2014 which disclose the state of affairs of the company.

PRINCIPAL ACTIVITIES

The principal activities of the company are:

i) To provide and distribute a constant supply of water for commercial, industrial and domestic purposes within the jurisdiction of County Government of Kisumu.
ii) To be responsible for the provision and maintenance of water and sewerage services within the jurisdiction of County Government of Kisumu.

RESULTS	2014 Shs	2013 Shs
Profit before tax	1,167,921	3,205,740
Tax	(642,544)	(1,193,174)
Profit for the year	525,377	2,012,566

DIVIDEND

The directors do not propose a dividend for the year.

DIRECTORS

The directors who held office during the year and to the date of this report are shown on page 1.

In accordance with Article 69 of the Company's Articles of Association, directors are required to retire by rotation every three years after election.

AUDITORS

The company's auditor is the Auditor General and continues in office in accordance with section 159(2) of the Companies Act (Cap. 486).

BY ORDER OF THE BOARD

DIRECTOR

KISUMU

26TH MAY 2015

DIRECTOR

KISUMU

26TH MAY 2015

STATEMENT OF BOARD OF DIRECTORS' RESPONSIBILITIES

The Companies Act (Cap. 486) requires the directors to prepare financial statements 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 results for that year. It also requires the directors to ensure that the company maintains 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 accept the responsibility for the financial statements which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, consistent with previous years and in conformity with International Financial Reporting Standards and the requirements of the Companies Act (Cap. 486). 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 as at 30 June 2013 and of its operating results for the year then ended. The directors further confirm the accuracy and completeness of the accounting records maintained by the company which have been relied upon in the preparation of the financial statements, as well as on the adequacy of the 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.

DIRECTOR
27TH OCTOBER 2014

DIRECTOR
27TH OCTOBER 2014

REPUBLIC OF KENYA

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NAIROBI

OFFICE OF THE AUDITOR-GENERAL

REPORT OF THE AUDITOR-GENERAL ON KISUMU WATER AND SEWERAGE COMPANY LIMITED FOR THE YEAR ENDED 30 JUNE 2014

REPORT ON THE FINANCIAL STATEMENTS

I have audited the accompanying financial statements of Kisumu Water and Sewerage Company Limited set out on pages 7 to 29, 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 summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and section 14 of the Public Audit Act, 2003. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and for such internal control as management determines is necessary to enable the preparation 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 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 opinion.

Basis of Qualified Opinion

1. Unaccounted For Water (UFW)

During the year under review, the company produced 7,914,756 cubic meters of water out of which, only 4,463,407 cubic meters was billed out to customers. The balance of 3,451,349 cubic meters or about 44% of total volume of water produced was not accounted for. This represents 19% over and above the allowable loss of 25% in accordance with the water services regulatory board guidelines. The unaccounted for water may have resulted in the loss of sales estimated at Kshs.448,701,370. The significant level of UFW may negatively impact on the company's profitability and its long term sustainability.

2. Delayed Remittance of Statutory Debt

The company owed the National Social Security Fund and the Pension Funds Kshs.2,779,285 and Kshs.8,494,763 respectively as at 30 June 2014 which from examination of records were long overdue. In the circumstances, the Company will suffer penalties and interest due to the non-submission of the deductions as required by law.

3. Trade and Other Receivables

As reported in the previous year, trade and other receivables included amounts totalling Kshs.62,700,735 inherited from the defunct Municipal Council of Kisumu. Out of these debts, only Kshs.3,530,968 was recovered during the year. The recoverability of the balance totalling Kshs.59,169,767 is uncertain and any provision to cater for the uncertainty of recovery has not been incorporated in these financial statements. In the circumstances the accuracy of the trade and other receivables of Kshs.241,581,069 as at 30 June 2014 could not be confirmed.

Qualified Opinion

In my opinion, except for the effect of the matters described in the Basis for Qualified Opinion paragraph, the financial statements present fairly, in all material respects, the financial position of the Company as at 30 June 2014, and of its financial performance and its cash flows for the year then ended, and in accordance with International Financial Reporting Standards and comply with both the Companies Act, Cap 486 and Water Act, 2002.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

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

i) I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

ii) In my opinion, proper books of account have been kept by the Company , so far as appears from my examination of those books; and,

iii) The company's financial position is in agreement with the books of account.

Edward R. O. Ouko, CBS
AUDITOR-GENERAL

Nairobi

9 June 2015

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 30 JUNE 2014

	Notes	2014 Shs	2013 Shs
Revenue	1	422,660,331	378,277,320
Cost of sales	25	(163,801,572)	(152,941,694)
Gross profit		258,858,759	225,335,627
Other operating income	2	21,626,022	20,651,191
Employment expenses	4	(135,835,256)	112,351,269
Administrative expenses		(44,315,996)	(35,533,013)
Establishment expenses		(66,836,878)	(57,247,421)
Maintenance expenses		(29,268,495)	(32,556,208)
Operating profit	3	4,228,156	8,298,905
Finance costs	5	(3,060,235)	(5,093,165)
Profit before tax		1,167,921	3,205,740
Tax credit/(charge)	6	(642,544)	(1,193,174)
Profit for the year		525,377	2,012,566
Total comprehensive income for the year		525,377	2,012,566
Dividend:			
Proposed final dividend for the year	7		
Total dividend for the year		-	-

The significant accounting policies on pages 11 to 15 and the notes on pages 16 to 25 form an integral part of these financial statements.

