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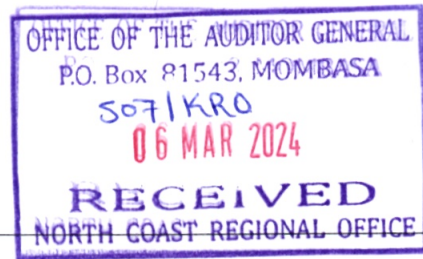
THE AUDITOR-GENERAL

ON

**LAMU WATER AND SEWERAGE
COMPANY LIMITED**

**FOR THE YEAR ENDED
30 JUNE, 2023**

Lamu Water and Sewerage Company Limited
Annual Reports and Financial Statements
For the year ended June 30, 2023



LAMU WATER AND SEWERAGE COMPANY

P. O. Box 185 – 80500, Tel No: 254717895682, Lamu, Kenya

E-MAIL: info@lamuwater.co.ke, lamuwater@gmail.com

LAMU WATER AND SEWERAGE COMPANY LIMITED (LAWASCO)

REPORTS AND FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED

JUNE 30, 2023

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

Lamu Water and Sewerage Company Limited

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KEY ENTITY INFORMATION

Background information

Lamu Water and Sewerage Company Limited was established under the Company Act (Cap, 486) on 3rd February 2006.

Principal Activities

The principal activity of the Company is the provision of water services.

Directors

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

No.	Name	Designation/Office	Date of Appointment
1.	Hon. Mohamed Mbwana Ali	CECM Finance, Budget, Strategy and Economic Planning	January 2023
2.	Hon. Tashrif Bakari Mohamed	CECM Lands, Physical Planning, Urban Development, Energy, Water and Natural Resources, Infrastructure and Public Works.	January 2023
3.	Fahad Mohamed Musa	Business Man - Commerce	November 2020
4.	Nasra Ali Mohamed	Gender Representative - Lamu Women Alliance	November 2020
5.	Swaleh Ahmed Mohamed	Lawyer	November 2020
6.	Adam Kombo Lali	Community Representative	November 2021
7.	Francis Muiruri Kinyanjui	Educationist	November 2020

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Registered Office

Lamu Water and Sewerage Company Ltd
Behind Kenya Police Station
P.O. Box 185-80500
Lamu, KENYA

Corporate Headquarters

P.O. Box 185-80500
Lamu, KENYA

Corporate Contacts

The Managing Director
P.O. Box 185-80500
Lamu, Kenya.
Telephone: +254 (0) 722329752
E-mail: lamuwater@gmail.com

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KEY ENTITY INFORMATION (Continued)

Corporate Contacts

Telephone: (254) 712358467

E-mail: lamuwater@gmail.com

Website: www.lamuwater.co.ke

Corporate Bankers

1. Equity Bank
P.O. Box 75-80503
Mpeketoni Lamu, Kenya
2. Kenya Commercial Bank
P. O. Box 121-80500
Lamu, Kenya

Independent Auditors

Auditor General
Kenya National Audit Office
Anniversary Towers, University Way
P.O. Box 30084
GPO 00100
Nairobi, Kenya.




Principal Legal Advisers

The Attorney General
State Law Office
Harambee Avenue
P.O. Box 40112
City Square 00200
Nairobi, Kenya.

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THE BOARD OF DIRECTORS

	NAME	DETAILS	PERIOD SERVED
	MR. MOHAMED MBWANA ALI	C.E.C.M Finance, Budget, Strategy and Economic Planning. Lamu County Government	January 2023- to date
	MS.TASHRIFA BAKARI MOHAMED	C. E C.M Lands, Physical Planning, Urban Development, Energy, Water and Natural Resources, Infrastructure and Public Works. Lamu County Government.	January 2023 – to date.
	MR. FAHAD MOHAMED MUSA	Commerce Chairman BOD	November 2020-to Date

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	MS. NASRA ALI MOHAMED	Gender	November 2020-to Date
	MR. FRANCIS MUIROI KINYANJUI	Educationist	November 2020-to Date
	MR. SWALEH AHMED MOHAMED	Lawyer	November 2020-to Date
	MR. ADAM LALI KOMBO		November 2020 - to Date

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MANAGEMENT TEAM

 <p>Mr. Najash Abdul Ahmed Hafidh Appointed: April 2023</p>	<p>Designation: Managing Director</p> <p>Responsibility: To provide strategic leadership and responsibility for the efficient management of affairs of the company and day to day operation & administration of the company.</p> <p>Qualification: Degree in Civil Engineering,</p>
 <p>Mrs. Agnes M. Mulingulu</p>	<p>Designation: Accountant</p> <p>Responsibility: Providing financial reports and interpreting financial information to managerial staff while recommending further courses of action. Advising on accountability activities and provide strategies that the company should take. Maintaining the financial health of the organization.</p> <p>Qualification: Degree in Economics and Business Administration, (CPA 2)</p>
 <p>MR. Jacob Chidzipha</p>	<p>Designation: Ag. Technical Manager</p> <p>Responsibility: To provide high-quality water to domestic, commercial, and industrial customers. To prepare comprehensive departmental reports, including engineering budgets, technical audit reports, etc.</p> <p>Qualification: Diploma in Water Engineering.</p>
 <p>Abdalla Hamisi Mwakadenge</p>	<p>Designation: Ag. Commercial Manager</p> <p>Responsibility: He is responsible for the commercial strategy and the development of an organization.</p> <p>Qualification: KCE (O LEVELS) Charge-hand in Plant Mechanical</p>

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Ms. Alice Mutheu

Designation: Procurement

Responsibility: She is responsible for overseeing and managing the company's overall supply chain and logistics strategy and operations to maximize process efficiency and productivity. In addition, she plays a crucial role in developing and maintaining good relationships with vendors and distributors.

Qualification: Degree in Supply Chain Management and a Diploma in Business Management.



Mr. Twahir Issa Twahir

Designation: Billing Manager

Responsibility: He is responsible for the commercial strategy and the development of an organization.

Qualification: Diploma in Water Engeneering, T1/T2 Solar Photovoltaic Technology



CHAIRMAN'S STATEMENT

In reference to the Board of Director's mandate, powers, and roles of oversight and supervision in the management of the company as stipulated in Water Act 2016, we have managed to achieve the following:

Staff appraisals

We have undertaken staff appraisals with recommendations of re-designations and promotions.

Relationships

We have been practicing cordial relations with the County Governor, WSTF, WRA, CWWDA, and WASREB to find ways of improving water services.

Outcome/Results of Our Operations

- Revenue collection has registered slow improvement.
- More intern and volunteer recruitment has improved operations efficiency and provided career opportunities to the youth in the community.

Challenges

- Vandalism of water systems by individuals
- Frequent electricity/power failure largely affects water provision to our esteemed customers.
- Lack of enough funding to recruit more staff in technical areas and in management.
- Huge electricity bills.

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Way Forward

Although, the County Government continues assisting us with funding to cater for huge electricity bills and other cost incurred during operation and maintenance cost of Lamu water and sewerage Company through grants, we are looking to improve our production levels to increase our revenue.

This will increase our muscle in enhancing security at our water sources thus curbing theft and vandalism of our water sources.

Increased revenue will also afford us the means to fill some of the gaps in our staff establishment, especially the ones relating to technical and management positions.

Continuous Stakeholder meetings and workshops to promote awareness creation among consumers to make them well informed of existing LAWASCO infrastructure, operations growth plans and the challenges arising to foster a moving forward together momentum.

I take this opportunity again to thank the County Government of Lamu through His Excellency, Governor Issa Timamy and the County Department of Water Services for their continued support in improving the water service provision to the residents of Lamu County.

Sincerely,



.....
Mr. Fahad Mohamed Musa
Chairman- LAWASCO

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REPORT OF THE MANAGING DIRECTOR

Lamu Water and Sewerage Company Limited, as a service provider has managed the provision of water within its area of jurisdiction as licensed by Water Service Regulatory Board (WASREB). The company established in November 2006 has provided water services in Lamu town in Lamu Island and Mokowe area in Lamu mainland but increased its coverage area to 80% from 70% after extending its services to Shella Village and Manda Island in 2021.

Low water production from lack of a permanent water source, which would be unaffected by drought and continued vandalism attacks on our water systems, has left the company grappling with high demand for water supply that we hither to have not been able to meet. Further, the water pipeline infrastructure has remained undeveloped thus posing many challenges of high level of non-revenue water, aging infrastructure, and low water production, which has affected the Company's water services and revenue collection.

Lamu Water and Sewerage Company is yet to realize a full cost recovery of providing services to the customers in the medium and long term. In the present, the revenue we collect cannot on its own meet our operational costs and this necessitates our relying on the County for grants to boost our operations and fully meet our running costs. However, as a company, we are looking to improve our collections by rehabilitating our water sources, our aged pipelines and expanding our coverage area to boost our production levels and increase the consumers we are supplying to. The management is also working with the Water Services Regulatory Board (WASREB) to have a new tariff in place as soon as possible and renew the company's licence for smooth operations as the new tariff will also boost our collections. This if achieved will take LAWASCO to acceptable performance level, in water services, and achieving coverage of operation and maintenance costs.

Lamu Water and Sewerage Company Limited

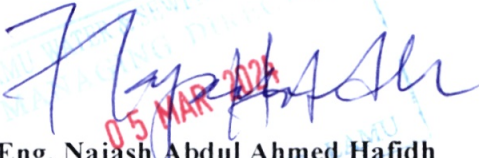
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We have procured a billing system in an effort to automate and increase efficiency in our revenue collection process. This will help us to get correct debtor balances and enhance the recovery of bad and doubtful debts through timely and authentic reports.

I wish to take this opportunity to thank everyone for their continued co-operation and concerted efforts to make this year the success that it has been.

Regards,



Eng. Najash Abdul Ahmed Hafidh
Managing Director

Stamp: LAMU WATER AND SEWERAGE COMPANY LIMITED, MANAGING DIRECTOR, P. O. BOX 80500, ZANGENI, KENYA

Red stamp: 05 MAR 2024

Date.....

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STATEMENT OF PERFORMANCE AGAINST PREDETERMINED OBJECTIVES FOR FY 2022/2023

Section 81 Subsection 2 (f) of the Public Finance Management Act, 2012 requires the accounting officer to include in the financial statement, a statement of the national government entity's performance against predetermined objectives.

