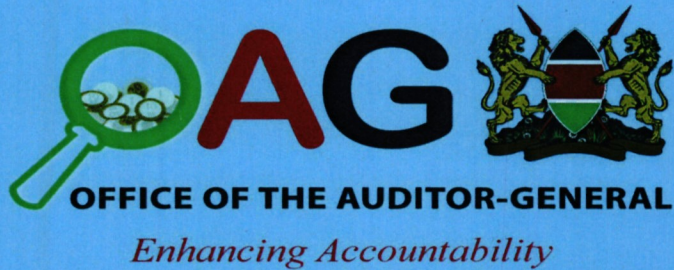


REPUBLIC OF KENYA



**REPORT**

PARLIAMENT  
OF KENYA  
LIBRARY

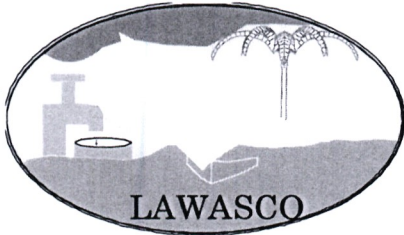
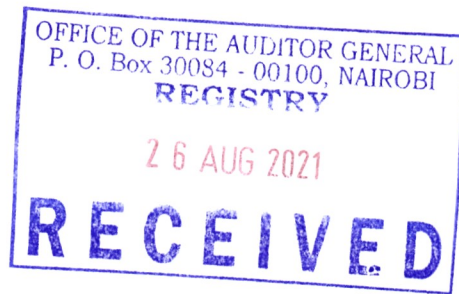
NATIONAL ASSEMBLY	
DATE: 01 SEP 2021	DAY: WED
TABLED BY: LOMP.	
CLERK-AT THE-TABLE: S. Kalana.	

**THE AUDITOR-GENERAL**

**ON**

**LAMU WATER AND SEWERAGE  
COMPANY LIMITED**

**FOR THE YEAR ENDED  
30 JUNE, 2019**



## LAMU WATER AND SEWERAGE COMPANY

P. O. Box 185 – 80500, Tel No: 254717893682, Lamu, Kenya

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

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

### REPORTS AND FINANCIAL STATEMENTS

### FOR THE FINANCIAL YEAR ENDED

**JUNE 30, 2019**

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

<b>Table of Contents</b>	<b>Page</b>
KEY ENTITY INFORMATION.....	iii
KEY ENTITY INFORMATION (Continued) .....	iv
THE BOARD OF DIRECTORS .....	v
MANAGEMENT TEAM.....	vii
CHAIRMAN’S STATEMENT.....	ix
REPORT OF THE MANAGING DIRECTOR.....	xi
CORPORATE GOVERNANCE STATEMENT.....	xiii
MANAGEMENT DISCUSSION AND ANALYSIS .....	xiv
CORPORATE SOCIAL RESPONSIBILITY STATEMENT/SUSTAINABILITY REPORTING ....	xv
REPORT OF THE DIRECTORS .....	xvi
STATEMENT OF DIRECTORS’ RESPONSIBILITIES.....	xvii
REPORT OF THE INDEPENDENT AUDITORS ON THE ENTITY .....	xviii
STATEMENT OF PROFIT AND LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 30 JUNE 2019.....	1
STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2019 .....	2
STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 JUNE 2019 .....	3
STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2019 .....	4
STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS FOR THE PERIOD ENDED 30 JUNE 2019.....	5
NOTES TO THE FINANCIAL STATEMENTS.....	6

# Lamu Water and Sewerage Company Limited

## Annual Reports and Financial Statements

For the year ended June 30, 2019

---

### KEY ENTITY INFORMATION

#### Background information

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

#### Principal Activities

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

#### Directors

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

- |    |                        |                   |                |
|----|------------------------|-------------------|----------------|
| 1. | Mohamed Athman Bakari  | - Chairman        | - May 2016     |
| 2. | Abdulhakim Bwana Aboud | - Chief Executive | - January 2018 |
| 3. | Ahmed Mohamed Hemed    | -Chief Executive  | - January 2018 |
| 4. | Ramla Mohamed msuo     | -Member           | - May 2016     |
| 5. | Yahya Mohamed Ali      | -Member           | - May 2016     |
| 6. | Fatma Ali Mohamed      | -Member           | -May 2016      |
| 7. | Ghalib Ahmed Ali       | -Member           | -May 2016      |

#### Registered Officer

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

#### Corporate Headquarters

P.O. Box 185-80500  
Lamu, KENYA

#### Corporate Contacts




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

**Lamu Water and Sewerage Company Limited**

**Annual Reports and Financial Statements**

**For the year ended June 30, 2019**



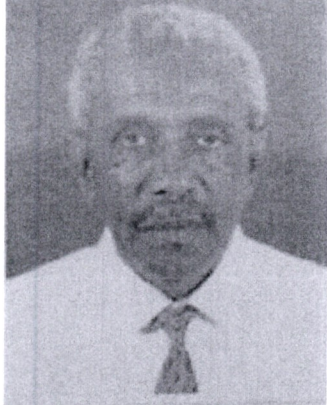

**THE BOARD OF DIRECTORS**

<b>NAME</b>	<b>QUALIFICATION</b>	<b>WORK EXPERIENCE</b>	<b>PERIOD SERVED</b>
 <b>MOHAMED ATHMAN BAKAR</b> Chairman	Academic: - KCSE 'O' level. Professional: - Diploma (Community development) - Degree on-going	-Founder and secretary of Amu Island Water Resource Users Association (A-I-WRUA) -ward representative (Langoni/Shella)	May 2016 to April 2019
 <b>RAMLA MOHAMED MSUO</b> Member	Academic: - KCSE 'O' level. Professional: - Certificate (Community Nutrition)	-Nutritionist at Lamu District Hospital -Nutritionist to World Bank funded ECD project under Catholic relief services	May 2016 to April 2019
 <b>YAHYA MOHAMED ALI</b> Member	Academic: - KCSE 'O' level. Professional: - Certificate (Primary Teaching Cert)	-Businessman -Headmaster at Lamu Special School -Teacher	May 2016 to April 2019




**Lamu Water and Sewerage Company Limited**

**Annual Reports and Financial Statements**

**For the year ended June 30, 2019**

 <p>FATMA ALI MOHAMED Member</p>	<p>Academic: - KCSE 'O' level.</p> <p>Professional: - Certificate (Primary Teaching Cert) - Diploma (community education)</p>	<p>-Education officer, Lamu Museums, National Museum of Kenya -Teacher</p>	<p>May 2016 to April 2019</p>
 <p>GHALIB AHMED ALI Member</p>	<p>Academic: - KCSE 'O' level.</p> <p>Professional:</p>	<p>-Businessman</p>	<p>May 2016 to April 2019</p>
	<p>Academic:  Bachelor of Arts Education</p>	<p>C. E C. Finance, Lamu County Government.</p>	<p>January 2018 To Date</p>
 <p>Deputy Governor</p>	<p>Academic: Diploma in Education Bachelor Degree in Education Masters Degree in Education (Management)</p> <p>Profession: Deputy Governor</p>	<p>Deputy Governor  CEC Water</p>	<p>To date</p>





