

REPUBLIC OF KENYA



OFFICE OF THE AUDITOR-GENERAL

REPORT

OF

THE AUDITOR-GENERAL

ON

THE FINANCIAL STATEMENTS OF  
MURANG'A SOUTH WATER AND SANITATION  
COMPANY LIMITED

FOR THE YEAR  
ENDED 30 JUNE 2014



# **MURANG'A SOUTH WATER & SANITATION COMPANY LIMITED**

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**MURANG'A SOUTH WATER AND SANITATION COMPANY LIMITED  
ANNUAL REPORT AND FINANCIAL STATEMENTS  
FOR THE FINANCIAL YEAR ENDED  
JUNE 30, 2014**

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



**MURANG'A SOUTH WATER AND SANITATION COMPANY LTD.**  
**ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014**

**I. KEY COMPANY INFORMATION AND MANAGEMENT**

**(a) Background information**

The company is incorporated in Kenya under the Kenyan Companies Act CAP 486 of the laws of Kenya, and is domiciled in Kenya.

**(b) Principal Activities**

The principal mission of the Company is to provide quality, affordable, reliable and sustainable water and sanitation services to our customers within Murang'a South, Kandara and Kigumo Sub-counties.

**(c) Key Management**

The Company's day-to-day management is under the following key Departments;

- Technical Services Department
- Commercial Services Department
- Human Resource and Administration Department
- Internal Audit Department

**(d) Directors**

- |                                   |                   |
|-----------------------------------|-------------------|
| 1. Mr. Julius K Manyeki           | Chairman          |
| 2. Mr. John Njata                 | Director          |
| 3. Mr. Joseph Gaitung'u           | Director          |
| 4. Ms. Nancy Muhoro               | Director          |
| 5. CEO, Tana Water Services Board | Principal         |
| 6. Ms. Jane Wairimu               | Director          |
| 7. Ms. Mary Mwai                  | Director          |
| 8. Mr. Boniface Macharia          | Director          |
| 9. Ms. Mary Nyaga                 | Managing Director |

**(e) Company secretary**

Gikuhi Kiana & Company  
Certified Public Secretaries  
P.O. BOX 1271-10100  
Nyeri – Kenya

**MURANG'A SOUTH WATER AND SANITATION COMPANY LIMITED**  
**ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014**

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**MURANG'A SOUTH WATER AND SANITATION COMPANY LTD.  
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**(f) Registered office**

Muswasco Offices  
Kandara Water Office  
Next to DC's Office  
P.o. Box 87 - 01034  
Kandara.

Telephone: 0716 645 345  
E-mail: murangasouth@gmail.com

**(g) Independent auditor**

D.K Wambua & Associates  
Certified Public Accountants  
P.O Box 5957 - 00100  
Nairobi - Kenya

**On Behalf Of:**

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

**(h) Company Bankers**

Equity Bank Ltd  
Thika Branch  
P.O Box 253-01000  
Thika

Kenya Commercial Bank Ltd  
Thika Branch  
P.O Box 271-01000  
Thika





Unaitas Sacco Limited  
Kangari Branch  
P.O Box 1145-10200  
Murang'a

Murata Sacco Ltd  
Kandara Branch  
P.O Box 4062  
Kandara.

K-Rep Bank Ltd  
Thika Branch  
P.O Box 6043-01000  
Thika





**MURANG'A SOUTH WATER AND SANITATION COMPANY LTD.  
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**THE BOARD OF DIRECTORS**

| <b>DIRECTOR'S NAME AND PASSPORT-SIZE PHOTO</b>  | <b>DIRECTOR'S DATE OF BIRTH, KEY QUALIFICATIONS</b>              |
|---|--|
|  <p>Julius K. Manyeki (BOD Chairman – Representing the Business Community)</p> | <p>Year of Birth: 1956<br/>Undergraduate in Public Relations</p> |
|  <p>John Njata (Director - Representing Educational Institutions)</p>         | <p>Year of Birth: 1969<br/>Diploma In Teaching (P1)</p>          |
|  <p>Nancy Muhoro (Director – Representing Religious organisations)</p>       | <p>Year of Birth: 1975<br/>Diploma in Community Development</p>  |
|  <p>Joseph Gaitung'u (Director - Representing Farmers' organisations)</p>    | <p>Year of Birth: 1951<br/>Diploma In Teaching (P1)</p>          |






**MURANG'A SOUTH WATER AND SANITATION COMPANY LTD.  
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|   |  |
|---|--|
|  <p><b>Jane Wairimu (Director – Representing Maragua County Council)</b></p>     | <p><b>UNDERGRADUATE<br/>Bachelor of Commerce</b></p>   |
|  <p><b>Mary Mwai (Director – Representing Women organisations)</b></p>           | <p><b>Year of Birth: 1956<br/>Certificate in Strategic Planning and Management of Projects</b></p>   |
|  <p><b>Boniface Macharia (Director – Representing Professional bodies)</b></p> | <p><b>Year of Birth: 1953<br/>Diploma In Water Supply and Public Health Engineering</b></p>          |
|  <p><b>Mary Gathoni (Managing Director – Secretary to the BOD)</b></p>         | <p><b>Year of Birth: 1958<br/>BBA (Business Administration)<br/>Diploma In Water Engineering</b></p> |

**MURANG'A SOUTH WATER AND SANITATION COMPANY LTD.  
ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014**

**MANAGEMENT TEAM**

| NAME & PROFESSIONAL QUALIFICATION  | AREA OF RESPONSIBILITY               |
|--|--------------------------------------|
|  <p><b>Mary Gathoni Nyaga</b><br/>BBA (KEMU)<br/>Dip. Water Engineering (KEWI)</p>                        | <p><b>Managing Director</b></p>      |
|  <p><b>Paniel Mbogo Munyi</b><br/>CPA (Part 2), Dip. Project Management (KIM)</p>                         | <p><b>Internal Auditor</b></p>       |
|  <p><b>Julius Mungai Muthoni</b><br/>Dip. Water Engineering (KEWI)<br/>Dip. Project Management (KIM)</p> | <p><b>Ag. Technical Manager</b></p>  |
|  <p><b>Tabitha Waithera Nderitu</b><br/>Bachelor of Commerce (Finance)<br/>CPA (K)</p>                  | <p><b>Ag. Commercial Manager</b></p> |
|  <p><b>Julius Macharia Njoroge</b><br/>B.Arts (Moi), Dip. HRM (KIM), CPA (Part 2)</p>                   | <p><b>Human Resource Manager</b></p> |



**MURANG'A SOUTH WATER AND SANITATION COMPANY LTD.  
ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014**

**CHAIRMAN'S REPORT**

It's my pleasure to release Our Annual Report and Financial Statements for the year ended 30<sup>th</sup> June 2014. I take this opportunity to affirm that indeed this financial year was a milestone in relation to the performance of the company. This results act as a challenge to perform better and maintain a continued growth. The revenue has continued to grow and as evidenced in the report we realized Kshs 62.1 M from 54.4 M registering a growth of 14.2 %. This was achieved by rehabilitations of various service lines and doing new extensions which in turn enabled us improve our service coverage area.

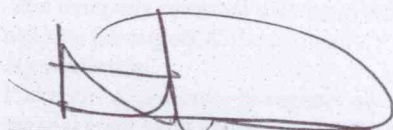
**Achievements**

- The Kandara bulk water supply project was successfully handed over completed and is fully in operational.
- Successful completion of Kenol Kabati Project meeting the set targets that entitled the Company to a grant of Kshs. 14,287,949.
- During the financial year, the company secured grants from Water Services Trust Fund to finance Kenol Kabati phase two, rehabilitated Muthithi Kaharati line to boost water supply to Sabasaba and Maragua.
- Forwarded the preferred project proposals for implementation by Athi water Services Board these are:  
Construction of Kiriciungu treatment works and enhancement of Mariira ,Muthithi ,Kaharati Iganjo line and Kandara Muruka Kenol Makuyu line.

Though we are still operating under the Water Act 2002 note that the water services have been devolved and we are directly reporting now to the county government. It is hoped that the water bill 2014 will be passed by parliament soon to chart the way forward for the sector.

I take this opportunity to acknowledge the support of all stakeholders, Tana Water Services Board (TWSB), County Government ,Water Services Regulatory Board (WASREB), Water Services Trust Fund (WSTF), CDF, Ministry of Water & Irrigation (MWI) through the District Water Officers (DWO). Not disregarding our suppliers and our esteemed customers for their continued support and patience with us.

