

REPUBLIC OF KENYA



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By Hon A. Sule -  
Majority leader on  
Thurs 17/7/14*



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*Volume 15*

**KENYA NATIONAL AUDIT OFFICE**

**REPORT**

**OF**

**THE AUDITOR-GENERAL**

**ON**

**THE FINANCIAL STATEMENTS OF**

**MERU WATER AND SEWERAGE SERVICES**

**REGISTERED TRUSTEES**

**FOR THE PERIOD ENDED**

**30 JUNE 2013**





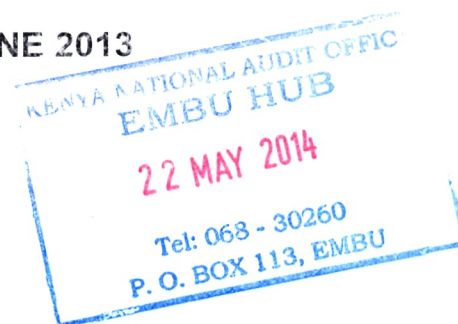
**MERU WATER AND SEWERAGE SERVICES**

**REGISTERED TRUSTEES**

**ANNUAL REPORT AND FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED**

**30TH JUNE 2013**



Along Nakumatt-Kinoru Road  
P.O. Box 859 60200  
MERU

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**MERU WATER AND SEWERAGE SERVICES  
REGISTERED TRUSTEES  
REPORT AND FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30TH JUNE 2013**

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**MERU WATER AND SEWERAGE SERVICES  
REGISTERED TRUSTEES**

**TRUST INFORMATION**

**FOR THE YEAR ENDED 30TH JUNE 2013**

**PRINCIPAL PLACE OF BUSINESS AND REGISTERED OFFICE**

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

**Tel: 064 32591  
Fax: 064 32603  
Email: [info@mewass.or.ke](mailto:info@mewass.or.ke)**

**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. MEWASS is registered with Tana Water Services Board as a Water Services Provider.

**TRUSTEES**

Mr. Gabriel Mwenda Miungi	Joined 6th December 2013	Chairman
Mr. Selesio Mutea		Left 19th December 2013
Mr. Shaheed M. Iqbal		
Bishop Jeremiah Anondo		
Mr. Timothy Kibaki		
Mr. Fredrick Kirima Mburugu		
Mr. David Gitonga	Joined 20th December 2013	
Mr. Moses Murianki Nabea	Joined 20th December 2013	
Mr. Kamanya Maeria	Joined 20th January 2014	
Mrs. Joyce K. Muriuki		Left 14th December 2012
Mr. Boniface M. Mwaniki		Left 27th March 2013
Cllr. John Mwalimu		Left 4th September 2012
Cllr. Joshua M. Muthuri		Left 4th September 2012
Mr. Abdi Omar		Left 16th May 2013
Cllr. Gerald Murungi	Joined 2nd August 2012	Left 14th December 2012
Cllr. Samson Thurania		Left 2nd August 2012
Mrs. Catherine K. Liiford	Joined 18th June 2013	
Mr. Stanley Mbae	Secretary to the Board	

**CORPORATE MANAGEMENT TEAM**

Mr. Stanley Mbae	General Manager
Mr. Mathew Nteere	Commercial Manager
Eng. Victor N.Njeru	Technical Manager

**ADVOCATES**

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

**AUDITORS**

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

**BANKERS**

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

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

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





## **MERU WATER AND SEWERAGE SERVICES REGISTERED TRUSTEES**

### **CHAIRMAN'S REPORT FOR THE YEAR ENDED JUNE 2013**

I am pleased to present to you the annual report for the financial year ending 2013 on behalf of the Board of Trustees. During the year under review, we continued to focus on improving our Services to our customers.

#### **Financial Performance**

For the year ended 30th June 2013, the Trust Operating Surplus was Kshs.3.6 million before taxation. This was lower compared to the previous year due to increase in the provision for bad and doubtful debtors, decrease in revenue as a result of institutional clients opting for alternative water sources and increase in the costs of operations.

#### **Investment Performance**

The Trust's capital investment for the year was Kshs.5.6 million from the internally generated funds. The investment was to enable us to continue to provide high quality drinking water to our customers. The bottling water line was made operational in the same year.

#### **Operating performance**

In order to serve larger population the Trust has been extending services to far flung areas namely Kabaone 1 & 2, Ciothirai and Ruiru areas. During the year we extended services and thus increased water connections by 968. The total number of connections as at the end of the year was 10144 effectively changing the status of the Trust from medium water service provider to a large water service provider as per the classification by Water Services regulatory Board.

