

REPUBLIC OF KENYA



Enhancing Accountability

REPORT

OF

THE AUDITOR-GENERAL

ON

**LODWAR WATER AND SANITATION
COMPANY LIMITED**

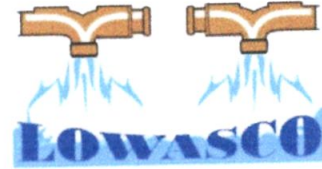
**FOR THE YEAR ENDED
30 JUNE, 2024**



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Lodwar Water and Sanitation Company Ltd



LODWAR WATER AND SANITATION COMPANY LTD

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED

JUNE 30, 2024

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

Lodwar Water and Sanitation Company Ltd
Annual Report and Financial Statements for the year ended June 30, 2024

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1. Acronyms and Glossary of Terms

ICPAK	Institute of Certified Public Accountants of Kenya
IFRS	International Financial Reporting Standards
MD	Managing Director
PFM	Public Financial Management
PSASB	Public Sector Accounting Standards Board
WASREB	Water Services Regulatory Board
LOWASCO	Lodwar Water and Sanitation Company Ltd

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2. Key Entity Information

Background information

Lodwar Water and Sanitation Company (LOWASCO) is a corporate entity established in 2007 under the companies Act Cap 486 of the laws of Kenya. The core business of LOWASCO is the efficient and economical provision of water and sanitation services to the residents of Lodwar Municipality and its environs. The company took over the management of Water supply as a service provider from 2007 to date after signing a Service Provider Agreement (SPA) with Rift Valley Water Services Board (license) on 3rd July 2007. The Company has been operating without a board of Directors since 2014 when the term of the board of Directors expired. The company has been operational under the seconded Team leader from the Ministry of Water services with the support of the Company management team in place of the board of Directors. Through the leadership of H.E Hon Jeremiah Ekamais Lomurkai Napotikan, he appointed the interim Board of Directors as from 15th June, 2023 through Gazette Notice no 8256(2023) to take over fully and with immediate effect the operations of LOWASCO.

Additionally, through gazette notice number 14739 a corrigenda was made to change the name from Board of Directors to Turkana County Water Services Providers Caretaker Committee

Principal Activities

The principal activity of Lodwar water and sanitation company Limited is to provide water and sanitation services to residents of Lodwar Municipality.

Vision

To achieve excellence in the provision of quality water and sanitation services with the aim to be the leading water service provider in the rift valley.

Mission

To provide adequate, portable, affordable and sustainable water and sanitation services to residents in Lodwar and its environs through continuous improvement and extension.

Core values

- i. External respect with a focus on customers.

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Annual Report and Financial Statements for the year ended June 30, 2024

ii. External and internal integrity, honesty, transparency, accountability and partnership through networking.

iii. Internal teamwork, innovation and commitment.

Directors

The Turkana County water services providers caretaker Committee who served the entity during the year were as follows:

- | | | | |
|----|---|-------------|---|
| 1. | Faith Akuwom,CECM Water Services
Exited on 22 nd April,2024 | Chairperson | - Appointed on 15 th June,2023 |
| | Patrick Losike CECM Water Services | Chairperson | - Joined on 22 rd April 2024 |
| 2. | Simon Etom,Chief Officer Water Services | Member | - Appointed on 15 th June,2023 |
| 3. | James Ilikwel,Chief Officer Finance | Member | - Appointed on 15 th June,2023 |
| 4. | Peter Lomurkai, Chief Officer Preventive and Promotive (Health) | Member | Appointed on 15 th June,2023 |
| 5. | Ruth Emanikor, County Solicitor | Member | - Appointed on 15 th June,2023 |
| 6. | Cathra Abdi, Chief Officer Municipality and Urban Planning | Member | Appointed on 15 th June,2023 |
| 7. | Joseph Loboche, Representing Business Community | Member | Appointed on 15 th June,2023 |
| 8. | Esther Lokitoe Managing Director LOWASCO | Secretary | - Appointed on 17 th July,2023 |
| 9. | County Director Responsible for Human resources | Member | - Appointed on 15 th June,2023 |

Registered Office

Lodwar Handcraft Building
P.O. BOX 144-30500
Lodwar Kenya

Corporate Headquarters

Ministry of Water Services Headquarters
P.O. BOX 144-30500
Lodwar Kenya

Corporate Contacts

Telephone: (254) 748127707
E-mail: mdlowasco@gmail.com

Corporate Bankers

Kenya Commercial Bank,
Lodwar Branch.
P.O. BOX 150-30500
Post Bank- Lodwar branch

Lodwar Water and Sanitation Company Ltd
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Independent Auditor

Auditor General
The Office of the Auditor General
Anniversary Towers, University Way
P.O. Box 30084GPO 00100
Nairobi, Kenya


Principal Legal Advisers

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

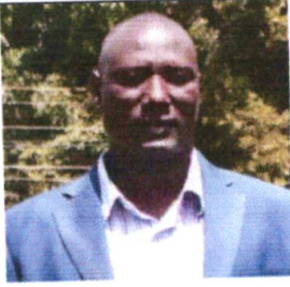
3. Turkana County Water Services Providers Caretaker Committee

Committee	Details
 <p>HON.PATRICK LOSIKE LOKAIMOE CECM- Ministry of Water Services</p>	<p>Hon. Patrick is holder of a Master degree specializing in Strategic management, a Bachelor in Business management and a Higher Diploma in Human resource management.</p> <p>He has over 20 years of work experience in both Government, legislative and non-government organizations with active participation in various senior management and decision-making positions.</p>
 <p>MR. CYRUS JAMES ILIKWEL Accounting Officer-Finance</p>	<p>Mr. Cyrus has over 14 years of work experience serving in various capacities in the public sector including senior management, policy and decision-making positions.</p> <p>He holds a Master degree in Business Administration; Accounting option, Bachelor degree in commerce accounting option coupled with CPA part II certification from KASNEB.</p>
 <p>Mrs Esther Lokitoe Ag. Managing Director</p>	<p>Mrs Esther is a teacher by profession having taught for over 15 years to children with special needs. She has served in the County government administration for over 5 year. She holds a bachelor's degree in Education and counselling, Diploma in special needs and Certificate in teaching</p>
 <p>MR. SIMON EKAI ETOM Accounting Officer-Water Services</p>	<p>Mr. Simon holds a Bachelor of Art degree in sociology and a certificate in Gender, poverty and development studies from Egerton university.</p> <p>He has accumulated over ten years of working experience in the public sector and NGO.</p>

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 <p>MS. CATHRA ABDI Accounting Officer-Municipalities and Urban Areas Management</p>	<p>CO Cathra holds a Master of business administration in health, leadership and management, master of science in public health, Bachelor of Science degree in public health and a Diploma in clinical medicine and surgery.</p>
 <p>MR. PETER LOMORUKAI Accounting Officer-Preventive and Promotive Services</p>	<p>Mr. Peter has over 10 years of work experience with approximately 5 years holding senior management positions that is tasked with vital senior management decision and policy making functions.</p> <p>He holds a Master of science in Field Epidemiology, Bachelor of science degree in Medical Laboratory science and a Diploma in Laboratory technician and Technology.</p>
 <p>Ruth Emanikor Accounting Officer-Office of the County Attorney</p>	<p>Ms. Ruth has over 18 years of work experience in the legal profession working for both the Government and private sector/NGOs.</p> <p>She holds a bachelor of Law degree from Moi university, Post graduate diploma from KSL and a certificate in strategic negotiation skills from KIA</p>
 <p>Mr Joseph Loboche Member</p>	<p>Mr Joseph holds a Diploma in Water Engineering. He is a retired career civil servant with over 20-year experience. He was one of the Pioneer Managing Director for LOWASCO.</p>





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Mr Chris Locheria
Director Human Resources

Mr Chris holds a Master in Business Management (Human resource Management option), Bachelor of Business Management (Human resource Management option). He has over 10years working in the public sector.

4. Key Management Team

Management	Details
 <p>Mrs Esther Lokitoe Ag. Managing Director</p>	<p>Mrs Esther is a teacher by profession having taught for over 15 years to children with special needs. She has served in the County government administration for over 5 years. She holds a bachelor's degree in Education and counselling, Diploma in special needs and Certificate in teaching. In addition, she has done the prestigious senior management course from Kenya school of government.</p>
 <p>Mr Boniface Onyango Production Officer</p>	<p>Mr. Boniface has a Diploma in electromechanical engineering power option. He is the head of production.</p>
 <p>Mr. Aaron kokako Human resources and Admin</p>	<p>Mr. Aaron is a Member of HRMPEB HS2700 and IHRM REG NO. 011869 He possesses a Higher diploma in HRM Diploma in HRM. Human resource and administration</p>
 <p>Mr. Lopelem Peter Accounting Support and Supervision</p>	<p>Mr. Lopelem is a career accountant with over 10 years working in both the private and public sector. He is a member of Institute of Certified Public Accountant of Kenya (ICPAK) and in good standing. He is currently the Fund Administrator to the water services fund, Head of revenue reporting with the Ministry of Finance. He holds a Bachelor's degree in Commerce, CPAK, CSK, and CIFA Part 1 from Kasneb</p>

Lodwar Water and Sanitation Company Ltd
Annual Report and Financial Statements for the year ended June 30, 2024


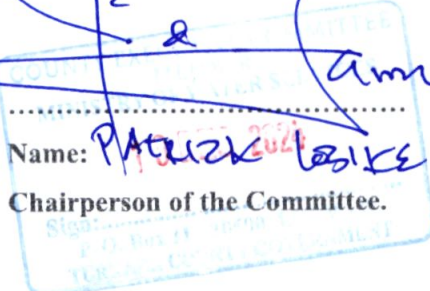
5. Chairman's Statement

Provision of water is not a business to make money but a necessity and service to every citizen and this has been enshrined in the constitution of Kenya 2010. You simply don't buy a car to fuel it, but fuel is required for you to move from one place to another. Similarly, we don't operate to make money, but money is required as a resource for us to move from where we are to where we want to be. Water is life, and the Committee is very much alive to this fact. Our role is to provide strategic direction to ensure that we achieve our Vision and Mission.