Lamu Water and Sewerage Company limited has 4 strategic issues and objectives within the current Strategic Plan for the FY 2019- FY 2023. These strategic issues are as follows:

Issue 1: Financial Resources

Finance is critical to the self-sustainability of the Company. The Company intends to seek funding in addition to its own resources to rehabilitates some of the existing wells and develop additional water sources, sewerage and sanitation services.

CWSB support will be required in carrying out a feasibility study to establish the extent to which sewerage and sanitation services are required. The financial management systems will be customized with specific focus on customer database, billing system, revenue collection, procurement processes and procedures, accounting systems, budgeting and budgetary control and Management Information System generally.

Issue 2: Power Supply

The cost of electricity is very high coupled with intermittent power outages that compound the problem. There is need to carry out a feasibility study on alternative sources of power such as grren energy and wind generated power.

Issue 3: Water Sources

The current sources of water are inadequate due to increased demand for water for industrial and household use. It is proposed to expand water sources through rehabilitation of water wells and construction of new ones including rain water harvesting.

Issue 4: Human Resources

Human Resources Management (HRM) has a strategic dimension and involves the total deployment of all the human resources available to the organization.

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Broad issues to be addressed include the aggregate size of the Company's labour force in context of the overall corporate plan, how much to spend on training and development given the strategic decisions on productivity levels, product/service prices, target quality and range of services.

Lamu Water and Sewerage Company limited develops its annual work plans based on the above 4 Issues. Assessment of the Board's performance against its annual work plan is done on a quarterly basis. Lamu Water and Sewerage Company limited achieved its performance targets set for the FY 2022/2023 period for its 2 strategic pillars, as indicated in the diagram below:

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Strategic Issues	Objective	Key Performance Indicators	Activities	Achievements
Issue 1: Power Supply	<ul style="list-style-type: none"> • feasibility study on alternative sources of power • Seek grant from county government or any other government institution. 	<ul style="list-style-type: none"> • Significant increase of electricity bill by 3Million • Lamu Water and Sewerage Company limited received Kshs. 13,741,273 From Lamu county government. 	<ul style="list-style-type: none"> • Lobbing for funds from county government 	<ul style="list-style-type: none"> • Received fund from county government of Kshs. 13,741,273
Issue 2: Water Sources	Expand water sources through rehabilitation of water wells and construction of new ones including rain water harvesting	<ul style="list-style-type: none"> • Increase in production • Increase in revenue 	<ul style="list-style-type: none"> • Rehabilitation and equipping of 3 wells 	<ul style="list-style-type: none"> • 3no. wells were rehabilitated and equipped

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CORPORATE GOVERNANCE STATEMENT

Lamu Water and Sewerage Company is committed to operating under a clear governance framework and strongly adheres to sound management and control practices committed to ensuring that its business and operations are conducted with integrity, professionalism, and in compliance with the law, internationally accepted principles, and best practices in corporate governance.

Lamu Water and Sewerage Company is committed to ensuring compliance with the provisions of Water Act 2016 among other regulatory and supervisory corporate governance requirements. Essential to the establishment of a good governance framework are formal governance structures designed to ensure accurate reporting to the Board to facilitate an informed decision-making process, assessment, and improvement of conformances.

The Corporate Governance of Lamu Water and Sewerage Company takes place within a framework, which exists to regulate and/or guide the conduct of Board members, staff, customers, and members of the public in assessing the Company's facilities and services. The objective of the framework is to provide for the effective, ethical, and accountable governance and management of the Company. The key instruments within the governance framework are:

- The Kenya Constitution
- The Water Act 2016
- The Public Financial Management Act (2012)
- The Public Procurement and Asset Disposal Act (2015)
- The Lamu Water and Sewerage Company Service Charter
- The Company approved policies and procedures
- International Financial Reporting Standards (IFRS Accrual)

For the sake of coherence and legitimacy, it was in the best interest of the Company that the most appropriate type of governance instrument regulates its conduct. Lamu Water and Sewerage Company Ltd have the pride of serving the community since 2006. We have continued the long-standing tradition of providing the community with high quality and affordable Water.

We are a family of people who care about the staff, customers, the community, and the environment in which we live, work and serve.

Lamu Water and Sewerage Company Limited

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MANAGEMENT DISCUSSION AND ANALYSIS

Lamu Water and Sewerage Company is dealing with the challenge of improving water production and supply to the residents of Lamu due to consistence power failure. The total number of connections has increased from 4952 in June 2022 to 5,081 in June 2023, representing a 2.61% decrease in connections during the financial year, this shows a reduction of total number of connections of 2.61% in FY 2021-2022 down from 2.96% in the previous year FY 2020-2021. The total volume of water produced increased from 548,534 m³ in June 2022 to 594,092 m³ in June 2023; this represents an increase of 7.66% during the year under review. This shows an improvement of water production reduction of 8.66% in FY 2021-2022 up from 12% in the previous year FY 2020-2021.

Total revenue decreased from Kshs 23,709,020 in 2022 to 20,433,688 in 2023, a 35.56% decrease during the year. This is attributed due to increased unaccounted for water levels of 50.2% water from 44%. We further received 11.65M conditional grant from Lamu county government to clear staff salary arrears and pending bills for suppliers.

Below is a schedule detailing key indicators compared to the previous year.

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INDICATOR	EXPECTED & BUDGET	2023	2022	% CHANGE
Total revenue	42,000,000	20,433,688	23,709,020	-35.56%
Subsidy from Lamu County Government	75,107,954	32,105,383	58,490,357	66.95%
Total number of connections	-	5081	4952	2.61%
The total volume of produced water	-	593,255	548,534	8.66%
Water Coverage %	77%	77%	77%	-
Non-Revenue water	31%	50.2%	41%	-
Water quality standards	100%	100%	100%	-
Hours of Supply	10	10	10	-
Metering ratio	100%	100%	100%	-
Staff per 1,000 Connections	10	50	48	-
Collection efficiency	75%	80%	125%	-

ENVIRONMENTAL AND SUSTAINABILITY REPORTING

Lamu Water and Sewerage Company Limited exists to transform lives. Supply of water is the driving force behind everything we do. It's what guides us to deliver our strategy, putting the customer/Citizen first by delivering water and improving operational excellence. Below is an outline of the organisation's policies and activities that promote sustainability.

i) Sustainability strategy and profile

This list describes a range of sustainability goals along with examples of LAWASCO's approaches to address them.

Improve compliance - Establish collaborative partnerships with neighbouring utilities to increase or maintain technical, managerial, or financial capacity or to share information and expertise.

Reduce energy cost - Invest in more energy efficient equipment or explore operational changes that can enhance energy optimization (such as pumping at night when the rate is lower).

Reduce overall infrastructure costs to communities - Partner with other community agencies to coordinate infrastructure projects such as road repairs with lead service line replacement and installation of pipelines.

Extend the projected adequacy of current water supplies - Consumer water conservation programs implemented through water metering, fixing distribution system leaks, or making use of reclaimed water.

Address wet weather impacts - Implement a mix of non-traditional infrastructure alternatives such as green infrastructure solutions with integrated storm water and combined sewer overflow control.

Preserve critical ecological areas in the community - Adopt management programs for septic systems to reduce nutrient loadings to lakes or employ "green" treatment chemicals.

Improve the economic vitality of the existing community -Target water infrastructure projects to support existing community infrastructure and encourage redevelopment.

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Enhance community liveability- Incorporate green space or recreational opportunities into projects.
Reduce long-term system operational costs - Use natural energy consuming treatment systems, such as green energy, to reduce the input of energy during treatment.

Improve operational resilience - Understand operational, financial, and potential climate vulnerabilities and incorporate them into alternatives analysis as part of a broader risk management strategy.

Reduce vulnerability to water supply disruption or contamination - Conduct real-time water quality monitoring, install isolation shutoff valves, or provide connections to alternative water supplies.

Ensure a sustainable workforce - Implement steps to ensure a safe workplace, knowledge retention, and incorporating new knowledge through training.

Supply Chains-The Company maintains a list of sustainable friendly vendors and makes it a priority to use only organizations/suppliers that embrace sustainable business practices and all contracts negotiated with this expectation made clear.

Recycling Program-The Company has an in-house program for recyclable products like: fluorescent light-bulbs, electronics, computers and monitors, paper products and supplies.

Chemical Management- Lamu Water and Sewerage Company Limited engages chemical vendors to help train employees on the proper use of green products and disposal of chemicals.

Purchase of Only Energy Efficient Products to enhance Sustainable Work Policies-The Company looks for energy-efficient electronic products and use environmentally friendly settings on all LAWASCO stations.

ii) Environmental performance

LAWASCO recognizes our key impacts to be in the areas of:

Procurement, Energy use, Raw material use, Waste generation and management and Water use.

Lamu Water and Sewerage Company Limited

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We will strive to comply with legal requirements and voluntary commitments, Prevent pollution, reduce risk, Use resources sustainably, communicate our environmental policy, Train and increase Awareness, Improve Continually

This Environmental Policy is applicable to Lamu Water and Sewerage Company Limited and will be updated from time to time to reflect the emerging changes in the Company.

iii) Employee welfare

Below are the guidelines and procedure followed during the recruitment and hiring of high caliber staffs:

a. The Board of Directors shortlists, interview and recruit a candidate for the position of the Managing Director in accordance with relevant legislations and regulations governing this process. Where a vacancy in other cadres falls open or it is known that it shall occur, the Head of Department liaise with the Human Resources office with a view to filling the existing vacancy. The Human Resources Officer evaluates the vacancy and advice the Managing Director whether the vacancy can be filled from within or externally. The Board also outsource the shortlisting and interviewing of senior staff to a consultant who submit the names of at least three of the most qualified candidates to the Board which appoints one of them. The Human Resources Office in collaboration with the user department shortlist and interview other levels of staff in consultation with the Board. Applicants being interviewed are required to present their original academic and professional certificates to the interviewing panel. Appointment to permanent and pensionable posts shall be restricted to candidates above 18 years and below 45 years of age. Canvassing through a Director in the Board or Management directly or indirectly for any appointment or promotion in the company shall disqualify the candidate.

b. On- the-job training

The Company ensures that on-the-job training of staff is undertaken in order to improve their skills and capabilities. It also encourages staff to advance academically by allowing staffs to apply for study leaves and exam leaves.

c. Staff Performance and Appraisal Systems

The supervisors regards appraisal as being a continuous exercise. Whenever an employee displays some weaknesses in his work, the supervisor must discuss with him in order to reinforce the performance. Employees must be advised by their supervisors at all times whether verbally or in

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writing of any faults or shortcomings, the remedy of which may reasonably be within their power as soon as these become apparent. Heads of Departments and other authorized officers must satisfy themselves that, employees serving under them whose performance is unsatisfactory are promptly informed of the fact and that any adverse report made on them is recorded on their personal files.

d. Policy and Safety Compliance with OSHA, 2007

Lamu water and Sewerage Company Limited provides a safe and health place of work. However, it is the duty of every employee to safeguard themselves and others while at work and if any hazard is encountered, to report the same to the Head of Human Resource and Administrative Services. Lamu water and Sewerage Company Limited's premises are a non-smoking zone.

