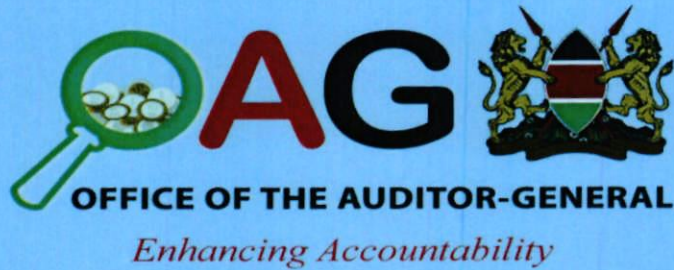


REPUBLIC OF KENYA

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# REPORT

OF

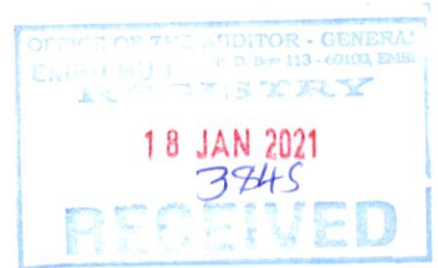
**THE AUDITOR-GENERAL**

ON

**MERU WATER AND SEWERAGE  
SERVICES REGISTERED TRUSTEES**

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

PAPERS LAID	
DATE	02/03/2023
TABLED BY	SML
COMMITTEE	—
CLERK AT THE TABLE	CHANIA



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**MERU WATER AND SEWERAGE SERVICES**

**REGISTERED TRUSTEES**

**ANNUAL REPORTS AND FINANCIAL STATEMENTS**

**FOR THE FINANCIAL YEAR ENDING**

**JUNE, 30 2020**

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



MERU WATER AND SEWERAGE SERVICES  
REGISTERED TRUSTEES

ANNUAL REPORTS AND FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30TH JUNE 2020

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<u>CONTENTS</u>	<u>PAGE</u>
TRUST INFORMATION	i
THE BOARD OF DIRECTORS	ii
THE MANAGEMENT TEAM	iii
CHAIRMAN'S STATEMENT	iv
REPORT OF THE CHIEF EXECUTIVE OFFICER	v
REVIEW OF MERU WATER AND SEWERAGE SERVICES PERFORMANCE FOR FY 2019/2020	vii
CORPORATE GOVERNANCE STATEMENT	1
MANAGEMENT DISCUSSION AND ANALYSIS	3
CORPORATE SOCIAL RESPONSIBILITY STATEMENT	5
REPORT OF THE DIRECTORS	7
STATEMENT OF DIRECTORS' RESPONSIBILITIES	8
REPORT OF THE INDEPENDENT AUDITORS ON MERU WATER AND SEWERAGE SERVICES	9
STATEMENT OF PROFIT AND LOSS AND OTHER COMPREHENSIVE INCOME	10
STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2020	11
STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 JUNE 2020	12
STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2020	13
STATEMENT OF COMPARISON OF BUDGET & ACTUAL AMOUNTS	14
NOTES TO THE FINANCIAL STATEMENTS	16
APPENDIX I: PROGRESS ON FOLLOW UP OF AUDITOR RECOMMENDATIONS	28



**MERU WATER AND SEWERAGE SERVICES  
REGISTERED TRUSTEES**

**ANNUAL REPORTS AND FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30TH JUNE 2020**

**TRUST INFORMATION**

**INCORPORATION**

Meru Water & Sewerage Services Registered Trustees (MEWASS) is incorporated under The Trustees (Perpetual Succession) Act Cap 164, of the Laws of Kenya. An irrevocable declaration of Trust was made in April 2001 between Ministry of Environment and Natural Resources and Meru Municipal Council on the one hand and the Trustees of MEWASS on the other, effectively transferring the duty of water and sewerage provision from the Ministry and Council to MEWASS. The Constitution of Kenya 2010 under the Fourth Schedule placed water and sanitation services to the County governments. Consequently, the Transition Authority vide Gazette Notice no. 154 of 9th August 2013, transferred water service provision including water, sanitation and sewerage companies to the County Government of Meru.

**PRINCIPAL ACTIVITIES**

The principal activity of the Trust is to provide water and sanitation services within its area of jurisdiction

**THE BOARD**

Mr. Mworira Mugambi	Joined 16th May 2018
Mr. Kabii Chabari	Joined 16th May 2018
Ms. Elizabeth Kanini	Joined 16th May 2018
Mr. Harun Kanathi	Left 13th May 2020
Mr. Jackson Muthamia	Joined 13th May 2020
Mr. Joseph Mberia	Joined 1st August 2018 Secretary to the Board

**SECRETARY**

Mr. Joseph Mberia  
P.O. Box 859 60200

**MERU**

**PRINCIPAL PLACE OF BUSINESS AND REGISTERED OFFICE**

Situated along Kinoru -Stadium Road

P.O. Box 859 60200

Tel: 064-3132591, 0717527707

Fax: 064-3132603

E-mail: [info@mewass.or.ke](mailto:info@mewass.or.ke)

Website: [www.mewass.or.ke](http://www.mewass.or.ke)

**MERU**

**BANKERS**

Standard Chartered Bank of Kenya

Meru Branch

P.O. Box 109 - 60200

**MERU**

Equity Bank Ltd

Meru Branch

P.O. Box 400 - 60200

**MERU**

**INDEPENDENT AUDITORS**

Office of the Auditor-General

P.O. Box 30084 - 00100

**NAIROBI**

**PRINCIPAL LEGAL ADVISORS**

**The Attorney General**

State Law Office

P.O. Box 40112-00200






**NAIROBI**



**MERU WATER AND SEWERAGE SERVICES  
REGISTERED TRUSTEES**

**ANNUAL REPORTS AND FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30TH JUNE 2020**

**THE BOARD OF DIRECTORS**





Photo	Name and Qualifications	Date of Birth and Experience
	Dr. Mugambi Mworia Ph.D (Range Science), Msc (Range science), Bsc.Ecology	Date of Birth 1953 Senior Lecturer and Chairman Department of Agriculture Kenya Methodist University Chairman Eastern Conservancy Kenya Forest Services Associate consultant, Publix (Africa) Ltd
	CPA Joseph Kabii Chabari MBA(Finance), BBA(Accounting), CPA(K)	Date of Birth 1982 Chief Officer Finance and Economic Planning, Chief Accountant National Treasury Mbooni Sub County January 2008 to December 2017
	Mr. Jackson Muthamia B.Sc (Hon)Geospatial Engineering	Date of Birth 1984 Ag. Chief Officer Water and Irrigation- County Government of Meru.(May 2020 to date) Director water and irrigation 2017-2020 Head of survey and drilling unit 2016-2017 Acting Director Environment and Natural Resources 2015-2016
	Ms. Elizabeth Kanini Dip. Business Management	Date of Birth 1974 Formerly nominated MCA from 2013 to 2017, Land Control Board Member from July 2007 to June 2014, Worked at Meru North Farmers SACCO.
	Mr. Joseph Kithure Mberia B.Arts (Social Sciences), Dip Business Management/Administration, Principles of Modern Management, Sales Management and Marketing	Date of Birth 22nd December 1965 General Manager – Commercial Division Resorts and Cities Limited from October 2014 to June 2017 , Various Managerial Posts-Nestlé Kenya Ltd 2004 to May 2012



**MERU WATER AND SEWERAGE SERVICES  
REGISTERED TRUSTEES**

**ANNUAL REPORTS AND FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30TH JUNE 2020**

**THE MANAGEMENT TEAM**

<b>Photo</b>	<b>Manager's Name and Qualifications</b>	<b>Date of Birth and Experience</b>
	Mr. Robert K. Miruri General Manager Masters Degree in Project Planning and Management	Date of Birth 20/11/1957 Over 30 years experience in Water Design & Management of projects and programmes
	CPA Lydiah Mukami Kinoti Finance Manager BCOM Accounting, CPA(K)	Date of Birth 17/04/1979 Over 15 years experience in Accounting & Commercial services
	Mr. Antony Kamau Mburu Technical Services Manager BSC.Civil Engineering	Date of Birth 19/08/1974 Over 10 years experience in water engineering Over 5 years in project supervision and management
	Patrick Mugendi Kwiriga, Human Resource Manager BBS,Development studies, Dip.Human Resource Management	Date of Birth 29/12/1977 Over 10 years experience in Administration
	CPA Joses Muriuki Gitonga Internal Audit Manager BBA Acc & Fin, CPA(K)	Date of Birth 04/12/1972 Over 20 years experience in Audit and Accounting
	Mr. Meckson Kinyua Musyoka Procurement Manager BBM, Dip Supplies Management	Date of Birth 05/11/1984 Over 8 years experience in Procurement Management



MERU WATER AND SEWERAGE SERVICES  
REGISTERED TRUSTEES

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

CHAIRMAN'S STATEMENT FOR THE FINANCIAL YEAR ENDED 30<sup>TH</sup> JUNE 2020

I am pleased to report on yet another successful year where we continued to provide the water services as per the mandate given to us by the regulator.

During the period in review there was an improvement in the financial position on provision of services despite the adverse effects of the Covid-19 pandemic. The Company being the service provider of water and sanitation services for the urban centres of Meru, we are aware of the crucial role we play in sustaining growth, development and quality of life for the people of Meru. During, the period in review specifically, the last quarter of the financial year we provided washing points throughout the urban centres in order to contain the spread of Covid-19. The company is committed to provide the highest quality of service, on a sustainable basis, so as to meet the expectations of the customers we serve. During the period we continued to excel in service delivery as attested by the improved performance from position 15(fifteen) to position 4(four) nationally in the Impact report released by the Water Services Regulatory Board.

The company continued to improve on billed revenues during the period in review. The turnover increased by Kshs.6.8 million from Kshs 199 million in the previous financial year, to Kshs 205.8 million. The improved performance is barely able to fund infrastructure development. The effects of Covid-19 pandemic affected the ability of the customers to pay for water services in time hence the increase in unpaid debts. In order to sustain service delivery to the already established and potential customers, we are required to make significant investments in the infrastructure to increase the supply of available water. This will be done by coming up with bankable project proposals and relaying them to the development partners for funding consideration. On the other hand, the current strategic plan ends in June 2020, therefore, the management and board will endeavour to consult with our stakeholders as we prepare a five year strategic plan.

In conclusion, the board acknowledges efforts by the management and staff and appreciates them for continued commitment and dedication to the company. I also acknowledge and appreciate the support rendered to the Company by our customers and suppliers.