During the year under review, the Company performed fairly well despite the fact that there were several challenges which included frequent breakdown of boreholes, High electricity bills and financial constraints among others, additionally, three boreholes that serve 90% of the population in kanamkemer was swept by the river. The Company has 74 members of staff whose contract ended on 30th June 2024 but was renewed for three years

In compliance with water act 2016 and Turkana County water act 2019, the Committee started the process of recruitment of the board of Directors for both Rural and Urban Water Companies which was concluded. The Caretaker Committee went for a benchmarking in Nakuru County Which had fully operational Rural and Urban water companies which was Co Funded by the Ministry of Water and Livestock Marketing Systems.

The County Government and Development Partners who included UNICEF, Practical Action, Livestock Marketing Systems and Catholic Relief Services invested in Water infrastructure during the period in order to improve Water services.



Name: Patrick Lokauro
Chairperson of the Committee.
Sign: _____

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6. Report Of the Managing Director

I am pleased to present the annual financial statement for the year ending 30th June 2024. As compared with last financial year, there is a slight drop in operating revenue by Kshs 6,772,953.00 or 9% and an increase in expenses by Kshs 47,768,849 or 61%, thus causing a net loss of kshs 19,313,626. The County Department of Water Services has bailed out the company by paying accrued Salaries and Electricity bills.

Despite the operational liquidity challenges, I wish to thank LOWASCO Staff for their dedication, support and cooperation which enabled the activities of the Company to be performed successfully.

The Caretaker Committee was constituted by His Excellency the Governor following recommendations by the Senate Committee on County Public Investments and Special Funds.

The Committee commenced its work on 15th June 2023 and has been involved in the Utility's affairs by recruitment of an acting M.D and proposing secondment of an accountant, Internal Auditor, revenue officer, procurement officer and a technical officer to assist in the financial management of the Company which has successfully been done.

Non-Revenue Water still remains the biggest challenge in LOWASCO. Some of the problem areas include: Old and dilapidated infrastructure, lack of adequate funds to roll out proper District Metered Areas in the whole network (Hydraulically modelled DMAs) and Urgent need for Comprehensive Customer Identification survey (CIS) of the customers data base. Damages by ongoing construction works of roads rehabilitations is still a pain to us. We continue to discover Illegal practices such as bypasses and Vandalisms in peri-urban areas together with sporadic meter thefts.

The Company is experiencing the following other challenges: -

High operation and maintenance cost due to an old and dilapidated Water and infrastructure

Inadequate tools and equipment

Inadequate office space and Furniture

Inadequate water supply due to high population growth

High electricity bills

Inadequate spare parts due to financial constraints

Lack of testing kits and Faulty Dozers for water quality monitoring

Defective meters hence leading to estimated readings hence low Revenue collection


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The total water Storage for Lodwar Water supply which comprises of both masonry and elevated steel Tanks currently is **2,275 m³**. Currently **70%** of the Residents of Lodwar Municipality have access to piped Water Supply. The total Water produced per day is **7200m³** while the Water demand is **12,000m³/day** having a deficit of **4,800m³**.

Despite the challenges, donor partners have played a pivotal role in the implementation of Water and Sanitation (WASH) programs.

UNICEF have supported the Board directors for rural and Urban Water Companies corporate governance training in Eldoret and Launch of Lodwar Water Master plan for 25years. On the other hand Livestock Marketing System funded by USAID took caretaker committee to Nanyuki for training. They also donated butt fusion machine to LOWASCO.

During the year, ksh 30,000,000 were disbursed to LOWASCO Horn of Africa Ground Water for resilience donor account. This is a world bank funded project meant to develop and improve ground water and water infrastructure in rural areas.


Name Esther Lokitor
Managing Director

(Stamp: LODWAR WATER & SANITATION CO. P.O. BOX 144 - 30500, LODWAR)

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Annual Report and Financial Statements for the year ended June 30, 2024

7.Statement Of Performance Against Predetermined Objectives for FY 2023/2024

The company has no strategic plan and is planning to develop one for the New Company

8. Corporate Governance Statement

Preamble

LOWASCO is committed to the values and principles of good corporate governance. Good corporate governance requires that the board of directors must govern the corporation with integrity and enterprise in a manner, which entrenches and enhances the mandate it has under section 71 of the Water Act 2016.

The directors and management of LOWASCO regard corporate governance as pivotal to the successes of the corporation and are unreservedly committed to ensuring that good corporate governance is practised so that LOWASCO remains a sustainable and viable vehicle in the provision of water and sanitation services to residents of Lodwar Municipality.

Caretaker Committee

The Committee was appointed by H.E Governor Jeremiah Lomurkai on interim basis as from 15th June, 2023 through Gazette Notice no 8256(2023) to take over fully and with immediate effect the operations of LOWASCO.

The role and functions were not limited to

- (a) To take over fully and with immediate effect, the operations of LOWASCO as a Government entity to the exclusion of any private interests and shareholding whatsoever.
- (b) To appoint acting Managing Director and the technical staff including internal auditor and the accountants.
- (c) To oversee the technical operations of the company and to report progress to County Executive Committee chaired by the Governor.
- (d) To liaise with the Office of the County Attorney on the legal processes and procedures for winding up the company and to report progress to the County Executive Committee.
- (e) To undertake physical assets and liabilities verifications, prepare assets and liabilities inventory, carry out valuation of the company assets and liabilities.
- (f) To supervise the process of identification and transfer of assets and liabilities from the Rift Valley Board (RVWB) or its successor and LOWASCO to the new water service providers established by the County Government with full ownership and interests vested in the County Government.
- (g) To ensure staff of LOWASCO are properly vetted and to recommend suitable staff, for transfer to the new water service providers established by the county government. The Board shall take into account academic qualifications, experience and performance appraisal results during vetting.
- (h) To provide strategic planning and policy directions to the Company.

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Annual Report and Financial Statements for the year ended June 30, 2024

- (i) To ensure proper financial management and accountability of the company.
- (j) To ensure proper records including financial and audit reports are done
- (k) Ensure compliance with the provisions of the law including the Companies Act, the Water Act, 2016, the Turkana County Water Act, 2019 and regulations.
- (l) To ensure the company complies with corporate governance standards and guidelines issued by regulatory authorities.
- (m) To establish important committees or sub-committees as such as Audit and risk committee, technical committee, Service committee and any other prescribed by WASREB guidelines for Urban Water Supplies.
- (n) To identify and prepare a list of liabilities after thorough scrutiny and make recommendations on how to settle such liabilities.
- (o) To enter into agreement(s) with any of such creditors for purposes of settling outstanding liabilities, where there is sufficient justification to do so.
- (p) To put in place measures to pursue LOWASCO debtors for purposes of raising revenues for its operations and settlement of debts.
- (q) To carry out any other activities, which may be, geared improvement of service delivery, recovery of debts.
- (r) To perform any other functions, responsibilities and obligations that may be assigned by the county executive committee.

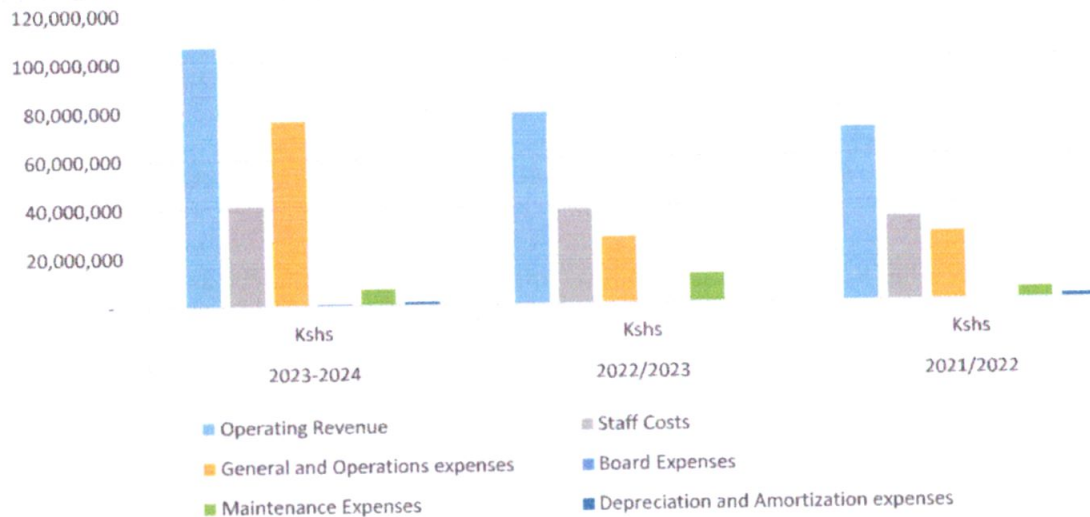
The Committee is guided by the core tenets prescribed in MWONGOZO, the Public Officers Ethics Act, and signed internal codes of conduct guides the Board's decisions. meeting is conducted twice every week or on need basis.

The Committee is given appropriate information so that they can maintain full and effective control over strategic, financial, operational and compliance issues. Except for direction and guidance on general policy, the Committee has delegated authority for conduct of day-to-day business to the Managing Director. The Committee nonetheless retains oversight responsibility for establishing and maintaining the control of financial, operational and compliance issues

Lodwar Water and Sanitation Company Ltd
Annual Report and Financial Statements for the year ended June 30, 2024

9. Management Discussion and Analysis

	2023-2024	2022/2023	2021/2022
	Kshs	Kshs	Kshs
Operating Revenue	106,857,705	78,730,581	71,354,164
Staff Costs	40,976,089	38,804,968	34,551,806
General and Operations expenses	75,949,347	27,119,457	27,897,988
Board Expenses	802,200	173,000	-
Maintenance Expenses	6,822,374	11,810,023	4,865,335
Depreciation and Amortization expenses	1,621,320	495,034	1,896,236
Total Expenses	126,171,331	78,402,482	69,211,365



A rise in revenue is attributed to payment made on behalf of the Company by Water services fund

The general and operating expenses went up due to high cost of electricity, repairs and provision for doubtful debts

10. Environmental And Sustainability Reporting

Lodwar Water and Sanitation Company (LOWASCO) is a corporate entity established in 2007 under the companies Act Cap 486 of the laws of Kenya. The core business of LOWASCO is the efficient and economical provision of water and sanitation services to the residents of Lodwar Municipality and its environs. The company took over the management of Water supply as a service provider from 2007 to date after signing a Service Provider Agreement (SPA) with Rift Valley Water Services Board (license) on 3rd July 2007. The Company has been operating without a board of Directors since 2014 when the term of the board of Directors expired. The company has been operational under the seconded Team leader from the Ministry of Water services with the support of the Company management team in place of the board of Directors.