MANAGEMENT TEAM

 <p><b>MR. Wainana Kimani</b> Appointed :April 2018</p>	<p><b>Designation:</b> Ag. Managing Director</p> <p><b>Responsibility:</b> To provide strategic leadership and responsible for efficient management of affairs of the company and day to day operation &amp; administration of the company.</p> <p><b>Qualification:</b> Diploma In community Development, Certificate in Business Management.</p>
 <p><b>Ms. Mwanaisha Bakari</b></p>	<p><b>Designation:</b> Ag. Finance Manager</p> <p><b>Responsibility:</b> Providing financial reports and interpreting financial information to managerial staff while recommending further courses of action. Advising on accountability activities and provide strategies that the company should take. Maintaining the financial health of the organization.</p> <p><b>Qualification:</b> Degree in Business Commerce (Finance Option) and CPA-K</p>
 <p><b>MR. Jacob Chiozipha</b></p>	<p><b>Designation:</b> Ag. Technical Manager</p> <p><b>Responsibility:</b> To provide high quality water to domestic, commercial and industrial customers. To prepare comprehensive departmental reports, including engineering budgets, technical audit reports etc.</p> <p><b>Qualification:</b> Diploma in Water Engineering.</p>

Lamu Water and Sewerage Company Limited

Annual Reports and Financial Statements

For the year ended June 30, 2019

	<p><b>Designation:</b> Head of IT</p> <p><b>Responsibility:</b> To oversee all IT (Information Technology) functions in our company. He is in charge of the management of the company's technology operations and the implementation of new IT systems and policies.</p> <p><b>Qualification:</b> Diploma in Information Science and Computer Engineering.</p>
	<p><b>Designation:</b> Commercial Manager</p> <p><b>Responsibility:</b> He is responsible for the commercial strategy and the development of an organization.</p> <p><b>Qualification:</b> Bachelor of science (Civil Engineering)</p>
	<p><b>Designation:</b> Procurement</p> <p><b>Responsibility:</b> She is responsible for overseeing and managing company's overall supply chain and logistics strategy and operations in order to maximize the process efficiency and productivity. In addition, she plays a crucial role in developing and maintaining good relationships with vendors and distributors.</p> <p><b>Qualification:</b> Degree in Supply Chain Management and Diploma in Business Management.</p>
	<p><b>Designation:</b> Head of electrical section</p> <p><b>Responsibility:</b> He completes company electrical projects by supervising installations; resolving design issues. Maintains electrical systems by establishing and enforcing preventive and on-going maintenance, and testing programs; scheduling repairs; coordinating shut-downs and installations</p> <p><b>Qualification:</b> Electrical Technician</p>

## **CHAIRMAN'S STATEMENT**

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

a) Meetings

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

Through the meetings:

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

b) Empowerment

- We have organized trainings to all staff and the board members to boost water governance and maintenance.

- Familiarization with the Water Act 2016

c) Relationships

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

## **OUTCOME/RESULTS OF OUR OPERATIONS**

- Revenue/tariff collection has improved.
- More staff and volunteers recruitment has improved operations efficiency.
- Expansion of Lamu Water and Sewerage Company services to the islands of Pate and Kiunga is set for implementation.
- More water consumers have registered for LAWASCO services.

## **CHALLENGES**

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

CHAIRMAN STATEMENT (continued)

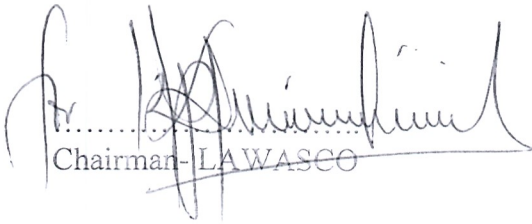
SOLUTIONS TO THE CHALLENGES

As a board, we have requested the County Government to assist us with funding to cater for huge electricity bills and other costs incurred during operations as well as in the recruitment of new staff.

Awareness creation to consumers to make them well informed on existing Lamu Water and Sewerage Company infrastructure.

I take this opportunity again to thank the county Government of Lamu through his Excellency Governor Fahim Yassin and the county Department of Agriculture, Irrigation and water for their blossom maximum support in improving the water service provision to the Residents of Lamu.

Sincerely.

  
Chairman - LAWASCO

## **REPORT OF THE MANAGING DIRECTOR**

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

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

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

Under Water Services Trust Fund, Lamu Water and Sewerage Company has been funded to install solar power generator at Kiunga and Kizingitini in the existing desalination plants. The project will be implemented in the financial year 2019-2020.

During the year under review, Lamu Water and Sewerage Company Ltd continued with the board of Directors that were appointed in the late 2015/2016 financial year. The term of these Board Members expired on April 2019. I have since written to the county secretary requesting for new board members to be appointed.

Board members held quarterly meetings as required by the regulator and important decisions were made to enable the company prosper in its services of providing water to the residents of Lamu.

The Company has deployed cashiers that were in revenue collection section to work in billing section as at the end of the year under review the company was supplied with a billing system which has not been installed and therefore, manual billing was still in use at the end of the financial reporting period.

However, upon taking over in April 1st 2018, I engaged immediately the firm contracted to install the system by Coast Water Service Board. I am happy to report that the firm has dispatched its team and installation of the new U Vision System is in progress. A lot of data cleaning is however required since excel and manual meter books were susceptible to alterations.

**Lamu Water and Sewerage Company Limited**

**Annual Reports and Financial Statements**

**For the year ended June 30, 2019**

---

**REPORT OF THE MANAGING DIRECTOR (continued)**

We have put in place measures to get correct debtor balances and enhance recovery of bad and doubtful debts.

LAMU WATER & SEWERAGE CO. LTD.  
MANAGING DIRECTOR  
Wainaina Kimani.  
Ag. Managing Director  
Date: 23 SEP 2019  
P.O. BOX 163-80300 LAMU

## **CORPORATE GOVERNANCE STATEMENT**

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

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

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

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

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

Lamu Water and Sewerage Company Ltd have the pride of serving the community since 2006. We have continued the long-standing tradition of providing the community with high quality and affordable Water.

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

# Lamu Water and Sewerage Company Limited

## Annual Reports and Financial Statements

For the year ended June 30, 2019

### MANAGEMENT DISCUSSION AND ANALYSIS

Lamu Water and Sewerage Company has generally continued to improve water production and supply to the residents of Lamu. Total Number of connections has increased from 4,456 in June 2018 to 4590 in June 2019, representing a 3% increase in connections during the financial year. Total volume of water produced increased from 632,698 m<sup>3</sup> in 2018 to 848,047 m<sup>3</sup> in June 2019, this represents an increase of 25% during the year under review.

Total revenue increased from Ksh 31,927,265 in 2018 to 42,583,210 in 2019, a 25% increase during the year. This is largely attributed to reduction of defaulted period and the increase in new connections of 3%. Total subsidy from Lamu County Government during the year amounted to Ksh 4 million. This represents a deficit of Ksh 26 million from a budget of Ksh 30 million stipulated in the Gazette notice No.7538 dated, 4<sup>th</sup> August, 2017.