Thank you

*Dr Mwangi Mũgambi*  
*Chairman of the Board,*  
*Meru County Urban Water & Sanitation Services Corporation*



**MERU WATER AND SEWERAGE SERVICES  
REGISTERED TRUSTEES**

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

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**REPORT OF THE CHIEF EXECUTIVE OFFICER FOR THE FINANCIAL YEAR  
ENDED JUNE 2020**

It is my pleasure to report on the performance of the company for the financial year 2019/20. During the year, the company improved on its operating income to 205.8 million in comparison to the previous year's Kshs. 199 million. However, the trade debtors increased by Kshs. 5.3 million in comparison to the previous year signifying the adverse effect of Covid-19 pandemic which affected the customers' ability to pay their bills on time.

**Infrastructure development**

In order to develop and improve water infrastructure to meet the growing water demand, the company requires huge investment in order to carry out infrastructure development. The ever increasing demand for water services within the area of company's jurisdiction is caused by population growth, expansion of major towns and rural urban migration. Therefore, The Company intends to seek funding from the Water Sector Trust Fund and the development partners.

**Customers**

At MEWASS we value every customer and we strive to ensure our customers are satisfied and delighted by supplying them with clean, safe and reliable water. In order to meet this objective, we carry out hourly tests on various supply points. Regular tests are carried out to attest that the water quality meets regulatory and conforms to the WHO standards.

During the period we sent appeals to our customers to promptly pay for the water services to enable us continue providing the commodity. We are grateful to the customers who heeded this call and paid their water bills. Those who didn't heed to our call have a chance to come and enter into payment arrangement on how to settle their bills.

On behalf of the management, I would like to thank our customers for their continued support they have given us throughout the period.

**Sewerage**

The current sewerage facility is inadequate to meet the increasing demand. Fortunately, the County government of Meru in collaboration with the National government is constructing a modern sewerage facility to serve the customers within Meru town and surrounding areas at Rwanyange. Meanwhile, the company has two exhauster trucks which together with private exhauster service providers are supplementing in sanitation services within the County.



**MERU WATER AND SEWERAGE SERVICES  
REGISTERED TRUSTEES**

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

**REPORT OF THE CHIEF EXECUTIVE OFFICER FOR THE FINANCIAL YEAR  
ENDED JUNE 2020 CONT'D**

**Non Revenue Water**

The company like any other water service provider is faced with problem of water losses that currently stand at 21 percent. The Non Revenue Water (NRW) is mainly attributed to illegal water use by unscrupulous individuals, under registering of old meters and water bursts due to damages caused by road contractors. In order to reduce the NRW, the company has implemented several interventions among them investigating and liaising with the authorities to apprehend the culprits illegally using water, replacement of 415 water consumer meters under rapid result initiative, regular monitoring of category one consumer meters (heavy Consumers) and conducting scheduled night flow measurements.

**Staff**

The achievements registered over the period would not have been possible without the professionalism and teamwork of our staff. Their efforts can be attested during the period of Covid-19 pandemic in the fourth quarter of the financial year. They remained committed throughout the period to attend our customer needs. On the other hand, towards improvement of our staff welfare, we have enrolled each and every employee to the medical scheme to cater for their health needs together with their immediate family members. We regularly train our staff on various aspects in the service. During the year our staff, were facilitated to attend various trainings and workshops.

**In Conclusion**

I take this opportunity to thank the County Government of Meru in collaboration with the National Government through the Tana Water Works Development Agency for financing the New Meru Sewerage System whose construction is in progress. The new facility once complete will go a long way in improving the sanitation in Meru.

Finally, I express my gratitude to the Board of Directors for their continued guidance and support they provide to the Company.

Regards

Joseph Mberia

**Chief Executive Officer**



**MERU WATER AND SEWERAGE SERVICES (MEWASS)  
REGISTERED TRUSTEES**

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

**REVIEW OF MERU WATER AND SEWERAGE SERVICES PERFORMANCE FY 2019/2020**

Section 164 Subsection 2 (f) of the Public Finance Management Act, 2012 requires the accounting officer to include in the financial statement, a statement of the county government entity's performance against predetermined objectives.

The Trust has strategic pillars and objectives within its annual work plans for the FY 2019/2020.

These strategic pillars are as follows:

- Pillar 1: Increase water supply coverage
- Pillar 2: Operation efficiency and customer service
- Pillar 3: Financial sustainability
- Pillar 4: Institutional Capacity/strengthening
- Pillar 5: Corporate Governance

The assessment of the Board's performance against its annual work plan is done on a quarterly basis. Meru water and Sewerage Services continued to implement its performance targets set for the FY 2019/2020 period for its strategic pillars, as indicated in the diagram below:

<b>Strategic Pillar</b>	<b>Objective</b>	<b>Key Performance Indicators</b>	<b>Activities</b>	<b>Achievements</b>	<b>Performance</b>
1. Increase water supply coverage	Increase water supply coverage from 59% to 80% by the year 2020	Increase of total production to 15,000 m <sup>3</sup> per day	Augment existing treatment works	Operational treatment plant	Current water production- 8,000m <sup>3</sup> /day Area covered- 140km <sup>2</sup>
2. Operation efficiency and customer service	Reduce operational costs in material /resources from 91% to 80%	Improved efficiency and institutional performance  All utility operations are automated	Streamlining business processes and enhance internal controls  Automate all undertakings of the Organizations	All unnecessary operations of the organization are eliminated  All manually operated functions are automated	Ranked number 1 in large category- 11 <sup>th</sup> Impact report  Ranked number 4 in Kenya- 11 <sup>th</sup> Impact report



**MERU WATER AND SEWERAGE SERVICES (MEWASS)  
REGISTERED TRUSTEES**

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

**REVIEW OF MERU WATER AND SEWERAGE SERVICES PERFORMANCE FY 2019/20  
CONT'D**

	Recycle back-wash Water	More water is availed to customers	Pump back water to treatment work	Increase water production	Less customer complaints
	Reduce non-revenue from 26% to 20%	Monthly maintenance implementation reports	Proactively implement maintenance Schedules	More availability of water	Achieved non-revenue water of 22% which is acceptable
	Improve customer management systems and outreach	Accurate customer details readily available information maintained	Investigate abnormal Consumption  Periodic review and update of the Customer Information Management system	Current Customer Information Management system	Procurement of IMIS software
3.Financial sustainability	Increase active connections to 14,500.	increase in annual revenue	Customer connectivity	Increase active customer connections and annual revenues	Active connections- 13,610.
	Increase collection efficiency	Increased collection efficiency by 0.5% per year	Encourage customers to settle bill on time to avoid disconnection	Increased willingness to pay  Timely payments from customers	Collection efficiency of 88%
	To increase billing efficiency and investigate new technologies	Increase meter reading from 90% to 95%	GIS mapping of the supply area  Monitor meter reading staff	New technologies adopted and in use	All connections are mapped



**MERU WATER AND SEWERAGE SERVICES (MEWASS)  
REGISTERED TRUSTEES  
Annual Reports and Financial Statements  
For the year ended June 30 2020**

**REVIEW OF MERU WATER AND SEWERAGE SERVICES PERFORMANCE FY 2019/20  
CONT'D**

	To improve financial accountability systems	Smooth running Systems  Timely and accurate reports	Complete the integration of the financial system  Review and improve internal controls of ERP system	Integrated system in place	Procurement of IMIS software
4. Institutional Capacity/strengthening	To improve efficiency and effectiveness of functional activities	Streamlined and efficient human resource structure  Improved performance	Training and Induction  Carry out capacity building workshop	Operational structure  Capacity building event conducted	Capacity building event Conducted  Signing of performance contracts
5. Corporate governance	To strengthen the capacity of the board  Promote good corporate governance practices	Best corporate governance practices  Succession management policy in place	Develop annual work plans for the board.  Develop a succession management policy	Stability and smooth Transition in leadership	Best corporate governance practices



# MERU WATER AND SEWERAGE SERVICES (MEWASS) REGISTERED TRUSTEES

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

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### **CORPORATE GOVERNANCE STATEMENT FOR THE YEAR ENDED 30<sup>TH</sup> JUNE 2020**

Corporate governance structure ensures that the directors act with high standards of corporate behavior and in the best interests of the stakeholders. The board of directors comprises of four members. The Chief Executive sits in the board as an ex-officio and as a secretary. The board is responsible for the overall corporate governance and approves strategic directions and budgets. On the other hand the management ensures that all statutory requirements are complied with and the internal control systems are in place and operate effectively.

The newly appointed directors meet the management team and are offered an opportunity to visit the infrastructure and relevant installations to familiarize themselves with the trust. They are provided with briefing materials, copy of trust deed and key policy documents to introduce and explain their roles. They later sign a code of conduct signifying the manner and behavior in performing their responsibilities while serving the Trust. The members have skills and experience to perform relevant functions as directors. The Board has three committees namely: Technical, Finance & Administration & Audit Committee.

The Board in consultation with the management develops strategic directions for annual and long-time period. The management provides quarterly progress reports to the Board to enable it monitor the performance.

#### **Finance & Administration Committee**

The committee secretary is the Finance Manager. The committee is chaired by CPA Joseph Chabari and includes the directors Elizabeth Kanini and Jackson Muthamia. Each director is expected to have experience in management skills necessary to discharge his /her duties. The committee supports and assists the Board to effectively and efficiently discharge finance activities, human resource & administration, information and communication technology. The committee receives and reviews reports on the financial performance, annual budget, quarterly reports, and changes to the water tariff and so on. The committee ensures that adequate plans, policies and programs are in place to promote effectiveness, integrity and security of MEWASS information technology systems and their operations.

#### **Technical Committee**

The committee secretary is the Technical Manager. The committee is chaired by Jackson Muthamia and includes the directors Ms.Elizabeth Kanini and Dr.Mugambi Mworია.Each member of the committee is expected to have general familiarity with the technical aspects of the water and sanitation industry necessary to undertake the committee's responsibilities to oversee MEWASS technical activities. The committee advises the board on technical matters involving MEWASS internal and external projects.



# MERU WATER AND SEWERAGE SERVICES (MEWASS) REGISTERED TRUSTEES

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

### Audit Committee

The committee secretary is the Internal Auditor. The committee is chaired by Jackson Muthamia and includes the directors Joseph Chabari and Elizabeth Kanini. Each member has experience and necessary skills to undertake the committee's responsibilities to oversee the Trust's financial reporting principles and policies, controls and procedures and its auditing activities. The audit committee meets and reviews report from the Auditor General and major findings on internal audit and investigations and considers the management response or actions thereto.