To reduce loss of man hours due to work related risks and hazards, the following measures are put in place:

- (i) Use of protective equipment's and clothes by employees at risk.
- (ii) Provision of First Aid kits which shall be maintained by the Administration Services Manager. If she/he is not available a duplicate key is kept by the head of Human. Resource and Administrative Services.
- (iii) Maintenance of firefighting equipment in the place of work: In the event of fire or emergency, employees shall be requested to immediately vacate the office using the nearest fire exit. It is advisable not to stop to clear desks or collect personal belongings.
- (iv) Training employees to avoid or counter any risk or hazard.
- (v) Regular maintenance of plant and equipment to minimize risks in the work place.
- (vi) Regular medical check-ups on employees exposed to risk and hazards.
- (vii) An HIV/AIDS policy shall be prepared and approved by the Board. Such policy shall be based on confidentiality on personal information for the infected, non-discrimination on the basis of the disease, voluntary testing, prevention, education and counselling for the employees and assisting the infected to access medication.

i) **Market place practices-**

Lamu water and Sewerage Company Limited has the following marketing practices

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a) Responsible competition practice.

Lamu water and Sewerage Company Limited is in the process of establishing anti-corruption committee to curb issues of anti-corruption, adoption to new technology to efficiently curb competition in provision of water and ensure quick response to political involvement in a proper way like using the website.

b) Responsible Supply chain and supplier relations

Lamu water and Sewerage Company Limited maintains a list of sustainable friendly vendors and makes it a priority to use only organizations/suppliers that embrace sustainable business practices and all contracts negotiated with this expectation made clear.

c) Responsible marketing and advertisement

Lamu water and Sewerage Company Limited thrives to attain the best marketing practice so as to attain efficiency and positive feedback from their customers. Protecting Consumer data and privacy, responding meaningfully to consumer Concerns, Commit to Sustainability and Human Rights and transparency are core ethical practices that enhances marketing.

d) Product stewardship

Lamu water and Sewerage Company Limited has a comprehensive service charter that outlines clearly and direct the customer on the relevant services that can assist in customer satisfaction.

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**CORPORATE SOCIAL RESPONSIBILITY STATEMENT/SUSTAINABILITY
REPORTING**

Lamu Water and Sewerage Company provides internship and practical skills attachment opportunities for the local Youth Polytechnic to assist in promoting professional and experienced personnel in the community.

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REPORT OF THE DIRECTORS

The Directors submit their report together with the audited financial statements for the year ended June 30, 2023 which show the state of Lamu Water and Sewerage Company affairs.

Principal activities

The principal activities of Lamu Water and Sewerage Company are to provide water services to the residents of Lamu.

Results

The results of the Lamu Water and Sewerage Company for the year ended June 30, 2023 are set out on page 1

Dividends

No dividends were to be provided to the shareholders.

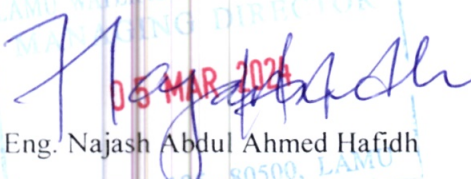
Directors

The members of the Board of Directors who served during the year are shown on page vi-vii.

Auditors

The Auditor-General is responsible for the statutory audit of Lamu Water and Sewerage Company Ltd under Article 229 of the constitution of Kenya section 35 of the Public Audit Act, 2015. Certified Public Accountants were nominated by the Auditor General to carry out the audit of the Company for the year ended June 30, 2022, in accordance to section 23 of the Public Audit Act, 2015 which empowers the Auditor General to appoint an auditor to audit on his behalf.

By Order of the Board


05 MAR 2024
LAMU WATER & SEWERAGE CO. LTD.
MANAGING DIRECTOR
P.O. BOX 105 - 80500, LAMU

Eng. Najash Abdul Ahmed Hafidh

Date.....

Corporate Secretary/Secretary to the Board

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For the year ended June 30, 2023

STATEMENT OF DIRECTORS' RESPONSIBILITIES

Section 81 (1) of the Public Finance Management Act, 2012 and section 14 of the State Corporations Act, require the Directors to prepare financial statements in respect of that company, which gives a true and fair view of the state of affairs of the company at the end of the financial year and the operating results of the company for that year. The Directors are also required to ensure that the company keeps proper accounting records which disclose with reasonable accuracy the financial position of the company. The Directors are also responsible for safeguarding the assets of the company.

The Directors are responsible for the preparation and presentation of the company's financial statements, which give a true and fair view of the state of affairs of the company for the financial year ended on June 30, 2022. 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 Lamu Water and Sewerage Company limited.
- (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 Lamu Water and Sewerage Company limited; (v) selecting and applying appropriate accounting policies, and
- (v) Making accounting estimates that are reasonable in the circumstances.

The Directors accept responsibility for the Lamu Water And Sewerage Company limited financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgments and estimates, in conformity with International Financial Reporting Standards (IFRS), and in the manner required by the PFM Act and the State Corporations Act. The Directors believe that the financial statements give a true and fair view of the state of Lamu Water And Sewerage Company limited transactions during the financial year ended June 30, 2022, and of the company's financial position as at that date. The Directors further confirm the completeness of the accounting records maintained for the company, which have been relied upon in the preparation of the

Lamu Water and Sewerage Company Limited

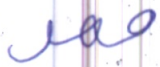
**Annual Reports and Financial Statements
For the year ended June 30, 2023**

Lamu Water And Sewerage Company limited 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 Lamu Water And Sewerage Company limited will not remain a going concern for at least the next twelve months from the date of this statement.

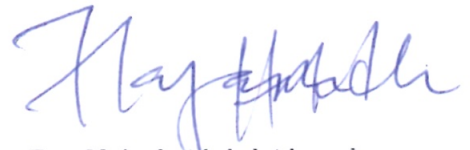
Approval of the financial statements

The Board approved the Company's financial statements on **29th February, 2023** and signed on its behalf by:



Fahad Mohamed

Chairperson of the Board



Eng. Najash Abdul Ahmed

Managing Director

REPUBLIC OF KENYA

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Enhancing Accountability

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NAIROBI

REPORT OF THE AUDITOR-GENERAL ON LAMU WATER AND SEWERAGE COMPANY LIMITED FOR THE YEAR ENDED 30 JUNE, 2023

PREAMBLE

I draw your attention to the contents of my report which is in three parts:

- A. Report on the Financial Statements that considers whether the financial statements are fairly presented in accordance with the applicable financial reporting framework, accounting standards and the relevant laws and regulations that have a direct effect on the financial statements.
- B. Report on Lawfulness and Effectiveness in Use of Public Resources which considers compliance with applicable laws, regulations, policies, gazette notices, circulars, guidelines and manuals and whether public resources are applied in a prudent, efficient, economic, transparent and accountable manner to ensure Government achieves value for money and that such funds are applied for the intended purpose.
- C. Report on Effectiveness of Internal Controls, Risk Management and Governance which considers how the entity has instituted checks and balances to guide internal operations. This responds to the effectiveness of the governance structure, the risk management environment and the internal controls, developed and implemented by those charged with governance for orderly, efficient and effective operations of the entity.

An unmodified opinion does not necessarily mean that an entity has complied with all relevant laws and regulations and that its internal controls, risk management and governance systems are properly designed and were working effectively in the financial year under review.

The three parts of the report are aimed at addressing the statutory roles and responsibilities of the Auditor-General as provided by Article 229 of the Constitution, the Public Finance Management Act, 2012 and the Public Audit Act, 2015. The three parts of the report, when read together constitute the report of the Auditor-General.

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of Lamu Water and Sewerage Company Limited set out on pages 2 to 43, which comprise of the statement of financial position as at 30 June, 2023 and the statement of profit or loss and other comprehensive income, statement of changes in equity, statement of cash flows and statement of

Report of the Auditor-General on Lamu Water and Sewerage Company Limited for the year ended 30 June, 2023

comparison of budget and actual amounts 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 35 of the Public Audit Act, 2015. 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.

In my opinion, except for the effect of the matters described in the Basis for Qualified Opinion section of my report, the financial statements present fairly, in all material respects, the financial position of the Lamu Water and Sewerage Company Limited as at 30 June, 2023 and of its financial performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards (IFRS) and comply with the Public Finance Management Act, 2012, the Water Act, 2016 and the Companies Act, 2015.

Basis for Qualified Opinion

1. Operating Revenue

The statement of profit or loss and other comprehensive income reflects revenue totalling Kshs.54,884,671. Included in this total is Kshs.22,546,788 in respect of operating revenue. Review of records revealed the following anomalies:

i. Unsupported Revenue Collections

The cash book maintained in an excel spread sheet indicate that a total of Kshs.21,087,818 was collected from customers during the year under review. However, the receipts recorded in the cash book are not supported by official receipts and were not reconciled against customer bank pay in slips and Mpesa deposits on a daily basis while Management maintain an excel cash book with no security features.

ii. Expired Water Sales Tariff

Review of records revealed that the water tariff used in billing has been in use since 31 July, 2017 and expired on 31 July, 2020 and has not renewed by WASREB as required.

iii. Non-Revenue Water

The company produced a total of 594,092 cubic meters (m³) of water during the year under review and billed customers 291,510 cubic meters (m³) leaving a balance of 302,582 cubic meters (m³) or 50.9% as Non-Revenue Water. The non-revenue water amounting to 302,582 cubic meters (m³) was approximately 25.9% above the allowable loss of 25% set by the Water Services Regulatory Board Guidelines which at the rate of Kshs.165 per cubic meter as per the company tariff translates to a loss of Kshs.49,926,030.

In the circumstances, the accuracy and completeness of the operating revenue totalling Kshs.22,546,788 could not be confirmed.