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

INDICATOR	EXPECTED & BUDGET	2019	2018	% CHANGE
Total revenue	45,647,316	42,583,210	31,927,265	25%
Subsidy from Lam u County Government	30,568,435	4,082,440	9,350,242	13%
Total number of connections	-	4590	4,456	3%
Total volume of produced water	-	848,047	632,698	25%
Water Coverage %	77%	77%	77%	-
Non-Revenue water	31%	46%	38%	-
Water quality standards	100%	100%	100%	-
Hours of Supply	10	10	10	-
Metering ratio	100%	100%	100%	-
Staff per 1,000 Connections	10	13	9	-
Collection efficiency	91%	81%	100%	-

**CORPORATE SOCIAL RESPONSIBILITY STATEMENT/SUSTAINABILITY REPORTING**

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

With continued loyalty and support, we are confident that 2018/2019 was another successful year of more improved social responsibility.

## **REPORT OF THE DIRECTORS**

The Directors submit their report together with the audited financial statements for the year ended June 30, 2019 which show the state of Lamu Water and Sewerage Company affairs.

### **Principal activities**

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

### **Results**

The results of the Lamu Water and Sewerage Company for the year ended June 30, 2019 are set out on page 1

### **Dividends**

No dividends were to be provided to the shareholders.

### **Directors**

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

### **Auditors**

The Auditor General is responsible for the statutory audit of Lamu Water and Sewerage Company ltd in accordance with Article 229 of the constitution of Kenya section 35 of the Public Audit Act, 2015.

**STATEMENT OF DIRECTORS' RESPONSIBILITIES**

Section 164 (1) of the Public Finance Management Act, 2012 and Section 129 of the Water Act, 2016, require the Directors to prepare financial statements in respect of that company, which gives a true and fair view of the state of affairs of the company at the end of the financial year and the operating results of the company for that year. The Directors are also required to ensure that the company keeps proper accounting records which disclose with reasonable accuracy the financial position of the company. The Directors are also responsible for safeguarding the assets of the company.

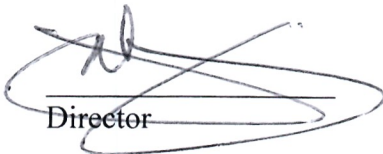
The Directors are responsible for the preparation and presentation of the company's financial statements, which give a true and fair view of the state of affairs of the company for the financial year ended on June 30, 2019. This responsibility includes: (i) maintaining adequate financial management arrangements 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 Company; (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 accept 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 and the State Corporations Act. The Directors are of the opinion that the financial statements give a true and fair view of the state of Company transactions during the financial year ended June 30, 2019, 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's financial statements as well as the adequacy of the systems of internal financial control.

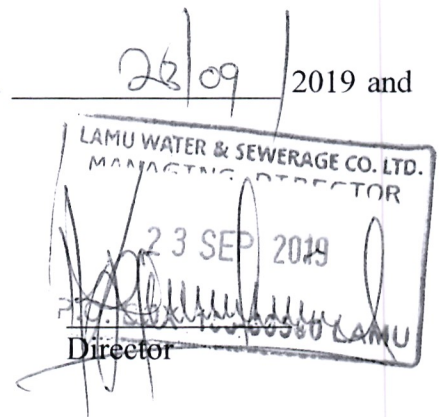
Nothing has come to the attention of the Directors to indicate that the Company's will not remain a going concern for at least the next twelve months from the date of this statement.

**Approval of the financial statements**

The Company's financial statements were approved by the Board on 23/09 2019 and signed on its behalf by:

  
Director

  
Director

  
LAMU WATER & SEWERAGE CO. LTD.  
MANAGING DIRECTOR  
23 SEP 2019  
Director

# REPUBLIC OF KENYA

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



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

## **REPORT OF THE AUDITOR-GENERAL ON LAMU WATER AND SEWERAGE COMPANY LIMITED FOR THE YEAR ENDED 30 JUNE, 2019**

---

### **REPORT ON THE FINANCIAL STATEMENTS**

#### **Qualified Opinion**

I have audited the accompanying financial statements of Lamu Water and Sewerage Company Limited set out on pages 1 to 31, which comprise the statement of financial position as at 30 June, 2019, and the statement of profit and loss and other comprehensive income, statement of cash flows, statement of changes in net assets and the statement of comparison of budget and actual amounts for the year then ended and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, 2015. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

In my opinion, except for the 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 Lamu Water and Sewerage Company Limited as at 30 June, 2019, and of its financial performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards (IFRS) and comply with the Public Finance Management Act, 2012 and the Water Act, 2016.

#### **Basis for Qualified Opinion**

##### **1. Unconfirmed Balances**

###### **1.1 Revenue**

The statement of profit and loss and other comprehensive income reflects revenue totalling Kshs.42,583,210 generated from water sales during the year. However, included in the balance are estimated sales totalling Kshs.1,113,877 from eight hundred and two (802) faulty meters reported to have malfunctioned. As a result, the accuracy and completeness of the water sales balance could not be confirmed.

###### **1.2 Trade and Other Receivables**

The statement of financial position as at 30 June, 2019 reflects trade and other receivables balances totalling Kshs.19,664,177, as further reflected in Note 13 to the

financial statements. However, the respective aging debtors' schedule was not presented for audit review and the Company did not maintain an updated receivables' ledger for trade and other receivables transactions.

In addition, no provision for bad and doubtful debts was made in the financial statements and the Company did not have an approved policy for such debts.

Further, the trade and other receivables balance included Kshs.3,000,000 in respect of 3,000 ordinary shares issued to the defunct Lamu County Council that were not paid for. The sum may no longer be recoverable.

In view of these issues, the accuracy and recoverability of the trade and other receivables balance totalling Kshs.19,664,177 reflected in the statement of financial position as at 30 June, 2019 could not be confirmed.

### **1.3 Payables**

#### **1.3.1 Long Term Payables**

The statement of financial position and Note 16 to the financial statements reflects long-term payables balance totalling Kshs.7,770,210 as at 30 June, 2019 being infrastructure lease fees owed to the Coast Water Services Board. Examination of the records of the Company revealed that the Company did not maintain a long term payables ledger. In addition, the lease agreement, repayment schedules and lease fee invoices were not provided for audit review.

Consequently, the accuracy of the long-term payable balance totalling Kshs.7,770,210 as at 30 June, 2019 could not be confirmed.

#### **1.3.2 Trade and Other Payables**

The statement of financial position reflects trade and other payables balance totalling Kshs.17,431,243 as at 30 June, 2019, as further disclosed in Note 18 to the financial statements. Included in the balance is Kshs.2,586,080 relating to customer deposits. However, the deposits schedule provided for audit review reflected deposits totalling Kshs.659,500 resulting to an unexplained difference of Kshs.1,926,580 between the two records. In addition, the Management did not carry out cut-off procedures to ensure that only the creditors related to the year under review were included in the balance. The trade and other payables balance totalling Kshs.17,431,243 as at 30 June, 2019 may therefore, not be fairly stated.