I also extend my gratitude to the Board of Directors, management and staff of MUSWASCO for their dedication and hard work throughout the year. God Bless.



**JULIUS K. MANYEKI**  
**BOD CHAIRMAN**



**MURANG'A SOUTH WATER AND SANITATION COMPANY LTD.**  
**ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014**

**MANAGING DIRECTOR'S REPORT**

**INTRODUCTION.**

Murang'a South Water and Sanitation Company has now been in existence for 6 years and has since achieved tremendous improvement despite various challenges faced. The total area of our Company is 1034Km squared with a population of 456,269 out of which the Company has not yet managed to cover all of it in service provision, but has progressively grown in service coverage and is managing the water supplies of Kandara, Kigumo and Maragua( Murang'a South).

**During the year the Company achieved the following among others;**

- The Company procured a server and fully implemented a Computerized Billing System (Maji-Soft) the system incorporated new features like Electronic billing, bulk sms and M pesa payment. This has enhanced the company's ability to manage information and data and has enhanced accurate, timely, effective and efficient bills and report generation hence increasing our operating income.
- Extended services to Kaharati, Sabasaba, Maragua, Macegecha, Kenol, Kimorori and Kenol town through various projects which has led to the increased coverage area.
- Compiled Kenol Kabati Phase 2 proposal and secured funds through Water Services Trust Fund and the the project is in implementation stage, expected to supply water in Kagaa, Kabati, Wempa and Kenol areas that seriously require this services this will further increase our coverage by 2%.

**CHALLENGES**

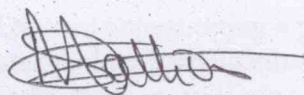
- The company is still faced with high levels of NRW that has been contributed by bursts due to high pressures from bulk water into our dilapidated infrastructure, flat rate billing, illegal connections/theft of water.
- High operational costs caused by operations and maintenance of dilapidated infrastructure, chemicals that are now funded internally after devolution and electricity for production.
- Lack of enough resources to address issues like augmentation of distribution lines, proper treatment facilities, rehabilitation and metering that require huge sums of money.
- Culture of our customers that is delay in payments of their water bills hence affecting the normal running of our operations.
- Lack of adequate transport facilities to help cover our entire coverage area easily.

**Staffing**

The company operated with an average of 118 staffs who worked tirelessly to provide the services and worked as a team to achieve the targets of the company.

**Appreciation**

I take this opportunity to register my gratitude to the Board of Directors for their unwavering support, the corporate management team and MUSWASCO staff for their hard work, efforts, support and commitments which has made us register a positive growth, TWSB for their contribution and support in both kind and cash, County Government, CDF,DWO'S from the three sub-counties of Kandara, Kigumo, and Murang'a South(Maragua) for their continued support. We cannot forget the consumers of our services and suppliers who supported us through supplies throughout the year.



**MARY NYAGA**  
**MANAGING DIRECTOR.**



## CORPORATE GOVERNANCE STATEMENT

### Approach to Corporate Governance

Murang'a South Water & Sanitation Company Limited (MUSWASCO) and its Board of Directors are committed to achieving and upholding the highest standards of corporate governance.

The Board of Directors and entire management have committed themselves to act honestly, ethically, diligently and in accordance with the law, WASREB issued regulatory guidelines and Service Provision Agreement (SPA) requirements in serving the interests of MUSWASCO's stakeholders, i.e employees, customers and the communities within our area of jurisdiction (Kandara, Kigumo and Murang'a South Districts).

### Functions and Responsibilities of the Board of Directors

The implementation of corporate strategies and day-to-day management of MUSWASCO affairs are delegated to management through the managing director, however the Board retains specific responsibility for:

- Defining the limits of authority of the Managing Director and the other corporate management team members in a schedule of duties;
- Reviewing and approving business plans and (annual) budgets in accordance with the Service Provision Agreement;
- Reviewing and approving major expenditure, capital management and acquisitions;
- Reviewing and approving systems of risk management, internal controls and compliance, codes of conduct and legal compliance;
- Approving the Company's financial and accounting policies and financial statements;
- Monitoring the Company's operational and financial position and performance;
- Monitoring compliance with statutory requirements, regulatory directives and guidelines issued by WASREB and ethical standards;
- Evaluating its own performance at least once every year based on the Service Provision Agreement;
- Approving the Company's financial and accounting policies and financial statements;
- Monitoring the Company's operational and financial position and performance;
- Monitoring compliance with statutory requirements, regulatory directives and guidelines issued by WASREB and ethical standards;
- Deciding on any matters which exceed the authority limits delegated to the Managing Director.

### Board Composition and Succession

Directors constituting a professional mix are appointed from the Stakeholders through a competitive stakeholder participation procedure (advertisement for positions) such that no individual or group of individuals or interests can dominate its decision making.



**MURANG'A SOUTH WATER AND SANITATION COMPANY LTD.  
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Tana Water Services Board is responsible for advertising in the local media positions for the Board of directors and setting the criteria for those eligible to apply in accordance with the corporate governance guidelines.

The Board has also adopted a policy on the appointment, tenure and retirement of Directors.

Director Orientation

All directors undergo formal training on their role, duties, responsibilities and obligations as well as Board practices and procedures on first appointment and subsequently at least once every three years. This includes full briefings on current and emerging issues, meetings with key managers and tours of operational sites.

Board Committees and Meetings

The Board convenes an average of four meetings per year. The agenda, frequency and length of meetings are determined by the Chairman in consultation with the Managing Director.

To assist in the execution of its responsibilities and to allow detailed consideration of complex issues, the Board has established three committees:

- Technical Committee
- Finance /HR Committee
- Audit Committee.

The Board committees meet at least four times each financial year to discuss various issues on performance and position of the company. Ad hoc Board and committee meetings may be convened to consider particular unforeseen matters. Unless expressly delegated by the Board to one of its committees, all matters determined by committees are submitted to the full Board as recommendations for Board decision and approval.



### **CORPORATE SOCIAL RESPONSIBILITY STATEMENT**

Stemming from our hearty commitment towards a continued empowerment of our own community, Murang'a South Water and Sanitation Company continued to strengthen the pillars of goodwill erected in our social responsibilities programmes, focusing on community empowerment programmes like corporate sponsorships of various events and activities of general benefits and public awareness campaigns.

Indeed Muswasco has reaped in gallons from its commitment to reaching out to the community with the success indicators ranging from safeguarding the environment and natural resource capital by ensuring the highest environmental standards in all activities including project execution, delivery of services while working with customers and the community at large to promote environmental responsibility.

The Company donated cleaning –hygiene materials to Katipanga dispensary at Kimori, Gitura dispensary at Kabati, Karung'ang'i Primary School in Murang'a South Sub-County. It is in no doubt that the strong affiliation between us and the Murang'a County health ministry which stands on an impermeable foundation thrives from these activities and thus boasting a mega success while achieving hygiene in our county.

During the World Water Day the Company donated a 10,000 litres water tank at Irembu Secondary School and also facilitation of a water connection at a free cost. This reflecting its impact with a rise on levels of access to clean drinking and washing water hence creating a good learning environments. The 2014 world water day will remain in bold and special in Irembu secondary student's and parents' hearts. The Company donated water storage jericans to Kandara Sub-County community hence boosting storage of clean drinking water thus improving living standards and economy of our country because the community utilizes the time that they could spend in fetching water in other activities thus improving the economic growth of our country.

In our strive to sustaining quality services in the best interest of all our customers and to continually improve our standards of quality in every aspect of our services to the satisfaction of our customers and all stakeholders, we conducted three customer clinics at Gachocho and Gikomora in Kigumo sub-county and Ngararia in Kandara sub-county. A water and sanitation clinic is an initiative Murang'a South Water and Sanitation Company embraces and will continually support. The main objective for this forum is meet customers at a closer level at their respective areas within MUSWASCO's jurisdiction while discussing the company's operations. In the event of these regular clinics customers are highly encouraged and welcome to freely present and register their complains ,views ,concerns ,compliments and suggestions with our members of staff as this will improve our service delivery.

Our corporate investment agenda is not near homestretch and Our CSR policy is at the core of our daily operations and guides our future progress. Our clients want to work with us because we are focused on a healthier and more productive world. We remain committed to working closely with our community.