The main mandate is to provide adequate, portable, affordable and sustainable water and sanitation services to residents in Lodwar and its environs through continuous improvement and extension.

Sustainability strategy and profile

The company recognizes the fact that the way in which it conducts its activities financially has a bearing on those with interest in its work.

Lodwar Water and Sanitation Company Ltd
Annual Report and Financial Statements for the year ended June 30, 2024

11. Report Of the Directors

The Caretaker Committee submit their report together with the unaudited financial statements for the year ended June 30, 2024 which show the state of the company's affairs.

i) Principal activities

The principal activities of the Company are to provide water and sanitation services to residents of Lodwar Municipality

ii) Results

The results of the company for the year ended June 30, 2024 are set out on page 1 is a loss of ksh 19,313,626.

iii) Directors

The members of the Caretaker committee who served during the year are shown on page in accordance with the company's Articles of Association.

Lodwar Water and Sanitation Company Ltd
Annual Report and Financial Statements for the year ended June 30, 2024

iv) Auditors

- v) The Auditor General is responsible for the statutory audit of the Company in accordance with Article 229 of the Constitution of Kenya and the Public Audit Act 2015 for the period ended June 30, 2024, in accordance to section 23 of the Public Audit Act, 2015 which empowers the Auditor General to appoint an auditor to audit on his behalf.

By Order of the Committee


.....
Name: *Shiraz Makoto*
Secretary to the Committee
Date: *3/12/2024*

Lodwar Water & Sanitation Co
DEC 2024
P.O. Box 144-30500, LODWAR

12. Statement Of Directors' Responsibilities

Section 164 of the Public Finance Management Act, 2012 and companies Act 2015 Cap 486 require the Directors to prepare financial statements in respect of that Company, which give a true and fair view of the state of affairs of the Company at the end of the financial year/period and the operating results of the Company for that year. 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 financial statements, which give a true and fair view of the state of affairs of the Company for and as at the end of the financial year ended on June 30, 2024. This responsibility includes:

- (i) Maintaining adequate financial management arrangements and ensuring that these continue to be effective throughout the reporting period;
- (ii) Maintaining proper accounting records, which disclose with reasonable accuracy at any time the financial position of the entity;
- (iii) Designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of the financial statements, and ensuring that they are free from material misstatements, whether due to error or fraud;
- (iv) Safeguarding the assets of the Company;
- (v) selecting and applying appropriate accounting policies; and
- (vi) Making accounting estimates that are reasonable in the circumstances.

The Directors responsibility for the Company financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity with International Financial Reporting Standards (IFRS), and in the manner required by the PFM Act, 2012, water act 2016 and companies Act 2015 Cap 486

Lodwar Water and Sanitation Company Ltd
Annual Report and Financial Statements for the year ended June 30, 2024
Statement of Directors' Responsibilities (Continued)

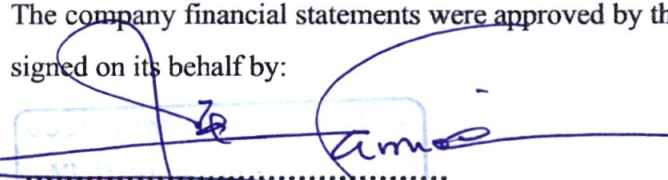
The Directors are of the opinion that the Company's financial statements give a true and fair view of the state of Company's transactions during the financial year ended June 30, 2024, and of the Company's financial position as at that date. The Directors further confirm the completeness of the accounting records maintained for the Company, which have been relied upon in the preparation of the company financial statements as well as the adequacy of the systems of internal financial control.


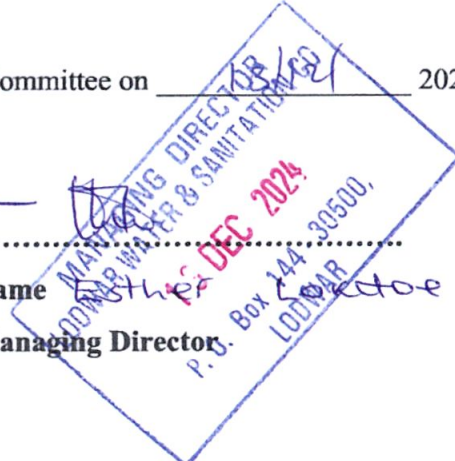
In preparing the financial statements, the Directors have assessed the entity's ability to continue as a going concern

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

Approval of the financial statements

The company financial statements were approved by the Committee on _____ 2024 and signed on its behalf by:


Name **PATRICK LOSIKE**
Chairperson of the Committee


Name _____
Managing Director


REPUBLIC OF KENYA

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



OFFICE OF THE AUDITOR-GENERAL

Enhancing Accountability

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

REPORT OF THE AUDITOR-GENERAL ON LODWAR WATER AND SANITATION COMPANY LIMITED FOR THE YEAR ENDED 30 JUNE, 2024

PREAMBLE

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

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

A Qualified Opinion is issued when the Auditor-General concludes that, except for material misstatements noted, the financial statements are fairly presented in accordance with the applicable financial reporting framework. The Report on Financial Statements should be read together with the Report on Lawfulness and Effectiveness in the Use of Public Resources, and the Report on Effectiveness of Internal Controls, Risk Management and Governance.

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

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of Lodwar Water and Sanitation Company Limited set out on pages 1 to 43, which comprise of the statement of financial

Report of the Auditor-General on Lodwar Water and Sanitation Company Limited for the year ended 30 June, 2024

position as at 30 June, 2024 and the statement of profit or loss and other comprehensive income, statement of changes in equity, statement of cash flows and 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 effect of the matters described in the Basis for Qualified Opinion section of my report, the financial statements present fairly, in all material respects, the financial position of Lodwar Water and Sanitation Company Limited as at 30 June, 2024 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 Companies Act, 2015, Water Act, 2016 and the Public Finance Management Act, 2012.

Basis for Qualified Opinion

1. Errors and Inaccuracies in the Annual Reports and Financial Statements

The annual report and financial statements prepared and presented for audit had the following errors and omissions:

- i. The information on Turkana County Water Caretaker Committee on page vi-viii has not disclosed the dates of birth of the committee members
- ii. Environmental and Sustainability Reporting on page xvii has not reported on the following key areas; environmental performance, employee welfare and market place practices as required by the reporting template.
- iii. The statement of financial position reflects retained earnings amount of negative Kshs.16,256,158 which differs from the amount of negative Kshs.16,356,158 reflected in the statement of changes in equity resulting to unexplained variance of Kshs.100,000
- iv. Note 18 to the financial statements reflects retained earnings amount of negative Kshs.19,733,371 which is at variance with the retained earnings of negative Kshs.16,256,158 reflected in the statement of financial position. The resultant variance of Kshs.3,477,213 has not been explained.

In the circumstances, the financial statements as presented do not conform to International Financial Reporting Standards disclosure requirements and prescribed template by the Public Sector Accounting Standards Board.

2. Unconfirmed Sales Revenue

The statement of profit or loss and other comprehensive income reflects operating revenue of Kshs.71,957,628 as disclosed in Note 6 to the financial statements. However, the water sale ledger provided shows customer billings amounting to Kshs.117,338,245 resulting in a variance of Kshs.46,465,485 that has not been reconciled.

In the circumstances, the accuracy and completeness of operating revenue of Kshs.71,957,628 could not be confirmed.

3. Unsupported Domestic Travel and Subsistence Expenditure

The statement of profit or loss and other comprehensive income reflects general and operations expenses amount of Kshs.75,949,347 which include domestic travel and subsistence amount of Kshs.497,310 as disclosed in Note 9 to the financial statements. However, the expenditure has not been supported by payment vouchers, imprest warrants, an approved work plan, procurement plan, bus tickets, work tickets or boarding passes, hotel bookings and attendance registers.

In the circumstances, the propriety, accuracy and completeness of domestic travel and subsistence amount of Kshs.497,310 could not be confirmed.

4. Inaccuracy of Property, Plant and Equipment

The statement of financial position reflects property, plant, and equipment balance of Kshs.54,508,548 as disclosed in Note 13(a) to the financial statements. During the year under review, the entity acquired additional assets amounting to Kshs.40,876,348. Included in the additions during the year is water and sewer infrastructure of Kshs.40,035,048 procured in the previous years but omitted in the financial statements. The assets were erroneously recorded as additions during the year instead of prior year adjustment. In addition, the annual physical asset verification report for the year under review was not provided.

In the circumstances, the accuracy and completeness of the property, plant, and equipment balance of Kshs.54,508,548 could not be confirmed.

5. Unconfirmed Cash and Cash Equivalents

Review of the cash books and bank statements provided for verification revealed that the Company withdrew cash amounting to Kshs.6,072,879 for petty cash operations from its expenditure Account held at a commercial bank. However, the Management did not maintain a memorandum cash book for petty cash and imprest management during the year under review.

In the circumstances, the propriety, accuracy and completeness of the withdrawal of Kshs.6,072,879 could not be confirmed.

6. Unsupported Refundable Deposits and Prepayments ✓

The statement of financial position reflects refundable deposits and prepayments amount of Kshs.15,282,919 as shown in Note 21 to the financial statements. However, the payables have not been supported by detailed schedules showing the names of customers who are owed by the Company and a detailed ageing analysis.

In the circumstances, the accuracy and completeness of refundable deposits and prepayments amount of Kshs.15,282,919 could not be confirmed.

7. Variance in Trade Payables

The statement of financial position reflects trade and other payables amount of Kshs.94,082,620 as disclosed in Note 20 to the financial statements. However, the supporting schedules for trade and other payables shows a total of Kshs.82,133,797 resulting in unreconciled variance of Kshs.11,948,823.

In the circumstances, the accuracy and completeness of trade and other payables amount of Kshs.94,082,620 could not be confirmed.