#### **Water Quality**

Water produced and distributed by the Trust continues to be of high standard with a compliance rate of above 96 percent. This is attested by external tests carried out by Kenya Bureau of Standards throughout the period. The provision of high quality clean water implies that the Trust have to ensure that its systems are well maintained to reduce the loss of water during transmission. The percentage of non revenue water as at the end of the reporting year was below 30 percent.

#### **Environmental protection**

We acknowledge the importance of our environment and in order to have sustainable and long-term solution to water resource availability, we continued to promote the need for the ecological protection by promptly remitting the requisite fees to the Water Resource Management Authority. Similarly, a policy document will be formulated to address ecological, water catchment preservation and conservation.

#### **Pro-poor involvement**

The Trust continued to provide water services to the less fortunate living in the urban settlements by providing water at reasonable prices. The overall aim is to improve the livelihoods of our people. Additional 4(four) Water Kiosks have been planned to be erected in the year 2014.

the... and... the... Resource... ecological...

the year 2014... have been planned to be erected in... the overall aim is to improve the... the most fortunate living in the urban...



**MERU WATER AND SEWERAGE SERVICES  
REGISTERED TRUSTEES**

**CHAIRMAN'S REPORT FOR THE YEAR ENDED JUNE 2013 CONT'D**

**Corporate Social Responsibility**

The Trust continued to associate itself with the community by participating in various activities aimed at giving back to the community. As a public utility the Trust strives to care for the community. Towards this end in the year 2013, the Trust engaged in a number of corporate social responsibility by partnering with the Meru County Government in cleaning Meru town, providing food to the less fortunate, participating in sports and so on.

**The Board**

During the year there has been a change in the board composition with some members of the board leaving and others joining. Those who left during the year include the able former Chairman Mr. Salesio Mutea. I salute him for successfully steering the Trust for the last 10 years. For the new members, I welcome your invaluable contribution towards realization of Trust's objectives.

We are committed to continuously strive to uphold various guidelines and legal requirements as issued by various authorities from time to time.

**Future Prospects**

To meet the ever increasing demand for water services for the growing population and extending services to unserved areas, the Trust intends to seek funds from the County Government, financial institutions and other development partners within the next two years in order to enhance the investment climate.

The expansion of water treatment works is expected to be undertaken within the next three years. Whereas, potential development partners have shown interest in the development of sewerage system, we shall pursue the same vigorously.

**Appreciation**

I acknowledge the support and assistance from all our stakeholders, including the Meru County Government, development partners and our customers. Let me emphasize that it is through the cordial relationship with you that we were able to achieve the above. With your continued support, we pledge our commitment for better services.

In conclusion, let me express appreciation to the Board of Trustees, Management and Staff of MEWASS for their effort in provision of excellent services. I look forward to a successful year 2014.

Thank you.

**Gabriel M. Miungi**  
**Chairman, Board of Trustees**



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Chairman Board of Trustees  
Carter M. Smith

1044 10/17/1951



**MERU WATER AND SEWERAGE SERVICES  
REGISTERED TRUSTEES**

**REPORT OF THE TRUSTEES**

**FOR THE YEAR ENDED 30TH JUNE 2013**

The Trustees submit their Tenth report and the financial statements for the year ended 30th June 2013.

**1. PRINCIPAL ACTIVITIES**

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

**2. RESULTS**

The results for the year are set out on page 9.

**3. TRUSTEES**

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

**4. AUDITORS**

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

**By order of the Board of Trustees:**

**Secretary**

**DATE: 19th May, 2014**



**MERU WATER AND SEWERAGE SERVICES  
REGISTERED TRUSTEES**

**STATEMENT OF TRUSTEES RESPONSIBILITIES**

**FOR THE YEAR ENDED 30TH JUNE 2013**

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

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

**MR. GABRIEL MWENDA MIUNGI**

TRUSTEE.....

)  
)  
)  
)  
)

**DATE: 19th May, 2014**

**MR. FREDRICK K. MBURUGU**

TRUSTEE.....

# REPUBLIC OF KENYA

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NAIROBI



## KENYA NATIONAL AUDIT OFFICE

### REPORT OF THE AUDITOR-GENERAL ON MERU WATER AND SEWERAGE SERVICES REGISTERED TRUSTEES FOR THE YEAR ENDED 30 JUNE 2013

#### REPORT ON THE FINANCIAL STATEMENTS

I have audited the accompanying financial statements of Meru Water and Sewerage Services Registered Trustees set out on pages 9 to 21, which comprise the statement of financial position as at 30 June 2013, and the statement of comprehensive income, statement of changes in equity and the statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 14 of the Public Audit Act, 2003. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

#### **Management's Responsibility for the Financial Statements**

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

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

#### **Auditor-General's Responsibility**

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk

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

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

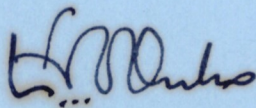
### **Basis for Qualified Opinion**

#### **Failure to provide for contingent liability**

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

### **Qualified Opinion**

In my opinion, except for the effects of the matter described in the Basis for Qualified Opinion paragraph, the financial statements presently fairly, in all material respects, the financial position of the Trustees as at 30 June 2013, and of its financial performance for the year then ended, in accordance with International Financial Reporting Standards and comply with the Trustees (Perpetual Succession) Act, Cap 164 of the Laws of Kenya.