**MURANG'A SOUTH WATER AND SANITATION COMPANY LTD.**  
**ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014**

**II. REPORT OF THE DIRECTORS**

The directors submit their report together with the draft financial statements for the year ended June 30, 2014 which disclose the state of affairs of the company.

**Incorporation**

The company is incorporated in Kenya under the Kenyan Companies Act CAP 486 of the laws of Kenya, and is domiciled in Kenya. The address of the registered office is set out on page iv to v.

**Principal activities**

The principal mission of the Company is to provide quality, affordable, reliable and sustainable water and sanitation services to our customers within Murang'a South, Kandara and Kigumo Sub-counties.

**Results of the year**

The net loss for the year was Kshs 9,959,551. The directors do not recommend the declaration of a dividend.

**Dividends**

The Company does not declare dividends, where surplus is recognized it's normally added to the retained earnings.

**Directorate**

The directors who held office during the year and to the date of this report are set out on the page iv to v.

**Auditor**

Messrs, D. K. WAMBUA & ASSOCIATES, Certified Public Accountants, were appointed auditors on behalf of AUDITOR - GENERAL , Kenya National Audit Office (KENAO), for the year 2013/2014 have expressed willingness to continue in office in accordance with the Section 159 (2) of the Kenyan Companies Act.

By order of the board

  
.....  
**Director/Company Secretary**  
**Kandara**

Dated .....



Report of the of The Independent Auditor on the Financial Statements of Muranga South Water & Sanitation Co. Ltd  
for the Year Ended 30th June 2014, to the Auditor - General

Report on the Financial Statements

We have audited the accompanying financial statements of the company set out on pages 1 to 20. These financial statements comprise the statement of financial position as at 30 June 2014, the statement of comprehensive income, statement of changes in equity and the statement of cash flows for the year then ended and a summary of significant accounting policies and other explanatory notes in accordance with Kenya Companies Act Cap 486. We have obtained all the information and explanations that to the best of our knowledge and belief were necessary for the purpose of the audit.

Managements' Responsibility for the Financial Statements

The Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and with the requirements of the Kenyan Companies Act. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatements, whether due to error or fraud; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Independent Auditors' Responsibility

Our responsibility is to express an independent opinion on the financial statements based on the audit. Audit was conducted in accordance with International Standards on Auditing. Those standards require that we plan and perform the audit 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 judgment, including the assessments of the risks of material misstatement of the financial statements, whether due to error or fraud. An audit includes evaluating the appropriateness of accounting policies used and the reasonableness of the accounting estimates made by the management as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, except for the matters discussed in emphasis 1 and 2 below, 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 cash flows for the year then ended in accordance with International Financial Reporting Standards and the Kenyan Companies Act Cap 486 and water Act of 2002

Emphasis of matter

The following matters are emphasis to our above opinion, which we would like to draw to your attention:

1. Unaccounted For Water (UFW):

During the financial year, the company produced a total of 6,296,535 cubic meters (m<sup>3</sup>) of water. However, out of this volume, only 2,159,450 cubic meters (m<sup>3</sup>) of water was billed to customers. The balance of 4,137,085 cubic meters (m<sup>3</sup>) which is approximately 65.7% of water produced represented Unaccounted for Water (UFW). The UFW of 65.7% was over and above the allowable loss of 25% by 40.7% according to Water Services Regulatory Board (WASREB) guidelines. The UFW of 40.7% may have resulted in loss of sales estimated at Kshs. 67, 122,109. The significant water level of UFW may negatively impact on the company's profitability and its long term sustainability.

2. Debtors

As reported in the during year, the balance of Kshs. 36,240,989, as at 30 June 2014 includes gross water sales debts of Kshs. 37,883,123 out of which Kshs. 27,574,238.00 was inherited as opening balances from the Ministry of Water and Irrigation (Tana Water Services Board), at the inception of the company. Although the recoverability of this debt is doubtful, the provision for bad and doubtful debts of Kshs. 3,788,312, which is 10% of gross, made in the financial statements appear inadequate.

Under the circumstances, the accuracy and full recoverability of the debtors' balance of Kshs. 36,240,989 as at 30 June 2014 could not be confirmed.

Report required under Kenyan Companies Act

We have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purposes of our audit. Proper books of account have been kept by the company in so far as it appeared from our examination of those books. The financial statements of the company are in agreement with the books of account.

D. K. Wambua & Associates  
D. K. WAMBUA & ASSOCIATES  
Certified Public Accountants  
Nairobi, Kenya  
Date: 15/09/2016  
P. O. Box 5957 - 00100  
NAIROBI



### III. STATEMENT OF DIRECTORS' RESPONSIBILITIES

Section 15 of the Public Finance Management Act, 2012 require the Directors to prepare financial statements in respect of Murang'a South Water & Sanitation Company, which give a true and fair view of the state of affairs of the Company at the end of the financial year/period and the operating results of the Company for that year/period. The Directors are also required to ensure that the Company keeps proper accounting records which disclose with reasonable accuracy the financial position of the Company. The Directors are also responsible for safeguarding the assets of Murang'a South Water & Sanitation Company.

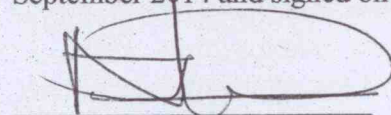
The Directors are responsible for the preparation and presentation of the Murang'a South Water & Sanitation Company financial statements, which give a true and fair view of the state of affairs of the Company for and as at the end of the financial year ended on June 30, 2014. This responsibility includes: (i) maintaining adequate financial management arrangements and ensuring that these continue to be effective throughout the reporting period; (ii) maintaining proper accounting records, which disclose with reasonable accuracy at any time the financial position of the entity; (iii) designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of the financial statements, and ensuring that they are free from material misstatements, whether due to error or fraud; (iv) safeguarding the assets of the Company; (v) selecting and applying appropriate accounting policies; and (vi) making accounting estimates that are reasonable in the circumstances.

The Directors accept responsibility for the Company financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity with International Financial Reporting Standards (IFRS), and in the manner required by the PFM Act and the State Corporations Act. The Directors are of the opinion that the Company financial statements give a true and fair view of the state of Company transactions during the financial year ended June 30, 2014, and of 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 the adequacy of the systems of internal financial control.

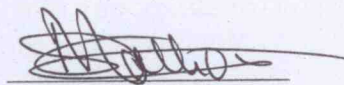
Nothing has come to the attention of the Directors to indicate that Murang'a South Water & Sanitation Company will not remain a going concern for at least the next twelve months from the date of this statement.

#### **Approval of the financial statements**

Murang'a South Water & Sanitation Company financial statements were approved by the Board on 25<sup>th</sup> September 2014 and signed on its behalf by:



Chairman



Managing Director



# REPUBLIC OF KENYA

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Fax: +254-20-311482  
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Website: www.kenao.go.ke



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NAIROBI

## OFFICE OF THE AUDITOR-GENERAL

### REPORT OF THE AUDITOR-GENERAL ON MURANG'A SOUTH WATER AND SANITATION COMPANY LIMITED FOR THE YEAR ENDED 30 JUNE 2014

#### REPORT ON THE FINANCIAL STATEMENTS

The accompanying financial statements of Murang'a South Water and Sanitation Company Limited set out on pages 1 to 20, which comprise the statement of financial position as at 30 June 2014, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information have been audited on my behalf by D. K. Wambua & Associates, auditors appointed under Section 39 of the Public Audit Act, 2003. The auditors have duly reported to me the results of their audit on the basis of their report, I am satisfied that all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit were obtained.

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

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The management is also responsible for the submission of 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 the International Standards of 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 audit opinion.

### **Basis for Qualified Opinion**

#### **Trade and Other Receivables**

As reported in the previous years, note 20(a) reflects water sales debtors balance of Kshs. 34,094,811 as at 30 June 2014 net of bad debts of Kshs.3,788,312. Included in the amount are receivables amounting to Kshs.27,574,238 inherited from the Ministry of Water and Irrigation (Tana Water Services Board), at the inception of the Company. Although the recoverability of this debt is doubtful, the provision for bad and doubtful debts of Kshs.3,788,312 made in the financial statements appear inadequate.

Under the circumstances, the existence and recoverability of water sales debtors' balance of Kshs.34,094,811 as at 30 June 2014 is doubtful.

