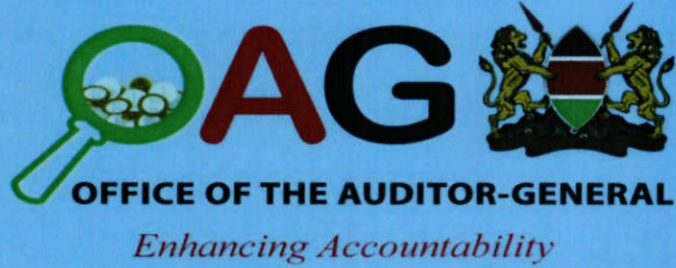


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REPORT

OF

THE AUDITOR-GENERAL

ON

**MERU WATER AND SEWERAGE SERVICES
REGISTERED TRUSTEES**

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



**MERU WATER AND SEWERAGE SERVICES
REGISTERED TRUSTEES**

ANNUAL REPORTS AND FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDING

JUNE, 30 2019

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 2019

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**MERU WATER AND SEWERAGE SERVICES
REGISTERED TRUSTEES**

**ANNUAL REPORTS AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30TH JUNE 2019**

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. Kabui Chabari	Joined 16th May 2018
Ms. Elizabeth Kanini	Joined 16th May 2018
Mr. George Kimathi	Joined 16th May 2018
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
Website: 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 2019**

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 Conservacy 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. George Kimatni PhD. Climate Change and Adaptation Msc.Natural Resources Management, Bsc (Environmental Science)	Date of Birth 28th July 1984 Ag. Chief Officer Water and Irrigation County Government of Meru.
	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 2019**

THE MANAGEMENT TEAM

Photo	Manager's Name and Qualifications	Date of Birth and Experience
	Mr. Robert K. Miruri Ag. 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 Lydia Mukami Kinoti Ag. Finance Manager BCOM Accounting, CPA(K)	Date of Birth 17/04/1979 Over 15 years experience in Accounting & Commercial services
	Mr. Chris Kaberia Mbaabu Ag. Technical Services Manager Bsc Water & Environmental Engineering	Date of Birth 21/03/1983 Over 10 years experience in water engineering
	Ms. Edith Kendi Kiogora Ag. Human Resource Manager Bachelor of Project Planning and management, Dip.HRM	Date of Birth 24/12/1979 Over 10 years 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 2019**

CHAIRMAN'S STATEMENT FOR THE YEAR ENDED 30TH JUNE 2019

Water resource is a scarce commodity. Water is a fundamental means of attaining Africa's development goals. The continent faces numerous challenges ranging from food insecurity, poverty and slow economic growth emanating from scarcity of this valuable resource. It is widely recognised that low and middle income countries lack the capacities to effectively develop and manage their water resources sustainably. Thus, the vast majority of the Sub-Saharan African, Kenya being one of the countries, still faces enormous challenges in realizing the UN water related Sustainable Development Goals. Meru County just like any other urban area in Kenya is facing a rapid population growth. Similarly, the drying of rivers has adversely affected the availability of water resource. Consequently, in the coming months, the corporation with other stakeholders in the water sector intends to have a consultative forum on restoration, conservation and protection of water catchment areas.

Despite the challenges the Corporation recognises the need for urgent action to provide clean portable water and sanitation to its populace as a means of achieving the greater vision of Making Meru Great. The Corporation has laid down strategies to ensure that the water catchment areas, treatment, storage, distribution and recycling as well as to sensitize our customers on prudent water use and conservation are sustainably managed.

The corporation's strategic priority action areas for year 2018-2020 include expansion of distribution and transmission lines; this will enable the increase of supply of water to our customers to cope with the current water demand. There will be resurveying and redesigning of transmission lines; this will enable us to re-evaluate the current demand and upgrade the pipeline network accordingly. In order to control pressure and cut down on maintenance costs and reduce Non Revenue Water, the corporation will continuously install pressure reducing valves in high pressure zones.

The current sewerage system is aged, overloaded and only serves a limited area. Therefore, the corporation with the County government and the National government will be exploring financing options for an expanded sewerage system to serve a larger population in Meru town and its environs.

In conclusion let me pay a particular tribute to the very hard work by the Board of Directors, management and staff. My special thanks to our customers who have been with us all through. All of us who are involved with the Corporation feel a sense of privilege for the chance to be involved.

Thank You

A handwritten signature in blue ink, appearing to read "Mworio Mugambi".

**Dr Mworio Mugambi
Chairman of the Board,
Meru County Urban Water & Sanitation Services Corporation**



MERU WATER AND SEWERAGE SERVICES (MEWASS)
REGISTERED TRUSTEES
Annual Reports and Financial Statements
For the year ended June 30 2019

REPORT OF THE GENERAL MANAGER FOR THE YEAR ENDED 30TH JUNE 2019

During the year under review, the Meru Water and Sewerage Services, being a Water Service Provider for the Meru town Urban and its environs continued to discharge its noble role of provision of Water and Sewerage Services to its clients within its area of jurisdiction, despite the various challenges that were encountered. The following is the summary of undertakings and achievements all within the mandate of our water service provider that were covered within the period under review.

Finance

The total operating income increased from 191,270,914 to 196,043,126 in the financial year 2017/2018 and 2018/2019 financial year (an increase of about 2.5%)

This income is realized from water sales, sewerage services and bottled water, which form the main drivers of revenue for the utility. Other incomes includes interest, exhaustor and other revenues which are as a result of penalties and disconnection fees. There was a decrease in surplus which was as a result of change of operational costs due to road bypass constructions within our service area, depreciation and aging of our infrastructure.

Capital investment

Within the reporting period the trust was able to restore various distribution and service lines which were damaged by road construction. The entity was also able to finalize the construction of distribution line to Kaaga area which really gave a boost to the supply of water to the area.

Water Quality

Despite various challenges encountered during the rainy season the utility strived to supply standard portable water to its consumers. Both the bacteriological and other parameters required by the regulators were met.

Sewerage Treatment Facility

The sewerage treatment facility is overloaded since it has a capacity of 750m³ per day against a demand of 2000m³ per day. However, a new treatment facility has been designed and it is being funded by ADB through the National Government by Tana water works development agency. The new treatment facility has a capacity of 8000m³ per day at an estimated cost of Kenya shillings one Billion. The contractor is on site and the works have commenced.



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

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

REPORT OF THE GENERAL MANAGER FOR THE YEAR ENDED 30TH JUNE 2019
CONT'D

Non-Revenue Water (NRW)

Through the efforts of the NRW team and the entire MEWASS staff, we have been able to maintain our NRW to 15 % which is far much below WASREB benchmark of 25%. This has enabled us to supply the available water to our customers. Through our customer care department we were able to give quality service to our esteemed customers.

