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REPORT

OF

THE AUDITOR-GENERAL

ON

**THE FINANCIAL STATEMENTS OF
MERU WATER AND SEWERAGE SERVICES
REGISTERED TRUSTEES**

**FOR THE YEAR ENDED
30 JUNE 2014**

2



KENYA NATIONAL AUDIT OFFICE
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MERU WATER AND SEWERAGE SERVICES

REGISTERED TRUSTEES

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED

30TH JUNE 2014

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



**MERU WATER AND SEWERAGE SERVICES
REGISTERED TRUSTEES
REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30TH JUNE 2014**

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**MERU WATER AND SEWERAGE SERVICES
REGISTERED TRUSTEES**

TRUST INFORMATION

FOR THE YEAR ENDED 30TH JUNE 2014

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

TRUSTEES

Mr. Gabriel Mwenda Miungi	Joined 6th December 2013	Chairman
Mr. Selesio Mutea		Left 19th December 2013
Mr. Shaheed M. Iqbal		
Bishop Jeremiah Anondo		
Mr. Timothy Kibaki		
Mr. Fredrick Kirima Mburugu		
Mr. David Gitonga		
Mr. Moses Muriangi Nabea		
Mr. Kamanya Maeria		
Mrs. Catherine K. Lilford		
Mr. Stanley Mbae		Secretary to the Board

Trustees Secretary

Mr. Stanley Mbae
P.O. Box 859 60200
MERU

PRINCIPAL PLACE OF BUSINESS AND REGISTERED OFFICE

Situated along Nakumatt - Kinoru Stadium
P.O. Box 859 60200
MERU

TRUST CONTACTS

Tel: 064-3132591, 0717527707
Fax: 064-3132603
E-mail: info@mewass.or.ke
Website: www.mewass.or.ke

BANKERS

Standard Chartered Bank of Kenya
Meru Branch
P.O. Box 109 - 60200
MERU

ABC Bank
Meru Branch
P.O. Box 3100 - 60200
MERU

Equity Bank Ltd
Meru Branch
P.O. Box 400 - 60200
MERU

AUDITORS

Auditor-General
Kenya National Audit Office
P.O. Box 30084 - 00100
NAIROBI

ADVOCATES

Kiautha Arithi and Co. Advocates
P.O. Box 2418 60200
MERU



**MERU WATER AND SEWERAGE SERVICES
REGISTERED TRUSTEES**

**THE BOARD OF TRUSTEES
AS OF THE YEAR ENDED 30TH JUNE 2014**

Photo	Trustee Name and Qualifications	Date of Birth and Experience
	Mr. Gabriel Miungi - Chairman A-level, CPA(K),	Date of Birth 18/09/1970 Managing director - Millenium Dealers Ltd, Auditor at Wachira Irungu & Associate, Chief Accountant at Orix Oil (K) Ltd.
	Mr. David Gitonga Bsc., Civil Engineering, Msc, Phd Fellow	Date of Birth 1976 Over 14 years experiences in water utility management and consultancy, Currently Chief Officer Environ, Water & Natural Resources Meru County Government
	Mr. Moses M. Nabea Bachelors degree in Accounting/Finance minor - HRM, pursuing MBA	Date of Birth 22/12/1972 CEO - Maua Methodist Hospital SACCO Ltd from 2000-2013, currently Chief Officer - Public Service and Administration Department - County Government of Meru
	Bishop Jeremiah Mbaya Anondo Diploma in Theology, Master of Divinity	Date of Birth 29/9/1943 Minister, former principal & lecturer Limuru Theological College, Bishop Methodist Church in Kenya, Director & Co- ordinator Christian Education Department,
	Mrs. Catherine Kinoti Lilford S1 Teacher	Date of Birth 03/05/1951 Currently Chairperson Maendeleo ya Wanawake Organisation - Imenti North Sub County, Treasurer Family Options Kenya - Meru Branch, Chairperson Middle Kathita WRUA & Treasurer Ngakinya WRUA, Teacher for over 20yrs
	Mr. Kamanja Maeria Bachelors' degree in education. Postgraduate Diploma in mass communication	Date of birth 12/12/1982 Former High School Teacher, Information officer for four years. National youth council chairman - Igembe Region
	Mr. Shaheed M. Iqbal Diploma in Insurance from Chartered Insurance Institute UK	Date of Birth 23rd February 1976 Managing director - MIK Insurance Brokers Ltd., Proprietor - Junior Motor Garage and Parts, Secretary - Lions Club of Meru. Secretary - Muslim Association Meru
	Mr. Fredrick Mburugu Certificate in Insurance, Co-op management, CPA 1, Diploma B/management, Bachelors Degree B/Management.	Date of Birth: 1968 Director Imenti Sacco, Board member kaaga deaf, Director Maccu motors Ltd, Director county coffee Millers, CEO Meru Central Coffee Union.
	Mr. Timothy W. Kibaki Bsc. Civil Engineering, PGD in Water and Waste Water Engineering	Date of Birth 19/02/1953 Over 35 years working experience in the water sector, planning and strategy manager Tana Water Services Board
	Mr. Stanley Mbae MBA, PGD, BSC in water management	Date of Birth 06/09/1964 General Manager & Secretary to the Board of Trustees Over 25 years experience in water utility management





**MERU WATER AND SEWERAGE SERVICES
REGISTERED TRUSTEES**

**THE MANAGEMENT TEAM
AS OF THE YEAR ENDED 30TH JUNE 2014**

Photo	Manager Name and Qualifications	Date of Birth and Experience
	Mr. Stanley Mbae General Manager MBA, BSC, PGD in water management	Date of Birth 06/09/1964 Over 25 years experience in water utility management
	Mr. Matthew Nteere Finance Manager B. COM, CPA(K)	Date of Birth 07/02/1973 Over 12 years experience in accounting and commercial services
	Mr. Victor N.Njeru Technical Services Manager BSC Civil Engineering	Date of Birth 12/02/1968 Over 18 years experience in water utility management
	Ms. Ann Mercy Mwongera Human Resources Manager BML HRM, Dip.HRM	Date of Birth 20/09/1973 Over 15 years in administration
	Mr. Joses Muriuki Gitonga Internal Audit Manager BBA Acc & Fin, CPA(K)	Date of Birth 04/12/1972 Over 17 years experience in audit and accounting
	Mr. Meckson Kinyua Musyoka Procurement Manager BBM, Dip Supplies Management	Date of Birth 05/11/1984 Over 5 years experience in procurement management



**MERU WATER AND SEWERAGE SERVICES
REGISTERED TRUSTEES**

CHAIRMAN'S STATEMENT FOR THE YEAR ENDED JUNE 2014

On behalf of the Board of Trustees, I present the year 2013/14 annual report which outlines the Trust's financial and operational performance. The Trust continued to maintain a strong performance while providing high quality water and sewerage services to the people within its area of jurisdiction.

General Performance

We continued to expand our services in an effort to reach to a greater population as laid out in our five year strategic plan (2010-2015). I am glad to report that during the year, we extended water services to Ciothirai and other adjacent areas.

The ever increasing population means an increase in the demand for clean and treated water. During the year our services were intermittent due to increased demand coupled with other factors like frequent electricity failure and excessive turbid water during the rainy seasons due to the farming activities encroaching our water catchment. We are glad that our customers understood the situation.

Financial Performance

During the year 2013/14, the Trust reported an increase in turnover from Kshs.108.7 million to Kshs 119.6 million a growth of 10 percent. The growth was largely due to increased water/sewer sales. The operating surplus before tax increased from 3.6 million to 10.9 million. The surpluses generated are ploughed back as means of internal financing.