### **Qualified Opinion**

In my opinion, except for the effects of the matter described in the Basis for Qualified Opinion paragraph, the financial statements present fairly, in all material respects, the financial position of Murang'a South Water and Sanitation Company limited as at 30 June 2014, and of its financial performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards and complies with the Water Act, 2002 and the Kenyan Companies Act.

### **Other Matter**

#### **Unaccounted For Water (UFW)**

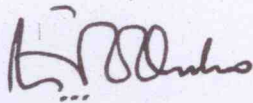
I draw attention to Note 15 to the financial statements which reflects the total revenue from water sales of Kshs.56,567,281. During the year under review, the Company produced 6,296,535 cubic meters (m<sup>3</sup>) of water. However, out of this volume only 2,159,450 m<sup>3</sup> of water was billed to consumers. The balance of 4,137,085m<sup>3</sup> or approximately 66% of total volume produced represented unaccounted for water(UFW) which is 41% above the allowable water loss of 25% as per Water Services Regulatory Board guidelines. The UFW of 66% may have resulted in loss of sales estimated at Kshs.67,122,109. The significant level of UFW negatively impacts on the Company's profitability and its long term sustainability. My opinion is not qualified in respect of this matter.



## REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

As required by the Kenyan Companies Act, I report based on 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; and
- ii. In my opinion, proper books of account have been kept by the Company, so far as appears from my examination of those books; and,
- iii. The Company's statement of financial position and statement of comprehensive income are in agreement with the books of account.



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

Nairobi

08 December 2016

**MURANG'A SOUTH WATER AND SANITATION COMPANY LTD**  
**Financial statements**  
**For the year ended 30TH JUNE 2014**

**STATEMENT OF COMPREHENSIVE INCOME**

|                                   | Note   | 2013 /2014<br>Shs         | 2012/2013<br>Shs          |
|-----------------------------------|--------|---------------------------|---------------------------|
| Operating Income                  | 15     | 62,160,467                | 54,449,833                |
| Less Direct Cost                  | 17 (f) | <u>6,101,656</u>          | <u>6,447,088</u>          |
| <b>Gross profit</b>               |        | <b>56,058,811</b>         | <b>48,002,746</b>         |
| Other income                      | 16     | 7,862,574                 | 7,122,147                 |
| <b>TOTAL</b>                      |        | <b>63,921,385</b>         | <b>55,124,892</b>         |
| Personnel Cocts                   | 17(a)  | 37,003,781                | 28,667,545                |
| Directors Expenses                | 17(b)  | 1,116,140                 | 1,049,500                 |
| Operating Expenses                | 17( c) | 21,574,009                | 19,332,120                |
| Administrative expenses           | 17(b)  | 9,372,942                 | 8,944,560                 |
| Legal and Professional Expenses   | 17(d)  | 750,187                   | 747,221                   |
| Finance costs                     | 17 (e) | <u>4,063,878</u>          | <u>257,496</u>            |
| <b>TOTAL EXPENSES</b>             |        | <b>73,880,937</b>         | <b>58,998,441</b>         |
| <b>Surplus Before Tax Expense</b> |        | <b><u>(9,959,551)</u></b> | <b><u>(3,873,549)</u></b> |

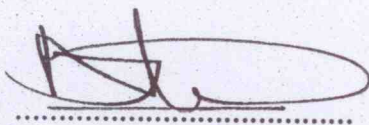


**MURANG'A SOUTH WATER AND SANITATION COMPANY LTD**  
*Financial statements*  
*For the year ended 30TH JUNE 2014*

**STATEMENT OF FINANCIAL POSITION AS AT 30TH JUNE 2014**

|   | Note       | 2013 / 2014<br>Shs       | 2012 / 2013<br>Shs       |
|---|------------|--------------------------|--------------------------|
| <b>EQUITY</b>                           |            |                          |                          |
| Share capital                           | 24         | 100,000                  | 100,000                  |
| Capital reserve                         |            | 29,969,106               | 29,969,106               |
| Retained earnings                       |            | (14,411,185)             | (4,451,634)              |
| <b>Total equity</b>                     |            | <u>15,657,921</u>        | <u>25,617,472</u>        |
| <b>Non-current liabilities</b>          |            |                          |                          |
| Loan-Non Current                        | 25         | 11,823,754               |                          |
| Deferred Income<br>Capital Grant        | 26 (b)     | 48,774,184               | 40,040,434               |
| <b>TOTAL ASSETS</b>                     |            | <u><u>76,255,859</u></u> | <u><u>65,657,906</u></u> |
| <b>REPRESENTED BY</b>                   |            |                          |                          |
| <b>Non-current assets</b>               |            |                          |                          |
| Property, plant and equipment           | 21         | <u>79,867,376</u>        | <u>46,230,470</u>        |
|   |            | <u>79,867,376</u>        | <u>46,230,470</u>        |
| <b>Current assets</b>                   |            |                          |                          |
| Inventories                             | 17 (f)     | 2,095,471                | 3,388,629                |
| Trade and other receivables             | 20 (a & b) | 36,240,989               | 40,192,170               |
| Cash at bank and in hand                | 18         | 33,785                   | 525,148                  |
|   |            | <u>38,370,245</u>        | <u>44,105,947</u>        |
| <b>Current liabilities</b>              |            |                          |                          |
| Trade and other payables                | 19         | 38,246,861               | 24,678,510               |
| Current Loan                            | 25         | 3,734,902                |                          |
|   |            | <u>41,981,763</u>        | <u>24,678,510</u>        |
| <b>Net current assets/(liabilities)</b> |            | <u>(3,611,518)</u>       | <u>19,427,437</u>        |
| <b>TOTAL ASSETS</b>                     |            | <u><u>76,255,859</u></u> | <u><u>65,657,906</u></u> |

The financial statements set out on pages 1 to 20 were signed on behalf of Board of Directors by:

  
 .....

**Chairman**

Date: .....

  
 .....

**Managing Director**

Date: .....



**MURANG'A SOUTH WATER AND SANITATION COMPANY LTD**  
**Financial statements**  
**For the year ended 30TH JUNE 2014**

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

|                                       | Note | Share capital<br>Shs | Capital Reserves<br>Shs | Retained earnings<br>Shs | Total<br>Shs      |
|---------------------------------------|------|----------------------|-------------------------|--------------------------|-------------------|
| <b>At 1st July 2013</b>               |      |                      |                         |                          |                   |
| As previously reported                |      | 100,000              | 29,969,106              | (4,451,634)              | 25,617,472        |
|                                       |      | 100,000              | 29,969,106              | (4,451,634)              | 25,617,472        |
| Profit/(loss) for the year            |      | -                    | -                       | (9,959,551)              | (9,959,551)       |
| <b>At 30th June 2014</b>              |      | <b>100,000</b>       | <b>29,969,106</b>       | <b>(14,411,185)</b>      | <b>15,657,920</b> |
| <b>At 1st July 2012</b>               |      |                      |                         |                          |                   |
| As previously reported                |      | 100,000              | 29,969,106              | (578,085)                | 29,491,021        |
|                                       |      | 100,000              | 29,969,106              | (578,085)                | 29,491,021        |
| <b>Changes in equity in 2012/2013</b> |      |                      |                         |                          |                   |
| Profit/(loss) for the year            |      | -                    | -                       | (3,873,549)              | (3,873,549)       |
| Deferred income tax on disposal       |      |                      |                         |                          |                   |
|                                       |      | 100,000              | 29,969,106              | (4,451,634)              | 25,617,472        |
| <b>At 30th June 2013</b>              |      | <b>100,000</b>       | <b>29,969,106</b>       | <b>(4,451,634)</b>       | <b>25,617,472</b> |