Technology

To keep our services abreast with the new technology and to enhance our performance, we intend to acquire an integrated information management system that will enhance all our operations.

Conclusion

I would like to register my sincere appreciation to all our esteemed customers, all our stakeholders and general well-wishers for their support within the period. Likewise, I thank all the members of staff for their untiring effort in rendering this noble service. My special thanks also go to our Chief Executive Officer Meru County Urban Water and Sanitation Services Corporation for his guidance and advice in our daily activities.

Thank you

A handwritten signature in black ink, appearing to read "Robert K. Miruri".

Robert K. Miruri

General Manager,

Meru Water & Sewerage Services (MEWASS)



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

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

CORPORATE GOVERNANCE STATEMENT FOR THE YEAR ENDED 30TH JUNE 2019

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/General Manager 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 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.

During the financial year 2018/2019 the board held 10 meetings. The details of the attendance at these meetings are as set out below:

Date	30/08/2018	06/09/2018	25/09/2018	07/11/2019	30/01/2019	02/04/2019	15/04/2019	30/04/2019	07/06/2019	28/06/2019
Name	1 st Extra ordinary meeting	1 st Board meeting	2 nd Board meeting	3 rd Board meeting	4 th Board meeting	2 nd Extra ordinary Board meeting	Special Board meeting	5 th Board meeting	Finance meeting	Board meeting
Dr.Mugambi Mworja	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Mr.Kabii Chabari	x	✓	✓	✓	✓	✓	✓	x	✓	✓
Mr.George Kimathi	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Ms.Elizabeth Kanini	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓



MERU WATER AND SEWERAGE SERVICES (MEWASS) REGISTERED TRUSTEES

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

Finance & Administration Committee

The committee secretary is the Chief Executive Officer. Each director is expected to have experience in management skills necessary to discharge his /her duties. The committee supports and assists the Board in the effective discharge of the Boards responsibilities in finance, human resource & administration information, communication and technology. The committee receives and reviews reports on the financial performance, annual budget, 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 General Manager/Technical manager .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 advised the board on technical matters involving MEWASS internal and external projects. It assisted the board in monitoring and reviewing any project(s) development and major assets acquisition.

Audit Committee

The committee secretary is the Internal Audit Manager. 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.



**MERU WATER AND SEWERAGE SERVICES
REGISTERED TRUSTEES**

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

MANAGEMENT DISCUSSION AND ANALYSIS FOR THE YEAR ENDED 30TH JUNE 2019

The Trust presents its financial performance for the financial year ending 30th June 2019. 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 to date 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.196 million as compared to Kshs.191.2 million in previous financial year. The revenue increase was primarily due to prompt billings and timely disconnections of unpaid water bills.

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 30th June 2019, we incurred a total expenditure of Kshs.181.5 million as compared to Kshs.164.8 million for the previous year. The increase in the expenditure total is majorly attributed to upward revision of license fee by Water Services Regulatory Board (WASREB) vide Kenya gazette notice no.12188 of 23rd November 2018 increasing the levy from one percent to four percent of the total billings. The Board of Director's expenses for the year in review amounted to Kshs.2.7 million as compared to Kshs.0.5 million the previous year. The increase is attributed to the formation of the Board of Directors as a result of gazettelement of new Board members.

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, a new sewer treatment facility has been designed and it is being funded by ADB through the National Government by Tana water works development agency. The new treatment facility has a capacity of 8000m³ per day at an estimated cost of Kenya Shillings one billion. The works have commenced and the contractor is on site. This will increase the number of customers connected to the network hence revenue growth.



**MERU WATER AND SEWERAGE SERVICES
REGISTERED TRUSTEES**

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

**MANAGEMENT DISCUSSION AND ANALYSIS FOR THE YEAR ENDED 30TH JUNE 2019
CONT'D**

Liquidity and capital resources

In the financial year in review trade receivables decreased. However other receivables increased. Similarly, there was an increase in the accounts payable due to accrual of WASREB levy which was increased from one percent to four percent vide gazette notice no.12188 of 23rd November 2018. At the same time the customer deposits increased by Kshs 3.8 million. As of 30th June 2019 the Trust had Kshs.29.7 million in cash and cash equivalents, inventory of Kshs.6.2 million, receivables and prepayments of Kshs 90.1 million and tax asset of Ksh 10.3 million. The total current assets were Kshs.136.4 million and total current liabilities of Kshs.151.3 million made of Consumer deposits of Kshs. 40.7 million and payables and accruals of Kshs.110.5 million. The Trust had a working capital deficit of Kshs.14.8 million.

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.



**MERU WATER AND SEWERAGE SERVICES
REGISTERED TRUSTEES**

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

**CORPORATE SOCIAL RESPONSIBILITY STATEMENT FOR THE YEAR ENDED 30TH
JUNE 2019**

Corporate social responsibility (CSR) encompasses a corporation's social, ethical and environmental obligations to its employees, stakeholders, customers, partners and the community at large. It promotes corporate leadership by building a positive image to the company. MEWASS has made deliberate efforts to demonstrate leadership in corporate social responsibility initiatives. As a responsible corporate citizen, MEWASS prides itself by contributing towards positive transformation of life in areas of environmental, social and economic well-being of the society in which it operates. The vision and mission statements as well as the core values spell out the road map that is to be followed by everyone.

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.

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.

The trust encourages 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.



**MERU WATER AND SEWERAGE SERVICES
REGISTERED TRUSTEES**

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

**CORPORATE SOCIAL RESPONSIBILITY STATEMENT FOR THE YEAR ENDED 30TH
JUNE 2019 CONT'D**

The community

During the year the trust made a positive impact on the community in which it operates. The Trust made some donations totaling to ksh 55,890 of bottled water to various institutions. These included Meru Rugby football club, Meru GK prison, MRM Chandaria youth empowerment program amongst others.

Employees

With immense gratitude, the employees have hailed the efforts of MEWASS for taking care of their welfare in an indispensable way. The employees' health, safety and capacity building is well thought-out and taken care of.

During the year 2018-2019 an amount of kshs.4.7 million was used to take care of the health of the employees with their immediate family members through enhanced National Hospital Insurance Fund (NHIF). Similarly, an amount of kshs.1.5 million was spent for capacity building.

Effective policies and procedures are aligned with 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.



**MERU WATER AND SEWERAGE SERVICES
REGISTERED TRUSTEES**

REPORT OF THE DIRECTORS

FOR THE YEAR ENDED 30TH JUNE 2019

The Directors submit their sixteenth report and the audited financial statements for the year ended 30th June 2019 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 11.