2. Property, Plant and Equipment

The statement of financial position and as disclosed in Note 15 to the financial statements reflects an amount of Kshs.46,945,556 in respect of property, plant and equipment .The

amount excludes the value of six (6) unvalued parcels of land recorded in the company asset register but which the company does not have ownership documents. In addition, included in the asset register are seven (7) motor vehicles and nine (9) motor cycles whose logbooks were in the name of Coast Water Works Development Agency.

In the circumstances, the accuracy and completeness of the property, plant and equipment balance of Kshs.46,945,556 could not be confirmed.

3. Trade and Other Payables

The statement of financial position and as disclosed in Note 21 to the financial statements reflects an amount of Kshs.43,225,756 in respect of trade and other payables. Review of records for trade and other payables revealed the following:

- i. Included in the balance are some invoices relating to expenditure incurred in 2021-2022 and prior years. However, Management did not provide aging analysis of trade and other payables to confirm how long the amounts have remained unpaid.
- ii. Also included in the balance is other payables balance of Kshs.25,474,644 out of which Kshs.15,754,308 relates to un remitted statutory deductions.
- iii. Included in trade and other payables balance is customer deposits of Kshs.2,865,190 that has not been supported by a detailed list customer's owed money by the company.

In the circumstances, the accuracy of trade and other payables balance of Kshs.43,225,756 could not be confirmed.

4. Long-Term Payables

The statement of financial position and as disclosed in Note 19 to the financial statements reflects an amount of Kshs.7,770,210 in respect of long-term liabilities. Further, the amount was not supported by underlying records such as ledgers, contract agreements and had not indicated any movement over the last four years. In addition, the terms and conditions of repayment for the long-term payables was not provided for my review.

In the circumstances, the accuracy and completeness of long-term payables could not be confirmed.

5. Statement of Cash Flows

The statement of cash flows reflects a cash and cash equivalents balance at end of year of Kshs.25,036,129. On re-computation a total credit balance of Kshs.17,296,188 was derived resulting to unexplained variance of Kshs.42, 332,317.

In the circumstances, the accuracy and completeness of the cash flows statement could not be confirmed.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the Lamu Water and Sewerage Company Limited Management in accordance with ISSAI 130 on Code of Ethics. I have fulfilled

other ethical responsibilities in accordance with the ISSAI and in accordance with other ethical requirements applicable to performing audits of financial statements in Kenya. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

Emphasis of Matter

Budgetary Control and Performance

The statement of comparison of budget and actual amounts reflects revenue budget of Kshs.121,417,254 and actual on comparable basis of Kshs.54,884,671 resulting to an under-collection of revenue of Kshs.66,532,583 or 55% of the budget. Similarly, the Company expended Kshs.65,851,192 against an actual budget of Kshs.109,725,603 resulting to an under-expenditure of Kshs.43,874,411 or 40% of the budget. The revenue under performance and under expenditure may have negatively impacted on the Company programs and service delivery to the public.

My opinion is not modified in respect of this matter.

Key Audit Matters

Key audit matters are those matters that, in my professional judgment, are of most significance in the audit of the financial statements. There were no key audit matters to report in the year under review.

Other Matter

Unresolved Prior Year's Issues

Various prior year audit issues were raised in the Auditor-General's report for the year ended 30 June, 2022. However, most of the issues remained unresolved as at 30 June, 2023. Management did not provide reasons for the delay in resolving the prior year audit issues.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

As required by Article 229(6) of the Constitution, based on the audit procedures performed, except for the matter described in the Basis for Conclusion on Lawfulness and Effectiveness in Use of Public Resources section of my report, I confirm that, nothing else has come to my attention to cause me to believe that public resources have not been applied lawfully and in an effective way.

Basis for Conclusion

Unbalanced Budget

The statement of comparison of budget and actual amounts reflects total revenue budget of Kshs.121,417,254 and total expenditure budget of Kshs.109,725,603 resulting to a budget surplus of Kshs.11,691,651 contrary to Regulation 31(c) of the Public Finance

Management (County Governments) Regulations, 2015 on budget guidelines which provides that at all times during budget formulation and approval, budget revenue and expenditure appropriations shall be balanced. In addition, the revenue and expenditure final budgets of Kshs.121,417,254 and Kshs.109,725,603 respectively are not in agreement with the approved estimates of Kshs.121,208,254 and Kshs.109,700,603 respectively.

In the circumstances, Management was in breach of the law.

The audit was conducted in accordance with ISSAI 4000. The standard requires that I comply with ethical requirements and plan and perform the audit to obtain assurance about whether the activities, financial transactions and information reflected in the financial statements are in compliance, in all material respects, with the authorities that govern them. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

As required by Section 7(1)(a) of the Public Audit Act, 2015, based on the audit procedures performed, except for the matter described in the Basis for Conclusion on Effectiveness of Internal Controls, Risk Management and Governance section of my report, I confirm that, nothing has come to my attention to cause me to believe that internal controls, risk management and overall governance were not effective.

Basis for Conclusion

Lack of Risk Management Policy and Strategy

As reported in the previous year, the Company did not have a risk management policy, strategies, and risk register to mitigate against risk. It was, therefore not clear how Management managed risk exposures. Also, there was no evidence that the three mandatory committees, Audit Committee, Technical Services Committee and Finance Human Resource and Administration Committee held any meeting during the year under review.

In the absence of a risk management policy, the Company may fail to identify and respond to risks in order to minimize or prevent their impact.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

As required by the Kenyan Companies Act, 2015, I report based on the audit, that:

- (i) I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of my audit.
- (ii) In my opinion, adequate accounting records have been kept by the Company, so far as appears from the examination of those records.

- (iii) The Company's financial statements are in agreement with accounting records and returns.

Responsibilities of Management and the Board of Directors

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

In preparing the financial statements, Management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless Management is aware of the intention to liquidate the Company or to cease operations.

Management is also responsible for the submission of the financial statements to the Auditor-General in accordance with the provisions of Section 47 of the Public Audit Act, 2015.

In addition to the responsibility for the preparation and presentation of the financial statements described above, Management is also responsible for ensuring that the activities, financial transactions and information reflected in the financial statements comply with the authorities that govern them, and that public resources are applied in an effective way.

The Board of Directors is responsible for overseeing the Company's financial reporting process, reviewing the effectiveness of how Management monitors compliance with relevant legislative and regulatory requirements, ensuring that effective processes and systems are in place to address key roles and responsibilities in relation to governance and risk management, and ensuring the adequacy and effectiveness of the control environment.

Auditor-General's Responsibilities for the Audit

The audit objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error and to issue an auditor's report that includes my opinion in accordance with the provisions of Section 48 of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISSAIs will always detect a material misstatement and weakness when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

In addition to the audit of the financial statements, a compliance audit is planned and performed to express a conclusion about whether, in all material respects, the activities, financial transactions and information reflected in the financial statements are in compliance with the authorities that govern them and that public resources are applied in

an effective way, in accordance with the provisions of Article 229(6) of the Constitution and submit the audit report in compliance with Article 229(7) of the Constitution.

Further, in planning and performing the audit of the financial statements and audit of compliance, I consider internal control in order to give an assurance on the effectiveness of internal controls, risk management and overall governance processes and systems in accordance with the provisions of Section 7(1)(a) of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution. My consideration of the internal control would not necessarily disclose all matters in the internal control that might be material weaknesses under the ISSAIs. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Because of its inherent limitations, internal control may not prevent or detect misstatements and instances of non-compliance. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions or that the degree of compliance with the policies and procedures may deteriorate.


As part of an audit conducted in accordance with ISSAIs, I exercise professional judgement and maintain professional skepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.
- Conclude on the appropriateness of Management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in the auditor's report to the related disclosures in the financial statements or if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my audit report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information and business activities of the Company to express an opinion on the financial statements.
- Perform such other procedures as I consider necessary in the circumstances.

I communicate with Management regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that are identified during the audit.

I also provide Management with a statement that I have complied with relevant ethical requirements regarding independence and communicate with them all relationships and other matters that may reasonably be thought to bear on my independence and where applicable, related safeguards.


FCPA Nancy Gathungu, CBS
AUDITOR-GENERAL

Nairobi

26 March, 2024

Lamu Water and Sewerage Company Limited

Annual Reports and Financial Statements

For the year ended June 30, 2023

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR
THE YEAR ENDED 30 JUNE 2023

	Note	2022-2023	2021-2022
		Kshs	Kshs
Revenue			
Operating Revenue	6	22,546,788	26,334,820
Grants Income	7	32,307,883	58,490,357
Other Income	8	30,000	60,000
Finance income	9	0	37,100
Total Revenue		54,884,671	84,922,277
Expenses			
Staff Costs	10	30,036,230	35,843,251
General and Operations expenses	11	29,476,968	43,240,233
Board Expenses	12	540,000	696,800
Maintenance Expenses	13	3,865,251	8,962,271
Depreciation expenses	14	1,932,743	1,974,642
Total Expenses		65,851,192	90,717,198
Profit/(Loss) Before Taxation		(10,966,521)	(5,794,920)
Profit/(Loss) After Taxation		(10,966,521)	(5,794,920)

Lamu Water and Sewerage Company Limited
Annual Reports and Financial Statements
For the year ended June 30, 2023

STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2023

	Note	2022-2023	2021-2022
		Kshs	Kshs
ASSETS			
Non-Current Assets			
Property, plant and equipment	15	46,945,556	40,139,564
Total Non-Current Assets		46,945,556	40,139,564
Current Assets			
Trade and other receivable	16	25,855,346	13,710,071
Bank and cash balances	17	25,036,129	13,072,190
Total Non-Current Assets		50,891,475	26,782,261
TOTAL ASSET		97,837,031	66,921,825
EQUITY AND LIABILITIES			
Capital and Reserves			
Ordinary share capital	18	3,000,000	3,000,000
Capital grant		21,000,000	-
Retained earnings		(29,175,903)	(27,929,537)
Capital and Reserves		(5,175,903)	(24,929,537)
Non-Current Liabilities			
Deferred Grant Income	20	52,016,968	52,016,968
Long Term Payables	19	7,770,210	7,770,210
Total Non-Current Liabilities		59,787,178	59,787,178
Current Liabilities			
Trade and other payables	21	43,225,756	32,064,184
Total Current Liabilities		43,225,756	32,064,184
TOTAL EQUITY AND LIABILITIES		97,837,031	66,921,825

The Board approved the financial statements on 29th February, 2023 and signed on its behalf by:



Name: Eng. Najash Abdul
Managing Director

A.M

Name: Agness Mulingulu
Head of Finance
ICPAK M/No:



Name: Fahad Mohamed
Chairman of the Board

Lamu Water and Sewerage Company Limited**Annual Reports and Financial Statements****For the year ended June 30, 2023****STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 JUNE 2023**

	Ordinary Share Capital	Retained Earnings	Development Grants	Total
	Kshs.	Kshs.	Kshs.	Kshs.
As at 1st July 2019	3,000,000	(3,425,836)	2,977,430	(425,836)
Surplus for the year	-	(9,350,113)	-	(9,350,113)
Development Grants Received During the Year	-	-	(2,977,430)	(2,977,430)
At 30th June 2020	3,000,000	(12,775,949)	-	(9,775,949)
As at 1st July 2020	3,000,000	(12,775,949)	-	(9,775,949)
Surplus for the year	-	(9,358,668)	-	(9,358,668)
Prior Year Adjustment	-	-	-	-
At 30th June 2021	3,000,000	(22,134,617)	-	(19,134,617)
As at 1st July 2021	3,000,000	(22,134,617)	-	(19,134,617)
Surplus for the year	-	(5,794,920)	-	(5,794,920)
Prior Year Adjustment	-	-	-	-
At 30th June 2022	3,000,000	(27,929,537)	-	(24,929,537)
As at 1st July 2022	3,000,000	(27,929,537)	-	(24,929,537)
Surplus for the year	-	(10,966,520)	-	(10,966,520)
Capital Grant (swasap)	-	-	21,000,000	21,000,000
Prior Year Adjustment	-	9,720,154	-	-
At 30th June 2023	3,000,000	(29,175,903)	21,000,000	(5,175,903)

Note: .

- 1. Prior year adjustment relates to trade receivables that had been understated in the previous year's financial statements .*

Lamu Water and Sewerage Company Limited

Annual Reports and Financial Statements

For the year ended June 30, 2023

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2023

	Note	2022-2023	2021-2022
		Kshs	Kshs
Cash Flows From Operating Activities			
Receipts			
Sale of Water	6	22,546,688	34,891,866
Grants from other government entities	7	32,307,883	58,490,357
Other Income	8	30,000	2,722,900
Total Receipts		54,884,571	96,105,123
Payments			
Staff Costs	10	30,036,230	35,843,251
General and Operations expenses	11	29,476,968	43,240,233
Board Expenses	12	540,000	696,800
Maintenance Expenses	13	3,865,251	8,962,271
Total Payments		63,918,449	88,742,555
Net Cash From/(Used In) Operating Activities		(9,033,878)	7,362,568
Cash Flows from Investing Activities			
Capital Grant- (SWASAP)		(21,000,000)	0
Purchase Of Property, Plant And Equipment (PPE)	15	(334,500)	(943,400)
Net Cash From/(Used In) Investing Activities		(21,334,500)	(943,400)
Cash Flows from Financing Activities			
Increase in Deffered Income	20	0	0
Net Cash From/(Used In) Financing Activities		0	0
Increase/(Decrease) In Cash And Cash Equivalentts		(30,368,378)	6,419,168
Cash And Cash Equivalentts At Beginning Of Year		13,072,190	6,653,022
Cash And Cash Equivalentts At End Of The Year		25,036,129	13,072,190

Lamu Water and Sewerage Company Limited

Annual Reports and Financial Statements

For the year ended June 30, 2023

STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS FOR THE PERIOD
ENDED 30 JUNE 2023

	Original budget	Adjustments	Final budget	Actual on comparable basis	Performance difference	% of utilization
	2022-2023	2022-2023	2022-2023	2022-2023		
Revenue	Kshs	Kshs	Kshs	Kshs	Kshs	Xxx%
Operating Revenue	45,871,000	-	45,871,000	22,546,788	23,324,212	103%
Grants	75,394,254	-	75,394,254	32,307,883	43,086,371	133%
Finance Income	62,000	-	62,000	-	62,000	#DIV/0!
Other gains	90,000	-	90,000	30,000	60,000	200%
Total Revenue	121,417,254	-	121,417,254	54,884,671	66,532,583	121%
Expenses					-	
Staff Costs	57,133,693	-	57,133,693	30,036,230	27,097,463	90%
Board Expenses	787,500	-	787,500	540,000	247,500	46%
General and operations Expenses	34,641,789	-	34,641,789	29,140,378	5,501,411	19%
Maintenance	17,162,621	-	17,162,621	4,201,841	12,960,780	308%
Depreciation	-	-	-	1,932,743	(1,932,743)	-100%
Total Expenditure	109,725,603	-	109,725,603	65,851,192	43,874,411	67%
					-	
Profit/Loss	11,691,651	-	11,691,651	(10,966,521)	22,658,172	55%

Lamu Water and Sewerage Company Limited

Annual Reports and Financial Statements

For the year ended June 30, 2023

NOTES TO THE FINANCIAL STATEMENTS

1. GENERAL INFORMATION

Lamu Water and Sewerage Company Limited entity is established by and derives its authority and accountability from the Water Act 2006. The Company is wholly owned by the County Government of Lamu and is domiciled in Kenya. The Company's principal activity is the supply of water to the residents of Lamu.

For Kenyan Companies Act reporting purposes, the balance sheet is represented by the statement of financial position and the profit and loss account by the statement of profit or loss and other comprehensive income in these financial statements

2. 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 judgment 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 following the PFM Act, the State Corporations Act, and International Financial Reporting Standards (IFRS). The accounting policies adopted have been consistently applied to all the years presented.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

3. Application of New and Revised International Financial Reporting Standards (IFRS)

i. *New and amended standards and interpretations in issue effective in the year ended 30 June 2023*

Title	Description	Effective Date
Amendments to IAS 16 titled Property, Plant and Equipment: Proceeds before Intended Use (issued in May 2020)	The amendments, applicable to annual periods beginning on or after 1 January 2022, prohibit a company from deducting from the cost of property, plant and equipment amounts received from selling items produced while the company is preparing an asset for its intended use. Instead, a company will recognise such sales proceeds and related cost in profit or loss	The amendments are effective for annual periods beginning on or after January 1, 2022. Early application is permitted.
Amendments to IAS 37 titled Onerous Contracts - Cost of Fulfilling a Contract (issued in May 2020)	The amendments clarify that for the purpose of assessing whether a contract is onerous, the cost of fulfilling the contract includes both the incremental costs of fulfilling that contract and an allocation of other costs that relate directly to fulfilling contracts. They are effective for contracts for which an entity has not yet fulfilled all its obligations on or after 1 January 2022.	The amendments are effective for annual periods beginning on or after January 1, 2022. Early application is permitted
Amendment to IFRS 1 titled Subsidiary as a First-time Adopter	The amendment, applicable to annual periods beginning on or after 1 January 2022, provides a subsidiary that becomes a first-time adopter later than its parent with an exemption relating to the measurement of its assets and liabilities. The exemption does not apply to components of equity.	The amendments are effective for annual periods beginning on or after January 1, 2022. Early application is permitted.
Amendment to IFRS 9	The amendment, applicable to annual periods beginning on or after 1	The amendments are effective for annual

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Title	Description	Effective Date
titled Fees in the '10 per cent' Test for Derecognition of Financial Liabilities	January 2022, to IFRS 9 clarifies the fees that a company includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability.	periods beginning on or after January 1, 2022. Early application is permitted
Amendment to IAS 41 titled Taxation in Fair Value Measurements (issued in May 2020 as part of the Annual Improvements to IFRS Standards 2018-2020)	The amendment, applicable to annual periods beginning on or after 1 January 2022, to IAS 41 removed the requirement to exclude taxation cash flows when measuring fair value. This amendment aligned the requirements in IAS 41 on fair value measurement with those in other IFRS	The amendments are effective for annual periods beginning on or after January 1, 2022. Early application is permitted.

The Directors have assessed the applicable standards and amendments. Based on their assessment of impact of application of the above, they do not expect that there will be a significant impact on the company's financial statements. Or the following has been assessed to be significant for the company and has been addressed as follows....

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

Application of New and Revised International Financial Reporting Standards (IFRS)

ii. *New and amended standards and interpretations in issue but not yet effective in the year ended 30 June 2023.*

Title	Description	Effective Date
IAS 1 — Presentation of Financial Statements	IAS 1 "Presentation of Financial Statements" sets out the overall requirements for financial statements, including how they should be structured, the minimum requirements for their content and overriding concepts such as going concern, the accrual basis of accounting and the current/non-current distinction. The standard requires a complete set of financial statements to comprise a statement of financial position, a statement of profit or loss and other comprehensive income, a statement of changes in equity and a statement of cash flows.	The amendments are effective for annual periods beginning on or after January 1, 2023. Earlier application is permitted.
Amendments to IAS 1 titled Classification of Liabilities as Current or Non-current (issued in January 2020)	The amendments, clarify a criterion in IAS 1 for classifying a liability as non-current: the requirement for an entity to have the right to defer settlement of the liability for at least 12 months after the reporting period.	The amendments are effective for annual periods beginning on or after January 1, 2023. Earlier application is permitted.
Amendments to IAS 1 titled Disclosure of Accounting Policies (issued in February	The amendments, applicable to annual periods beginning on or after 1st January 2023, require entities to disclose their material accounting policy information rather than their significant accounting policies	The amendments are effective for annual periods beginning on or after January 1, 2023. Earlier application is permitted.

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Title	Description	Effective Date
2021) IAS 12 — Income Taxes	IAS 12, "Income Taxes" implements a so-called 'comprehensive balance sheet method' of accounting for income taxes which recognizes both the current tax consequences of transactions and events and the future tax consequences of the future recovery or settlement of the carrying amount of an entity's assets and liabilities. Differences between the carrying amount and tax base of assets and liabilities, and carried forward tax losses and credits, are recognized, with limited exceptions, as deferred tax liabilities or deferred tax assets, with the latter also being subject to a 'probable profits' test.	The amendments are effective for annual reporting periods beginning on or after January 1, 2023. Early adoption is permitted.
IAS 8- Accounting Policies, Errors and Estimates	The amendments, applicable to annual periods beginning on or after 1st January 2023, introduce a definition of 'accounting estimates' and include other amendments to IAS 8 to help entities distinguish changes in accounting policies from changes in accounting estimates.	The amendments are effective for annual reporting periods beginning on or after January 1, 2023. Early adoption is permitted.

