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REPORT

OF

THE AUDITOR-GENERAL

ON

**LAMU WATER AND SEWERAGE
COMPANY LIMITED**

**FOR THE YEAR ENDED
30 JUNE, 2020**

29/03/2021

00.00



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, 2020

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

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Lamu Water and Sewerage Company Limited

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For the year ended June 30, 2020

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:

- | | | | |
|----|-------------------------|-------------------|----------------|
| 1. | Abdulahakim Bwana Aboud | - Chief Executive | - January 2018 |
| 2. | Ahmed Mohamed Hemed | -Chief Executive | - January 2018 |

Registered Officer

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 Ag. Managing Director
P.O. Box 185-80500
Lamu, Kenya.
Telephone: +254705508550
E-mail: info@lamuwater.co.ke
E-mail: lamuwater@gmail.com

Lamu Water and Sewerage Company Limited

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For the year ended June 30, 2020

KEY ENTITY INFORMATION (Continued)

Corporate Contacts

Telephone: (254) 705508550
E-mail: info@lamuwater.co.ke
Website: lamuwater.co.ke

Corporate Bankers

1. African Banking Corporation
P.O. Box 436-80500
Lamu, Kenya
2. Equity Bank
P.O. Box 75-80503
Mpeketoni Lamu, Kenya
3. 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
GOP 00100
Nairobi, Kenya.

Principal Legal Advisers


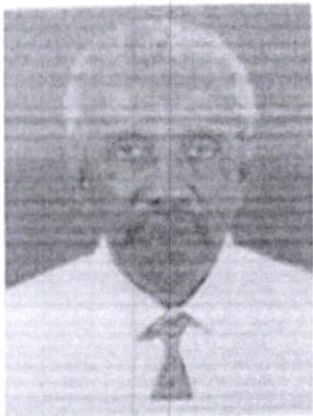
The Attorney General
State Law Office
Harambee Avenue
P.O. Box 40112
City Square 00200
Nairobi, Kenya.

Lamu Water and Sewerage Company Limited

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THE BOARD OF DIRECTORS



	NAME	WORK EXPERIENCE	PERIOD SERVED
	MR. ABDULHAKIM A. BWANA	Deputy Governor CEC Water	To Date
	MR. AHMED MOHAMED HEMED	C. E C. Finance, Lamu County Government.	January 2018 To Date

Lamu Water and Sewerage Company Limited

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For the year ended June 30, 2020

MANAGEMENT TEAM

 <p>MR. Wainina Kimani Appointed: April 2018</p>	<p>Designation: Ag. 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: Diploma In community Development, Certificate in Business Management.</p>
 <p>Ms. Mwanaisha Bakari</p>	<p>Designation: Ag. Finance Manager</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 Business Commerce (Finance Option) and CPA-K</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>Mr. Andrew Kang'ethe Njuma</p>	<p>Designation: Head of IT</p> <p>Responsibility: To oversee all IT (Information Technology) functions in our company. He is in charge of the management of the company's technology operations and the implementation of new IT systems and policies.</p> <p>Qualification: Diploma in Information Science and Computer Engineering.</p>

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For the year ended June 30, 2020

	<p>Designation: Commercial Manager</p> <p>Responsibility: He is responsible for the commercial strategy and the development of an organization.</p> <p>Qualification: Bachelor of Science (Civil Engineering)</p>
	<p>Designation: Procurement</p> <p>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.</p> <p>Qualification: Degree in Supply Chain Management and a Diploma in Business Management.</p>
	<p>Designation: Head of the electrical section</p> <p>Responsibility: He completes company electrical projects by supervising installations; resolving design issues. Maintains electrical systems by establishing and enforcing preventive and on-going maintenance, and testing programs; scheduling repairs; coordinating shut-downs and installations</p> <p>Qualification: Electrical Technician</p>

Mr. Caleb Kyama

Ms. Alice Mutheu

Mr. Daniel Gathuri

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:

a) Meetings

Lamu Water and Sewerage Company Board of Directors have been meeting quarterly to discuss the best ways to improve water provision to the people of Lamu.

Through the meetings:

- We have approved Lamu Water and Sewerage Company budget 2019-2020
- We have organized to review Lamu Water and Sewerage Company 5 years' strategic plan.
- We have reviewed the status of the company's staff through promotions
- We have recruited new staff in the revenue section, customer care, and electrical technicians to boost our water infrastructure.

b) Empowerment

- We have organized training for all staff and the board members to boost water governance and maintenance.
- Familiarization with the Water Act 2016

c) Relationships

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

OUTCOME/RESULTS OF OUR OPERATIONS

- Revenue/tariff collection has improved.
- More staff and volunteer recruitment has improved operations efficiency.
- Expansion of Lamu Water and Sewerage Company services to the islands of Pate and Kiunga started through signing an MOU with the county Government of Lamu.
- More water consumers have registered for LAWASCO services.

CHALLENGES

- Vandalism of water systems by individuals
- Frequent electricity/power failure affects water provision to a great extent.
- Lack of enough funding to recruit more staff in technical areas and also management.
- Water pollution and adverse climatic change.
- Huge electricity bills.
- Lack of subsidies from the county government

Lamu Water and Sewerage Company Limited

Annual Reports and Financial Statements

For the year ended June 30, 2020

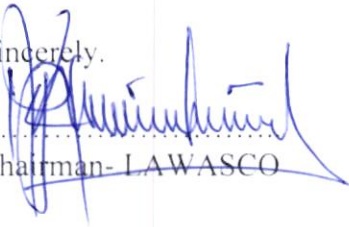
CHAIRMAN STATEMENT (continued)

SOLUTIONS TO THE CHALLENGES

As a Board, we have requested the County Government to assist us with funding to cater for huge electricity bills and other costs incurred during operations as well as in the recruitment of new staff. Lamu East water stations will double the operations and maintenance cost Lamu Water and Sewerage Company Limited.

Awareness creation to consumers to make them well informed on existing LAWASCO infrastructure. I take this opportunity again to thank the County Government of Lamu through His Excellency, Governor Fahim Yassin Twaha and the County Department of Agriculture, Irrigation, and Water for their blossom maximum support in improving the water service provision to the Residents of Lamu.

Sincerely,


.....
Chairman- LAWASCO

Director
of Sewerage
and Sanitation

Director
of Water
Supply
Lamu

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 Coast Water Works Agency (CWWA). The company established in November 2006 has provided water services in Lamu town in Lamu Island and Mokowe area in Lamu mainland. The Company has also increased its coverage area to 80% from 70% after extending its services to Shella Village and Manda Island.

The company has also taken over all water stations in Lamu East. We are creating new water stations in the islands where the county Government has invested in water systems. The Lamu East water supply projects will see Faza, Kizingitini, Siyu, Kiwayu and Kiunga connected to water meter by December 2020.