Report of the independent auditors - pages 5 and 6.

STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2014

	Notes	2014 Shs	2013 Shs
CAPITAL EMPLOYED			
Share capital	8	100,000	100,000
Proposed dividends		-	-
Retained earnings		2,426,945	2,935,504
Shareholders' fund		2,526,945	3,035,505
Non-current liabilities			
Borrowings	9	6,529,376	8,884,147
Trade and other payables	15	88,347,172	80,504,549
Grants	18	46,042,388	25,402,610
		140,918,936	114,791,306
		143,445,880	**117,826,811**
REPRESENTED BY			
Non current assets			
Property, plant and equipment	10	109,254,314	96,284,094
Deferred tax	11	1,864,515	682,588
		111,118,829	96,966,682
Current assets			
Inventories	12	7,668,926	11,163,093
Trade and other receivables	13	241,581,069	204,469,582
Cash and cash equivalents	14	9,066,551	3,184,871
		258,316,545	218,817,546
Current liabilities			
Trade and other payables	15	204,119,451	181,200,802
Provision for liabilities and charges	16	1,951,066	1,570,410
Borrowings	9	9,647,957	6,739,655
Dividend payable		2,000,000	2,000,000
Current tax	6	8,271,020	6,446,549
		225,989,494	197,957,416
Net current assets		32,327,051	20,860,129
		143,445,881	**117,826,811**

The financial statements on pages 7 to 25 were authorised for issue by the Board of Directors on 26th MAY 2015 and were signed on its behalf by:

______________ DIRECTOR ______________

The significant accounting policies on pages 11 to 15 and the notes on pages 16 to 25 form an integral part of these financial statements.

Report of the independent auditors - pages 5 and 6.

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

	Notes	Share capital Shs	Proposed dividend Shs	Retained earnings Shs	Total Shs
Year ended 30 June 2013					
At start of year		100,000		2,935,504	3,035,504
As previously stated					-
Prior year adjustments: (Assets)				168,750	168,750
Prior year adjustments:(Suppliers)				(1,202,687)	(1,202,687)
Provision for bad debts		-	-	-	-
Correction of current tax		-	-	-	-
As restated		100,000	-	1,901,567	2,001,567
					-
Total comprehensive income for the year		-	-		-
					-
Dividends:					-
- Final for 2013 (paid)				-	-
- Final for 2013 (payable)	7	-		-	-
At end of year		100,000	-	1,901,567	2,001,567
Year ended 30 June 2014					
At start of year					
As previously stated		100,000	-	1,901,567	2,001,567
Prior year adjustments:					-
Provision for bad debts		-	-	-	-
Correction of current tax		-	-	-	-
As restated		100,000	-	1,901,567	2,001,567
Total comprehensive income for the year		-	-	525,377	525,377
					-
Dividends:					-
- Final for 2014 (paid)			-	-	-
- Final for 2014 (payable)		-		-	-
At end of year		100,000	-	2,426,944	2,526,944

The significant accounting policies on pages 11 to 15 and the notes on pages 16 to 25 form an integral part of these financial statements.

Report of the independent auditors - pages 5 and 6.

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2014

	Notes	2014 Shs	2013 Shs
Operating activities			
Cash generated from operations	17	151,218	8,656,804
Gratuity Paid		0	-
Tax paid			-
Net cash generated from operating activities		151,218	8,656,804
Investing activities			
Purchase of property, plant and equipment	10	(26,329,877)	(44,636,398)
WIP - Manyatta project Transferred		1,350,000	6,316,572
Net cash (used in) investing activities		**(24,979,878)**	(38,319,826)
Financing activities			
Increase in water deposits		7,842,623	8,344,845
Grant received	18	25,374,421	10,652,638
Borrowings Received (KREP & CO-OP)		-	30,160,782
Borrowings Paid		(3,188,104)	(15,531,078)
Interest paid		(3,060,236)	(5,093,165)
Proceeds from temporary overdrafts		4,735,732	(1,221,402)
Repayment of finance leases		(994,099)	(1,820,035)
Net cash from financing activities		30,710,339	25,492,586
Increase in cash and cash equivalents		5,881,680	(4,170,436)
Movement in cash and cash equivalents			
At start of year		3,184,871	7,355,306
Increase/(Decrease)		5,881,680	(4,170,436)
At end of year	14	9,066,551	3,184,871

The significant accounting policies on pages 11 to 15 and the notes on pages 16 to 25 form an integral part of these financial statements.

Report of the independent auditors - pages 5 and 6.

NOTES

SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

a) **Basis of preparation**

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

- New standards, amendments and interpretations issued but not effective for the financial year beginning 1 November 2010 and not adopted in advance of the effective date.