The audit was conducted in accordance with International Standards for Supreme Audit Institutions (ISSAIs). I am independent of the Lodwar Water and Sanitation Company Limited Management in accordance with ISSAI 130 on the 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.

Material Uncertainty Related to Going Concern

The statement of financial position reflects total current assets of Kshs.50,028,626 against total current liabilities of Kshs.109,365,539. This makes liquidity ratio of 0.46:1 (or negative working capital of Kshs.50,028,626) which is below the recommended liquidity ratio of 2:1. In addition, during the year under review, the capital reserve dropped by Kshs.18,628,626 from Kshs.2,472,468 to negative Kshs.16,156,158.

Further, Lodwar Water and Sanitation Company Limited is in the process of being taken over by Turkana County Urban Water and Sewerage Company Limited.

In the circumstances, the Company is technically insolvent and may not be able to meet its current obligations as and when they fall due and its continued operations as a going concern is dependent on the support of the County Government of Turkana and creditors. My opinion is not modified in respect of this matter.

Key Audit Matters

Key audit matters are those matters that, in my professional judgement, are of most significance in the audit of the financial statements. Except for the matters described in the Basis for Qualified Opinion section, I have determined that there are no other key audit matters to communicate in my report.

Other Information

The Management is responsible for the other information set out on page iii to xxi which comprise of key entity Information and Management, Turkana County Water Services providers caretaker committee, management team, chairman's statement, report of the Managing Director, statement of performance against predetermined objectives, corporate governance statement, Management discussion and analysis environmental

and sustainability reporting, report of the directors and statement of directors' responsibilities. The Other Information does not include the financial statements and my audit report thereon.

In connection with my audit on the Company's 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 my knowledge obtained in the audit or otherwise appears to be materially misstated. If based on the work I have performed, I conclude that there is a material misstatement of this Other Information, I am required to report that fact. I have nothing to report in this regard.

My opinion on the financial statements does not cover the Other Information and accordingly, I do not express an audit opinion or any form of assurance conclusion thereon.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN THE USE OF PUBLIC RESOURCES

Conclusion

As required by Article 229(6) of the Constitution, based on the audit procedures performed, except for the effect of 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-compliance with Affirmative Action on Gender, Ethnicity and Regional Distribution

The statement of profit or loss and other comprehensive income and as disclosed in Note 8 to the financial statements reflects staff costs amount of Kshs.40,976,089. Review of the Company's payroll for the month of June, 2024 revealed that the Company had seventy four (74) staff members, out of which sixty-three (63) or 85% of staff are from the dominant ethnic community leaving eleven (11) employees or 15% from other ethnic communities contrary to Section 7(1) and (2) of the National Cohesion and integration Act, 2008 which requires that all public establishments shall seek to represent the diversity of the people of Kenya in employment of staff and that no public establishment shall have more than one third of its establishment from the same ethnic community.

Further, out of a total of seventy-four (74) employees, only twelve (12) employees or, 16% are female while the remaining majority of sixty-two (62) employees or 84% are male.

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

2. Operation as a Water Service Provider Without a License

Review of the available documents revealed that the Company had no valid license from the Water Service Regulatory Board authorizing it to operate water production services contrary to Section 85(1) of the Water Act, 2016 that states that a person shall not provide water services except under a license issued by the Regulatory Board, upon submission of an application and such supporting documents as the Board may require.

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

3. Unpaid Tax Expense

The statement of profit or loss and other comprehensive income reflects general and operations expenses of Kshs.75,949,347 as shown in Note 9 to the financial statements. This includes tax expenses relating to penalties and interest for non-remittance of tax (pay as you earn, value-added tax, and interest on unpaid tax expense) of Kshs.5,887,373 for the tax period between January, 2015 to 30 June, 2024. However, the amount had not been paid by the close of the year under review. Management has not demonstrated how the tax obligation will be settled to avoid further penalties.

In the circumstances, the amount continues to attract more penalties and interest leading to unnecessary and nugatory expenses.

4. Long Outstanding Payables

The statement of financial position reflects trade and other payables amount of Kshs.94,082,620. Examination of trade and other payables ageing analysis revealed pending payments for goods, services and works totalling to Kshs.66,174,961 which have been outstanding for over 60 days contrary to Regulation 150(1) of the Public Procurement and Assets Disposal Regulations, 2020 that states that subject to the availability of funds and after proper certification of the goods, services or works have been done, a procuring entity shall make prompt payments for all performed contracts including enterprises owned by youth, women or persons with disabilities and shall make payment within sixty days from the date of receipt of the invoice.

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

5. Late Remittance of Statutory Deductions

Review of the Company's payrolls for the year ended 30 June, 2024 indicated a total amount of Kshs.4,622,330 in respect to remittance of NSSF, NHIF and PAYE deductions. However, review of the payment vouchers and deposit slips provided revealed that a total of Kshs.463,768 for PAYE and Kshs.206,250 for NHIF was remitted after the deadline of ninth day of each following month. This was contrary to Employment Act, that requires employers to remit deduction from the employees' emoluments to the respective bodies within set timelines.

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

The audit was conducted in accordance with ISSAI 3000 and ISSAI 4000. The standards require 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 comply 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 effect of 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 governance were not effective.

Basis for Conclusion

1. Lack of Substantive Board of Directors

During the year under review, the Company did not have a fully constituted Board. Management of the Company affairs was conducted by an interim board of directors contrary to Section 79(1) of the Water Act, 2016 which requires that a water services provider should have a board of directors and in the case of a company, the members of its board of directors shall be constituted in accordance with the Companies Act, 2015 or any other written law and that the directors be nominated to serve on the board in accordance with the Company's memorandum and articles of association.

In the circumstances, the validity and effectiveness of decisions made by the caretaker board could not be confirmed.

2. Lack of Risk Management Policy and Disaster Recovery Plan

Review of the internal controls of the Company revealed that there was no risk management policy in place and thus the Company did not carry out risk assessment during the period under review contrary to Regulation 158(1) of the Public Finance Management (County Governments) Regulations, 2015 which requires each County Government entity to develop risk management strategies and a system of risk management. Further, a disaster recovery plan or business continuity plan was not in place to ensure that the Company recovered its operations in the event of a disaster.

In the circumstances, the effectiveness of the Company's risk management and mitigation measures could not be confirmed.

3. Information Technology Resources Management

Review of the Information Technology Internal Controls revealed that the Company did not have an approved ICT Policy, IT security policy, policy on physical access to IT environment and IT continuity and disaster recovery plan in place to guide ICT operations.

In the circumstances, the Company will not be able to create an efficient computer-based system for gathering, storing and processing information for management decision making, communicating management aims and directions, define and manage service levels, monitor and evaluate IT performance and manage IT Human resources.

4. Non-Revenue water

The statement of profit or loss and other comprehensive income shows operating revenue of Kshs.71,957,628. Included in this amount is water sales billing of Kshs.70,872,760 that was billed from the water production of approximately 1,105,359 cubic meters as per the production schedules provided. However, the Company had total production of 2,502,000 cubic meters during the year but managed to bill its customers a total of 1,105,359 or (44%) cubic meters of water. This makes non-revenue water of 1,396,641 cubic meters representing 56% of produced water contrary to Industry threshold allowable loss (25% of water produced).

In the circumstances, the Company's water management systems were inefficient.

The audit was conducted in accordance with ISSAI 2315 and ISSAI 2330. The standards require that I plan and perform the audit to obtain assurance about whether effective processes and systems of internal controls, risk Management and overall 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

Conclusion

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. The information given in the Directors' report on page xi is consistent with the financial statements; and
- iii. The auditable part of the Directors' remuneration report on pages xvii has been properly prepared in accordance with the *Companies Act, 2015*.

Responsibilities of the Management and Board of Directors

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and for maintaining effective internal controls as Management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether

Report of the Auditor-General on Lodwar Water and Sanitation Company Limited for the year ended 30 June, 2024

due to fraud or error and for its assessment of the effectiveness of internal controls, risk management and governance.

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

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

In addition to the responsibility for the preparation and presentation of the financial statements described above, Management is also responsible for ensuring that the activities, financial transactions and information reflected in the financial statements comply with the authorities 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 Management monitors compliance with relevant legislative and regulatory requirements, ensuring that effective processes and systems are in place to address key roles and responsibilities in relation to governance and risk management, and ensuring the adequacy and effectiveness of the control environment.

Auditor-General's Responsibilities for the Audit

My responsibility is to conduct an audit of the financial statements in accordance with Article 229(4) of the Constitution, Section 35 of the Public Audit Act, 2015 and the International Standards for Supreme Audit Institutions (ISSAIs). The standards require that, in conducting the audit, I obtain reasonable assurance about whether the financial statements as a whole are free from material misstatements, whether due to fraud or error and to issue an auditor's report that includes my opinion in accordance with Section 48 of the Public Audit Act, 2015. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with IFPP will always detect a material misstatement 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 conducting the audit, Article 229(6) of the Constitution also requires that I express a conclusion on whether or not 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 addition, I consider the entity's control environment 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.

Further, I am required to submit the audit report in accordance with Article 229(7) of the Constitution.

Detailed description of my responsibilities for the audit is located at the Office of the Auditor-General's website at: <https://www.oagkenya.go.ke/auditor-generals-responsibilities-for-audit/>. This description forms part of my auditor's report.



