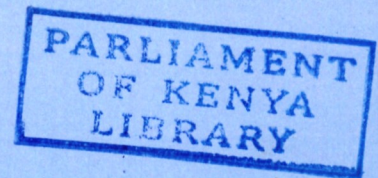


REPUBLIC OF KENYA



OFFICE OF THE AUDITOR-GENERAL

REPORT

OF

THE AUDITOR-GENERAL

ON

**THE FINANCIAL STATEMENTS OF
LAMU WATER AND SEWERAGE
COMPANY LIMITED**

**FOR THE YEAR ENDED
30 JUNE 2015**

OFFICE OF THE AUDITOR GENERAL
KENYA NATIONAL AUDIT OFFICE

08 JUN 2016

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LAMU WATER AND SEWERAGE COMPANY LTD

P. O. Box 185 – 80500, Tel No: 254 - 42- 633037, Lamu, Kenya

**LAMU WATER AND SEWERAGE COMPANY LIMITED
(LAWASCO)**

REPORTS AND FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED

JUNE 30, 2015

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

OFFICE OF THE AUDITOR GENERAL
STATE OF MICHIGAN
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LAMU WATER AND SEWERAGE COMPANY LTD

P. O. Box 185 – 80500, Tel No: 254 - 42- 633037, Lamu, Kenya

Reports and Financial Statements For the year ended June 30, 2015

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LAMU WATER AND SEWERAGE COMPANY LTD

P. O. Box 185 – 80500, Tel No: 254 - 42- 633037, Lamu, Kenya

Reports and Financial Statements For the year ended June 30, 2015

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 company has operated without a Board of Directors for the period under review up to 30th June 2015. The managing Director has been managing the Company without the Board.

Registered Office

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

Corporate Headquarters

P.O. Box 185-80500
Lamu, KENYA

Corporate Contacts

Telephone: (254) 042-633037
E-mail: lamuwater@yahoo.co.uk
Website: www.go.ke



LAMU WATER AND SEWERAGE COMPANY LTD

P. O. Box 185 – 80500, Tel No: 254 - 42- 633037, Lamu, Kenya

Reports and Financial Statements For the year ended June 30, 2015

Corporate Bankers

1. African Bank Corporation
P.O. Box 436-80500
Lamu, Kenya
2. Kenya Commercial Bank
P. O. Box 121-80500
Lamu, Kenya

Independent Auditors

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

P. O. Box 185 – 80500, Tel No: 254 - 42- 633037, Lamu, Kenya

Reports and Financial Statements For the year ended June 30, 2015

MANAGEMENT TEAM

	<p>Designation: Acting Managing Director</p> <p>Responsibility: TO provide strategic leadership and responsible for efficient management of affairs of the company and day to day operation & administration of the company.</p> <p>Qualification: Diploma In Water Technology</p>
	<p>Designation: Acting 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 Technology</p>



LAMU WATER AND SEWERAGE COMPANY LTD

P. O. Box 185 – 80500, Tel No: 254 - 42- 633037, Lamu, Kenya

Reports and Financial Statements For the year ended June 30, 2015

MANAGING DIRECTORS REPORT

Lamu Water and Sewerage Company Ltd, as a service provider have managed the provision of water within its area of jurisdiction as licensed by Coast Water Services Board (CWSB). 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.

Over the past few years, water demand has increased while the water facilities has remained undeveloped and therefore the company has been faced with many challenges of high level of nonrevenue water, aged infrastructure, low water production, which has affected the company's water services, and revenue collection. Little improvement has been achieved in replacing old rising main from Shella pumping station to Lamu town with a new one of six inches. Four new wells were developed, which increased water production by 15%.

During the year under view, Lamu Water and Sewerage Company Ltd operated without board of directors after expire of three year term. Coast Water Services Board and the relevant sector institutions are in the process of constituting a new board.

Lamu water and Sewerage Company provided the water services and also improved in revenue collection section during 2014-2015 financial year. All the payments by customers in Lamu Island are made in Kenya commercial bank and African bank co-operation. It is only in Mokowe area where customers are paying in Mokowe water office since there is no banking institution in Mokowe area. This has eased the process of banking from water offices and improved revenue collection accuracy. The Company has deployed cashiers that were in revenue collection section to work in billing section. The Company is still using manual billing awaiting supply of new billing that is being purchased by CWSB through Water Services and Sanitation Improvement Project, (WASSIP)

The company has not yet achieved financial sustainability and improved management information systems. This is because of low number of customers and also low water production due to limited water source which contribute towards low income to the company. The company is classified in a category of a small company and hence it has not yet achieved self-financing where operations are supposed to be in basis, of commercial sustainability. The company does not recover the full cost of providing services to their customers; these costs include operating costs, capital costs and administrative/regulatory costs. The improvement of water services through WASSIP has made the company to increase water connection by 10% and there is hope of more increase in future.