3. TRUSTEES

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

24TH SEPTEMBER 2019



**MERU WATER AND SEWERAGE SERVICES
REGISTERED TRUSTEES**

STATEMENT OF DIRECTORS' RESPONSIBILITIES

FOR THE YEAR ENDED 30TH JUNE 2019

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 2019.

This responsibility includes:

- (i) maintaining adequate financial management arrangements and ensuring that these continue to be effective throughout the reporting period;
- (ii) maintaining proper accounting records, which disclose with reasonable accuracy at any time the financial position of the 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, 2019, 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.

Approval of the financial statements

The Trust's financial statements were approved by the Board of Directors on 24th September, 2019 and signed on its behalf by :

DR. MWORIA MUGAMBI

DIRECTOR.....

CPA JOSEPH K. CHABARI

DIRECTOR.....

)
)
)
)

24TH SEPTEMBER 2019



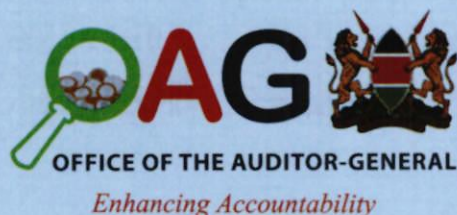
MERU WATER AND SEWERAGE SERVICES
REGISTERED TRUSTEES

ANNUAL REPORTS AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30TH JUNE 2019

REPORT OF THE INDEPENDENT AUDITORS
TO THE TRUSTEES OF MERU WATER AND SEWERAGE SERVICES

REPUBLIC OF KENYA

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E-mail: info@oagkenya.go.ke
Website: www.oagkenya.go.ke



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

REPORT OF THE AUDITOR-GENERAL ON MERU WATER AND SEWERAGE SERVICES REGISTERED TRUSTEES FOR THE YEAR ENDED 30 JUNE, 2019

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 11 to 29, which comprise of the statement of financial position as at 30 June, 2019, statement profit or loss and other comprehensive income, statement of changes in equity, statement of cash flows and the statement of comparison of budget and actual amounts for the year then ended, and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, 2015. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

In my opinion, except for the effects 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 the Meru Water and Sewerage Services Registered Trustees as at 30 June, 2019, and of its financial performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards, and comply with the Water Act, 2016, the Meru County Water and Sanitation Services Act, 2014 and the Public Finance Management Act, 2012.

Basis for Qualified Opinion

1. Non-Disclosure of Material Threat Related to Going Concern

The statement of financial position reflects total current liabilities totaling to Kshs.151,309,165 (2017/2018 – Kshs.144,378,683) and total current assets of Kshs.136,479,295 (2017/2018 – Kshs.119,310,651) resulting in a negative working capital of Kshs.14,829,870 (2017/2018 – Kshs.25,068,032). This is an indication that the Company is experiencing financial difficulties in settling financial obligations as and when they may fall due. This is an indication that the Company is experiencing financial difficulties in settling financial obligations as and when they may fall due. The Company is technically insolvent and survival dependent on the assumption that the Company will continue to receive financial support from the County Government of Meru and its creditors.

2. Undisclosed Trade Receivables

As disclosed in Note 6 to the financial statements, the statement of financial position reflects receivables and prepayments balance of Kshs.90,113,879. The balance includes trade receivables of Kshs.71,444,986 which excludes a long outstanding balance of Kshs.4,360,595 owed by a firm for relocation of water pipelines since May, 2015. The Management has not explained measures taken to ensure the debt is recovered and reasons for not disclosing it in the financial statements.

In the circumstances, the accuracy, completeness and validity of trades receivables of Kshs.71,444,986 reflected in the statement of financial position as at 30 June, 2019 could not be confirmed.

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 ISSAIs and in accordance with other ethical requirements applicable to performing audits of financial statements in Kenya. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

Key Audit Matters

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

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

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

Basis for Conclusion

1. Irregular Payment of Directors Fees and Allowances

The Management paid Directors allowances of Kshs.1,130,000 using the rates determined by Section (9) of The Meru County Water and Sanitation Services Act, 2014. However, the rates used exceeded the Salaries and Remuneration Commission (SRC) rates contained in a Circular Ref No: SRC/ADM/CIR/1/13 (122) dated 16 April, 2014. As per the Circular the allowances would have amounted to Kshs.397,000 resulting to Kshs.733,000 overpayments.

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

2. Unbalanced Budget

The statement of comparison of budget and actual amounts for the year ended 30 June, 2019 reflects Kshs.195,870,227 and Kshs.200,357,578 in respect to approved revenue and expenditure budgets respectively, resulting to a Kshs.4,487,351 budget imbalance contrary to Section 31 (c) of the Public Finance Management (County Governments) Act, 2015 which states that budgeted revenue and expenditure appropriations shall be balanced.

In the circumstances, the Management is 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, except for the matters described in the Basis for Conclusion on Effectiveness of Internal Controls, Risk Management and Governance section of my report, I confirm that, nothing else has come to my attention to cause me to believe that internal controls, risk management and overall governance were not effective.

Basis for Conclusion

1. Long Outstanding Receivables and Prepayments

Note 16 to the financial statements reflects Kshs.90,113,879 in respect to receivables and prepayments which includes Kshs.71,444,986 in respect to trade receivables that fell due between the year 1992 and 2005. However, no evidence of recovery or write off of the long overdue debts was provided for audit review.

In the circumstances, it has not been possible to establish the existence of effective measures for debt management.

2. Weaknesses in Processing of Payment Vouchers

Review of payment vouchers showed that they were not serialized and the payment amounts were only written in figures without corresponding amounts in words contrary to Section 104 of the Public Finance Management (County Governments) Regulations, 2015 which states that all receipts and payment vouchers shall be supported by pre-numbered receipts and by the appropriate authority and documentation. Further, all receipt and payment vouchers shall be or made out in indelible ink and shall contain adequate narration of the particulars of the services, goods or works procured and being

paid for and all amounts appearing in a voucher shall be written in words as well as in figures.

In the circumstances, it has not been possible to confirm existence of effective internal controls on payment vouchers.

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 overall governance were operating effectively, in all material respects. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

Responsibilities of Directors and Board of Directors

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards (IFRS) and for maintaining effective internal control as Management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error and for its assessment of the effectiveness of internal control, risk management and overall governance.

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

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

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

The Board of Directors is responsible for overseeing the financial reporting process, reviewing the effectiveness of how the Company 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 overall 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 overall governance processes and systems in accordance with the provisions of Section 7(1)(a) of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution. My consideration of the internal control would not necessarily disclose all matters in the internal control that might be material weaknesses under the ISSAIs. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Management.
- Conclude on the appropriateness of the Management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in the auditor's report to the related

disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my audit report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information and business activities of the Company to express an opinion on the financial statements.
- Perform such other procedures as I consider necessary in the circumstances.