Assets Development

To achieve the high levels of service coverage means the Trust has to continually invest in the infrastructure development as well as the operations and maintenance of the systems. In line with this commitment, I am happy to report that during the year 2013/14, the Trust continued to implement the projects funded by the Water Services Trust Fund and other minor works funded by the Trust. Equally, the Trust engaged a consultant for the detailed feasibility study for augmentation of the Meru Water Supply treatment works. Our focus for the coming year will be to implement a significant capital works which will provide for the renewal of water treatment works to meet higher standards and future growth in Meru County. We shall also engage the County Government of Meru and other development partners to develop water infrastructure.

In Conclusion

As Chairman of the Board, I am proud to lead an organisation which has an established reputation in water service provision both at county and national level. The board has considerable strength, drawn in part from the diverse backgrounds and experience of the Trustees. We will also continue to maintain high levels of customer service and operate in an environmentally responsible manner.

As always, I would like to take this opportunity to thank my fellow board members for their continued support and congratulate management and staff on another successful year.

Thank you

Gabriel M. Miungi
Chairman, Board of Trustees



**MERU WATER AND SEWERAGE SERVICES
REGISTERED TRUSTEES**

REPORT OF THE GENERAL MANAGER FOR THE YEAR ENDED JUNE 2014

We take great pride in knowing that we contribute towards the delivery of services that are not only essential to sustaining human life but also are an important element driving the economic vitality of our society. In 2013/2014, we continued to enhance service delivery to our domestic and institutional customers and meet strategic objectives despite challenges arising from increased demand for quality water services. I wish to report on the following achievements in the year then ended;

Financial performance

In 2013/14 financial year we achieved a surplus before tax of Kshs.10.9 million which was more than the previous year by Kshs 7.3 million.

There was a 13 percent growth in the total revenue that helped fund operations and maintenance of the water infrastructure.

Our capital expenditure for the year includes work in progress for construction of direct filtration unit (DFU), Thuura-Giaki and Gitoro-Kambakia water projects was Kshs. 29 million. These projects were envisaged to be completed by end of the 2014/15 financial year.

Operational performance

A significant amount of physical infrastructure is required to deliver reliable and sustainable water to our customers on 24 hours a day, seven days a week. In addition to investing in our infrastructure, continued to invest in information technology to help ensure seamless delivery of water services.

In the last few years the Trust has building on information technology platform that provides greater transparency and efficiency across all of our business processes. In 2013/14, we rolled out e-billing module which enables our customers to receive water bills on their mobile phones in form of a text messages. Similarly, in addition to our customers paying their bills to the appointed bank and supermarket we partnered with a mobile service provider to enable customers pay their bills via money mobile phone service. The Trust's paybill number is 918350.

Water Distribution

In line with the Trust's objective of bringing services closer to the customers, we continued to extend our distribution network in all the areas within our jurisdiction. As a result we added 943 connections during the year thus making the total number to 11087. All water extensions were financed from the Trust's resources.

With the expansion of the network system the Trust is required to monitor and identify water flows and other related services for efficiency. Consequently, the Trust under the Technical department established Geographic Information System section which allows instant access to system-wide water mains, valves, water connections and meter locations data via user-friendly maps. As a result, we can more quickly identify system needs when responding to customer issues and all other services.



**MERU WATER AND SEWERAGE SERVICES
REGISTERED TRUSTEES**

REPORT OF THE GENERAL MANAGER FOR THE YEAR ENDED JUNE 2014 CONT'D

Water Safety

The quality of drinking water received at customers' taps remains at an all-time high and this is critical to our customer services. To guarantee this, samples are taken on a daily basis for analysis. Similarly, tests by the Kenya Bureau of Standards have always been above the minimum required. During the year the tests conducted for bacteriological and residue chlorine had compliance level of 99.56 percent and 99.97 percent respectively. We endeavour to assure our customers of quality services throughout.

Non Revenue water

As at June 2014, the Non Revenue Water was at 25 percent compared to 26.3 percent as at the end of the year 2012/13. The Trust will continue to work towards reducing the NRW to below 20 percent as envisaged in our strategic plan. Our major challenge remains the road contractors who continue to destroy our pipelines hence increasing the water losses. The Trust has established strategies and targets to reduce NRW through active leak detection, pressure testing, sub-zoning metering. The Trust is planning for long term strategy for infrastructure renewal through prudent asset management and financing.

In Conclusion

I am grateful for the dedication, talents and efforts of our Board, management team and staff. To our customers we acknowledge your loyalty extended to us throughout the period. The support provided to us by other stakeholders is acknowledged.

Together we have steered MEWASS to greater heights and we are bound to do more in order to satisfy the ever increasing demand in this dynamic environment.

Thank you

*Stanley N. Mbae
General Manager*



CORPORATE GOVERNANCE STATEMENT FOR THE YEAR 2014

The corporate governance structure ensures that we act with high standards of corporate behaviour and in the best interests of our stakeholder. The Board of Trustees has the authority to perform the functions and determine the policies that control the Trust activities.

The Board is responsible for our overall corporate governance and approves strategic directions and budgets. On the other hand the management ensures that all statutory requirements are complied with, internal control systems are in place and operate effectively.

The management provides quarterly progress reports to the Board to enable it to monitor the Trust performance.

The structure of the Board is as per the corporate governance guidelines issued by the Water Services Regulatory Board.

- The Board of Trustees comprises nine members nominated by respective stakeholder institutions.
- The General Manager sits in the board as ex-officio and as a secretary.
- The Trustees are appointed for terms of up to three years and are eligible for re-appointment for another final term of three years.
- The Trustees have broad range of skills and experience.
- The Board has three committees namely; Technical, Finance & Administration and Audit.
- Any issue(s) outside the above committees may be handled by specially constituted ad hoc-committee, made by a resolution of the Board of Trustees including its membership.
- The Board, in consultation with management, develops strategic direction for the Trust for the annual and long-term period.

At its regular meetings, the Board considerations include:

- Technical and financial progress reports
- Audit reviews and reports

The Board held 15 meetings during 2013/14. Details of Trustees' attendance at these meeting are set out in the table below.

NAME OF THE TRUSTEE	FULL BOARD MEETING		MEMBERSHIP TO COMMITTEE	COMMITTEE MEETING	
	ATTENDED	ELIGIBLE TO ATTEND		ATTENDED	ELIGIBLE TO ATTEND
Gabriel M. Miungi	3*	5	Technical Committee	1*	2
Jeremiah Anondo	5	5	Technical Committee	2	2
David Gitonga	3*	5	Technical Committee	1*	2
Catherine K. Lilford	4 α	5	Finance & Admn Committee	3 α	4
Shaheed Iqbal	5	5	Finance & Admn Committee	4	4
Moses M. Nabea	2* α	5	Finance & Admn Committee	2*	4
Timothy W. Kibaki	5	5	Audit Committee	2	2
Kamanja Maeria	3*	5	Audit Committee	1*	2
Fredrick Mburugu	5	5	Audit Committee	2	2

In addition to the above the Board held 1 ad-hoc and 1 consultative meeting during the year.

Key:

* The member had not been nominated to the board of Trustees hence he could not have attended prior meetings.

α The member was absent on apology.



CORPORATE GOVERNANCE STATEMENT FOR THE YEAR 2014 CONT'D

Technical Committee

The committee is chaired by Bishop Jeremiah Anondo and includes Trustees Gabriel Miungi and Eng. David Gitonga. The committee secretary is the General Manager/Technical Manager.