In most of these stations, water will be produced by desalination plant for supply. Maintenance of reverse osmosis plant, diesel and electricity bills will be a toll order to maintain. However, the discussions are still ongoing with county government to have Lamu Water and Sewerage Company limited funded for sustainability of this station. The company have also been tasked to undertake the water supply survey for Lamu West where the county have budgeted to invest over 150 million for water extension. The survey work has started earnestly.

The Company is still faced with high water demand against the daily low water production from lack of a permanent water source, which would not be affected by drought. The water facility has remained undeveloped and therefore the Company has been faced with many challenges of high level of non-revenue water, aging infrastructure, low water production, which has affected the Company's water services and revenue collection.

Lamu Water and Sewerage Company has not yet realized a full cost recovery of providing services to the customers in the medium and long term and therefore the Regulator (Water Regulatory Services Board) through the approved tariff 2017- 2020. Gazette Notice No. 7538 stipulated strategies for ensuring that the Company operates on a commercially sustainable basis, and hence directed that Lamu County Government provide Lamu Water and Sewerage Company with a subsidy of Kshs 30 million per year. This if achieved will take LAWASCO to acceptable performance level, in water services, and achieving coverage of operation and maintenance costs.

The U-vision billing system supplied to the company by Coast Water Works has never worked. The installation of the system has unnecessarily delayed for many years. However, we have put in place measures to get correct debtor balances and enhance the recovery of bad and doubtful debts.



Wainaina p. k
Ag. Managing Director

Date: 22/03/2021

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 its conduct is regulated by the most appropriate type of governance instrument.

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

Annual Reports and Financial Statements

For the year ended June 30, 2020

MANAGEMENT DISCUSSION AND ANALYSIS

Lamu Water and Sewerage Company is struggling to improve water production and supply to the residents of Lamu due to power failure and COVID-19 pandemic. The total number of connections has increased from 4590 in June 2019 to 4683 in June 2020, representing a 2% increase in connections during the financial year. The total volume of water produced decreased from 848,047 m³ in 2018 to 683,788 m³ in June 2020; this represents a decrease of 24% during the year under review.

Total revenue decreased from Ksh 42,583,210 in 2018 to 32,317,745 in 2020, a 32% decrease during the year. This is largely attributed due to the power failure and decreased production at 24%. The total subsidy from Lamu County Government during the year amounted to Ksh 10 million. This represents a deficit of Ksh 20 million from a budget of Ksh 30 million stipulated in the Gazette notice No.7538 dated, 4th August 2017.

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

INDICATOR	EXPECTED & BUDGET	2020	2019	% CHANGE
Total revenue	45,000,000	32,317,745	42,583,210	32%
Subsidy from Lam u County Government	30,568,435	10,021,240	4,082,440	59%
Total number of connections	-	4683	4590	2%
The total volume of produced water	-	683,788	848,047	24%
Water Coverage %	77%	77%	77%	-
Non-Revenue water	31%	44%	46%	-
Water quality standards	100%	100%	100%	-
Hours of Supply	10	10	10	-
Metering ratio	100%	100%	100%	-
Staff per 1,000 Connections	10	19	13	-
Collection efficiency	91%	121%	81%	-

CORPORATE SOCIAL RESPONSIBILITY STATEMENT/SUSTAINABILITY REPORTING

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

With continued loyalty and support, we are confident that July 2019/June 2020 was another successful year of more improved social responsibility.

Lamu Water and Sewerage Company Limited

Annual Reports and Financial Statements

For the year ended June 30, 2020

REPORT OF THE DIRECTORS

The Directors submit their report together with the audited financial statements for the year ended June 30, 2020, 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, 2020, 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 v.

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.

Lamu Water and Sewerage Company Limited

Annual Reports and Financial Statements

For the year ended June 30, 2020

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, 2020. 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 (vi) 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, 2020, 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 financial statements as well as the adequacy of the systems of internal financial control.

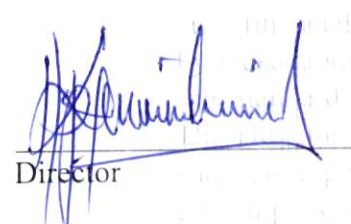
Nothing has come to the attention of the Directors to indicate that Lamu Water And Sewerage Company limited will not remain a going concern for at least the next twelve months from the date of this statement.

Approval of the financial statements

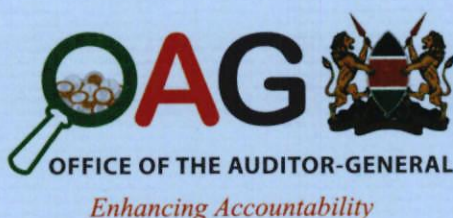
The Company's financial statements were approved by the Board on 23/03/ 2021 and signed on its behalf by:


Director


Director


Director

REPUBLIC OF KENYA



Telephone: +254-(20) 3214000
E-mail: info@oagkenya.go.ke
Website: www.oagkenya.go.ke

HEADQUARTERS
Anniversary Towers
Monrovia Street
P.O. Box 30084-00100
NAIROBI

REPORT OF THE AUDITOR-GENERAL ON LAMU WATER AND SEWERAGE COMPANY LIMITED FOR THE YEAR ENDED 30 JUNE, 2020

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 1 to 32, which comprise the statement of financial position as at 30 June, 2020, and the statement of profit or loss and other comprehensive income, statement of cash flows, statement of changes in equity and the statement of 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 effects 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 2020, 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 Companies Act, 2015 and the Water Act, 2016.

Basis for Qualified Opinion

1. Revenue

The statement of profit and loss and other comprehensive income reflects revenue of Kshs.32,317,745 which as disclosed at Note 6 to the financial statements comprised the gross water sales for the year ended 30 June, 2020. However, audit review of the consumer meter reading analysis report revealed one-thousand seven-hundred eighty-two (1,782) inactive meter connections and nine-hundred seventy five (975) meters that had stopped working. Records of the revenue received from the two categories of water consumers was not provided.

In the circumstances, the accuracy and completeness of the revenue of Kshs.32,317,745 from sale of water could not be confirmed.

2. Trade and Other Receivables

Note 13(a) to the financial statements reflects trade and other receivables balance of Kshs.18,196,777. However, receivables ledger and the aging analysis for the receivables was not provided for audit. Further, the shareholder receivables balance of Kshs.3,000,000 remained uncollected for a long period of time and no evidence of the effort by the Management to recover the same was provided.

In the circumstances, the accuracy, validity and full recoverability of the trade and other receivables balance of Kshs.18,196,277 as at 30 June, 2020 could not be confirmed.

3. Long Term Payables

The statement of financial position reflects long-term payables of Kshs.7,770,210 which as disclosed at Note 16 of the financial statements, related to unpaid lease fees invoices from Coast Water Services Board for water infrastructure. However, the Company did not maintain a long-term payables ledger. In addition, the lease agreement, repayment schedules and the lease fee invoices were not provided for audit.