IFRS 9, 'Financial instruments', issued in November 2009. This standard is the first step in the process to replace IAS 39, 'Financial instruments: recognition and measurement'. IFRS 9 introduces new requirements for classifying and measuring financial assets and is likely to affect the company's accounting for its financial assets. The standard is applicable from 1 January 2015.

b) **Revenue recognition**

Revenue comprises the fair value of the consideration received or receivable for the distribution of water and performance of services, in the ordinary course of business and is stated net of rebates and discounts.

The company recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and when the specific criteria have been met for each of the company's activities as described below. The amount of revenue is not considered to be reliably measured until all contingencies relating to the sale have been resolved. The company bases its estimates on historical results, taking into consideration the type of customer, type of transaction and specifics of each arrangement.

i) Sale of water is recognised upon delivery of water and customer acceptance.
ii) Sale of services are recognised upon performance of the services rendered.

c) **Translation of foreign currencies**

Transactions in foreign currencies during the year are converted into Kenya Shillings (functional currency), at rates ruling at the transaction dates. Assets and liabilities at reporting date which are expressed in foreign currencies are translated into Kenya Shillings at rates ruling at that date. The resulting differences from conversion and translation are dealt with in profit or loss in the year in which they arise.

d) **Property, plant and equipment**

All property, plant and equipment is initially recorded at cost and thereafter stated at historical cost less depreciation. Historical cost comprises expenditure initially incurred to bring the asset to its location and condition ready for its intended use.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the company and the cost can be reliably measured. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to profit or loss during the financial period in which they are incurred.

Depreciation on buildings is provided on a straight line basis over its estimated useful life of 40 years.

NOTES (CONTINUED)

SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

d) **Property, plant and equipment (continued)**

Depreciation on other assets is calculated on the reducing balance basis to write down the cost of each asset, to its residual value over its estimated useful life using the following annual rates:

	Rate %
Leasehold improvements	2.5 (straight line basis)
Plant, machinery and meters	12.5
Motor vehicles and cycles	25
Furniture and fittings	12.5
Computer equipment	30

Capital work in progress is not depreciated.

The assets residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposal of property, plant and equipment are determined by comparing the proceeds with the carrying amount and are taken into account in determining operating profit.

e) **Intangible assets**

Computer software
Computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives.

Costs associated with developing or maintaining computer software programmes are recognised as an expense as incurred. Costs that are directly associated with the production of identifiable and unique software products controlled by the company, and that will probably generate economic benefits exceeding costs beyond one year, are recognised as intangible assets. Direct costs include software development staff costs and an appropriate portion of relevant overheads.

Computer software development costs recognised as assets are amortised over 5 years on a straight line basis.

f) **Financial instrument**

Financial assets

The company's financial assets which include cash and bank balances and trade and other receivables fall into the following category:

Loans and receivables: financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are classified as current assets where maturities are within 12 months of the reporting date. All assets with maturities greater than 12 months after the reporting date are classified as non-current assets. Such assets are carried at amortised cost using the effective interest rate method. Changes in the carrying amount are recognised in profit or loss.

Purchases and sales of financial assets are recognised on the trade date i.e. the date on which the company commits to purchase or sell the asset.

NOTES (CONTINUED)

SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

f) **Financial instrument (continued)**

A financial asset is impaired if its carrying amount is greater than its estimated recoverable amount. The amount of the impairment loss for assets carried at amortised cost is calculated at the difference between the assets carrying amount and the present values of expected future cash flows, discounted at the financial instrument's effective interest rate. Impairment losses are taken into account for determining operating profit.

Financial liabilities

The company's financial liabilities which include borrowings, current tax and trade and other payables fall into the following category:

Other financial liabilities: These are initially measured at fair value and subsequently measured at amortised cost, using the effective interest rate method.

Borrowings are initially recognised at fair value, net of transaction costs incurred and are subsequently stated at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption value is recognised as interest expense in profit or loss under finance costs.

Fees associated with the acquisition of borrowing facilities are recognised as transaction costs of the borrowing to the extent that it is probable that some or all of the facilities will be acquired. In this case the fees are deferred until the drawn down occurs. If it is not probable that some or all of the facilities will be acquired the fees are accounted for as prepayments under trade and other receivables and amortised over the period of the facility.

All financial liabilities are classified as current liabilities unless the company has an unconditional right to defer settlement of the liability for at least 12 months after the reporting date.

Financial liabilities are derecognised when, and only when, the company's obligations are discharged, cancelled or expired.

Offsetting financial instruments

Financial assets and liabilities are offset and the net amount is presented in the statement of financial position when there is a legally enforceable right to offset the amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

g) **Inventories**

Inventories are stated at the lower of cost and net realisable value. Cost is determined by the direct purchase value and all costs attributable to bringing the inventory to its current location and condition and is stated on a first-in first-out (FIFO) basis. Net realisable value is the estimate of the selling price in the ordinary course of business, less the selling expenses.

h) **Cash and cash equivalents**

For the purposes of the statement of cash flows, cash and cash equivalents comprise cash in hand and deposits held at call with banks.

NOTES (CONTINUED)

SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

i) **Share capital**

Ordinary shares are classified as equity.

j) **Dividends**

Dividends are recognised as a liability in the period in which they are declared. Proposed dividends are disclosed as a separate component of equity until declared.

k) **Taxation**

The tax expense for the year comprises current and deferred tax. Tax is recognised in profit or loss.