**Edward R.O. Ouko, CBS**  
**AUDITOR-GENERAL**

**Nairobi**

**5 June 2014**



MERU WATER AND SEWERAGE SERVICES  
REGISTERED TRUSTEES

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 30TH JUNE 2013

	Notes	2013 Kshs	2012 Kshs
Turnover	4	108,718,592	113,199,601
Other Income	5	<u>10,966,605</u>	<u>9,515,025</u>
<b>Total Operating Income</b>		<b>119,685,197</b>	<b>122,714,626</b>
<b>EXPENSES:</b>			
Administration and Establishment	6	(60,611,352)	(54,838,506)
Selling and Distribution	7	<u>(55,182,163)</u>	<u>(59,189,123)</u>
		<u>(115,793,515)</u>	<u>(114,027,629)</u>
Surplus from Operating Activities		<b>3,891,682</b>	<b>8,686,997</b>
Net Finance Costs	8	<u>(250,607)</u>	<u>(366,708)</u>
Surplus Before Taxation	9	3,641,075	8,320,288
Taxation	10	<u>(2,493,772)</u>	<u>(3,588,957)</u>
Surplus after Taxation		<b><u>1,147,303</u></b>	<b><u>4,731,331</u></b>



**MERU WATER AND SEWERAGE SERVICES  
REGISTERED TRUSTEES**

**STATEMENT OF FINANCIAL POSITION AS AT 30TH JUNE 2013**

	Notes	2013 <u>Kshs</u>	Re-stated 2012 <u>Kshs</u>
<b>ASSETS</b>			
<b>NON-CURRENT ASSETS</b>			
Property, plant & equipment	11	46,011,976	48,148,017
Intangible assets	12	<u>260,649</u>	<u>798,822</u>
		<b><u>46,272,625</u></b>	<b><u>48,946,839</u></b>
<b>CURRENT ASSETS</b>			
Inventory	13	2,524,434	2,910,049
Receivables and prepayments	14	56,739,267	86,809,014
Tax asset	19	6,529,955	256,544
Cash and cash equivalents	15	<u>58,447,890</u>	<u>25,848,027</u>
		<b><u>124,241,545</u></b>	<b><u>115,823,634</u></b>
<b>CURRENT LIABILITIES</b>			
Related parties	17	-	37,555,312
Consumer deposits	18	18,261,317	15,124,817
Payables and accruals	20	<u>14,173,910</u>	<u>13,249,281</u>
		<b><u>32,435,227</u></b>	<b><u>65,929,410</u></b>
<b>WORKING CAPITAL</b>		<b><u>91,806,318</u></b>	<b><u>49,894,225</u></b>
<b>NET ASSETS</b>		<b><u>138,078,943</u></b>	<b><u>98,841,065</u></b>
<b>FINANCED BY</b>			
Grants	16	3,388,381	3,254,719
Revenue reserves		<u>127,791,352</u>	<u>87,701,534</u>
		<b><u>131,179,732</u></b>	<b><u>90,956,253</u></b>
<b>NON-CURRENT LIABILITY</b>			
Deferred grant income	23	6,899,211	7,884,813
<b>TOTAL</b>		<b><u>138,078,943</u></b>	<b><u>98,841,065</u></b>

The financial statements were approved by the Board of Trustees on **18th September, 2013** and signed on its behalf by;