In order for the company to meet these costs it has applied tariff increase which has not been approved by the Water Services Regulatory Board. The company is subsidized by County Government in paying salaries of the staff, electricity bills, chemical expenses and purchase of electrical accessories and pumps.



LAMU WATER AND SEWERAGE COMPANY LTD

P. O. Box 185 – 80500, Tel No: 254 - 42- 633037, Lamu, Kenya

Reports and Financial Statements For the year ended June 30, 2015

CORPORATE GOVERNANCE STATEMENT

LAWASCO is committed to operating under a clear governance framework and strongly adheres to sound management and control practices committed to ensure 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.

LAWASCO is committed to ensuring compliance with the provisions of Water Act 2002 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 LAWASCO takes place within a framework which exists to regulate and/or guide the conduct of Board members, staff, customers and members of 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 2002
- The Public Financial Management Act (2012)
- The Public Procurement and Disposal Act (2005)
- The Public Procurement and Disposal Regulations (2006)
- The LAWASCO Service Charter
- Company approved policies and procedures

For the sake of coherence and legitimacy, it was in the best interest of the Company that its conduct be regulated by the most appropriate type of governance instrument.



LAMU WATER AND SEWERAGE COMPANY LTD

P. O. Box 185 – 80500, Tel No: 254 - 42- 633037, Lamu, Kenya

Reports and Financial Statements For the year ended June 30, 2015

CORPORATE SOCIAL RESPONSIBILITY STATEMENT

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 environment in which we live, work, and serve.

With continued loyalty and support, we are confident that 2014/2015 was another successful year of more improved social responsibility.



LAMU WATER AND SEWERAGE COMPANY LTD

P. O. Box 185 – 80500, Tel No: 254 - 42- 633037, Lamu, Kenya

Reports and Financial Statements For the year ended June 30, 2015

REPORT OF THE DIRECTORS

The Directors submit their report together with the audited financial statements for the year ended June 30, 2015 which show the state of LAWASCO affairs.

Results

The results of the LAWASCO for the year ended June 30, 2015 are set out on page 11

Directors

The members of the Board of Directors who served during the year 2011/2012 got retired by rotation and however, the process for re-election is ongoing in accordance with Water Services Regulatory Board regulation of the Water Services Sector, Articles of Association.

Auditors

The Auditor General is responsible for the statutory audit of the LAWASCO in accordance with the Section 13 of the Public Audit Act, 2013.



LAMU WATER AND SEWERAGE COMPANY LTD

P. O. Box 185 – 80500, Tel No: 254 - 42- 633037, Lamu, Kenya

Reports and Financial Statements For the year ended June 30, 2015

STATEMENT OF DIRECTORS' RESPONSIBILITIES

Section 81 (1) of the Public Finance Management Act, 2012 and section 81 (3) 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, 2015. 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 LAWASCO; (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 LAWASCO; (v) selecting and applying appropriate accounting policies; and (vi) making accounting estimates that are reasonable in the circumstances.

The Directors accept responsibility for the LAWASCO financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity with International Financial Reporting Standards (IFRS), and in the manner required by the PFM Act and the State Corporations Act. The Directors are of the opinion that the financial statements give a true and fair view of the state of LAWASCO transactions during the financial year ended June 30, 2015, 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 LAWASCO 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 LAWASCO 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 LAWASCO financial statements were approved by the Managing Director
On 30/9/2015 and signed on its behalf by: _____
Managing Director

REPUBLIC OF KENYA

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E-mail: oag@oagkenya.go.ke
Website: www.kenao.go.ke



P.O. Box 30084-00100
NAIROBI

OFFICE OF THE AUDITOR-GENERAL

REPORT OF THE AUDITOR-GENERAL ON LAMU WATER AND SEWERAGE COMPANY LIMITED FOR THE YEAR ENDED 30 JUNE 2015

REPORT ON THE FINANCIAL STATEMENT

I have audited the accompanying financial statements of Lamu Water and Sewerage Company Limited set out on pages 11 to 26, which comprise statement of financial position as at 30 June 2015, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 14 of the Public Audit, 2003. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

