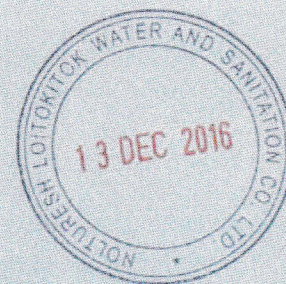


REPUBLIC OF KENYA



OFFICE OF THE AUDITOR-GENERAL

REPORT



OF

THE AUDITOR-GENERAL

ON

THE FINANCIAL STATEMENTS OF  
NOL-TURESH LOITOKITOK WATER  
AND SANITATION COMPANY LIMITED

FOR THE YEAR  
ENDED 30 JUNE 2015



OFFICE OF THE AUDITOR GENERAL  
P. O. Box 30084 - 00100 NAIROBI

28 JUN 2016

**RECEIVED**



**Nol-Turesh Loitokitok Water &  
Sanitation Company Limited**

**ANNUAL REPORT &  
FINANCIAL STATEMENTS  
FOR THE YEAR ENDED  
30<sup>TH</sup> JUNE 2015**

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**CORPORATE INFORMATION****Incorporation**

NOLWASCo is an agent of Tanathi Water Services Board which is a state corporation. The Company is registered under the Companies Act cap 486 with shareholding from county governments of Kajiado, Machakos and Makeni.

**Principal Activity**

The principal activity of the company is to provide water and sanitation services

**THE BOARD OF DIRECTORS**

<u>NAME</u>	<u>DESIGNATION</u>	<u>DATE JOINED</u>	<u>CONTRACT EXPIRY DATE</u>
Timothy Kerempu	Chairman	28.06.2013	28.06.2016
Jeremy Mutende	Managing Director		
Charles Masangira	Member	28.06.2013	28.06.2016
Emily Koikai	Member	28.06.2013	28.06.2016
Henry Mukonyo	Member	28.06.2013	28.06.2016
Jelam Kerina	Member	28.06.2013	28.06.2016
Jonathan Lulu	Member	28.06.2013	28.06.2016
Daniel Kitashu	Member	28.06.2013	28.06.2016
Ann Lasoi	Member	28.06.2013	28.06.2016
	Kajiado County Representative		
	Makeni County Representative		
	Machakos County Representative		

**REGISTERED OFFICE**

Nol-turesh Loitokitok Water and Sanitation Co. Ltd  
P. O. Box 379-90132  
Sultan Hamud, Kenya

**COMPANY CONTACTS**

**Tel.No. 0703203514**  
**Email: [nolturesh@gmail.com](mailto:nolturesh@gmail.com)**  
**[info@nolturesh.co.ke](mailto:info@nolturesh.co.ke)**

**BANKERS**

Kenya Commercial Bank.  
Emali Branch,  
P. O BOX 9,  
EMALI.



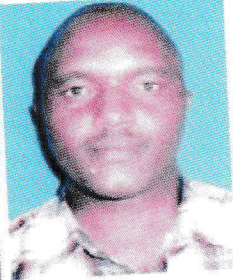

**AUDITORS**

Auditor General  
Kenya National Audit Office  
P.O. Box 30084 - 00100  
NAIROBI.



## **SENIOR MANAGEMENT**

The Company's senior management team is as follows:

1.	<b>JEREMY MUTENDE</b> 	BCOM (Marketing Option) Diploma in Leadership Management and Higher Diploma in Business Administration	<b>MANAGING DIRECTOR</b>
2.	<b>THOMAS K. KORIR</b> 	MBA (Finance Option) Bachelor of Arts (Economics Major) CPA (K) CPS (K)	<b>FINANCE AND ADMINISTRATION MANAGER</b>
3.	<b>JOSEPH MWOLOLO</b> 	BSC CIVIL ENGINEERING (Water & Environmental Engineering) Also holds several certificates including AutoCAD, Archicad, Project Management and Project Implementation.	<b>TECHNICAL MANAGER</b>
4.	<b>VERONICAH MUTUVA</b> 	Bachelor of Business Information Technology  Certificate in Customer Management	<b>COMMERCIAL MANAGER</b>



## Chairman's Statement

### To my fellow stakeholders

I am pleased to present the annual report and financial statements of the Board for the financial year ended 30<sup>th</sup> June 2015.

The board discharged its responsibilities with diligence and through its recruitment of top management team in February 2014, remarkable improvement has been achieved.

The Board is not-for-profit making organization. However, it was able to raise sufficient funds both for operations and restricting needed by the Company owing to serious financial and administrative challenges it was facing.

While we have naturally seen some of the effects of the slow economic growth in the recent years such as unpredictable energy costs and greater difficulty in recovering customer debt, we have been able to stay strong and focused. We have continued to educate customers and key influencers about the water industry and the solutions we provide every day to help ensure high-quality and reliable water service to Kenyans across the three counties that we serve.

The drivers of our business, particularly those concerned with protecting the environment and improving water security, remain firmly in place. In financial year 2014/15, we met our operational targets and I am pleased to report further significant improvements in the operations and financial performance of the company.

We know success depends on our ability to shape the future by anticipating and responding to change. Looking forward, the board will continue to support investment in new projects to ensure the continued growth of the company and progress towards achieving the company's main objective, that of delivering superior value to its customers for socio- economic development.

With favorable operating environment, support from our stakeholders and financial partners, we expect to expand our water supply network to Kasikeu town and other unserved areas such as Simba and Matiliku.

We ended the year in a strong position and having the right management team in place, our uncompromising focus is on high-quality customer service; and our plans for the future are realistic and ambitious.

We want to continue to be a leader in our field and to push at the boundaries of what it means to be a successful water company in the 21<sup>st</sup> century. Our Annual Report demonstrates why we can look to the future with confidence.

Finally, I would wish to extend my sincere gratitude to the NOLWASCO Board of Directors, County Government of Makueni, Kajiado and Machakos as well as Tanathi Water Services Board, the Ministry of Water and Irrigation and our customers for their support. I also thank the management and employees of NOLWASCO for their unrelenting hard work over the financial year.