**MR. GABRIEL MWENDA MIUNGI**  
TRUSTEE .....

**MR. FREDRICK K. MBURUGU**  
TRUSTEE .....

DATE: 19th May, 2014



**MERU WATER AND SEWERAGE SERVICES  
REGISTERED TRUSTEES**

**STATEMENT OF CHANGES IN EQUITY**

**FOR THE YEAR ENDED 30TH JUNE 2013**

	Notes	Grants <u>Kshs</u>	Revenue Reserves <u>Kshs</u>	Total <u>Kshs</u>
At 01.07.2011		3,298,650	81,162,062	84,460,712
Transfer from Grant Account	1 (n) & 16	(863,651)	863,651	-
Grant from related parties - Water Meters	16	819,720		819,720
Capitalized grant income	23	-	1,243,098	1,243,098
Surplus for the year		-	8,320,288	8,320,288
Withholding Tax	10(a)		(298,608)	(298,608)
Corporate Tax	10(b)	-	(3,588,957)	(3,588,957)
<b>At 30.06.2012</b>		<b>3,254,719</b>	<b>87,701,534</b>	<b>90,956,253</b>
<b>At 1st July 2012</b>		<b>3,254,719</b>	<b>87,701,534</b>	<b>90,956,253</b>
Transfer from Grant Account	1 (n) & 16	(788,158)	788,158	-
Grant from related parties - Water Meters	16	921,820		921,820.00
Capitalized related parties long liability	17	-	37,555,312	
Capitalized grant income	23	-	985,602	985,602
Surplus for the year		-	3,641,075	3,641,075
Withholding Tax	10(a)		(386,557)	(386,557)
Corporate Tax	10(b)	-	(2,495,686)	(2,495,686)
<b>At 30.06.2013</b>		<b><u>3,388,381</u></b>	<b><u>127,789,438</u></b>	<b><u>131,177,819</u></b>



**MERU WATER AND SEWERAGE SERVICES  
REGISTERED TRUSTEES**

**STATEMENT OF CASH FLOW**

**FOR THE YEAR ENDED 30TH JUNE 2013**

	<b>2013</b>	<b>2012</b>
	<b><u>Kshs</u></b>	<b><u>Kshs</u></b>
<b>Operating Activities</b>		
Surplus before taxation	3,641,075	8,320,288
Adjustments for:		
Depreciation	7,803,746	8,254,066
Armotisation of intangible assets	111,707	159,581
Gain on disposal	(17,473)	-
Interest Income	<u>(2,577,047)</u>	<u>(1,990,720)</u>
	<u>5,320,932</u>	<u>6,422,927</u>
<b>Surplus before changes in working capital</b>	<b>8,962,007</b>	<b>14,743,216</b>
<b>Changes in Working Capital</b>		
Increase/Decrease in Inventory	385,615	(529,270)
Increase/Decrease in Receivables and prepayments	30,069,748	(15,997,558)
Increase in Consumer deposits	3,136,501	3,775,418
Increase in Payables and accruals	<u>924,628</u>	<u>2,768,632</u>
	<u>34,516,492</u>	<u>(9,982,778)</u>
<b>Cash Generated from Operations</b>	<b><u>43,478,499</u></b>	<b><u>4,760,438</u></b>
Taxation Paid	(8,727,273)	(34,251,471)
<b>Net cash generated from operations</b>	<b><u>34,751,226</u></b>	<b><u>(29,491,033)</u></b>
<b>Investing Activities</b>		
Interest received	2,577,047	1,990,720
Disposal of fixed assets	48,000	-
Purchase of fixed assets	<u>(5,698,231)</u>	<u>(10,138,912)</u>
<b>Net cash used in investing activities</b>	<b><u>(3,073,183)</u></b>	<b><u>(8,148,192)</u></b>
<b>Financing Activities</b>		
Deferred grant income	921,820	(1,761,695)
<b>Net cash generated from financing activities</b>	<b><u>921,820</u></b>	<b><u>(1,761,695)</u></b>
<b>Decrease in cash and cash equivalents</b>	<b>32,599,863</b>	<b><u>(39,400,920)</u></b>
<b>Cash and cash equivalents:</b>		
At the start of the year	<u>25,848,027</u>	<u>65,248,948</u>
<b>At the end of the year</b>	<b><u>58,447,890</u></b>	<b><u>25,848,027</u></b>



**MERU WATER AND SEWERAGE SERVICES  
REGISTERED TRUSTEES**

**NOTES TO THE FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED 30TH JUNE 2013**

**1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

**a) Basis of accounting**

The financial statements are prepared on the historical cost basis. The financial statements have been prepared in accordance with and comply with International Financial Reporting Standards.

**b) Turnover**

Turnover is made up of the total amounts billed during the year for water and sewerage services. Income is recognized to the extent that it is probable that its economic benefits will flow to the trust and the revenue can be reliably measured.

**c) Property, Plant & Equipment**

Property, Plant & Equipment are stated at cost, less accumulated depreciation and any impairment in value.

With effect from July 2005, the Trustees decided to change the policy and capitalise the cost of laying pipes for extensions. The cost was to be amortised over the 5 year Service Provision Agreement period with Tana Water Services Board. However, with effect from July 2006, the Trustees decided to change the policy and to depreciate the capitalised expansions over their estimated useful lives and classify them under pipes and fittings.

**d) Depreciation**

Depreciation is calculated on the reducing balance basis, at annual rates estimated to write off carrying values of the assets over their expected useful lives. The annual depreciation rates in use are:

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

**e) Intangible Assets**

Intangible Assets comprise of computer software i.e the billing system and the accounting software. This is stated at cost, less accumulated amortisation. Amortisation is calculated at 30% on the reducing balance basis, being the rate estimated to write off carrying values of the softwares over their estimated useful lives.