Consequently, the accuracy of the long-term payables balance of Kshs.7,770,210 as at 30 June, 2020 could not be confirmed.

4. Trade and Other Payables

The statement of financial position reflects trade and other payables of Kshs.26,361,839. However, the aged analysis of the payables was not provided. Further, the increase of Kshs.8,930,596 between the reported balance and the comparative balance of Kshs.17,431,243 was not supported by creditors statements.

In addition, a review of the payment vouchers availed for audit review revealed that payments of Kshs.198,067, Kshs.70,726 and Kshs.127,341 were made to Water Services Regulatory Board (WASREB), Water Resources Authority (WRA), and Coast Water Works Development Agency (CWWDA) respectively. However, records held revealed that the Company owed the three (3) entities fees totalling to Kshs.3,573,624 as at 30 June, 2020 as follows:

Entity	Amount (Kshs.)
WASREB	1,292,710
CWWDA	1,939,065
WARMA	341,849
Total	3,573,624

There was no proper explanation for non-remittance of the money to the relevant authorities.

In the circumstances, the accuracy, validity and completeness of the trade payables balance could not be confirmed.

5. Failure to Disclose Material Uncertainty in Relation to Going Concern

A review of the Company's financial statements for the past four (4) financial years revealed that the Company had been reporting losses.

Financial Year	Loss (Kshs.)
2016/2017	6,209,613
2017/2018	266,896
2018/2019	6,276,406
2019/2020	9,350,113

The situation indicates the existence of a material uncertainty, which may cast significant doubt on the Company's ability to continue as a going concern. However, the material uncertainty in relation to going concern and any mitigating measures put in place by the Company's Directors and Management to reverse the undesirable trend have not been disclosed in the financial statements.

6. Unsupported Repairs and Maintenance

The statement of profit or loss and other comprehensive income reflects operating costs expenditure of Kshs.8,172,788 which as disclosed under Note 11 to the financial statements, included Kshs.1,999,287 spent on repairs and maintenance. An amount of Kshs.509,502 related to repair of distribution lines. However, inspection reports to ensure the services were actually needed and the muster roll for the casual workers engaged to carry out the repair works were not provided.

In addition, motor vehicle repairs amounting to Kshs.464,465 were not supported by pre and post inspection certificates indicating the nature of the repairs and estimated costs to ascertain whether it was economical to repair the motor vehicles. In addition, the repairs were not taken on charge in the motor vehicle repairs logbook and the work tickets were not provided for audit.

In the circumstances, the accuracy, validity and value for money of the expenditure amounting to Kshs.973,967 on repairs could not confirmed.

7. Ordinary Share Capital

The statement of financial position reflects ordinary share capital of Kshs.3,000,000 which as disclosed under Note 15 to the financial statements comprised of:

Shareholder	Ordinary Shares	Par value (Kshs.)
County Council of Lamu	2,998	1,000
Chairman of Lamu County	1	1,000
County Council Clerk	1	1,000
Total	3,000	1,000

Section 3.3.1 (3) of the WASREB Corporate Governance Guidelines, 2018 provides that if a water service provider memorandum of objects and articles of association do not

already state that they are owned by the county government which has taken up the shares of the defunct local authorities, amendments should be made to reflect this legal reality. However, the Company had not amended its list of shareholders from the defunct Lamu County Council to the County Government of Lamu.

In the circumstances, the Company's shareholding could not be confirmed.

8. Property, Plant and Equipment

The statement of financial position reflects a balance of Kshs.4,197,844 being the net book value for property, plant and equipment as at 30 June, 2020. However, ownership documents for five (5) unvalued parcels of land – three (3) at Lamu Island and one each at Mokowe and Hindi were not provided for audit. Further, logbooks for four (4) grounded motor vehicles were not provided for audit. In addition, the Company did not maintain a register for the assets as required under Regulation 136 (1) of the Public Finance Management (County Governments) Regulations, 2015

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.

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

1. Budgetary Control and Performance

The statement of comparison of budget and actual amounts reflects a final revenue budget and actual revenue on comparable basis of Kshs.80,016,658 and Kshs.45,390,638 respectively, resulting into an under-collection of Kshs.34,626,020 or 43% of the budget. Similarly, the Company expended Kshs.54,740,751 against an approved budget of Kshs.79,917,681 resulting into an under-expenditure of Kshs.25,176,930 or 32% of the budget.

Failure to achieve the budgeted income and expenditure targets negatively affected the operations of the Company.

2. Unresolved Prior Year Audit Matters

As disclosed under the progress on follow up of auditor recommendations section of the financial statements, some of the prior year audit issues remained unresolved as at 30 June, 2020. Management has not provided satisfactory reasons for the delay in resolving the issues.

Other Information

The Directors are responsible for the other information. The other information comprises the Report of Directors as required by the Companies Act, 2015, and the Statement of the Directors' Responsibilities which are obtained prior to the date of this report, and the annual report which is expected to be made available after that date.

My opinion on the financial statements does not cover the other information and I do not express an audit opinion or any form of assurance thereon.

In connection with the audit of the financial statements, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or the knowledge obtained in the audit, or otherwise appears to be materially misstated. Based on the work I have performed on the other information obtained prior to the date of this auditor's report, if I conclude that there is material misstatement of this other information, I am required to report that fact. I have nothing to report in this regard.

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 matters described in the Basis for Conclusion on Lawfulness and Effectiveness in the 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

1. Non-Revenue Water

During the year under review, the Company produced 683,788m³ of water. However, out of this volume, only 379,445m³ was billed to customers and a total revenue amounting to Kshs.32,317,745 realised. The balance of 303,944m³ or approximately 44% of the total volume represented Unaccounted For Water (UFW) which is 19% over and above the allowable loss of 25% in accordance with the Water Regulatory Services Board Guidelines, 2014 on standards for non-revenue water management in Kenya. The Non-Revenue Water (NRW) of 227,958m³ may have resulted in an estimated loss on water sales amounting to Kshs.19,395,037.

The significant level of Unaccounted For Water (UFW) may have negatively impacted on the Company's profitability and its long term sustainability.

2. Human Resource Management

Note 10(b) to the financial statements reflects staff costs of Kshs.22,042,539. However, examination of payroll records, personal files, salary payment vouchers and other supporting documents provided for audit revealed the following matters:

2.1 Senior Staff who Served in Acting Appointments

Section 2.5 of the Company's Human Resource Policy Manual provides that the Managing Director shall provide strategic leadership and has overall responsibility for the performance of the entire organization and can entrust heads of divisions with responsibility to ensure effective performance and delivery of services. However, senior positions including that of Managing Director were held in an acting capacity during the financial year under audit:

	Acting Position	Year Appointed
1.	Acting Managing Director	2017
2.	Acting Finance Manager	2019
3.	Acting Technical Manager	2019

In the circumstances, the Company's senior Management may not have been able to effectively deliver on their roles.