Management's Responsibility for the Financial Statement

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

The management is also responsible for the submission of the financial statements to the Auditor-General in accordance with the provision of Section 13 of the Public Audit Act, 2003. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

Auditor-General's Responsibility

My responsibility is to express an opinion on these financial statements based on the audit and report in accordance with the provisions of Section 15(2) of the Public Audit Act, 2003 and submit the audit report in compliance with Article 229(7) of the Constitution of Kenya. The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). Those standards requires compliance with ethical requirements and that the audit be planned and performed to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the

Lamu Water and Sewerage Company Limited – Annual Report and Financial Statements for the year ended 30 June 2015

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

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

Basis for Qualified Opinion

1.0. Property, Plant and Equipment

The statement of financial position as at 30 June 2015 reflects a balance of Kshs.7,769,793 in respect of property, plant and equipment. The balance relates to assets leased from Coast Water Services Board. However, the lease agreement between Lamu Water and Sewerage Company and Coast Water Services Board was not availed for audit verification. Consequently, the valuation and ownership status of property, plant and equipment balance of Kshs.7,769,793 as at 30 June 2015 could not be confirmed.

2.0. Trade and Other Receivables

As previously reported, the trade and other receivables balance of Kshs.20,082,647 as at 30 June 2015 (2013/2014 Kshs.20,549,485) includes trade debtors amounting to Kshs.3,450,304, the bulk of which was inherited from the Ministry of Water and Irrigation at the inception of the Company and has remained outstanding for a long period of time. In addition, the balance includes an amount of Kshs.3,000,000 in respect of 3,000 ordinary shares issued to the defunct Lamu County Council whose recoverability is doubtful. Further, the balance of trade and other receivables of Kshs.20,082,647 as at 30 June 2015 is net of a provision for bad and doubtful debts amounting to Kshs.172,598 which is 10% of the outstanding trade receivables. However, there is no specific provision for the impairment of debts that have been outstanding for a very long period which may never be recovered. Consequently, the accuracy and recoverability of trade and other receivables balance of Kshs.20,082,647 could not be confirmed.

3.0. Trade and Other Payables

As previously reported, trade and other payables balance of Kshs.6,839,425 as at 30 June 2015 (2013/2014:- Kshs.6,658,368) includes an amount of Kshs.6,075,388 due to Coast Water Services Board which differs with the Board's figure of Kshs.4,707,569 resulting to un-reconciled difference of Kshs.1,367,819. Consequently, the validity and accuracy of trade and other payables balance of Kshs.6,839,425 as at 30 June 2015 could not be ascertained.

4.0. Unaccounted for Water

During the year under review and as was reported in the prior years, the Company produced 605,974 cubic meters (m3) of water out of which 365,081 cubic meters (m3) was billed to customers. The unaccounted for water balance of 240,893 cubic meters (m3) or approximately 40% of the water produced was 15% over and above the allowable loss of 25% stipulated by the Water Services Regulatory Board guidelines. This may have resulted in a loss of sale of water estimated at Kshs.5,178,019 calculated at a rate of Kshs.57.92 per cubic metre which has not been explained or justified. Consequently the accuracy and completeness of the sale of water figure of Kshs.21,145,880 for the year ended 30 June 2015 could not be confirmed.

Qualified Opinion

In my opinion, except for the effect of the matters described in the Basis for Qualified Opinion paragraph, the financial statements present fairly, in all material respects, the financial position of Lamu Water and Sewerage Company Limited as at 30 June 2015, and of its financial performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards and comply with the Water Act, 2002 and the Companies Act, Cap. 486 of the Laws of Kenya.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

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

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

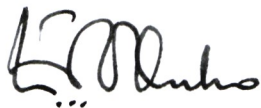
Other Matter

1.0 Budgetary Control and Performance

The budget analysis revealed that the Company did not provide for capital expenditure in 2013/2014 and 2014/2015 financial years. This implies that the Company spent all its resources on recurrent expenditure with staff salaries and electricity accounting for the highest allocation of 30% and 24% respectively. It is not clear how the Company expects to improve its services without providing for capital expenditure.