In view of the foregoing, the accuracy of the customer deposits totalling Kshs.2,586,080 as at 30 June, 2019 could not be confirmed.

### **2.0 Incomplete Disclosure of Property, Plant and Equipment**

The statement of financial position and Note 12 to the financial statements reflect property, plant and equipment balance totalling Kshs.5,172,520 as at 30 June, 2019.

However, ownership documents for the Company's land, motor vehicles and motor cycles were not provided for audit.

In addition, the property, plant and equipment balance excludes the values of five (5) plots of land, nine (9) buildings, five (5) motor vehicles, eight (8) motorcycles, thirty-four (34) wells with pumps, six (6) boreholes with pumps and ten (10) collapsible tanks.

Further, the non-current assets have not been revalued to reflect the correct balances and the Company does not maintain an updated fixed asset register contrary to Regulation 136(1) of the Public Finance Management (County Governments) Regulations, 2015.

In the circumstances the accuracy, ownership and valuation of property, plant and equipment balance totalling Kshs.5,172,520 reflected in the statement of financial position as at 30 June, 2019 is not fairly stated.

### **Emphasis of Matter**

### **Going Concern Status**

During the year under review, the Company recorded a deficit of Kshs.6,276,406 after it recognized a current grant amounting to Kshs.4,368,740 received from Lamu County Executive resulting in negative capital and reserves amounting to Kshs.425,836 as at 30 June, 2019. Further, the Company's approved budget for the year under review reflected a deficit of Kshs.5,822,958. The two occurrences denote the existence of a material uncertainty which, if not mitigated, may cast doubt on the Company's ability to continue as a going concern.

The mitigating measures put in place by the Board of Directors and Management to reverse the undesirable financial performance have not been disclosed in the notes to the financial statements as required by the International Accounting Standards (IAS) 1, Presentation of financial statements.

My opinion is not qualified in relation to this matter.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of Lamu Water and Sewerage Company Limited Management in accordance with ISSAI 130 on Code of Ethics. I have fulfilled other ethical responsibilities in accordance with the ISSAI and in accordance with other ethical requirements applicable to performing audits of financial statements in Kenya. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

### **Key Audit Matters**

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

## **Other Matter**

### **REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES**

## **Conclusion**

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

## **Basis for Conclusion**

### **1.0 Non-Revenue Water**

Records on water production indicated that the Company produced 848,253m<sup>3</sup> of water during the year under review. However, only 454,445m<sup>3</sup> or 54% of the total volume was billed to customers resulting in revenue totalling Kshs.42,583,210. The balance totalling 393,808m<sup>3</sup>, or approximately 46% of total production was Non-Revenue-Water (NRW) which was 21 percentage points above the allowable loss of 25% set in guidelines issued by the Water Services Regulatory Board. At the average billing rates for the year under review, the Non-Revenue-Water may have resulted in an estimated loss on water sales amounting to Kshs.17,030,192.

The significant level of NRW is an indication that water in the Company's system is lost before it is billed or a large portion of residents do not pay for the water they consume. The NRW is a major hindrance to the Company's profitability and poses a significant risk to its ability to sustain its services.

### **2.0 Unapproved Budget Deficit**

The Company's budget for the year under review, reflected a budget deficit of Kshs.5,822,958 resulting from revenue and expenditure budgets of Kshs.79,299,885 and Kshs.85,122,843 respectively. However, there were no records on approval of the budget deficit by the County Executive Committee Member responsible for the Company and the County Treasury as required by Section 205(1) of the Public Finance Management (County Governments) Regulations, 2015.

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

# REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

## **Conclusion**

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

## **Basis for Conclusion**

### **1. Weaknesses in Internal Control**

#### **1.1 Expenditure Controls**

Examination of vote book management indicated that control procedures for expenditure were not applied continuously contrary to Regulation 51 of the Public Finance Management (County Governments) Regulations, 2015.

Therefore, there is a risk of the Company committing or spending unauthorized funds.

#### **1.2 Revenue Controls**

Revenue records examined indicated that the revenue was collected manually and the respective transactions recorded in an electronic spreadsheet. However, management of the billing system was not supervised and further, alterations on the records were made without written approval. In addition, policies and procedures on backup of data were not clearly set out and as a result, the risk of data loss and disruption of work on occurrence of unexpected events was high.

In view of the foregoing, internal controls on revenue management were inadequate.

### **2. Lack of Scheme of Service for Employees**

Audit review of personnel records indicated that the Company had forty seven (47) workers, thirty one (31) of whom were employed by the Company and sixteen (16) seconded from the County Executive. However, Management did not provide an approved Scheme of Service for audit review and its existence could not therefore be confirmed. In the absence of the documented scheme, effective management of personnel matters may not be attainable.

In the circumstance, it was not possible to confirm the sufficiency of controls on the staff establishment to ensure objective and effective use of public resources in its maintenance.

### **3. Failure to Establish an Audit Committee**

Audit review of the Internal Audit Function confirmed that the Company did not have an Audit Committee, contrary to Section 155(5) of the Public Finance Management Act, 2012 and Regulation 167(1) of the Public Finance Management (County Governments) Regulations, 2015. In the absence of an Audit Committee, oversight and other governance systems were inadequate and did not conform to the Law.

### **4. Lack of Internal Audit Unit**

In addition, the Company did not have an Internal Audit Function contrary to Section 155 of the Public Finance Management Act, 2012, which states that a County Government entity should have appropriate arrangements for conducting internal audit according to the guidelines issued by the Public Sector Accounting Standards Board.

In the absence of an Internal Audit function, the Company's internal control system is incomplete and poses a risk to effective management of public funds.

### **5. Lack of Board of Directors**

Contrary to the requirements of Section 79 and Section 80 of the Water Act, 2019, the Company did not have a Board of Directors at the time of the audit in February, 2020 after the term of five (5) Directors nominated to the Board in May, 2016 expired in April, 2019.

In the absence of a Board, the governance and strategic leadership in the Company is inadequate.

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

### **Responsibilities of 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 (IFRS) and for maintaining effective internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error and for its assessment of the effectiveness of internal control, risk management and governance.

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

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

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

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

### **Auditor-General's Responsibilities for the Audit**

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

In addition to the audit of the financial statements, a compliance audit is planned and performed to express a conclusion about whether, in all material respects, the activities, financial transactions and information reflected in the financial statements are in compliance with the authorities that govern them, and that public resources are applied in an effective way, in accordance with the provisions of Article 229(6) of the Constitution and submit the audit report in compliance with Article 229(7) of the Constitution.

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

occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.