FCPA Nancy Gathungu, CBS
AUDITOR-GENERAL

Nairobi

30 December, 2024

Lodwar and Sanitation Company Ltd.**Annual Report and Financial Statements for the year ended June 30, 2024****14. Statement Of Profit or Loss & Other Comprehensive Income for the Year Ended 30 June**

2024

Description	Note	2023-2024	2022-2023
		Kshs	Kshs
Revenue			
Operating Revenue	6	71,957,628	78,730,581
Grants Income	7	34,900,077	
Total Revenue		106,857,705	78,730,581
Expenses			
Staff Costs	8	40,976,089	38,804,968
General and Operations expenses	9	75,949,347	27,119,457
Board Expenses	10	802,200	173,000
Maintenance Expenses	11	6,822,374	11,810,023
Depreciation and Amortization expenses	12	1,621,320	495,034
Total Expenses		126,171,331	78,402,482
Profit/(Loss) Before Taxation		(19,313,626)	328,099
Income Tax Expense/(Credit)		-	98,430
Total Comprehensive Income for The Year		(19,313,626)	229,669

Lodwar Water and Sanitation Company Ltd.
Annual Report and Financial Statements for the year ended June 30, 2024

15. Statement Of Financial Position As at 30 June 2024

Description	Note	2023-2024	2022-2023
Assets			
Non-current assets			
Property, plant and equipment	13	54,508,548	15,253,520
Total non-current assets		54,508,548	15,253,520
Current assets			
Trade and receivable	14	47,370,430	54,169,854
Prepaid Expenses	15	20,220	-
Bank and cash balances	16	2,637,976	510,485
Total current assets		50,028,626	54,680,339
Total Assets		104,537,174	69,933,859
Equity and liabilities			
Capital and Reserves			
Ordinary share capital	17	100,000	100,000
Retained earnings	18	(16,256,158)	2,372,468
Capital and Reserves		(16,156,158)	2,472,468
Non-current liabilities			
Provision for Gratuity	19	11,327,793	5,792,485
Total non-current liabilities		11,327,793	5,792,485
Current liabilities			
Trade and other payables	20	94,082,620	80,782,957
Refundable deposits and Prepayments	21	15,282,919	15,783,925
Total current Liabilities		109,365,539	96,566,882
Total Equity and Liabilities		104,537,174	104,831,835

The financial statements were approved by the Committee on 13/12 2024 and signed on its behalf by:

Name Esther Wacacha
 Managing Director

Name LOPELEM PETER
 Head of Finance
 ICPAK M/No: 22351

Name PATRICK LESIKE LOYAMOE
 Chairman of the Committee

Lodwar Water and Sanitation Company Ltd
Annual Report and Financial Statements for the year ended June 30, 2024
16. Statement Of Changes in Equity for the Year Ended 30 June 2024

Description	Notes	Ordinary share capital	Retained Earnings	Total
As at July 1, 2022				
Ordinary Share Capital		100,000.0	2,142,799	2,242,799
Profit for the year			229,669	229,669
As at June 30, 2023		100,000.00	2,372,468	2,472,468
As at July 1, 2023				
Ordinary Share Capital		100,000.00	2,372,468	2,472,468
Loss for the year			(19,313,626)	(19,313,626)
Capital/Development grants received during the year			585,000	585,000
At June 30, 2024		100,000.00	(16,356,158)	(16,256,158)

Lodwar Water and Sanitation Company Ltd
Annual Report and Financial Statements for the year ended June 30, 2024

17. Statement Of Cash Flows for The Year Ended 30 June 2024

Description	Note	2023-2024	2022-2023
		Kshs	Kshs
Cash Flows from Operating Activities			
Receipts			
Operating Receipts		50,082,565	57,964,993
Customer Deposits		1,081,000	
Total Receipts		51,163,565	57,964,993
Payments			
Staff Costs		28,921,355	26,438,038
General And Operation Expenses		13,273,091	20,468,011
Board Expenses		802,200	173,000
Maintenance Expenses		5,746,626	11,810,023
Refund Of Customer Deposits		36,500	17,760
Total Payments		48,779,773	58,906,832
Net Cash From/ (Used In) Operating Activities		2,383,792	(941,839)
Cash Flows from Investing Activities			
Purchase Of Property, Plant and Equipment (PPE)		(256,300)	
Net Cash From/ (Used In) Investing Activities		(256,300)	
Cash Flows from Financing Activities			
Proceeds From Issues of New Share Capital			
Proceeds From Borrowings			
Repayment Of Borrowings			
Dividends Paid			
Net Cash From/(Used In) Financing Activities		-	-
Increase/(Decrease) In Cash and Cash Equivalents		2,127,492	(941,839)
Cash And Cash Equivalents at Beginning of Year		510,484	1,452,323
Effects Of Foreign Exchanges Rate Fluctuations			
Cash And Cash Equivalents at End of the Year		2,637,976	510,484

Lodwar Water and Sanitation Company Ltd
Annual Report and Financial Statements for the year ended June 30, 2024

18. Statement Of Comparison of Budget & Actual Amounts for The Period Ended 30 June
2024

Description	Original budget	Adjustments	Final budget	Actual on comparable basis	Performance difference	% of utilization
	a	b	C=a+b	d	e= c-d	f=d/c %
Revenue	Kshs	Kshs	Kshs	Kshs	Kshs	
Operating Revenue	108,000,000		108,000,000	106,857,705	1,142,295	99%
					-	
Total Revenue	108,000,000	-	108,000,000	106,857,705	1,142,295	99%
Expenses					-	
Staff Costs	40,000,000		40,000,000	40,976,089	(976,089)	102%
Board Expenses	2,000,000		2,000,000	802,200	1,197,800	40%
General and operations Expenses	51,872,190		51,872,190	75,949,347	(24,077,157)	146%
Maintenance Expenses	12,127,810		12,127,810	6,822,374	5,305,436	56%
Depreciation and Amortization expenses	2,000,000.00		2,000,000.00	1,621,320	378,680	81%
Total Expenses	108,000,000	-	108,000,000	126,171,331	(18,171,331)	117%
Profit or Loss for the year	-	-	-	(19,313,626)		

Lodwar Water Company Ltd
Annual Report and Financial Statements for the year ended June 30, 2024

Description	Final budget	Actual on comparable basis	Performance difference	% of utilization	Explanation
	$C=a+b$	d	$e= c-d$	$f=d/c$ %	
Revenue	Kshs	Kshs	Kshs		
Operating Revenue	108,000,000	106,857,705	1,142,295	99%	Frequent borehole breakdowns interrupted water supply system.
Expenses			-		
Staff Costs	40,000,000	40,976,089	(976,089)	102%	Over expenditure is as a result of recruitment of casuals and Managing directors' monthly allowances
Board Expenses	2,000,000	802,200	1,197,800	40%	The board sitting allowances were paid by the water Fund
General and operations Expenses	51,872,190	75,949,347	(24,077,157)	146%	Liquidity challenges instituted proper management of expenditure
Maintenance Expenses	12,127,801	6,822,374	5,305,436	56%	Liquidity challenges instituted proper management of expenditure
Depreciation and Amortization expenses	2,000,000	1,621,320	378,680	81%	The were few additional assets in the year
Total Expenses	108,000,000	126,171,331	(18,171,331)	117%	Liquidity challenges instituted proper management of expenditure
Profit or Loss for the year	-	(19,313,626)			

19. Notes To the Financial Statements

1. General Information

Lodwar water and sanitation Company Ltd is established by and derives its authority and accountability from the Company's Act cap 486. The Company is partially owned by Turkana County Government and is domiciled in Kenya. The Company's principal activity is to provide water and sanitation services to residents of Lodwar Municipality. 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 judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or where assumptions and estimates are significant to the financial statements.

The financial statements have been prepared and presented in Kenya Shillings, which is the functional and reporting currency of the Company. The figures are rounded to the nearest Kenyan shilling.

The financial statements have been prepared in accordance with the PFM Act, the State Corporations Act, Water Act 2016 and the Company's Act Cap 486, and International Financial Reporting Standards (IFRS). The accounting policies adopted have been consistently applied to all the years presented.

Lodwar Water and Sanitation Company Ltd
Annual Report and Financial Statements for the year ended June 30, 2024
Notes to the financial statements (continued)

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

i. New and amended standards and interpretations in issue and effective in the year ended 30 June 2024.

Title	Description	Effective Date
Amendments to IAS 1 titled Classification of Liabilities as Current or Non-current (issued in January 2020, amended in October 2022)	The amendments, applicable to annual periods beginning on or after 1st January 2024, clarify a criterion in IAS 1 for classifying a liability as non-current: the requirement for an entity to have the right to defer settlement of the liability for at least 12 months after the reporting period	The amendments are effective for annual periods beginning on or after January 1, 2024. Earlier application is permitted.
Amendment to IFRS 16 titled Lease Liability in a Sale and Leaseback (issued in September 2022)	The amendment, applicable to annual periods beginning on or after 1st January 2024, requires a seller-lessee to subsequently measure lease liabilities arising from a leaseback in a way that it does not recognise any amount of the gain or loss.	The amendments are effective for annual periods beginning on or after January 1, 2024. Earlier application is permitted.
Amendments to IAS 1 titled Non-current Liabilities with Covenants (issued in October 2022)	The amendments, applicable to annual periods beginning on or after 1st January 2024, improve the information an entity provides about liabilities arising from loan arrangements for which an entity's right to defer settlement of those liabilities for at least twelve months after the reporting period is subject to the entity complying with conditions specified in the loan arrangement.	The amendments are effective for annual periods beginning on or after January 1, 2024. Earlier application is permitted.

Lodwar Water Company Ltd
Annual Report and Financial Statements for the year ended June 30, 2024

ii. New and amended standards and interpretations in issue but not yet effective in the year ended 30 June 2024.

Title	Description	Effective Date
IFRS 18 Presentation and Disclosure in Financial statements	The objective of IFRS 18 is to set out requirements for the presentation and disclosure of information in general purpose financial statements (financial statements) to help ensure they provide relevant information that faithfully represents an entity's assets, liabilities, equity, income and expenses.	The new standard is effective for annual periods beginning on or after January 1, 2027. Earlier application is permitted.

iii. Early adoption of standards

Lodwar Water and Sanitation did not early – adopt any new or amended standards in year under review.

Notes to the financial statements (continued)

4. Summary of Accounting Policies

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

a) Revenue recognition

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

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

Notes to the financial statements (continued)

Summary of Accounting Policies

b) In-kind contributions

In-kind contributions are donations that are made to the Company in the form of actual goods and/or services rather than in money or cash terms. These donations may include vehicles, equipment, utilities 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 but disclosed.

c) Property, plant and equipment

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

d) Depreciation and impairment of property, plant and equipment

Freehold land and capital work in progress are not depreciated. Capital work in progress relates mainly to the cost of ongoing but incomplete works on buildings and other civil works and installations. Depreciation on property, plant and equipment is recognized in the income statement on a straight-line basis to write down the cost of each asset or the re-valued amount to its residual value over its estimated useful life. The annual rates in use are:

Item	Years	Rates
Item	Years	Rates
Buildings and civil works including pipes	-	2.5%
Infrastructure works (Meter and Equipment)	-	12.5%
Motor vehicles, including motorcycles	-	25%
Computers and related equipment	-	20.4%
Office equipment, furniture and fittings	-	12.5%

A full year's depreciation charge is recognized both in the year of asset purchase and none in the year of asset disposal. Items of property, plant and equipment are reviewed annually for impairment and accounted for in line with the provisions in the standard.

e) Intangible assets

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

Intangible assets with indefinite useful lives that are acquired separately are carried at cost less accumulated impairment losses.

f) Amortization and impairment of intangible assets

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

g) Investment property

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

Notes to the financial statements (continued)

Summary of Accounting Policies

h) Right of Use Asset

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

i) Fixed interest investments (bonds)

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

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.

