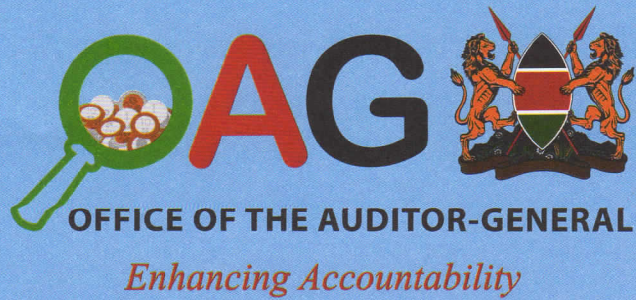


REPUBLIC OF KENYA



REPORT

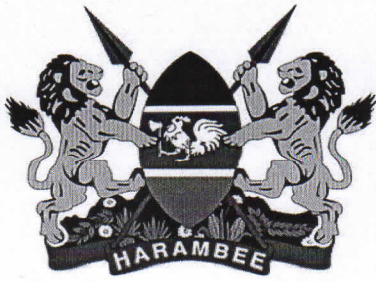
OF

THE AUDITOR-GENERAL

ON

**MERU WATER AND SEWERAGE
SERVICES REGISTERED TRUSTEES**

**FOR THE YEAR ENDED
30 JUNE, 2023**



**MERU WATER AND SEWERAGE SERVICES
REGISTERED TRUSTEES**

ANNUAL REPORTS AND FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDING

JUNE 30, 2023

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

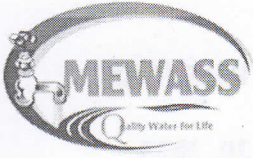


MERU WATER AND SEWERAGE SERVICES REGISTERED TRUSTEES

Annual Reports and Financial Statements for the year ended June 30, 2023

Table of Contents

Table of Contents	i
1. Acronyms and Glossary of Terms	ii
2. Key Entity Information	iii
3. The Board of Directors	v
4. Key Management Team	vi
5. Chairman's Statement	vii
6. Report of the General Manager	ix
7. Statement Of Performance Against Predetermined Objectives For FY 2022/2023	xii
8. Corporate Governance Statement	xiv
9. Management Discussion and Analysis	xv
10. Environmental and Sustainability Reporting	xvii
11. Report Of the Directors	xix
12. Statement Of Directors' Responsibilities	xx
13. Report Of the Independent Auditors on Meru Water and Sewerage Services	xxii
14. Statement Of Profit or Loss & Other Comprehensive Income for the Year Ended 30 June 2023.	1
15. Statement of Financial Position As At 30 June 2023	2
16. Statement of Changes in Equity for the Year Ended 30 June 2023	3
17. Statement Of Cash Flows for The Year Ended 30 June 2023	4
18. Statement Of Comparison of Budget & Actual Amounts for The Period Ended 30 June 2023	5
19. Notes To the Financial Statements	8
20. Appendices	36



1. Acronyms and Glossary of Terms

Acronyms and glossary of terms that appear in this annual report and financial statements.

CEO	Chief Executive Officer
GM	General Manager
ICPAK	Institute of Certified Public Accountants of Kenya
IFRS	International Financial Reporting Standards
MEWASS	Meru Water and Sewerage Services
NRW	Non-Revenue Water
PFM	Public Financial Management
PSASB	Public Sector Accounting Standards Board
WASREB	Water Services Regulatory Board



2. Key Entity Information

a) Background Information

Meru Water & Sewerage Services Registered Trust (MEWASS) is incorporated under The Trustees (Perpetual Succession) Act Cap 164, of the Laws of Kenya. An irrevocable declaration of Entity 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.