**f) Inventory**

Inventories are valued at the lower of cost and net realisable value. Cost is determined on the average weighted basis. Net Realizable Value is the estimated selling price in the ordinary course of the business less estimated costs of completion and costs necessary to make the sale.

**g) Deferred Grant income**

Government grants relates to assets, including non-monetary grants at fair value are presented in the balance sheet by setting up the grant as deferred income and by deducting the grant in arriving at the carrying amount of the asset donated.



**MERU WATER AND SEWERAGE SERVICES  
REGISTERED TRUSTEES**

**NOTES TO THE FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED 30TH JUNE 2013 (CONT'D)**

**h) Lease Charges**

Operating lease charges are charged to the income statement on the accrual basis.

**i) Retirement Benefits**

The Trust and employees contribute to the National Social Security Fund, a statutory pension scheme. The Trust has established a Staff Retirement Benefits Scheme, which was registered with the Retirement Benefits Authority on 28th July 2005. The assets of this scheme are held in a separate Trustee administered fund.

The Trust's contributions to the schemes are charged to the income statements in the year to which they relate.

**j) Provision for Staff Leave Entitlement**

A provision is made to recognise staff entitlement in respect of annual leave not taken as at the end of the financial year. The monetary liability for employees' accrued annual leave entitlement at the balance sheet date is recognized as an expense accrual.

**k) Foreign Currency**

Transactions during the year in foreign currency are converted into Kenya shillings at rates ruling at the transaction date. Assets and liabilities denominated in foreign currency are translated into Kenya Shillings at the rates of exchange ruling at the balance sheet date.

**l) Trade Receivables**

Accounts receivable are stated at their nominal value and reduced by appropriate allowances for estimated irrecoverable amounts.

**m) Trade Payables**

Trade payables are stated at their nominal value.

**n) Amortisation of Capital Grant**

Grants received for capital assets are credited to the capital grant account net of amortisation which is released to the revenue reserves over the life of the relevant assets.

**o) Bad and Doubtful Debts**

General provisions are made based on the Trustees' evaluation of the trade receivables' balance and other exposures in respect of losses, which although not specifically identified, are known from experience to be present in the trade receivables balance.

Bad debts are written off when all reasonable steps to recover them have been taken without success.

**p) Cash and cash equivalents**

Cash and cash equivalents comprise cash at bank, in hand and short term deposits with a maturity of 6 months or less.

For purpose of the cash flow statement, cash and cash equivalents comprise of cash and cash equivalents as defined above, net of outstanding bank overdrafts.



**MERU WATER AND SEWERAGE SERVICES  
REGISTERED TRUSTEES**

**NOTES TO THE FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED 30TH JUNE 2013 (CONT'D)**

**q) Reserves**

Surplus or Deficit from income statement is accumulated in the revenue reserve account.

**r) Comparatives**

Where necessary, comparative figures have been adjusted to conform with changes in presentation in the current year.

**s) Provisions**

Provisions are recognized when the Trust has a legal or constructive obligation as a result of past events and is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made.

Where the Trust expects a provision to be reimbursed, for example under insurance, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually uncertain.

**t) Impairment**

At each balance sheet date, the Trust reviews the carrying amounts of its financial assets to determine whether there is any indication that these assets have suffered an impairment loss.

Impairment loss occurs where the asset is carried at more than its recoverable amount. An asset is carried at more than its recoverable amount if its carrying amount exceeds the amount to be recovered through use or sale of the asset.

If such an indication exists, the recoverable amount is estimated. An impairment loss is recognized as an expense unless the relevant asset is carried at a revalued amount in which case the impairment loss is treated as a revaluation decrease.

**2. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS**

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including experience of future events that are believed to be reasonable under the circumstances.

**i) Critical accounting estimates and assumptions:**

*Property, plant and equipment*

Critical estimates are made by the Trustees in determining depreciation rates for property, plant and equipment. The rates used are set out in note 1 (d) above.

**ii) Critical judgements in applying the entity's accounting principles**

In the process of applying the Trust's accounting policies, the management has made judgements in determining:

- The classification of financial assets and leases.
- Whether the assets are impaired.



**MERU WATER AND SEWERAGE SERVICES  
REGISTERED TRUSTEES**

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR  
ENDED 30TH JUNE 2013 (CONT'D)**

**3. THE WATER SECTOR REFORMS**

Pursuant to the requirements of the Water Act 2002, the Government of Kenya (GoK) has placed all the water assets and liabilities in the whole country under the management of Regional Water Services Boards.