I communicate with the 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 to communicate with them all relationships and other matters that may reasonably be thought to bear on my independence, and where applicable, related safeguards.


Nancy Gathungu
AUDITOR-GENERAL

Nairobi

03 November, 2021



MERU WATER AND SEWERAGE SERVICES
REGISTERED TRUSTEES

ANNUAL REPORTS AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30TH JUNE 2019

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

	Notes	2019 <u>Kshs</u>	2018 <u>Kshs</u>
TURNOVER	6	172,537,775	170,987,003
Other Income	7	<u>23,505,351</u>	<u>20,283,911</u>
Total Operating Income		196,043,126	191,270,914
EXPENSES:			
Administration and Establishment	8(a)	(71,886,659)	(68,401,966)
Selling and Distribution	9	<u>(91,953,617)</u>	<u>(79,425,049)</u>
Depreciation of property, plant and equipment	8(b)	(17,443,832)	(16,758,914)
Amortisation of intangible assets	8(c)	(258,515)	(279,821)
		<u>(181,542,623)</u>	<u>(164,865,751)</u>
Surplus/(Deficit) from Operating Activities		14,500,503	26,405,163
Net Finance Costs	10	<u>(177,498)</u>	<u>(123,204)</u>
Surplus/(Deficit) Before Taxation		14,323,005	26,281,959
Taxation	12(a)	<u>(1,097,420)</u>	<u>(5,217,891)</u>
Surplus/(Deficit) after Taxation		<u>13,225,585</u>	<u>21,064,068</u>



MERU WATER AND SEWERAGE SERVICES
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FOR THE YEAR ENDED 30TH JUNE 2019

STATEMENT OF FINANCIAL POSITION AS AT 30TH JUNE 2019

	Notes	2019 <u>Kshs</u>	2018 <u>Kshs</u>
ASSETS			
NON-CURRENT ASSETS			
Property, plant & equipment	13	211,899,181	210,938,164
Intangible assets	14	603,201	652,916
		<u>212,502,382</u>	<u>211,591,080</u>
CURRENT ASSETS			
Inventory	15	6,259,496	6,778,266
Receivables and prepayments	16	90,113,879	68,488,932
Tax asset	12(c)	10,388,931	11,131,508
Cash and cash equivalents	17	29,716,989	32,911,944
		<u>136,479,295</u>	<u>119,310,651</u>
CURRENT LIABILITIES			
Consumer deposits	19	40,743,955	36,847,955
Payables and accruals	20	110,565,210	107,530,728
		<u>151,309,165</u>	<u>144,378,683</u>
WORKING CAPITAL		<u>(14,829,870)</u>	<u>(25,068,032)</u>
NET ASSETS		<u>197,672,512</u>	<u>186,523,049</u>
FINANCED BY			
Grants	18	1,057,384	1,235,914
Revenue reserves		179,299,928	166,074,344
		<u>180,357,312</u>	<u>167,310,258</u>
NON-CURRENT LIABILITY			
Deferred grant income	24	17,315,200	19,212,791
TOTAL		<u>197,672,512</u>	<u>186,523,049</u>

The financial statements were approved by the Board of Directors on 24th September, 2019 and signed on its behalf by:

DR. MWORIA MUGAMBI	CHAIRMAN OF THE BOARD)
MR. JOSEPH K. MBERIA	CHIEF EXECUTIVE OFFICER)
CPA LYDIAH MUKAMI KINOTI (MNo.22817)	Ag. FINANCE MANAGER)
) 24TH SEPTEMBER 2019



MERU WATER AND SEWERAGE SERVICES
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STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 JUNE 2019

	Revenue Reserves	Total
	<u>Kshs</u>	<u>Kshs</u>
At 1st July 2017	145,010,275	145,010,275
Surplus/(Deficit) for the year	21,064,068	21,064,068
At at 30th June 2018	<u>166,074,343</u>	<u>166,074,343</u>
At 1st July 2018	166,074,343	166,074,343
Surplus/(Deficit) for the year	13,225,585	13,225,585
At at 30th June 2019	<u>179,299,928</u>	<u>179,299,928</u>



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STATEMENT OF CASHFLOWS FOR THE YEAR ENDED 30 JUNE 2019

	Notes	2019 <u>Kshs</u>	2018 <u>Kshs</u>
CASH FLOWS FROM OPERATING ACTIVITIES			
Surplus/(Deficit) before taxation		14,323,005	26,281,959
Adjustments for:			
Depreciation		17,443,832	16,758,914
Deferred income		(2,076,121)	(2,444,116)
Gain on disposal		0	(6,000)
Amortisation of intangible assets		258,515	279,821
Interest Income		(2,061,715)	(1,961,917)
		<u>13,564,511</u>	<u>12,626,702</u>
Surplus/Deficit before changes in working capital		27,887,516	38,908,661
Changes in Working Capital			
Increase/Decrease in Inventory		518,770	7,790,580
Increase/Decrease in Receivables and prepayments		(21,624,949)	(26,268,413)
Increase in Consumer deposits		3,896,000	2,981,501
Increase in Payables and accruals		3,034,483	(13,089,356)
		<u>(14,175,695)</u>	<u>(28,585,687)</u>
Cash Generated from Operations		<u>13,711,821</u>	<u>10,322,972</u>
Taxation Paid	12(b)	(354,843)	(294,287)
Net cash generated from operations		<u>13,356,978</u>	<u>10,028,685</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of Intangible assets		(208,800)	(54,500)
Disposal of fixed assets		-	20,000
Purchase of fixed assets		(18,404,848)	(33,498,735)
Net cash used in investing activities		<u>(18,613,648)</u>	<u>(33,533,235)</u>
Financing Activities			
Interest received		2,061,715	1,961,917
Net cash generated from financing activities		<u>2,061,715</u>	<u>1,961,917</u>
INCREASE /(DECREASE)IN CASH AND CASH EQUIVALENTS		<u>(3,194,955)</u>	<u>(21,542,633)</u>
CASH AND CASH EQUIVALENTS:			
AT THE START OF THE YEAR		<u>32,911,944</u>	54,454,576
AT THE END OF THE YEAR		<u>29,716,989</u>	<u>32,911,944</u>



STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS
FOR THE YEAR ENDED 30TH JUNE 2019