Current tax
Current tax is provided on the results for the year, adjusted in accordance with tax legislation.

Deferred tax
Deferred tax is provided using the liability method for all temporary timing differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes. Currently enacted tax rates are used to determine deferred tax. Deferred tax assets are recognised only to the extent that it is probable that future taxable profits will be available against which temporary timing differences can be utilised.

l) **Accounting for leases**

Leases of property, plant and equipment, where the company assumes substantially all the risks and rewards of ownership, are classified as finance leases. Finance leases are capitalised at cost. Each lease payment is allocated between the liability and finance charges. The interest element is charged to profit or loss over the lease period and is included under finance costs. Such property, plant and equipment are depreciated over its useful life.

Leases of assets under which a significant portion of the risks and rewards of ownership are effectively retained by the lessor are classified as operating leases. Payments made under operating leases are charged to profit or loss on a straight line basis over the period of the lease.

m) **Employee entitlements**

Employee entitlements to gratuity and long service awards are recognised when they accrue to employees. A provision is made for the estimated liability for such entitlements as a result of services rendered by employees up to the reporting date.

The estimated monetary liability for employees' accrued annual leave entitlement at the reporting date is recognised as an expense accrual.

NOTES (CONTINUED)

SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

n) **Retirement benefit obligations**

The company contributes to a superannuation fund which is a defined contribution staff retirement benefit scheme for its permanent and pensionable employees. The assets of this scheme are held in a separate trustee administered fund. The company's contributions to the defined contribution retirement benefit scheme are charged to profit or loss in the year to which they relate. The scheme is funded by contributions from both the employees and employer. Benefits are paid to retiring staff in accordance with the scheme rules.

The company and its employees contribute to the National Social Security Fund (NSSF), a statutory defined contribution scheme registered under the NSSF Act. The company's contributions to the defined contribution scheme are charged to profit or loss in the year to which they relate.

o) **Grants**

Grants related to assets, including-non monetary grants at fair value are presented in the statement of financial position by setting up the grant as deferred income.

The grant is recognised as income on a systematic and rational basis over the useful life of the asset.

p) **Comparatives**

Where necessary, comparative figures have been adjusted to conform with changes in presentation in the current year. In particular, the comparatives have been adjusted or extended to comply with the requirements of International Accounting Standard 12 on 'Income Taxes'.

NOTES

	2014	2013
1. Revenue	Shs	**Shs**
Revenue from sale of water and services	422,660,331	378,277,320
2. Other operating income		
Illegal connections	2,258,638	2,219,678
New water connections	4,403,700	3,208,650
Reconnection fees	1,098,030	1,398,100
Sewer agreement forms	10,600	**13,200.00**
Sewer connection	475,400	606,400
Tender income	414,000	317,350
Water connection forms	710,700	800,000
Surcharge on meter loss	897,800	1,199,800
Write back of grants	4,734,645	651,236
Other miscellenaous income	6,622,509	10,236,776
Total other operating income	21,626,022	20,651,190

3. Operating profit

The following items have been charged in arriving at operating profit:

	2014	2013
Depreciation on property, plant and equipment (Nc	12,178,408	8,543,325
Amortisation of intangible assets (Note 10)	-	-
Auditors' remuneration		
- Current year	465,850	465,850
Trade receivables - impairment	-	-
Repairs and maintenance	29,268,495	32,556,208
Staff costs (Note 4)	135,835,256	112,351,269

4. Staff costs

	2014	2013
Salaries and wages	89,905,039	73,536,601
Other staff costs	26,270,045	21,914,567
Gratuity (Note 16)	969,488	1,177,808
Allowances in lieu of leave	0	1,763,145
Pension costs:		
- Defined contribution scheme	4,902,219	4,241,459
- National Social Security Fund	549,040	196,600
Staff medical expense	6,590,177	5,808,746
Staff uniform and protective clothing	1,442,055	267,929
Staff training	4,104,060	2,063,585
Staff welfare	928,533	1,198,480
DIT Levy	174,600	182,350
	135,835,256	112,351,269

5. Finance costs

	2014	2013
Finance lease interest	3,060,235	5,093,165

6. Tax

	2014	2013
Brought forward	6,446,549	6,446,549
Current tax	642,543	1,193,174
Deferred tax (credit)/charge (Note 11)	1,181,927	(101,367)
Overprovision of current tax in prior years	-	-
	8,271,020	7,538,356

6. **Tax (continued)**

The tax on the company's profit before tax differs from the theoretical amount that would arise using the basic rate as follows:

	2014 Shs	2013 Shs
Profit before tax	1,167,921	3,205,740
Tax calculated at a tax rate of 30% (2014: 30%)	350,376	961,722
Tax effect of:		
- expenses not deductible for tax purposes	4,184,156	3,091,187
- income not subject to tax	(3,891,989)	(2,859,735)
- overprovision of current tax in prior years	-	-
Tax charge	642,544	1,193,174

7. **Dividends**

Payment of dividend is subject to a withholding tax at the rate of 5% for residents and 10% for non-residents or 0% where holding is by a resident company holding more than 12.5%.