At county level the Company is represented by the County Executive Member responsible for water and sanitation, who together with the board of Directors are responsible for the general policy and strategic direction of the Company.

b) Principal Activities

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

c) Directors

Dr. Mworio Mugambi	- Chairman	Appointed on 16th May 2018
Mr. Charles Mwenda	- Chief Officer Finance & Economic Planning	Appointed on 7th Sept' 2022
Mr. Francis Mungai	- Alternate to Chief Officer Finance Planning	Left 7th September 2022
Ms. Jackline Karimi	- Alternate to Chief Officer Finance Planning	Appointed on 19th Jan' 2023
Ms. Elizabeth Kanini	- Director	Appointed on 16th May 2018
Mr. Jackson Muthamia	- Chief Officer Water & Irrigation	Left 7th September 2022
Mr. George Kimathi	- Chief Officer Water & Irrigation	Appointed on 7th Sept' 2022
Mr. Patrick Mugendi	- Ag. Chief Executive Officer	Appointed on 7th Sept' 2022



d) Registered Office

MEWASS Building
Situated along Kinoru -Stadium Road
P.O. Box 859-60200
Meru, KENYA

e) Corporate Headquarters

P.O Box 859-60200
MEWASS Building
Situated along Kinoru -Stadium Road
Meru, KENYA

f) Corporate Contacts

Tel: 064-3132591, 0717527707
E-mail: info@mewass.or.ke
E-mail: meruwater@gmail.com
Website: www.mewass.or.ke

g) Corporate 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






h) Independent Auditors

Auditor-General
The Office of the Auditor General
Anniversary Towers, University Way
P.O. Box 30084 - 00100
Nairobi, Kenya.

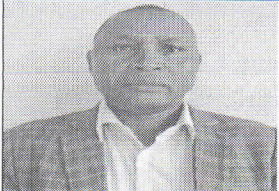




i) Principal Legal Advisers

The Attorney General
State Law Office and Department of Justice
Harambee Avenue
P.O Box 40112-00200
Nairobi, Kenya

3. The Board of Directors

Photo	Name and Qualifications	Date of Birth and Experience
	<p>Dr. Mugambi Mworia Ph.D. (Range Science), MSc (Range science), BSc. Ecology</p>	<p>Date of Birth 1953 Senior Lecturer and Chairman Department of Agriculture Kenya Methodist University Chairman Eastern Conservancy Kenya Forest Services Associate consultant, Publix (Africa) Ltd</p>
	<p>CPA Jackline Karimi Maitima Bachelor of Commerce, CPA(K)</p>	<p>Date of Birth 1980 Assistant Accountant General, National Treasury and planning 17th December 2021</p>
	<p>Mr. George Kimathi PhD. Climate Change and Adaptation Msc.Natural Resources Management, Bsc (Environmental Science)</p>	<p>Date of Birth 28th July 1984 Ag. Chief Officer Water and Irrigation, Climate change & Natural Resources County Government of Meru,</p>
	<p>Ms. Elizabeth Kanini Dip. Business Management</p>	<p>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</p>
	<p>Patrick Mugendi Kwiriga, Ag. Chief Executive Officer BBS, Development studies,</p>	<p>Date of Birth 29/12/1977 Over 10 years experience in Administration</p>

4. Key Management Team

<i>Photo</i>	<i>Name and Qualifications</i>	<i>Date of Birth and Experience</i>
	Patrick Mugendi Kwiriga, Ag. Chief Executive Officer BBS, Development studies	Date of Birth 29/12/1977 Over 10 years experience in Administration
	Mr. Robert K. Miruri General Manager Masters Degree in Project Planning and Management	Date of Birth 20/11/1957 Over 30 years' experience in Water Design & Management of projects and programs
	CPA Lydia Mukami Kinoti Finance Manager Bcom Accounting, CPA(K)	Date of Birth 17/04/1979 Over 15 years' experience in Accounting & Commercial services
	Mr. Kennedy Wekesa Kilali Technical Services Manager BSc. Water & Environmental Engineering	Date of Birth 02/08/1980 Over 13 years' experience in water Sector
	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 10 years' experience in Procurement Management
	Caroline Ruguru Kinyua Ag. Human Resource Manager & Administration Diploma in secretarial and public relations	Date of Birth 28/05/1979 Over 10 years experience in Administration



5. Chairman's Statement

I present the report on the financial statements of the Meru Water and Sewerage Services (MEWASS) for the financial year ending June 2023. The year afforded us an opportunity to continue serving our customers as envisaged in the core mandate of the MEWASS taking into consideration the Key Result Areas as set out in the five year strategic plan. During the period there has been progress made in delivering on the mandate given to us.