Notes to the financial statements (continued)

Summary of Accounting Policies

k) Unquoted investments

Unquoted investments stated at cost under non-current assets, and comprise equity shares held in other Government owned or controlled entities that are not quoted in the Securities Exchange. These are measured at fair value through profit or loss (FVTPL).

l) Inventories

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

m) Trade and other receivables

Trade and other receivables are recognized at amortized cost less allowances for any uncollectible amounts. These are assessed for impairment on a continuing basis. An estimate is made of doubtful receivables based on a review of all outstanding amounts at the year end. Bad debts are written off after all efforts at recovery have been exhausted and when the necessary approval to write off is granted.

n) Taxation

i) Current income tax

Current income tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting date in the area where the Company 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 profit or loss statement. 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. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

o) Deferred tax

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

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

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

Deferred tax relating to items recognized outside surplus or deficit is recognized outside surplus or deficit. Deferred tax items are recognized in correlation to the underlying 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.

p) Borrowing costs

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

q) Cash and cash equivalents

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

r) Borrowings

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

s) Trade and other payables

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

t) Retirement benefit obligations

The company 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. 1,080 per employee per month.

u) Provision for staff leave pay

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

v) Exchange rate differences

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

w) Budget information

The original budget for FY 2023/2024 was approved by the Board of Directors on 15th September, 2023. Subsequent revisions or additional appropriations were not made to the approved budget in accordance with specific approvals from the appropriate authorities. The additional appropriations are added to the original budget by the entity upon receiving the respective approvals in order to conclude the final budget. The Company's budget is prepared on a different basis to the actual income and expenditure disclosed in the financial statements. The financial statements are prepared on accrual basis using a classification based on the nature of expenses in the statement of profit or loss, 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.

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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.

Service concession arrangements

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

x) Comparative figures

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

y) Subsequent events

There have been no events subsequent to the financial year end with a significant impact on the financial statements for the year ended June 30, 2024.

5. Significant Judgments and Sources of Estimation Uncertainty

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

a) Estimates and assumptions

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

b) Useful lives and residual values

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

c) 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.

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Notes to the financial statements (continues)

6. Operating Revenue

	2023-2024	2022-2023
Description	Kshs	Kshs
Water sales	70,872,760	78,474,581
Connection fees	1,081,000	256,000
Discount received	3,868	
Total	71,957,628	78,730,581

7. Grants Income

	2023-2024	2022-2023
	Kshs	Kshs
Payment made by Turkana County Water Services Fund	34,900,077	
Total	34,900,077	

8. Staff Costs

	2023-2024	2022-2023
Description	Kshs	Kshs
Gross Salary and Allowances	34,062,821	32,940,283
Casual workers' Wages	420,000	
Employer's contributions to social security schemes	957,960	372,200
Gratuity provisions	5,535,308	5,492,485
Total	40,976,089	38,804,968
The average number of employees during the year	74	73

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Notes to the financial statements (continued)

9.General and Operations Expenses

	<i>2023-2024</i>	<i>2022-2023</i>
Description	Kshs	Kshs
Electricity	20,187,903	19,827,559
Fuel, oil, lubricants, and gases	417,957	973,255
Office supplies	1,103,740	1,136,596
Telecommunication	135,900	707,800
Insurance		42,658
Domestic Traveling and subsistence	497,310	1,846,140
Staff training and development		409,000
Provision for Audit fees	250,000	300,000
Bank Charges	202,729	96,039
Cleaning Expenses	11,850	19,400
Publicity and advertising	118,020	8,000
Legal fees		1,200,000
Consultancy fees	240,000	276,000
Hospitality expenses	34,400	89,000
Refund to Customers	36,500	17,760
Other Burial Expenses		159,000
Subscription to professional bodies		11,250
Postage and Courier services	1,225	
Tax expenses	5,887,373	
Hire of Motor vehicles and Equipments	96,000	
Provision of bad and doubtful debts	11,828,363	
Payment made by Turkana County Water Services Fund	34,900,077	
Total	75,949,347	27,119,457.00

Notes to the financial statements (continued)

10. Board Expenses	
Description	2023-2024
Sitting allowances	173,000.00
Travel and accommodation	802,200.00
Total Board Expenses	802,200.00
	173,000.00
	2022-2023

11. Maintenance Expenses	
Description	2023-2024
Infrastructure networks	4,095,974.00
Repair and Maintenance of Boreholes	714,068.00
Motor vehicles	1,192,950.00
ICT (Information Communication Technology)	819,381.00
Total Maintenance Expenses	6,822,374
	11,810,022.94
	2022-2023

12. Depreciation and Amortization Expenses	
Description	2023-2024
Property, plant, and equipment	1,621,320
Total Depreciation and Amortization	1,621,320
	495,033.93
	2022-2023

13(a) Property, Plant and Equipment					
FY 2022/2023	Water & Sewer Infrastructure	Meters and Equipment	Computers & related Equipments	Office equipment, furniture & fittings	TOTAL
Cost or valuation	2.50%	12.50%	20.40%	12.50%	
As at July 2022	16,748,352			610,601	17,358,953
As at 30 th June 2023	16,748,352			610,601	17,358,953
Depreciation				-	
Accumulated depreciation At July 1, 2022	1,256,127			354,272	1,610,399
Charge for the year	418,709			76,325	495,034
As at 30 th June 2023	1,674,836			430,597	2,105,433

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Net Book Value At June 30, 2023	15,073,516	0		180,004	15,253,520
FY 2023/2024	Water & Sewer Infrastructure	Meters and Equipment	Computers & related Equipmnts	Office equipment, furniture & fittings	TOTAL
Cost Or Valuation	16,748,352	0	0	610,601	17,358,953
At July 1, 2023	16,748,352	0	0	610,601	17,358,953
Additions	40,035,048	585,000	256,300		40,876,348
At June 30, 2024	56,783,400	585,000	256,300	610,601	58,235,301
Depreciation					0
Accumulated as At July 1, 2023	1,674,836			430,597	2,105,433
Charge For the Year	1,419,585	73,125	52,285	76,325	1,621,320
At June 30, 2024	3,094,421	73,125	52,285	506,922	3,726,753
Net Book Value At June 30, 2024	53,688,980	511,875	204,015	103,679	54,508,548

Valuation

There was no valuation in the year.

13 (b) Property, Plant and Equipment at Cost

Property plant and Equipment includes the following assets that are fully depreciated:

14. (a) Trade Receivables

	2023-2024	2022-2023
	Kshs	Kshs
Gross trade receivables	59,141,813.00	54,169,854.00
Provision for doubtful receivables	11,828,362.60	
Net trade receivables	47,313,450.40	54,169,854.00
As at June 30, the ageing analysis of the gross trade receivables was as follows:		
Less than 30 days	2,784,978.00	5,700,841.00
Between 30 and 60 days	1,020,956.00	3,113,024.00
Between 61 and 90 days	1,550,345.00	2,835,739.00
Over 91 days	53,785,534.00	42,520,250.00
Total	59,141,813.00	54,169,854.00

Notes to the financial statements (continued)

14. (b) Staff Receivables

Description	2023-2024	2022-2023
	Kshs	Kshs
Gross staff loans and advances	56,980.00	
Provision for impairment loss		
Net staff loans	56,980.00	
Less: Amounts due within one year		
Amounts due after one year	56,980.00	

15. Pre paid Expenses

Description	2023-2024	2022-2023
	Kshs	Kshs
Motor vehicle inspection	20,220.00	
Total Board Expenses	20,220.00	

16. Bank and Cash Balances

Description	2023-2024	2022-2023
	Kshs	Kshs
Cash at bank KCB	2,315,105.69	438124.57
Cash at bank Post Bank	25,805.00	7250
Cash in hand		
Mobile money account (Mpesa paybill 830540)	297,065.00	65110
Total	2,637,975.69	510,484.57

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Notes to the financial statements (continued)

Detailed analysis of the cash and cash equivalents

		2023-2024	2022-2023
Financial institution	Account number	KShs	KShs
a) Current account			
KCB BANK	1107210933	1,483,048.51	10,797.21
KCB BANK	1129622762	298,392.18	393,057.56
KCB BANK	1106908236	533,665.00	34,356.25
KCB BANK	1132124352	-	(86.45)
POST BANK		25,805.00	7,250.00
Sub- total		2,340,910.69	445,374.57
d) Others(specify)			
Mobile money account (Mpesa paybill)	830540	297,065.00	65,110
Sub- total		297,065.00	65,110.00
Grand total		2,637,975.69	510,484.57

17. Ordinary Share Capital

Description	2023-2024	2022-2023
	Kshs	Kshs
Authorized:		
100 ordinary shares of Kshs. 1000par value each	100,000.00	100,000.00

18. Retained Earnings

Description	Ordinary share capital	Retained Earnings	Total
As at July 1, 2022			
Ordinary Share Capital issued	100,000.00	2,142,799.00	2,242,799.00
Profit for the year		229,669.00	229,669.00
As at June 30, 2023	100,000.00	2,372,468.00	2,472,468.00
As at July 1, 2023			
Ordinary Share Capital issued	100,000.00	2,372,468.00	2,472,468.00
Loss for the year		(22,105,838.82)	(22,105,838.82)
At June 30, 2024	100,000.00	(19,733,370.82)	(19,633,370.82)

Notes to the financial statements (continued)

19. Provisions

Description	Gratuity provisions	Total
	KShs	KShs
Balance at the beginning of the year	5,792,485.00	5,792,485.00
Additional Provisions	5,535,307.92	
Provision utilised	-	-
Change due to discount and time value for money	-	-
Balance at the end of the year	11,327,792.92	5,792,485.00