8. **Share capital**

	2014 Shs	2013 Shs
Authorised, issued and fully paid:		
5,000 (2013: 5,000) ordinary shares of Shs. 20 each	100,000	100,000

The company is owned by County Government of Kisumu who hold 99.9% of the total shares.

9. **Borrowings**

The borrowings are made up as follows:

	2014 Shs	2013 Shs
Non-current		
Term Loan	6,529,376	8,884,147
Finance leases	0	0
	6,529,376	8,884,147
Current		
Term Loan	4,912,224	5,745,557
Temporary bank overdraft	4,735,732	0
Finance leases		994,099
	9,647,957	6,739,655
Total borrowings	16,177,333	15,623,802

Finance leases are secured by a right over the leased assets.

Weighted average effective interest rates at the year end was 18%.

The fair values of current borrowings equal to their carrying amount, as the impact of discounting is not significant. The fair values are based on cash flows discounted using the weighted average rates mentioned above.

In the opinion of the directors, it is impracticable to assign fair values to the company's long-term liabilities due to inability to forecast interest rate.

The carrying amounts of the company's borrowings are denominated in the Kenya Shillings.

NOTES (CONTINUED)

10.(a) **Property, plant and equipment**
Year ended 30 June 2014

	Leasehold improvements	Plant, machinery and meters	Motor vehicles and cycles	Furniture and fittings	Computer equipment	Capital work-in-progress	Project Assets	Total
	Shs	Shs	Shs	Shs	Shs	Shs		Shs
Cost or Valuation	2.50%	12.5%	25%	12.5%	30%		12.5%	
As at 1st July 2013	1,138,554	77,359,656	13,873,925	7,442,591	5,544,093	43,474,697		148,833,516
Additions		5,018,386	0	70,116	803,752	20,437,623		26,329,877
Transfers/Reversal		(1,350,000)				(34,167,027)	34,167,027	(1,350,000)
As at 30th June 2014	**1,138,554**	**81,028,043**	**13,873,925**	**7,512,707**	**6,347,845**	**29,745,292**	**34,167,027**	**173,813,394**
Depreciation								
As at 1st July 2013	250,483	33,887,292	10,022,638	4,138,667	4,250,342	-	-	52,549,422
Reversal on impairment		(168,750)						(168,750)
Charge for the year	22,202	5,871,500	962,822	421,755	629,251	-	4,270,878	12,178,408
As at 30th June 2014	**272,685**	**39,590,042**	**10,985,460**	**4,560,422**	**4,879,593**	**-**	**4,270,878**	**64,559,080**
Net book value - 30th June 2014	**865,869**	**41,438,001**	**2,888,465**	**2,952,285**	**1,468,252**	**29,745,292**	**29,896,149**	**109,254,314**

10.(b) **Property, plant and equipment**
Year ended 30 June 2013

	Leasehold improvements	Plant, machinery and meters	Motor vehicles and cycles	Furniture and fittings	Computer equipment	Capital work-in-progress	Project Assets	Total
	Shs	Shs	Shs	Shs	Shs	Shs	Shs	Shs
Cost	2.50%	12.5%	25%	12.5%	30%		12.5%	
As at 1st July 2012	1,138,554	70,247,693	13,873,925	7,442,591	5,278,793	12,532,133	-	110,513,689
Additions		7,111,963		0	265,300	37,259,135		44,636,398
Transfers						(6,316,572)		(6,316,572)
As at 30th June 2013	1,138,554	77,359,656	13,873,925	7,442,591	5,544,093	43,474,697	-	148,833,516
Depreciation								
As at 1st July 2012	227,712	27,676,954	8,738,876	3,666,678	3,695,877	-	-	44,006,097
Reversal on impairment								
Charge for the year	22,771	6,210,338	1,283,762	471,989	554,465			8,543,325
As at 30th June 2013	250,483	33,887,292	10,022,638	4,138,667	4,250,342	-	-	52,549,422
Net book value - 30th June 2013	888,071	43,472,364	3,851,287	3,303,924	1,293,751	43,474,697	-	96,284,094

NOTES (CONTINUED)

11 Deferred tax

Deferred tax is calculated, in full, on all temporary timing differences under the liability method using a principal tax rate of 30% . The movement on the deferred tax account is as follows:

	2014 Shs	**2013** **Shs**
At start of year	(682,588)	(783,95
(Credit)/charge to profit or loss (Note 6)	(1,181,927)	101,36
At end of year	(1,864,515)	(682,58

Deferred tax (assets) and deferred tax (credit) to profit or loss is attributable to the following item:

	At start of year Shs	**(Credit) to profit or loss Shs**	**At end of year Shs**
Deferred tax (assets)			
Provisions	(682,588)	(1,181,927)	(1,864,51
Net deferred tax (asset)	(682,588)	(1,181,927)	(1,864,51