Performance

The performance report for the water services sector ranked MEWASS among the top ten best performing water service providers at position 8 nationally and position 4 in the large water service providers' category. The ranking was based on the nine sector benchmark criteria as prescribed by the Water Services Regulatory Board (WASREB). On financial performance, the turnover amounted to Ksh 217.6 million as compared to Ksh 197.2 million in the previous financial year. Other Income amounted to Ksh 20.1 million as compared to Ksh 43.5 million in the previous financial year. The total income for the year amounted to Ksh 237.7 million. The total expenditure for the year in review amounted to Ksh 237.3 million as compared to Ksh 241.4 million.

Sustainability

The success of any water utility is to provide services at the optimum levels at the same time ensuring revenues are increased through prudent financial management. Whereas profit is not the main reason for MEWASS existence, the fact remains that only those utilities that make profits would have sound sustainable base. In order to be sustainable MEWASS must be able to recover the operational cost and have funds to reinvest towards the renewal of water infrastructure. For MEWASS to cover the operational costs which have been on increasing trajectory and have funds to reinvest in service provision, the costing of the services have been done. The proposed tariff will be subjected to the stakeholders' consultation as required by the law.

Challenges

The main challenge in the water sector is the changing of the climate. Although each sector is vulnerable to climate change, water sector is one of the most impacted sectors.



Chairman's Statement Cont'd

The scarce water resource caused by global warming as result of climatic change has greatly affected the service delivery.

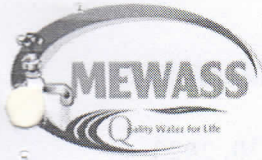
Additionally, there are myriad of levies from different agencies, and charges which barely ensure cost recovery. In Meru, the main water sources from where MEWASS obtains raw water for treatment and distribution to the customers has been heavily over abstracted such that we have resorted to rationing the commodity to our customers. This has negatively affected our customer loyalty.

The other challenge we continue to encounter in our operations is on the road works contractors who have greatly interfered with our pipeline causing service interruptions in the supply area. This has been of concern as major pipelines continue to be uprooted and the cost of reinstatement incurred by MEWASS. The frequent service interruption has adversely affected the service delivery. Further, the cost to replace the pipelines has greatly impacted on our resources.

Since we now know our challenges, a solution has to found in order to assure of effective and efficient service delivery. Last but not the least in order to have a long term solution to the scarce water sources within our supply area, we have partnered with the Tana Water Works Development Agency who commenced preliminary studies on having Mutuaru Water Supply System a reality.

I conclude by expressing sincere thanks to our Stakeholders who includes Customers, Suppliers and my fellow members of board for standing with us despite the challenges. Special thanks go to the County Government for their support in our endeavours. Finally, I acknowledge our staff for working tirelessly to ensure that our customers get the essential service.

Dr Mworia Mugambi
Chairman Board of Directors



6. Report of the General Manager

Water is important driver for social and economic development. Therefore, as a water service provider responsible for providing water services in the Meru Township and its environs, the population within the supply area look upon us to deliver on our mandate. In the year 2022/2023 the Meru Water and Sewerage Services (MEWASS) continued to provide water services despite the challenges of meeting the ever increasing demand of the water services.

Financial Performance

The financial performance for the year indicates the turnover of Ksh 218,510,168 as compared to Ksh 197,255,722 in the previous financial year. The other income amounted to Ksh 20,172,659 as compared to Ksh 43,533,889 in the previous financial year. The total income for the year amounted to Ksh 238,682,827 whereas the total expenditure for the year amounted to Ksh 237,529,113. In order for MEWASS to remain afloat, it has to be able to adequately meet the day to running expenditure has increased over the time due to inflation and the levies charged by various players. The regulator requires tariff charged by the water service providers to be reviewed in order to ensure uninterrupted service delivery. Therefore, a proposed costing of the service has been done and the stakeholders are expected to be invited to give their input in due course.