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

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

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

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

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

  
**Nancy Gathungu**  
**AUDITOR-GENERAL**

**Nairobi**

**19 August, 2021**

**Lamu Water and Sewerage Company Limited**

**Annual Reports and Financial Statements**

**For the year ended June 30, 2019**

**STATEMENT OF PROFIT AND LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 30 JUNE 2019**

	Note	2018-2019	2017-2018
		Kshs.	Kshs
<b>REVENUES</b>			
Revenue	6	42,583,210	31,927,265
Cost of sales	7	17,661,270	9,613,758
Gross profit		<b>24,921,940</b>	<b>22,313,507</b>
Grants from the National Government	8	4,368,740	9,620,117
Other Income	9	3,081,741	1,423,306
<b>TOTAL REVENUES</b>		<b>32,372,421</b>	<b>33,356,930</b>
<b>OPERATING EXPENSES</b>			
Administration Costs	10	28,978,175	20,019,203
Operating Costs	11	9,670,652	13,604,624
<b>TOTAL OPERATING EXPENSES</b>		<b>38,648,827</b>	<b>33,623,827</b>
<b>PROFIT/(LOSS) BEFORE TAXATION</b>		<b>(6,276,406)</b>	<b>(266,897)</b>
<b>INCOME TAX EXPENSE/(CREDIT)</b>		-	-
<b>PROFIT/(LOSS) AFTER TAXATION</b>		<b>(6,276,406)</b>	<b>(266,897)</b>

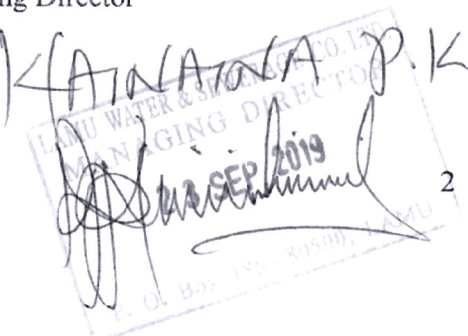
## STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2019

	Note	2019 Ksh	2018 Kshs
<b>ASSETS</b>			
<b>Non-Current Assets</b>			
Property, plant and equipment	12	5,172,520	4,357,615
<b>Total Non-Current Assets</b>		<b>5,172,520</b>	<b>4,357,615</b>
<b>Current Assets</b>			
Trade and other receivables	13	19,664,177	15,201,221
Cash and bank balances	14	36,829,416	5,784,871
<b>Total Current Assets</b>		<b>56,493,593</b>	<b>20,986,092</b>
<b>Total Assets</b>		<b>61,666,113</b>	<b>25,343,707</b>
<b>EQUITY AND LIABILITIES</b>			
<b>Capital and Reserves</b>			
Ordinary share capital	15	3,000,000	3,000,000
Development Grants		-	2,977,430
Retained earnings		(3,425,836)	2,850,570
<b>Capital and Reserves</b>		<b>(425,836)</b>	<b>8,828,000</b>
<b>Non-Current Liabilities</b>			
Long term payables	16	7,770,210	7,770,210
Deferred grant income	17	36,890,496	-
<b>Total Non-Current Liabilities</b>		<b>44,660,706</b>	<b>7,770,210</b>
<b>Current Liabilities</b>			
Trade and Other payables	18	17,431,243	8,745,497
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>61,666,113</b>	<b>25,343,707</b>

The financial statements were approved by the Board on 23/09/ 2019 and signed on its behalf by:

Managing Director

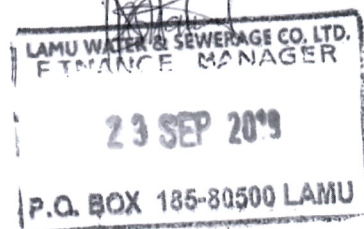
Name:

*KATHARINA P. K.*  
  
 2

Finance Manager

Name:

*MUKHAWAJA B. SHARBA*

  
 LAMU WATER & SEWERAGE CO. LTD.  
 FINANCE MANAGER  
 23 SEP 2019  
 P.O. BOX 185-80500 LAMU

Annual Reports and Financial Statements  
For the year ended June 30, 2019

## STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 JUNE 2019

	Ordinary Share Capital	Retained Earnings	Development Grants	Total
	Kshs.	Kshs.	Kshs.	Kshs.
As at 1st July 2017	3,000,000	3,117,466	-	6,117,466
Surplus for the year	-	(266,896)	-	(266,896)
Development Grants Received During the Year	-	-	2,977,430	2,977,430
<b>At 30th June 2018</b>	<b>3,000,000</b>	<b>2,850,570</b>	<b>2,977,430</b>	<b>8,828,000</b>
As at 1st July 2018	3,000,000	2,850,570	2,977,450	5,850,570
Surplus for the year	-	(6,276,406)	-	(6,276,406)
Prior Year Adjustment	-	-	(2,977,430)	(2,977,430)
<b>At 30th June 2019</b>	<b>3,000,000</b>	<b>(3,425,836)</b>	<b>-</b>	<b>(425,836)</b>

Note:

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

**Lamu Water and Sewerage Company Limited**

**Annual Reports and Financial Statements  
For the year ended June 30, 2019**

**STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2019**

		<b>2019</b>	<b>2018</b>
		<b>Kshs</b>	<b>Kshs</b>
<b>Net cash used from/(used in) operating activities</b>	19	<b>(774,932)</b>	<b>(4,296,281)</b>
Interest received		113,811	112,804
<b>Net cash generated from/(used in) operating activities</b>			
<b>Cash flows from investing activities</b>		<b>(661,121)</b>	<b>(4,183,477)</b>
Purchase of property, plant and equipment	12	(2,207,400)	(218,000)
<b>Net cash used in investing activities</b>		<b>(2,207,400)</b>	<b>(218,000)</b>
<b>Cash flows from financing activities</b>			
Increase in Long term liabilities	16	-	5,546,408
Increase/(Decrease) in Development Grants		(2,977,430)	2,977,430
Increase in Deferred Income	17	36,890,496	-
<b>Net cash from financing activities</b>		<b>33,913,066</b>	<b>8,523,838</b>
<b>Net increase /(decrease)in cash and cash equivalents</b>		<b>31,044,545</b>	<b>4,122,361</b>
<b>Cash and Cash Equivalents at the Start of the Year</b>		<b>5,784,871</b>	<b>1,662,510</b>
<b>Cash and Cash Equivalents at the End of the Year</b>	14	<b>36,829,416</b>	<b>5,784,871</b>

Annual Reports and Financial Statements  
For the year ended June 30, 2019

## STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS FOR THE PERIOD ENDED 30 JUNE 2019

	Original budget		Adjustments		Final budget		Actual on comparable basis		Performance difference	
	2018-2019		2018-2019		2018-2019		2018-2019		2018-2019	
Revenue	Kshs		Kshs		Kshs		Kshs		Kshs	
Sale of goods	45,647,316		-		45,647,316		42,583,210		3,064,106	
Subsidy from Lamu County Government	30,568,435		-		30,568,435		4,082,440		26,485,995	
Other income	2,815,340		-		2,815,340		3,081,741		-266,401	
Subsidy from CWSB	268,794		-		268,794		286,300		-17,506	
<b>Total income</b>	<b>79,299,885</b>				<b>79,299,885</b>		<b>50,033,691</b>		<b>29,266,194</b>	
<b>Expenses</b>										
Cost of Sales	25,953,704		-		25,953,704		17,661,270		8,292,434	
Staff costs	19,927,340		-		19,927,340		18,961,321		966,019	
Administrative costs	5,188,875		-		5,188,875		9,292,714		-4,103,839	
Directors' emoluments	1,010,000		-		1,010,000		724,140		285,860	
operating costs	10,606,436		-		9,271,760		9,670,652		-398,892	
Finance costs	22,436,488		-		22,436,488		-		22,436,488	
<b>Total expenditure</b>	<b>85,122,843</b>		-		<b>85,122,843</b>		<b>56,310,097</b>		<b>27,478,070</b>	
<b>Surplus/(Deficit) for the period</b>	<b>(5,822,958)</b>		-		<b>(5,822,958)</b>		<b>(6,276,406)</b>		<b>1,788,124</b>	