Thank you.



**T. KEREMPU,**  
Chairman, Board of Directors



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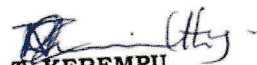
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Thank you.

  
**T. KEREMPU,**  
Chairman, Board of Directors



## MANAGING DIRECTOR'S STATEMENT

### Financial Highlights & Overview

The financial year 2014/2015 recorded a commendable increase of 167% in water sales [individual water billings] from 30,641,865 in financial year 2013/2014 to Ksh. 81,844,962 in financial year 2014/2015. This was mainly attributed to the input by the new qualified management team recruited on February 2014. Kiosks and draw points sales realized Ksh. 11,902,034 in financial year 2014/2015, thanks to the team for streamlining this crucial revenue line. A 50% increase in grants and subsidies was also witnessed in financial year 2014/2015 through lobbying and awareness campaigns by the management to the relevant stakeholders. Overall, there is an increase of 134% in overall revenue, i.e. from Ksh. 66,981,021 to Ksh 156,940,104 in financial year 2013/2014 and 2014/2015 respectively.

The total expenditure increased from ksh. 69,442,733 in 2013/2014 to Ksh. 136,422,655 in 2014/2015. This is mainly attributed to high recovery costs coupled with huge inherited liabilities. Operations and maintenance costs are high also because of aged pipeline system prone to regular exposure to damages. The company invested a lot also in fighting high cases of vandalism and lack of order both amongst the staff members and the customers.

### Cost Recovery

To achieve sustainability of our company, implementation of our cost recovery tariffs was paramount and Non Revenue Water (NRW) has to be reduced to acceptable levels. However enormous amount of capital investment is required to realize this. During the financial year 2015-16, we expect support from the County Government to enable us start the overhaul project. Through partnership with WASPA and other partners, we have designed measures to bring down the NRW to acceptable levels.

### Corporate Social Responsibility

During the year 2014-15 we were able to institute the following corporate social responsibility activities: Partnering with Water Services Trust Fund to upscale basic sanitation in low income areas under the Up-scaling of Basic Sanitation to the Urban Poor (UBSUP) project which targeted the construction of a DTF and facilitating construction of 200 toilets through subsidies.

### Outlook

Going forward, we have in place initiated measures of increasing our revenue. We have in place an on-going World Bank Project, 'Maji Ni Maisha' where through K-Rep Bank; we managed to get a loan to achieve additional 4,000 new customers and eight kiosks both in Sultan Hamud and Kasikeu areas of operations.

We are confident that our focus on bringing back the company to its past glory while ensuring sustainability is to be achieved through diversification of our revenue lines and bringing back the confidence we had lost with our development partners and suppliers. With this in mind, a good result is what we only look forward to. We have started the road map to our 5 year strategic plan whose final document will be read in a month's time and presented to the board for adoption.

### Conclusion

Our objective is to continuously transform the lives of our citizens and ensuring that we fulfill our mandate by improving water and sanitation services to all our customers within our area of operation. I take this opportunity to thank the Board of Directors and all other Stakeholders for the leadership and support they provide. I also thank all company staff members for their dedication to achieve the desired results.



J. MUTENDE  
MANAGING DIRECTOR

## REPORT OF THE BOARD OF DIRECTORS

The Board of Directors has the pleasure in submitting their annual Report and Financial Statements for the period ended 30<sup>th</sup> JUNE 2015.

### PRINCIPAL ACTIVITY

The company's main activity is the provision of wholesome clean water and sanitation services to the residents of Makueni, Kajiado and Machakos.

### INCOME

The results of activities for the year show a

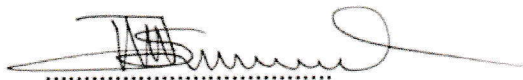
### THE BOARD OF DIRECTORS

The board members who held office during the year were as indicated on pages three and four of the accounts.

### AUDITORS

The Auditor General was appointed as auditor and has expressed willingness to continue in office in accordance with the public Audit Act 2003 and companies Act chapter 486 Section 159.

By order of the Board



J. MUTENDE  
MANAGING DIRECTOR



### **CORPORATE GOVERNANCE STATEMENT**

Corporate governance is the process and structure used to direct and manage business affairs of the company towards enhancing prosperity and corporate accounting with the ultimate objective of realizing stockholder's long term value.

The company conducts its operations in accordance with the principles of good corporate governance as provided in the Water services Regulatory Board (WASREB) guidelines and Water Act 2002 provisions.

#### **Board of Directors**

The composition of the Board is compliant with good corporate governance practices and WASREB regulations. The role of the chairman and the Managing Director are segregated. The Managing Director is in charge of the day to day running of the business of the company. A non-executive director acts as the chairman of the Board. The current Board is composed of Managing Director, and nine other directors drawn from various stakeholders. The Board is therefore composed of committed individuals with diverse and complementary skills to ensure that there is sufficient wealth of experience at Board level.

#### **Board meetings**

Board Meetings are held every quarter and in exceptional circumstances as dictated by demand exigencies of company operations.

#### **Board committees**

The Board has approved the delegation of certain authorities to the Board sub committees where applicable, and to the management.

The Board has three committees which are guided by clear terms of reference. The committees are instrumental in monitoring the company operations, systems and internal controls. The committees are as follows:

#### **Audit and risk management committee**

The members of this committee are all non-executive directors. All the members meet minimum financial literacy standards. The committee meets at least four times in a year and the managing Director and the internal auditor attend most meetings of the committee.

The committee is responsible for ensuring that the Company's internal controls are adequate and that the assets at the disposal of the company are safe-guarded. It ensures that proper policies and internal control procedures are in place and also helps to ensure that the set policies and procedures are adhered to and advises on improvements and introduction of new control procedures.

#### **Finance and Administration Committee**

The committee comprises of three non-executive directors. The committee is chaired by a non-executive director and meets four times a year.