20. Trade and other payables

Description	2023-2024	2022-2023
	Kshs	Kshs
Trade Payables		920,378.41
Accrued expenses	44,490,544.11	32,706,480.00
Employee payables	48,003,118.5	45,566,642.00
Other payables	1,588,957.00	1,589,457.00
Total	94,082,619.61	80,782,957.41

21. Refundable Deposits and Prepayments

Description	2023-2024	2022-2023
	Kshs	Kshs
Customer deposits	11,364,000.00	10,417,000.00
Prepayments by customers	3,918,919.00	5,366,925.00
Total	15,282,919.00	15,783,925.00

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Notes to the financial statements (continued)

Aging Analysis for Refundable Deposits and Prepayments

Description	2023/2024	% of the total	2022-2023	% of the total
	Kshs		Kshs	
Under one year	947,000.00	6.20%	5,622,935	36%
1-2 years	256,000.00	1.68%	1,279,900.00	8%
Over 3 years	14,079,919.00	92.13%	8,881,090.00	56%
Total	15,282,919.00	100%	15,783,925.00	100%

22. Notes to The Statement of Cash Flows

	2023-2024	2022-2023
	Kshs	Kshs
(a) Reconciliation of operating profit/(loss) to cash generated from/ (used in) operations		
Profit or loss before tax	(19,313,625.57)	229,669.13
Depreciation	1,621,320.33	495,033.93
Provisions for Gratuity	5,535,307.92	5,492,485.00
Provisions for Audit fees	250,000.00	300,000.00
Provisions for bad and Doubtful debts	11,828,362.60	
Accrued expenses	5,887,372.81	
Working capital changes:	22871949.01	
Less Increase in trade and other receivables		(6,711,932.00)
decrease in trade and other receivables	6,799,423.60	
Increase in trade and other payables	13,299,662.61	58,182,634.66
Cash generated from/ (used in) operation	48,779,773.31	57,987,890.72

Notes to the financial statements (continued)

6. Revaluation Reserve

The revaluation reserve relates to the revaluation of certain items of property, plant and equipment. As indicated in the Statement of Changes in Equity, this is stated after transfer of excess depreciation net of related deferred tax to retained earnings. Revaluation surpluses are not distributable.

7. Fair Value Adjustment Reserve

The fair value adjustment reserve arises on the revaluation of available-for-sale financial assets, principally the marketable securities. When a financial asset is sold, the portion of the reserve that relates to that asset is reduced from the fair value adjustment reserve and is recognised in profit or loss. Where a financial asset is impaired, the portion of the reserve that relates to that asset is recognised in profit or loss.

8. Retained Earnings

The retained earnings represent amounts available for distribution to the entity's shareholders. Undistributed retained earnings are utilised to finance the entity's business activities.

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Notes to the financial statements (continued)

Other Disclosures

9. Related Party Disclosures

County Government of Turkana

The County Government of Turkana is the principal shareholder of the Company, holding 60% of the Company's equity interest. The County of Government of Turkana has provided full guarantees to all long-term lenders of the Company, both domestic and external.

Other related parties include:

- The County Department in charge of Water
- Water works Agencies
- WASREB (Water Services Regulatory Board)
- WARMA
- Water Sector Trust Fund
- Key management
- Board of directors

Transactions with related parties

	2023-2024	2022-2023
	Kshs	Kshs
a) Sales to related parties		
Water sales to Govt. agencies (Ministry of water services)	7,386,000	14,060,500
Total	7,386,000	14,060,500
b) Payments made on behalf of LOWASCO by Water Services Fund		
Payments of salaries and wages for LOWASCO employees	3,575,785	5,558,462.02
Payments for goods and services for LOWASCO	31,324,291	-
Total	34,900,076	5,558,462.02

10. 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

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Notes to the financial statements (continued)

not hedge any risks and has in place policies to ensure that credit is only extended to customers with an established credit history. The company's financial risk management objectives and policies are detailed below:

(i) Credit risk

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

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

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

	Total amount Kshs	Fully performing Kshs	Past due but not Impaired Kshs	Past due and Impaired Kshs
At 30 June 2024				
Trade Receivables	47,370,430.00			47,370,430.00
Pre-Paid Expenses	20,220.00		20,220.00	
Bank balances	2,637,975.69	2,637,975.69		
Total	50,028,625.69	2,637,975.69	20,220.00	47,370,430.00
At 30 June 2023				
Trade Receivables	6,711,932.00			6,711,932.00
Bank balances	510,484.57			510,484.57
Total	7,222,416.57	-	-	7,222,416.57

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Credit Risk (Continued)

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

ii) Liquidity risk management

Ultimate responsibility for liquidity risk management rests with the Company's directors, who have built an appropriate liquidity risk management framework for the management of the Company's short, medium and long-term funding and liquidity management requirements. The Company manages liquidity risk through continuous monitoring of forecasts and actual cash flows.

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

	Less than 1 month	Between 1-3 months	Over 5 months	Total
	Kshs	Kshs	Kshs	Kshs
At 30 June 2024				-
Trade payables		1,706,296.08	102,123,934.61	103,830,230.69
Provisions	5,535,307.92			5,535,307.92
Total	5,535,307.92	1,706,296.08	102,123,934.61	109,365,538.61
At 30 June 2023				
Trade payables			74,073,942.00	74,073,942.00
Provisions			6,709,015.00	6,709,015.00
Total			80,782,957.00	80,782,957.00

Notes to the financial statements (continued)

(iii) Market risk

The Committee has put in place an internal audit function to assist it in assessing the risk faced by the Company on an ongoing basis, evaluate and test the design and effectiveness of its internal accounting and operational controls.

Market risk is the risk arising from changes in market prices, such as interest rate, equity prices and foreign exchange rates which will affect the entity's income or the value of its holding of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return. Overall responsibility for managing market risk rests with the Audit and Risk Management Committee.

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

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

a) Foreign currency risk

The Company has no 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.

b) 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 interest rate risk exposure arises from interest rate movements on the company's deposits.

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Notes to the financial statements (continued)

i) Management of interest rate risk

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

ii) Sensitivity analysis

The Company analyses its interest rate exposure on a dynamic basis by conducting a sensitivity analysis. This involves determining the impact on profit or loss of defined rate shifts. The sensitivity analysis for interest rate risk assumes that all other variables, in particular foreign exchange rates, remain constant. The analysis has been performed on the same basis as the prior year.

iv) Capital Risk Management

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

	<i>2023-2024</i>	<i>2022-2023</i>
	Kshs	Kshs
Revaluation reserve		
Retained earnings	(16,256,157.57)	2,372,468
Capital reserve	100,000.00	100,000.00
Total funds	(16,156,157.57)	2,472,468.00
Total borrowings		
Less: cash and bank balances	2,637,976	510,485
Net debt/ (excess cash and cash equivalents)	(18,794,133.26)	1,961,983.00

11. Incorporation

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

12. Events After the Reporting Period

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

13. Donor Grant-Horn of Africa Ground Water for resilient project.

The company entered in to a performance-based agreement (PGB) between Water sector trust fund and County government of Turkana on 27th April, 2023. The objectives of the grant are:

(a) To Construct and rehabilitate ground water based rural water supply projects and drilling of new boreholes designated as strategic for drought resilience purposes.

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(b) Operations and Maintenance(O&M) of existing, rehabilitated and new ground water infrastructure through the (O& M) support facility.

(c) Operating cost of the SPIU in accordance with the eligibility criteria and procedures set forth in the PBG Manual.

Additionally, a framework agreement between Water sector trust fund, County government of Turkana and Lodwar water and sanitation company was signed on 29th February,2024 for administrative support to the sub project implementing unit under the horn of Africa ground water for resilience project culminated into a finance agreement budget of kshs 30,000,000.00 as summarized below. The amount of ksh 30,000,000.00 was received on 13th March,2024.

Operational cost utilization

No.	Operational cost centre	Approved budget	Utilization as June 2024	Variance	
		Amount (KES)	Amount (KES)	Amount (KES)	% utilized
1	Travel and travel costs (including per-diem, taxi services, Air ticket expenses) for project team members	7,230,000	1,815,890.00	5,414,110	25%
2	Service/maintenance of project vehicles and equipment	300,000		300,000	0%
3	Fuel for project vehicles	2,500,000	559,999.80	1,940,000	22%
4	Office renovation and Improvement	5,000,000		5,000,000	0%
5	a) Conference Services	2,000,000	1,384,000.10	616,000	69%
	b) Facilitation for Environmental, Social Safeguards (ESS, NEMA-ESIA, GBV, SPIU and Casuals (Field assistants) (Field assistance for E& S	10,000,000	8,556,000.00	1,444,000	86%
6	Stationery, electricity and office consumables	1,400,000	977,895.00	422,105	70%
7	Communication costs (Telephone, airtime and Internet)	1,000,000	100,000.00	900,000	10%
8	Advertisement costs	500,000		500,000	0%
9	Bank Charges	70,000	9,338.55	60,661	13%
Total		30,000,000 .00	13,403,123.45	16,596,877	45%

CASH BALANCE RECONCILIATION	Amount
Balance as per Budget vs Actual Performance schedules	16,596,877.00
add	
Direct cash deposit	1,000.00
Less	
Outstanding imprest	207,200.00
Balance as per Cash book	16,390,677.00
Balance as per Bank Statement	16,390,677.00

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20. Appendices

Appendix 1: progress on follow up of auditor recommendations.