**MURANG'A SOUTH WATER AND SANITATION COMPANY LTD***Financial statements**For the year ended 30TH JUNE 2014***STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30TH JUNE 2014**

|   | Note     | 2013 / 2014<br>Shs  | 2012 / 2013<br>Shs  |
|---|----------|---------------------|---------------------|
| <b>Cash flows from operating activities</b>                   |          |                     |                     |
| Loss before income tax  |          | (9,959,551)         | (3,873,549)         |
| <b>Adjustments for:</b>                                       |          |                     |                     |
| Depreciation of property, plant and equipment                 | 21       | 6,213,046           | 5,837,342           |
| <b>Operating profit/(loss) before working capital changes</b> |          | <b>(3,746,506)</b>  | <b>1,963,792</b>    |
| Decrease/(increase) in:                                       |          |                     |                     |
| Inventories   | 17f      | 1,293,158           | 175,668             |
| Trade and other receivables                                   | 20 a & b | 3,951,182           | (9,342,026)         |
| Increase/(decrease) in:                                       |          |                     |                     |
| Trade and other payables                                      | 19       | 13,568,351          | 8,613,090           |
| <b>Cash generated from operations</b>                         |          | <b>18,812,690</b>   | <b>(553,268)</b>    |
| <b>Net cash generated from/(used in) operating activities</b> |          | <b>15,066,184</b>   | <b>1,410,524</b>    |
| <b>Cash flows from investing activities</b>                   |          |                     |                     |
| Purchase of property, plant and equipment                     | 21       | 39,849,953          | (33,911,936)        |
| <b>Net cash generated from/(used in) investing activities</b> |          | <b>(39,849,953)</b> | <b>(33,911,936)</b> |
| <b>Cash flows from financing activities</b>                   |          |                     |                     |
| Long-term borrowings  | 25       | 11,823,754          | (456,285)           |
| Current Loan  | 25       | 3,734,902           |                     |
| Capital Grants  | 26 a&b   | 8,733,750           | 32,454,239          |
| <b>Net cash generated from/(used in) financing activities</b> |          | <b>24,292,406</b>   | <b>31,997,954</b>   |
| <b>Net (decrease)/increase in cash and cash equivalents</b>   |          | <b>(491,363)</b>    | <b>(503,457)</b>    |
| <b>Cash and cash equivalents at 1st July 2013</b>             | 18       | <b>525,148</b>      | <b>1,028,605</b>    |
| <b>Cash and cash equivalents at 30th June 2014</b>            | 18       | <b>33,786</b>       | <b>525,148</b>      |



## NOTES TO THE FINANCIAL STATEMENTS

### Summary of significant accounting policies

The significant accounting policies adopted in the preparation of these general purpose financial statements are set out below:

#### 1. Statement of compliance and basis of preparation

The financial statements have been prepared on a historical cost basis except for the measurement at re-valued amounts of certain items of property, plant and equipment, marketable securities and financial instruments at fair value, impaired assets at their estimated recoverable amounts and actuarially determined liabilities at their present value. The preparation of financial statements in conformity with International Financial Reporting Standards (IFRS) allows the use of estimates and assumptions. It also requires management to exercise judgement in the process of applying the Company's accounting policies.

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

The financial statements have been prepared in accordance with the PFM Act, the State Corporations Act, Water Act 2002 and International Financial Reporting Standards (IFRS). The accounting policies adopted have been consistently applied to all the years presented.

#### 2. Application of new and revised International Financial Reporting Standards (IFRSs)

##### (i) Relevant new standards and amendments to published standards effective for the year ended 30<sup>th</sup> June 2014

The following new and revised IFRSs were effective in the current year and had no material impact on the amounts reported in these financial statements.

|   |  |
|---|--|
| Amendments to IAS 32<br>Offsetting Financial Assets and Financial Liabilities | The amendments to IAS 32 clarify the requirements relating to the offset of financial assets and financial liabilities. Specifically, the amendments clarify the meaning of 'currently has a legally enforceable right of set-off' and 'simultaneous realisation and settlement'. The amendments require retrospective application. The application of the new standard has not had any impact on the disclosures or the amounts recognised in these financial statements as the Group does not have any offsetting arrangements |
|---|--|



**Amendments to IAS 36 Recoverable Amount Disclosures for Non-Financial Assets**

The amendments to IAS 36 remove the requirement to disclose the recoverable amount of a cash-generating unit (CGU) to which goodwill or other intangible assets with indefinite useful lives had been allocated when there has been no impairment or reversal of impairment of the related CGU. Furthermore, the amendments introduce additional disclosure requirements applicable to when the recoverable amount of an asset or a CGU is measured at fair value less costs of disposal. These new disclosures include the fair value hierarchy, key assumptions and valuation techniques used which are in line with the disclosure required by IFRS 13 Fair Value Measurements. The amendments require retrospective application.

The application of the new standard has not had any impact on the disclosures or the amounts recognized in these financial statements as the Company does not have any goodwill or other intangible assets with indefinite useful lives.

**Amendments to IAS 39 Novation of Derivatives and Continuation of Hedge Accounting**

The amendments to IAS 39 provide relief from the requirement to discontinue hedge accounting when a derivative designated as a hedging instrument is novated under certain circumstances. The amendments also clarify that any change to the fair value of the derivative designated as a hedging instrument arising from the novation should be included in the assessment and measurement of hedge effectiveness. The amendments require retrospective application.

The application of the new standard has not had any impact on the disclosures or the amounts recognised in these financial statements as the Company does not have any derivatives.



Amendments to  
IFRS 10, IFRS 12  
and IAS 27  
Investment Entities

The amendments to IFRS 10 define an investment entity and introduce an exception from the requirement to consolidate subsidiaries for an investment entity. In terms of the exception, an investment entity is required to measure its interests in subsidiaries at fair value through profit or loss. The exception does not apply to subsidiaries of investment entities that provide services that relate to the investment entity's investment activities.

To qualify as an investment entity, certain criteria have to be met. Specifically, an entity is an investment entity when it:

- obtains funds from one or more investors for the purpose of providing them with investment management services;
- commits to its investor(s) that its business purpose is to invest funds solely for returns from capital appreciation, investment income, or both; and
- measures and evaluates performance of substantially all of its investments on a fair value basis.

Consequential amendments to IFRS 12 and IAS 27 have been made to introduce new disclosure requirements for investment entities.

Application of these standard has not had any impact on the disclosures or the amounts recognised in these financial statements as the Company is not an investment entity( assessed based on the criteria set out in IFRS 10 as at 1<sup>st</sup> January 2014).

IFRIC 21 Levies

IFRIC 21 addresses the issue of when to recognise a liability to pay a levy. The Interpretation defines a levy, and specifies that the obligating event that gives rise to the liability is the activity that triggers the payment of the levy, as identified by legislation. The Interpretation provides guidance on how different levy arrangements should be accounted for, in particular, it clarifies that neither economic compulsion nor the going concern basis of financial statements preparation implies that an entity has a present obligation to pay a levy that will be triggered by operating in a future period. IFRIC 21 requires retrospective application.

The application of the new standard has not had any impact on the disclosures or the amounts recognized in these financial statements as the Company did not have any levies accounted for as a liability



**(ii) New and amended standards and interpretations in issue but not yet effective in the year ended 30 June 2014**

| New and Amendments to standards | Effective for annual periods beginning on or after |
|---------------------------------|--|
| IFRS 9                          | 1 January 2018                                     |
| IFRS 14                         | 1 January 2016                                     |
| IFRS 15                         | 1 January 2017                                     |
| Amendments to IAS 16 and IAS 38 | 1 January 2016                                     |
| Amendments to IFRS 11           | 1 January 2016                                     |

The adoption of these standards and interpretations, when effective, is not expected to have a significant impact on the financial statements of the organization.

**(iii) Early adoption of standards**

The Company did not early-adopt any new or amended standards in 2015.

**3. Revenue recognition**

Revenue represents the fair value of consideration received or receivable for the sale of goods and services in the course of the company's activities. It is recognised when it is probable that future economic benefits will flow to the company and the amount of revenue can be measured reliably.

- i) **Revenue from provision of water services** is recognised in the year in which the Company provides water and the customer has accepted the commodity and collectability of related receivables is reasonably assured.
- ii) **Grants from National Government** are recognised in the year in which the Company actually receives such grants.
- iii) **Other income** is recognised as it accrues.

**4. Property, plant and equipment**

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

Certain categories of property, plant and equipment are subsequently carried at re-valued amounts, being their fair value at the date of re-valuation less any subsequent accumulated depreciation and impairment losses. Where re-measurement at re-valued amounts is desired, all items in an asset category are re-valued through periodic valuations carried out by independent external valuers.



Increases in the carrying amounts of assets arising from re-valuation are credited to other comprehensive income. Decreases that offset previous increases in the carrying amount of the same asset are charged against the revaluation reserve account; all other decreases are charged to profit or loss in the income statement.