**NOTES TO THE FINANCIAL STATEMENTS**

**1. GENERAL INFORMATION**

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

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

**2. STATEMENT OF COMPLIANCE AND BASIS OF PREPARATION**

The financial statements have been prepared on a historical cost basis except for the measurement at re-valued amounts of certain items of property, plant and equipment, marketable securities and financial instruments at fair value, impaired assets at their estimated recoverable amounts and actuarially determined liabilities at their present value. The preparation of financial statements in conformity with International Financial Reporting Standards (IFRS) allows the use of estimates and assumptions. It also requires management to exercise judgement in the process of applying the company's accounting policies.

The financial statements have been prepared and presented in Kenya Shillings, which is the functional and reporting currency of the *entity*.

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

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

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

***IFRS 16: Leases***

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

**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

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

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

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

***IFRIC 23: Uncertainty Over income tax treatments***

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

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

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

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

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

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

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

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

**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

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

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

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

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

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

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

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

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

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

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

**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

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

**ii) New and amended standards and interpretations in issue but not yet effective in the year ended 30 June 2019**

***IFRS 17 Insurance Contracts (Issued 18 May 2017)***

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

***Amendments to References to the Conceptual Framework in IFRS Standards (Issued 29 March 2018- Applicable for annual periods beginning 1 January 2020)***

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

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

iii) Early adoption of standards

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

iii) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

a) Revenue recognition

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

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

b) In-kind contributions

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

**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

**3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**c) Property, plant and equipment**

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

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

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

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

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

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

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

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

**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

**4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**e) Intangible assets**

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

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

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

All computer software is reviewed annually for impairment. Where the carrying amount of an intangible asset is assessed as greater than its estimated recoverable amount, an impairment loss is recognized so that the asset is written down immediately to its estimated recoverable amount.

**g) Investment property**

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

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

**h) Finance and operating leases**

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

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

**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

**4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**i) Fixed interest investments (bonds)**

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

**j) Quoted investments**

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

**k) Unquoted investments**

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

**l) Inventories**

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

**m) Trade and other receivables**

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

**n) Taxation**

*Current income tax*

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

**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

**4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**n) Taxation (Continued)**

*Current income tax (Continued)*

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

*Deferred tax*

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

Deferred tax liabilities are recognized for all taxable temporary differences, except in respect of taxable temporary differences associated with investments in controlled entities, associates and interests in joint ventures, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognized for all deductible temporary differences, the carry forward of unused tax credits and any unused tax losses. Deferred tax assets are recognized to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilized, except in respect of deductible temporary differences associated with investments in controlled entities, associates and interests in joint ventures, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Unrecognized deferred tax assets are reassessed at each reporting date and are recognized to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

**4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**n) Taxation (Continued)**

*Deferred tax (Continued)*

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

**o) Cash and cash equivalents**

Cash and cash equivalents comprise cash on hand and cash at bank, short-term deposits on call and highly liquid investments with an original maturity of three months or less, which are readily convertible to known amounts of cash and are subject to insignificant risk of changes in value. Bank account balances include amounts held at the Central Bank of Kenya and at various Commercial Banks at the end of the reporting period. For the purposes of these financial statements, cash and cash equivalents also include short term cash imprests and advances to authorised public officers and/or institutions which were not surrendered or accounted for at the end of the financial year.

**p) Borrowings**

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

**q) Trade and other payables**

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

**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

**4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**r) Retirement benefit obligations**

The company also contributes to the statutory National Social Security Fund (NSSF). This is a defined contribution scheme registered under the National Social Security Act. The company's obligation under the scheme is limited to specific contributions legislated from time to time.

**s) Provision for staff leave pay**

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

**t) Exchange rate differences**

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

**u) Budget information**

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

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

**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

**4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**v) Service concession arrangements**

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

**w) Comparative figures**

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

**x) Subsequent events**

There have been no events subsequent to the financial year end with a significant impact on the financial statements for the year ended June 30, 2018.

**5 SIGNIFICANT JUDGMENTS AND SOURCES OF ESTIMATION UNCERTAINTY**

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

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

**Estimates and assumptions**

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

**Useful lives and residual values**

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

- The condition of the asset based on the assessment of experts employed by the Entity
- The nature of the asset, its susceptibility and adaptability to changes in technology and processes
- The nature of the processes in which the asset is deployed
- Availability of funding to replace the assets
- Changes in the market in relation to the asset

**Provisions**

Provisions were raised and management determined an estimate based on the information available.

Provisions are measured at the management's best estimate of the expenditure required to settle the obligation at the reporting date, and are discounted to present value where the effect is material.

**Lamu Water and Sewerage Company Limited**

**Annual Reports and Financial Statements**

**For the year ended June 30, 2019**

---

**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

**6 REVENUE**

	<b>2018/2019</b>	<b>2017/2018</b>
	<b>Kshs</b>	<b>Kshs</b>
Gross sales of water	42,583,210	31,927,265
<b>Total</b>	<b>42,583,210</b>	<b>31,927,265</b>

**7 COST OF SALES**

	<b>2018/2019</b>	<b>2017/2018</b>
	<b>Kshs</b>	<b>Kshs</b>
Pipes and fittings	2,567,351	-
Electricity and water	12,722,134	8,659,782
Levy fee (WASREB)	1,344,614	192,709
Chemicals	286,300	269,875
Fuel	740,871	491,392
<b>Total</b>	<b>17,661,270</b>	<b>9,613,758</b>

**8 GRANTS FROM NATIONAL GOVERNMENT**

	<b>2018/2019</b>	<b>2017/2018</b>
	<b>Kshs</b>	<b>Kshs</b>
Grants from County Gov't (seconded staff)	4,082,440	6,797,624
Grants from Coast Water Services Board	286,300	269,875
In kind Donations (County Govt-electricity)	-	2,552,618
<b>Total</b>	<b>4,368,740</b>	<b>9,620,117</b>

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

## 9 OTHER INCOME

Description	2018- 2019 Kshs	2017-2018 Kshs
Meter rent	1,484,350	1,116,300
New connection charges	537,500	84,802
Reconnection fees	878,000	108,500
Cut on request fees	11,000	900
Interest received	113,811	112,804
Meter test fee	500	-
Replacement of meters	1,500	-
Illegal connections	55,080	-
<b>Total</b>	<b>3,081,741</b>	<b>1,423,306</b>