1.1 Revenue Collection

During the financial year, the Company failed to meet its revenue collection target where only Kshs.21,145,880 was collected against the budgeted revenue of Kshs.29,489,801 representing 72% of the target. The Company may not be able to meet its financial obligations where revenue targets are not met unless strategies are put in place to increase revenue collection mechanism.



FCPA EDWARD R. O. OUKO, CBS
AUDITOR-GENERAL

Nairobi

16 May 2016



LAMU WATER AND SEWERAGE COMPANY LTD

P. O. Box 185 – 80500, Tel No: 254 - 42- 633037, Lamu, Kenya

Reports and Financial Statements For the year ended June 30, 2015

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 30 JUNE 2015

	Notes	2015 Kshs.	2014 Kshs. RESTATED
REVENUES			
Sale of water	2	21,145,880	18,142,420
Cost of Sales	3	13,702,998	7,365,943
Gross Profit		7,442,882	10,776,477
Add; Other Income	4	12,559,274	10,765,268
Total Revenue		20,002,156	21,541,745
OPERATING EXPENSES			
Staff costs	5	11,616,955	11,529,717
Administrative costs	6	1,797,181	1,612,536
Operating Costs	7	4,894,043	1585287
Depreciation	8	1,203,272	1,492,484
TOTAL		19,511,451	16,220,024
Surplus		490,705	5,321,721
Tax		0	0
Surplus after Tax		490,705	5,321,721



LAMU WATER AND SEWERAGE COMPANY LTD

P. O. Box 185 – 80500, Tel No: 254 - 42- 633037, Lamu, Kenya

Reports and Financial Statements For the year ended June 30, 2015

STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE, 2015

		2015	2014
	Notes	Kshs.	Kshs.
NON-CURRENT ASSETS			
Property, Plant and Equipment	8	7,769,793	8,973,065
Total Non-Current Assets		7,769,793	8,973,065
CURRENT ASSETS			
Inventories	9	10,350	37,240
Trade and Other Receivables	10	20,082,647	20,549,485
Cash and Bank Balances	11a	1,598,621	1,965,051
Total Current Assets		21,691,618	22,551,776
Current Liabilities			
Trade and Other Payables	12	6,839,425	6,658,368
Negative cashbooks	11b	3,885	601,491
Total Current Liabilities		6,843,310	7,259,859
Net Current Assets		14,848,308	15,291,917
Total Assets		22,618,101	24,264,982
EQUITY AND LIABILITIES			
Capital and Reserves			
Ordinary Share Capital	13	3,000,000	3,000,000
Retained Earnings	14	17,807,749	17,317,044
Total Non- Current Liabilities		20,807,749	20,317,044
Long Term Liabilities	15	1,810,352	3,947,938
TOTAL EQUITY AND LIABILITIES		22,618,101	24,264,982

The financial statements on pages 10 to 24 were approved for issue by the board of directors on June 30, 2015 and were signed on its behalf by:

Managing Director

Director





LAMU WATER AND SEWERAGE COMPANY LTD

P. O. Box 185 – 80500, Tel No: 254 - 42- 633037, Lamu, Kenya

Reports and Financial Statements For the year ended June 30, 2015

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

	Ordinary Share Capital	Retained Earnings	Total
	Kshs.	Kshs.	Kshs.
		RESTATED	RESTATED
As at 1st July 2013	3,000,000	11,995,323	14,995,323
Surplus for the year	-	5,321,721	5,321,721
Prior year adjustment	-		-
At 30th June 2014	3,000,000	17,317,044	20,317,044
As at 1st July 2014	3,000,000	17,317,044	20,317,044
Surplus for the year	-	490,705	490,705
Prior year adjustment	-		-
At 30th June 2015	3,000,000	17,807,749	20,807,749



LAMU WATER AND SEWERAGE COMPANY LTD

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Reports and Financial Statements For the year ended June 30, 2015