The role of the committee is to monitor and review the operational and financial performance of the company against key performance indicators, identifying shortcomings and ensuring corrective measures and action are taken. The committee also reviews the company's investment plans in capital expenditure and recommends to the board for approval. The committee has also the responsibility of ensuring that the systems of financial controls are effectively administered.

This committee as well has the responsibility of ensuring the company has the right staff, at the right place and doing the right thing. More so, the committee will ensure that staff welfare is guaranteed.

Their terms of reference includes but not confined to human resource planning, employee welfare, recruitment, training, performance appraisal, discipline, health and safety and HIV/AIDS.

**Technical committee**

The committee comprises of three non-executive directors. The committee is chaired by a non-executive director and meets four times a year.

This committee oversees planning, coordination and execution of development and rehabilitation projects to ensure expansion of reticulation system and to improve efficiency in water production and distribution including sewerage network

**Directors' Remuneration**

The remuneration of non-executive directors consists of sitting allowances in connection with Board and committee meetings.

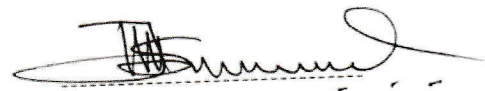
**Going concern**

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

SIGNED:

  
-----  
**CHAIRMAN**

**T. KEREMPU**

  
-----  
**MANAGING DIRECTOR**

**J. MUTENDE**



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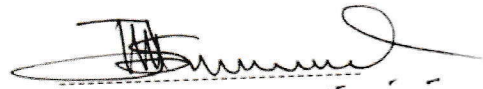
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SIGNED:

  
-----  
**CHAIRMAN**

**T. KEREMPU**

  
-----  
**MANAGING DIRECTOR**

**J. MUTENDE**

### STATEMENT OF THE BOARD OF DIRECTORS' RESPONSIBILITY

Section 164 of the Public Finance Management Act, 2012 and section 147 of the Companies Act Cap 486 requires the Board of Directors to prepare financial statements for each year that 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 of the activities for that year. It also requires the Board to ensure that the Company maintains proper accounting records which disclose with reasonable accuracy the financial position of the Company. The Board is also responsible for safeguarding the assets of the Company.

The directors are responsible for preparation and presentation of the company's financial statements, which gives a true and fair view of the state of affairs of the company for and as at the end of the financial year 2014/2015 ended on June 30<sup>th</sup>, 2015. This responsibility includes: (i) maintaining adequate financial management arrangements and ensuring that these continues to be effective throughout the reporting period; (ii) maintaining proper accounting records, which disclose with reasonable accuracy at any time of the financial position of the company. (iii) designing, implementing and maintaining internal control environment relevant to the preparation and fair presentation of the financial statements, and ensuring that they are free from material misstatements, whether due to error or fraud; (iv) safeguarding the assets of the entity; (v) selecting and applying appropriate accounting policies; and (vi) making accounting estimates that are reasonable in the circumstances.

The Board of Directors accepts responsibility for the company financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgments and estimates, in conformity with International Financial Reporting Standards (IFRS) and in the manner required by the PFM Act and the requirements of the Companies Act.

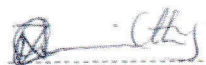
The Board is of the opinion that the company financial statements give a true and fair view of the state of company transactions during the financial year ended June 30<sup>th</sup>, 2015 and the company financial position as at that date. The directors further confirm the completeness of the accounting records maintained for the company, which have been relied upon in the preparation of the company financial statements as well as adequacy of the systems of internal financial control.

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

#### Approval of the financial statements

The company financial statements were approved by the board on 13/8/2015 and signed on its behalf by:

SIGNED:

  
T. KEREMPU  
CHAIRMAN

  
J. MUTENDE  
MANAGING DIRECTOR



## REPUBLIC OF KENYA

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 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 NOL-TURESH LOITOKITOK WATER  
 AND SANITATION COMPANY LIMITED FOR THE YEAR ENDED 30 JUNE 2015**

**REPORT ON THE FINANCIAL STATEMENTS**

I have audited the accompanying financial statements of Nol-Turesh Loitokitok Water and Sanitation Company Limited set out on pages 11 to 23, which comprise the statement of financial position as at 30 June 2015, and the statement of comprehensive income, statement of changes in net assets and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 14 of the Public Audit Act, 2003. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

**Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and for such internal control as management determines is necessary to enable the preparation 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 audit report in compliance with Article 229(7) of the Constitution. The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). Those standards require compliance with ethical requirements and that the audit be planned and performed to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement

*Report of the Auditor-General on Nol-Turesh Loitokitok Water and Sanitation Company Limited for the year ended 30 June 2015*



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 Board'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 adverse audit opinion.

### **Basis for Adverse Opinion**

#### **1. Operating Income**

The statement of comprehensive income reflects total operating income of Kshs.156,940,104, which includes balance of Kshs.45,262,665 disclosed under Note 16 (a) to the accounts as a long-term loan from K-Rep Bank. The income is therefore mis-stated by the loan amount.

#### **2. Unaccounted For Water**

The Company produced 4,635,500 cubic meters (m<sup>3</sup>) of water during the year under review. Out of this volume, only 1,383,665 cubic metres (m<sup>3</sup>) were billed to consumers. The balance of 3,251,835 cubic metres (m<sup>3</sup>) or approximately 70% of the total volume of water produced was not billed and this represented non-revenue water, far above the ratio of 25% set by the water services regulatory Board. The UFW volume was 281% above the industry's standard quantity for the said level of production. The UFW of 70% may have resulted in loss of sales estimated at Kshs.220,320,500.

Further, out of the production for the year, 169,920 cubic metres (m<sup>3</sup>) of water was issued free-of-charge-through community water points. However, no formal agreement on how the free water points were created and the modality for costing the supplies be met was presented for audit verification. The significant level of (UFW) impacted negatively on the performance of the company.