Water Sector Performance

The Water Services Regulatory Board (WASREB) on an annual basis publishes Impact Report which indicates performance of various players in the water sector in Kenya. In the Impact Report 15 released in the year 2023, MEWASS has been ranked position 8 nationally and position 4 in the large water service providers' category. The regulator evaluates and ranks the Water Service Providers based on nine benchmark criteria ranging from Drinking Water Quality, Non-Revenue Water, Water Coverage, Hours of Supply, Staff Productivity, Revenue Collection Efficiency, Personnel Expenditure, Operation and Expenditure Cost Coverage and Metering Ratio.

Water Quality

The water produced and delivered to the customers continued to meet the strict water quality standards as specified by the service regulator and the World Health Organization



Report of the General Manager Cont'd

During the year 2022/2023 the drinking water quality supplied by MEWASS was 100 percent in compliance with the standards. The provision of quality clean water implies that we ensure that the water is properly treated at the production plant and the water transmission systems are well maintained.

Non-Revenue Water

Non-Revenue Water (NRW) is the component of the water input in the system which is not billed and does not earn revenue. The reduction of NRW has been prioritized by the government as this will avail more water rather than investing in new infrastructure which requires more capital outlay. In order to effectively manage NRW within our supply area, a fully-fledged NRW unit/section was established. The daily flow volumes are monitored by taking master meter readings that are compared with the expected flows. The areas with high flows are prioritized for pipeline patrolling to detect leakages. The main cause of leakages is high pressure due to the long and steep gradients where some pipelines have the potential to develop high pressures. The pressure reducing valves have been installed at various points to minimize the pressure. The ongoing roads constructions have had an effect in the NRW at the same time interrupting water service provision to the customer as the pipelines are shut to minimize water losses. The district meter areas have greatly helped in identifying water losses hence the reduction in NRW. In the financial year 2022/2023, the NRW at the water supply system was 19.20 percent.

Customer Service

During the year we continued to interact with our customers through various platforms. With the evolving technology advances we need to be more responsive, innovative and timely in attending to our customers. They want us to be easier to deal with and more collaborative. In the year 2022-2023 we continued improving our interactions with the customer by providing mobile application to enable them to self read their water meters, query their bills and make payments, report complaints and identify our field staff attending them among other services. The MEWASS application is downloadable from *Google Play Store*. We assure our customers of continuous improvement.



MERU WATER AND SEWERAGE SERVICES REGISTERED TRUSTEES

Annual Reports and Financial Statements for the year ended June 30, 2023

Report of the General Manager Cont'd

In conclusion

I recognize our Customers and Stakeholders for their support throughout the year. Secondly, I acknowledge the Board of Directors for providing us with guidance and support throughout the period. Special thanks to the County Government of Meru for their support. Last but not the least the employees of MEWASS require accolade for ensuring services are provided despite the challenges.

Robert Miruri
General Manager



7. Statement Of Performance Against Predetermined Objectives For FY 2022/2023

Section 81 Subsection 2 (f) of the Public Finance Management Act, 2012 requires the accounting officer to include in the financial statement, a statement of the County government entity’s performance against predetermined objectives.

The Entity has strategic pillars and objectives within its annual work plans for the FY 2022/2023.