2.2 Casual Employees on Manual Payroll

During the year under review, the Company had a high number of staff engaged on casual basis. The Company maintained manual payrolls in excel spreadsheets for thirty-eight (38) casual employees, instead of using the Integrated Payroll and Personnel Database (IPPD). Further, the muster rolls for the casual workers were not provided to show records on days present and duties carried out. In addition, in spite of the high number of staff engaged on casual basis, Management did not provide any reason for not considering change of their terms of service.

In the circumstances, the Company may have been in contravention of Section 37(1) of the Employment Act, 2007.

3. Delay in Implementation of Projects

During the year under review, the Company implemented four (4) projects funded by the Water Sector Trust Fund. Audit examination of the projects' records revealed that all projects had not been completed as planned.

Failure to complete the projects within the stipulated period may have hindered effective delivery of services to the citizens.

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 matters described in the Basis for Conclusion on Effectiveness of Internal Controls, Risk Management and Governance section of my report, I confirm that, nothing else has come to my attention to cause me to believe that internal controls, risk management and overall governance were not effective.

Basis for Conclusion

1. Lack of Internal Audit and Audit Committee

Section 155(1)(a) of the Public Finance Management Act, 2012 provides that a County Government entity shall ensure that it complies with the Act and has appropriate arrangements for conducting internal audit according to the guidelines issued by the Accounting Standards Board. Section 155(5) of the Act, further provides that a County Government entity shall establish an internal audit committee whose composition and functions are set out in Regulation 167 of the Public Finance Management (County Governments) Regulations, 2015. However, the Company did not have internal audit arrangements neither had an audit committee been appointed. In addition, a documented risk management policy framework had not been developed as required under Regulation 158 the Public Finance Management (County Governments) Regulations, 2015.

In the absence of an internal audit arrangement and an Audit Committee, the effectiveness of the internal control system, risk management and governance could not be confirmed.

2. Inadequate Information Technology (IT) Internal Controls

The Company did not have and an IT strategic/steering committee. Further, Management had no approved policies on IT security and physical access controls to sensitive areas and environmental controls including fire suppression systems had not been implemented. In addition, disaster recovery and IT continuity plans had not been developed.

In the circumstances, the effectiveness of IT governance and the measures in place to safeguard the Company's IT infrastructure could not be confirmed. In addition, the ability of the Company to recover from an interruption or resume operations after a disaster could not be confirmed.

The audit was conducted in accordance with ISSAI 2315 and ISSAI 2330. The standard requires that I plan and perform the audit to obtain assurance about whether effective processes and systems of internal control, risk management and governance were operating effectively, in all material respects. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

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

- i. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit;
- ii. In my opinion, adequate accounting records have been kept by the Company , so far as appears from the examination of those records; and,
- iii. The Company's financial statements are in agreement with the accounting records and returns.

Responsibilities of Management and the Board of Directors

Management is responsible for the preparation and fair presentation of these financial statement in accordance with International Financial Reporting Standards (IFRS) and for maintaining effective internal control as Management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error and for its assessment of the effectiveness of internal control, 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 are in compliance with the authorities which 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 the Company 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 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 the Management.
- Conclude on the appropriateness of the 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 the 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 to communicate with them all relationships and other matters that may reasonably be thought to bear on my independence, and where applicable, related safeguards.


CPA Nancy Gathungu, CBS
AUDITOR-GENERAL

Nairobi

11 February, 2022

**STATEMENT OF PROFIT AND LOSS AND OTHER COMPREHENSIVE INCOME FOR
THE YEAR ENDED 30 JUNE 2020**

	Note	2020-2019	2018-2019
		Kshs.	Kshs.
REVENUES			
Revenue	6	32,317,745	42,583,210
Cost of sales	7	17,112,635	17,661,270
Gross profit		15,205,110	24,921,940
Grants from the National Government	8	10,088,740	4,368,740
Other Income	9	2,984,153	3,081,741
TOTAL REVENUES		28,278,003	32,372,421
OPERATING EXPENSES			
Administration Costs	10	29,455,328	28,978,175
Operating Costs	11	8,172,788	9,670,652
TOTAL OPERATING EXPENSES		37,628,116	38,648,827
PROFIT/(LOSS) BEFORE TAXATION		(9,350,113)	(6,276,406)
INCOME TAX EXPENSE/(CREDIT)		-	-
PROFIT/(LOSS) AFTER TAXATION		(9,350,113)	(6,276,406)

Lamu Water and Sewerage Company Limited

Annual Reports and Financial Statements

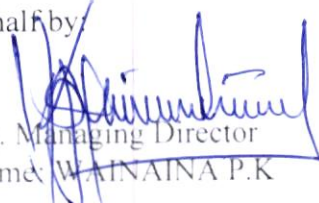
For the year ended June 30, 2019

STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2020

	Note	2020	2019
			Ksh
ASSETS			
Non-Current Assets			
Property, plant and equipment	12	4,197,844	5,172,520
Total Non-Current Assets		4,197,844	5,172,520
Current Assets			
Trade and other receivables	13	18,196,777	19,664,177
Cash and bank balances	14	52,253,484	36,829,416
Total Current Assets		<u>70,450,261</u>	<u>56,493,593</u>
Total Assets		<u>74,648,105</u>	<u>61,666,113</u>
EQUITY AND LIABILITIES			
Capital and Reserves			
Ordinary share capital	15	3,000,000	3,000,000
Development Grants		-	-
Retained earnings		(12,775,949)	(3,425,836)
Capital and Reserves		<u>(9,775,949)</u>	<u>(425,836)</u>
Non-Current Liabilities			
Long-term Payables	16	7,770,210	7,770,210
Deferred Grant Income	17	50,292,005	36,890,496
Total Non-Current Liabilities		58,062,215	44,660,706
Current Liabilities			
Trade and Other payables	18	26,361,839	17,431,243
TOTAL EQUITY AND LIABILITIES		74,648,105	61,666,113

The financial statements were approved by the Board on 22/03/2021 2021 and signed on its behalf by


 Ag. Managing Director
 Name: WAINAINA P.K


 Ag. Finance Manager
 Name: MWANAISHA B.SHAIBU

Lamu Water and Sewerage Company Limited

Annual Reports and Financial Statements
For the year ended June 30, 2020

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 JUNE 2020

	Ordinary Share Capital	Retained Earnings	Development Grants	Total
	Kshs.	Kshs.	Kshs.	Kshs.
As at 1st July 2018	3,000,000	2,850,570	2,977,430	5,850,570
Surplus for the year	-	(6,276,406)	-	(6,276,406)
Development Grants Received During the Year	-	-	(2,977,430)	(2,977,430)
At 30th June 2018	3,000,000	(3,425,836)	-	(425,836)
As of 1st July 2019	3,000,000	(3,425,836)	-	(425,836)
Surplus for the year	-	(9,350,113)	-	(9,350,113)
Prior Year Adjustment	-	-	-	-
At 30th June 2020	3,000,000	(12,775,949)	-	(9,775,949)