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

Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
1	<p>Inaccuracies in the statement of financial statement.</p> <p>The statement of financial position includes total non-current and current assets balance of Kshs. 69,933,859 which differed with total equity and liabilities amount of Kshs. 104,831,835 by unexplained variance of kshs.34,897,976. The statement further reflects an amount of kshs.2,372,468 as retained earning which is the net profit for the current and previous year. However, this amount omitted the retained earnings from the financial years ended 30 June,2021 and earlier.</p> <p>In the circumstances, the accuracy and completeness of the balances in the statement of financial position could not be confirmed.</p>		Resolved	
2.	<p>Statement of Cash Flows</p> <p>The statement of cash flows reflects cash and cash equivalents at the beginning of the year balance of Kshs. 1,452,324 which is at variance with the closing cash and cash equivalents at the end of previous year of Kshs. 3,034,517 as evidenced by audited financial statements. No evidence was provided for the revision or restatement of the amount. Further, note 20 to the financial statements on reconciliation of operations indicates that cash generated from operations was Kshs. 57,987,891 which varies with the amount in the statement of cashflows of Kshs. (941,838) by Kshs. 58,939,729. Further, no notes were provided for the cashflow included in the statement of cashflows.</p>		Resolved	

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Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
	In the circumstances, the accuracy and completeness of the balances in the cashflows statement could not be ascertained.			
3.	<p>Depreciation and Amortization Expenses</p> <p>The statement of profit or loss and other comprehensive income and Note 11 to the financial statement reflect depreciation and amortization expenses of Kshs. 495,034. However, the Company's assets register include some land, equipment, motorvehicles/cycles and office equipment which were not valued and no depreciation was charged during the year. Further, Note 12 to the financial statements includes inaccurate calculation of depreciation reflecting opening accumulated depreciation as at 30 July, 2022 Kshs. 1,610,399 instead of the re-casted amount of Kshs. 16,846,918 resulting in unexplained variance of Kshs. 15,236,519.</p> <p>In the circumstances, the accuracy and fair statement of the depreciation charge in the financial statement for the year ended 30 June, 2023 could not be confirmed.</p>		Resolved	
4.	<p>Property, Plant and Equipment</p> <p>The statement of financial position reflects property, plant and equipment balance of Kshs. 15,253,520 as disclosed in Note 12 to the financial statements which differs with recalculated or re-casted balance of Kshs. 14,195,130 by unexplained variances of kshs. 1,058,390. Further, other land, equipment and motor vehicles/cycles and office equipment included in the Company's assests register were not valued and include in the amount reported in the financial statements.</p> <p>In the circumstances, the completeness and accuracy of property, plant and equipment balance of Kshs. 15,253,520</p>		Resolved	

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Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
	for the year ended 30 June, 2023 could not be confirmed.			
5.	<p>Accuracy of Trade and Other Receivables</p> <p>The statement of financial position reflects trade and other receivables balances of Kshs. 54,169,854 as shown in Note 13 to the financial statements. However, the balance includes amounts which have been outstanding for over 91 days of Kshs. 42,520,250 and which further include a total of Kshs. 3,299,622 in respect of twenty-two (22) accounts considered to be dormant. Management has not provided or explained measures or any efforts puts in places to pursue the debtors and collected the amounts.</p> <p>Further, no provision for bad and doubtful debts was made for the possible non-recoverability of part of the receivables.</p> <p>In the circumstances, the valuation and receivability of receivables from exchange transaction could not be confirmed.</p>		Not Resolved	30 th June ,2024
6.	<p>Refundable customer Deposits</p> <p>The statement of financial position reflects refundable deposits and prepayments balances of Kshs. 15,783,925 which, as disclosed in Note 19 to the financial statements include refundable deposits from customer's amount of Kshs. 10,417,000 and prepayments of Kshs. 5,366,925. The Company receives mandatory refundable deposits of Kshs. 1,000 from each new customer before any connection is done.</p> <p>Review of available records revealed the following;</p> <p>(i) Deposit ledger and connections movement</p>		Not resolved	

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Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
	<p>schedule for Kshs. 10,417,000 as at 30 June, 2023 showed that there were 256 additional connections in the year. However, the Note did not have comparative balances for both prepayments and customer deposits.</p> <p>(ii) A register of active and inactive customers as at 30 June, 2023 showed a total of 8,715 customers but the new connections movement schedule disclosed 10,417 customers giving a variance of 1,702 customers that could not be traced to the customer's register.</p> <p>(iii) The customer deposit balance of kshs. 10,417,000 as disclosed under Note 19 differed with deposits bank account balance of kshs. 34,356 held at KCB resulting into unexplained and reconciled variance of Kshs. 10,382,644.</p> <p>Under the circumstances, accuracy and completeness of the refundable deposits and prepayments amount of Kshs. 15,783,925 could not be confirmed.</p>			
REPORT ON LAWFULLNES AND EFFECTIVENESS USE OF PUBLIC RESOURCES				
1.	<p>Lack of operational budget The Company operated without an operational budget or approved budget estimates contrary to section 149(2)(h) of the Public Finance Management Act, 2012 which requires the accounting officer to prepare estimates of the expenditure of the entity in conformity with the strategic plan. In this circumstance, the management was in breach of the law</p>		Resolved	

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Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
2	<p>Non-Revenue Water</p> <p>The statement of profit or loss & other comprehensive income for the year under review reported revenue from water sales of Kshs.78,730,581. The Company produced 2,404,979 cubic meters of water at a production cost of Kshs.55 Per cubic meter out of which 974,939 cubic meters was distributed and billed to customers during the year under review. This represents 41% of water produced while 59% was unaccounted for water, which was over and above the industry threshold of 25% by 34%. The Water Services Regulatory Board (WASREB) Schedule E and KPI's Impact No.13 provide for non-revenue water level of 20% as good; 20%-25% as acceptable while above 25% is unacceptable. This implies that the Company lost sales of approximately Kshs.65,817,558. Also, the amount of water loss increased from 54% in the prior year to 59% in the current year implying that no effort was made or measures instituted to reduce the loss of water and revenue.</p> <p>In the circumstances the management was in breach of the Law</p>		Not resolved	
3	<p>Late Remittance of Statutory Deductions</p> <p>Review of the Company's payrolls, payment vouchers and payment slip for the year ending June, 2023 revealed that a total of Kshs.1,604,242 for PAYE and NHIF was remitted after the deadline of ninth of each following month while Kshs.78,840 for NSSF was remitted after the deadline of fifteenth of each following month (See appendix).</p> <p>The company was therefore in breach of the law and risked incurring penalties and interests on late remittance of statutory deductions.</p>		Resolved	

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Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
4	<p>Non-compliance with Affirmative Action on Gender, Ethnicity and Regional Distribution</p> <p>Review of the Company's payroll for the month of June, 2023, revealed that the company has seventy three (73) staff members, out of whom sixty-two (62) or 85% are from the dominant ethnic community leaving eleven (11) or 15% from other ethnic communities contrary to Section 7(1) and (2) of the National Cohesion and integration Act, 2008 which requires that all public establishments shall seek to represent the diversity of the people of Kenya in employment of staff and that no public establishment shall have more than one third of its establishment from the same ethnic community.</p> <p>Further, out of a total of 73 employees, twelve (12) employees or, 16% are female while the remaining majority of 61 employees or 84% are male contrary to the Public Service Commission Human Resource Policies and Procedures Manual of 2016 part B.22 (2) requiring that the Government will endeavour to have a gender balanced Civil Service by ensuring that not more than 2/3 of positions in its establishment are filled by either gender.</p> <p>Under the circumstances the Management was in breach of the law.</p>		Not resolved	
5.	<p>Non-Filing Company Annual Returns</p> <p>Available information indicates that the Company was incorporated on 09 February, 2007 under the Companies Act Cap 486 of the laws of Kenya. However, there was no evidence provided for audit review to show that the Company submitted annual returns on or before 9 february, of every year after registration to</p>		Resolved	

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Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
	<p>the Registrar of Companies contrary to section 705(1) of the Companies Act, CAP 486 which states that (1.everyCompany shall submit to the registrar successive annual returns each of which is made up to a date not later than the date that is from time to time the Company's return date.2.The company's return dates is (a)The anniversary of the company's incorporation :or (b)If the company's last return lodged in accordance with this part was made upto a different date-the anniversary of the date .</p> <p>In the circumstances, Management was in breach of the law.</p>			
REPORT ON THE EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE				
1	<p>1. Lack of Risk Assessment Policy and Disaster Recovery Plan</p> <p>The Company has not developed a risk management policy hence risk assessments were not performed for the year ended 2022/2023 contrary to Regulation 158(1) and 163(1) of the Public Finance Management (County Government) Regulations, 2015 which requires each county government entity to develop risk management strategies and a system of risk management.</p> <p>Also, a disaster recovery plan or business continuity plan was not in place to ensure that the Company recovered its functionality in case of an unplanned incident or disaster.</p> <p>In the circumstances ,existence of risk management strategy and plan could not be confirmed.</p>		Not Resolved	

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Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
2	<p>2. Lack of Internal Audit Function and Audit Committee</p> <p>The Company did not have an internal audit function contrary to Section 155(1)(a) of Public Finance Management Act, 2012 which states that a county government entity shall ensure that it complies with this Act and has appropriate arrangements for conducting internal audit according to the guidelines issued by the Accounting Standards Board; and to section 155(5) of Public Finance Management Act, 2012 requiring county government entities to establish audit committees in accordance with prescribed regulations.</p> <p>In the circumstances, the existence of an effective mechanism to ensure strong internal controls could not be ascertained.</p>		Not resolved	
3	<p>Information Technology Management</p> <p>Review of the information technology internal controls revealed that the Company did not have an approved ICT Policy, IT security policy, policy on physical access to IT environment and IT continuity and disaster recovery plan in place to guide ICT operations.</p> <p>Further, there were appropriate arrangements through an approved IT strategic plan for oversight and formulation of policies to ensure that IT department functions properly to assist in achievement of organizational objectives in an economic, efficient and effective way.</p> <p>In the circumstances there was no assurance in the company's management of its IT assets systems.</p>		Not Resolved	
4	<p>3. Lack of Substantive Board of Directors</p> <p>The Company operated without a board of directors during the year ended 30 June,</p>		Resolved	

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Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
	<p>2023 contrary to Section 177 of the Companies Act, CAP 486 which states that every company (other than a private company) registered after the appointed day shall have at least two directors, and every company registered before the appointed day and every private company shall have at least one director.</p> <p>On 15 June, 2023, the Governor of Turkana County appointed an interim board of directors to run the Company contrary to Section 79(1) of the Water Act, 2016 which requires that a water services provider should have a board of directors and in the case of a company, the members of its board of directors shall be constituted in accordance with the Companies Act, 2015 or any other written law and that the directors be nominated to serve on the board in accordance with the Company's memorandum and articles of association.</p> <p>In the circumstances, the company was not likely to meet its objectives effectively and efficiently due to lack of oversight and management of the board.</p>			

Name

Signature

Managing Director

Date



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