BCA/PACPIC/02/2014/12

REPUBLIC OF KENYA

KENYA NATIONAL AUDIT OFFICE

REPORT OF THE AUDITOR-GENERAL

ON

THE FINANCIAL STATEMENTS OF CHEMOSIT WATER AND SANITATION COMPANY LIMITED FOR THE YEAR ENDED 30 JUNE 2012

CHEMOSIT WATER AND SANITATION COMPANY LTD.

FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30TH JUNE 2012

EMOSIT WATER AND SANITATION COMPANY LIMITED

CONTENTS

CHEMOSIT WATER AND SANITATION COMPANY LIMITED

COMPANY INFORMATION

BOARD OF DIRECTORS

Onesmus Maritim	Chairman	upto 25th Nov 2010
Mr Ronald Sigeyh	Secretary	upto 25th Nov 2010
Mr Leonard Barsumei	Member	upto 25th Nov 2010
Mr Zablon Cheruiyot	Member	upto 25th Nov 2010
Mr John Langat	Member	upto 25th Nov 2010
Mr Weldon Korir	Member	upto 25th Nov 2010
Mr William Kitur	Member	upto 25th Nov 2010
Ms Joyce Mabwai	Member	upto 25th Nov 2010
Mr Benard Mutai	Member	upto 25th Nov 2010
The Chief Executive Officer-LVSWSB	Member	upto 25th Nov 2010
Interim Management		
Mr Stephen Sitonik	Chairman	From 26th Nov 2010
Mr Joel Langat	Secretary	From 26th Nov 2010
Mr Johnson Koech	Member	From 26th Nov 2010
Mr Zablon Cheruiyot	Member	From 26th Nov 2010
Ms Hellen Chepkwony	Member	From 26th Nov 2010
Mr Joseah Letting	Member	From 26th Nov 2010
Mr Isaack Ngetich	Member	From 26th Nov 2010
Mr Livingstone Kombich	Member	From 26th Nov 2010
Mr Johnstone Kering	Member	From 26th Nov 2010
Mr Titus Korir	Member	From 26th Nov 2010
The Chief Executive Officer-LVSWSB	Member	From 26th Nov 2010

REGISTERED OFFICE

Chemosit Water and Sanitation Co Ltd
Kapkatet Market
Off Kericho- Sotik Road
P.O.Box, 199-20210
Litein.

AUDITORS

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

BANKERS Kenya Commercial Bank
Sotik Branch
Sotik.

Kenya Commercial Bank
Kisumu Branch
Kisumu

CHEMOSIT WATER AND SANITATION COMPANY LIMITED
Directors' Report
For the Year Ended 30th June 2012

The Company directors submit their report together with the audited financial statements for the period ended 30th June, 2012 which disclose the state of affairs of the company.

INCORPORATION

The Company is incorporated in Kenya and is domicile in Kenya

PRINCIPAL ACTIVITIES

The Principal activity of the cluster is that of offering water services to the residents of Kericho,Bureti, Bomet, Sotik & Kipkelion Districts.

RESULTS AND DIVIDEND

The company realised a loss of Ksh. 936,759 during the year. The directors do not recommend the payment of a dividend for the year.

DIRECTORS

The directors who held office during the year and to the date of this report were as listed on page 1.

AUDITORS

The Auditor General ,Kenya National Audit Office continue in office in accordance with section 159(2) of the Companies Act (Cap.486)

CHEMOSIT WATER AND SANITATION COMPANY LIMITED
Statement of Directors' Responsibilities
For the Year Ended 30th June 2012

The Companies Act requires the Directors to prepare financial statements for each financial 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 its operatimg results. It also requires the Directors to ensure that the Company keeps proper accounting records that disclose, with reasonable accuracy, the financial position of the company. They are also responsible for safeguarding the assets of the company.