#### **3. Cash and Bank Balances**

The statement of financial position reflects a balance of Kshs.8,970,529 as cash and bank balance as at 30 June 2015, and which Note 13(a) to the accounts shows is made up of seven bank account balances. However, the respective bank statements and certificates balances are not supported with cash books. Apparently, the Company did not prepare and maintain monthly cash books for these bank accounts hence no bank reconciliation statements were prepared.



Under the circumstance, the accuracy of the cash and cash equivalents balance of Kshs.8,970,529 and the bank transaction for the year under review as at 30 June 2015 cannot be confirmed.

#### **4. Trade and Other Debtors**

The statement of financial position as at 30 June 2015 reflects debtor balances of Kshs.116,728,627 net of bad and doubtful debts provision of Kshs.14,132,850 or about 10.8% of total debts. However, the majority of the debts totaling to Kshs.94,219,000 or 72% of the total balance were outstanding for periods over 180 days. No provision in relation to this uncertainty has been incorporated in the financial statements. As a result, the debtors balance and operating profit for the year under review are overstated.

#### **5. Trade and other payables**

Trade and other payables balance of Kshs.142,016,492 as at 30 June 2015 represents an increase of Kshs.16,485,113 or 13% from the balance of Kshs.125,531,379 reported in 2013/2014. However, no documentary evidence was presented to the components of the balance and confirm their and existence of the creditors and other payables amounting to Kshs.129,363,286. As a result, I have not been able to satisfy myself as to the accuracy and fair statement of the trade and other payables balance of Kshs.142,016,492 as at 30 June 2015.

#### **6. Going Concern**

Although the company's statement of comprehensive income reflects a profit of Kshs.20,517,448 (2013/14 loss of Kshs.33,103,577), the company's current liabilities exceed its current assets by Kshs.7,724,274 excluding a long term loan of Kshs.45,262,665. In addition, the revenue reserve reflects a negative balance Kshs.58,331,172. This, along with other matters described in paragraph 4 of this report indicate the existence of a material uncertainty which casts doubt on the ability of Norturesh Loitokitok Water and Sanitation Company Limited to continue as a going concern.

#### **Adverse Opinion**

In my opinion, because of the significance of matters discussed in the Basis for Adverse Opinion paragraph, the financial statements do not present fairly, the financial position of Nol-Turesh Loitokitok Water and Sanitation Company Limited as at 30 June 2015, and of its financial performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards and do not comply with the Water Act, 2002 and the Kenya Companies Act.

#### **Other Matter**

##### **Irregular payment of enhanced salaries and Board Allowances**

The statement of comprehensive income reflects expenditures amounting to amount of Kshs.51,921,362 and Kshs.1,506,860 relating to staff expenses and Board

expenses respectively. The expenditures increased from Kshs.36,577,934 and Kshs.1,302,842 respectively from the previous year's balance as at 30 June 2014. The increase of Kshs.15,343,428 and Kshs.204,018 respectively were incurred without the authority of the regulator, Tanathi Water Services Board or the Salaries and Remuneration Commission. Therefore, the expenditures are therefore not a proper charge on public funds.

My Opinion is not qualified in respect of this matter.

#### REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

As required by the Kenya Company's Act, I report based on my audit, that:

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



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

Nairobi

23 November 2016



11

STATEMENT OF COMPREHENSIVE INCOME  
FOR THE YEAR ENDED 30 JUNE 2015

	NOTE	2014/2015 KShs	RESTATED 2013/2014 KShs
<b>INCOME</b>			
Revenue	2	<u>99,934,057</u>	<u>30,641,865</u>
<b>OPERATING INCOME</b>			
Grants & Subsidies	3	11,743,382	5,697,291
K-Rep Maji ni Maisha	16	45,262,665	
<b>TOTAL REVENUE</b>		<b><u>156,940,104</u></b>	<b><u>36,339,156</u></b>
<b>EXPENDITURE</b>			
Administration	4	23,278,034	10,001,977
Staff Expenses	5	51,921,362	36,577,934
Board Expenses	7	1,506,860	1,302,842
Levies	8	8,474,965	5,677,436
Depreciation	12 (b)	2,460,578	2,026,190
O& M Expenses	6	48,780,857	13,856,354
<b>TOTAL EXPENDITURE</b>		<b><u>136,422,655</u></b>	<b><u>69,442,733</u></b>
<b>PROFIT/(LOSS) BEFORE TAXATION</b>		<b>20,517,448</b>	<b>(33,103,577)</b>
TAXATION CHARGE @30%	17	-	-
<b>PROFIT/(LOSS) FOR THE YEAR</b>		<b><u>20,517,448</u></b>	<b><u>(33,103,577)</u></b>

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STATEMENT OF COMPREHENSIVE INCOME  
FOR THE YEAR ENDED 30 JUNE 2015

	NOTE	2014/2015 KShs	RESTATED 2013/2014 KShs
<b>INCOME</b>			
Revenue	2	<u>99,934,057</u>	<u>30,641,865</u>
<b>OPERATING INCOME</b>			
Grants & Subsidies	3	11,743,382	5,697,291
K-Rep Maji ni Maisha	16	45,262,665	
<b>TOTAL REVENUE</b>		<u><b>156,940,104</b></u>	<u><b>36,339,156</b></u>
<b>EXPENDITURE</b>			
Administration	4	23,278,034	10,001,977
Staff Expenses	5	51,921,362	36,577,934
Board Expenses	7	1,506,860	1,302,842
Levies	8	8,474,965	5,677,436
Depreciation	12 (b)	2,460,578	2,026,190
O & M Expenses	6	48,780,857	13,856,354
<b>TOTAL EXPENDITURE</b>		<u><b>136,422,655</b></u>	<u><b>69,442,733</b></u>
<b>PROFIT/(LOSS) BEFORE TAXATION</b>		<b>20,517,448</b>	<b>(33,103,577)</b>
TAXATION CHARGE @30%	17	-	-
<b>PROFIT/(LOSS) FOR THE YEAR</b>		<u><b>20,517,448</b></u>	<u><b>(33,103,577)</b></u>