### Water Sector Reforms

The constitution of Kenya 2010 devolved the provision of water services to the county governments. Consequently, the County Assembly of Meru passed a bill to provide for developments, regulation and management of County public works related to water and sanitation services. The Act provides the creation of Meru County Urban Water and Sanitation Corporation to be the successor to MEWASS and IMETHA. The Corporation is responsible for the provision of water and sanitation services in the urban settlement within Meru County.

During the financial year 2019/2020 the board attended the following meetings:

NAME OF THE TRUSTEE	FULL BOARD MEETING		NAME OF THE COMMITTEE	COMMITTEE MEETING	
	ATTENDED	ELIGIBLE TO ATTEND		ATTENDED	ELIGIBLE TO ATTEND
Dr. Mworia Mugambi	8	8	Finance & Admin Technical Committee	1 3	1 3
CPA Joseph Chabari	0	8	Finance & Admn Audit Committee	2 1	5 3
Harun Kanathi	5	8	Finance & Admn Technical Committee Audit Committee	4 3 3	5 3 3
Jackson Muthamia	3	3	Finance & Admn Technical Committee	3 0	3 0
Elizabeth Kanini	8	8	Finance & Admn Technical Committee Audit Committee	5 3 3	5 3 3
* CPA Francis Mungai	7	8	Finance & Admn Audit Committee	3 1	5 3
Joseph Mberia	8	8	Finance & Admn Technical Committee Audit Committee	5 3 3	5 3 3

\*The person named is alternate director to CPA Joseph Chabari.



**MERU WATER AND SEWERAGE SERVICES  
REGISTERED TRUSTEES**

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

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**MANAGEMENT DISCUSSION AND ANALYSIS FOR THE YEAR ENDED 30<sup>TH</sup> JUNE 2020**

The Trust presents its financial performance for the financial year ending 30th June 2020. The Trust continued to provide water services in the area of its jurisdiction whose mission is to provide quality water and sanitation services to its customer's delight through a committed workforce using modern technology.

**Revenues**

The revenue from water services billings had an upward trend as compared to the previous year. The trust continued to enhance the distribution network capacity in order to deliver more water. During the year in review, the Trust's total operating revenue was Kshs.205.8 million as compared to Kshs.196 million in the previous financial year. During the year, the trust did not experience dwindling of water in the catchment areas as compared to the previous year and therefore more water was available to the customers hence an increase of 5%. In addition, there was prompt billing and encouraging customers to settle bills on time to avoid being disconnected.

**Expenditure**

The Trust's primary expenditures are related to selling & distribution and administrative & establishment. The others are the depreciation of assets and amortisation of intangible assets. During the year ending 30<sup>th</sup> June 2020, we incurred a total expenditure of Kshs.187.2 million as compared to Kshs.181.5 million for the previous year. The increase in the expenditure total is majorly attributed by staff medical insurance cover at a cost of 8.8 million. The Board of Director's expenses for the year in review amounted to Kshs.1.1 million as compared to Kshs.2.7 million the previous year. The decrease in board's expenses is attributed to the covid-19 containment measures issued by the Government.

**Investments**

The Trust was able to fund its operations using the water services revenue in the reported year. The Trust investments will require growth of revenue through tariff review which is long overdue as the current one is already expired. However, the trust earned interest amounting to 3.3 million as compared to Kshs.2.0 million the previous year. The trust too acquired fixed assets amounting to Kshs.15.9 million to increase its synergy. Likewise the trust procured an Integrated Management Information Software to improve the efficiency by improving on data management and thresholds of our current systems to meet the Water Services Regulatory Board minimum service requirements on billing and customer care modules.



**MERU WATER AND SEWERAGE SERVICES  
REGISTERED TRUSTEES**

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

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**MANAGEMENT DISCUSSION AND ANALYSIS FOR THE YEAR ENDED 30<sup>TH</sup> JUNE 2020**  
**CONT'D**

**Liquidity and capital resources**

In the financial year, trade receivables increased and other receivables decreased. At the same time the customer deposits increased by Kshs. 3.3 million. As of 30<sup>th</sup> June 2020, the Trust had Kshs.74.1 million in cash and cash equivalents, inventory of Kshs.7.5 million, receivables and prepayments of Kshs 63.4 million and tax asset of Kshs. 8.4 million. The total current assets stood at Kshs.153.6 million and total current liabilities of Kshs.156.3 million made of Consumer deposits of Kshs. 44 million and payables and accruals of Kshs.112.3 million. The Trust improved on working capital by 12.1 million from negative 14.8 million previously stated.

The management's view on the Trust's going concern from its financial status is that the Trust will continue to operate under the Meru County Urban Water and Sanitation Corporation. The Corporation was created under the Meru County Water and Sanitation Services Act 2014.



**CORPORATE SOCIAL RESPONSIBILITY STATEMENT FOR THE YEAR ENDED 30<sup>TH</sup>  
JUNE 2020**

The Trust recognizes that it has responsibility to all stakeholders which includes the interests of customers, community and the employees. There is need for the Trust to foster amicable relationship with all the stakeholders, taking into consideration the impact of the Trust's operations on the local communities and the surrounding environment where it operates.

**The customer**

MEWASS has continued to engage with its customers so as to interact and come up with lasting solutions affecting them by providing and delivering helpful professional service all the time. For instance our customers are always notified in cases of any interruptions of their water supply through short message services as well as radio announcements.

MEWASS has got a website whereby our customers are advised on water saving tips. New customers can also download the application forms at the comfort of their places. This has helped MEWASS build strong relationships with the customers who are the key persons in the organization.

The customer charter which is displayed at the customer care desk presents clearly how MEWASS has been keen on handling the matters that concern them.

**The Environment**

The Trust relies on the environment which provides water which is abstracted, treated and transmitted via pipeline to respective customers hence its conservation is crucial for sustainability. This is done by ensuring the conservation levies are remitted to the respective institutions.

On sewer management, the trust prioritizes and minimizes impact on the environment through environmentally responsible management and adherence to relevant statutory standards, most particularly with the sewerage treatment and disposal. However, due to the facility being overloaded, a new sewer treatment facility has been designed and funded by ADB through Tana Works Development Agency. The construction works are underway.

The trust continues to encourage energy conservation through use of energy efficient lighting within its offices and has installed power factoring systems in the water pumping system for power factor correction. The water treatment plant also uses certified chemicals in dosing the system.



**CORPORATE SOCIAL RESPONSIBILITY STATEMENT FOR THE YEAR ENDED 30<sup>TH</sup>  
JUNE 2020 CONT'D**

**The community**

During the course of its business activities the Trust seeks to make a positive impact on the community in which it operates. The Trust participated in support of the institutions programs by providing bottled water for the activities they were undertaking. These included Kaaga for the mentally challenged, Red Cross and County Government of Meru amongst others.

**Employees**

The Trust recognises that health, safety and training, play a key role in ensuring our employees commitment to responsibility in the workplace and a working environment in which personal and employment rights are upheld.

During the year an amount of kshs.8.8 million was spent to take care of the health of the employees with their immediate family members through procurement of a medical insurance cover scheme. Similarly, the Trust facilitated the employees for a capacity building. The key objective was to build cohesion as well as foster the MEWASS values and inspire staff to embrace positive change.

Effective policies and procedures are aligned with the trust needs and the encouragement of good communication process to assist in timely and consistent delivery of relevant information to employees. The employees are provided with personal protection equipment during their daily working routine. The trust provides equal opportunity to all employees and job applicants.

During the covid-19 pandemic, the employees were provided with masks, sanitizers and soap to contain the disease.



MERU WATER AND SEWERAGE SERVICES  
REGISTERED TRUSTEES

ANNUAL REPORTS AND FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30TH JUNE 2020

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**REPORT OF THE DIRECTORS**

The Directors submit their seventeen report and the audited financial statements for the year ended 30th June 2020 which show the state of the Trust's affairs.

**1. PRINCIPAL ACTIVITIES**

The principal activities of the Trust are the provision of water and sewerage services within the Meru Municipality and its environs.

**2. RESULTS**

The results for the year are set out on page 10.


**3. DIRECTORS**

The board members who served during the year are shown on page ii.

**4. AUDITORS**

The Auditor General is responsible for the statutory audit of the Trust in accordance with Article 229 of the Constitution of Kenya and the Public Audit Act 2015.

By order of the Board of Directors

  
Secretary

19th NOVEMBER 2020



STATEMENT OF DIRECTORS' RESPONSIBILITIES

Sections 164 of the Public Finance Management Act, 2012 requires that, at the end of each financial year, the Accounting Officer of a County Government Entity to prepare financial statements in accordance with the standards and formats prescribed by the Public Sector Accounting Standards Board.

The Directors are responsible for the preparation and presentation of the Trust's financial statements, which give a true and fair view of the state of affairs of the Trust for the year ended on 30th June 2020.

This responsibility includes:

- (i) maintaining adequate financial management arrangements and ensuring that these continue to be effective throughout the reporting period;
- (ii) maintaining proper accounting records, which disclose with reasonable accuracy at any time the financial position of the Trust;
- (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 Trust;
- (v) selecting and applying appropriate accounting policies; and
- (vi) making accounting estimates that are reasonable in the circumstances.

The Directors accept responsibility for the Trust's financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity with International Financial Reporting Standards (IFRS), and in the manner required by the PFM Act, 2012 and the Trust Deed registered under the Trustees (Perpetual Succession) Act Cap 164, of the Laws of Kenya. The Directors are of the opinion that the Trust's financial statements give a true and fair view of the state of Trust's transactions during the financial year ended June 30, 2020, and of the Trust's financial position as at that date. The Directors further confirm the completeness of the accounting records maintained for the Trust, which have been relied upon in the preparation of the Trust'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 entity will not remain a going concern for at least twelve months from the date of this statement.