The Directors accept responsibility for the annual financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgement and estimates, in conformity with International Financial Reporting Standards and the requirements of the Companies Act. The Directors are of the opinion that the financial statements give a true and fair view of the state of the financial affairs of the Company and of its operating results. The directors further accept responsibility for the maintenance of accounting records that may be relied upon in the preparation of financial statements, as well as adequate systems of internal control.

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

Director:............................

Date 13/3/013

Director:............................

Date 13/3/2013

CHEMOSIT WATER AND SANITATION COMPANY LIMITED
Financial Statements
For the Year Ended 30th June 2012

Statement of Comprehensive Income

	Notes	2012 KSHS	2011 KSHS
Sales	1	49,724,791	50,844,230
Less:Cost of Sales	2	47,044,481	41,736,004
Gross Profit/(Loss)		2,680,310	9,108,226
Other Incomes			
Exhauster Income		4,164,044	2,387,857
Sale of Tender Documents			66,000
Others ie Connection /Reconnection		1,796,344	1,757,445
Grants	3	50,221,456	45,507,321
Bank Interest		32,314	4,169
		58,894,468	58,831,018
Administrative and other expenses	4	57,907,522	55,881,037
Finance costs	5	50,187	49,475
Profit before Tax		936,759	2,900,506
Tax	6		
Profit (Loss)		**936,759**	**2,900,506**

REPUBLIC OF KENYA

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NAIROBI

KENYA NATIONAL AUDIT OFFICE

REPORT OF THE AUDITOR-GENERAL ON CHEMOSIT WATER AND SANITATION COMPANY LIMITED FOR THE YEAR ENDED 30 JUNE 2012

REPORT ON THE FINANCIAL STATEMENTS

I have audited the accompanying financial statements of Chemosit Water and Sanitation Company Limited set out on pages 4 to 13, which comprise the statement of financial position as at 30 June 2012, 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 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 of Kenya. The audit was conducted in accordance with

International Standards on Auditing. Those standards require compliance with ethical requirements and that the audit be planned and performed to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the management, as well as evaluating the overall presentation of the financial statements.

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

Basis for Qualified Opinion

1. Trade and Other Receivables

As previously reported, the trade and other receivables balance of Kshs.64,325,181 as at 30 June 2012 includes long outstanding receivables totalling Kshs.31,421,989 inherited from the Ministry of Water and Irrigation whose recoverability is doubtful. Although the recovery of the long outstanding debts appears uncertain, no provision for bad and doubtful debts has been made against these particular debts in the financial statements.

Consequently, the accuracy and full recoverability of the trade and other receivables balance of Kshs.64,325,181 as at 30 June 2012 could not be confirmed.

2. Agency Account

The agency current account in respect of Lake Victoria South Water Services Board as maintained by the Company had a balance of Kshs.13,617,750 as at 30 June 2012. However, records maintained by the Board against the same account and as at the same date showed a balance of Kshs.16,209,254. The difference of Kshs.2,591,504 between the two sets of records had not been reconciled or explained. Consequently the accuracy of the agency account balance of Kshs.13,617,750 as at 30 June 2012 could not be confirmed.

3. Unaccounted For Water (UFW

During the year under review, the Company produced 3,335,000 cubic meters (m^3) of water. However, and out of this volume, only 1,113,586 m^3 was billed to customers. The balance of 2,221,414m^3 or approximately 67% of the total volume, represented Unaccounted for Water (UFW) which is 42% over and above the allowable loss of 25% in accordance with the Water Services Regulatory Board guidelines. The UFW of 67% may have resulted in loss of sales estimated at Kshs.99,192,471. The significant level of UFW may negatively impact on the Company's profitability and its long term sustainability.

4. Share Capital

The Company share capital of Kshs.100,000 divided into 5,000 shares of kshs.20 each issued to Kipsigis County Council (777), Liten Town Council (881), Londiani Town Council (419), Kipkelion Town Council (333), Bureti County Council (872), Bomet County Council (651), Sotik Town Council (580) and Bomet Municipal Council (487) had not been paid as at 30 June 2012. In the circumstances, it has not been possible to confirm whether or not the Local Authorities are desirous of having the Company achieve its objectives as outlined in the Memorandum and Articles of Association.