Each member of the Committee has a general familiarity with the technical aspects of the water and sanitation industry necessary to undertake the committee's responsibilities to oversee the Trust's technical activities. The committee advises the Board of Trustees on technical matters involving the Trust's internal and external projects. It assists the Board of Trustees in monitoring and reviewing any project(s) development and major asset acquisition. The committee reviews and makes recommendations to the Board of Trustees on matters relating to the infrastructure assets of the Trust, including building master plans, capital project plans and so on.

Finance & Administration Committee

The committee is chaired by Mr. Shaheed Iqbal and includes Trustees Mr Moses Nabea and Ms. Catherine Lilford. The committee secretary is the General Manager/Finance Manager.

Each member has experience in management skills necessary for discharge of duties. The committee supports and assists the Board in the effective discharge of the Board's responsibilities in finance, human resource, information and communication and physical facilities. The committee receives and reviews reports on the financial performance, annual budget, changes to the water tariff. The committee ensures that adequate plans, policies and programmes are in place to promote the effectiveness, integrity and security of the Trust's information technology systems and their operations.

Audit Committee

The committee is chaired by Mr Fredrick Mburugu and includes Trustees Eng. Timothy Kibaki and Mr. Kamanja Maeria. The committee secretary is the Internal Auditor.

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 consider management response or actions thereto.

Annual General Meeting

Every year the Trust holds Annual General Meeting where all the stakeholders are invited to attend. Stakeholders are encouraged to attend the Trust's AGM at which they can meet and question the Trustees and management on the Trust activities.

The Trust makes a presentation at the AGM to highlight the key operational and financial performance during the year. The full Board is expected to be available at the AGM to answer stakeholders' questions. The report of the Auditor General is presented to the stakeholders including day's agenda, reports of the Chairman and General Manager and speeches from distinguished guests.



CORPORATE SOCIAL RESPONSIBILITY STATEMENT FOR THE YEAR 2014

The Trust recognizes that it has responsibilities to all stakeholders which include the interests of customers, suppliers and employees and the community; the need to foster the Trust's relationships with customers, suppliers and others and the impact of the Trust's operations on the local communities and the surrounding environment where it operates. Customers are highly regarded and valued and their contribution to the Trust is highly respected.

The Environment

The Trust relies on the environment which provides water which is produced, treated and transmitted via pipeline to respective customers. Since its establishment the Trust has been advocating for water catchment protection. During the year 2013/14, the Trust partnered with the County Government of Meru in procuring tree seedling to be planted to protect the water catchment.

On sewer management, despite the system overload, the Trust prioritizes and minimises impact on the environment through environmentally responsible management and adherence to relevant statutory standards, most particularly with the sewerage treatment and disposal. The Trust encourages energy conservation through use energy efficient lighting within our buildings and has installed power factoring systems in our water pumping system for power factor correction. The water treatment plant uses certified chemicals in dosing system. A well managed environment is the key to human kind survival and the Trust shall endeavour to play its role.

The Customer

Efficient delivery of services to our customer is one of the crucial areas of the Trust. The aim is to sustain 24 hour service delivery and minimum interruptions to the flow of water. This goal was achieved in most of the areas of our water supply.

Customer service is an area of high priority as the Trust is cognisant of the importance of the customer in the service delivery process and indeed to its overall performance. The Trust is therefore committed to effective communication with the customers and sensitising them on key issues in the management of water resources especially at the consumption point.

The nature of the product that the Trust deals with renders the relationship with the customer very sensitive. To that end, the Trust strives at all times to involve the customer, even at those times when his/her water supply has to be disconnected for non payment. Customers have been very cooperative in the settlement of their dues, to the extent that less than 11 percent of them are disconnected per quarter.

The Trust exhibits and educates customers on water saving tips during ASK shows held every year and on MEWASS open days.

Human resource

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. Effective policies and procedures are aligned with Trust needs and the promotion of good communication processes, to assist in timely and consistent delivery of relevant information to employees.



CORPORATE SOCIAL RESPONSIBILITY STATEMENT FOR THE YEAR 2014 CONT'D

The Trust provides equal opportunity for all employees and job applicants. It has in place policies covering issues such as performance management, training and family friendly policies. e.g. Compassionate Leave, Paternity Leave. The employees of the Trust are active players of various teams which compete locally and nationally.

Community

During the course of its business activities the Trust seeks to make a positive impact on the community in which it operates. In the financial year 2013/14, the Trust participated to a variety of community programmes i.e. donation to Meru County Street Children rehabilitation program at Ksh.100, 000/= held on 6th December 2013. The Trust participated in the county greening program organised by the county Government of Meru on 3rd August 2013.

Stakeholders

The Trust actively encourages open communications with stakeholders. Principally through the Board, the Trust endeavours to establish and maintain healthy relationships with its institutional stakeholders by holding regular consultations on issues requiring stakeholder participation as enshrined in the Constitution of Kenya 2010.

The Trust holds Annual General Meeting once a year. The stakeholders are given at least 21 days' notice of the AGM. At the AGM, the Trustees make a full presentation to stakeholders to explain recent and future developments in the activities undertaken by the Trust, followed by an open question and answer session which provides stakeholders with the opportunity to ask Trustees and management questions.



**MERU WATER AND SEWERAGE SERVICES
REGISTERED TRUSTEES**

REPORT OF THE TRUSTEES

FOR THE YEAR ENDED 30TH JUNE 2014

The Trustees submit their eleventh report and the audited financial statements for the year ended 30th June 2014 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 9.

3. TRUSTEES

Trustees who served during the year are shown on page 2.

4. AUDITORS

The Auditor General (Kenya National Audit Office) continues in office.

By order of the Board of Trustees:

Secretary

DATE: 08th July, 2015



**MERU WATER AND SEWERAGE SERVICES
REGISTERED TRUSTEES**

STATEMENT OF TRUSTEES RESPONSIBILITIES

FOR THE YEAR ENDED 30TH JUNE 2014

The Trustees are required by the Meru Water and Sewerage Services Trust Deed clause 17 to prepare accounts for each financial year, which give a true and fair view of the state of affairs of the Trust as at the end of the financial year and of its operating results for the year. They are also required to ensure that the Trust keeps proper accounting records which disclose with reasonable accuracy at any time, the financial position of the Trust. They are also responsible for safeguarding the assets of the Trust. The Trustees accept responsibility for the annual financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity with generally accepted accounting practice. The Trustees are of the opinion that the financial statements give a true and fair view of the state of the financial affairs of the Trust and of its operating results. The Trustees further accept responsibility for the maintenance of accounting records which may be relied upon in the preparation of financial statements, as well as adequate systems of internal financial control.

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

Approval of the financial statements

The Trust's financial statements were approved by the Board on **27th August, 2014** and signed on its behalf by :

MR. GABRIEL M. MIUNGI

TRUSTEE.....

)
)
)
)
)

DATE: 08th July, 2015

MR. MOSES M. NABEA

TRUSTEE.....

REPUBLIC OF KENYA

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E-Mail: oag@oagkenya.go.ke
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NAIROBI



KENYA NATIONAL AUDIT OFFICE

REPORT OF THE AUDITOR-GENERAL ON MERU WATER AND SEWERAGE SERVICES REGISTERED TRUSTEES FOR THE YEAR ENDED 30 JUNE 2014

REPORT ON THE FINANCIAL STATEMENTS

I have audited the accompanying financial statements of Meru Water and Sewerage Registered Trustees set out on pages 9 to 24 which comprise the statement of financial position as at 30 June 2014, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 14 of the Public Audit Act, 2003. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

Management's Responsibility for the Financial Statements

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

The management is also responsible for the submission of the financial statements to the Auditor-General in accordance with the provisions of Section 13 of the Public Audit Act, 2003.