In line with these countrywide reforms, the Meru Water & Sewerage Services (MEWASS) has signed a service provision agreement with the Tana Water Services Board, Water services provision being a devolved function to County Government, the status is expected to changed during transition period of Constitution of Kenya 2010

	2013	Re-stated 2012
	<u>Kshs</u>	<u>Kshs</u>
<b>4 TURNOVER</b>		
Water Revenue	84,156,588	86,371,411
Sewer Revenue	20,140,209	22,013,119
Other Revenues	4,413,484	4,815,071
Bottled Water Revenue	8,310	0
	<u>108,718,591</u>	<u>113,199,601</u>
<b>5 OTHER INCOME</b>		
Materials and labour charges	7,022,469	7,193,553
Sale of tender forms	120,500	148,000
Interest income	2,577,047	1,990,720
Miscellaneous income	200,816	182,752
Exhauster Revenue	1,028,300	0
Gain on disposal	17,473	0
	<u>10,966,605</u>	<u>9,515,025</u>
<b>6. ADMINISTRATION AND ESTABLISHMENT EXPENSES</b>		
Salaries, Wages and Allowances	24,039,813	21,112,891
Staff Welfare	1,130,767	815,532
Repairs and Maintenance	2,132,827	1,881,061
Cash Collection Charges	413,222	411,051
Office Supplies	2,077,830	1,687,412
Training	1,304,165	757,412
Motor Vehicle Running Expenses	1,652,432	1,556,061
Telephone and Email	791,306	714,927
Audit Fees	464,000	464,000
Travelling and Subsistence	1,156,644	1,577,576
Trustees' Fees and Allowances	1,840,761	2,786,878
Annual General Meeting expenses	267,500	237,337
Meetings and Conferences	545,501	550,286
Electricity and Generator expenses	346,643	485,785
Advertising and Public Relations	448,574	456,241
Donations and Subscriptions	159,370	227,800
Social activities expenses	142,530	17,600
Entertainment expenses	93,330	5,995
Legal, Professional Fees & Levies	2,582,171	3,190,934
Security	1,692,207	1,232,771
Uniforms	493,237	347,705
Insurances	615,191	495,126
Depreciation	7,803,746	8,254,067
Arnotisation of intangible assets	111,707	159,581
ASK Show	375,079	248,382
Postage	2,643,989	2,252,962
Increase in provision for doubtful debts	3,776,752	1,327,210
Decrease in provision for VAT claims	0	(1,976,387)
VAT Claims time barred	0	1,976,387
Provision for Staff Accrued Leave	86,279	309,425
Games & Sports - Wasca	714,100	1,124,829
General Office Expenses	596,268	28,100
Assorted Tools	113,414	121,567
	<u>60,611,352</u>	<u>54,838,506</u>



**MERU WATER AND SEWERAGE SERVICES  
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**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR  
ENDED 30TH JUNE 2013 (CONT'D)**

	<b>2013</b>	<b>2012</b>
	<b><u>Kshs</u></b>	<b><u>Kshs</u></b>
<b>7. SELLING AND DISTRIBUTION EXPENSES</b>		
Salaries, Wages and Allowances	18,983,333	19,220,346
License fee	14,877,364	14,049,469
Repairs and Maintenance	2,554,286	3,201,221
Rehabilitation-sewer system	703,928	1,988,647
Assorted Tools	15,272	389,121
Travel and subsistence	461,173	1,091,162
Revenue Stamps	174,086	171,290
Office supplies	55,143	77,263
Pipes and Fittings	8,854,682	10,578,942
Electricity	914,037	1,238,508
Chemicals and laboratory expenses	2,278,361	2,344,991
Motor Vehicle Running Expenses	3,063,868	3,391,032
Bottling Plant Expenses	411,508	491,289
Minor works	284,483	0
Night flow measurements	224,000	502,000
Exhauster Expenses	746,268	0
Water Analysis	580,370	453,842
	<b><u>55,182,163</u></b>	<b><u>59,189,123</u></b>
<b>8. NET FINANCE COSTS</b>		
Bank charges	<b><u>250,607</u></b>	<b><u>366,708</u></b>
<b>9. SURPLUS BEFORE TAXATION</b>		
The surplus/(deficit) before taxation is stated after charging:		
Depreciation	7,803,746	8,254,067
Board of Trustees' emoluments	1,840,761	2,786,878
Auditor's remuneration	464,000	464,000
Net finance costs	<u>250,607</u>	<u>366,708</u>
And after crediting:		
Interest income	<u>2,577,047</u>	<u>1,990,720</u>
<b>10. TAXATION</b>		
a) Withholding Tax	<b><u>386,557</u></b>	<b><u>298,608</u></b>
The withholding tax was deducted by the paying institutions from interest income earned on fixed deposits.		
b) Corporate Tax		
The Trust's current tax charge is computed in accordance with income tax rules applicable on surplus generated during the year.		
Surpluses as per the accounts	3,641,075	8,384,288
<b>Add:</b> Non allowable expenses	<u>11,937,853</u>	<u>11,420,629</u>
	<b><u>15,578,929</u></b>	<b><u>19,804,917</u></b>
<b>Less:</b> Allowable expenses	<u>(7,266,356)</u>	<u>(7,841,728)</u>
Taxable income	8,312,573	11,963,189
Corporate Tax at 30%	<b><u>2,493,772</u></b>	<b><u>3,588,957</u></b>