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 the Company as at 30 June 2012, and of its financial performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards and comply with both the Companies Act Cap 486 and the Water Act,2002 of the Laws of Kenya.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

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

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

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

iii. The Company's statement of financial position and statement of comprehensive income are in agreement with the books of account.

Edward R.O. Ouko, CBS
AUDITOR-GENERAL

Nairobi

7 May 2013

CHEMOSIT WATER AND SANITATION COMPANY LIMITED
Financial Statements
For the Year Ended 30th June 2012

Statement of Financial Position as at 30th June 2012

	Notes	2012 KSHS	2011 KSHS
Non-current assets			
Property,plant and equipment	7	466,449	554,377
Intangible Assets		363,900	390,000
		830,349	944,377
Current assets			
Inventories	8	1,556,350	715,293
Trade and other receivables	9	64,325,181	56,171,824
Cash and cash equivalents	10	6,015,559	4,384,233
		71,897,089	61,271,350
		72,727,438	**62,215,727**
Share capital	11	100,000	100,000
Capital Reserve	12a	31,421,989	31,421,989
Revenue Reserve	12b	851,538	-85,221
Shareholders' funds		**32,373,527**	**31,436,768**
Current liabilities			
Trade and other payables	13a	17,855,319	11,024,031
Customer Deposits	13a	5,254,915	3,916,365
Related Party Transaction	13b	17,243,676	15,838,563
		40,353,910	30,778,959
		72,727,438	**62,215,727**

Director:.................................

Date 13/3/013

Director:.................................

Date 13/03/2013

CHEMOSIT WATER AND SANITATION COMPANY LIMITED
Financial Statements
For the Year Ended 30th June 2012

Statement of changes in equity

	Share capital KSH	Capital Reserves KSH	Revenue Reserves KSH	Total KSH
As at 1st July 2010	**100,000**	31,421,989	-2,985,727	28,536,262
Profit for the year	-	-	2,900,506	2,900,506
As at 30th June 2011	**100,000**	**31,421,989**	**-85,221**	**31,436,768**
As at 1st July 2011	100,000	31,421,989	-85,221	31,436,768
Prior year				-
Profit for the year	-	-	936,759	936,759
As at 30th June, 2012	**100,000**	**31,421,989**	**851,538**	**32,373,527**

CHEMOSIT WATER AND SANITATION COMPANY LIMITED
Financial Statements
For the Year Ended 30th June 2012

Statement of Cash flows

	Notes	2012 KSH	2011 KSH
Cash flows from operating activities			
Profit/(loss) before tax		936,759	2,900,506
Adjustments for:			
Depreciation on property,plant&equipment(note 11)		101,929	117,872
Amortization		152,100	270,000
Interest Income		-32,314	-4,169
Changes in working capital			
(Increase)/Decrease in Inventories		-841,057	5,670
(Increase)/Decrease Trade and other receivables		-8,153,357	-4,347,765
Increase/(Decrease)Trade and other payables		8,236,401	2,921,193
		400,461	1,863,308
Tax paid			
Cash generated from/(used in) operations		400,461	1,863,308
Investing activities			
Interest Received		32,314	4,169
Purchase of property,plant and equipment		-140,000	-715,680
Net cash (used in) investing activities		-107,686	-711,511
Cash flows from financing activities			
Customer Deposits		1,338,550	1,565,010
Net cash generated from financing activities		1,338,550	1,565,010
Increase/(decrease)in cash and cash equivalents		1,631,325	2,716,806
As at the start of the year		4,384,233	1,667,427
Cash and Cash equivalent at the end of the year		**6,015,559**	**4,384,233**