These strategic pillars are as follows:

Pillar 1: Water and sanitation infrastructure development, operationalization and maintenance

Pillar 2: Assurance and customer satisfaction

Pillar 3: Financial sustainability

Pillar 4: Automation & technology

Pillar 5: Institution Development

The Entity develops its annual work plans based on the above pillars. Assessment of the Board’s performance against its annual work plan is done on a quarterly basis. Meru water and Sewerage Services continued to implement its performance targets set for the FY 2022/2023 period for its strategic pillars, as indicated in the table below:

Strategic Pillar/Theme/Issues	Objective	Key Performance Indicators	Activities	Achievements
Pillar/ theme/ issue 1. Water & sanitation infrastructure development, operationalization & maintenance	-Reduce operational Cost. -Reduction of billing errors	-Increased Pipeline Coverage -Reduction of non-Revenue water Increased Billing	-Installation of more pipes to the network -Installation of sluice & Air valves -Changing of faulty & aged consumer meters	-Reduced leakages hence more supply -Improved water supply services -Reduction of NRW Increased billing
Pillar/ theme/ issue 2 Assurance and customer satisfaction	To improve effective communication	-Resolved customer complaints	- Implementation of customer charter	Improved customer satisfaction



MERU WATER AND SEWERAGE SERVICES REGISTERED TRUSTEES

Annual Reports and Financial Statements for the year ended June 30, 2023

Statement Of Performance Against Predetermined Objectives For FY 2022/2023 Cont'd

Pillar/ theme/ issue 3. Financial sustainability	Increase Revenues Prudent spending	-Increased collection Efficiency -Value for money	-Customers to settle bill -Procurement procedures	Collection efficiency of 95%
Pillar/ theme/ issue 4 Automation & technology	To improve financial accountability systems	Optimally running systems Timely and accurate reports	Complete the integration of the financial system Review and improve internal controls of ERP system	Web Based Information Management System in Place
Pillar/ theme/ issue 5. Institution Development	To strengthen the capacity of the board Staff Capacity building	Introduction to Best corporate governance practices Enriched staff	Develop annual work plans for the board. Attending capacity building programs	Best corporate governance practices Updated policies



8. Corporate Governance Statement

Corporate governance structure ensures that the directors act with high standards of corporate behavior and in the best interests of the stakeholders. The board is responsible for the overall corporate governance and approves strategic directions and budgets.

The directors on regular basis meet the management team and are offered an opportunity to visit the infrastructure and relevant installations and projects in order to be versed with the company’s activities. The directors representing various stakeholders in the company are expected to have skills and experience to perform relevant functions as directors. The board has three committees namely: Technical, Finance & Administration and the Audit Committee.

The Board in consultation with the management develops strategic directions for annual and long-time period. The Key Result Areas of the strategic plan are broken into annual business plans of which the management provides quarterly progress reports to the Board to enable it monitor the performance. During the financial year 2022/2023 the board held 11 meetings. The details of the attendance at these meetings are as set out below:

NAME OF THE DIRECTOR	FULL BOARD MEETING		NAME OF THE COMMITTEE	COMMITTEE MEETING	
	ATTENDED	ELIGIBLE TO ATTEND		ATTENDED	ELIGIBLE TO ATTEND
Dr. Mugambi Mworira	4	4	Audit Finance Technical	2 2 2	2 2 2
Ms. Elizabeth Kanini	4	4	Audit Finance Technical	2 2 2	2 2 2
Mr. Jackson Muthamia	2	2	Technical	1	2
Mr. George Kimathi	2	2	Audit Finance Technical	1 1 1	2 2 2
Mr. Charles Mwenda	-	-	Finance Technical	1 1	2 2
Ms. Jackline Karimi	2	2	Audit Finance	2 1	2 1

In addition to the above the board held one Special Board meeting during the year.



MERU WATER AND SEWERAGE SERVICES REGISTERED TRUSTEES

Annual Reports and Financial Statements for the year ended June 30, 2023

9. Management Discussion and Analysis

The management discusses and analyses the performance of Meru Water and Sewerage Services for the for the 3 year period as indicated below.