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

#### 5. Depreciation

Freehold land and capital work in progress are not depreciated. Capital work in progress relates mainly to the costs of ongoing but incomplete works on buildings and other civil works and installations.

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

|                                  | <u>Rate - %</u> |
|----------------------------------|-----------------|
| Furniture, Fittings & Equipments | 12.5%           |
| Water Kiosks and Equipments      | 12.5%           |
| Water Meters                     | 12.5%           |
| Motor Vehicle / Cycles           | 25%             |
| Computer & Computer Equipments   | 30%             |
| Infrastructure Pipeline          | 2.50%           |

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

#### 6. Impairment of property, plant and equipment

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

#### 7. Inventories

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

#### 8. Trade and other receivables

Trade and other receivables are recognised at fair values less allowances for any uncollectible amounts. These are assessed for impairment on a continuing basis. An estimate is made of doubtful receivables based on a review of all outstanding amounts at the year end. Bad debts are written off after all efforts at recovery have been exhausted.



## 9. Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and cash at bank, short-term deposits on call and highly liquid investments with an original maturity of three months or less, which are readily convertible to known amounts of cash and are subject to insignificant risk of changes in value. Bank account balances include amounts held at various commercial banks at the end of the financial year.

## 10. Trade and other payables

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

## 11. Financial risk management objectives

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

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

- Market risk
- Credit risk
- Liquidity risk

### (a) Market risk management

#### (i) Currency risk

The organisation is not exposed to currency risk since it does not trade with foreign countries.

#### (ii) Interest rate risk

The company is exposed to interest rate risk as it has borrowed. As at 30th June 2014, an increase/decrease of 5 % on average borrowing rates would have resulted in an increase/decrease in the surplus of Kshs 179,393, (FY 2012/2013: Kshs 1,865).

| F/Year         | 2013/2014 | 2012/2013 |
|----------------|-----------|-----------|
| Interest       | 3,587,861 | 37,308    |
| Increase of 5% | 179,393   | 1,865     |

#### (iii) Price risk

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



**(b) Credit risk management**

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

The credit risk on trade receivables is limited because the nature of the organisation's business is such that the services provided are not chargeable. The bulk of income to the organisation relates to grants from various donors. The credit risk on grants receivable is limited because funds are sourced from credible donors.

|                      | Total<br>Amount<br>Kshs | Fully<br>performing<br>Kshs | Pastdue<br>Kshs | Impaired<br>Kshs |
|----------------------|-------------------------|-----------------------------|-----------------|------------------|
| As at 30th June 2014 |                         |                             |                 |                  |
| Receivables          | 39,315,374              | 35,527,062                  | -               | 3,788,312        |
| Cash in bank         | (375,220)               | (375,220)                   | -               | -                |
|                      | <u>38,940,154</u>       | <u>35,151,842</u>           | <u>-</u>        | <u>3,788,312</u> |

**(c) Liquidity risk management**

Ultimate responsibility for liquidity risk management rests with the Board of Directors through the senior management of the company. Management has built an appropriate liquidity risk management framework for the management of the company's short, medium and long-term funding and liquidity management requirements. The company manages liquidity risk by maintaining banking facilities through continuous monitoring of forecast and actual cash flows. The table below shows the maturity analysis of the financial liabilities that affect liquidity:

|                      | Total<br>Amount<br>Kshs | Less than<br>1 month<br>Kshs | Between<br>1-3 months<br>Kshs | Over<br>3 months<br>Kshs |
|----------------------|-------------------------|------------------------------|-------------------------------|--------------------------|
| As at 30th June 2014 |                         |                              |                               |                          |
| Accounts payables    | 38,246,861              | 38,246,861                   | 0                             | 0                        |
|                      | <u>38,246,861</u>       | <u>38,246,861</u>            | <u>0</u>                      | <u>0</u>                 |



**12. Related Party Disclosure**

**(a) Government of Kenya**

MUSWASCO is one of the County WSPS under Murang'a County Government and contracted by Tana Water Services Board (TWSB) under the Water Act 2002.

**(b) Employees**

There are no benefits given to management and employees on terms more favourable than available in the market.

**(c) Directors**

The fees paid to the directors in the year are disclosed in note 16(b) of the Financial Statements. There was no related party transaction involving the directors.

**13. Currency**

The Financial Statements are presented in Kenyan Currency that is Shillings.

**14. Incorporation**

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



**MURANG'A SOUTH WATER AND SANITATION COMPANY LTD**

*Financial statements*

*For the year ended 30TH JUNE 2014*

|  | 2013 / 2014       | 2012 / 2013       |
|--|-------------------|-------------------|
|  | Shs               | Shs               |
| <b>15. Revenue</b>                             |                   |                   |
| <b>(a) Operating income</b>                    |                   |                   |
| Water Sales                                    | 56,567,281        | 49,100,803        |
| Labour Charges                                 | 5,330,396         | 3,908,900         |
| Reconnection fee                               | 258,790           | 343,680           |
| Meter Accessories                              | 4,000             | 1,096,450         |
|  | <u>62,160,467</u> | <u>54,449,833</u> |
| <b>16. Other income</b>                        |                   |                   |
| <b>(a) Other income</b>                        |                   |                   |
| Tender fees                                    | 160,000           | 367,500           |
| Misc Income                                    | 30,000            | 10,000            |
| Grants   | 7,646,807         | 6,744,647         |
| Decrease / Increase in Provision for Bad debts | 25,767            |                   |
|  | <u>7,862,574</u>  | <u>7,122,147</u>  |



**MURANG'A SOUTH WATER AND SANITATION COMPANY LTD**

*Financial statements*

*For the year ended 30TH JUNE 2014*

**17.SCHEDULE OF OPERATING EXPENDITURE**

| a. PERSONNEL COST                              | 2013 / 2014<br>Shs | 2012 / 2013<br>Shs |
|--|--------------------|--------------------|
| a) Regular Salaries                            | 32,742,695         | 24,179,156         |
| b) Casual wages                                | 515,322            | 506,345            |
| c) G.O.K Salary grant                          | 3,745,764          | 3,982,044          |
| <b>Total Personnel Costs</b>                   | <b>37,003,781</b>  | <b>28,667,545</b>  |
| <br>   |                    |                    |
| b. ADMINISTRATIVE EXPENSES                     |                    |                    |
| <u>Directors Costs</u>                         |                    |                    |
| Directors Allowancies                          | 628,900            | 899,500            |
| Meeting and Conferencies                       | 487,240            | 150,000            |
|  | <u>1,116,140</u>   | <u>1,049,500</u>   |
| <br>   |                    |                    |
| <u>Administrative costs</u>                    |                    |                    |
| Staff training                                 | 191,888            | 186,050            |
| Travelling & Subsistence                       | 1,114,995          | 1,416,395          |
| Staff Welfare                                  | 306,510            | 160,922            |
| Telephone & E-mails                            | 698,950            | 716,402            |
| Computer repairs & Accessories                 | 684,480            | 543,650            |
| Staff Uniforms                                 | 245,633            | 20,000             |
| Advertising & Publicity                        | 580,582            | 592,742            |
| Electricity (Production)                       | 2,264,745          | 1,880,469          |
| Electricity (Lighting)                         | 177,223            | 76,621             |
| Security services                              | 1,590,747          | 1,235,826          |
| End Year Party                                 | 498,000            | 368,600            |
| Bonus and Awards                               | 658,637            | 372,486            |
| Decrease / Increase in Provision for Bad debts | 0                  | 555,047            |
| Postage  | 38,177             | 57,168             |
| Office Tea                                     | 212,375            | 144,035            |
| WSTF administrative expenses                   | 0                  | 618,148            |
| Billing Software Maintenance                   | 110,000            |                    |
| <b>Total other administrative expenses</b>     | <b>9,372,942</b>   | <b>8,944,560</b>   |
| <br>   |                    |                    |
| <b>TOTAL ADMINISTRATIVE EXPENSES</b>           | <b>10,489,082</b>  | <b>9,994,060</b>   |