**MERU WATER AND SEWERAGE SERVICES  
REGISTERED TRUSTEES**

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH JUNE 2013 (CONT'D)**

**11. PROPERTY, PLANT AND EQUIPMENT**

	Free Hold Land Kshs.	Buildings Kshs.	Office Computers Kshs.	Motor Vehicles Kshs.	WTP Equipment & Tools Kshs.	Water Meters & Equipment Kshs.	Office Furniture & Equipment Kshs.	Pipes & Fittings Kshs.	Work in Progress Kshs.	Total Kshs.
At 1st July 2012	1,606,980	9,148,557	11,565,548	13,906,486	2,662,916	28,238,373	7,321,046	30,733,311	0	105,183,217
Additions	0	0	1,193,900	0	191,552	3,492,544	113,202	0	707,033	5,698,231
Disposal	0	0	(89,000)	0	0	0	0	0	0	(89,000)
At 30th June 2013	<u>1,606,980</u>	<u>9,148,557</u>	<u>12,670,448</u>	<u>13,906,486</u>	<u>2,854,468</u>	<u>31,730,917</u>	<u>7,434,248</u>	<u>30,733,311</u>	<u>707,033</u>	<u>110,792,447</u>
<b>DEPRECIATION</b>										
At 1st July 2012	0	1,014,592	8,226,736	10,486,067	2,539,548	19,751,043	3,935,198	11,082,017	0	57,035,209
Acc. Dep. On Disposal			(58,473)				437,381			(58,473)
Change for the year	0	203,349	1,350,656	855,105	104,868	2,395,975	437,381	2,456,412	0	7,803,746
At 30th June 2013	<u>0</u>	<u>1,217,941</u>	<u>9,518,918</u>	<u>11,341,172</u>	<u>2,644,416</u>	<u>22,147,018</u>	<u>4,372,579</u>	<u>13,538,429</u>	<u>0</u>	<u>64,780,472</u>
<b>NET BOOK VALUE</b>										
At 30th June 2013	<u>1,606,980</u>	<u>7,930,616</u>	<u>3,151,530</u>	<u>2,565,314</u>	<u>210,052</u>	<u>9,583,899</u>	<u>3,061,669</u>	<u>17,194,882</u>	<u>707,033</u>	<u>46,011,976</u>
At 30th June 2012	<u>1,606,980</u>	<u>8,133,965</u>	<u>3,338,812</u>	<u>3,420,418</u>	<u>123,368</u>	<u>8,487,329</u>	<u>3,385,849</u>	<u>19,651,295</u>	<u>0</u>	<u>48,148,017</u>

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 work shop equipment and water meters.

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

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



**MERU WATER AND SEWERAGE SERVICES  
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**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30TH JUNE 2013 (CONT'D)**

	<b>2013</b>	<b>2012</b>
	<b><u>Kshs</u></b>	<b><u>Kshs</u></b>
<b>12. INTANGIBLE ASSETS</b>		
Balance at start of year	798,822	958,403
Less: ERP work in Progress	(426,466)	(426,466)
	<b>372,356</b>	<b>531,937</b>
Amortisation	(111,707)	(159,581)
ERP Development W.I.P.	0	426,466
	<b><u>260,649</u></b>	<b><u>798,822</u></b>
<b>13. INVENTORIES</b>		
Pipes and fittings	1,853,608	2,239,141
Electrical fittings	12,539	12,812
Chemicals	555,122	587,921
Motor spare parts	18,400	30,400
Other items	84,765	39,774
	<b><u>2,524,434</u></b>	<b><u>2,910,049</u></b>
<b>14. RECEIVABLES AND PREPAYMENTS</b>		
Trade receivables	67,834,311	90,383,597
Provision for doubtful debts	-	-
- Dormant accounts	(15,142,060)	(8,440,194)
- General	<u>(5,269,225)</u>	<u>(8,194,340)</u>
	47,423,026	73,749,063
Other receivables, deposits and prepayments	9,316,240	13,059,951
	<b><u>56,739,267</u></b>	<b><u>86,809,014</u></b>
<b>15. CASH AND CASH EQUIVALENTS</b>		
Cash at Bank	14,441,065	2,683,667
Cash in Hand	111,196	182,976
Fixed Deposits	43,895,629	22,981,384
	<b><u>58,447,890</u></b>	<b><u>25,848,027</u></b>
<p>The funds in the fixed deposit will be used to finance the capital projects lined up for the year (see note 26)</p>		
<b>16. GRANT</b>		
Balance as previously stated	3,254,719	3,298,650
Grant from related parties	921,820	819,720
Less: Transfer to Revenue Reserves	<u>(788,158)</u>	<u>(863,651)</u>
Balance at 30th June	<b><u>3,388,381</u></b>	<b><u>3,254,719</u></b>