	Original budget	Adjustments	Final budget	Actual on comparable basis	Performance difference
	2018/19 Kshs	2018/19 Kshs	2018/19 Kshs	2018/19 Kshs	2018/19 Kshs
TURNOVER					
Water Revenue	141,799,227	0	141,799,227	129,825,947	(11,973,280)
Sewer Revenue	25,911,577	0	25,911,577	25,697,465	(214,112)
Other Revenues	5,443,770	0	5,443,770	8,441,006	2,997,236
Bottled Water Revenue	8,835,550	0	8,835,550	8,573,357	(262,193)
	181,990,124	0	181,990,124	172,537,775	(9,452,349)
OTHER INCOME					
Materials and labour charges	8,847,082	0	8,847,082	9,651,481	804,399
Interest income	2,591,438	0	2,591,438	2,061,715	(529,723)
Bulk water income	28,087	0	28,087	14,800	(13,287)
Miscellaneous income	9,363	0	9,363	4,638,134	4,628,771
Exhauster Revenue	2,404,133	0	2,404,133	5,063,100	2,658,967
Revenue grant	0	0	0	2,076,121	2,076,121
	13,880,103	0	13,880,103	23,505,351	9,625,248
TOTAL REVENUES	195,870,227	0	195,870,227	196,043,126	172,899
ADMINISTRATION AND ESTABLISHMENT EXPENSES					
Salaries, Wages and Allowances	45,107,631	0	45,107,631	40,084,713	5,022,918
Staff Welfare	5,900,000	0	5,900,000	5,115,997	784,003
Repairs and Maintenance	2,215,114	110,000	2,325,114	1,182,665	1,142,449
Cash Collection Charges	534,705	83,877	618,582	615,432	3,150
Office Supplies	3,427,949	0	3,427,949	1,729,162	1,698,787
Training	3,649,468	0	3,649,468	2,558,556	1,090,912
Motor Vehicle Running Expenses	1,771,584	907,724	2,679,308	2,698,526	(19,218)
Telephone and Email	1,902,091	24,227	1,926,318	1,973,517	(47,199)
Audit Fees	464,000	0	464,000	464,000	0
Travelling and Subsistence	2,197,519	654,321	2,851,840	2,697,985	153,855
Directors' Fees and Allowances	2,223,500	771,061	2,994,561	2,747,221	247,340
Meetings and Conferences	180,218	416,865	597,083	586,807	10,276
Electricity and Generator expense	690,925	0	690,925	587,715	103,210
Advertising and Public Relations	795,693	0	795,693	391,447	404,246
Donations and Subscriptions	387,900	0	387,900	209,080	178,820
Social activities expenses	100,000	0	100,000	55,890	44,110
Entertainment expenses	105,630	0	105,630	93,848	11,782
Legal, Professional Fees & Levies	7,053,678	0	7,053,678	2,843,548	4,210,130
Security	1,608,860	78,355	1,687,215	1,840,500	(153,285)
Uniforms	323,400	393,949	717,349	783,849	(66,500)
Insurances	992,333	0	992,333	727,191	265,142
Postage	139,417	0	139,417	53,670	85,747
Increase in provision for doubtful	0	0	0	(684,719)	684,719
Games & Sports - Wasca	999,350	0	999,350	848,335	151,015
General Office Expenses	1,453,746	0	1,453,746	1,463,647	(9,901)
Assorted Tools	397,660	0	397,660	218,076	179,584
Sub-Total Admin. & Est. Expen	84,622,371	3,440,379	88,062,750	71,886,659	16,176,091
Depreciation	16,758,913	0	16,758,913	17,443,832	(684,919)
Amortisation of intangible assets	376,387	0	376,387	258,515	117,872
Total Admin. & Est. Expenses	101,757,671	3,440,379	105,198,050	89,589,006	15,609,044
SELLING AND DISTRIBUTION EXPENSES					
Salaries, Wages and Allowances	36,429,448	0	36,429,448	36,312,071	117,377
License fee	1,932,413	870,420	2,802,833	5,590,831	(2,787,998)
Repairs and Maintenance	3,015,110	0	3,015,110	1,134,745	1,880,365
Rehabilitation-sewer system	2,080,432	(700,000)	1,380,432	167,903	1,212,529
Assorted Tools	513,900	0	513,900	201,440	312,460
Travel and subsistence	1,375,033	0	1,375,033	1,400,431	(25,398)
Excise Duty	592,440	618,460	1,210,900	1,183,833	27,067
Office supplies	549,468	0	549,468	532,250	17,218
Operation & Maintenance pipelin	11,743,172	336,591	12,079,763	13,163,467	(1,083,705)
Electricity	10,267,475	0	10,267,475	10,364,461	(96,986)
Chemicals and laboratory expense	5,956,700	0	5,956,700	4,862,724	1,093,976
Motor Vehicle Running Expenses	3,476,989	0	3,476,989	3,466,467	10,522
Bottling Plant Expenses	3,941,761	1,279,940	5,221,701	5,679,033	(457,332)
Minor works	974,000	3,700,000	4,674,000	3,168,104	1,505,896
Night flow measurements	434,000	0	434,000	64,000	370,000
Exhauster Expenses	3,639,790	0	3,639,790	3,986,588	(346,798)
Water Analysis	864,000	0	864,000	532,000	332,000
Non revenue activities	360,000	0	360,000	143,270	216,730
Total Selling & Dis. Expenses	88,146,131	6,105,411	94,251,542	91,953,617	2,297,923
Bank charges	130,555	0	130,555	177,498	(46,943)
Withholding tax	777,431	0	777,431	354,843	422,588
Total Finance costs	907,986	-	907,986	532,341	375,645
TOTAL EXPENSES	190,811,788	9,545,790	200,357,578	182,074,964	18,282,612
Tax For the Year				1,097,420	
Tax paid				(354,843)	
Net Tax				742,577	



MERU WATER AND SEWERAGE SERVICES
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FOR THE YEAR ENDED 30TH JUNE 2019

**STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS
FOR THE YEAR ENDED 30TH JUNE 2019 (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 on other revenues generated more receipts due to increased activities related to water and sewerage services i.e. disconnection charges and other penalties.*
- b) *The interest income generated during the year was less than budgeted due to the less deposit funds in fixed deposit accounts.*
- c) *Bulk water income - There were fewer customers who bought bulk water than was anticipated*
- d) *Miscellaneous income - During the year under review, an amount of Ksh 4,590,730.45 was received from roads authorities for reinstatement of our damaged pipelines.*
- e) *Exhauster Revenue - More revenue on exhauster services was generated than anticipated during the year*
- f) *The budget line for Salaries, Wages and Allowances had a positive variance due to some positions being occupied by staff members in an acting capacity.*
- g) *The budget line for Staff Welfare had a positive variance due to a cheaper than budgeted medical scheme for the staff members*
- h) *The budget line for Repairs and Maintenance and Office Supplies had a positive variance due scaling down of activities to correspond to the revenue reduction.*
- i) *The budget line for Training, Electricity and Generator expenses, Advertising and Public Relations, Donations and Subscriptions, Social activities, Entertainment, Legal, Professional fees and Levis, Insurance, Games and Sports*

Assorted tools, Repairs and maintenance, Rehabilitation of sewer system, nightflow measurements, water analysis, non revenue activities had a positive variance due scaling down of activities to correspond to the revenue reduction.