Auditor-General's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of

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

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

Basis for Qualified Opinion

1. Failure to Provide for Contingent Liability

As reported in the previous year, records available at the Meru Water and Sewerage Services (MEWASS) indicate that the Trustees have a land ownership dispute in regard to a parcel of land where its water treatment tanks are erected. The alleged owner of the land sued the Trustees together with Tana Water Services Board and Municipal Council of Meru (Meru County Government) sometime in 2008. MEWASS was sued in its capacity as the managing agent of the Tana Water Services Board and it occupies the suit property. The judgement was delivered on 2 March 2012 and the appellant was awarded compensation and damages totaling Kshs. 26,853,494. Out of this amount, MEWASS was required to pay Kshs.17,853,494 as compensation and damages and 30% of future profits capitalized at a rate of 20%, estimated at Kshs. 4,250,832 per annum. The Trustees appealed against the ruling in March, 2012 and the case is still pending in court. However, no provision for contingent liability was made during the year under review in respect to the matter in the event that MEWASS loses the case.

2. Property, Plant and Equipment (Work in Progress - Gitoro Kambakia Water Project)

MEWASS awarded a contract on 10th May 2013 to M/s Silver Spread Hardware Limited, and an agreement signed on 6th June 2013 between the Water Company and the firm at a contract sum of Kshs.17,126,455. According to the bill of quantities, the works included construction of a water kiosk at a cost of Kshs 563,065.

Examination of the project expenditure records and the status report produced for audit and a physical verification of the project revealed that the project was complete except for the water kiosk. Further, the construction of the water kiosk was stopped mid-way due to a dispute between the Trustees and a member of the community who had willingly given out the piece of land where the kiosk was erected, but changed his mind later forcing the works to be abandoned at 60% completion. A total of Kshs.404,280 was paid for the completed works.

In the circumstances no value for money for the expenditure of Kshs.404, 280 had been obtained by the beneficiaries as at 30 June 2014.

Qualified Opinion

In my opinion, except for the effect of the matters described in the Basis for Qualified Opinion paragraph, the financial statements present fairly, in all material respects, the financial position of the Trustees as at 30 June 2014, and of its financial performance and its cash flows for the year then ended in accordance with International financial Reporting Standards and Comply with the Trustees (Perpetual Succession) Act, Cap 164 of the Laws of Kenya.



Edward R.O. Ouko, CBS
AUDITOR-GENERAL

Nairobi

14 August 2015



**MERU WATER AND SEWERAGE SERVICES
REGISTERED TRUSTEES**

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 30TH JUNE 2014

	Notes	2014 <u>Kshs</u>	2013 <u>Kshs</u>
Turnover	4	119,622,871	108,718,592
Other Income	5	<u>16,085,048</u>	<u>10,966,605</u>
Total Operating Income		135,707,919	119,685,197
EXPENSES:			
Administration and Establishment	6a	(51,176,532)	(52,695,900)
Selling and Distribution	7	<u>(65,161,291)</u>	<u>(55,182,163)</u>
Depreciation of property, plant and equipment	6b	<u>(7,125,652)</u>	<u>(7,803,745)</u>
Amortisation of intangible assets	6c	<u>(966,143)</u>	<u>(111,707)</u>
		<u>(124,429,618)</u>	<u>(115,793,515)</u>
Surplus from Operating Activities		11,278,301	3,891,682
Net Finance Costs	8	<u>(296,795)</u>	<u>(250,607)</u>
Surplus Before Taxation	9	10,981,506	3,641,075
Taxation	10	<u>(3,072,378)</u>	<u>(2,493,772)</u>
Surplus after Taxation		<u>7,909,127</u>	<u>1,147,303</u>



**MERU WATER AND SEWERAGE SERVICES
REGISTERED TRUSTEES**

STATEMENT OF FINANCIAL POSITION AS AT 30TH JUNE 2014

	Notes	2014 <u>Kshs</u>	Restated 2013 <u>Kshs</u>
ASSETS			
NON-CURRENT ASSETS			
Property, plant & equipment	11	67,891,350	46,011,976
Intangible assets	12	<u>2,254,335</u>	<u>260,649</u>
		<u>70,145,685</u>	<u>46,272,625</u>
CURRENT ASSETS			
Inventory	13	1,822,874	2,524,434
Receivables and prepayments	14	48,656,638	56,739,267
Tax asset	19	8,268,263	6,916,512
Cash and cash equivalents	15	<u>100,421,647</u>	<u>58,447,890</u>
		<u>159,169,422</u>	<u>124,628,102</u>
CURRENT LIABILITIES			
Consumer deposits	18	22,393,370	18,261,317
Payables and accruals	20	<u>34,431,349</u>	<u>14,173,910</u>
		<u>56,824,719</u>	<u>32,435,227</u>
WORKING CAPITAL		<u>102,344,703</u>	<u>92,192,875</u>
NET ASSETS		<u>172,490,388</u>	<u>138,465,500</u>
FINANCED BY			
Grants	16	2,689,066	3,388,381
Revenue reserves		<u>137,648,752</u>	<u>128,177,908</u>
		<u>140,337,818</u>	<u>131,566,289</u>
NON-CURRENT LIABILITY			
Deferred grant income	23	32,152,570	6,899,211
TOTAL		<u>172,490,388</u>	<u>138,465,500</u>

The financial statements were approved by the Board of Trustees on **27th August, 2014** and signed on its behalf by;

MR. GABRIEL M. MIUNGI
TRUSTEE)

MR. MOSES M. NABEA
TRUSTEE)

) **DATE: 08th July, 2015**



**MERU WATER AND SEWERAGE SERVICES
REGISTERED TRUSTEES**

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30TH JUNE 2014

	Notes	Grants Kshs	Revenue Reserves Kshs	Total Kshs
At 01.07.2012		3,254,719	87,701,534	90,956,253
Transfer from Grant Account	1 (n) & 16	(788,158)	788,158	-
Grant from related parties - Water Meters	16	921,820		921,820
Capitalized related parties long liability	17		37,555,312	37,555,312
Capitalized grant income	23	-	985,602	985,602
Surplus for the year		-	1,147,303	1,147,303
At 30.06.2013		3,388,381	128,177,909	131,566,290
At 1st July 2013		3,388,381	128,177,909	131,566,290
Transfer from Grant Account	1 (n) & 16	(699,315)	699,315	-
Capitalized grant income	23	-	862,401	862,401
Surplus for the year		-	7,909,127	7,909,127
At 30.06.2013		<u>2,689,066</u>	<u>137,648,752</u>	<u>140,337,819</u>