STATEMENT OF CASHFLOWS FOR THE YEAR ENDED 30 JUNE 2015

		2015 Kshs.	2014 Kshs. RESTATED
Cash flows from operating activities	NOTE		
Surplus for the year		490,705	5,321,721
Adjustments for:			
Depreciation	8	1,203,272	1,492,484
Interest received	4	(72,598)	
Provision for bad & doubtful debts		172,047	140,049
Audit fees	6	100,000	
Donations	4	(4,969,596)	
Total from Operating Activities		(3,076,170)	6,954,254
Working capital Changes			
Decrease / (Increase) in Trade & Other Receivables	10	466,838	(11,154,647)
Decrease/ (Increase) in Inventories	9	26,890	(37,240)
Increase in Trade and Other Payables	12	181,057	2,584,914
Cash generated from operations		674,785	(8,606,973)
Net cash used in operating activities		(2,401,385)	(1,652,719)
Cash flows from investing activities			
Interest received	4	72,598	65,314
Purchase of property, plant and equipment		-	(3,268,500)
Net cash used in investing activities		72,598	(3,203,186)
Cash flows from financing activities			
Decrease in Long term liabilities	15	(2,137,586)	-
Grants net of In-Kind Donations	4	4,697,459	3,738,403
Net Cash from financing activities		2,559,963	3,738,403
Net increase /(decrease)in Cash and Cash Equivalents		231,176.14	(1,117,502)
Cash and Cash Equivalents at the Start of the Year	11a & 11b	1,363,560	2,481,062
Cash and Cash Equivalents at the End of the Year		1,594,736	1,363,560





LAMU WATER AND SEWERAGE COMPANY LTD

P. O. Box 185 – 80500, Tel No: 254 - 42- 633037, Lamu, Kenya

Reports and Financial Statements For the year ended June 30, 2015

Notes to the financial statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

a. Statement of compliance and Basis of preparation

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

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

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

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

The Public Finance Management (PFM) Act 2012 Section 192 provided the setting up of the Public Sector Accounting Standards Board (PSASB). The Cabinet Secretary National Treasury, gazetted members of the Board through Gazette Notice No. 1199 of 28 February, 2014. Following the Board's approval on the adoption of the International Financial Reporting Standards (IFRS) for state organs operating as Commercial Business Entities and The International Public Sector Accounting Standards (IPSAS) for non-commercial entities, the entity has adopted the pronouncements made by the IPSAS board in preparation of its current year financial statements.





LAMU WATER AND SEWERAGE COMPANY LTD

P. O. Box 185 – 80500, Tel No: 254 - 42- 633037, Lamu, Kenya

Reports and Financial Statements For the year ended June 30, 2015

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

b. Revenue Recognition and treatment of Government (GOK) Grant

- **Water sales**

The company adopts the accrual basis of accounting for revenue. Revenue /sales is recognized upon billing to the customers.

- **(GOK) Grant**

The amount of government grants comprises both capital and recurrent expenditure. The grants have been recognized and accounted for as per IAS N0.20.

Revenue Government grant has been recognized as income over a period necessary to match it with the expenditure for the period it was intended to support (i.e. June-July 2014-2015). Specifically this grant relates to salaries and no basis existed for allocating the grant to periods other than the one in which it was received (i.e. salaries for ministry of Water and irrigation staff paid on behalf of The Company). Therefore grants in recognition of specific expenses are recognized as income in the same period as the relevant expense.

- **Other incomes**

Relates to Surcharges to customers on illegal connections, Bank interest, reconnection fees, cut-on request, and new connection fee (payment of capital works on new connection).

c. Donations

In-kind contributions are donations that are made to LAWASCO 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, LAWASCO 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.

d. Property, plant and equipment

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

Certain categories of property, plant and equipment are subsequently carried at re-valued amounts, being their fair value at the date of re-valuation less any subsequent accumulated depreciation and impairment losses. Where re-measurement at re-valued amounts is





LAMU WATER AND SEWERAGE COMPANY LTD

P. O. Box 185 – 80500, Tel No: 254 - 42- 633037, Lamu, Kenya

Reports and Financial Statements For the year ended June 30, 2015

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

desired, all items in an asset category are re-valued through periodic valuations carried out by independent external values.

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

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

e. 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 on-going but incomplete works on buildings and other civil works and installations.

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

Buildings and civil works	25 years or the unexpired lease period
Plant and machinery	12.5 years
Motor vehicles, including motor cycles	4 years
Computers and related equipment	3 years
Office equipment, furniture and fittings	12.5 years

A full year's depreciation charge is recognised 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 recognised so that the asset is written down immediately to its estimated recoverable amount.



LAMU WATER AND SEWERAGE COMPANY LTD

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SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

f. Inventories

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

g. Amortisation and impairment of intangible assets

Amortisation 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 recognised so that the asset is written down immediately to its estimated recoverable amount.

h. Trade and Other Debtors

Trade and other receivables are recognised at fair values less allowances for any uncollectible amounts. These are assessed for impairment on a continuing basis. An estimate is made of doubtful receivables based on a review of all outstanding amounts at the year end. The provision for doubtful debts is at 1% and is applied to water sales customer debtors only. Bad debts are written off after all efforts at recovery have been exhausted.

i. Taxation

The company is exempted from Corporate taxes.