Note:

1. Prior year adjustment relates to the adjustment of development grants incorrectly recognized as equity instead of Long term liabilities

Annual Reports and Financial Statements
For the year ended June 30, 2020

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2020

		2020	2019
		Ksh	Kshs
Net cash used from/(used in) operating activities	19	2,193,366	(774,932)
Interest received		169,193	113,811
Net cash generated from/(used in) operating activities			
Cash flows from investing activities			
Purchase of property, plant and equipment	12	(340,000)	(2,207,400)
Net cash used in investing activities		(170,807)	(2,093,589)
Cash flows from financing activities			
Increase in Long term liabilities	16	-	-
Increase/(Decrease) in Development Grants		-	(2,977,430)
Increase in Deferred Income	17	13,401,509	36,890,496
Net cash from financing activities		13,401,509	33,913,066
Net increase /(decrease) in cash and cash equivalents		15,424,068	31,044,545
Cash and Cash Equivalents at the Start of the Year		36,829,416	5,784,871
Cash and Cash Equivalents at the End of the Year	14	<u>52,253,484</u>	<u>36,829,416</u>

Lamu Water and Sewerage Company Limited

Annual Reports and Financial Statements

For the year ended June 30, 2020

STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS FOR THE PERIOD ENDED 30 JUNE 2020

	Original budget	Adjustments	Final budget	Actual on a comparable basis	Performance difference
	2019-2020	2019-2020	2019-2020	2019-2020	2019-2020
	Kshs	Kshs	Kshs	Kshs	Kshs
Revenue					
Sale of goods*	45,000,000	-	45,000,000	32,317,745	12,682,255
Subsidy from Lamu County Government	30,568,435	-	30,568,435	10,021,240	20,547,195
Other income	4,161,923	-	4,161,923	2,984,153	1,177,770
Subsidy from CWSB	286,300	-	286,300	67,500	218,800
Total income	80,016,658	-	80,016,658	45,390,638	34,626,020
Expenses					0
Cost of Sales	16,400,000	-	16,400,000	17,112,635	-712,635
Staff costs	18,405,193.20	-	18,405,193.20	22,042,539	-3,637,346
Administrative costs	12,506,000	-	12,506,000	7,412,789	5,093,211
Directors' emoluments	650,000	-	650,000	-	650,000
operating costs	9,520,000	-	9,520,000	8,172,788	1,347,212
Finance costs	22,436,488	-	22,436,488	-	22,436,488
Total expenditure	79,917,681.20	-	79,917,681.20	54,740,751	25,176,930
Surplus/(Deficit) for the period	98,976.80	-	98,976.80	(9,350,113)	9,449,090

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.

3. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

i) Relevant new standards and amendments to published standards effective for the year ended 30 June 2020

IFRS 16: Leases

The new standard, effective for annual periods beginning on or after 1st January 2019, introduces a new lessee accounting model, which requires a lessee to recognize assets and liabilities for all leases with a term of more than 12 months unless the underlying asset is of low value. A lessee is required to recognize a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) (Continued)

i) Relevant new standards and amendments to published standards effective for the year ended 30 June 2019(Continued)

Application of IFRS 16 requires right-of-use assets and lease liabilities to be recognized in respect of most operating leases where the Company is the lessee. Based on the Directors' assessment, right of use assets of KSh 61,666,113, lease liabilities of KSh 7,770,210 and a deferred tax asset have been recognized with a corresponding decrease of the net amount in retained earnings in these financial statements.

IFRIC 23: Uncertainty Over income tax treatments

The interpretation addresses the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates when there is uncertainty over income tax treatments under IAS 12. It specifically considers:

- Whether tax treatments should be considered collectively
- Assumptions for taxation authorities' examinations
- The determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates
- The effect of changes in facts and circumstances

Amendments to IFRS 9 titled Prepayment Features with Negative Compensation (issued in October 2017)

The amendments, applicable to annual periods beginning on or after 1 January 2019, allow entities to measure pre-payable financial assets with negative compensation at amortized cost or fair value through other comprehensive income if a specified condition is met.

Amendments to IAS 28 titled Long-term Interests in Associates and Joint Ventures (issued in October 2017)

The amendments, applicable to annual periods beginning on or after 1st January 2019, clarify that an entity applies IFRS 9, rather than IAS 28, in accounting for long-term interests in associates and joint ventures.

Amendments to IFRS 3 - Annual Improvements to IFRSs 2015–2017 Cycle, issued in December 2017.

The amendments, applicable to annual periods beginning on or after 1st January 2019, provide additional guidance on applying the acquisition method to particular types of business combinations.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

3. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) (Continued)

i) Relevant new standards and amendments to published standards effective for the year ended 30 June 2019(Continued)

Amendments to IFRS 11 - Annual Improvements to IFRSs 2015–2017 Cycle, issued in December 2017

The amendments, applicable to annual periods beginning on or after 1st January 2019, clarify that when an entity obtains joint control of a business that is a joint operation, it does not remeasure its previously held interests

Amendments to IAS 12 - Annual Improvements to IFRSs 2015–2017 Cycle, issued in December 2017

The amendments, applicable to annual periods beginning on or after 1st January 2019, clarify that all income tax consequences of dividends should be recognized when a liability to pay a dividend is recognized and that these income tax consequences should be recognized in profit or loss, other comprehensive income or equity according to where the entity originally recognized the transactions to which they are linked.

Amendments to IAS 23 - Annual Improvements to IFRSs 2015–2017 Cycle, issued in December 2017

The amendments, applicable to annual periods beginning on or after 1st January 2019, clarify that the costs of borrowings made specifically to obtain a qualifying asset that is substantially completed can be included in the determination of the weighted average of borrowing costs for other qualifying assets.

Amendments to IAS 19 titled Plan Amendment, Curtailment or Settlement (issued in February 2018)

The amendments, applicable to plan amendments, curtailments, or settlements occurring on or after the beginning of the first annual reporting period that begins on or after 1st January 2019, requires an entity to use updated actuarial assumptions to determine current service cost and net interest for the remainder of the annual reporting period after the plan amendment, curtailment or settlement when the entity re-measures its net defined benefit liability (asset) in the manner specified in the amended standard.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

3. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) (Continued)

ii) New and amended standards and interpretations in issue but not yet effective in the year ended 30 June 2020

IFRS 17 Insurance Contracts (Issued 18 May 2017)

IFRS 17 requires insurance liabilities to be measured at a current fulfillment value and provides a more uniform measurement and presentation approach for all insurance contracts. These requirements are designed to achieve the goal of a consistent, principle-based accounting for insurance contracts. IFRS 17 supersedes IFRS 4 *Insurance Contracts* as of 1 January 2021.