**MURANG'A SOUTH WATER AND SANITATION COMPANY LTD**  
**Financial statements**  
**For the year ended 30TH JUNE 2014**

**SCHEDULE OF OPERATING EXPENDITURE (CONTINUED)**

| <b>c. OPERATING EXPENSES</b>                       | <b>2013 /2014</b> | <b>2012/2013</b>  |
|--|-------------------|-------------------|
|  | <b>Shs</b>        | <b>Shs</b>        |
| Water Board Levy                                   | 5,297,792         | 4,302,262         |
| Regulatory Levy                                    | 562,361           | 478,029           |
| Water Resources Levy                               | 1,080,726         | -                 |
| Transport expenses                                 | 835,530           | 521,440           |
| Printing & Stationeries                            | 958,199           | 493,932           |
| Motor vehicle running expenses                     | 966,961           | 2,098,942         |
| Fuels and Oils                                     | 2,712,136         | 1,994,000         |
| Insurance (Staff covers and Motor Vehicles/Cycles) | 1,231,854         | 837,673           |
| Corporate Social Responsibility                    | 113,000           | 0                 |
| Repairs and Maintenance                            | 0                 | 230,740           |
| Provision for Depreciation                         | 6,213,046         | 5,837,342         |
| Subscription (Waspa)                               | 52,500            | 90,000            |
| Billing Services                                   | 396,764           | 125,000           |
| Sports   | 0                 | 292,000           |
| Repairs & Maint. of Water pumps                    | 327,940           | 2,030,760         |
| Legal Fees   | 275,000           | 0                 |
| Reduction of NRW activities                        | 550,200           | 0                 |
|  | <u>21,574,009</u> | <u>19,332,120</u> |
| <b>d LEGAL AND PROFESSIONAL FEES</b>               |                   |                   |
| Consultancy Services                               | 382,699           | 481,021           |
| Audit Fees - D K Wambua & Asso                     | 336,864           | 242,000           |
| Audit Fees - KENAO Charges                         | 30,624            | 24,200            |
| Business Plan Development                          | -                 | -                 |
|  | <u>750,187</u>    | <u>747,221</u>    |
| <b>e FINANCE COSTS</b>                             |                   |                   |
| Bank Charges                                       | 476,017           | 220,188           |
| Loan Interest                                      | 3,587,861         | 37,308            |
|  | <u>4,063,878</u>  | <u>257,496</u>    |
| <b>f DIRECT COSTS</b>                              |                   |                   |
| Opening stock (Inventories)                        | 3,388,629         | 3,564,296         |
| Chemicals and Treatment                            | 1,216,625         | 2,381,330         |
| Water maintenance Costs                            | 2,350,523         | 2,277,365         |
| Installation of meters                             | 0                 | 571,700           |
| Water Lines rehabilitation                         | 1,241,350         | 1,041,025         |
| Closing Stock (Inventories)                        | (2,095,471)       | (3,388,629)       |
|  | <u>6,101,656</u>  | <u>6,447,088</u>  |
| Direct Costs                                       |                   |                   |



**MURANG'A SOUTH WATER AND SANITATION COMPANY LTD**

*Financial statements*

*For the year ended 30TH JUNE 2014*

**NOTES (CONTINUED)**

| 18. Cash and cash equivalents     | 2013 / 2014              | 2012 / 2013              |
|-----------------------------------|--------------------------|--------------------------|
| Cash and current account balances | Shs                      | Shs                      |
| Cash in hand                      | 409,005                  |                          |
| Cash at bank (Equity)             | (1,761,547)              |                          |
| Cash at bank (K.C.B)              | 700,568                  |                          |
| Cash at bank (Muramati)           | 40,580                   |                          |
| Cash at bank (Murata)             | 93,390                   |                          |
| Cash at bank K-REP BANK-1675      | 198,310                  |                          |
| Cash at bank K-REP BANK-3831      | 0                        |                          |
| M-PESA Facility                   | 353,479                  |                          |
|                                   | <u><b>33,785</b></u>     | <u><b>525,148</b></u>    |
| <br>                              |                          |                          |
| 19. Trade and other payables      |                          |                          |
| Trade payables                    | 12,011,674               | 8,200,403                |
| Development Creditors             | 713,927                  | 4,554,203                |
| Accruals                          | 6,642,460                | 2,566,124                |
| Other payables (Customer Deposit) | 13,878,800               | 9,357,780                |
| TWSB-guarantor 20% Contribution   | 5,000,000                |                          |
| Current loan                      |                          |                          |
|                                   | <u><b>38,246,861</b></u> | <u><b>24,678,510</b></u> |
| <br>                              |                          |                          |
| 20(a) Receivables                 |                          |                          |
| Water sales debtors               | 37,883,123               | 38,140,796               |
| Less:10% provision for bad debts  | <u>3,788,312</u>         | <u>3,814,080</u>         |
|                                   | 34,094,811               | 34,326,716               |
| TWSB-unpaid capital               | 100,000                  | 100,000                  |
| TWSB-customer deposit             | 775,751                  | 775,751                  |
| TWSB-SPA deposit                  | 300,000                  | 300,000                  |
| Advance salaries                  | 256,500                  | 135,500                  |
|                                   | <u><b>35,527,062</b></u> | <u><b>35,637,967</b></u> |
| <br>                              |                          |                          |
| (b) Other Receivables             |                          |                          |
| WSTF                              | 713,927                  | 4,554,203                |
|                                   | <u><b>36,240,989</b></u> | <u><b>40,192,170</b></u> |



MURANG'A SOUTH WATER AND SANITATION COMPANY LTD  
 Financial statements  
 For the year ended 30TH JUNE 2014

NOTES (CONTINUED)

2013/2014

21. Property, plant and equipment

| COST                          | MOTOR VEHICLE & MOTOR CYCLES |         | FURNITURE & EQUIPMENTS |         | EQUIPMENTS/ WATER KIOSKS |           | WATER METERS |            | COMPUTE INFRASTRU RS |      | TOTAL |      |
|-------------------------------|------------------------------|---------|------------------------|---------|--------------------------|-----------|--------------|------------|----------------------|------|-------|------|
|                               | KSHS                         | KSHS    | KSHS                   | KSHS    | KSHS                     | KSHS      | KSHS         | KSHS       | KSHS                 | KSHS | KSHS  | KSHS |
| As at 1st July 2013           | 4,318,650                    | 595,595 | 6,966,939              | 704,334 | 33,802,960               | 1,770,064 | 11,229,996   | 39,849,953 | 58,684,204           |      |       |      |
| Additions                     |                              |         |                        |         |                          | 485,000   | 38,660,619   |            |                      |      |       |      |
| As at 30TH JUNE 2014          | 4,318,650                    | 595,595 | 7,671,273              |         | 33,802,960               | 2,255,064 | 49,890,615   | 98,534,157 |                      |      |       |      |
| <b>DEPRECIATION</b>           |                              |         |                        |         |                          |           |              |            |                      |      |       |      |
| As at 1st July 2013           | 2,782,750                    | 191,497 | 1,597,842              |         | 6,614,357                | 986,539   | 280,750      | 12,453,735 |                      |      |       |      |
| Charge for the year           | 383,975                      | 50,512  | 759,179                |         | 3,398,575                | 380,558   | 1,240,247    | 6,213,046  |                      |      |       |      |
| As at 30TH JUNE 2014          | 3,166,725                    | 242,009 | 2,357,021              |         | 10,012,932               | 1,367,097 | 1,520,997    | 18,666,781 |                      |      |       |      |
| <b>NBV</b>                    |                              |         |                        |         |                          |           |              |            |                      |      |       |      |
| As at 30TH JUNE 2014          | 1,151,925                    | 353,586 | 5,314,252              |         | 23,790,028               | 887,968   | 48,369,618   | 79,867,376 |                      |      |       |      |
| At 1st July 2013              | 1,535,900                    | 404,098 | 5,369,097              |         | 27,188,603               | 783,525   | 10,949,246   | 46,230,469 |                      |      |       |      |
| <b>2012/2013</b>              |                              |         |                        |         |                          |           |              |            |                      |      |       |      |
| Property, plant and equipment |                              |         |                        |         |                          |           |              |            |                      |      |       |      |
| COST                          | MOTOR VEHICLE & MOTOR CYCLES |         | FURNITURE & EQUIPMENTS |         | EQUIPMENTS/ WATER KIOSKS |           | WATER METERS |            | COMPUTE INFRASTRU RS |      | TOTAL |      |
|                               | KSHS                         | KSHS    | KSHS                   | KSHS    | KSHS                     | KSHS      | KSHS         | KSHS       | KSHS                 | KSHS | KSHS  | KSHS |
| As at 1st July 2012           | 4,078,650                    | 455,595 | 4,153,799              |         | 14,944,160               | 1,140,064 | -            | 24,772,268 |                      |      |       |      |
| Additions                     | 240,000                      | 140,000 | 2,813,140              |         | 18,858,800               | 630,000   | 11,229,996   | 33,911,936 |                      |      |       |      |
| As at 30TH JUNE 2013          | 4,318,650                    | 595,595 | 6,966,939              |         | 33,802,960               | 1,770,064 | 11,229,996   | 58,684,204 |                      |      |       |      |
| <b>DEPRECIATION</b>           |                              |         |                        |         |                          |           |              |            |                      |      |       |      |
| As at 1st July 2012           | 2,270,783                    | 133,769 | 830,828                |         | 2,730,271                | 650,742   | -            | 6,616,393  |                      |      |       |      |
| Charge for the year           | 511,967                      | 57,728  | 767,014                |         | 3,884,086                | 335,797   | 280,750      | 5,837,342  |                      |      |       |      |
| As at 30TH JUNE 2013          | 2,782,750                    | 191,497 | 1,597,842              |         | 6,614,357                | 986,539   | 280,750      | 12,453,735 |                      |      |       |      |
| <b>NBV</b>                    |                              |         |                        |         |                          |           |              |            |                      |      |       |      |
| As at 30TH JUNE 2013          | 1,535,900                    | 404,098 | 5,369,097              |         | 27,188,603               | 783,525   | 10,949,246   | 46,230,470 |                      |      |       |      |
| At 1st July 2011              | 1,807,867                    | 321,826 | 3,322,971              |         | 12,213,889               | 489,322   | -            | 18,155,875 |                      |      |       |      |