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Reports and Financial Statements For the year ended June 30, 2015

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

j. Cash and cash equivalent

For the purposes of cash flow statements, cash and cash equivalents comprise of bank balances and short term deposits net of banks overdrafts.

k. Risk Management

This section provides details of the Company's exposure to risks and describes the method used by the management to control risks. The most important type of financial risk to which the company is exposed are:-

(i) Credit risk

To manage the level of credit risk, the company focuses on customer satisfaction as a key performance indicator. It also maintains a short credit period.

Due to the nature of the company's activities credit risks concentrations are high and as such close monitoring of credit relationships is carried out.

(ii) Liquidity risk

Liquidity risk arises in the general funding of the company's activities and in the management of positions.

The company continually assesses liquidity risk by identifying and monitoring changes in funding required meeting business goals and targets set in terms of the overall company strategy.

l. Borrowings

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



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SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

m. Trade and other payables

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

n. Related parties

The company is a limited company by guarantee established under the companies Act Cap 486 and licensed by Coast Water Services Board through a Service Provision Agreement (SPA).

LAWASCO is related to

- i) County Government of Lamu
- ii) WASREB
- iii) WARMA
- iv) Coast Water Services Board
- v) Key management
- vi) Board of directors

o. Retirement benefit obligations

The entity operates a defined contribution scheme for all full-time employees from July 1, 2013. The scheme is administered by an in-house team and is funded by contributions from both the company and its employees. The company also contributes to the statutory National Social Security Fund (NSSF). This is a defined contribution scheme registered under the National Social Security Act. The company's obligation under the scheme is limited to specific contributions legislated from time to time and is currently at Kshs.200 per employee per month.



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Notes to the financial statements(cont.)

	2015 Kshs.	2014 Kshs. RESTATED
2 Revenues		
Sale of Water	21,145,880	18,142,420
Total	<u>21,145,880</u>	<u>18,142,420</u>
3 Cost of Sales		
Electricity and Water	12,834,485	6,960,784
Levy fee (WASREB)	211,458	257,403
Chemicals	203,435	147,756
fuel	453,620	-
Total	<u>13,702,998</u>	<u>7,365,943</u>
4 Other Income		
Grants from the National Government	5,452,285	5,446,846
Grants from Coast Water Services Board	203,435	220,000
Donations	4,969,596	4,018,500
Meter rent	1,542,950	688,510
New- Connection charges	186,620	126,103
Reconnection fees	122,190	174,650
Cut on request fees	9,600	25,345
Interest Received	72,598	65,314
Total	<u>12,559,274</u>	<u>10,765,268</u>





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Reports and Financial Statements For the year ended June 30, 2015

Notes to the financial statements(cont.)

	2015	2014
	Kshs.	Kshs.
5 STAFF COSTS		
Salaries and allowances of permanent employees from Ministry of water	5,452,285	5,446,846
Top up allowances (from Company)	2,857,950	2,770,895
Wages of temporary employees	3,270,720	3,275,976
NSSF (Statutory deduction paid by LAWASCO)	36,000	36,000
TOTAL	11,616,955	11,529,717
6 ADMINISTRATIVE COSTS		
Communication Services and Supplies	189,000	118,682
Transportation, travelling and subsistence	1,056,820	941,542
Advertising, printing, stationery and photocopying	39,350	157,859
Bank Charges and Commissions	91,869	105,109
Office and General supplies and services	320,142	289,344
Audit Fees	100,000	-
	1,797,181	1,612,536
7 OPERATING COSTS		
Administration fee (to CWSB)	1,903,129	-
Water Abstraction fee(to WARMA)	182,721	112,500
Repairs and maintenance	1,627,235	1,049,492
Provision for bad & doubtful debts	172,047	140,049
Other operating expenses	1,008,912	283,246
TOTAL	4,894,043	1,585,287





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Notes to the financial statement (cont.)