<i>Year</i>	<i>2022-23</i>	<i>2021-2022</i>	<i>2020-2021</i>
<i>Item Description</i>	<i>Amount(Ksh)</i>	<i>Amount(Ksh)</i>	<i>Amount(Ksh)</i>
Revenue			
<i>Turnover</i>	218,510,168	197,255,722	181,833,631
<i>Other Income</i>	20,172,659	43,533,889	34,728,590
Total Income	238,682,827	240,789,611	216,562,221
Expenditure			
<i>Administration & Establishment</i>	111,678,957	118,167,759	105,216,501
<i>Selling & Distribution</i>	104,485,698	100,640,057	87,910,673
<i>Depreciation</i>	19,343,061	20,006,801	18,719,605
<i>Amortization of Intangible Assets</i>	1,884,694	2,620,804	3,706,121
<i>Finance Costs</i>	136,703	368,399	143,269
Total Expenditure	237,529,113	241,803,820	215,696,169
Net Surplus /(Loss)	1,153,715	(1,014,209)	866,052

The analysis of the table above indicates that the Turnover has been growing over the period. The Other Income for the year 2022-2023 was majorly made of grants from the Water Sector Trust Fund declined as compared with previous year as no grants were received in the current year. The grants received in the previous year 2021-2022 were meant to support the water service providers following the effects of Covid-19.

Operational Performance

During the three year period the water produced and distributed remained constant. However, due to the management of the Non Revenue Water, we were able to realise increase in billing for water services as less NRW implied more water available for consumption by the customers. Throughout the period MEWASS maintained NRW of below the industry benchmark



Management Discussion and Analysis Cont'd

The MEWASS five-year Strategic plan has roadmap to fulfilment of the Key Result Areas as identified during formulation and validation of the plan by stakeholders. Some of the projects listed in the plan include Mutuaru Water Supply. The preliminary studies through the support of the Tana Water Works Agency commenced in the financial year 2022-2023.

Compliance

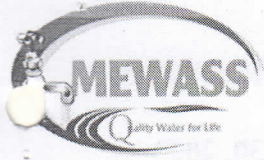
Throughout the period MEWASS did not experience nor default on its obligations concerning statutory requirements.

Risks in the Water Sector

The main challenge in the water sector is the change of the climate as a result of global warming. The change in climate has had negative effect on water bodies. The water from the rivers has greatly reduced. This has led to competition of the scarce resource by various users. Secondly, the road contractors continue to interfere with the water supply infrastructure during road works. The costs of replacing the destroyed infrastructure is enormous hence continue to adversely affect service delivery. Further, the escalating cost of operating water supply has increased tremendously due to inflation and due to inflation and the depreciating value of the Kenyan currency.

The Operating Environment

The Water sector has undergone major reforms since the enactment of the Water Act 2002 which has been repealed by the Water Act 2016. The Water Act 2016 aligns the water service provision to the Constitution of Kenya 2010. The schedule four of the Constitution devolved water service provision to the County Governments. The County Assembly of Meru passed a law which establishment the Meru County Urban Water and Sanitation Services Corporation to be the Successor to the two water providers in Meru. The Act has not been implemented due to various issues raised by the regulator. The amendments to Act have been proposed in order to ensure that it is in conformity with the Water Act 2016. Further, the Meru Water and Sewerage Services is registered as Trust whereas the Water Act 2016 envisages a Public Company. The regulator has recommended for the change of MEWASS from being a Trust to a company.



10. Environmental and Sustainability Reporting

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

i) Sustainability strategy and profile

The sustainability of the company is dependent on the following key factors

- a) Water sources
- b) Collection and distribution infrastructure
- c) Water production levels
- d) Water distribution efficiency
- e) Value of non-revenue water (water loss)
- f) Political support/goodwill from the County

ii) Environmental performance

MEWASS relies on the environment which provides water that is abstracted, treated and transmitted via pipeline to respective customers hence its conservation is crucial for sustainability. This is done by ensuring the conservation levies paid to the respective institutions. Regarding sewer management, MEWASS prioritizes and minimizes impact on the environment through environmentally responsible management and adherence to relevant statutory standards, most particularly with the sewerage treatment and disposal. However, due to the overloading of the existing sewerage treatment plant there has been a challenge.

iii) Employee welfare

MEWASS recognizes that health, safety and training, play a key role in ensuring that the employees are committed to their duties at the workplace. Therefore, the working environment in which personal and employment rights is upheld. On the other hand, towards improvement of our staff



Environmental and Sustainability Reporting Cont'd

Welfare, we enrolled each and every employee to the medical scheme to cater for their health needs together with their immediate family members. Further, we regularly train our staff on various aspects in the service. During the year, our staff were facilitated to attend various trainings and workshops towards building their capacity.