**Approval of the financial statements**

The Trust's financial statements were approved by the Board of Directors on **19th November, 2020** and signed on its behalf by :

**DR. MWORIA MUGAMBI**

DIRECTOR..... )  
*[Signature]* )

19TH NOVEMBER 2020

**MR. JOSEPH MBERIA**

..... )  
*[Signature]* )

C.E.O..... )

# REPUBLIC OF KENYA

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NAIROBI

## **REPORT OF THE AUDITOR-GENERAL ON MERU WATER AND SEWERAGE SERVICES REGISTERED TRUSTEES FOR THE YEAR ENDED 30 JUNE, 2020**

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### REPORT ON THE FINANCIAL STATEMENTS

#### **Qualified Opinion**

I have audited the accompanying financial statements of Meru Water and Sewerage Services Registered Trustees set out on pages 10 to 28, which comprise the statement of financial position as at 30 June, 2020, statement of profit or loss and other comprehensive income, statement of changes in equity, statement of cash flows and statement of comparison of budget and actual amounts for the year then ended, and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, 2015. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

In my opinion, except for the effect of the matter described in the Basis for Qualified Opinion section of my report, the financial statements present fairly, in all material respects, the financial position of Meru Water and Sewerage Services Registered Trustees as at 30 June, 2020, and of its financial performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards (IFRS) and comply with Water Act, 2016 and the Trustee Act, CAP 167.

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

##### **Receivables and Prepayments**

The statement of financial position reflects receivables and prepayments totalling Kshs.63,351,547 as further disclosed in Note 16 to the financial statements. The balance includes trade receivables totalling Kshs.76,708,781 which in turn include debtors totalling Kshs.71,444,986 that arose between the year 1992 and 2005. Evidence of Management's action to recover or write-off the long overdue debts was not provided for audit. As a result Management may have failed to observe Regulation 83(2)(f) of the Public Finance Management (County Governments) Regulations, 2015 that requires each public entity to pursue debtors with appropriate sensitivity and rigour.

In the circumstance, the extent of recoverability, of the trade receivables and prepayments totalling Kshs.63,351,547 as at 30 June, 2020 could not be confirmed.

Consequently, the Company is technically insolvent and its financial statements have therefore been prepared on a going concern basis on the assumption it continue to receive support from the County Government of Meru and creditors.

Management has not disclosed measures, if any, taken to reverse the unfavorable financial performance.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the Meru Water and Sewerage Services Registered Trustees 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. Except for the matters described in the Basis for Qualified Opinion section, I have determined that there are no key audit matters to communicate in my report.

### **Other Matter**

#### **1.0 Budgetary Control and Performance**

##### **1.1 Revenue**

The statement of comparison of budget and actual amounts for the year under review reflects a revenue budget totalling Kshs.216,593,597 and actual revenue totalling Kshs.205,859,382 resulting to a net under-collection of Kshs.10,734,214 comprised of an under-collection of Kshs.11,704,228 and over-collection of Kshs.970,014 as follows:

<b>Audit Components</b>	<b>Final Budget (Kshs)</b>	<b>Actual Revenue (Kshs)</b>	<b>Under Collection (Kshs)</b>	<b>Over Collection (Kshs)</b>	<b>Ratio (%)</b>
Turnover	200,201,392	188,497,164	11,704,228		6
Other Income	16,392,205	17,362,219		970,014	6
<b>Total</b>	<b>216,593,597</b>	<b>205,859,382</b>	<b>11,704,228</b>	<b>970,014</b>	

##### **1.2 Expenditure**

The statement of comparison of budget and actual amounts reflects approved budgeted expenses totalling Kshs.216,593,597. However, total spending for the year amounted to

Kshs.187,910,460 resulting in net under-expenditure of Kshs.28,803,211 as indicated in the following table:

<b>Audit Component</b>	<b>Final Budget (Kshs)</b>	<b>Actual Budget (Kshs)</b>	<b>Under-Expenditure (Kshs)</b>	<b>Over-Expenditure (Kshs)</b>	<b>%</b>
Administration and Establishment Expenses	115,643,920	99,884,626	15,759,294		14
Selling and Distribution Expenses	100,428,973	87,385,056	13,043,917		13
Finance Costs	513,858	640,778	0	126,920	25
<b>Total</b>	<b>216,586,751</b>	<b>187,910,460</b>	<b>28,803,211</b>	<b>126,920</b>	

Management explained the revenue shortfall and under-expenditures as having resulted from the impacts of the Covid-19 pandemic. The high ratio of under-expenditure implied that some planned programmes and activities were not implemented for the benefit of the residents of Meru County.

#### **Prior Year issues**

The audit report for the previous year (2018/19) raised several issues on balances reflected in the financial statements for the year as well as on lawfulness and effectiveness in use of public resources and on effectiveness of internal control, risk management and governance. Management has indicated in the report on progress made in resolving the issues at Appendix I of the financial statement for the year under review that several of the issues had since been resolved and effort to resolve the remainder was ongoing. The actual status of the issues shall be confirmed after they are discussed by the Legislature.

#### **Other Information**

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

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

In connection with the audit of the financial statements, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or the knowledge obtained in the audit, or otherwise appears to be materially misstated. Based on the work I have performed on the other information obtained prior to the date of this auditor's report, if I conclude that

there is material misstatement of this other information, I am required to report that fact. I have nothing to report in this regard.

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

### **Conclusion**

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

### **Basis for Conclusion**

#### **Failure to Observe Ethnic Diversity in Employment**

Audit review of personnel records indicated that five (5) or 100% Members of the Board, five out of six or 83% of managers and fifty-eight of sixty-three or 95% of operational staff were drawn from the dominant ethnic community in Meru County.

Failure by the Company to uphold ethnic diversity was contrary to Section 7(1) of the National Cohesion and Integration Act, 2008 which requires public entities to reflect the diversity of the people in employment of staff.

In the circumstance, Meru Water and Sewerage Services Registered Trustees was in breach of the law.

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

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

### **Conclusion**

As required by Section 7(1)(a) of the Public Audit Act, 2015, based on the audit procedures performed, I confirm that, nothing has come to my attention to cause me to believe that internal controls, risk management and overall governance were not effective.

The audit was conducted in accordance with ISSAI 2315 and ISSAI 2330. The Standards require that I plan and perform the audit to obtain assurance about whether effective processes and systems of internal 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 such internal control as Management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error 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 Meru Water and Sewerage Services Registered Trustees ability to continue to sustain its services, 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 Meru Water and Sewerage Services Registered Trustees, 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 Meru Water and Sewerage Services Registered Trustees 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 noncompliance. 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 Meru Water and Sewerage Services Registered Trustees' policies and procedures may deteriorate.

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.
- Conclude on the appropriateness of 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 Meru Water and Sewerage Services Registered Trustees' ability to continue as a going concern or to sustain its services. 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 Meru Water and Sewerage Services Registered Trustees to cease to continue as a going concern or 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 Meru Water and Sewerage Services Registered Trustees 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.

  
CPA Nancy Gathungu, CBS  
AUDITOR-GENERAL

Nairobi

11 February, 2022



**MERU WATER AND SEWERAGE SERVICES  
REGISTERED TRUSTEES**

**ANNUAL REPORTS AND FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30TH JUNE 2020**

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

	Notes	2019-2020 <u>Kshs</u>	2018-2019 <u>Kshs</u>
<b>TURNOVER</b>	6	188,497,164	172,537,775
Other Income	7	<u>17,362,219</u>	<u>23,505,351</u>
<b>Total Operating Income</b>		<b>205,859,382</b>	<b>196,043,126</b>
<b>EXPENSES:</b>			
Administration and Establishment	8(a)	(81,379,044)	(71,886,659)
Selling and Distribution	9	<u>(87,385,056)</u>	<u>(91,953,617)</u>
Depreciation of property, plant and equipment	8(b)	(18,324,622)	(17,443,833)
Amortisation of intangible assets	8(c)	(180,960)	(258,515)
		<u>(187,269,683)</u>	<u>(181,542,623)</u>
Surplus/(Deficit) from Operating Activities		<b>18,589,700</b>	<b>14,500,502</b>
Net Finance Costs	10	<u>(131,297)</u>	<u>(177,498)</u>
Surplus/(Deficit) Before Taxation		18,458,402	14,323,004
Taxation	12(a)	<u>(2,420,495)</u>	<u>(1,097,420)</u>
Surplus/(Deficit) after Taxation		<b><u>16,037,908</u></b>	<b><u>13,225,584</u></b>



MERU WATER AND SEWERAGE SERVICES  
REGISTERED TRUSTEES

ANNUAL REPORTS AND FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30TH JUNE 2020

STATEMENT OF FINANCIAL POSITION AS AT 30TH JUNE 2020

	Notes	2019-2020 Kshs	2018-2019 Kshs
<b>ASSETS</b>			
<b>NON-CURRENT ASSETS</b>			
Property, plant & equipment	13	209,557,158	211,899,180
Intangible assets	14	<u>5,141,741</u>	<u>603,201</u>
		<b><u>214,698,899</u></b>	<b><u>212,502,381</u></b>
<b>CURRENT ASSETS</b>			
Inventory	15	7,599,200	6,259,496
Receivables and prepayments	16	63,351,547	90,113,879
Tax asset	12(c)	8,477,916	10,388,931
Cash and cash equivalents	17	<u>74,183,862</u>	<u>29,716,989</u>
		<b><u>153,612,526</u></b>	<b><u>136,479,295</u></b>
<b>CURRENT LIABILITIES</b>			
Consumer deposits	19	44,047,229	40,743,955
Payables and accruals	20	112,310,952	110,565,211
		<b><u>156,358,181</u></b>	<b><u>151,309,166</u></b>
<b>WORKING CAPITAL</b>		<b><u>(2,745,655)</u></b>	<b><u>(14,829,870)</u></b>
<b>NET ASSETS</b>		<b><u>211,953,244</u></b>	<b><u>197,672,511</u></b>
<b>FINANCED BY</b>			
Grants	18	911,297	1,057,384
Revenue reserves		<u>195,337,835</u>	<u>179,299,927</u>
		<b><u>196,249,132</u></b>	<b><u>180,357,311</u></b>
<b>NON-CURRENT LIABILITY</b>			
Deferred grant income	24	15,704,112	17,315,200
<b>TOTAL</b>		<b><u>211,953,244</u></b>	<b><u>197,672,511</u></b>

The financial statements were approved by the Board of Directors on 19TH NOVEMBER, 2020 and signed on its behalf by:

MR. JOSEPH K. MBERIA

CHIEF EXECUTIVE  
OFFICER

CPA LYDIAH MUKAMI  
(M/No.22817)