The Directors do not plan to apply any of the above until they become effective. Based on their assessment of the potential impact of application of the above, they do not expect that there will be a significant impact on the company's financial statements OR The directors have elected to early adopt xxx and they expect xx to be the impact of the adoption of the entity financial statements.

iii. Early adoption of standards

The entity did not early – adopt any new or amended standards in year 2022/2023.

Lamu Water and Sewerage Company Limited
Annual Reports and Financial Statements
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NOTES TO THE FINANCIAL STATEMENTS (Continues)

4. Summary of Significant Accounting Policies

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

a) Revenue recognition

Revenue is measured based on the consideration to which the entity expects to be entitled in a contract with a customer and excludes amounts collected on behalf of third parties. The entity recognizes revenue when it transfers control of a product or service to a customer.

- i) **Revenue from the sale of goods and services** is recognized in the year in which the Company delivers products to the customer, the customer has accepted the products and collectability of the related receivables is reasonably assured.
- ii) **Grants from National Government** are recognized in the year in which the *entity* actually receives such grants. Recurrent grants are recognized in the statement of comprehensive income. Development/capital grants are recognized in the statement of financial position and realised in the statement of comprehensive income over the useful life of the assets that has been acquired using such funds.
- iii) **Finance income** comprises interest receivable from bank deposits and investment in securities, and is recognized in profit or loss on a time proportion basis using the effective interest rate method.
- iv) **Dividend income** is recognized in the income statement in the year in which the right to receive the payment is established.
- v) **Rental income** is recognized in the income statement as it accrues using the effective interest implicit in lease agreements.
- vi) **Other income** is recognized as it accrues.

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

Summary of Significant Accounting Policies

b) In-kind contributions

In-kind contributions are donations that are made to the Company in the form of actual goods and/or services rather than in money or cash terms. These donations may include vehicles, equipment or personnel services. Where the financial value received for in-kind contributions can be reliably determined, the Company includes such value in the statement of comprehensive income both as revenue and as an expense in equal and opposite amounts; otherwise, the contribution is not recorded.

c) 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 recognized in profit or loss in the income statement.

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

Summary of Significant Accounting Policies

d) Depreciation and impairment of property, plant and equipment

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

Depreciation on property, plant and equipment is recognized 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:

Item	Rates
Buildings and civil works	2.5%
Plant and machinery	12.5%
Motor vehicles, including motor cycles	25%
Computers and related equipment	33.3%
Office equipment, furniture and fittings	12.5%
Water Meters	12.5%

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

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Summary of Significant Accounting Policies

e) Intangible assets

Intangible assets with finite useful lives that are acquired separately are carried at cost less accumulated amortization and accumulated impairment losses. Amortization is recognized on a straight-line basis over their estimated useful lives. The estimated useful life and amortization method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. Intangible assets with indefinite useful lives that are acquired separately are carried at cost less accumulated impairment losses.

f) Amortization and impairment of intangible assets

Amortization is calculated on the straight-line basis over the estimated useful life of the intangible asset. All intangible assets are reviewed annually for impairment. Where the carrying amount of an intangible asset is assessed as greater than its estimated recoverable amount, an impairment loss is recognized so that the asset is written down immediately to its estimated recoverable amount.

g) Investment property

Investment property, which is property held to earn rentals and/or for capital appreciation (including property under construction for such purposes), is measured initially at cost, including transaction costs. Subsequent to initial recognition, investment property is measured at fair value. Gains or losses arising from changes in the fair value of investment property are included in profit or loss in the period in which they arise. An investment property is derecognized upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from the disposal. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the period in which the property is derecognized.

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

Summary of Significant Accounting Policies

h) Right of Use Asset

The right-of-use assets comprise the initial measurement of the corresponding lease liability, lease payments made at or before the commencement day, less any lease incentives received and any initial direct costs. They are subsequently measured at cost less accumulated depreciation and impairment losses. Whenever the entity incurs an obligation for costs to dismantle and remove a leased asset, restore the site on which it is located or restore the underlying asset to the condition required by the terms and conditions of the lease, a provision is recognized and measured under IAS 37. To the extent that the costs relate to a right-of-use asset, the costs are included in the related right-of-use asset, unless those costs are incurred to produce inventories. Right-of-use assets are depreciated over the shorter period of lease term and useful life of the underlying asset. If a lease transfers ownership of the underlying asset or the cost of the right-of-use asset reflects that the entity expects to exercise a purchase option, the related right-of-use asset is depreciated over the useful life of the underlying asset. The depreciation starts at the commencement date of the lease. The right-of-use assets are presented as a separate line in the consolidated statement of financial position.

i) Fixed interest investments (bonds)

Fixed interest investments refer to investment funds placed under Central Bank of Kenya (CBK) long-term infrastructure bonds and other corporate bonds with the intention of earning interest income upon the bond's disposal or maturity. Fixed interest investments are freely traded at the Nairobi Securities Exchange. The bonds are measured at fair value through profit or loss.

j) Quoted investments

Quoted investments are classified as non-current assets and comprise marketable securities traded freely at the Nairobi Securities Exchange or other regional and international securities exchanges. Quoted investments are stated at fair value.

Lamu Water and Sewerage Company Limited

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

Summary of Significant Accounting Policies

k) Unquoted investments

Unquoted investments stated at cost under non-current assets, and comprise equity shares held in other Government owned or controlled entities that are not quoted in the Securities Exchange.

l) Inventories

Inventories are stated at the lower of cost and net realizable value. Cost comprises direct materials and, where applicable, direct labour costs and those overheads that have been incurred in bringing the inventories to their present location and condition. Cost is calculated using the weighted average cost method. Net realizable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution.

m) Trade and other receivables

Trade and other receivables are recognized 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.

Lamu Water and Sewerage Company Limited
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NOTES TO THE FINANCIAL STATEMENTS (Continued)

Summary of Significant Accounting Policies

n) Taxation

i) Current income tax

Current income tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting date in the area where the Entity operates and generates taxable income. Current income tax relating to items recognized directly in net assets is recognized in net assets and not in the statement of financial performance.

Current income tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting date in the area where the Entity operates and generates taxable income.

Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

o) Deferred tax

Deferred tax is provided using the liability method on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Summary of Significant Accounting Policies

Deferred Tax

Deferred tax liabilities are recognized for all taxable temporary differences, except in respect of taxable temporary differences associated with investments in controlled entities, associates and interests in joint ventures, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future. Deferred tax assets are recognized for all deductible temporary differences, the carry forward of unused tax credits and any unused tax losses. Deferred tax assets are recognized to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilized, except in respect of deductible temporary differences associated with investments in controlled entities, associates and interests in joint ventures, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Unrecognized deferred tax assets are re-assessed at each reporting date and are recognized to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered. Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred tax relating to items recognized outside surplus or deficit is recognized outside surplus or deficit. Deferred tax items are recognized in correlation to the underlying transactions in net assets. Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Lamu Water and Sewerage Company Limited

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

Summary of Significant Accounting Policies

p) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. To the extent that variable rate borrowings are used to finance a qualifying asset and are hedged in an effective cash flow hedge of interest rate risk, the effective portion of the derivative is recognized in other comprehensive income and reclassified to profit or loss when the qualifying asset impacts profit or loss. To the extent that fixed rate borrowings are used to finance a qualifying asset and are hedged in an effective fair value hedge of interest rate risk, the capitalized borrowing costs reflect the hedged interest rate. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization. All other borrowing costs are recognized in profit or loss in the period in which they are incurred.

q) 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 the Central Bank of Kenya and at various Commercial Banks at the end of the reporting period. For the purposes of these financial statements, cash and cash equivalents also include short term cash imprests and advances to authorized public officers and/or institutions which were not surrendered or accounted for at the end of the financial year.

r) Borrowings

Interest bearing loans and overdrafts are initially recorded at fair value being received, net of issue costs associated with the borrowing. Subsequently, these are measured at amortized cost using the effective interest rate method. Amortized cost is calculated by taking into account any issue cost and any discount or premium on settlement. Finance charges, including premiums payable of settlement or redemption are accounted for on accrual basis and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise. Loan interest accruing during the construction of a project is capitalized as part of the cost of the project.

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s) Trade and other payables

Trade and other payables are non-interest bearing and are carried at amortized 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.

t) Retirement benefit obligations

The Company operates a defined contribution scheme for all full-time employees from July 1, 2013. The scheme is administered by LAPFUND and is funded by contributions from both the company and its employees. The company also contributes to the statutory National Social Security Fund (NSSF). This is a defined contribution scheme registered under the National Social Security Act. The company's obligation under the scheme is limited to specific contributions legislated from time to time.

u) Provision for staff leave pay

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

v) Exchange rate differences

The accounting records are maintained in the functional currency of the primary economic environment in which the entity operates, Kenya Shillings. Transactions in foreign currencies during the year/period are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Any foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

Lamu Water and Sewerage Company Limited

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

Summary of Significant Accounting Policies

w) Budget information

The original budget for FY 2022-2023 was approved by the Board on 30 June 2022. Subsequent revisions or additional appropriations were made to the approved budget in accordance with specific approvals from the appropriate authorities. The additional appropriations are added to the original budget by the entity upon receiving the respective approvals in order to conclude the final budget. Accordingly, the company recorded no additional appropriations on the 2020-2021 budget.

The entity's budget is prepared on a different basis to the actual income and expenditure disclosed in the financial statements. The financial statements are prepared on accrual basis using a classification based on the nature of expenses in the statement of financial performance, whereas the budget is prepared on a cash basis. The amounts in the financial statements were recast from the accrual basis to the cash basis and reclassified by presentation to be on the same basis as the approved budget. A comparison of budget and actual amounts, prepared on a comparable basis to the approved budget, is then presented in the statement of comparison of budget and actual amounts. In addition to the Basis difference, adjustments to amounts in the financial statements are also made for differences in the formats and classification schemes adopted for the presentation of the financial statements and the approved budget.

x) Service concession arrangements

The Company analyses all aspects of service concession arrangements that it enters into in determining the appropriate accounting treatment and disclosure requirements. In particular, where a private party contributes an asset to the arrangement, the Company recognizes that asset when, and only when, it controls or regulates the services the operator must provide together with the asset, to whom it must provide them, and at what price. In the case of assets other than 'whole-of-life' assets, it controls, through ownership, beneficial entitlement or otherwise – any significant residual interest in the asset at the end of the arrangement. Any assets so recognized are measured at their fair value. To the extent that an asset has been recognized, the Company also recognizes a corresponding liability, adjusted by a cash consideration paid or received.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

y) Comparative figures

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

z) Subsequent events

There have been no events subsequent to the financial year end with a significant impact on the financial statements for the year ended June 30, 20xx.