## 10 (a) ADMINISTRATION COSTS

Description	2018 Kshs	2017 Kshs
Staff costs (note 10b)	18,961,321	16,737,624
Directors' emoluments	748,940	597,680
Communication services and supplies	97,300	258,900
Transportation, travelling and subsistence	5,033,765	1,063,964
Advertising, printing, stationery and photocopying	-	164,500
Hospitality supplies and services	616,080	50,000
Bank charges and commissions	185,675	75,697
Office and general supplies and services	3,219,094	954,838
Provision for audit fee	116,000	116,000
<b>Total</b>	<b>28,978,175</b>	<b>20,019,203</b>

## 10 (b) STAFF COSTS

Seconded staff salaries from Lamu County Government	4,082,440	6,797,624
Top up allowances from LAWASCO	2,041,220	3,558,666
Salaries for LAWASCO employees	11,703,261	6,020,871
Wages for casuals	1,032,000	-
Statutory deductions	102,400	360,463
<b>Total</b>	<b>18,961,321</b>	<b>16,737,624</b>

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

**Lamu Water and Sewerage Company Limited**

**Annual Reports and Financial Statements**

**For the year ended June 30, 2019**

---

**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

**11 OPERATING COST**

<b>Description</b>	<b>2018-2019 Kshs</b>	<b>2017-2018 Kshs</b>
Administration fee (to CWSB)	2,913,707	2,873,454
Water abstraction fee( to WARMA)	424,024	319,273
Repairs and maintenance	3,446,973	2,098,235
Provision for bad and doubtful debts	-	4,050,407
Contractors UPC	-	135,155
Electrical Accessories	1,493,455	-
Other operating expenses		2,155,797
Depreciation	1,392,493	1,972,303
<b>Total</b>	<b>9,670,652</b>	<b>13,604,624</b>

NOTES TO THE FINANCIAL STATEMENTS (Continued)

4 PROPERTY, PLANT AND EQUIPMENT

2019	Buildings	Motor Vehicles	Computers and related Equipment	Office equipment, Furniture and Fittings	Plant and Machinery	Total
	2.50% Kshs	25% Kshs	33% Kshs	12.50% Kshs	12.50% Kshs	Kshs
<b>COST OR VALUATION</b>						
At July 1, 2018	4,000,000	4,966,000	570,500	160,000	5,756,210	15,452,710
Additions during the year	-	-	417,000	470,400	1,320,000	2,207,400
<b>At June 30, 2019</b>	<b>4,000,000</b>	<b>4,966,000</b>	<b>987,500</b>	<b>630,400</b>	<b>7,076,210</b>	<b>17,660,110</b>
<b>DEPRECIATION</b>						
At July 1, 2018	1,907,170	4,966,000	487,983	112,447	3,621,497	11,095,097
Charge for the year	100,000	-	329,167	78,800	884,526	1,392,493
<b>At June 30, 2019</b>	<b>2,007,170</b>	<b>4,966,000</b>	<b>817,150</b>	<b>191,247</b>	<b>4,506,023</b>	<b>12,487,590</b>
<b>NET BOOK VALUE</b>						
At June 30, 2019	1,992,830	-	170,350	439,153	2,570,187	5,172,520
2018	Buildings	Motor Vehicles	Computers and related Equipment	Office equipment, Furniture and Fittings	Plant and Machinery	Total
	Kshs	Kshs	Kshs	Kshs	Kshs	Kshs
<b>COST OR VALUATION</b>						
At July 1, 2017	4,000,000	4,966,000	502,500	160,000	5,606,210	15,234,710
Additions during the year	-	-	68,000	-	150,000	218,000
<b>At June 30, 2018</b>	<b>4,000,000</b>	<b>4,966,000</b>	<b>570,500</b>	<b>160,000</b>	<b>5,756,210</b>	<b>15,452,710</b>
<b>DEPRECIATION</b>						
At July 1, 2017	1,807,170	4,004,373	316,833	92,447	2,901,970	9,122,793
Charge for the year	100,000	961,627	171,150	20,000	719,526	1,972,303
<b>At June 30, 2018</b>	<b>1,907,170</b>	<b>4,966,000</b>	<b>487,983</b>	<b>112,447</b>	<b>3,621,496</b>	<b>11,095,096</b>
<b>NET BOOK VALUE</b>						
At June 30, 2018	2,092,830.00	-	82,517.00	47,553.00	2,134,714.00	4,357,614.00

**Lamu Water and Sewerage Company Limited**

**Annual Reports and Financial Statements**

**For the year ended June 30, 2019**

---

**13 (a) TRADE AND OTHER RECEIVABLES**

	<b>2018-2019</b>	<b>2017-2018</b>
	<b>Kshs</b>	<b>Kshs</b>
Trade Receivables (Customers debtors)	16,614,177	16,201,628
Provision for doubtful receivables	-	(4,050,407)
	<b>16,614,177</b>	<b>12,151,221</b>
Deposits and prepayments (Deposit for Installation of electricity )	50,000	50,000
Shareholders receivables	3,000,000	3,000,000
Net trade and other receivables	<b>19,664,177</b>	<b>15,201,221</b>

**13 (b) TRADE RECEIVABLES**

	<b>2018-2019</b>	<b>2017-2018</b>
	<b>Kshs</b>	<b>Kshs</b>
Gross trade receivables	16,614,177	16,201,628
Provision for doubtful receivables	-	(4,050,407)
Net trade receivables	<b>16,614,177</b>	<b>12,151,221</b>

**14 a) BANK AND CASH BALANCES**

	<b>2018-2019</b>	<b>2017-2018</b>
	<b>Kshs</b>	<b>Kshs</b>
Cash at bank	36,829,416	5,784,871
Cash in hand	-	-
	<b>36,829,416</b>	<b>5,784,871</b>

**Lamu Water and Sewerage Company Limited**

**Annual Reports and Financial Statements**

**For the year ended June 30, 2019**

**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

**14 b) BANK AND CASH BALANCES (Continued)**

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

**Detailed analysis of the cash and cash equivalents**

Financial institution	Account number	2018-2019 KShs	2017-2018 KShs
<b>Kenya Commercial Bank</b>			
Customer Deposit Simba Account	1117737322	908,099	737,255
Savings account	11038909664	29,315	737,021
WSTF Project Account	1220715905	-	2,867,112
Current account	1104750937	46,830	(10,682)
Sub- total		<b>984,244</b>	<b>4,330,706</b>
<b>ABC Bank</b>			
Fixed Deposit(ABC)	00910000100101 8	1,677,981	987,377
Hazina Current account (ABC)	00922150010015 79	112,299	365,918
Collection account (ABC)	00921700100002 2	141,886	100,870
		<b>1,932,166</b>	<b>10,115,577</b>
<b>Equity Bank</b>			
Kiunga Water And Sanitation Project	1590278854745	17,299,816	-
Kizingitini Water And Sanitation Project	1590278854772	16,613,190	-
<b>TOTAL</b>		<b>33,913,006</b>	<b>-</b>