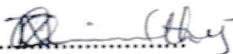
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NOLTURESH LOITOKTOK WATER AND SANITATION CO. LIMITED  
STATEMENT OF FINANCIAL POSITION  
FOR THE YEAR ENDED 30TH JUNE 2015

		2014/2015	RESTATED 2013/2014
ASSETS	Note	KShs	KShs
<b>Non Current Assets</b>	<b>12 (c)</b>	<b>38,728,280</b>	<b>2,974,469</b>
<b>Current Assets</b>			
Trade & Other Receivables	10	116,728,627	84,653,202
Prepaid Insurance		91,604	-
Inventory	15	9,636,721	
Donation		-	2,000,000
Cash & Bank Balance	13 (a)	8,970,529	1,127,599
<b>Total Current Assets</b>		<b>135,427,481</b>	<b>87,780,801</b>
<b>Total Assets</b>		<b>174,155,761</b>	<b>90,755,271</b>
<b>EQUITY AND LIABILITIES</b>			
Share Capital	9 (a)	100	100
Capital Reserve	9 (b)	25,324,043	25,324,043
Donations	9 (b)	6,774,000	6,774,000
Donations Reserve Fund	9 (b)	11,974,370	11,974,370
Revenue Reserve	9 (b)	-58,331,172	-78,848,621
<b>Total Equity and Liabilities</b>		<b>-14,258,659</b>	<b>-34,776,108</b>
<b>Current Liabilities</b>			
Overdraft	13 (b)	1,135,264	-
Trade and Other payables	11 (a)	142,016,492	125,531,379
<b>Long Term Loan</b>			
K-Rep Maji ni Maisha Project	16 (a)	45,262,665	-
<b>Total equity and liabilities</b>		<b>174,155,761</b>	<b>90,755,271</b>

Notes on pages 16-23 form part of these financial statements. The financial statements were approved by the board of directors on 30/09/2015 and were signed on its behalf by:

  
T. KEREMPU  
CHAIRMAN

  
J. MUTENDE  
MANAGING DIRECTOR

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

	Share Capital Kshs.	Revenue Reserve Kshs.	Donations	Capital Reserve Kshs.	Donation Reserve Kshs.	Total Kshs.
Balance as at 1 July 2013	100	(45,745,044)	6,774,000	25,324,043	11,974,370	(1,672,531)
Movement during the year	-	(33,103,577.00)	-	-	-	-
<b>Balance as at 30 June 2014</b>	<b>100</b>	<b>(78,848,621)</b>	<b>6,774,000</b>	<b>25,324,043</b>	<b>11,974,370</b>	<b>(1,672,531)</b>
Balance as at 1 July 2014	100	(78,848,621)	6,774,000	25,324,043	11,974,370	(34,776,108)
Surplus for the year	-	20,517,448	-	-	-	20,517,448
Inherited Debts	-	-	-	-	-	-
<b>Balance as at 30 June 2015</b>	<b>100</b>	<b>58,331,172</b>	<b>6,774,000</b>	<b>25,324,043</b>	<b>11,974,370</b>	<b>(14,258,659)</b>

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STATEMENT OF CASH FLOW  
FOR THE YEAR ENDED 30 JUNE 2015

	NOTE	2014/2015 Kshs.	RESTATED 2013/2014 Kshs.
<b>OPERATING ACTIVITIES</b>			
Operating (Deficit)/Surplus for the year		20,517,448	(33,103,577)
<b>Adjustments for Non Cash Items</b>			
Provision for audit fees	11	232,000	-
Depreciation	12 (b)	2,460,578	2,026,190
<b>Adjusted Surplus From operating Activities Before Working Capital changes</b>		<b>23,210,026</b>	<b>(31,077,387)</b>
(Increase)/Decrease in Receivables	10	(32,075,425)	(7,135,898)
Increase /(Decrease) in Payables	11	16,485,113	28,668,877
Increase /(Decrease) in other Current Liabilities		1,135,264	-
Increase)/Decrease in other current asset		(7,960,323)	-
<b>NET CASH FROM OPERATIONS</b>		<b>794,655</b>	<b>(9,544,408)</b>
<b>INVESTING ACTIVITIES</b>			
Purchase of PPE	12 (a)	(38,214,390)	-
<b>NET CASH USED IN INVESTING ACTIVITIES</b>		<b>(38,214,390)</b>	<b>-</b>
<b>FINANCING ACTIVITIES</b>			
K-Rep Maji ni Maisha Project	16	45,262,665	-
Donor Funds		-	2,000,000
<b>NET CASH FROM FINANCING ACTIVITIES</b>		<b>45,262,665</b>	<b>2,000,000</b>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>		<b>7,842,930</b>	<b>(7,544,407)</b>
<b>CASH &amp; CASH EQUIVALENTS AT BEGINNING OF YEAR</b>		<b>1,127,599</b>	<b>1,524,109</b>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>		<b>8,970,529</b>	<b>1,127,599</b>
<b>ANALYSIS OF CASH AND CASH EQUIVALENTS :</b>			
Bank and Cash Balance		8,970,529	1,127,599

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**NOLTURESH LOITOKTOK WATER AND SANITATION CO. LIMITED**  
**STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOU**  
**FOR THE YEAR ENDED 30TH JUNE 2015**