**MERU WATER AND SEWERAGE SERVICES
REGISTERED TRUSTEES**

STATEMENT OF CASH FLOW

FOR THE YEAR ENDED 30TH JUNE 2014

	2014	2013
	<u>Kshs</u>	<u>Kshs</u>
Operating Activities		
Surplus before taxation	10,981,506	3,641,075
Adjustments for:		
Depreciation	7,125,652	7,803,745
Amortisation of intangible assets	966,143	111,707
Gain on disposal	0	(17,473)
Interest Income	<u>(4,457,859)</u>	<u>(2,577,047)</u>
	<u>3,633,936</u>	<u>5,320,932</u>
Surplus before changes in working capital	14,615,442	8,962,007
Changes in Working Capital		
Increase/Decrease in Inventory	701,559	385,615
Increase/Decrease in Receivables and prepayments	8,082,628	30,069,748
Increase in Consumer deposits	4,132,053	3,136,501
Increase in Payables and accruals	<u>20,257,439</u>	<u>924,628</u>
	<u>33,173,680</u>	<u>34,516,492</u>
Cash Generated from Operations	<u>47,789,122</u>	<u>43,478,499</u>
Taxation Paid	(4,424,130)	(8,727,273)
Net cash generated from operations	<u>43,364,992</u>	<u>34,751,226</u>
Investing Activities		
Interest received	4,457,859	2,577,047
Disposal of fixed assets	-	48,000
Purchase of Intangible assets	(2,959,828)	-
Purchase of fixed assets	<u>(29,005,026)</u>	<u>(5,698,231)</u>
Net cash used in investing activities	<u>(27,506,995)</u>	<u>(3,073,183)</u>
Financing Activities		
Deferred grant income	26,115,760	921,820
		-
Net cash generated from financing activities	<u>26,115,760</u>	<u>921,820</u>
Increase in cash and cash equivalents	<u>41,973,757</u>	<u>32,599,862</u>
Cash and cash equivalents:		
At the start of the year	<u>58,447,890</u>	<u>25,848,027</u>
At the end of the year	<u>100,421,647</u>	<u>58,447,890</u>



MERU WATER AND SEWERAGE SERVICES
REGISTERED TRUSTEES

STATEMENT OF COMPARISON OF BUDGET & ACTUAL AMOUNTS

FOR THE YEAR ENDED 30TH JUNE 2014

	Original budget	Adjustments	Final budget	Actual on comparable basis	Performance difference
	2013/14 Kshs	2013/14 Kshs	2013/14 Kshs	2013/14 Kshs	2013/14 Kshs
TURNOVER					
Water Revenue	107,727,402	0	107,727,402	91,580,767	(16,146,635)
Sewer Revenue	22,272,071	0	22,272,071	22,777,078	505,007
Other Revenues	2,000,000	0	2,000,000	4,824,222	2,824,222
Bottled Water Revenue	16,800,000	0	16,800,000	440,804	(16,359,196)
	148,799,473	0	148,799,473	119,622,871	(29,176,602)
OTHER INCOME					
Materials and labour charges	8,770,924	0	8,770,924	8,992,600	221,676
Sale of tender forms	55,000	0	55,000	64,000	9,000
Interest income	1,341,725	0	1,341,725	4,457,859	3,116,134
Miscellaneous income	0	0	0	68,884	68,884
Exhauster Revenue	6,552,000	0	6,552,000	2,501,705	(4,050,295)
	16,719,649	0	16,719,649	16,085,048	(634,601)
ADMINISTRATION AND ESTABLISHMENT EXPENSES					
Salaries, Wages and Allowances	26,557,470	(580,000)	25,977,470	25,571,469	406,001
Staff Welfare	888,000	300,000	1,188,000	1,187,459	541
Repairs and Maintenance	1,948,625		1,948,625	1,963,998	(15,373)
Cash Collection Charges	601,344		601,344	403,470	197,874
Office Supplies	2,654,309		2,654,309	1,742,879	911,430
Training	4,312,253		4,312,253	1,448,670	2,863,583
Motor Vehicle Running Expenses	1,943,231		1,943,231	1,886,428	56,803
Telephone and Email	826,472		826,472	595,528	230,944
Audit Fees	464,000		464,000	464,000	0
Travelling and Subsistence	1,131,830	140,000	1,271,830	1,269,901	1,929
Trustees' Fees and Allowances	3,148,750		3,148,750	3,055,900	92,851
Annual General Meeting expenses	275,000		275,000	272,100	2,900
Meetings and Conferences	380,075		380,075	331,330	48,745
Electricity and Generator expenses	384,908		384,908	482,389	(97,481)
Advertising and Public Relations	1,353,600		1,353,600	833,616	519,984
Donations and Subscriptions	334,075		334,075	154,500	179,575
Social activities expenses	500,000		500,000	273,725	226,275
Entertainment expenses	96,000		96,000	128,860	(32,860)
Legal, Professional Fees & Levies	2,800,838		2,800,838	1,590,887	1,209,951
Security	2,390,907		2,390,907	2,062,228	328,679
Uniforms	684,800	140,000	824,800	826,949	(2,149)
Insurances	787,118		787,118	632,516	154,602
ASK Show	600,000		600,000	527,680	72,320
Postage	2,936,018		2,936,018	2,917,602	18,416
Increase in provision for doubtful debts	324,689		324,689	(1,325,187)	1,649,877
Provision for Staff Accrued Leave	0		0	300,938	(300,938)
Games & Sports - Wasca	873,350		873,350	750,876	122,474
General Office Expenses	846,600		846,600	824,512	22,088
Assorted Tools	14,500		14,500	1,310	13,190
Total Administration & Establishment Expens	60,058,762	0	60,058,762	51,176,532	8,882,230
Depreciation	9,079,475		9,079,475	7,125,652	1,953,822
Amortisation of intangible assets	191,491		191,491	966,143	(774,651)
	69,329,728	0	69,329,728	59,268,327	10,061,401
SELLING AND DISTRIBUTION EXPENSES					
Salaries, Wages and Allowances	24,320,012	(1,700,000)	22,620,012	20,960,046	1,659,966
License fee	16,755,648		16,755,648	14,851,414	1,904,234
Repairs and Maintenance	1,119,145		1,119,145	848,940	270,205
Rehabilitation-sewer system	3,300,256		3,300,256	1,121,007	2,179,250
Assorted Tools	306,170		306,170	105,620	200,550
Travel and subsistence	494,779	400,000	894,779	903,415	(8,636)
Revenue Stamps	189,417		189,417	131,098	58,319
Excise Duty	754,034		754,034	71,616	682,418
Office supplies	750,436		750,436	484,488	265,948
Pipes and Fittings	20,591,423	(550,000)	20,041,423	10,856,926	9,184,497
Electricity	1,025,570	1,300,000	2,325,570	2,128,714	196,856
Chemicals and laboratory expenses	3,136,854		3,136,854	2,378,446	758,408
Motor Vehicle Running Expenses	3,422,085	550,000	3,972,085	3,939,431	32,654
Bottling Plant Expenses	9,087,784		9,087,784	631,592	8,456,192
Minor works	6,854,400		6,854,400	2,951,637	3,902,763
Night flow measurements	384,000		384,000	254,000	130,000
Exhauster Expenses	3,000,000		3,000,000	2,013,282	986,718
Water Analysis	668,800		668,800	529,620	139,180
	96,160,813	0	96,160,813	65,161,291	30,999,522



**MERU WATER AND SEWERAGE SERVICES
REGISTERED TRUSTEES**

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30TH JUNE 2014

NOTES TO THE FINANCIAL STATEMENTS

1. 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 cash flow statement is prepared using the indirect method. The financial statements are prepared on accrual basis.

2. Summary of significant accounting policies

a) Revenue from non-exchange transactions

Transfers from other government entities

Revenues from non-exchange transactions with other government entities are measured at fair value and recognized on obtaining control of the asset (cash, goods, services and property) if the transfer is free from conditions and it is probable that the economic benefits or service potential related to the asset will flow to the entity and can be measured reliably.

Revenue from exchange transactions

Rendering of services

The Trust recognizes revenue from rendering of services by reference to the stage of completion when the outcome of the transaction can be estimated reliably. Where the contract outcome cannot be measured reliably, revenue is recognized only to the extent that the expenses incurred are recoverable.

Sale of goods

Revenue from the sale of goods is recognized when the significant risks and rewards of ownership have been transferred to the buyer, usually on delivery of the goods and when the amount of revenue can be measured reliably and it is probable that the economic benefits or service potential associated with the transaction will flow to the entity.