Amendments to References to the Conceptual Framework in IFRS Standards (Issued 25 March 2018- Applicable for annual periods beginning 1 January 2020)

Together with the revised *Conceptual Framework* published in March 2018, the IASB also issued *Amendments to References to the Conceptual Framework in IFRS Standards*. The document contains amendments to IFRS 2, IFRS 3, IFRS 6, IFRS 14, IAS 1, IAS 8, IAS 34, IAS 37, IAS 38, IFRIC 12, IFRIC 19, IFRIC 20, IFRIC 22, and SIC-32. Not all amendments, however, update those pronouncements concerning references to and quotes from the framework so that they refer to the revised *Conceptual Framework*. Some pronouncements are only updated to indicate which version of the framework they are referencing to (the IASC framework adopted by the IASB in 2001, the IASB framework of 2010, or the new revised framework of 2018) or to indicate that definitions in the standard have not been updated with the new definitions developed in the revised *Conceptual Framework*.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

3. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) (Continued)

iii) Early adoption of standards

The Company did not early – adopt any new or amended standards in the year 2018.

iii) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

a) Revenue recognition

Revenue is recognized to the extent that it is probable that future economic benefits will flow to the Company and the revenue can be reliably measured. Revenue is recognized at the fair value of the consideration received or expected to be received in the ordinary course of the *Company's* activities, net of value-added tax (VAT), where applicable, and when specific criteria have been met for each of the *Company's* activities as described below.

- 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 the collectability of the related receivables is reasonably assured.
- ii) **Grants from National Government** are recognized in the year in which the *Company* 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 realized in the statement of comprehensive income over the useful life of the assets that have 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 lease agreements.
- vi) **Other income** is recognized as it accrues.

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.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 revalued amounts, being their fair value at the date of revaluation 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.

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:

Buildings and civil works	2.5 %
Plant and machinery	12.5%
Motor vehicles, including motorcycles	25 %
Computers and related equipment	30%
Office equipment, furniture and fittings	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)

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

e) **Intangible assets**

Intangible assets comprise purchased computer software licenses, which are capitalized based on costs incurred to acquire and bring to use the specific software. These costs are amortized over the estimated useful life of the intangible assets from the year that they are available for use, usually over three years.

f) **Amortization and impairment of intangible assets**

Amortization is calculated on the straight-line basis over the estimated useful life of computer software of three years.

All computer software is 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**

Buildings, or part of a building (freehold or held under a finance lease) and land (freehold or held under an operating lease) held for long term rental yields and/or capital appreciation, and which are not occupied by the entity, are classified as investment property under non-current assets.

Investment property is carried at fair value, representing open market value determined periodically by independent external values. Changes in fair values are included in profit or loss in the income statement.

h) **Finance and operating leases**

Leases which confer substantially all the risks and rewards of ownership to the entity are classified as finance leases. Upon initial recognition, the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments, and the asset is subsequently accounted for per the accounting policy applicable to that asset.

All other leases are treated as operating leases and the leased assets are recognized in the statement of financial position to the extent of prepaid lease rentals at the end of the year. Payments made under operating leases are recognized in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognized as an integral part of the total lease expense over the term of the lease.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 to earn 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.

k) Unquoted investments

Unquoted investments are stated at a cost under non-current assets and comprise equity shares held in other Government-owned or controlled entities.

l) Inventories

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

m) Trade and other receivables

Trade and other receivables are recognized at fair value fewer allowances for any uncollectible amounts. These are assessed for impairment continually. 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.

n) Taxation

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.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

n) Taxation (Continued)

Current income tax (Continued)

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

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.

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 reassessed 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.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

n) Taxation (Continued)

Deferred tax (Continued)

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 transaction 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.

o) 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 an insignificant risk of changes in value. Bank account balances include amounts held at the Central Bank of Kenya and various Commercial Banks at the end of the reporting period. For these financial statements, cash and cash equivalents also include short term cash imprests and advances to authorized public officers and/or institutions that were not surrendered or accounted for at the end of the financial year.

p) Borrowings

Interest-bearing loans and overdrafts are initially recorded at the 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 the settlement. Finance charges, including premiums payable of settlement or redemption, are accounted for on an 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.

q) 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 the 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.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

r) **Retirement benefit obligations**

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.

s) **Provision for staff leave pay**

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

t) **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 the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in profit or loss.

u) **Budget information**

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 an 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.

A statement to reconcile the actual amounts on a comparable basis included in the statement of comparison of budget and actual amounts and the actuals as per the statement of financial performance has been presented under the budget section of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

v) 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 Entity 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.

w) Comparative figures

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

x) Subsequent events

There have been no events after the financial year-end with a significant impact on the financial statements for the year ended June 30, 2020.

5 SIGNIFICANT JUDGMENTS AND SOURCES OF ESTIMATION UNCERTAINTY

The preparation of the Entity'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.

**5 SIGNIFICANT JUDGEMENTS AND SOURCES OF ESTIMATION UNCERTAINTY
(Continued)**

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 Entity. Such changes are reflected in the assumptions when they occur.

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

Provisions

Provisions were raised and management determined 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.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

6 REVENUE

	2020	2019
	Kshs	Kshs
Gross sales of water	32,317,745	42,583,210
Total	32,317,745	42,583,210

7 COST OF SALES

	2020	2019
	Kshs	Kshs
Pipes and fittings	2,311,700	2,567,351
Electricity and water	11,050,012	12,722,134
Levy fee (WASREB)	1,292,710	1,344,614
Chemicals	386,603	286,300
Fuel	2,071,610	740,871
Total	17,112,635	17,661,270

8 GRANTS FROM GOVERNMENT ENTITY

	2020	2019
	Kshs	Kshs
Grants from County Gov't (seconded staff)	3,744,900	4,082,440
Grants from Coast Water Services Board	67,500	286,300
In kind Donations (County Gov't-electricity)	3,000,000	-
In kind Donations (Chlorine)	280,000	-
In kind Donations (electrical accessories & maintenance)	714,000	-
In kind Donations (Lawasco staff salary)	1,550,000	-
In kind Donations (Fuel)	732,340	-
Total	10,088,740	4,368,740

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

9 OTHER INCOME

Description	2019/2020 Kshs	2018- 2019 Kshs
Meter rent	1,614,960	1,484,350
New connection charges	315,000	537,500
Reconnection fees	762,000	878,000
Cut on request fees	11,500	11,000
Interest received	169,193	113,811
Meter test fee	1,000	500
Replacement of meters	96,500	1,500
Illegal connections	14,000	55,080
Total	2,984,153	3,081,741

10 (a) ADMINISTRATION COSTS

Description	2019 Kshs	2018 Kshs
Staff costs (note 10b)	22,042,539	18,961,321
Directors' emoluments	-	748,940
Communication services and supplies	600,388	97,300
Transportation, travelling and subsistence	4,874,055	5,033,765
Hospitality supplies and services	321,794	616,080
Bank charges and commissions	149,472	185,675
Office and general supplies and services	1,351,080	3,219,094
Provision for audit fee	116,000	116,000
Total	29,455,328	28,978,175