- j) *The budget line for postage had a positive variance due to the adoption of a system of banking supplier cheques and e-mailing of scanned urgent correspondence then sending the banking slips and original letters respectively instead of sending them using courier services.*
- k) *The budget line for chemicals and laboratory expenses had a positive variance because raw water turbidity was favorably low hence requiring less chemicals.*
- l) *The budget line for License fee had a negative variance due to increase in WASREB fees from 1% to 4 %.*
- m) *The budget line for Exhauster expenses had a negative variance due to minimal repairs and maintenance of the exhausters*
- n) *Minor works will be capitalized after the completion of the projects*
- o) *The budget line for bank charges had a negative variance attributed to the organization use of cheques to pay instead of cash payments.*
- p) *The budget line for the Armotisation of intangible assets has a positive variance due to non acquisition of some software.*
- q) *The budget line for Withholding tax had a positive variance due to decreased interest earned on fixed deposit.*



**MERU WATER AND SEWERAGE SERVICES
REGISTERED TRUSTEES**

**ANNUAL REPORTS AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30TH JUNE 2019**

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				
1.1	Selling & distribution expenses - The Kshs. 59,417 paid to an officer as accrued leave days	Demand letter was issued to the relevant officer	Robert Miruri - General Manager	Not Resolved	30/06/2020
1.2	Administration & Establishment expenses - The Kshs. 314,403 paid to an officer as terminal benefits	Demand letter was issued to the relevant officer	Robert Miruri - General Manager	Not Resolved	30/06/2020
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	30/06/2020
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
Other Matter					
Budgetary Control and Performance					
1.0	Income				
1.1	Under collection of Turnover by Kshs.6,179,183 and Over collection on Other Income by Kshs.8,130,793	The budget estimates are based on assumptions which actualize either positively or negatively. The management endeavours to have near actual budgets.	Lydia Mukami - Ag. Finance Manager	Resolved	28/06/2019
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 - Ag. Finance Manager	Resolved	28/06/2019
REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES					
1.0	Property, Plant and Equipment				
	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	Not Resolved	31/03/2020
	Motor Vehicle - Mazda Registration No. GK R745	The repair parts for the motor vehicle cannot be obtained as the type of model became outdated. The management wrote a letter requesting the Ministry of Water and Sanitation to collect the vehicle.	Meckson Kinyua - Procurement Manager	Not Resolved	30/06/2020
EFFECTIVENESS OF INTERNAL CONTROLS, G & RISK MANAGEMENT SYSTEMS					
1	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	Edward Mutwiri - Commercial Manager	Resolved	28/06/2019



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 2019

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 2019, allow entities to measure prepayable financial assets with negative compensation at amortised cost or fair value through other comprehensive income if a specified condition is met. 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 2019, 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 2019, 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 2019, clarify that when an entity obtains joint control of a business that is a joint operation, it does not re-measure its previously held interests.

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 2019, clarify that all income tax consequences of dividends should be recognised when a liability to pay a dividend is recognised, and that these income tax consequences should be recognised in profit or loss, other comprehensive income or equity according to where the entity originally recognise 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 2019, clarify that the costs of borrowings made specifically for the purpose of obtaining a qualifying asset that is substantially completed can be included in the determination of the weighted average of borrowing costs for other qualifying assets. The standard has no impact on the Trust's financial statements.

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

The amendments, applicable to plan amendments, curtailments or settlements occurring on or after the beginning of the first annual reporting period that begins on or after 1st January 2019, requires an entity to use updated actuarial assumptions to determine current service cost and net interest for the remainder of the annual reporting period after the plan amendment, curtailment or settlement where 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.

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

IFRS 17 Insurance Contracts (Issued 18 May 2017)

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

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

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.

Grants from National Government are recognised in the year in which the Trust actually receives such grants. Recurrent

ii) 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.



MERU WATER AND SEWERAGE SERVICES
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FOR THE YEAR ENDED 30TH JUNE 2019

NOTES TO THE FINANCIAL STATEMENTS (Continued)

III SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES(Continued)

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

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 handling 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



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NOTES TO THE FINANCIAL STATEMENTS (Continued)

III 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 amount. 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 2018-2019 was approved by the Board of Directors on 25th September 2018. An authority to incur expenditure was approved by CEC - Water and Irrigation Meru County on 12th July 2018. 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.



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ANNUAL REPORTS AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30TH JUNE 2019

NOTES TO THE FINANCIAL STATEMENTS (Continued)

a) 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, 2019.

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:



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NOTES TO THE FINANCIAL STATEMENTS (Continued)

	Fully performing Kshs.	Impaired Kshs.	Total Kshs.	
At 30 June 2019				
Trade receivables	52,562,826	18,882,160	71,444,986	
Bank balances	29,701,799	-	29,701,799	(Excludes cash at hand)
At 30 June 2018				
Trade receivables	65,027,779	19,566,878	84,594,657	
Bank balances	32,902,674	-	32,902,674	(Excludes cash at hand)

	Less than 1 month Kshs.	Between 1-3 months Kshs.	Over 4 months Kshs.	Total Kshs.
At 30 June 2019				
Trade Receivables	13,044,420	7,930,202.00	50,470,364	71,444,986
At 30 June 2018				
Trade receivables	14,127,656	14,476,085.75	55,990,915	84,594,657

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.
At 30 June 2019				
Trade payables	4,621,734	3,339,077	52,728,638	60,689,449
At 30 June 2018				
Trade payables	8,351,186	7,846,018	54,145,688	70,342,892

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 Act 2014 to manage the provision of water and sanitation services within Meru County urban areas.