5. Significant Judgments and Sources of Estimation Uncertainty

The preparation of the Company's financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of the reporting period. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods.

a) Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. The Company based its assumptions and estimates on parameters available when the financial statements were prepared. However, existing circumstances and assumptions about future developments may change due to market changes or circumstances arising beyond the control of the Company. Such changes are reflected in the assumptions when they occur.

b) Useful lives and residual values

The useful lives and residual values of assets are assessed using the following indicators to inform potential future use and value from disposal:

- The condition of the asset based on the assessment of experts employed by the Company
- The nature of the asset, its susceptibility and adaptability to changes in technology and processes

Lamu Water and Sewerage Company Limited

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

- The nature of the processes in which the asset is deployed
- Availability of funding to replace the assets

c) Provisions

No Provisions were raised and management did not determine an estimate based on the information available. Provisions are measured at the management's best estimate of the expenditure required to settle the obligation at the reporting date, and are discounted to present value where the effect is material.

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

6. Operating Revenue

	2022-2023	2021-2022
	Kshs	Kshs
Water sales	20,433,688	23,709,020
Billing for other services		
Meter rent	1,409,600	1,369,800
New connection charges	110,000	280,000
Reconnection fees	366,000	918,000
Cut on request fees	7,000	9,000
Meter test fee	-	7,000
Replacement of meters	220,500	42,000
Total	22,546,788	26,334,820

Billing for other services refers to income generated from services such as meter rent, new connection charges, reconnection fees, cut on request fee, meter test fee and replacement of meters

7. GRANTS FROM GOVERNMENT ENTITIES

	2022-2023	2021-2022
	Kshs	Kshs
Grants from County Gov't (seconded staff)	6,174,110	4,036,200
In kind Donations (County Govt-electricity)	13,741,273	10,404,069
In kind Donations (Chlorine)	202,500	-
In kind Donations (Lawasco staff salary)	540,000	6,700,000
Conditionai Support Liquidity Grant (CSLG)	-	4,000,088
Conditional grant	11,650,000	33,350,000
Total	32,307,883	58,490,357

[In kind donations from the county are direct supply and delivery of goods to the company]

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For the year ended June 30, 2023

NOTES TO THE FINANCIAL STATEMENTS (Continued)

8. Other Income

	2022-2023	2021-2022
	Kshs	Kshs
Illegal connections	30,000	60,000
Total	30,000	60,000

9. Finance Income

	2022-2023	2021-2022
Description	Kshs	Kshs
Interest from commercial banks and financial institutions	-	37,100
Total	-	37,100

10. STAFF COSTS

Description	2022-2023	2021-2022
	Kshs	Kshs
Salaries for LAWASCO employees	17,907,992	27,350,751
Seconded staff salaries from Lamu County Government	6,174,110	4,036,200
Top up allowances from LAWASCO	1,517,330	2,018,100
Wages for casuals	3,776,000	2,250,000
Statutory deductions	660,798	188,200
Total	30,036,230	35,843,251
The average number of employees during the year	79	149

[Salaries to seconded staffs is the grant given to the company]

Lamu Water and Sewerage Company Limited

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For the year ended June 30, 2023

NOTES TO THE FINANCIAL STATEMENTS (Continued)

11. General and Operations Expenses

	2022-2023	2021-2022
Description	Kshs	Kshs
Chemicals	205,050	333,450
Electricity and water	15,105,008	13,202,334
Fuel	828,340	2,973,280
Pipes and fittings	1,125,987	5,313,946
Office and general supplies and services	1,515,370	1,329,338
Communication services and supplies	305,785	180,512
Domestic Traveling and subsistence	7,123,175	14,584,805
Bank charges and commissions	116,752	374,365
Provision for audit fee	116,000	116,000
Levy fee (WASREB)	873,732	1,152,550
Administration fee (to CWSB)	-	1,504,729
Water abstraction fee(to WARMA)	1,629,969	274,267
Hospitality supplies and services	20,800	43,770
Electrical Accessories	511,000	1,856,887
Total	29,476,968	43,240,233

12. Board Expenses

Description	2022-2023	2021-2022
	KShs	KShs
Chairman's honoraria	540,000	540,000
Directors' emoluments	-	156,800
Total Board Expenses	540,000	696,800

Lamu Water and Sewerage Company Limited

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

13. Maintenance Expenses

	2022-2023	2021-2022
Description	Kshs	Kshs
Water Supplies	3,865,251	8,659,831
Motor vehicles	-	302,440
Total Maintenance Expenses	3,865,251	8,962,271

14. Depreciation and Amortization Expenses

Description	2022-2023	2021-2022
	KShs	KShs
Property, plant, and equipment	1,932,743	1,974,642
Total Depreciation	1,932,743	1,974,642

Lamu Water and Sewerage Company Limited

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For the year ended June 30, 2023

NOTES TO THE FINANCIAL STATEMENTS (Continued)

15. PROPERTY, PLANT AND EQUIPMENT

2023	Buildings & civil works	Plant and machinery	Motor vehicles, including, motor cycles	Computers & related equipment	Office equipment, furniture & fittings	Water meters	Capital work in progress	Total
<i>Rate</i>	<i>2.50%</i>	<i>12.50%</i>	<i>25.00%</i>	<i>33%</i>	<i>12.50%</i>	<i>12.50%</i>	<i>2.50%</i>	
COST OR VALUATION								
At July 1, 2022	42,845,819	5,756,210	4,966,000	1,680,900	630,400	2,160,000	6,781,734	64,821,063
Additions	-	-	805,500	817,000	334,500	-	0	1,957,000
Transfers	-	-	-	-	-	-	0	-
Disposals	-	-	-	-	-	-	0	-
At June 30, 2023	42,845,819	5,756,210	5,771,500	2,497,900	964,900	2,160,000	6,781,734	66,778,063
DEPRECIATION								
At July 1, 2022	4,249,460	5,756,210	4,966,000	1,674,197	427,647	826,250	0	17,899,764
Charge for the year	1,071,145	-	201,375	269,610	120,613	270,000	0	1,932,743
Impairment loss	-	-	-	-	-	-	0	-
Eliminated on disposal	-	-	-	-	-	-	0	-
At June 30, 2023	5,320,605	5,756,210	5,167,375	1,943,807	548,260	1,096,250	0	19,832,507
NET BK V. At June 30, 2023	37,525,214	-	604,125	554,093	416,641	1,063,750	6,781,734	46,945,556

Additions in the year relate to 3 motorcycles purchased in August 2022, radio calls and net work set up ID, purchased in July of 2022 and

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drawer file and safe cabinets purchased in march 2023.

Plant and machinery have been fully depreciated since 2021 and hence have a zero carrying value pending the revaluation of company assets.

2022	Buildings & civil works	Plant and machinery	Motor vehicles, including, motor cycles	Computers & related equipment	Office equipment, furniture & fittings	Water meters	Capital work in progress	Total
COST OR VALUATION								
As at 1 July 2021	42,845,819	5,756,210	4,966,000	1,207,500	630,400	1,690,000	xxx	57,095,929
Additions	-	-	-	473,400	-	470,000	xxx	943,400
Transfers	-	-	-	-	-	-	(xxx)	-
Disposals	-	-	-	-	-	-	(xxx)	-
As at 30th June 2022	42,845,819	5,756,210	4,966,000	1,680,900	630,400	2,160,000	xxx	58,039,329
DEPRECIATION								
At July 1, 2021	3,178,315	5,756,210	4,966,000	1,119,500	348,847	556,250	xxx	15,925,122
Charge for the year	1,071,145	-	0	554,697	78,800	270,000	xxx	1,974,642
Impairment loss	-	-	-	-	-	-	(xxx)	-
Eliminated on disposal	-	-	-	-	-	-	(xxx)	-
As at 30th June 2022	4,249,460	5,756,210	4,966,000	1,674,197	427,647	826,250	xxx	17,899,764
NET BOOK VALUE								
At June 30, 2022	38,596,359	-	-	6,703	202,753	1,333,750	xxx	40,139,565

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16. TRADE AND OTHER RECEIVABLES

	2022-2023	2021-2022
	Kshs	Kshs
Trade Receivables (Customers debtors)	22,855,346	10,710,071
Provision for doubtful receivables	-	-
Sub-Total	22,855,346	10,710,071
Deposits and pre-payments (Deposit for Installation of electricity)		-
Shareholders receivables	3,000,000.	3,000,000
Net trade and other receivables	25,855,346	13,710,071

	2022-2023	2021-2022
	Kshs	Kshs
Gross trade receivables	22,855,346	10,710,071
Provision for doubtful receivables	-	-
Net trade receivables	22,855,346	10,710,071
Less than 30 days		
Between 30 and 60 days		
Between 61 and 90 days		
Between 91 and 120 days		
Over 120 days		
Total		

17. BANK AND CASH BALANCES

	2022-2023	2021-2022
	Kshs	Kshs
Cash at bank	25,036,129	13,072,190
Cash in hand	-	-
	25,036,129	13,072,190

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

BANK AND CASH BALANCES (Continued)

The make – up of bank balances and short term deposits is as follows:

Detailed analysis of the cash and cash equivalents

		2022-2023	2021-2022
Financial institution	Account number	Kshs	KShs
Kenya Commercial Bank			
Customer Deposit Simba Account	1117737322	2,194,155.94	1,441,716
Savings account	11038909664	20,997,357.25	402,010
Current Account	1104750937	14,261.05	3,765,728
Sub- total		23,205,774.24	5,609,454
Equity Bank			
Fixed Deposit	1590281136233	671,033.91	424,734
Current account	1590281131865	227,134.07	1,228
Collection account	1590281131825	142,042.67	22,824
Mokowe Household Sanitation Project		789,239.30	7,013,949
Lawasco CSLG	1590280486625	905.00	-
Sub- total		1,830,355	7,462,736
Grand Total		25,036,129.19	13,072,190

18. ORDINARY SHARE CAPITAL

			2022-2023	2021-2022
Shareholder	Ordinary Shares	Par value	Kshs	Kshs
County Secretary (CS)	2,998	1,000		2,998,000
CECM Finance	1	1,000		1,000
CECM Water	1	1,000		1,000
	3,000	1,000		3,000,000

NOTES TO THE FINANCIAL STATEMENTS (Continued)