**15. ORDINARY SHARE CAPITAL**

Shareholder	Ordinary Shares	Par value	2019 Kshs	2018 Kshs
County Council of Lamu	2,998	1,000	2,998,000	2,998,000
Chairman of Lamu County	1	1,000	1,000	1,000
County council clerk	1	1,000	1,000	1,000
	<b>3,000</b>	<b>1,000</b>	<b>3,000,000</b>	<b>3,000,000</b>

**16. LONG TERM LIABILITIES**

	2019 Kshs	2018 Kshs
Long term payables	<b>7,770,210</b>	<b>7,770,210</b>

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

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

## 17. DEFERRED GRANT INCOME

	2019	2018
	Kshs	Kshs
	2019	2018
Deferred grant income	36,890,496	-

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

## 18. TRADE AND OTHER PAYABLES

	2018-2019	2017-2018
	Kshs	Kshs
Trade Payables	3,938,711	1,233,398
Accrued expenses	1,347,000	999,000
Other Payables	8,844,757	4,788,467
Customer Deposit Account	2,586,080	1,724,632
Customer prepayments	714,695	-
Total	17,431,243	8,745,497

## 19. NOTES TO THE STATEMENT OF CASH FLOWS

	2018-2019	2017-2018
	Kshs	Kshs
<b>(a) Reconciliation of operating profit/ (loss) to cash generated from/ (used in) operations</b>		
Operating profit/(loss)	(6,276,406)	(266,896)
Depreciation	1,392,493	1,972,303
Interest Received	(113,811)	
<b>Operating profit/(loss) before working capital changes</b>	<b>4,883,913</b>	<b>1,705,407</b>
(Increase)/decrease in trade and other receivables	(4,462,956)	1,549,855
Increase/(decrease) in trade and other payables	8,685,748	(7,438,739)
<b>Cash generated from/(used in) operations</b>	<b>(774,932)</b>	<b>(4,296,281)</b>
<b>(b) Analysis of cash and cash equivalents</b>		

**Lamu Water and Sewerage Company Limited**

**Annual Reports and Financial Statements**

**For the year ended June 30, 2019**

---

Cash at bank	36,829,416	5,784,871
<b>Balance at end of the year</b>	<b>36,829,416</b>	<b>5,784,871</b>

**Lamu Water and Sewerage Company Limited**

**Annual Reports and Financial Statements**

**For the year ended June 30, 2019**

**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

**20. RELATED PARTY DISCLOSURES**

**(a) Government of Kenya**

The County Government of Lamu is the principal shareholder of the Company holding 100% of the Company's equity interest..

Other related parties include:

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

**Transactions with related parties**

	<b>2018-2019</b>	<b>2017-2018</b>
	<b>Kshs</b>	<b>Kshs</b>
<b>a) Grants from the Government</b>		
Grants from County Government	4,082,440	9,350,242
Grants from Coast Water Services Board	286,300	269,875
<b>Total</b>	<b>4,368,740</b>	<b>9,620,117</b>
<b>b) Expenses incurred on behalf of related party</b>		
Administration fee (to CWSB)	2,913,707	2,873,454
<b>Total</b>	<b>2,913,707</b>	<b>2,873,454</b>
<b>c) Key management compensation</b>		
Directors' emoluments	748,940	597,680
Compensation to key management	2,940,508	1,643,758
<b>Total</b>	<b>3,689,448</b>	<b>2,241,438</b>

## 21. FINANCIAL RISK MANAGEMENT

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

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

### (i) Credit risk

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

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

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

**Lamu Water and Sewerage Company Limited**

**Annual Reports and Financial Statements**

**For the year ended June 30, 2019**

**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

**22 FINANCIAL RISK MANAGEMENT (Continued)**

**(i) Credit risk (Continued)**

	<b>Total amount Kshs</b>	<b>Fully performing Kshs</b>	<b>Past due Kshs</b>	<b>Impaired Kshs</b>
<b>At 30 June 2019</b>				
Receivables from exchange transactions	16,614,177	16,614,177	-	-
Receivables from non- exchange transactions	3,050,000	50,000	3,000,000	-
Bank balances	36,829,416	36,829,416	-	-
<b>Total</b>	<b>56,493,593</b>	<b>53,493,593</b>	<b>3,000,000</b>	<b>-</b>
<b>At 30 June 2018</b>				
Receivables from exchange transactions	12,151,221	12,151,221	-	-
Receivables from non- exchange transactions	3,050,000	50,000	3,000,000	-
Bank balances	10,115,577	10,115,577	-	-
<b>Total</b>	<b>25,316,798</b>	<b>22,316,798</b>	<b>3,000,000</b>	<b>-</b>

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

The entity has significant concentration of credit risk on amounts due from xxxx

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

**ii) Liquidity risk management**

Ultimate responsibility for liquidity risk management rests with the entity's directors, who have built an appropriate liquidity risk management framework for the management of the entity's short, medium and long-term funding and liquidity management requirements. The entity 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.

**Lamu Water and Sewerage Company Limited**

**Annual Reports and Financial Statements**

**For the year ended June 30, 2019**

**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

**22 FINANCIAL RISK MANAGEMENT (Continued)**

**(ii) Liquidity risk management (Continued)**

	Less than 1 month	Between 1-3 months	Over 5 months	Total
	Kshs	Kshs	Kshs	Kshs
<b>At 30 June 2019</b>				
Trade payables	17,431,243	-	-	17,431,243
Deferred income		-	36,890,496	36,890,496
<b>Total</b>	<b>17,431,243</b>	<b>-</b>	<b>36,890,496</b>	<b>54,321,739</b>
<b>At 30 June 2018</b>				
Trade payables	8,745,497	8,745,497	8,745,497	8,745,497
Deferred income	-	-	-	-
<b>Total</b>	<b>8,745,497</b>	<b>8,745,497</b>	<b>8,745,497</b>	<b>8,745,497</b>

**(iii) Market risk**

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

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

**a) Foreign currency risk**

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

There were no foreign currency denominated monetary assets and monetary liabilities at the end of the reporting period

The entity manages foreign exchange risk from future commercial transactions and recognised assets and liabilities by projecting for expected sales proceeds and matching the same with expected payments.

**b) Foreign currency sensitivity analysis**

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

**c) Interest rate risk**

Interest rate risk is the risk that the entity'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 mainly from interest rate movements on the company's deposits.

## Lamu Water and Sewerage Company Limited

### Annual Reports and Financial Statements

For the year ended June 30, 2019

#### *Management of interest rate risk*

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

#### *Sensitivity analysis*

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

#### **iv) Capital Risk Management**

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

	2018-2019	2017-2018
	Kshs	Kshs
Retained earnings	(3,425,836)	2,850,570
Capital reserve	3,000,000	3,000,000
<b>Total funds</b>	<b>(425,836)</b>	<b>8,828,000</b>
Total borrowings	-	-
Less: cash and bank balances	36,829,416	5,784,871
Net debt/(excess cash and cash equivalents)	36,829,416	5,784,871

## **22. INCORPORATION**

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

## **23. EVENTS AFTER THE REPORTING PERIOD**

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

## **24. CURRENCY**

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