FINANCE MANAGER

19TH NOVEMBER  
2020

DR. MWORIA MUGAMBI

CHAIRMAN OF THE BOARD



MERU WATER AND SEWERAGE SERVICES  
REGISTERED TRUSTEES

ANNUAL REPORTS AND FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30TH JUNE 2020

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

	Revenue Reserves	Total
	<u>Kshs</u>	<u>Kshs</u>
At 1st July 2018	166,074,343	166,074,343
Surplus/(Deficit) for the year	13,225,584	13,225,584
At at 30th June 2019	<u>179,299,927</u>	<u>179,299,927</u>
At 1st July 2019	179,299,927	179,299,927
Surplus/(Deficit) for the year	16,037,908	16,037,908
At at 30th June 2020	<u>195,337,835</u>	<u>195,337,835</u>



MERU WATER AND SEWERAGE SERVICES  
REGISTERED TRUSTEES

ANNUAL REPORTS AND FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30TH JUNE 2020

STATEMENT OF CASHFLOWS FOR THE YEAR ENDED 30 JUNE 2020

	Notes	2019-2020 <u>Kshs</u>	2018-2019 <u>Kshs</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Surplus/(Deficit) before taxation		18,458,402	14,323,004
Adjustments for:			
Depreciation	13	18,324,622	17,443,833
Deferred income	7	(1,757,175)	(2,076,121)
Armortisation of intangible assets	14	180,960	258,515
Interest Income	7	(3,396,534)	(2,061,715)
		<u>13,351,873</u>	<u>13,564,511</u>
<b>Surplus/Deficit before changes in working capital</b>		<b>31,810,275</b>	<b>27,887,515</b>
<b>Changes in Working Capital</b>			
Increase/Decrease in Inventory		(1,339,704)	518,770
Increase/Decrease in Receivables and prepayments		26,762,332	(21,624,949)
Increase in Consumer deposits		3,303,274	3,896,000
Increase in Payables and accruals		<u>1,745,742</u>	<u>3,034,483</u>
		<u>30,471,644</u>	<u>(14,175,694)</u>
<b>Cash Generated from Operations</b>		<b><u>62,281,919</u></b>	<b><u>13,711,821</u></b>
Taxation Paid	12(b)	(509,480)	(354,843)
<b>Net cash generated from operations</b>		<b><u>61,772,439</u></b>	<b><u>13,356,978</u></b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Purchase of Intangible assets	14	(4,719,500)	(208,800)
Purchase of fixed assets	13	<u>(15,982,600)</u>	<u>(18,404,848)</u>
<b>Net cash used in investing activities</b>		<b><u>(20,702,100)</u></b>	<b><u>(18,613,648)</u></b>
<b>Financing Activities</b>			
Interest received	7	3,396,534	2,061,715
<b>Net cash generated from financing activities</b>		<b><u>3,396,534</u></b>	<b><u>2,061,715</u></b>
<b>INCREASE /(DECREASE)IN CASH AND CASH EQUIVALENTS</b>		<b><u>44,466,873</u></b>	<b><u>(3,194,956)</u></b>
<b>CASH AND CASH EQUIVALENTS:</b>			
<b>AT THE START OF THE YEAR</b>		<b><u>29,716,989</u></b>	<b>32,911,944</b>
<b>AT THE END OF THE YEAR</b>		<b><u>74,183,862</u></b>	<b><u>29,716,989</u></b>

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

	Original budget	Adjustments	Final budget	Actual on comparable basis	Performance difference
	2019-2020	2019-2020	2019-2020	2019-2020	2019-2020
	Kshs	Kshs	Kshs	Kshs	Kshs
<b>TURNOVER</b>					
Water Revenue	152,165,195	0	152,165,195	139,734,806	(12,430,389)
Sewer Revenue	25,719,648	0	25,719,648	28,155,553	2,435,905
Other Revenues	8,964,549	0	8,964,549	9,408,890	444,341
Bottled Water Revenue	13,352,000	0	13,352,000	11,197,916	(2,154,084)
	<u>200,201,392</u>	<u>0</u>	<u>200,201,392</u>	<u>188,497,164</u>	<u>(11,704,228)</u>
<b>OTHER INCOME</b>					
Materials and labour charges	9,583,755	0	9,583,755	8,000,755	(1,583,000)
Interest income	1,219,167	0	1,219,167	3,396,534	2,177,367
Water bowser income	29,138	0	29,138	54,250	25,112
Miscellaneous income	9,713	0	9,713	229,599	219,886
Exhauster Revenue	5,550,432	0	5,550,432	3,923,906	(1,626,526)
Revenue grant	0	0	0	1,757,175	1,757,175
	<u>16,392,205</u>	<u>0</u>	<u>16,392,205</u>	<u>17,362,219</u>	<u>970,014</u>
<b>TOTAL REVENUES</b>	<b>216,593,597</b>	<b>0</b>	<b>216,593,597</b>	<b>205,859,382</b>	<b>(10,734,215)</b>
<b>ADMINISTRATION AND ESTABLISHMENT EXPENSES</b>					
Salaries, Wages and Allowances	49,163,548		49,163,548	42,691,105	6,472,443
Staff Welfare	8,395,000	815,875	9,210,875	9,232,266	(21,391)
Repairs and Maintenance	2,240,032		2,240,032	2,028,874	211,158
Cash Collection Charges	534,705	108,877	643,582	673,111	(29,529)
Office Supplies	1,777,015	120,000	1,897,015	1,905,599	(8,584)
Training	7,038,175	(815,875)	6,222,300	3,340,470	2,881,830
Motor Vehicle Running Expenses	3,334,347		3,334,347	2,456,547	877,800
Telephone and Email	2,236,212		2,236,212	1,975,507	260,705
Audit Fees	464,000		464,000	464,000	0
Travelling and Subsistence	2,976,970	490,000	3,466,970	3,428,124	38,847
Directors' Fees and Allowances	2,817,511	(1,012,589)	1,804,922	1,108,215	696,707
Meetings and Conferences	276,386	99,354	375,740	385,916	(10,176)
Electricity and Generator expense	709,151		709,151	547,715	161,436
Advertising and Public Relations	1,461,490		1,461,490	1,048,168	413,322
Donations and Subscriptions	437,900		437,900	258,200	179,700
Social activities expenses	100,000	(50,000)	50,000	0	50,000
Entertainment expenses	107,979	50,240	158,219	152,080	6,139
Legal, Professional Fees & Levies	7,047,678		7,047,678	3,674,090	3,373,588
Security	1,784,000		1,784,000	1,926,999	(142,999)
Uniforms	1,567,400		1,567,400	1,147,370	420,030
Insurances	1,600,000		1,600,000	911,854	688,146
Postage	125,417		125,417	74,253	51,164
Decrease in provision for doubtful	0		0	(215,594)	215,594
Games & Sports - Wasca	2,020,900		2,020,900	1,709,038	311,862
General Office Expenses	126,922	50,000	176,922	163,300	13,622
Assorted Tools	214,000	96,000	310,000	291,837	18,163
<b>Sub-Total Admin. &amp; Est. Exper</b>	<b>98,556,738</b>	<b>(48,118)</b>	<b>98,508,620</b>	<b>81,379,044</b>	<b>17,129,576</b>
Depreciation	16,758,913	0	16,758,913	18,324,622	(1,565,709)
Amortisation of intangible assets	376,387	0	376,387	180,960	195,427
<b>Total Admin. &amp; Est. Expenses</b>	<b>115,692,038</b>	<b>(48,118)</b>	<b>115,643,920</b>	<b>99,884,626</b>	<b>15,759,292</b>
<b>SELLING AND DISTRIBUTION EXPENSES</b>					
Salaries, Wages and Allowances	40,038,188		40,038,188	33,560,187	6,478,001
License fee	8,613,423		8,613,423	7,564,200	1,049,223
Repairs and Maintenance	4,033,540	(434,600)	3,598,940	1,557,416	2,041,524
Rehabilitation-sewer system	1,050,000		1,050,000	822,843	227,157
Assorted Tools	333,100	(96,000)	237,100	102,645	134,455
Travel and subsistence	2,116,928	(490,000)	1,626,928	1,271,876	355,052
Excise Duty	1,812,000		1,812,000	1,172,900	639,100
Office supplies	515,342	223,718	739,060	733,796	5,264
Operation & Maintenance pipeline	10,956,937		10,956,937	11,411,266	(454,329)
Electricity	9,904,132		9,904,132	10,224,774	(320,642)
Chemicals and laboratory expense	6,163,300		6,163,300	5,608,930	554,370
Motor Vehicle Running Expenses	3,620,351		3,620,351	3,111,544	508,807
Bottling Plant Expenses	5,301,230		5,301,230	4,875,739	425,491
Minor works	507,600	845,000	1,352,600	1,344,142	8,458
Night flow measurements	146,000		146,000	108,000	38,000
Exhauster Expenses	4,104,784		4,104,784	3,515,509	589,275
Water Analysis	864,000		864,000	339,900	524,100
Non revenue activities	300,000		300,000	59,390	240,610
<b>Total Selling &amp; Dis. Expenses</b>	<b>100,380,855</b>	<b>48,118</b>	<b>100,428,973</b>	<b>87,385,056</b>	<b>13,043,916</b>
Bank charges	148,108	0	148,108	131,297	16,811
Withholding tax	365,750	0	365,750	509,480	(143,730)
<b>Total Finance costs</b>	<b>513,858</b>	<b>-</b>	<b>513,858</b>	<b>640,778</b>	<b>(126,919)</b>
<b>Surplus</b>	<b>6,846</b>	<b>-</b>	<b>6,846</b>	<b>-</b>	<b>6,846</b>
<b>TOTAL EXPENSES</b>	<b>216,593,597</b>	<b>0</b>	<b>216,593,597</b>	<b>187,910,460</b>	<b>28,676,291</b>
<b>Tax For the Year</b>				2,420,495	
Tax paid				(509,480)	
Net Tax				<u>1,911,015</u>	



**MERU WATER AND SEWERAGE SERVICES  
REGISTERED TRUSTEES**

**ANNUAL REPORTS AND FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30TH JUNE 2020**

**STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS  
FOR THE YEAR ENDED 30TH JUNE 2020 (CONT'D)**

*The budgets projections are actualized when the assumptions taken in the preparation of the same crystallize during the implementation period.*

*During the year in review, several external factors worked for and against the Trust expectations.*