MERT WATER AND SEWERAGE SERVICES

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ANNUAL REPORTS AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30TH JUNE 2019

NOTES TO THE FINANCIAL STATEMENTS (Continued)

	2018	2019
6. FLOWOVER		
Water Revenue	135,794,293	129,825,947
Sewer Revenue	24,878,837	25,697,465
Other Revenues	5,612,040	8,441,006
Bottled Water Revenue	4,701,833	8,573,357
Other Revenue includes Reconnection penalties, customer connection repair charges and exhauster discharge.	<u>170,987,003</u>	<u>172,537,775</u>
7. OTHER INCOME		
Materials and labour charges	8,375,891	9,651,481
Foreign income	1,961,917	2,061,715
Bank water income	25,950	14,800
Miscellaneous income	2,468,437	4,638,134
Exhauster Revenue	5,001,600	5,063,100
Deferred income	2,444,116	2,076,121
Gain on disposal	6,000	-
Included in the miscellaneous revenue is an amount of Kshs. 1,590,730 being reimbursement for the damaged pipeline. The amount of Kshs. 5,489,678.85 is outstanding from the road contractor.	<u>20,283,911</u>	<u>23,505,351</u>
8. ADMINISTRATION AND ESTABLISHMENT EXPENSES		
Salaries, Wages and Allowances	41,429,117	40,084,713
Self-Welfare	4,643,585	5,115,997
Repairs and Maintenance	1,074,811	1,182,665
Cash Collection Charges	497,856	615,432
Office Supplies	1,735,608	1,729,162
Training	2,143,720	2,558,556
Motor Vehicle Running Expenses	1,688,712	2,698,526
Telephone and Email	1,737,047	1,973,517
Audit Fees	464,000	464,000
Traveling and Subsistence	1,576,378	2,697,985
Directors' Fees and Allowances	551,100	2,747,221
Meetings and Conferences	190,551	586,807
Electricity and Generator expenses	662,309	587,715
Advertising and Public Relations	517,398	391,447
Donations and Subscriptions	281,000	209,080
Social activities expenses	11,800	55,890
Entertainment expenses	91,550	93,848
Legal/Professional Fees & Levies	2,361,643	2,843,548
Security	1,825,200	1,840,500
Uniforms	404,523	783,849
Insurances	1,178,632	727,191
Postage	107,686	53,670
Decrease in provision for doubtful debts	2,345,113	(684,719)
Games & Sports - Wasca	84,900	848,335
General Office Expenses	510,144	1,463,647
Assorted Tools	287,585	218,076
Total Administration & Establishment Expenses	<u>68,401,966</u>	<u>71,886,659</u>
Depreciation	16,758,914	17,443,832
Amortisation of intangible assets	279,821	258,515
	<u>85,440,702</u>	<u>89,589,006</u>

Note

13
14



MERU WATER AND SEWERAGE SERVICES
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ANNUAL REPORTS AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30TH JUNE 2019

NOTES TO THE FINANCIAL STATEMENTS (Continued)

	2019	2018
	<u>Kshs</u>	<u>Kshs</u>
9 SELLING AND DISTRIBUTION EXPENSES		
Salaries, Wages and Allowances	36,312,071	32,402,667
License fee	5,590,831	1,520,108
Repairs and Maintenance	1,134,745	1,171,549
Rehabilitation-sewer system	167,903	358,614
Assorted Tools	201,440	68,900
Travel and subsistence	1,400,431	773,210
Excise Duty	1,183,833	1,404,332
Office supplies	532,250	565,107
Operation & maintenance pipeline	13,163,467	15,181,193
Electricity	10,364,461	10,057,595
Chemicals and laboratory expenses	4,862,724	3,828,358
Motor Vehicle Running Expenses	3,466,467	2,833,144
Bottling Plant Expenses	5,679,033	3,605,662
Minor works	3,168,104	944,319
Night flow measurements	64,000	70,000
Exhauster Expenses	3,986,588	3,630,186
Water Analysis	532,000	552,720
Non revenue activities	143,270	457,384
	<u>91,953,617</u>	<u>79,425,049</u>
10 NET FINANCE COSTS		
Bank charges	177,498	123,204
	<u>177,498</u>	<u>123,204</u>
11 SURPLUS BEFORE TAXATION		
The surplus/(deficit) before taxation is stated after charging:		
Depreciation	17,443,832	16,758,914
Board of Directors emoluments	2,747,221	551,100
Auditor's remuneration	464,000	464,000
Net finance costs	177,498	123,204
Interest income	2,061,715	1,961,917
	<u>20,894,266</u>	<u>19,759,135</u>
12 TAXATION		
a) Corporate Tax		
The Trust's current tax charge is computed in accordance with income tax rules applicable on surplus generated during the year		
Surplus as per the accounts	14,323,005	26,281,959
Adjustment allowable expenses	17,702,348	20,567,096
	<u>32,025,353</u>	<u>46,849,055</u>
Less: Allowable expenses	(26,291,164)	(27,011,968)
deferred income for the year	(2,076,121)	(2,444,116)
Taxable income	3,658,067	17,392,971
Corporate Tax at 30%	1,097,420	5,217,891
b) Taxation paid		
Withholding tax on interest income	354,843	294,287
	<u>354,843</u>	<u>294,287</u>
c) Tax Asset		
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	<u>10,388,931</u>	<u>11,131,508</u>