12 Inventories

	2014 Shs	**2013** **Shs**
Chemicals	1,014,579	2,320,26
Consumables	6,654,347	8,842,82
	7,668,926	11,163,09

13 Trade and other receivables

Trade receivables	167,770,905	147,313,72
Less: provision for impairment	-	-
Net trade receivables	167,770,905	147,313,72
Prepayments and deposits	2,445,935	2,336,47
Other receivables- VAT & Staff advances	18,703,777	14,897,81
Receivable from related parties (Note 19)	52,660,452	39,921,56
	241,581,069	204,469,58

NOTES (CONTINUED)

13 **Trade and other receivables (continued)**	**2014 Shs**	**2013 Shs**
Movement in related parties balances		
At start of year	39,921,566	23,597,594
Additions in the year	12,738,886	16,323,972
Bills paid by the County government	-	-
At end of year	52,660,452	39,921,566

Following the conclusion of indebtnedness reconciliation by a MCK/KIWASCO Joint Committee, the existing water debtor balances from MCK accounts on 31 December 2010 were offset against existing balances of MCK creditors.

Movement in impairment provisions		
At start of year	-	-
Additions	-	-
At end of year	-	-

In the opinion of the directors, the carrying amounts of trade and other receivables approximate to their fair value.

The company's credit risk arises primarily from trade receivables. The directors have made a provision for the portion of the receivable whose recovery is in doubt.

The carrying amounts of the company's trade and other receivables are all denominated in Kenya Shillings.

The maximum exposure to credit risk at the reporting date is the fair value of each class of receivable mentioned above. The company does not hold any collateral as security.

14 **Cash and cash equivalents**	**2013 Shs**	**2012 Shs**
Cash at bank and in hand	9,066,551	3,184,871

For the purpose of the statement of cash flows, the year-end cash and cash equivalents comprise the above.

15 **Trade and other payables**	**2014 Shs**	**2013 Shs**
Non current		
Water deposits	52,614,495	44,771,872
Municipal Council of Kisumu - Contributions	35,732,677	35,732,677
	88,347,172	80,504,549

NOTES (CONTINUED)

15 **Trade and other payables (continued)**

	2014 Shs	2013 Shs
Current		
Trade payables	59,109,237	72,839,438
Municipal Council of Kisumu	43,664,764	43,664,764
Municipal Council of Kisumu - Conservancy fee	15,027,640	7,615,960
Accruals	13,968,136	8,479,565
Other payables	12,262,834	12,655,404
LVSWSB -(MCK) Lease Fees	32,750,000	17,750,000
Lake Victoria South Water Services Board Levy	26,136,840	16,995,649
Water deposits	1,200,000	1,200,000
	204,119,451	181,200,780
Total trade and other payables	292,466,623	215,789,206

Movement in Municipal Council of Kisumu - Contributions

	2014 Shs	2013 Shs
At start of year and as previously stated	35,732,677	35,732,677
Prior year adjustment:		
Water deposit	-	-
As restated	35,732,677	35,732,677
Amount offset against irrecoverable water debtors taken over at inception	-	-
At end of year	35,732,677	35,732,677

In the opinion of the directors, the carrying amount of trade and other payables approximate to their fair value.

The carrying amounts of the company's trade and other payables are all denominated in Kenya Shillings.

The maturity analysis of trade and other payables is as follows:

	2014 Shs	2013 Shs
Within three months	64,509,237	78,239,438
Three to twelve months	139,610,214	102,961,364
Over one year	88,347,172	80,504,549
	292,466,623	261,705,351

16 **Provisions for liabilities and charges**

	2014 Shs	2013 Shs
At start of year	1,570,410	2,958,750
Charge to profit or loss (Note 4)	969,488	1,177,808
	2,539,898	4,136,558
Utilised during the year	(588,832)	(2,566,147)
At end of year	1,951,066	1,570,410

17 Cash generated from operations

	2014 Shs	2013 Shs
Reconciliation of profit before tax to cash generated from operations:		
Profit before tax	1,167,921	3,205,740
Adjustments for:		
Depreciation on property, plant and equipment (Note 10)	12,178,408	8,543,325
Amortisation of intangible assets (Note 10)		
Impairment loss on meters		
Interest expense	3,060,236	5,093,165
Increase/(decrease) provision for liabilities and charges (Note 16)	380,656	(1,388,340)
Grants written back (Note 18)	(4,734,645)	(361,389)
Changes in working capital:		
- Inventories (Note 12)	3,494,167	2,099,182
- Trade and other receivables (Note 13)	(37,111,487)	(46,106,179)
- Trade and other payables (Note 15)	22,918,649	37,571,300
Prior year adjustment - Trade payables	(1,202,687)	
Cash generated from operations	151,218	8,656,804

18 Grants

	At start of year	Advance during the year	Write back to income	At end of year
Year ended 30 June 2014				
Nyalenda project	2,240,745		(280,093)	1,960,652
Lake Victoria South Water Services Board	288,964		(36,121)	252,843
Water Service Trust Fund	22,872,902	12,471,672	(4,418,432)	30,926,142
Other Grants		12,902,749	0	12,902,749
	25,402,611	**25,374,421**	**(4,734,645)**	**46,042,387**
Year ended 30 June 2013				
Nyalenda project	2,560,853	-	(320,108)	2,240,745
Lake Victoria South Water Services Board	330,245	-	(41,281)	288,964
Water Service Trust Fund	12,220,264	17,259,837	(6,607,199)	22,872,902
	15,111,362	**17,259,837**	**(6,968,588)**	**25,402,611**