Interest income

Interest income is accrued using the effective yield method. The effective yield interest estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount. The method applies this yield to the principal outstanding to determine interest income each period.

b) Taxes

Income tax

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

Deferred tax

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

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

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

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



**MERU WATER AND SEWERAGE SERVICES
REGISTERED TRUSTEES**

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30TH JUNE 2014

FOR THE YEAR ENDED 30TH JUNE 2014 (CONT'D)

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 and the deferred taxes relate to the same taxable entity and the same taxation authority.

Sales tax

Expenses and assets are recognized inclusive of the amount of sales tax, including:

- > When the sales tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case, the sales tax is recognized as part of the cost of acquisition of the asset or as part of the expense item, as applicable
- > When receivables and payables are stated with the amount of sales tax included

The net amount of sales tax recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statement of financial position.

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.

Depreciation policy

Freehold land	Nil	Water meters	20.0%
Buildings	2.5%	Computers and typewriters	30.0%
Furniture and equipment	12.5%	Workshop equipment	33.3%
Motor vehicles	25.0%	Pipes and fittings	12.5%

d) Leases

Finance leases are leases that transfer substantially all of the risks and benefits incidental to ownership of the leased item to the Entity. Assets held under a finance lease are capitalized at the commencement of the lease at the fair value of the leased property or, if lower, at the present value of the future minimum lease payments. The Entity also recognizes the associated lease liability at the inception of the lease. The liability recognized is measured as the present value of the future minimum lease payments at initial recognition.

Subsequent to initial recognition, lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognized as finance costs in surplus or deficit.

An asset held under a finance lease is depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Entity will obtain ownership of the asset by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

Operating leases are leases that do not transfer substantially all the risks and benefits incidental to ownership of the leased item to the Entity. Operating lease payments are recognized as an operating expense in surplus or deficit on a straight-line basis over the lease term.

e) Research and development costs

The Trust expenses research costs as incurred. Development costs on an individual project are recognized as intangible assets when the Entity can demonstrate:



**MERU WATER AND SEWERAGE SERVICES
REGISTERED TRUSTEES**

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30TH JUNE 2014

FOR THE YEAR ENDED 30TH JUNE 2014 (CONT'D)

- The technical feasibility of completing the asset so that the asset will be available for use or sale
- Its intention to complete and its ability to use or sell the asset
- How the asset will generate future economic benefits or service potential
- The availability of resources to complete the asset
- The ability to measure reliably the expenditure during development

Following initial recognition of an asset, the asset is carried at cost less any accumulated amortization and accumulated impairment losses. Amortization of the asset begins when development is complete and the asset is available for use. It is amortized over the period of expected future benefit. During the period of development, the asset is tested for impairment annually with any impairment losses recognized immediately in surplus or deficit.

f) Intangible assets

Intangible assets acquired separately are initially recognized at cost. The cost of intangible assets acquired in a non-exchange transaction is their fair value at the date of the exchange. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and accumulated impairment losses. Internally generated intangible assets, excluding capitalized development costs, are not capitalized and expenditure is reflected in surplus or deficit in the period in which the expenditure is incurred.

The useful life of the intangible assets is assessed over their estimated useful lives.

g) Financial instruments

Financial assets

Initial recognition and measurement

Recognition and Measurement are classified as financial assets at fair value through surplus or deficit, loans and receivables, held-to-maturity investments or available-for-sale financial assets, as appropriate. The Entity determines the classification of its financial assets at initial recognition.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortized cost using the effective interest method, less impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. Losses arising from impairment are recognized in the surplus or deficit.

Held-to-maturity

Non-derivative financial assets with fixed or determinable payments and fixed maturities are classified as held to maturity when the Entity has the positive intention and ability to hold it to maturity. After initial measurement, held-to-maturity investments are measured at amortized cost using the effective interest method, less impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The losses arising from impairment are recognized in surplus or deficit.

Impairment of financial assets

The Entity assesses at each reporting date whether there is objective evidence that a financial asset or a entity of financial assets is impaired. A financial asset or a entity of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event has an impact on the estimated future cash flows of the financial asset or the entity of financial assets that can be reliably estimated. Evidence of impairment may include the following indicators:

- The debtors or a entity of debtors are experiencing significant financial difficulty
- Default or delinquency in interest or principal payments
- The probability that debtors will enter bankruptcy or other financial reorganization
- Observable data indicates a measurable decrease in estimated future cash flows (e.g. changes in arrears or economic conditions that correlate with defaults)

Financial liabilities

Initial recognition and measurement

Financial liabilities are classified as financial liabilities at fair value through surplus or deficit or loans and borrowings, as appropriate. The Entity determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognized initially at fair value and, in the case of loans and borrowings, plus directly attributable transaction costs.



**MERU WATER AND SEWERAGE SERVICES
REGISTERED TRUSTEES**

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30TH JUNE 2014

FOR THE YEAR ENDED 30TH JUNE 2014 (CONT'D)

Loans and borrowing

After initial recognition, interest bearing loans and borrowings are subsequently measured at amortized cost using the effective interest method. Gains and losses are recognized in surplus or deficit when the liabilities are derecognized as well as through the effective interest method amortization process.

Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate.

Inventories

Inventory is measured at cost upon initial recognition. To the extent that inventory was received through non-exchange transactions (for no cost or for a nominal cost), the cost of the inventory is its fair value at the date of acquisition.

Costs incurred in bringing each product to its present location and condition are accounted for, as follows:

- Raw materials: purchase cost using the weighted average cost method
- Finished goods and work in progress: cost of direct materials and labor and a proportion of manufacturing overheads based on the normal operating capacity, but excluding borrowing costs

After initial recognition, inventory is measured at the lower of cost and net realizable value. However, to the extent that a class of inventory is distributed or deployed at no charge or for a nominal charge, that class of inventory is measured at the lower of cost and current replacement cost.

Net realizable value is the estimated selling price in the ordinary course of operations, less the estimated costs of completion and the estimated costs necessary to make the sale, exchange, or distribution.

Inventories are recognized as an expense when deployed for utilization or consumption in the ordinary course of operations of the Entity.

h) Provisions

Provisions are recognized when the Entity has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Where the Entity expects some or all of a provision to be reimbursed, for example, under an insurance contract, the reimbursement is recognized as a separate asset only when the reimbursement is virtually certain.

The expense relating to any provision is presented in the statement of financial performance net of any reimbursement.

Contingent liabilities

The Entity does not recognize a contingent liability, but discloses details of any contingencies in the notes to the financial statements, unless the possibility of an outflow of resources embodying economic benefits or service potential is remote.

Contingent assets

The Entity does not recognize a contingent asset, but discloses details of a possible asset whose existence is contingent on the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Entity in the notes to the financial statements. Contingent assets are assessed continually to ensure that developments are appropriately reflected in the financial statements. If it has become virtually certain that an inflow of economic benefits or service potential will arise and the asset's value can be measured reliably, the asset and the related revenue are recognized in the financial statements of the period in which the change occurs.

i) Nature and purpose of reserves

The Entity creates and maintains reserves in terms of specific requirements. Entity to state the reserves maintained and appropriate policies adopted.

j) Changes in accounting policies and estimates

The Entity recognizes the effects of changes in accounting policy retrospectively. The effects of changes in accounting policy are applied prospectively if retrospective application is impractical.

k) Employee benefits

Retirement benefit plans

The Entity 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.