	2014/2015	2014/2015	2014/2015	2014/2015	2014/2015
	ORIGINAL BUDGET	ADJUSTMENT	FINAL BUDGET	ACTUAL ON COM BASIS	PERFORMANCE DIFFERENCE
<b>REVENUES</b>					
Water sales (Billings)	160,000,000	-	160,000,000	81,844,963	78,155,037
Miscellenaous Income	10,000,000	-	10,000,000	18,089,094	-8,089,094
Grants from Coounty Governments	10,000,000	-	10,000,000	11,743,382	-1,743,382
krep-Maji ni Maisha Loan	-	45,262,665	45,262,665	45,262,665	0
<b>TOTAL REVENUES</b>	<b>180,000,000</b>	<b>45,262,665</b>	<b>225,262,665</b>	<b>156,940,104</b>	<b>68,322,561</b>
<b>OPERATING EXPENSES</b>					
Administration	24,907,200	-	24,907,200	23,278,034	1,629,166
Staff Expenses	53,239,782	-	53,239,782	51,921,362	1,318,420
Board Expenses	4,852,000	-	4,852,000	1,506,860	3,345,140
Levies	11,000,000	-	11,000,000	8,474,965	2,525,035
Depreciation	-	-	-	2,460,578	-2,460,578
O & M Expenses	73,600,000	-	73,600,000	48,780,857	24,819,143
<b>TOTAL EXPENDITURE</b>	<b>167,598,982</b>	<b>-</b>	<b>167,598,982</b>	<b>136,422,655</b>	<b>31,176,327</b>
<b>SURPLUS/DEFICIT</b>	<b>12,401,018</b>	<b>45,262,665</b>	<b>57,663,683</b>	<b>20,517,449</b>	<b>37,146,234</b>

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## NOTES

## 1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. **Basis of preparation**

The Financial Statements have been prepared in accordance with International Financial Reporting Standards (IFRS) under the historical cost convention.

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.

The Public Finance Management (PFM) Act 2012 Section 192 provided the setting up of the Public Sector Accounting Standards Board (PSASB). The Cabinet Secretary National Treasury, gazetted members of the Board through Gazette Notice No. 1199 of 28<sup>th</sup> February, 2014. Following the Board's approval on the adoption of the International Financial Reporting Standards (IFRS) for state organs operating as Commercial Business Entities and The International Public Sector Accounting Standards (IPSAS) for non-commercial entities, the pronouncements made by the board have no significant impact on the entity's financial statement as Nolturesh Loitokitok Water and sanitation company has been preparing its financial statements in accordance to IFRS.

b. **Application of new and revised IFRS**

- i. All new and revised standards and interpretations that have become effective for the first time in the financial year beginning July 2013 have been adopted by the company. Of those the following have had effect on the financial statement;

Amendments to IFRS 7 -The amendment requires disclosure of nature and extent of risk associated with financial instruments. A part from disclosure there were no any significant change in the amounts reported

Amendments to IAS 24 disclosure of related party transactions, the company has disclosed the related parties and their transactions.

- ii. Relevant new and amended standards and interpretations in issue but not yet effective in the year ended 30<sup>th</sup> June 2015

New and Amendments to standards	Effective for annual period
IFRS 15	1 January 2017
IFRS 9	1 January 2018
Amendment to IFRS 10, IFRS 12 and IAS 27	1 January 2018

- iii. Impact of relevant new and amended standards and interpretations on the financial statements for the year ended 30<sup>th</sup> June 2015 and future annual reports

-The company has assessed the potential impact of the above and expects that they will not have significant impact of the financial statement for 2015/2016.

- iv. Early adoption

The company did not early adopt any new or amended standards in financial year 2014-2015.

c. **Revenue Recognition**

The company adopts the accrual basis of accounting for revenue. Revenue is recognized when it is earned and represents the amount received from the billings of Water and miscellaneous income received from the sale of tenders and new connections. Expenses are recognized when incurred net of VAT.

d. **Property, Plant and Equipment**

The water Act 2002 recognizes Tanathi water services board as the asset holder of assets held by Company in the financial year 2014/2015. The company pays Tanathi water services board administration cost of 9% based on the company revenue collected.

Property and equipment are stated at historical cost less accumulated depreciation.

2. **Depreciation and impairment of Property, plant and Equipment**

Depreciation is calculated on the reducing balance basis to write down the cost of each asset to its residual value over its estimated useful life as follows:

<b><u>Asset</u></b>	<b><u>Rate %</u></b>
<b>Office Equipment</b>	<b>25</b>
<b>Computers and Printers</b>	<b>30</b>
<b>Motorcycles</b>	<b>25</b>
<b>Plant &amp; Equipment</b>	<b>25</b>
<b>Furniture</b>	<b>12.5</b>
<b>Intangible Assets</b>	<b>30</b>

-Depreciation is provided for the full year irrespective of the month of purchase but no depreciation charged to Works in progress and in the year of disposal.

f. **Reserves**

Reserves of the company comprise revenue reserves which represents the excess of the income over recurrent expenditure.

Capital reserves represent net assets capitalized at the formation of the company and represent the book values of those assets.

The water act 2002 and the company's Articles of association prohibit distribution of reserves to members and reserves are supposed to be ploughed back to the system in accordance with the water act.

g. **Retirement benefits**

The company and employees contribute to a National water conservation & pipeline corporation staff Superannuation Scheme.

The company also contributes to a statutory defined contribution pension scheme, the National Social Security Fund (NSSF). Contributions are by the requirements of local statute and are currently limited to KShs 200 per employee per month. The company's contributions to the above schemes are charged to profit or loss in the year to which they relate.

h. **Taxation**

The company water services are zero rated for V.A.T and the company pays income tax at the rate of 30%.

i. **Related party transactions**

The company is related to

- i) County Government of Makueni, Kajiado and Machakos
- ii) Water Service trust fund
- iii) WASREB
- iv) WARMA
- v) Tanathi water services board
- vi) Key management
- vii) Board of directors

j. **Cash and Cash Equivalent**

Cash and cash equivalents include cash on hand and cash at bank. Bank account balances include amount held at KCB bank, PostBank, K-Rep Bank and Mpesa at the end of financial year.



k. **Trade and other Payables**

The liability for account payable and other payables are non-interest bearing and are carried at cost, which is measured at the fair or 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 suppliers

l. **Financial risk management**

The board of directors is the primary risk supervisor, exercising its role through various board approved committees. The company's internal audit section plays a vital role within governance processes by keeping the Board and senior management aware of risk and control issues and assessing the effectiveness of risk management. Reporting to the Audit and risk management committee of the Board, the section objectively and independently evaluates the existing risk and control framework and analyses department's processes and associated controls.