Property, Plant and Equipment as at 30 June 2015

	Buildings	Motor Vehicles	Computers and related Equipment	Office equipment, Furniture and Fittings	Plant and Machinery	Total
Cost or valuation	Kshs	Kshs	Kshs	Kshs	Kshs	Kshs
At 1 July 2014	4,000,000	4,966,000	330,500	160,000	5,606,210	15,062,710
Additions during the year		-	-	-	-	-
At 30 June 2015	4,000,000	4,966,000	330,500	160,000	5,606,210	15,062,710
Depreciation						
At 1 July 2014	1,634,128	2,686,587	140,219	59,162	1,569,549	6,089,645
Charge for the year	59,147	569,853	57,084	12,605	504,583	1,203,272
Depr As At 30 June 2015	1,693,275	3,256,440	197,303	71,767	2,074,132	7,292,917
NBV as at 30 June 2014	2,365,872	2,279,413	190,281	100,838	4,036,661	8,973,065
NBV as at 30 June 2015	2,306,725	1,709,560	133,197	88,233	3,532,078	7,769,793

For the year ended June 30, 2014

	Buildings	Motor Vehicles	Computers and related Equipment	Office equipment, Furniture and Fittings	Plant and Machinery	Total
Cost or valuation	Kshs	Kshs	Kshs	Kshs	Kshs	Kshs
At 1 July 2013	4,000,000	4,966,000	68,000	160,000	2,600,210	11,794,210
Additions during the year	-	-	262,500	-	3,006,000	3,268,500
At 30 June 2014	4,000,000	4,966,000	330,500	160,000	5,606,210	15,062,710
Depreciation						
At 1 July 2013	1,573,465	1,926,713	58,670	45,430	992,883	4,597,161
Charge for the year	60,663	759,874	81,549	13,732	576,666	1,492,484
Depr As At 30 June 2014	1,634,128	2,686,587	140,219	59,162	1,569,549	6,089,645
NBV as at 30 June 2013	2,426,535	3,039,287	271,830	114,570	4,613,327	7,197,049
NBV as at 30 June 2014	2,365,872	2,279,413	190,281	109,852	4,036,661	8,973,065



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Reports and Financial Statements For the year ended June 30, 2015

Notes to the accounts (Continued)		
	2015 Kshs.	2014 Kshs.
9 Inventory		RESTATED
Stationery	<u>10,350</u>	<u>37,240</u>
Total	<u>10,350</u>	<u>37,240</u>
	2014 Kshs.	2014 Kshs.
10 Trade and Other Receivables		
Trade Receivables (Customers debtors)	17,204,694	17639534
Provision for bad & doubtful debts	(172,046.94)	-140049
Deposits and prepayments (Dep Opening bank Account)	50,000	50000
Shareholders receivables	<u>3,000,000</u>	<u>3000000</u>
Total	<u>20,082,647</u>	<u>20,549,485</u>

At June 30, the ageing analysis of the gross trade receivables was as follows:-

debtors as at June 30, 2015	17,204,694	17,639,534
Billing system is still manual		



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Notes to the financial statement (cont.)

	2015 Kshs	2014 Kshs	
11a Cash and bank			
Customer Deposit account (KCB)	1,307,282	1,201,904	
Fixed Deposit (ABC)	121,944		
Hazina Current account (ABC)	23,376	156,260	
Savings account (KCB)	8,859	2,088	
Collection account	137,160	604,799	
Total	1,598,621	1,965,051	
11b Negative Cash Book			
Current account (KCB)	-3,885	-601,491	
Total Negative Cash Book	-3,885	-601,491	
Total Cash and Cash equivalent	1,594,736	1,363,560	
12 Trade and other payables			
Trade Payables	1,222,997	2,936,694	
Accrued expenses	418,931	497,081	
Other Payables	3,768,271	2,102,360	
Customer Deposit Account	1,429,226	1,122,233	
Total	6,839,425	6,658,368	
13 Ordinary Share Capital			
<i>PERSON</i>	<i>NUMBER OF SHARES</i>	<i>VALUE PER SHARE</i>	<i>TOTAL VALUE</i>
1. County Council of Lamu	2998	1000	2,998,000
2. Chairman of Lamu County Council	1	1000	1,000
3. County council clerk	1	1000	1,000
Total Ordinary Share Capital			3,000,000



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Notes to the financial statement (cont.)

14	Retained Earnings	2015	2014
		Kshs.	Kshs.
	Balance brought forward	17,317,044	11,995,323
	Surplus for the year	490,694	5,321,721
	Total Retained Earnings	17,807,738	17,317,044

15 Long Term Liabilities

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.