**MERU WATER AND SEWERAGE SERVICES
REGISTERED TRUSTEES**

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30TH JUNE 2014

FOR THE YEAR ENDED 30TH JUNE 2014 (CONT'D)

l) Foreign currency transactions

Transactions in foreign currencies are initially accounted for at the ruling rate of exchange on the date of the transaction. Trade creditors or debtors denominated in foreign currency are reported at the statement of financial position reporting date by applying the exchange rate on that date. Exchange differences arising from the settlement of creditors, or from the reporting of creditors at rates different from those at which they were initially recorded during the period, are recognized as income or expenses in the period in which they arise.

m) 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.

n) Related parties

The Entity regards a related party as a person or an entity with the ability to exert control individually or jointly, or to exercise significant influence over the Entity, or vice versa. Members of Board of trustee and key management are regarded as related parties.

o) Cash and cash equivalents

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

p) Comparative figures

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

q) Significant judgments and sources of estimation uncertainty

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

State all judgements, estimates and assumptions made: e.g

Estimates and assumptions

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

Useful lives and residual values

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

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

Provisions

Provisions were raised and management determined an estimate based on the information available. Provisions are measured at the management's best estimate of the expenditure required to settle the obligation at the reporting date, and are discounted to present value where the effect is material.

The estimates are discounted at a pre-tax discount rate that reflect current market assessments of the time value of money.



**MERU WATER AND SEWERAGE SERVICES
REGISTERED TRUSTEES**

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR
ENDED 30TH JUNE 2014 (CONT'D)**

3. THE WATER SECTOR REFORMS

Pursuant to the requirements of the Water Act 2002, the Government of Kenya (GoK) has placed all the water assets and liabilities in the whole country under the management of Regional Water Services Boards. In line with these countrywide reforms, the Meru Water & Sewerage Services (MEWASS) has signed a service provision agreement with the Tana Water Services Board, Water services provision being a devolved function to the County Government, the status is expected to be changed during transition period of Constitution of Kenya 2010

	2014	2013
	<u>Kshs</u>	<u>Kshs</u>
4 TURNOVER		
Water Revenue	91,580,767	84,156,589
Sewer Revenue	22,777,078	20,140,209
Other Revenues	4,824,222	4,413,484
Bottled Water Revenue	440,804	8,310
	<u>119,622,871</u>	<u>108,718,592</u>
5 OTHER INCOME		
Materials and labour charges	8,992,600	7,022,469
Sale of tender forms	64,000	120,500
Interest income	4,457,859	2,577,047
Miscellaneous income	68,884	200,816
Exhauster Revenue	2,501,705	1,028,300
Gain on disposal	-	17,473
	<u>16,085,048</u>	<u>10,966,605</u>
6. ADMINISTRATION AND ESTABLISHMENT EXPENSES		
Salaries, Wages and Allowances	25,571,469	24,039,813
Staff Welfare	1,187,459	1,130,767
Repairs and Maintenance	1,963,998	2,132,827
Cash Collection Charges	403,470	413,222
Office Supplies	1,742,879	2,077,830
Training	1,448,670	1,304,165
Motor Vehicle Running Expenses	1,886,428	1,652,432
Telephone and Email	595,528	791,306
Audit Fees	464,000	464,000
Travelling and Subsistence	1,269,901	1,156,644
Trustees' Fees and Allowances	3,055,900	1,840,761
Annual General Meeting expenses	272,100	267,500
Meetings and Conferences	331,330	545,501
Electricity and Generator expenses	482,389	346,643
Advertising and Public Relations	833,616	448,574
Donations and Subscriptions	154,500	159,370
Social activities expenses	273,725	142,530
Entertainment expenses	128,860	93,330
Legal, Professional Fees & Levies	1,590,887	2,582,171
Security	2,062,228	1,692,207
Uniforms	826,949	493,237
Insurances	632,516	615,191
ASK Show	527,680	375,079
Postage	2,917,602	2,643,989
Increase in provision for doubtful debts	(1,325,187)	3,776,752
Provision for Staff Accrued Leave	300,938	86,279
Games & Sports - Wasca	750,876	714,100
General Office Expenses	824,512	596,268
Assorted Tools	1,310	113,414
a Total Administration & Establishment Expenses	<u>51,176,532</u>	<u>52,695,900</u>
b Depreciation	7,125,652	7,803,745
c Amortisation of intangible assets	966,143	111,707
	<u>59,268,327</u>	<u>60,611,352</u>



MERU WATER AND SEWERAGE SERVICES
REGISTERED TRUSTEES

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR
ENDED 30TH JUNE 2014 (CONT'D)

	2014	2013
	<u>Kshs</u>	<u>Kshs</u>
7. SELLING AND DISTRIBUTION EXPENSES		
Salaries, Wages and Allowances	20,960,046	18,983,333
License fee	14,851,414	14,877,364
Repairs and Maintenance	848,940	2,554,286
Rehabilitation-sewer system	1,121,007	703,928
Assorted Tools	105,620	15,272
Travel and subsistence	903,415	461,173
Revenue Stamps	131,098	174,086
Excise Duty	71,616	-
Office supplies	484,488	55,143
Pipes and Fittings	10,856,926	8,854,682
Electricity	2,128,714	914,037
Chemicals and laboratory expenses	2,378,446	2,278,361
Motor Vehicle Running Expenses	3,939,431	3,063,868
Bottling Plant Expenses	631,592	411,508
Minor works	2,951,637	284,483
Night flow measurements	254,000	224,000
Exhauster Expenses	2,013,282	746,268
Water Analysis	529,620	580,370
	<u>65,161,291</u>	<u>55,182,163</u>
8. NET FINANCE COSTS		
Bank charges	<u>296,795</u>	<u>250,607</u>
9. SURPLUS BEFORE TAXATION		
The surplus/(deficit) before taxation is stated after charging:		
Depreciation	7,125,652	7,803,745
Board of Trustees' emoluments	3,055,900	1,840,761
Auditor's remuneration	464,000	464,000
Net finance costs	296,795	250,607
And after crediting:		
Interest income	<u>4,457,859</u>	<u>2,577,047</u>
10. TAXATION		
a) Withholding Tax	<u>668,687</u>	<u>386,557</u>
The withholding tax was deducted by the paying institutions from interest income earned on fixed deposits.		
b) Corporate Tax		
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	10,981,506	3,641,075
Add: Non allowable expenses	<u>7,676,401</u>	<u>11,937,853</u>
	18,657,907	15,578,929
Less: Allowable expensess	<u>(8,416,646)</u>	<u>(7,266,356)</u>
Taxable income	10,241,261	8,312,573
Corporate Tax at 30%	3,072,378	2,493,772



**MERU WATER AND SEWERAGE SERVICES
REGISTERED TRUSTEES**

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH JUNE 2014 (CONT'D)