10 (b) STAFF COSTS

Seconded staff salaries from Lamu County Government	3,744,900	4,082,440
Top up allowances from LAWASCO	1,872,450	2,041,220
Salaries for LAWASCO employees	13,858,789	11,703,261
Wages for casuals	2,428,000	1,320,000
Statutory deductions	138,400	102,400
Total	22,042,539	18,961,321

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

11 OPERATING COST

	2019/2020	2018-2019
		Kshs
Administration fee (to CWSB)	1,939,065	2,913,707
Water abstraction fee (to WARMA)	341,894	424,024
Repairs and maintenance	1,999,287	3,446,973
Electrical Accessories	2,577,866	1,493,455
Depreciation	1,314,676	1,392,493
Total	8,172,788	9,670,652

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

12 PROPERTY, PLANT AND EQUIPMENT

2020	Buildings	Motor Vehicles	Computers and related Equipment	Office equipment, Furniture and Fittings	Plant and Machinery	Water Meters	Total
COST OR VALUATION	Kshs	Kshs	Kshs	Kshs	Kshs	Kshs	Kshs
At July 1, 2019	4,000,000	4,966,000	987,500	630,400	5,756,210	1,320,000	17,660,110
Additions during the year	-	-	220,000	-	-	120,000	340,000
At June 30, 2020	4,000,000	4,966,000	1,207,500	630,400	5,756,210	1,440,000	18,000,110
DEPRECIATION							
At July 1, 2019	2,007,170	4,966,000	817,150	191,247	4,341,023	165,000	12,487,590
Charge for the year	100,000	-	236,350	78,800	719,526	180,000	1,314,676
At June 30, 2020	2,107,170	4,966,000	1,053,500	270,047	5,060,549	345,000	13,802,266
NET BOOK VALUE							
At June 30, 2020	1,892,830	-	154,000	360,353	695,661	1,095,000	4,197,844
2019	Buildings	Motor Vehicles	Computers and related Equipment	Office equipment, Furniture and Fittings	Plant and Machinery	Water Meters	Total
COST OR VALUATION	Kshs	Kshs	Kshs	Kshs	Kshs	Kshs	Kshs
At July 1, 2018	4,000,000	4,966,000	570,500	160,000	5,756,210	-	15,452,710
Additions during the year	-	-	417,000	470,400	-	1,320,000	2,207,400
At June 30, 2019	4,000,000	4,966,000	987,500	630,400	5,756,210	1,320,800	17,660,110
DEPRECIATION							
At July 1, 2018	1,907,170	4,966,000	487,983	112,447	3,621,497	-	11,095,097
Charge for the year	100,000	-	329,167	78,800	719,526	165,000	1,392,493
At June 30, 2019	2,007,170	4,966,000	817,150	191,247	4,341,023	165,000	12,487,590
NET BOOK VALUE							
At June 30, 2019	1,992,830.00	-	170,350.33	439,153.00	1,415,187.00	1,155,000.00	5,172,520.33

Charge for the year for computer and related equipment includes Ksh. 66,000 being 30% of 220,000 (new computer purchased) and 170,350 being net book value for computer and related equipment for the year 2019 (fully depreciated)

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13 (a) TRADE AND OTHER RECEIVABLES

	2020	2019
	Kshs	Kshs
Trade Receivables (Customers debtors)	15,196,777	16,614,177
Provision for doubtful receivables	-	-
	15,196,777	16,614,177
Deposits and pre-payments (Deposit for Installation of electricity)	-	50,000
Shareholders receivables	3,000,000	3,000,000
Net trade and other receivables	18,196,277	19,664,177

13 (b) TRADE RECEIVABLES

	2020	2019
	Kshs	Kshs
Gross trade receivables	15,196,777	16,614,177
Provision for doubtful receivables	-	-
Net trade receivables	15,196,777	16,614,177

14 a) BANK AND CASH BALANCES

	2020	2019
		Kshs
Cash at bank	52,253,484	36,829,416
Cash in hand	-	-
	52,253,484	36,829,416

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

14 b) 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

Financial institution	Account number	2019/2020 KShs	2018-2019 KShs
Kenya Commercial Bank			
Customer Deposit Simba Account	1117737322	2,435	908,099
Savings account	11038909664	578	29,315
Current account	1104750937	6,493	46,830
Sub- total		9,506	984,244
ABC Bank			
Fixed Deposit(ABC)	009100001001018	1,904,329	1,677,981
Hazina Current account (ABC)	009215001001579	(36,314)	112,299
Collection account (ABC)	009217001000022	83,956	141,886
Hazina Current account (Mokowe Household sanitation project)	009215001005351	307,155	-
		2,259,126	1,932,166
Equity Bank			
Kiunga Water And Sanitation Project	1590278854745	19,754,137	17,299,816
Kizingitini Water And Sanitation Project	1590278854772	22,681,339	16,613,190
Poromoko-Widho Water And Sanitation Project	1590279492826	7,549,374	-
TOTAL		52,253,483	33,913,006

15. ORDINARY SHARE CAPITAL

Shareholder	Ordinary Shares	Par value	2020 Kshs	2019 Kshs
County Council of Lamu	2,998	1,000		2,998,000
Chairman of Lamu County	1	1,000		1,000
County council clerk	1	1,000		1,000
	3,000	1,000		3,000,000

16. LONG TERM LIABILITIES

	2020 Kshs	2019 Kshs
Long term payables	7,770,210	7,770,210

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

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

17. DEFERRED GRANT INCOME

	2020	2019
	Kshs	Kshs
	2020	2019
Deferred grant income	50,292,005	36,890,496

Deferred grant income relates to development grants received from the county government and WFP

18. TRADE AND OTHER PAYABLES

	2019-2020	2018-2019
		Kshs
Trade Payables	9,012,492	3,938,711
Accrued expenses	1,231,000	1,347,000
Other Payables	12,647,383	8,844,757
Customer Deposit Account	2,743,082	2,586,080
Customer prepayments	727,882	714,695
Total	26,361,839	17,431,243

19. NOTES TO THE STATEMENT OF CASH FLOWS

	2019-2020	2018-2019
		Kshs
(a) Reconciliation of operating profit/ (loss) to cash generated from/ (used in) operations		
Operating profit/(loss)	(9,350,113)	(6,276,406)
Depreciation	1,314,676	1,392,493
Interest Received	(169,193)	(113,811)
Operating profit/(loss) before working capital changes	(8,204,630)	(4,997,724)
(Increase)/decrease in trade and other receivables	1,467,400	(4,462,956)
Increase/(decrease) in trade and other payables	8,930,596	8,685,748
Cash generated from/(used in) operations	2,193,366	(774,932)
(b) Analysis of cash and cash equivalents		
Cash at bank	52,253,484	36,829,416
Balance at end of the year	52,253,484	36,829,416

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

20. 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..