MERU WATER AND SEWERAGE SERVICES
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FOR THE YEAR ENDED 30TH JUNE 2019

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.	Kshs.	Kshs.	Kshs.	Kshs.	Kshs.	Kshs.	Kshs.	Kshs.	Kshs.		
COST/VALUATION																						
At 1st July 2017	5,246,980	9,148,557	14,740,490	25,371,736	3,028,068	51,486,917	8,638,842	58,542,960	0	126,399,167	0	4,111,381	33,498,755	0	6,240,252	0	0	0	0	0	0	340,193,833
Additions	0	0	208,000	340,000	2,528,800	6,305,455	733,019	17,143,209	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Disposal	0	0	(20,000)	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
At 30th June 2018	<u>5,246,980</u>	<u>9,148,557</u>	<u>14,928,490</u>	<u>25,711,736</u>	<u>5,556,868</u>	<u>57,792,371</u>	<u>9,371,861</u>	<u>75,686,170</u>	<u>126,399,167</u>	<u>10,351,633</u>	<u>0</u>	<u>18,404,848</u>	<u>340,193,833</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>340,193,833</u>
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	0	18,404,848	340,193,833	0	0	0	0	0	0	0	0	340,193,833
Additions	2,260,965	0	338,361	5,757,000	-	5,754,381	141,760	4,374,472	0	0	0	0	0	0	0	0	0	0	0	0	0	18,404,848
Disposal	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
At 30th June 2019	<u>7,507,945</u>	<u>9,148,557</u>	<u>15,266,851</u>	<u>31,468,736</u>	<u>5,556,868</u>	<u>63,546,752</u>	<u>9,513,621</u>	<u>80,060,642</u>	<u>126,399,167</u>	<u>10,129,543</u>	<u>0</u>	<u>358,598,681</u>	<u>358,598,681</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>358,598,681</u>
DEPRECIATION																						
At 1st July 2017	0	1,981,756	13,086,460	19,468,446	2,896,620	36,058,281	6,017,867	29,833,346	0	3,159,979	0	112,502,755	16,758,914	0	0	0	0	0	0	0	0	112,502,755
Charge for the year	0	179,170	554,409	1,560,822	885,863	4,346,818	419,249	5,731,603	0	3,080,980	0	0	0	0	0	0	0	0	0	0	0	16,758,914
On Disposal	0	0	(6,000,000)	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	(6,000,000)
At 30th June 2018	<u>0</u>	<u>2,160,926</u>	<u>13,634,869</u>	<u>21,029,268</u>	<u>3,782,482</u>	<u>40,405,099</u>	<u>6,437,116</u>	<u>35,564,949</u>	<u>6,240,959</u>	<u>0</u>	<u>0</u>	<u>129,255,669</u>	<u>129,255,669</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>129,255,669</u>
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	0	129,255,669	129,255,669	0	0	0	0	0	0	0	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	0	0	0	0	0	0	0	0	0	0	0	17,443,832
On Disposal	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
At 30th June 2019	<u>0</u>	<u>2,335,617</u>	<u>14,124,464</u>	<u>23,639,135</u>	<u>4,373,353</u>	<u>45,033,429</u>	<u>6,821,679</u>	<u>41,126,910</u>	<u>9,244,914</u>	<u>0</u>	<u>0</u>	<u>146,699,501</u>	<u>146,699,501</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>146,699,501</u>
NET BOOK VALUE																						
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	38,933,732	117,154,253	10,129,543	0	211,899,181	211,899,181	0	0	0	0	0	0	0	0	211,899,181
At 30th June 2018	5,246,980	6,987,631	1,293,621	4,682,467	1,774,385	17,387,272	2,934,745	40,121,221	120,158,208	10,351,633	0	210,938,164	210,938,164	0	0	0	0	0	0	0	0	210,938,164

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 acquisition 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
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NOTES TO THE FINANCIAL STATEMENTS (Continued)

	2019	2018		
	<u>Kshs</u>	<u>Kshs</u>		
14 INTANGIBLE ASSETS				
COST				
At July 1	7,158,699	7,104,199		
Additions	208,800	54,500		
At June 30	<u>7,367,499</u>	<u>7,158,699</u>		
AMORTISATION				
At July 1	6,505,783	6,225,962		
Charge for the year	258,515	279,821		
At June 30	<u>6,764,298</u>	<u>6,505,783</u>		
NET BOOK VALUE				
At June 30	<u>603,201</u>	<u>652,916</u>		
15 INVENTORIES				
Pipes and fittings	5,956,566	6,341,396		
Electrical fittings	12,539	12,539		
Chemicals	-	94,986		
Other items	290,391	329,345		
	<u>6,259,496</u>	<u>6,778,266</u>		
16 RECEIVABLES AND PREPAYMENTS				
Trade receivables	71,444,986	84,594,657		
Provision for doubtful debts	(13,041,846)	(12,341,569)		
- Dormant accounts	(5,840,314)	(7,225,309)		
- General	<u>52,562,826</u>	<u>65,027,779</u>		
Other receivables, deposits and prepayments	37,551,053	3,461,154		
	<u>90,113,879</u>	<u>68,488,932</u>		
17 CASH AND CASH EQUIVALENTS	ACCOUNT NO.			
Cash in Hand		15,190	9,270	
Cash at Bank	Standard Chartered bank	0102063431800	7,430,439	6,783,536
	Equity Collection account	1040299452042	8,084,525	441,682
	Mpesa Collection account	918350	2,186,835	677,456
Fixed Deposits	Equity bank	1040373261721	12,000,000	25,000,000
			<u>29,716,989</u>	<u>32,911,944</u>

The funds in the fixed deposit will be used to finance the capital projects lined up for the year (see note 26)

18 GRANT

Balance as at 1st July	1,235,914	1,455,006
Less: Transfer to Revenue Reserves	(178,530)	(219,092)
Balance at 30th June	<u>1,057,384</u>	<u>1,235,914</u>

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



MERU WATER AND SEWERAGE SERVICES
REGISTERED TRUSTEES

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

	2019 <u>Kshs</u>	2018 <u>Kshs</u>
19 CONSUMER DEPOSITS		
These are refundable deposits paid by customers. The deposits are refunded when water services to a customer are terminated:	<u>40,743,955</u>	<u>36,847,955</u>
20 PAYABLES AND ACCRUALS		
Trade payables	63,822,679	64,603,195
Other payables and accruals	46,742,532	42,927,533
	<u>110,565,211</u>	<u>107,530,728</u>
21 STAFF COSTS		
Staff costs include:		
Contribution to retirement benefit scheme	4,483,374	6,444,327
Contribution to statutory pension scheme	362,146	339,398
Contribution to benevolent fund	82,100	85,200
Other salaries, wages and allowances	60,081,157	66,962,860
	<u>65,008,777</u>	<u>73,831,785</u>
22 COMPENSATION OF KEY MANAGEMENT PERSONNEL		
Basic salary	5,712,533	5,601,272
Other allowances	3,351,208	4,939,825
Retirement benefits	457,788	889,890
	<u>9,521,529</u>	<u>11,430,987</u>
23 NUMBER OF EMPLOYEES		
The number of employees as at 30th June was; In addition to the above, MEWASS engages labour on short term contracts. As of June 2019, the number of employees on short-term contracts were 37	67	71
24 DEFERRED GRANT INCOME		
Balance b/w/d	19,212,791	21,437,815
Capitalized grants	(1,897,591)	(2,225,024)
	<u>17,315,200</u>	<u>19,212,791</u>
This relates to grants received from Water Services Trust Fund (WSTF)		



MERU WATER AND SEWERAGE SERVICES
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FOR THE YEAR ENDED 30TH JUNE 2019

NOTES TO THE FINANCIAL STATEMENTS (Continued)

	2019	2018
	<u>Kshs</u>	<u>Kshs</u>
25 CONTINGENT LIABILITIES		
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>		
26 CAPITAL COMMITMENTS		
Authorized and contracted:	1,361,080	2,398,215
Authorized but not contracted:	<u>32,558,856</u>	<u>29,700,385</u>
	<u>33,919,936</u>	<u>32,098,600</u>
27 DISCLOSURE OF PRIOR YEAR ERRORS		
<p>In the current financial year the Trust has no adjustment for prior years.</p>		
28 CURRENCY RISK		
<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 2019</p>		
29 CURRENCY		
<p>The financial statements are presented in Kenya Shillings (Kshs).</p>		