PROPERTY, PLANT AND EQUIPMENT

	Free Hold Land	Buildings	Office Computers	Motor Vehicles	WTP Equipment & Tools	Water Meters & Equipment	Office Furniture & Equipment	Pipes & Fittings	Work in Progress	Total
	Kshs.	Kshs.	Kshs.	Kshs.	Kshs.	Kshs.	Kshs.	Kshs.	Kshs.	Kshs.
COST VALUATION										
At 1st July 2012	1,606,980	9,148,557	11,565,548	13,906,486	2,662,916	28,238,373	7,321,046	30,733,311	0	105,183,217
Additions	0	0	1,193,900	0	191,552	3,492,544	113,202	0	707,033	5,698,231
Disposal	0	0	(89,000)	0	0	0	0	0	0	(89,000)
At 30th June 2013	1,606,980	9,148,557	12,670,448	13,906,486	2,854,468	31,730,917	7,434,248	30,733,311	707,033	110,792,447
At 1st July 2013	1,606,980	9,148,557	12,670,448	13,906,486	2,854,468	31,730,917	7,434,248	30,733,311	707,033	110,792,447
Additions	3,640,000	0	694,133	0	0	3,045,000	60,515	0	21,575,378	29,005,026
Disposal	0	0	0	0	0	0	0	0	0	0
At 30th June 2014	5,246,980	9,148,557	13,364,581	13,906,486	2,854,468	34,775,917	7,494,763	30,733,311	22,282,411	139,797,473
DEPRECIATION										
At 1st July 2012	0	1,014,592	8,226,736	10,486,067	2,539,548	19,751,043	3,935,198	11,082,017	0	57,035,200
Acc. Dep. On Disposal	0	0	(58,473)	0	0	0	0	0	0	(58,473)
Charge for the year	0	203,349	1,350,656	855,105	104,868	2,395,975	437,381	2,456,412	0	7,803,746
At 30th June 2013	0	1,217,941	9,518,918	11,341,172	2,644,416	22,147,018	4,372,579	13,538,429	0	64,780,472
At 1st July 2013	0	1,217,941	9,518,918	11,341,172	2,644,416	22,147,018	4,372,579	13,538,429	0	64,780,472
Charge for the year	0	198,265	1,150,699	641,328	69,947	2,525,780	390,273	2,149,360	0	7,125,652
At 30th June 2014	0	1,416,206	10,669,617	11,982,500	2,714,363	24,672,798	4,762,852	15,687,789	0	71,906,125
NET BOOK VALUE										
At 30th June 2014	5,246,980	7,732,351	2,694,964	1,923,986	140,105	10,103,119	2,731,911	15,045,523	22,282,411	67,891,350
At 30th June 2013	1,606,980	7,930,616	3,151,530	2,565,314	210,052	9,583,899	3,061,669	17,194,883	707,033	46,011,976

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 and residents of Meru Municipality its environs.

The Tana Water Services Board is in the process of surveying these assets to determine their value. The management of these assets forms an integral part of the service provision agreement referred to in note 3.



**MERU WATER AND SEWERAGE SERVICES
REGISTERED TRUSTEES**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30TH JUNE 2014 (CONT'D)**

	2014	2013
	<u>Kshs</u>	<u>Kshs</u>
12. INTANGIBLE ASSETS		
COST		
At July 1	3,994,371	3,994,371
Additions	<u>2,959,828</u>	<u>0</u>
At June 30	6,954,199	3,994,371
AMORTISATION		
At July 1	3,733,722	3,622,015
Charge for the year	<u>966,143</u>	<u>111,707</u>
At June 30	4,699,864	3,733,722
NET BOOK VALUE		
At June 30	<u>2,254,335</u>	<u>260,649</u>
13. INVENTORIES		
Pipes and fittings	1,457,852	1,853,608
Electrical fittings	12,539	12,539
Chemicals	245,272	555,122
Motor spare parts	76,093	18,400
Other items	<u>31,118</u>	<u>84,765</u>
	<u>1,822,874</u>	<u>2,524,434</u>
14. RECEIVABLES AND PREPAYMENTS		
Trade receivables	58,880,033	67,834,311
Provision for doubtful debts		
- Dormant accounts	(14,664,550)	(15,142,060)
- General	<u>(4,421,548)</u>	<u>(5,269,225)</u>
	39,793,935	47,423,026
Other receivables, deposits and prepayments	<u>8,862,703</u>	<u>9,316,240</u>
	<u>48,656,638</u>	<u>56,739,267</u>
15. CASH AND CASH EQUIVALENTS		
Cash at Bank	35,287,086	14,441,065
Cash in Hand	48,805	111,196
Fixed Deposits	<u>65,085,756</u>	<u>43,895,629</u>
	<u>100,421,647</u>	<u>58,447,890</u>
<p>The funds in the fixed deposit will be used to finance the capital projects lined up for the year (see note 26)</p>		
16. GRANT		
Balance as at 1st July	3,388,381	3,254,719
Grant from related parties	-	921,820
Less: Transfer to Revenue Reserves	(699,315)	(788,158)
Balance at 30th June	2,689,066	3,388,381

The capital grant represents assets donated to MEWASS by the Japanese Government and Tana Water Services Board



**MERU WATER AND SEWERAGE SERVICES
REGISTERED TRUSTEES**

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30TH JUNE 2014 (CONT'D)

	2014	Restated
	<u>Kshs</u>	<u>2013</u>
		<u>Kshs</u>
17. AMOUNTS DUE TO RELATED PARTIES		
Meru Municipal Council	-	9,132,972
Ministry of water	-	28,422,340
Capitalized related parties long liability	-	(37,555,312)
	<u>0</u>	<u>0</u>
<p>This represents the water and sewerage debtor balances taken over from Meru Municipal Council and the Ministry of Water on 1st July 2002. The Trust hereby converts these long term liability into capital</p>		
18. CONSUMER DEPOSITS		
These are refundable deposits paid by customers. The deposits are refunded when water services to a customer are terminated:	<u>22,393,370</u>	<u>18,261,317</u>
19. TAX		
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		
Tax Asset as earlier report	<u>(8,268,263)</u>	<u>(6,529,955)</u>
Prior year adjustments on withholding tax not taken as tax paid	0	(386,557)
As Re-stated	<u>(8,268,263)</u>	<u>(6,916,512)</u>
20. PAYABLES AND ACCRUALS		
Trade payables	21,669,342	6,722,675
Other payables and accruals	10,338,504	5,328,670
Provision for staff leave entitlement	2,423,503	2,122,565
	<u>34,431,349</u>	<u>14,173,910</u>
21. STAFF COSTS		
Staff costs include:		
Provision for staff leave entitlement	<u>2,423,503</u>	<u>2,122,565</u>
Others		
Contribution to retirement benefit scheme	3,976,507	3,579,871
Contribution to statutory pension scheme	296,227	278,312
Contribution to benevolent fund	76,700	76,300
Other salaries, wages and allowances	42,182,081	39,088,663
	<u>46,531,515</u>	<u>43,023,146</u>
22. COMPENSATION OF KEY MANAGEMENT PERSONNEL		
Basic salary	4,393,344.00	4,033,909.00
Other allowances	3,245,886.00	3,206,092.00
Retirement benefits	829,170.00	748,116.00
	<u>8,468,400.00</u>	<u>7,988,117.00</u>
23. NUMBER OF EMPLOYEES		
<p>The number of employees as at 30th June 2014 was 74 (2013: 75)</p>		



**MERU WATER AND SEWERAGE SERVICES
REGISTERED TRUSTEES**

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30TH JUNE 2014 (CONT'D)

	2014	2013
	<u>Kshs</u>	<u>Kshs</u>
24. DEFERRED GRANT INCOME		
Balance b/wd	6,899,211	7,884,813
Grants from WSTF	26,115,760	-
Capitalized grants	<u>(862,401)</u>	<u>(985,602)</u>
	<u>32,152,570</u>	<u>6,899,211</u>

This relates to grants received from Water Services Trust Fund (WSTF) under the Urban Project Concept (UPC) to fund water services to the underserved areas.

25. CONTINGENT LIABILITIES

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 believes this claim is without merit and is vigorously defending itself. The Trust lawyers are defending the Trust. No provision has been made in these accounts for this claim.

26. CAPITAL COMMITMENTS

Authorized and contracted:	1,091,900	-
Authorized but not contracted:	<u>20,601,600</u>	<u>15,597,000</u>
	<u>21,693,500</u>	<u>15,597,000</u>

27. CURRENCY RISK

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 2014

28. CURRENCY

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