19 Related party transactions and balances

	2014 Shs	2013 Shs
i) **Sale of goods and services**		
Sale of water to related parties	12,738,886	15,738,830
ii) **Purchase of goods and services**		
Lease charges and levy from related parties	33,978,074	32,122,190
iii) **Outstanding balances arising from sale and purchase of goods/service and other contractual agreements**		
Receivable from related parties (Note 14)	52,660,452	39,336,424
Payable to related parties (Note 16)	58,692,404	51,280,724

20 Risk management objectives and policies

Financial risk management

The company's activities expose it to a variety of financial risks: market risk (including interest rate risk) credit risk and liquidity risk.

The company's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the company's financial performance.

Risk management is carried out by the management under policies approved by the board of directors. Management identifies, evaluates and hedges financial risks in close co-operation with various departmental heads. The board provides written principles for overall risk management, as well as written policies covering specific areas, such as interest rate risk, credit risk, and investment of excess liquidity.

(a) **Market risk**

- *Cash flow and interest rate risk*

The company has no interest bearing assets and as a result its cashflows are substantially independent of changes in market interest rates.

The company's exposure to interest rate risk arises from current borrowings. Borrowings obtained at different rates expose the company to interest rate risk. Borrowings obtained at fixed rates expose the company to fair value interest rate risk where the relevant instruments are not carried at amortised cost.

	2,014	**2,013**
	Shs	**Shs**
Effect on profit-(decrease)	(3,060,235)	(5,093,165)

The table above summarises the effect on post-tax profit had interest rates been 100 basis points higher, with all other variables held constant. If the interest rates were lower by 100 basis points, the effect would have been the opposite.

(b) **Credit risk**

Credit risk arises mainly from cash and cash equivalents and trade and other receivables.

Management assesses the credit quality of the customer, taking into account their financial position, past experience and other factors, when determining credit limits.

Individual limits are set based on internal or external information in accordance with limits set by the management. The utilisation of credit limits is regularly monitored.

No credit limits were exceeded during the reporting period, and management does not expect any losses from non-performance by these counterparties.

None of the financial assets that are fully performing has been renegotiated in the last year.

Exposure to this risk has been quantified in each financial asset note in the financial statements along with any concentration of risk.

20 **Risk management objectives and policies (continued)**

(c) **Liquidity risk**

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. Due to the dynamic nature of the underlying businesses, the company's management maintains flexibility in funding by maintaining availability under committed credit lines.

Notes 9 and 16 discloses the maturity analysis of borrowings and trade and other payables.

21 **Capital management**

The company's objectives when managing capital are:
- to provide an adequate return to shareholders by pricing services commensurately with the level of risk;
- to safeguard the entity's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders; and
- to maintain a strong asset base to support the development of business.
- to maintain an optimal capital structure to reduce the cost of capital.

The company sets the amount of capital in proportion to risk. The company manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the company may adjust the amount of dividends paid to shareholders or issue new shares.

As at the reporting date, the company had sufficient cash and cash equivalents to adequately cover its borrowings.

22 **Commitments**

Operating lease commitments	**2014 Shs**	**2013 Shs**
Operating lease commitments	18,000,000	18,000,000

23 **Country of incorporation**

Kisumu Water and Sewerage Company Limited is incorporated in Kenya under the Companies Act as a private limited liability company and is domiciled in Kenya.

24 **Presentation currency**

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

NOTES (CONTINUED)

25. COST OF SALES

	JUNE **2014** Shs	**JUNE 2013** Shs
Opening inventories of chemicals	2,320,264	1,988,005
Water chemicals	77,888,578	77,100,533
Electricity	84,607,309	76,173,419
Closing inventories of chemicals	(1,014,579)	(2,320,264)
Total cost of sales	163,801,572	152,941,693

SCHEDULE OF OTHER OPERATING INCOME AND EXPENDITURE

1. OTHER OPERATING INCOME	2014 Shs	2013 Shs
Illegal connections	2,258,638	2,219,678
New water connections	4,403,700	3,208,650
Reconnection fees	1,098,030	1,398,100
Sewer agreement forms	10,600	13,200
Sewer connection	475,400	606,400
Tender income	414,000	317,350
Water connection forms	710,700	800,000
Surcharge on meter loss	897,800	1,199,800
Write back of grants	4,734,645	651,236
Other miscellenaous income	6,622,509	10,236,776
Total other operating income	21,626,022	20,651,190

2. EMPLOYMENT EXPENSES		
Salaries and wages	89,905,039	73,536,601
Contracted workers	26,270,045	21,914,567
Gratuity provision	969,488	1,177,808
Allowances in lieu of leave	0	1,763,145
Staff medical expense	6,590,177	5,808,746
Staff uniform and protective clothing	1,442,055	267,929
Staff training	4,104,060	2,063,585
Staff welfare	928,533	1,198,480
Company contribution to NSSF	549,040	196,600
DIT Levy	174,600	182,350
Company pension contribution	4,902,219	4,241,459
Total employment expenses	135,835,256	112,351,269