Accounting Policies

The Principal accounting policies adopted in the preparation of these financials statements are set out below:-

a) **Basis of preparation**

The financial statements are prepared in accordance with and comply with International Financial Reporting Standard (IFRS). The financial statements are presented in Kenya Shillings (Ksh) rounded to the nearest thousand and prepared under the historical cost convention.

b) **Revenue Recognition**

Revenue is recognized when products are supplied to and accepted by customers and are stated net of VAT and discounts.

c) **Translation of foreign currencies**

Transactions in foreign currencies during the year are converted into Kenya Shillings at rates ruling at the transaction dates. Assets and liabilities at the balance sheet date that are expressed in foreign currencies are translated into Kenya Shillings at rates ruling at profit and loss account in the year in which they arise.

d) **Property, plant and equipment**

All property,plant and equipment is intially recorded at cost and subsequently stated at historical cost less depreciation

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

Buildings	10%
Office Equipment	12.50%
Computer Equipment	30%
Furniture and Fittings	12.50%

Property,plant and equipment are periodically reviewed for impairement. Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount.

e) **Inventories**

Inventories are stated at the lower of cost and net realizable value. Cost is determined by the first-in, first-out (FIFO) method. Net realisable value is the estimate of the selling price in the ordinary course of business, less the cost of completion and selling expenses.

f) **Trade receivables**

Trade receivables are carried at invoice amount less provision for impairement of these receivables. A provision for imparement of trade receivable is established when there is objective evidence that the company will not be able to collect all the amounts due according to the original terms of receivables. The amount of the provision is the difference between the carrying amount and the recoverable amount, being the present value of expected cash flows, discounted at the market rate of interest for similar borrowers.

g) **Employee entitlements**

The estimated monetary liability for employees' accrued annual leave entitlement are balance sheet date is recognized as an expense accrual.

h) **Taxation**

Current taxation is to be provided for on the basis of the results for the year, adjusted in accordance with the tax legislation.

Deferred tax

Deferred tax is provided, using the liability method, for all temporary difference arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes. Tax rates enacted or substantively enacted at the balance sheet date are used to determine deferred tax.

CHEMOSIT WATER AND SANITATION COMPANY LIMITED
Financial Statements
For the Year Ended 30th June 2012
Notes to the financial statements

	2012	2011
1.Turnover	KSHS	KSH
Water Sales	49,724,791	50,844,230
	49,724,791	50,844,230
2.Cost of Sales		
Chemicals	3,224,398	6,363,604
Electricity	43,820,083	35,372,400
	47,044,481	41,736,004
3. Grants		
Salaries	11,372,076	11,372,076
Chemicals	3,523,475	4,549,107
Electricity	32,854,150	29,362,100
Others	2,471,754	224,038
	50,221,456	45,507,321
4. Administrative & other expenses		
Personnel Costs		
Salaries and wages	30,769,970	32,687,762
Leave allowances	377,200	338,892
Staff Pension Fund	1,246,974	1,838,030
NSSF	120,200	138,000
	32,514,344	35,002,684
General administrative expenses:		
Board Expenses	324,541	360,488
Provision for audit fee	200,000	200,000
Maintenance & Repair -Distribution	3,543,021	2,458,952
Depreciation	101,929	117,872
	4,169,491	3,137,312
Telephone, postage & E-mail	633,623	683,316
Per diem & other allowances	2,417,389	3,533,520
Honoraria	0	80,000
Electricity	90,675	83,472
Computer repair & Maintenance	300,740	103,490
Vehicle running expenses	3,081,249	2,570,694
Stationary & Material- General	1,602,231	497,823
Advertisement,Publicity & Others		174,000
Entertainment/AGM Expenses	101,354	172,310
Lease Fees	4,475,231	4,575,981
Office General expenses	254,918	210,628
Consultancy charges		25,000
Security Charges	3,178,400	2,143,203
Newspapers & Periodicals	21,760	20,380
Staff welfare	50,000	11,475
Levy Expense	497,248	508,443
Protective Clothing	7,800	1,000
Water Quality	33,500	16,500
Exhauster Expense	617,440	184,418
Subscription	50,000	100,000
Dumping Expenses	475,500	249,000
Transport and travelling	1,377,335	59,485
Office Rent	14,400	16,800
Training Expenses	35,000	25,400
WRMA LEVY	1,122,516	777,544
Insurance	36,938	326,781
Maintenance & Repair-Plant & Equipm	596,339	320,378
Amortization	152,100	270,000
	21,223,687	**17,741,041**
TOTAL	**57,907,522**	**55,881,037**