**MURANG'A SOUTH WATER AND SANITATION COMPANY LTD**  
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**For the year ended 30TH JUNE 2014**

**NOTES (CONTINUED)**

|   | 2013 /2014        | 2012/2013         |
|---|-------------------|-------------------|
|   | Shs               | Shs               |
| <b>22.-(a) Creditors</b>                    |                   |                   |
| 1 Amua water Systems                        | 250,744           | 230,944           |
| 2 Embu water                                |                   | 250,000           |
| 3 Kinetics Engineering                      | 481,225           | 326,555           |
| 4 TWSB                                      | 4,841,015         | 1,879,350         |
| 5 WASREB                                    | 519,589           | 667,215           |
| 6 WARMA                                     | 778,660           | 730,038           |
| 7 KENAO                                     |                   | 25,520            |
| 8 Bikers tech service Centre                | 264,024           | 198,178           |
| 9 Murithi Kihara & Co.Adv                   | 150,800           | 150,800           |
| 10 Eye quest consulting                     | 37,000            | 37,000            |
| 11 Genetech Computers                       |                   | 68,000            |
| 12 Gatuya Hardware                          | 144,500           | 362,200           |
| 13 Intact Industries                        |                   | 272,850           |
| 14 Shanjah Auto Works                       |                   | 179,340           |
| 15 Gatanga Water community                  | 49,160            | 49,160            |
| 16 TWSB-Billing Templates                   | 89,588            | 89,588            |
| 17 Fargo Courier                            | 8,231             | 9,492             |
| 18 Tenaco Engineering Works Ltd             |                   | 377,600           |
| 19 Universal Borehole Services              | 345,084           | 828,500           |
| 20 Samjan Graphics                          | 349,550           | 205,225           |
| 21 Computing Dev. Strategies                | 45,300            | 45,300            |
| 22 Marsham General Merchants Ltd.           | 177,300           | 177,300           |
| 23 Silverspread H/W Ltd                     | 739,350           | 169,350           |
| 24 Eslon Plastics of (K) Ltd                |                   | 321,418           |
| 25 Utumoni Limited                          | 135,500           | 135,500           |
| 26 D.K Wambua & Associates                  | 446,832           | 78,880            |
| 27 Diamond Chemicals                        | 103,100           | 103,100           |
| 28 Intercity Secure Homes Ltd               | 825,147           | 232,000           |
| 29 Bromak General Merchants                 | 160,000           |                   |
| 30 Kimlox Logistics                         | 142,600           |                   |
| 31 Wantec Computer Services                 | 40,500            |                   |
| 32 PY-REX East Africa LTD                   | 215,800           |                   |
| 33 Limatec (K) LTD                          | 21,150            |                   |
| 34 Gisma Agencies                           | 19,750            |                   |
| 35 Golden Palm                              | 71,090            |                   |
| 36 Prime Movers                             | 26,157            |                   |
| 37 Tusqee System                            | 123,120           |                   |
| 38 Bull Texemporum                          | 197,058           |                   |
| 39 Muktar Communication Services            | 212,750           |                   |
|   | <u>12,011,674</u> | <u>8,200,403</u>  |
| <b>b) Accruals</b>                          |                   |                   |
| 1 Accrued Salaries                          | 6,066,929         | 2,012,825         |
| 2 Accrued Electricity                       | 512,031           | 203,579           |
| 3 Accrued Audit Fee                         | 0                 | 280,720           |
| 4 Accrued Staff Training                    | 63,500            | 69,000            |
|   | <u>6,642,460</u>  | <u>2,566,124</u>  |
| <b>c) Development Creditors</b>             |                   |                   |
| 1 Development Creditors                     | <u>713,927</u>    | <u>4,554,203</u>  |
| <b>d) Other payables (Customer Deposit)</b> |                   |                   |
| 1 Customer Deposits                         | <u>13,878,800</u> | <u>9,357,780</u>  |
|   | <u>22,246,861</u> | <u>24,678,510</u> |



26. NOTE FOR GRANT SCHEDULE

a. TOTAL REVENUE GRANTS FY 2013/2014

2013/2014

Kshs

SALARIES GOK  
Amortisation

3,745,764

3,901,043

7,646,807

TOTAL

b. TOTAL CAPITAL GRANTS AS AT 30TH JUNE 2014  
Capital Grants

48,774,184



MURANG'A SOUTH WATER AND SANITATION COMPANY LTD

Financial statements

For the year ended 30TH JUNE 2014

NOTES (CONTINUED)

| 23. Tax expense/income                                   | 2013 /2014         | 2012 /2013         |
|--|--------------------|--------------------|
|  | Shs                | Shs                |
| Current income tax                                       | (2,987,865)        | (1,162,065)        |
| Deferred income tax                                      | <u>-</u>           | <u>-</u>           |
| Income tax expense/(credit)                              | <u>(2,987,865)</u> | <u>(1,162,065)</u> |
| The tax on the company's profit/(loss) before income tax |                    |                    |
| <b>Profit/(loss) before income tax</b>                   | <u>(9,959,551)</u> | <u>(3,873,549)</u> |
| Tax calculated at the statutory tax rate of 30%          | (2,987,865)        | (1,162,065)        |
| Tax effect of:   |                    |                    |
| Expenses not deductible for tax purposes                 | 6,187,278          | 6,392,388          |
| Expenses deductible for tax purposes                     | (6,213,046)        | (5,837,342)        |
| Recognition of previous Years Loss                       | <u>(813,446)</u>   | <u>(1,368,493)</u> |
| Tax Loss C/F   | <u>(839,214)</u>   | <u>(813,446)</u>   |

| 24. Share capital          | No. of ordinary<br>shares | Issued and fully<br>paid up capital<br>Shs |
|----------------------------|---------------------------|--|
| At 1st July 2013           | 5,000                     | 100,000                                    |
| At 30th June 2014          | <u>5,000</u>              | <u>100,000</u>                             |
| Issue for cash/Bonus issue | -                         | -  |
| At 30th June 2014.         | <u>5,000</u>              | <u>100,000</u>                             |

| 25. Borrowings                          | 2013 /2014        | 2012 /2013 |
|---|-------------------|------------|
|   | Shs               | Shs        |
| The borrowings are analysed as follows: |                   |            |
| <b>Borrowings</b>                       |                   |            |
| Non Current Loan                        | 11,823,754        | -          |
| Current loan                            | <u>3,734,902</u>  | <u>-</u>   |
| <b>Total borrowings</b>                 | <u>15,558,656</u> | <u>0</u>   |

The lender of this borrowing is K-REP Bank Ltd, at an interest rate of 21% per annum on a reducing balance, four years and four months(52 Months),Security is Monthly Kshs. 57,827 and satisfactory execution of the bank's standard security forms and any