Last but not the least, the employees are provided with the personal protection equipment during their daily working routine.

iv) Market place practices

The company aspires to be a responsible open and trustworthy market player. In this regard the company ensures that all its commercial transactions are undertaken openly fairly and to the best interest of the parties involved.

a) Responsible competition practice.

Responsible Competition practice is about making sustainable development count in global and local markets. It means markets that reward business practices that deliver improved social, environmental, and economic outcomes. The entity is committed to competition practices to its customers and stakeholders

b) Responsible Supply chain and supplier relations

The company acknowledges the importance of managing suppliers through prompt payment. We endeavor to pay supplier invoices within the credit given by our suppliers.

c) Responsible marketing and advertisement

The company, while publicizing its products, ensures that our marketing and advertisements campaigns are conducted using fair language, are morally upright and adhere to other fair advertising and marketing practices.

d) Corporate Social Responsibility / Community Engagements

MEWASS continues to make a positive impact on the community in which it operates by participating in support of the institutions programs by providing material support which includes bottled water for the activities they are undertaking.



MERU WATER AND SEWERAGE SERVICES REGISTERED TRUSTEES

Annual Reports and Financial Statements for the year ended June 30, 2023

11. Report Of the Directors

The Directors submit their twentieth report and the audited financial statements for the year ended 30th June 2023 which show the entity's affairs.

i) Principal Activities

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

ii) Results

The results for the year are set out on page 1.

iii) Directors

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

iv) Auditors

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

By order of the Board of Directors

Secretary to the Board

27/09/2023



12. Statement Of Directors' Responsibilities

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

The Directors are responsible for the preparation and presentation of the Entity financial statements, which give a true and fair view of the state of affairs of the Entity for the year ended on 30th June 2023. 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 Entity;
- 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 Entity;
- v) Selecting and applying appropriate accounting policies; and
- vi) Making accounting estimates that are reasonable in the circumstances.

The Directors accept responsibility for the Entity's financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgments and estimates, in conformity with International Financial Reporting Standards (IFRS), and in the manner required by the Public Finance Management Act, 2012 and the Entity Deed registered under the Trustees (Perpetual Succession) Act Cap 164, of the Laws of Kenya. The Directors are of the opinion that the Entity's financial statements give a true and fair view of the state of Entity's transactions during the financial year ended June 30, 2023, and of the Entity's financial position as at that date. The Directors further confirm the completeness of the accounting records maintained



MERU WATER AND SEWERAGE SERVICES REGISTERED TRUSTEES

Annual Reports and Financial Statements for the year ended June 30, 2023

Statement Of Directors' Responsibilities Cont'd

for the Entity, which have been relied upon in the preparation of the Entity's financial statements as well as the adequacy of the systems of internal financial control.

In preparing the financial statements, the Directors have assessed the entity's ability to continue as a going concern.

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

Approval of the financial statements

The Entity's financial statements were approved by the Board of Directors on **27th September, 2023** and signed on its behalf by:

Name: Dr. Mworja Mugambi
Chairperson of the Board

Name: Patrick Mugendi Kwiriga
Ag. Chief Executive Officer

REPUBLIC OF KENYA

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



OFFICE OF THE AUDITOR-GENERAL

Enhancing Accountability

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, 2023

PREAMBLE

I draw your attention to the contents of my report which is in three parts:

- A. Report on the Financial Statements that considers whether the financial statements are fairly presented in accordance with the applicable financial reporting framework, accounting standards and the relevant laws and regulations that have a direct effect on the financial statements.
- B. Report on Lawfulness and Effectiveness in Use of Public Resources which considers compliance with applicable laws, regulations, policies, gazette notices, circulars, guidelines and manuals and whether public resources are applied in a prudent, efficient, economic, transparent and accountable manner to ensure Government achieves value for money and that such funds are applied for the intended purpose.
- C. Report on Effectiveness of Internal Controls, Risk Management and Governance which considers how the entity has instituted checks and balances to guide internal operations. This responds to the effectiveness of the governance structure, the risk management environment and the internal controls, developed and implemented by those charged with governance for orderly, efficient and effective operations of the entity.