3. ADMINISTRATIVE EXPENSES		
Board Expenses	5,676,339	3,559,904
Board retreat and annual general meeting	1,939,461	509,020
Advertising and publicity	2,394,480	1,370,501
Tenders	0	72,900
Bank charges and commissions	2,685,347	2,496,440
Postages and telephones	3,460,842	2,269,178
Vehicle running expenses	10,921,078	7,614,855
Travels and subsistence	4,216,545	4,018,723
Printing and stationery	2,867,107	2,434,776
Audit fees		
- Current year	485,850	465,850
- Under/(over) provision in prior years		
Fines and penalties for retirees		
Debt collection	728,500	388,800
Bad debts Provision	0	0
Legal and professional fees an subscriptions	1,760,875	1,925,231
Consultancy	3,719,084	4,899,974
Office expenses	3,346,836	3,476,862
Donations	113,653	30,000
Total administrative expenses	44,315,996	35,533,013

SCHEDULE OF OTHER OPERATING INCOME AND EXPENDITURE (CONTINUED)

4. **ESTABLISHMENT EXPENSES**	**2014 Shs**	**2013 Shs**
Lease fees	18,000,000	18,000,000
LVSWSB Levy	15,978,074	14,122,190
WASREB levy	4,107,286	3,398,439
WRMA levy	5,169,463	4,511,774
NEMA	415,000	
KEBS levy	400,000	400,000
Office rent	2,128,139	1,907,628
Repairs and maintenance	684,620	1,024,190
Electricity	0	177,347
General insurance	634,836	499,865
Security expenses	7,141,052	4,662,664
Depreciation on property, plant and equipment	12,178,408	8,622,915
Total establishment expenses	66,836,878	57,327,011

5. **MAINTENANCE EXPENSES**

Opening inventories of consumables	8,842,829	11,274,270
Network maintenance	21,640,586	23,956,339
Sewerage maintenace	859,760	1,600,283
Laboratory reagent	519,063	383,273
Water pump maintenance	2,691,868	2,085,473
Electrical items	1,368,738	2,099,399
Closing inventories of consumables	(6,654,347)	(8,842,829)
Total maintenance expenses	29,268,495	32,556,208

6. **FINANCE COSTS**

Loan Interest		
Finance lease interest	3,060,235	5,093,165
Total finance expenses	3,060,235	5,093,165

APPENDICES

	2014	2013
1. ACCRUALS	**Shs**	**Shs**
PAYE outstanding	2,759,935	1,127,346
NSSF outstanding	2,779,285	2,719,685
NHIF outstanding	121,880	81,220
Electricity	552,792	552,792
Special PAYE	356,263	197,118
WASREB Levy	370,231	1,087,539
Accrued Salaries & Wages	3,320,542	1,792,698
WARMA	2,560,958	425,838
DIT	14,550	29,500
Nexus Insurance Brokers	200,000	
KENAO	931,700	465,850
	13,968,136	8,479,565

2. OTHER PAYABLES

	2014	2013
Voluntary contribution	2,652,571	2,737,746
Union dues outstanding	1,087,456	1,087,456
Pension outstanding	8,494,763	8,813,402
NUWASE	28,044	16,800
	12,262,834	12,655,404

3. PREPAYMENTS

	2014	2013
Telephone deposits	10,000	10,000
Electricity deposits	547,900	542,900
Internet	17,400	17,400
Insurance	265,635	
Staff medical insurance	1,605,000	1,766,177
	2,445,935	2,336,477

4. OTHER RECEIVABLES

	2014	2013
VAT	18,353,691	14,844,313
Staff advances	350,086	53,500
	18,703,777	14,897,813

PERIOD COVERED: 12 MONTHS

		KShs.	KShs.
Profit as per financial statements			1,167,921
Add:	Depreciation of property, plant and equipment	12,178,408	
	Airtime: 30% of Shs. 2,285461.5	685,638	
	Impairment loss on meters	0	
	Increase in provision for liabilities and charges	969,488	
	Penalties	0	
	Subscription	0	
	Donations	113,653	13,947,187
			15,115,108
Less:	Wear and tear allowance	8,238,650	
	Write back of grants	4,734,645	(12,973,296)
ADJUSTED TAXABLE PROFIT			2,141,812
Tax thereon @ 30%			**642,543**

WEAR AND TEAR SCHEDULE

	Class (ii) 30% KShs.	Class (iii) 25% KShs.	Class (iv) 12.50% KShs.	Total KShs.
W.D.V brought forward	1,145,414	3,718,670	50,055,362	54,919,446
Additions	803,752	0	5,088,502	5,892,254
Reversal			(1,350,000)	
	1,949,166	3,718,670	53,793,864	60,811,700
Wear and tear allowance	(584,750)	(929,668)	(6,724,233)	(8,238,650)
W.D.V carried forward	1,364,416	2,789,003	47,069,631	52,573,050

DEFERRED TAX

	Depreciation of property, plant and equipment	12,178,408
Less	Wear and tear allowance	(8,238,650)
		3,939,758
	Deferred Tax thereon @ 30%	**1,181,927**