*These factors include and are not limited to the following;*

- a) *The budget line for bottled water had a negative variance attributed to closure of businesses due to the prevailing covid-19 pandemic hence could not get the market to sell the products*
- b) *The budget line for materials and labour charges had a negative variance as there were less customers who were connected during the year than anticipated*
- c) *The interest income generated during the year was more than budgeted due to more deposit funds in fixed the deposit accounts.*
- d) *Bowser water income-There were more customers who bought bulk water than was anticipated*
- e) *The generation of more miscellaneous income was as a result of mobile phone surcharge & writing off of long outstanding invoices*
- f) *Exhauster Revenue-There was less revenues on exhauster services than was anticipated during the year since most of the customers had closed their businesses during the pandemic crisis*
- g) *The budget line for Staff salaries and other allowances had a positive variance as the unionisable staff were awarded 3.5 % increase in court compared to the budgeted amount of 5% .*
- h) *The budget line for training had a positive variance due to restrictions of movement within the country and the measures that were taken to contain the pandemic*
- i) *The budget line for motor vehicle running expenses had a positive variance due to purchase of a new motorvehicle which had less breakages during the year*
- j) *The budget line for telephone and email had a positive variance due to the disconnection of one of the office lines*
- k) *The budget line for directors expenses had a positive variance due to fewer meetings held during the period caused by the measures that were taken to contain the pandemic.*
- l) *The budget line for electricity,generator expenses,Advertising & public relations,donations & subscriptions,social activities,legal,professional fees & levies,uniforms,insurances,repairs and maintenance ,rehabilitation of sewer postage,games & sports,assorted tools & travelling had a positive variance due to scaling down of expenses.*
- m) *The budget line for the Armotisation of intangible assets has a positive variance due to acquisition of software which is in progress but has not been completed.*
- n) *The budget line for licensee fee had a positive variance due to the fact that it is dependent on the amount of water billed*
- o) *The budget line for excise duty had a positive variance as it is dependent on the amount production*
- p) *The budget line for nightflow measurements,exhauster expenses,water analysis,non revenue activities had a positive variance due to scaling down of activities which could not take place due to the pandemic situation*
- q) *The budget line for bank charges had a positive variance attributed to fewer transactions made within the period*
- r) *The budget line for Witholding tax had a negative variance due to increased interest earned on fixed deposit.*



## NOTES TO THE FINANCIAL STATEMENTS

### 1 GENERAL INFORMATION

Meru Water and Sewerage Services Registered Trustees is established under the Trustees(Perpetual Succession) Act Cap 167 and derives its authority and accountability from the Water Act 2016. The Trust is wholly owned by the County Government of Meru and is domiciled in Kenya. The Trust principal activity is to provide water and sewerage services to the residents Meru Municipality and its Environs.

### 2 STATEMENT OF COMPLIANCE AND BASIS OF PREPARATION

The Trust's financial statements have been prepared in accordance with and comply with International Financial Reporting Standards (IFRS). The financial statements are presented in Kenya shillings, which is the functional and reporting currency of the Trust. The accounting policies have been consistently applied to all the years presented.

The financial statements have been prepared on the basis of historical cost, unless stated otherwise. The financial statements are prepared on accrual basis. The Cashflow statement is prepared using indirect method.

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

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

##### **IFRS 16:LEASES**

The new standard effective for annual periods beginning on or after 1st January 2019,

Requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying assets is of low value.

A lessee is required to recognise a right- of- use of asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments

The standard has no impact on the Trust's 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.

##### **Amendments to IFRS 9 titled Prepayments features with negative compensation (Issued in October 2017)**

The amendments,applicable to annual periods beginning on or after 1 January 2020,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. The standard has no impact on the Trust's financial statements.

##### **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 1 January 2020, clarify that an entity applies IFRS 9, rather than IAS 28, in accounting for long- term interests in associates and joint ventures.

The standard has no impact on the Trust's financial statements.

##### **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 1 January 2020,provide additional guidance on applying the acquisition method to particular types of business combination.

The standard has no impact on the Trust's financial statements.

##### **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 2020, 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.

The standard has no impact on the Trust's financial statements.

##### **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 2020, 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. The standard has no impact on the Trust's financial statements.



## NOTES TO THE FINANCIAL STATEMENTS

### APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) (CONT'D)

#### **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 2020, 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. The standard has no impact on the Trust's financial statements.

#### **Amendments to IAS 19 titled Plan Amendment, Curtailment or Settlement (issued in February 2019)**

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 2020, 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.

The standard has no impact on the Trust's financial statements.

#### **Amendments to IAS 1 and IAS 8 Definition of material**

The amendments are intended to make the definition of material in IAS 1 earlier to understand and are not intended to alter the underlying concept of materiality in IFRS Standards. The concept of 'obscuring' material information with immaterial information has been included as part of the new definition. The threshold for materiality influencing users has been changed from 'could influence' to 'could reasonably be expected to influence'. The definition of material in IAS 8 has been replaced by a reference to the definition of material in IAS 1. In addition, the IASB amended other Standards and the Conceptual Framework that contain a definition of material or refer to the term 'material' to ensure consistency. The amendments are applied prospectively for annual periods beginning on or after 1 January 2020, with earlier application permitted. The standard has no impact on the Trust's financial statements.

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

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

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

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

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.

*The Directors do not plan to apply any of the above until they become effective. Based on their assessment of the potential impact of application of the above, they do not expect that there will be a significant impact on the company's financial statements.*

### iii) Early adoption of standards

The entity did not early – adopt any new or amended standards in year 2019

## 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 recognised to the extent that it is probable that future economic benefits will flow to the Trust and the revenue can be reliably measured. Revenue is recognised 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 Trust's activities as described below.

- i) Revenue from the sale of goods and services is recognised in the year in which the Trust delivers products to the customer, the customer has accepted the products and collectability of the related receivables is reasonably assured.



NOTES TO THE FINANCIAL STATEMENTS (Continued)

III SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES(Continued)

- ii) **Grants from National Government** are recognised in the year in which the Trust 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 is recognised in profit or loss on a time proportion basis using the effective interest rate method.
- iv) **Other income** is recognised as it accrues.
- b) **In-kind contributions**  
In-kind contributions are donations that are made to the *Trust* 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.
- c) **Property, plant and equipment**  
All property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the items. When significant parts of property, plant and equipment are required to be replaced at intervals, the entity recognizes such parts as individual assets with specific useful lives and depreciates them accordingly. All other repair and maintenance costs are recognized in surplus or deficit as incurred. Where an asset is acquired in a non-exchange transaction for nil or nominal consideration the asset is initially measured at its fair value.
- 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 costs 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 reducing balance 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:
- | Depreciation policy        |       |                                   |       |
|----------------------------|-------|-----------------------------------|-------|
| Freehold land              | Nil   | Water meters                      | 20.0% |
| Buildings                  | 2.5%  | Computers and typewriters         | 30.0% |
| Water & sewerage treatment | 2.5%  | Amortisation of intangible assets | 30.0% |
| Furniture and equipment    | 12.5% | Workshop equipment                | 33.3% |
| Motor vehicles             | 25.0% | Pipes and fittings                | 12.5% |
- 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 amortised over the estimated useful life of the intangible assets from the year that they are available for use.
- f) **Amortisation of intangible assets**  
Amortisation is calculated on the reducing balance basis over the estimated useful life of computer software.
- g) **Inventories**  
Inventories are stated at the lower of cost and net realisable value. The cost of inventories comprises purchase price, import duties, transportation and handing charges, and is determined on the moving average price method.
- h) **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.
- i) **Taxation**  
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 Kenya



NOTES TO THE FINANCIAL STATEMENTS (Continued)

II SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES(Continued)

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

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

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

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

Deferred tax relating to items recognized outside surplus or deficit is recognized outside surplus or deficit.

Deferred tax items are recognized in correlation to the underlying 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.

**j) Cash and cash equivalents**

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

**k) Borrowing costs**

Borrowing costs are capitalized against qualifying assets as part of property, plant and equipment. Such borrowing costs are capitalized over the period during which the asset is being acquired or constructed and borrowings have been incurred. Capitalization ceases when construction of the asset is complete. Further borrowing costs are charged to the statement of financial performance.

**l) 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 Trust or not, less any payments made to the suppliers.

**m) Retirement benefit obligations**

The Trust provides retirement benefits for its employees. Defined benefit plans are post-employment benefit plans other than defined-contribution plans. The defined benefit funds are actuarially valued tri-annually on the projected unit credit method basis. Deficits identified are recovered through lump sum payments or increased future contributions on proportional basis to all participating employers. The contributions and lump sum payments reduce the post-employment benefit obligation.

**n) Budget information**

The budget for FY 2019-2020 was approved by the Board of Directors on 27th June 2019. The financial statements and the Budget are prepared on accrual basis using a classification based on the nature of expenses in the statement of financial performance.

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.



**MERU WATER AND SEWERAGE SERVICES  
REGISTERED TRUSTEES**

**ANNUAL REPORTS AND FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30TH JUNE 2020**

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

**o) Comparative figures**

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

**p) 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, 2020.

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

The preparation of the Trust's financial statements in conformity with IFRS requires the 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.

**i) 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 Trust bases 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 Trust. Such changes are reflected in the assumptions when they occur.

**ii) Provisions**

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions is included in Note 14.

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.

**Provision for Bad and Doubtful debts**

**Dormant accounts provision** - debtor whose accounts are not active for more than five years are provided for in full less the deposit paid upon opening the accounts, a **General provision** for doubtful debts is provided at ten (10) percent after deducting the dormant account debts.

**Offsetting Financial Assets and Financial Liabilities**

The Trust did not have any offsetting arrangements in place during the reporting period.

**iii) Financial Risk Management**

The Trust's activities expose it to a variety of financial risks including credit and liquidity risks and effects of changes in foreign currency. The Trust'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 Trust 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 Trust's financial risk management objectives and policies are detailed below:

**a) Credit risk**

The Trust 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.