**Allowance for credit risk**

At the end of financial year the trade debtors amounted to Ksh 111 million and the highest percentage was owed by the Government institution and the default risk is assessed as low. The company provides allowance for credit risk against outstanding specific water and sewerage debts.

**Liquidity risk management**

The company has various obligations and liabilities as outlined in notes of the accounts. The company manages liquidity risk by maintaining banking facilities through continuous monitoring of forecast and actual cash flow.

**Market risk**

The company had no any interest bearing financial instrument or obligation as at the end of financial year and there was no significant currency risk as no foreign transaction ensued during the year.

m. **Comparative figures**

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

n. **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<sup>th</sup>, 2015.

o. **Significant judgments and sources of estimation**

The directors are responsible for selecting and disclosure of the company's critical accounting policies and estimates and the application of these policies and estimates.

The company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimate and assumptions that have a significant risk of causing a material adjustment to the carrying amount of assets and liability within the next financial year are.

a) **Taxation**

Judgment is required in determining the tax liability due to the complexity of legislation. There are many transactions and calculations for which tax determination is uncertain during ordinary course of business. The company recognises tax liability for anticipated tax audit issues based on estimates of whether additional tax will be due. Where the final tax outcome of these matters is different from amounts that were initially anticipated, such different will impact the income tax in the period in which such determination is made.

b) **useful lives and residual values of Property plant and equipment**

The company tests annually whether the useful life and residue value were appropriate and in accordance with its accounting policy. Useful lives and residual values of PPE have been determined based on previous experience and anticipated disposal values when asset are disposed.

**EXPLANATORY NOTES TO THE ACCOUNTS****1. INCORPORATION**

The company is a limited company by guarantee established under the companies Act Cap 486 and was established on the 5<sup>th</sup> day of April, 2007. It is licensed by Tanathi Water Services.

**NOLTURESH LOITOKTOK WATER AND SANITATION CO. LIMITED****NOTES TO THE FINANCIAL STATEMENTS**

	RESTATED	
	2014/15 Kshs	2013/14 Kshs
<b>2. REVENUE</b>		
Water sales (Billings)	81,844,963	30,641,865
Kiosks/draw Points	11,902,034	-
Payroll Deductions	949,300	-
Miscellaneous Income	4,081,760	-
Surcharges	1,156,000	-
	<u>99,934,057</u>	<u>30,641,865</u>
<b>3. GRANTS AND SUBSIDIES</b>		
Ministry Grant & MWI Staff Salary Support	-	2,000,000
Chemical	1,098,000	1,642,500
Electricity	10,645,382	2,054,791
<b>Total Grants and Subsidies</b>	<u>11,743,382</u>	<u>5,697,291</u>
<b>4. ADMINISTRATION</b>		
Office Rent & Rates	144,458	108,000
Office Entertainment	-	168,000
Office Stationary	544,479	246,501
Misc. Expenses	266,204	296,243
Telephone Expenses	725,600	229,805
Postages & Courier Services	33,430	-
Bank Charges	1,403,819	309,722
Computer Expenses	203,887	189,125
Provision for Audit Fees	232,000	230,000
Fines & Commissions	67,723	-
Legal Fees	635,500	-
Training Expenses	479,450	33,200
Corporate Social Responsibility	10,000	-
Insurance	400,179	-
Library Expenses	55,236	-
Contracted Professional Services & Audit Fees	432,000	-
Mpesa Charges	342,327	-
K-rep Account (Bank Charges)	7,663	-
Staff Uniforms	112,000	-
Maintenance of Buildings & Stations	1,478,785	-
Other Allowances	962,100	-
Provision for doubtful debts	14,132,850	8,191,381
Licences	104,520	-
Advertisement	150,000	-
Staff Welfare	353,825	-
	<u>23,278,034</u>	<u>10,001,977</u>
<b>5. STAFF COSTS</b>		
Staff Salaries (Company Staff)	51,921,362	26,055,575
Accrued Staff Salaries	-	10,522,359
	<u>51,921,362</u>	<u>36,577,934</u>



**6. OPERATIONAL AND MAINTENANCE EXPENSES**

Maintenance of Plant & Equipment	4,127,176	146,160
Maintenance of water supplies and Sewerage	620,971	1,238,105
Maintenance of Motor Vehicle/Cycles	1,625,178	-
Electricity cost (Company)-KPLC	16,191,743	3,261,573
Electricity cost (Government Grants)	-	2,054,791
Water Chemicals	1,055,550	-
Chemicals cost (Government Grants)	1,098,000	1,642,500
Transport Operating Expenses	2,267,380	2,744,128
Casuals	6,058,114	356,416
Fuel and Lubricants	4,307,432	-
Water Quality Test	25,290	-
Hiring of Plants and Equipments	1,152,900	-
Water Fittings	7,361,738	-
Tools & Equipments	462,555	-
Travelling & Subsistence	2,426,830	2,412,681
	<b>48,780,857</b>	<b>13,856,354</b>

**7. BOARD EXPENSES**

Board Allowances	1,026,860	1,082,342
Chairman's Honoraria	480,000	220,500
	<b>1,506,860</b>	<b>1,302,842</b>

**8. LEVIES**

Lease Fee	-	363,250
Regulatory	818,450	306,419
Licencee Remuneration	5,375,265	2,757,768
Abstraction Fees (warma)	2,281,250	2,250,000
	<b>8,474,965</b>	<b>5,677,436</b>

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## NOTES TO THE FINANCIAL STATEMENTS