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

	2019-2020	2018-2019
	Kshs	Kshs
a) Grants from the Government		
Grants from County Government	10,021,240	4,082,440
Grants from Coast Water Services Board	67,500	286,300
Total	10,088,740	4,368,740
b) Expenses incurred on behalf of related party		
Administration fee (to CWSB)	1,939,065	2,913,707
Total	1,939,065	2,913,707
c) Key management compensation		
Directors' emoluments	-	748,940
Compensation to key management	4,705,308.00	2,940,508
Total	4,705,308.00	3,689,448

21. 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 entity 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)

22 FINANCIAL RISK MANAGEMENT (Continued)

(i) Credit risk (Continued)

	Total amount Kshs	Fully performing Kshs	Past due Kshs	Impaired Kshs
At 30 June 2020				
Receivables from exchange transactions	15,196,777	15,196,777		-
Receivables from non- exchange transactions	3,000,000		3,000,000	-
Bank balances	52,253,484	52,253,484	-	-
Total	70,450,261	67,450,261.00	3,000,000	-
At 30 June 2019				
Receivables from exchange transactions	16,614,177	16,614,177	-	-
Receivables from non- exchange transactions	3,050,000	50,000	3,000,000	-
Bank balances	36,829,416	36,829,416	-	-
Total	56,493,593	53,493,593	3,000,000	-

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 entity has significant concentration of credit risk on amounts due from 2019.

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.

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 entity'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.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

22 FINANCIAL RISK MANAGEMENT (Continued)

(ii) Liquidity risk management (Continued)

	Less than 1 month	Between 1-3 months	Over 5 months	Total
	Kshs	Kshs	Kshs	Kshs
At 30 June 2020				
Trade payables	26,361,839	-	-	26,361,839
Deferred income		13,401,509	-	50,292,005
	36,890,496			
Total	63,252,335	13,401,509	-	76,653,844
At 30 June 2019				
Trade payables	17,431,243	-	-	17,431,243
Deferred income	-	-	36,890,496	36,890,496
Total	17,431,243	-	36,890,496	54,321,739

(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 entity's exposure to market risks or the manner in which it manages and measures the risk.

a) Foreign currency risk

The entity 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. The

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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 entity 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 entity capital structure comprises of the following funds:

	2019-2019	2018-2019
	Kshs	Kshs
Retained earnings	(12,775,949)	(3,425,836)
Capital reserve	3,000,000	3,000,000
Total funds	(9,775,949)	(425,836)
Total borrowings	-	-
Less: cash and bank balances	52,253,484	36,829,416
Net debt/(excess cash and cash equivalents)	52,253,484	36,829,416

22. INCORPORATION

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

23. EVENTS AFTER THE REPORTING PERIOD

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

24. CURRENCY

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

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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. We have nominated focal persons to resolve the various issues as shown below with the associated time frame within which we expect the issues to be resolved.

Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Focal Point person to resolve the issue (Name and designation)	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
1	Inaccuracies of Financial Statements		Finance Manager	Resolved	
2	Unsupported Cost of Sales		Finance Manager	Resolved	
3	Unsupported Staff Cost		Finance Manager	Resolved	
4	Unsupported Administration Expenses		Finance Manager	Resolved	
5	Overpayment of Board Allowances		Finance Manager	Not Resolved	30 June 2020
6	Unsupported Operating Costs		Finance Manager	Resolved	
7	Inaccurate Property, Plant and Equipment balances		Finance Manager	Not Resolved	30 June 2020
8	Inaccurate and incomplete Trade and Other Receivables		Finance Manager	Not Resolved	30 June 2020
9	Cash and Bank Balances- No cashbooks maintained and no bank reconciliations		Finance Manager	Resolved	
10	Development Grants		Finance Manager	Resolved	
11	Long Term Payables		Finance Manager	Not Resolved	30 June 2020
12	Trade and Other Payables		Finance Manager	Not Resolved	30 June 2020
13	Non-Revenue Water		Managing Director	Not Resolved	30 June 2020
	Lawfulness and Effectiveness in Use of Public Resources				
	Budgetary Control and Performance- Deficit Budget no evidence of approval		Managing Director	Not Resolved	30 June 2020
	Effectiveness of Internal Controls, Risk Management				

Lamu Water and Sewerage Company Limited

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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. We have nominated focal persons to resolve the various issues as shown below with the associated time frame within which we expect the issues to be resolved.

Reference No. in the External Audit Report	Description of the Issue	Management Comments	Focal Person	Status	Time Frame (Date when we expect the issue to be resolved)
1	Inaccuracies of Financial Statements		Finance Manager	Resolved	
2	Unsupported Cost of Sales		Finance Manager	Resolved	
3	Unsupported Staff Cost		Finance Manager	Resolved	
4	Unsupported Administration Expenses		Finance Manager	Resolved	
5	Overpayment of Board Allowances		Finance Manager	Not Resolved	30 June 2020
6	Unsupported Operating Costs		Finance Manager	Resolved	
7	Inaccurate Property, Plant and Equipment balances		Finance Manager	Not Resolved	30 June 2020
8	Inaccurate and incomplete Trade and Other Receivables		Finance Manager	Not Resolved	30 June 2020
9	Cash and Bank Balances- No cashbooks maintained and no bank reconciliations		Finance Manager	Resolved	
10	Development Grants		Finance Manager	Resolved	
11	Long Term Payables		Finance Manager	Not Resolved	30 June 2020
12	Trade and Other Payables		Finance Manager	Not Resolved	30 June 2020
13	Non-Revenue Water		Managing Director	Not Resolved	30 June 2020
	Lawfulness and Effectiveness in Use of Public Resources				
	Budgetary Control and Performance- Deficit Budget no evidence of approval		Managing Director	Not Resolved	30 June 2020

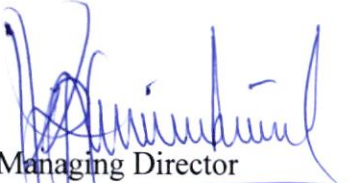
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Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Focal Point person to resolve the issue (Name and designation)	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
	Effectiveness of Internal Controls, Risk Management and Governance				
1	Weak Internal Controls on Expenditure		Finance Manager	Not Resolved	30 June 2020
2	Weak Internal Controls on Revenue		Finance Manager	Not Resolved	30 June 2020
3	Weak Human Resources		Finance Manager	Not Resolved	30 June 2020
4	Weak Cash and Bank Internal Controls		Finance Manager	Resolved	
5	Failure to Establish an Audit Committee		Managing Director	Not Resolved	30 June 2020
6	Lack of Internal Audit department		Managing Director	Not Resolved	30 June 2020
7	Non-Preparation of a Procurement Plan		Procurement Officer	Resolved	
8	Management of Debtors- No strategies to recover outstanding debts		Finance Manager	Not Resolved	30 June 2020

Resolved issues were internally resolved but awaiting discussion with county assembly PAIC


Managing Director

Date: 23/03/2021

Director

Date: 23/03/2021 