The 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 Trustees. The amounts presented in the statement of financial position are net of allowances for doubtful receivables, estimated by the Trust'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 Trust's maximum exposure to credit risk is made up as follows:



MERU WATER AND SEWERAGE SERVICES  
REGISTERED TRUSTEES

ANNUAL REPORTS AND FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30TH JUNE 2020

NOTES TO THE FINANCIAL STATEMENTS (Continued)

	Fully performing Kshs.	Impaired Kshs.	Total Kshs.
<b>At 30 June 2020</b>			
Trade receivables	58,042,216	18,666,565	76,708,781
Bank balances	74,148,405	-	74,148,405 (Excludes cash at hand)
<b>At 30 June 2019</b>			
Trade receivables	52,562,826	18,882,160	71,444,986
Bank balances	29,701,799		29,701,799 (Excludes cash at hand)

	Less than 1 month Kshs.	Between 1-3 months Kshs.	Over 4 months Kshs.	Total Kshs.
<b>At 30 June 2020</b>				
Trade Receivables	12,033,648	5,064,548.80	59,610,584	76,708,781
<b>At 30 June 2019</b>				
Trade receivables	13,044,420	7,930,202.00	50,470,364	71,444,986

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

**b) Liquidity risk**

The responsibility for liquidity risk management rests with the Trustees. The Trust manages liquidity risk through continuous monitoring of forecasts and actual cash flows.

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

	Less than 1 month Kshs.	Between 1-3 months Kshs.	Over 4 months Kshs.	Total Kshs.
<b>At 30 June 2020</b>				
Trade payables	4,830,077	2,207,914	53,102,955	62,818,255
<b>At 30 June 2019</b>				
Trade payables	4,621,734	3,339,077	52,728,638	60,689,449

**iv) Market risk**

**a) Foreign currency risk**

The Trust does not have transactional currency exposures

**b) Interest rate risk**

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

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

**5. THE WATER SECTOR REFORMS**

The Constitution of Kenya 2010 under the Fourth Schedule placed water and sanitation services to the County Governments. Similarly, the Water Act 2016 provides for the County Governments to establish Water Service providers.

The County Assembly of Meru passed the Meru County Water and Sanitation Services Act 2014 to manage the provision of water and sanitation services within Meru County urban areas.



**MERU WATER AND SEWERAGE SERVICES  
REGISTERED TRUSTEES**

**ANNUAL REPORTS AND FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30TH JUNE 2020**

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

	Note:	2019-2020	2018-2019
		<u>Kshs</u>	<u>Kshs</u>
<b>6 TURNOVER</b>			
Water Revenue		139,734,806	129,825,947
Sewer Revenue		28,155,553	25,697,465
Other Revenues		9,408,890	8,441,006
Bottled Water Revenue		11,197,916	8,573,357
		<u>188,497,164</u>	<u>172,537,775</u>
Other Revenue includes Reconnection penalties, customer connection repair charges .			
<b>7 OTHER INCOME</b>			
Materials and labour charges		8,000,755	9,651,481
Interest income		3,396,534	2,061,715
Bowser water income		54,250	14,800
Miscellaneous income		229,599	4,638,134
Exhauster Revenue		3,923,906	5,063,100
Deferred Income		1,757,175	2,076,121
		<u>17,362,219</u>	<u>23,505,351</u>
<b>8 ADMINISTRATION AND ESTABLISHMENT EXPENSES</b>			
Salaries, Wages and Allowances		42,691,105	40,084,713
Staff Welfare		9,232,266	5,115,997
Repairs and Maintenance		2,028,874	1,182,665
Cash Collection Charges		673,111	615,432
Office Supplies		1,905,599	1,729,162
Training		3,340,470	2,558,556
Motor Vehicle Running Expenses		2,456,547	2,698,526
Telephone and Email		1,975,507	1,973,517
Audit Fees		464,000	464,000
Travelling and Subsistence		3,428,124	2,697,985
Directors' Fees and Allowances		1,108,215	2,747,221
Meetings and Conferences		385,916	586,807
Electricity and Generator expenses		547,715	587,715
Advertising and Public Relations		1,048,168	391,447
Donations and Subscriptions		258,200	209,080
Social activities expenses		-	55,890
Entertainment expenses		152,080	93,848
Legal, Professional Fees & Levies		3,674,090	2,843,548
Security		1,926,999	1,840,500
Uniforms		1,147,370	783,849
Insurances		911,854	727,191
Postage		74,253	53,670
Decrease in provision for doubtful debts		(215,594)	(684,719)
Games & Sports - Wasca		1,709,038	848,335
General Office Expenses		163,300	1,463,647
Assorted Tools		291,837	218,076
<b>a Total Administration &amp; Establishment Expenses</b>		<u>81,379,044</u>	<u>71,886,659</u>
<b>b Depreciation</b>	<b>13</b>	18,324,622	17,443,833
<b>c Amortisation of intangible assets</b>	<b>14</b>	180,960	258,515
		<u>99,884,626</u>	<u>89,589,006</u>



MERU WATER AND SEWERAGE SERVICES  
REGISTERED TRUSTEES

ANNUAL REPORTS AND FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30TH JUNE 2020

NOTES TO THE FINANCIAL STATEMENTS (Continued)

	2019-2020	2018-2019
	<u>Kshs</u>	<u>Kshs</u>
<b>9 SELLING AND DISTRIBUTION EXPENSES</b>		
Salaries, Wages and Allowances	33,560,187	36,312,071
License fee	7,564,200	5,590,831
Repairs and Maintenance	1,557,416	1,134,745
Rehabilitation-sewer system	822,843	167,903
Assorted Tools	102,645	201,440
Travel and subsistence	1,271,876	1,400,431
Excise Duty	1,172,900	1,183,833
Office supplies	733,796	532,250
Operation & maintenance - pipelines	11,411,266	13,163,467
Electricity	10,224,774	10,364,461
Chemicals and laboratory expenses	5,608,930	4,862,724
Motor Vehicle Running Expenses	3,111,544	3,466,467
Bottling Plant Expenses	4,875,739	5,679,033
Minor works	1,344,142	3,168,104
Night flow measurements	108,000	64,000
Exhauster Expenses	3,515,509	3,986,588
Water Analysis	339,900	532,000
Non revenue activities	59,390	143,270
	<u>87,385,056</u>	<u>91,953,617</u>
<b>10 NET FINANCE COSTS</b>		
Bank charges	131,297	177,498
	<u>131,297</u>	<u>177,498</u>
<b>11 SURPLUS BEFORE TAXATION</b>		
The surplus/(deficit) before taxation is stated after charging:		
Depreciation	18,324,622	17,443,833
Board of Directors emoluments	1,108,215	2,747,221
Auditor's remuneration	464,000	464,000
Net finance costs	131,297	177,498
Interest income	<u>3,396,534</u>	<u>2,061,715</u>
<b>12 TAXATION</b>		
<b>a) Corporate Tax</b>		
The Trust's current tax charge is computed in accordance with income tax rules applicable on surplus generated during the year.		
Surpluses as per the accounts	18,458,402	14,323,004
<b>Add:</b> non allowable expenses	<u>18,861,918</u>	<u>17,702,348</u>
	<b>37,320,320</b>	<b>32,025,352</b>
<b>Less:</b> Allowable expenses	<u>(25,881,167)</u>	<u>(26,291,164)</u>
deferred income for the year	(1,757,175)	(2,076,121)
Taxable income	9,681,979	3,658,067
Corporate Tax at 25% for year 2020	<b>2,420,495</b>	<b>1,097,420</b>
<b>b) Taxation paid</b>		
Withholding tax on interest income	509,480	354,843
	<u>509,480</u>	<u>354,843</u>
<b>c) Tax Asset</b>		
This represents Tax advance payments to Kenya Revenue Authority as at the end of the financial year. The Trust has recognised principal Taxes and no interest and penalties. The application for waiver of interest and penalties is pending with the KRA	<b>8,477,916</b>	<b>10,388,931</b>

**ANNUAL REPORTS AND FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30TH JUNE 2020**

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

**13 PROPERTY, PLANT AND EQUIPMENT**

	Free Hold Land	Buildings	Office Computers	Motor Vehicles	WTP Equipment & Tools	Water Meters & Equipment	Office Furniture & Equipment	Pipes & Fittings	Water & sewerage treatment	Work in Progress	Total
	Kshs.	Kshs.	Kshs.	Kshs.	Kshs.	Kshs.	Kshs.	Kshs.	Kshs.	Kshs.	Kshs.
<b>COST/VALUATION</b>											
At 1st July 2018	5,246,980	9,148,557	14,928,490	25,711,736	5,556,868	57,792,371	9,371,861	75,686,170	126,399,167	10,351,633	306,715,097
Additions	2,260,965	0	338,361	5,757,000	-	5,754,381	141,760	4,374,472	0	(222,090)	18,404,848
At 30th June 2019	7,507,945	9,148,557	15,266,851	31,468,736	5,556,868	63,546,752	9,513,621	80,060,642	126,399,167	10,129,543	358,598,681
At 1st July 2019	7,507,945	9,148,557	15,266,851	31,468,736	5,556,868	63,546,752	9,513,621	80,060,642	126,399,167	10,129,543	358,598,681
Additions	-	-	487,353	6,731,542	354,844	8,359,733	49,128	-	0	-	15,982,600
At 30th June 2020	7,507,945	9,148,557	15,754,203	38,200,278	5,911,712	71,906,485	9,562,749	80,060,642	126,399,167	10,129,543	374,581,281
<b>DEPRECIATION</b>											
At 1st July 2018	0	2,160,926	13,634,869	21,029,268	3,782,482	40,405,099	6,437,116	35,564,949	6,240,959	0	129,255,669
Charge for the year	0	174,691	489,594	2,609,867	590,870	4,628,331	384,563	5,561,962	3,003,955	0	17,443,833
At 30th June 2019	0	2,335,617	14,124,464	23,639,135	4,373,353	45,033,429	6,821,679	41,126,910	9,244,914	0	146,699,502
At 1st July 2019	0	2,335,617	14,124,464	23,639,135	4,373,353	45,033,429	6,821,679	41,126,910	9,244,914	0	146,699,502
Charge for the year	0	170,324	488,922	3,640,286	512,274	5,374,611	342,634	4,866,716	2,928,856	0	18,324,622
At 30th June 2020	0	2,505,940	14,613,386	27,279,421	4,885,626	50,408,040	7,164,313	45,993,626	12,173,770	0	165,024,123
<b>NET BOOK VALUE</b>											
At 30th June 2020	7,507,945	6,642,617	1,140,818	10,920,857	1,026,086	21,498,444	2,398,436	34,067,015	114,225,397	10,129,543	209,557,158
At 30th June 2019	7,507,945	6,812,941	1,142,387	7,829,601	1,183,515	18,513,322	2,691,942	38,933,731	117,154,253	10,129,543	211,899,180

**NET BOOK VALUE**

At 30th June 2020	7,507,945	6,642,617	1,140,818	10,920,857	1,026,086	21,498,444	2,398,436	34,067,015	114,225,397	10,129,543	209,557,158
At 30th June 2019	7,507,945	6,812,941	1,142,387	7,829,601	1,183,515	18,513,322	2,691,942	38,933,731	117,154,253	10,129,543	211,899,180

Property, plant and equipment worth Kshs 19,269,448 donated to Meru Water and Sewerage Services at inception by the Government of Kenya and the Government of Japan are included in these financial statements. These include computers, furniture and fittings, laboratory equipment, motor vehicles and motor cycles, office and workshop equipment and water meters.