	2014/15 KShs.	RESTATED 2013/14 KShs.
<b>9. SHARE CAPITAL</b>		
9 (a )Authorized	100	100
	<u>100</u>	<u>100</u>
<b>9(b) Reserves</b>		
Capital Reserve	25,324,043	25,324,043
Donation Reserve Fund	11,974,370	11,974,370
Donations	6,774,000	6,774,000
Revenue Reserve	(58,331,173)	(78,848,621)
	<u>(14,258,660)</u>	<u>(34,776,208)</u>
<b>10. TRADE &amp; OTHER DEBTORS</b>		
Trade Debtors	130,583,396	92,566,502
Provision for doubtful debts	(14,132,850)	(8,191,381)
Net Trade Debtors	116,450,546	84,375,121
Staff Debtors	278,081	278,081
	<u>116,728,627</u>	<u>84,653,202</u>
<b>11. TRADE &amp; OTHER PAYABLES</b>		
KPLC	12,196,489	8,892,356
Payroll Creditors (Including Arrears)	67,061,238	64,940,646
Accrued Staff Expenses	-	10,522,359
Licencee Remuneration	21,796,204	14,403,318
Water Abstraction	20,689,509	14,550,048
Regulatory Levy	1,527,224	1,015,193
Trade Creditors	11,525,586	5,853,988
Other Creditors	1,127,700	-
Provision for Audit Fees	232,000	200,000
KENAO	1,126,000	1,062,000
Customer Deposits	1,268,000	624,929
Athi Water Services Board	3,466,542	3,466,542
	<u>142,016,492</u>	<u>125,531,379</u>



## NOTES TO THE FINANCIAL STATEMENTS

## 12. NON CURRENT ASSETS

	Office Equipments	Computers	Motor Cycle	Furniture	Plant and Equipment	Intangible Asset	WIP	Total
<b>a) COST</b>		<b>Kshs.</b>		<b>Kshs.</b>				<b>Kshs.</b>
At 1 July, 2014	135,000	315,426	1,115,000	752,500	6,100,000	-	-	8,417,926
Additions	-	633,500	216,000	390,000	-	471,960	36,502,930	38,214,390
Disposal	-	-	-	-	-	-	-	-
As at 30 June, 2015	135,000	948,926	1,331,000	1,142,500	6,100,000	471,960	36,502,930	46,632,316
<b>b) DEPRECIATION</b>								
At 1 July, 2014	85,694	174,293	942,183	142,324	4,098,964	-	-	5,443,458
Charge for Year	33,750	284,678	332,750	142,813	1,525,000	141,588	-	2,460,578
As at 30 June, 2015	119,444	458,971	1,274,933	285,137	5,623,964	141,588	-	7,904,036
<b>c) NET BOOK VALUE</b>								
At 1 July, 2014	49,306	141,133	172,817	610,176	2,001,036	-	-	2,974,468
As at 30 June, 2015	15,556	489,955	56,067	857,364	476,036	330,372	36,502,930	38,728,280

13 (a). Cash Balances	2014/15	2013/14
Cash at Bank	Kshs.	Kshs.
K.C.B- Expenditure a/c (cash book)	-	341,130.00
K.C.B-Consumer Deposit	-	18,592.00
K.C.B Revenue A/C 1130831515	26,117	63,743.65
KREP Revenue A/C	813	15,437.00
MPESA A/C	20,453	678,225.00
PROJECT-Bank	66,874	10,471.00
Postbank	-	-
UBSUP-Krep a/c	200	-
K-Rep Maji ni Maisha a/c	100,000	-
	8,796,072	-
<b>Cash In Hand</b>	<b>8,970,529</b>	<b>1,127,598.65</b>
Office Petty Cash	-	-
<b>Total Cash &amp; Bank Balance</b>	<b>8,970,529</b>	<b>1,127,598.65</b>

13 (b). Bank Overdraft 1,135,264

14. Provision for bad and doubtful debts is estimated at 15% of debts above 180 days.

15. The company recognizes inventory at the lower of cost and net realizable value.

Inventories include:

ITEM	UNITS	UNIT PRICE	AMOUNT
Expansion Coupling	57	12,000	684,000
GI Bends-90 Degrees-6"	53	9,449	500,797
18" pipe wrench	72	3,800	273,600
3/4 Ball corks	89	1,800	160,200
200kgs tangit glue	200	1,100	220,000
3" Pegler Gate Valve	48	13,200	633,600
Plastic Airvalves 2"	74	12,000	888,000
3" valve socket	47	250	11,750
1" Stop Corks	61	2,500	152,500
3" vj coupling	45	1,500	67,500
1 1/2 pvc pipes	87	740	64,380
4" Non Return Valve	26	50,000	1,300,000
6" Non Return Valve	16	60,000	960,000
2 1/2" Pvc pipes	47	1,500	70,500
GI Pipes 2"	51	4,800	244,800
Gate Valve 2"	48	4,500	216,000
GI Pipes 1 1/2"	42	1,650	69,300
1 1/2" VJ Coupling	22.5	978	22,003
3/4" Water Metres	28	9,000	252,000
30m braided hosepipe	35	7,500	262,500
Air Valve 3"	10	35,000	350,000
Air Valve 4"	10	42,000	420,000
Sluice Valve 50mm	9	26,455	238,091
Sluice Valve 100mm	10	35,500	355,000
Sluice Valve 150mm	10	45,000	450,000
Ball Valve 3"	1	210,000	210,000
Ball Valve 4"	2	280,000	560,000
<b>TOTAL</b>			<b>9,636,721</b>

16. (a) **Krep Maji Ni Maisha Loan**

A long term loan of Kshs. 45, 262, 665 was acquired from K-Rep (Sidian) Bank towards the end of the financial period.

(b) **Krep Maji ni Maisha Expenditure**

The Work In Progress represents part of the money spent on the project and is disclosed in the Statement of Financial Position as a Non-Current Asset. There is also a bank charge of Ksh. 7, 663 which is treated as a revenue expense.

As at 30 June 2015, the following transactions show the breakdown of WIP:

WIP	Amount (Kshs.)
Tanks Cost	17,650,000
Billing Upgrade System	1,795,550
Land Legal Agreements	100,000
Pipes and other Fittings	14,961,200
Casual labor Payments	1,814,180
Project Review Meetings	32,000
Ubsup	100,000
Billing Office Renovation	50,000
<b>TOTAL WIP</b>	<b>36,502,930</b>

17. The corporate tax is zero because the surplus was as a result of the loan acquired for development project.