	2012 KSHS	2011 KSHS
5. Finance costs		
Bank charges	50,187	49,475
	50,187	**49,475**

6.Tax

Current tax	-	-

There is no tax liability since the company generated a loss

7.Schedule of Property,plant and equipment

	Furniture and Fittings 12.50% shs	Office Equipment 12.50% shs	Computer 30% shs	Buildings 10% shs	Billing Software 20% shs	TOTAL shs
As at 1st July 2011	205,783	289,675	302,680	12,000	750,000	1,560,138
Additions			14,000 -		126,000	140,000
Total	**205,783**	**289,675**	**316,680**	**12,000**	**876,000**	**1,700,138**
Depreciation						
1st July 2011	62,975	66,751	122,945	3,090	360,000	615,761
Charge for the year	17,851	27,866	55,321	891	152,100	254,029
As at 30th June 2012	**80,826**	**94,617**	**178,266**	**3,981**	**512,100**	**869,790**
Net Book Value	**124,957**	**195,059**	**138,414**	**8,019**	**363,900**	**830,349**
As at 30th June 2012	**142,808**	**222,924**	**179,735**	**8,910**	**390,000**	**944,377**

8.Inventories

Stock as at 30th June 2012	1,556,350	715,293
	1,556,350	**715,293**

9 a)Trade Receivables

Litein Area	45,767,479	40,312,347
Bomet Area	10,008,261	8,417,286
Kipkelion Area	3,846,307	3,298,020
Kericho Area	4,422,772	3,668,304
Exhauster	4,747	306,359
	64,049,566	**56,002,315**
b) Other Debtors		
Staff	175,615	69,509
Due From Councils	100,000	100,000
	275,615	**169,509**
TOTAL	**64,325,181**	**56,171,824**

Notes to the financial statements	2012 KSH	2011 KSHS
10..Cash and cash equivalents		
LVSWSB A/C	476,198	-784,250
Deposit A/c	1,233,096	1,226,177
Revenue A/c	3,179,473	3,163,526
Expenditure A/c	1,126,792	778,781
	6,015,559	**4,384,233**
11.Share Capital		
Authorised,issued and fully paid		
Ordinary shares of 20/= each	100,000	100,000

The total authorised number of ordinary shares is 5,000 with a par value of Ksh 20 per share.

12 a) Capital Reserve

The initial capital represents inherited Debtors at the formation of the company.

	2012 KSH	2011 KSHS
b) Revenue Reserve		
Balance b/f	-85,221	-2,985,727
Profit/(loss) for the year	936,759	2,900,506
	851,538	**-85,221**
13.a) Trade and other payables		
Trade Creditors	17,855,319	11,024,031
Customer Deposits	5,254,915	3,916,365
b).Related party transaction		
i) Lake Victoria South Water Services Board		
Opening Balance	11,752,401	7,452,239
Levy for the year	4,475,231	4,575,981
Payments	-2,609,882	-275,820
	13,617,750	**11,752,401**
ii)Water Resources Management Authority	**1,792,209**	**2,749,693**
iii)Water Services Regulatory Board		
Opening Balance	1,336,470	828,027
Levy for the year	497,248	508,443
	1,833,718	**1,336,470**
	17,243,676	**15,838,563**
	40,353,910	**30,778,959**