Assets of an undetermined value which were originally under the Meru Municipal Council and the then Ministry of Environment and Natural Resources are not included in these accounts. These include all distribution and storage tanks, structures and works at the water treatment plant, buildings, water pipes network, master meters, structures and works at the sewer treatment, sewerage conduit pipes networks and all the land on which these items are constructed. The Trust utilises all these assets to provide water and sewerage services to the residents of Meru Municipality and its environs.



MERU WATER AND SEWERAGE SERVICES  
REGISTERED TRUSTEES

ANNUAL REPORTS AND FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30TH JUNE 2020

NOTES TO THE FINANCIAL STATEMENTS (Continued)

	2019-2020	2018-2019
	<u>Kshs</u>	<u>Kshs</u>
<b>14 INTANGIBLE ASSETS</b>		
<b>COST</b>		
At July 1	7,367,499	7,158,699
Additions	-	208,800
At June 30	<u>7,367,499</u>	<u>7,367,499</u>
<b>AMORTISATION</b>		
At July 1	6,764,298	6,505,783
Charge for the year	<u>180,960</u>	<u>258,515</u>
<b>At June 30</b>	6,945,258	6,764,298
<b>NET BOOK VALUE</b>		
At June 30	<u><b>422,241</b></u>	<u><b>603,201</b></u>
<b>WORK IN PROGRESS</b>		
<b>At July 1</b>		
IMIS software	<u>4,719,500</u>	<u>-</u>
<b>At June 30</b>	<u><b>5,141,741</b></u>	<u><b>603,201</b></u>
<b>15 INVENTORIES</b>		
Pipes and fittings	6,327,526	5,956,566
Electrical fittings	12,539	12,539
Chemicals	435,000	-
Other items	824,136	290,391
	<u><b>7,599,200</b></u>	<u><b>6,259,496</b></u>
<b>16 RECEIVABLES AND PREPAYMENTS</b>		
Trade receivables	76,708,781	71,444,986
Provision for doubtful debts	-	-
- Dormant accounts	(12,217,430)	(13,041,846)
- General	<u>(6,449,135)</u>	<u>(5,840,314)</u>
	58,042,216	52,562,826
Other receivables, deposits and prepayments	<u>5,309,331</u>	<u>37,551,053</u>
	<u><b>63,351,547</b></u>	<u><b>90,113,879</b></u>
<b>17 CASH AND CASH EQUIVALENTS</b>	<b>ACCOUNT NO.</b>	
Cash in Hand		35,457
Cash at Bank		15,190
Standard Chartered bank	0102063431800	17,810,014
Equity Bank Limited	1040299452042	7,430,439
Mpesa Collection account	918350	6,187,672
		150,719
Equity Bank Limited	1040379968893	2,186,835
Equity Bank Limited	1040380013445	35,000,000
		12,000,000
		<u>15,000,000</u>
		<u><b>74,183,862</b></u>
		<u><b>29,716,989</b></u>
The funds in the fixed deposit will be used to finance the capital projects lined up for the year (see note 26)		
<b>18 GRANT</b>		
Balance as at 1st July	1,057,384	1,235,914
Less: Transfer to Revenue Reserves	<u>(146,087)</u>	<u>(178,530)</u>
Balance at 30th June	<b>911,297</b>	<b>1,057,384</b>
The capital grant represents assets donated to MEWASS by the Japanese Government and Tana Water Services Board		



MERU WATER AND SEWERAGE SERVICES  
REGISTERED TRUSTEES

ANNUAL REPORTS AND FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30TH JUNE 2020

NOTES TO THE FINANCIAL STATEMENTS (Continued)

	2019-2020 <u>Kshs</u>	2018-2019 <u>Kshs</u>
<b>19 CONSUMER DEPOSITS</b>		
These are refundable deposits paid by customers. The deposits are refunded when water services to a customer are terminated:	<u>44,047,229</u>	<u>40,743,955</u>
<b>20 PAYABLES AND ACCRUALS</b>		
Trade payables	62,818,255	63,822,679
Other payables and accruals	49,492,698	46,742,532
	<u>112,310,953</u>	<u>110,565,211</u>
<b>21 STAFF COSTS</b>		
Staff costs include:		
Contribution to retirement benefit scheme	5,291,311	4,483,374
Contribution to statutory pension scheme	298,800	362,146
Contribution to benevolent fund	79,100	82,100
Other salaries, wages and allowances	54,755,845	60,081,157
	<u>60,425,056</u>	<u>65,008,777</u>
<b>22 COMPENSATION OF KEY MANAGEMENT PERSONNEL</b>		
Basic salary	7,301,828	5,712,533
Other allowances	4,230,331	3,351,208
Retirement benefits	484,552	457,788
	<u>12,016,711</u>	<u>9,521,529</u>
<b>23 NUMBER OF EMPLOYEES</b>		
The number of employees as at 30th June was;	67	67
In addition to the above, MEWASS engages labour on short term contracts. As of June 2020, the number of employees on short-term contracts were 37		
<b>24 DEFERRED GRANT INCOME</b>		
Balance b/wd	17,315,200	19,212,791
Capitalized grants	(1,611,088)	(1,897,591)
	<u>15,704,112</u>	<u>17,315,200</u>
This relates to grants received from Water Services Trust Fund		



MERU WATER AND SEWERAGE SERVICES  
REGISTERED TRUSTEES

ANNUAL REPORTS AND FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30TH JUNE 2020

NOTES TO THE FINANCIAL STATEMENTS (Continued)

	2019-2020	2018-2019
	<u>Kshs</u>	<u>Kshs</u>
<b>25 CONTINGENT LIABILITIES</b>		
Value of award against MEWASS	17,853,494	17,853,494
<p>The Trust has a Kshs.17,853,494.00 claim in respect of a Land ownership dispute where Water Treatment /Storage Tanks are located. The Trust is vigorously defending itself through the court. The Trust lawyers are defending the Trust. A provision has been made in these accounts for this claim.</p>		
<b>26 CAPITAL COMMITMENTS</b>		
Authorized and contracted:	1,112,600	1,361,080
Authorized but not contracted:	<u>30,394,246</u>	<u>32,558,856</u>
	<u><b>31,506,846</b></u>	<u><b>33,919,936</b></u>
<b>27. EVENTS AFTER THE REPORTING PERIOD</b>		
<p>There were no material adjusting and non adjusting events after the reporting period.</p>		
<b>28. CURRENCY RISK</b>		
<p>The Trust operates wholly within Kenya and its assets and liabilities are reported in the local currency. The Trust held no foreign currency as at 30th June 2020</p>		
<b>29. CURRENCY</b>		
<p>The financial statements are presented in Kenya Shillings (Kshs).</p>		



ANNUAL REPORTS AND FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30TH JUNE 2020

APPENDIX I: PROGRESS ON FOLLOW UP OF AUDITOR RECOMMENDATIONS

The following is a summary of the issues raised by the Auditor-General and management comments that were provided to the Auditor. We have nominated focal persons to resolve the various issues as shown below with the associated time frame within which we expect the issues to be resolved.

Ref. No.	Issue or observations	Management Comments	Focal point person to Resolve the issue	Status	Time Frame
1.0	Irregular Payment of Terminal Benefits	Demand letter was issued to the officer and the County Legal department advised to pursue the matter to conclusion	Robert Miruri - General Manager	Not Resolved	31/12/2020
1.1	Selling & distribution expenses - The Kshs. 59,417 paid to an officer as accrued leave days				
1.2	Administration & Establishment expenses - The Kshs. 314,403 paid to an officer as terminal benefits	Demand letter was issued to the officer and the County Legal department advised to pursue the matter to conclusion	Robert Miruri - General Manager	Not Resolved	31/12/2020
1.3	Officer Transferred to Imetha Water and Sanitation Company - The salary of Kshs. 701,528 paid to an officer	The officer was transferred while on leave. No information was relayed to MEWASS.	Robert Miruri - General Manager	Not Resolved	31/12/2020
2.0	Wasteful Expenditure on Training Fees - An amount of Kshs. 1,474,100 spent on staff training	The staff capacity building was justified as evidenced by the post training report submitted to the County Assembly	Robert Miruri - General Manager	Resolved	28/06/2019
<b>Other Matter</b>					
1.0	<b>Budgetary Control and Performance</b>				
1.1	<b>Income</b>	The budget estimates are based on assumptions which actualize either positively or negatively. The management endeavours to have near actual budgets.	Lydia Mukami - Finance Manager	Resolved	28/06/2019
	Under collection of Turnover by Kshs.6,179,183 and Over collection on Other Income by Kshs.8,130,793				
1.2	Under and Over Expenditure of the budget by Kshs.23,719,039 and Kshs. 5,161,326	The management shall endeavour to implement the budget as allocated	Lydia Mukami - Finance Manager	Resolved	28/06/2019
<b>REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES</b>					
1.0	<b>Property, Plant and Equipment</b>				
	Coding and tagging of Office Computers, Furniture and Equipments stated at Kshs.4,228,366	The management has commenced the coding and tagging of moveable assets	Meckson Kinyua - Procurement Manager	Resolved	30/06/2020
	Motor Vehicle - Mazda Registration No. GK R745	The Ministry of Water vide letter referenced MWS/TRANS/5/2/VOL.III/(360) has undertaken to tow the vehicle to its Headquarters	Meckson Kinyua - Procurement Manager	Resolved	30/09/2020
<b>EFFECTIVENESS OF INTERNAL CONTROLS &amp; RISK MANAGEMENT SYSTEMS</b>					
1.0	Bottling Plant Viability - In the year 2017-2018, the bottling plant reported a loss of Kshs.43,829	The management has put structures including aggressive marketing to increase market penetration hence enhance sales	Lydia Mukami - Finance Manager	Resolved	28/06/2019

DIRECTOR: Dr. Mworira Mugambi  
Date 19TH NOVEMBER 2020

Chief Executive Officer