19. LONG TERM LIABILITIES

	2022-2023	2021-2022
	Kshs	Kshs
Long term payables	7,770,210	7,770,210

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The long term liabilities relate to CWSB lease fees invoices for water infrastructure and which have been rescheduled for payment after the next financial year have been classified as long term liabilities

20. DEFERRED GRANT INCOME

	2022-2023	2021-2022
	Kshs	Kshs
Deferred grant income	52,016,968	52,016,968

Deferred grant income relates to development grants received from WSFT

21. TRADE AND OTHER PAYABLES

	2022-2023	2021-2022
	Kshs	Kshs
Trade Payables	12,872,362	9,793,092
Accrued expenses	1,811,000	1,463,000
Other Payables	25,474,644	19,722,434
Customer Deposit Account	2,865,190	763,603
Customer prepayments	202,560	322,055
Total	43,225,756	32,064,184

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

22. Notes to The Statement of Cash Flows

	2022-2023	2021-2022
	Kshs	Kshs
(a) Reconciliation of operating profit/ (loss) to cash generated from/ (used in) operations		
Operating profit/(loss)	(10,966,520)	(5,794,920)
Depreciation	1,932,743	1,974,642
Interest Received	-	(37,100)
Operating profit/(loss) before working capital changes	(9,033,777)	(3,857,378)
(Increase)/decrease in trade and other receivables	(12,145,275)	1,694,434
Increase/(decrease) in trade and other payables	11,161,571	9,325,467
Cash generated from/(used in) operations	(10,017,481)	7,325,467
(b) Analysis of cash and cash equivalents		
Cash at bank	25,036,129.19	13,072,190
Balance at end of the year	25,036,129.19	13,072,190

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

23 RELATED PARTY DISCLOSURES

(a) Government of Kenya

The County Government of Lamu is the principal shareholder of the Company holding 100% of the Company's equity interest. The County of Government of Lamu has provided full guarantees to all long-term lenders of the Company, both domestic and external.

Other related parties include:

Other related parties include:

- i) Coast Water Services Board
- ii) County Government of Lamu
- iii) Key management;
- iv) Board of directors;

Transactions with related parties

	2022-2023	2021-2022
	Kshs	Kshs
a) Grants from the Government		
Grants from County Government	32,307,883	54,490,269
Grants from Coast Water Services Board	-	-
Grants from Water Sector Trust Fund	-	4,000,088
Total	32,307,883	58,490,357
b) Expenses incurred on behalf of related party		
Administration fee (to CWSB)	-	1,504,729
Total	-	1,504,729
c) Key management compensation		
Directors' emoluments	-	156,800
Compensation to key management	2,676,785	4,345,698
Total	34,984,668	4,502,498

NOTES TO THE FINANCIAL STATEMENTS (Continued)

23. FINANCIAL RISK MANAGEMENT

The Company's activities expose it to a variety of financial risks including credit and liquidity risks and effects of changes in foreign currency. The company's overall risk management programme focuses on unpredictability of changes in the business environment and seeks to minimise the potential adverse effect of such risks on its performance by setting acceptable levels of risk. The company does not hedge any risks and has in place policies to ensure that credit is only extended to customers with an established credit history.

The company's financial risk management objectives and policies are detailed below:

(i) Credit risk

The Company has exposure to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when due. Credit risk arises from cash and cash equivalents, and deposits with banks, as well as trade and other receivables and available-for-sale financial investments.

Management assesses the credit quality of each customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external assessment in accordance with limits set by the directors. The amounts presented in the statement of financial position are net of allowances for doubtful receivables, estimated by the company's management based on prior experience and their assessment of the current economic environment.

The carrying amount of financial assets recorded in the financial statements representing the Company's maximum exposure to credit risk without taking account of the value of any collateral obtained is made up as follows:

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NOTES TO THE FINANCIAL STATEMENTS (Continued)
FINANCIAL RISK MANAGEMENT (Continued)

(i) Credit risk (Continued)

	Total amount	Fully performing	Past due	Impaired
	Kshs	Kshs	Kshs	Kshs
At 30 JUNE 2022				
Receivables from exchange transactions	10,710,071	10,710,071		-
Receivables from non-exchange transactions	3,000,000		3,000,000	-
Bank balances	13,072,190	13,072,190		
Total	26,782,261	23,782,261	3,000,000	
At 30 JUNE 2023				
Receivables from exchange transactions	22,855,346.00	22,855,346.00		-
Receivables from non-exchange transactions	3,000,000.00	-	3,000,000.00	-
Bank balances	25,036,129.19	4,036,129.19		-
Total	50,891,475.19	26,891,475.19	3,000,000.00	-

The customers under the fully performing category are paying their debts as they continue trading. The credit risk associated with these receivables is minimal and the allowance for uncollectible amounts that the company has recognised in the financial statements is considered adequate to cover any potentially irrecoverable amounts.

The Company has significant concentration of credit risk on amounts due from 2020.

The board of directors sets the Company's credit policies and objectives and lays down parameters within which the various aspects of credit risk management are operated.

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ii) Liquidity risk management

Ultimate responsibility for liquidity risk management rests with the Company's directors, who have 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 through continuous monitoring of forecasts and actual cash flows.

The table below represents cash flows payable by the company under non-derivative financial liabilities by their remaining contractual maturities at the reporting date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances, as the impact of discounting is not significant.

(ii) Liquidity risk management (Continued)

	Less than 1 month	Between 1-3 months	Over 5 months	Total
	Kshs	Kshs	Kshs	Kshs
At 30 JUNE 2022				
Trade payables	32,064,184	-	-	32,064,184
Deferred income	52,016,968	-	-	52,016,968
Total	84,081,152	-	-	84,081,152
At 30 JUNE 2023				
Trade payables	43,225,756	-	-	43,225,755.52
Deferred income	52,016,968	-	-	52,016,968.00
Total	95,242,724	-	-	95,242,723.52

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

FINANCIAL RISK MANAGEMENT (Continued)

(iii) Market risk

The Company's Finance Department is responsible for the development of detailed risk management policies (subject to review and approval by Audit and Risk Management Committee) and for the day to day implementation of those policies.

There has been no change to the Company's exposure to market risks or the manner in which it manages and measures the risk.

a) Foreign currency risk

The Company has transactional currency exposures. Such exposure arises through purchases of goods and services that are done in currencies other than the local currency. Invoices denominated in foreign currencies are paid after 30 days from the date of the invoice and conversion at the time of payment is done using the prevailing exchange rate.

There were no foreign currency denominated monetary assets and monetary liabilities at the end of the reporting period. The Company manages foreign exchange risk from future commercial transactions and recognised assets and liabilities by projecting for expected sales proceeds and matching the same with expected payments.

b) Foreign currency sensitivity analysis

There will be no effect on the company's statement of comprehensive income on applying the sensitivity for a reasonable possible change in the exchange rate of the currencies.

c) Interest rate risk

Interest rate risk is the risk that the Company's financial condition may be adversely affected as a result of changes in interest rate levels. The company's interest rate risk arises from bank deposits. This exposes the company to cash flow interest rate risk.

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

FINANCIAL RISK MANAGEMENT (Continued)

The interest rate risk exposure arises mainly from interest rate movements on the company's deposits.

Management of interest rate risk To manage the interest rate risk, management has endeavoured to bank with institutions that offer favourable interest rates.

Sensitivity analysis

The Company analyses its interest rate exposure on a dynamic basis by conducting a sensitivity analysis. This involves determining the impact on profit or loss of defined rate shifts. The sensitivity analysis for interest rate risk assumes that all other variables, in particular foreign exchange rates, remain constant. Using the end of the year figures, the sensitivity analysis indicates that there will be no material impact on the statement of comprehensive income if current floating interest rates increase/decrease by one percentage point.

iv) Capital Risk Management

The objective of the Company's capital risk management is to safeguard the Board's ability to continue as a going concern. The Company capital structure comprises of the following funds:

	2022-2023	2021-2022
	Kshs	Kshs
Retained earnings	(29,175,902.78)	(27,929,537)
Capital reserve	3,000,000.00	3,000,000
Total funds	(26,175,902.78)	(24,929,537)
Total borrowings	-	-
Less: cash and bank balances	25,036,129.19	13,072,189.95
Net debt/(excess cash and cash equivalents)	(1,139,773.58)	13,072,189.95

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24. INCOPORATION

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

25. EVENTS AFTER THE REPORTING PERIOD

There were no material adjusting and non- adjusting events after the reporting period.

26. CURRENCY

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

Lamu Water and Sewerage Company Limited
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APPENDICES

APPENDIX 1: PROGRESS ON FOLLOW UP OF AUDITOR RECOMMENDATIONS

The following is the summary of issues raised by the external auditor, and management comments that were provided to the auditor.

Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Focal point to resolve the issue	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
2020/2021 Audit Report	Unconfirmed trade and other receivables	Trade and other receivables balances for the year 2020-2021 resolved.		Resolved	By August 2023
2020/2021 Audit Report	Non- remittance of mandatory fees	We will work on the issue as recommended by the Auditor.		Unresolved	By June 2023
2020/2021 Audit Report	Inconsistencies in Property, plant and Equipment schedule.	We will work on the issue as recommended by the Auditor.		Unresolved	By June 2023
2020/2021 Audit Report	Unconfirmed cash and bank balances	We will work on the issue as recommended by the Auditor.		Unresolved	By June 2023
2020/2021 Audit Report	Unexplained variance in Water Services Regulatory Board fees	We will work on the issue as recommended by the Auditor.		Unresolved	By June 2023
2020/2021 Audit Report	Irregular payment of Top- up allowances	Payment of top- up to seconded staff stopped.		Resolved	By June 2023
2020/2021 Audit Report	Operating without Water Regulatory	We received a 3 year interim		Resolved	By June 2022

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Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Focal point to resolve the issue	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
	Services Board licence	licence for Aug 2021 to Aug 2023.			
2020/2021 Audit Report	Non- Revenue Water	A non- revenue water plan put in place to reduce non- revenue water levels.		Unresolved	By June 2023
2020/2021 Audit Report	Lack of risk management policy.	Draft risk management policy in place awaiting the approval of the Board.		Unresolved	By June 2023
2020/2021 Audit Report	Lack of Scheme of service.	Scheme of service is in place		Resolved	By June 2022
2020/2021 Audit Report	Anomalies in payment records	We will work on the issue as recommended by the Auditor.		Unresolved	By June 2023


 Eng. Najash Abdul Ahmed
 Managing Director
 Date.....