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



**MERU WATER AND SEWERAGE SERVICES  
REGISTERED TRUSTEES**

**NOTES TO THE FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED 30TH JUNE 2013 (CONT'D)**

	<b>2013</b>	<b>Restated</b>
	<b><u>Kshs</u></b>	<b><u>Kshs</u></b>
<b>17. AMOUNTS DUE TO RELATED PARTIES</b>		
Meru Municipal Council	9,132,972	9,132,972
Ministry of water	28,422,340	28,422,340
Capitalized related parties long liability	<u>(37,555,312)</u>	<u>0</u>
	<b><u>0</u></b>	<b><u>37,555,312</u></b>
<p>This represents the water and sewerage debtor balances taken over from Meru Municipal Council and the Ministry of Water on 1st July 2002. The Trust hereby converts these long term liability into capital</p>		
<b>18. CONSUMER DEPOSITS</b>		
These are refundable deposits paid by customers. The deposits are refunded when water services to a customer are terminated:	<b><u>18,261,317</u></b>	<b><u>15,124,817</u></b>
<b>19. TAX</b>		
This represents Tax advance payments to Kenya Revenue Authority as at the end of the financial year. The Trust has recognised principal Taxes and no interest and penalties. The application for waiver of interest and penalties is pending with the KRA	<u>(6,528,041)</u>	<u>(256,544)</u>
<b>20. PAYABLES AND ACCRUALS</b>		
Trade payables	6,722,675	6,317,717
Other payables and accruals - <b>as previously stated</b>	5,328,670	4,831,278
Understated Accrued audit fees	0	64,000
<b>As Re- stated</b>		<b><u>4,895,278</u></b>
Provision for staff leave entitlement	2,122,565	2,036,286
	<b><u>14,173,910</u></b>	<b><u>13,249,281</u></b>
<b>21. STAFF COSTS</b>		
Staff costs include:		
Provision for staff leave entitlement	<b><u>2,122,565</u></b>	<b><u>2,036,286</u></b>
<b>Others</b>		
Contribution to retirement benefit scheme	3,579,871	3,567,855
Contribution to statutory pension scheme	278,312	499,121
Contribution to benevolent fund	76,300	84,800
Other salaries, wages and allowances	39,088,663	36,181,462
	<b><u>43,023,146</u></b>	<b><u>40,333,237</u></b>
<b>22. NUMBER OF EMPLOYEES</b>		
<p>The number of employees as at 30th June 2013 was 63 (<b>2012:</b> 66)</p>		



**MERU WATER AND SEWERAGE SERVICES  
REGISTERED TRUSTEES**

**NOTES TO THE FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED 30TH JUNE 2013 (CONT'D)**

	<b>2013</b>	<b>2012</b>
	<b><u>Kshs</u></b>	<b><u>Kshs</u></b>
<b>23. DEFERRED GRANT INCOME</b>		
Balance b/w/d	7,884,813	11,709,326
Refunds to WSTF	0	(2,581,415)
Capitalized grants	<u>(985,602)</u>	<u>(1,243,098)</u>
	<b>6,899,211</b>	<b>7,884,813</b>

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

**24. CONTINGENT LIABILITIES**

The Trust has a Kshs.17,853,494.00 claim in respect of a Land ownership dispute where Water Treatment /Storage Tanks are located. The Trust believes this claim is without merit and is vigorously defending itself. The Trust lawyers are defending the Trust. No provision has been made in these accounts for this claim.

**25. CAPITAL COMMITMENTS**

Authorized and contracted:	<u>0</u>	1,490,940
Authorized but not contracted:	<u>15,597,000</u>	<u>18,767,000</u>
	<b><u>15,597,000</u></b>	<b><u>20,257,940</u></b>

**26. PRIOR PERIOD ADJUSTMENTS**

In 2012, the Trust's had provided audit fees at Ksh 400,000.00, KENAO invoice did not have an ETR receipt hence the VAT component of the invoice was not claimable from KRA

Accrued Audit fees	400,000.00
VAT component of the invoice amount	<u>64,000.00</u>
Re-stated amount	<b>464,000.00</b>

**27. CURRENCY RISK**

The Trust operates wholly within Kenya and its assets and liabilities are reported in the local currency. The Trust held no foreign currency as at 30th June 2013

**28. CURRENCY**

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