An unmodified opinion does not necessarily mean that an entity has complied with all relevant laws and regulations and that its internal controls, risk management and governance systems are properly designed and were working effectively in the financial year under review.

The three parts of the report are aimed at addressing the statutory roles and responsibilities of the Auditor-General as provided by Article 229 of the Constitution, the Public Finance Management Act, 2012 and the Public Audit Act, 2015. The three parts of the report, when read together constitute the report of the Auditor-General.

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 1 to 39, which comprise of the statement of financial position as at 30 June, 2023, and the statement of profit or loss and other

Report of the Auditor-General on Meru Water and Sewerage Services Registered Trustees for the year ended 30 June, 2023

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

In my opinion, except for the effect of the matters described in the Basis for Qualified Opinion section of my report, the financial statements present fairly, in all material respects, the financial position of Meru Water and Sewerage Services Registered Trustees as at 30 June, 2023, 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 Public Finance Management Act, 2012 and the Water Act, 2016.

Basis for Qualified Opinion

1. Long Outstanding Trade Receivables

As previously reported, Note 16 to the financial statements reflects gross trade receivables balance of Kshs.77,822,881 which comprises of Kshs.8,399,482 that fell due between the years 1992 and 2005 and Kshs.69,423,398 from 2006 to date. However, no evidence was provided of efforts made to recover or write off the overdue debts, contrary to Section 83(2)(f) of the Public Finance Management (County Governments) Regulations, 2015 which requires that entities pursue debtors with appropriate sensitivity and rigor to ensure that amounts receivable by the County Government are collected and banked promptly.

In the circumstances, the accuracy and recoverability of the long outstanding receivables balance of Kshs.77,822,881 could not be confirmed.

2. Un-Valued Land

The statement of financial position and as disclosed in Note 13 to the financial statements reflects a balance of Kshs.224,584,461 in respect to property, plant and equipment. Included in Kshs.224,584,461 is Kshs.7,507,945 for land which further includes Kshs.340,000 and Kshs.3,300,000 relating to two parcels of land measuring 0.101ha each which were bought in 2013 and 2014 respectively. However, the valuation certificates were not provided for audit review.

In the circumstances, the accuracy and valuation of the Kshs.3,640,000 comprising of Kshs.340,000 and Kshs.3,300,000 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 ISSAI and in accordance with other ethical requirements applicable to performing audits of financial statements in Kenya. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

Key Audit Matters

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

Other Matter

Unresolved Prior Year Audit Matters

In the audit report of the previous year, several issues were raised under the Report on Financial Statements, Lawfulness and Effectiveness in Use of Public Resources and Effectiveness of Internal Controls, Risk Management and Governance. However, some issues remained unresolved as at 30 June, 2023 contrary to Section 149 (2) (l) of Public Finance Management Act, 2012 which require Accounting Officers designated for County Government entities to try to resolve any issues resulting from an audit that remain outstanding.

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

1.0 Ethnic Composition

Review of the staff payroll revealed that in the year under review, Meru Water and Sewerage Services Registered Trustees had a staff establishment of one hundred and eight (108) staff. However, analysis of the establishment revealed that more than ninety nine (99) or 92% of the staff belonged to the dominant ethnic community contrary to Section 7(2) of the National Cohesion and Integration Act, 2008 which states that no public establishment shall have more than one third of its staff from the same ethnic community.

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

2.0 Non-Adherence to Data Protection Act, 2019

Meru Water and Sewerage Services Registered Trustees controls personal information from customers. Interviews conducted revealed that the organization has not registered with the Data Commissioner which poses a risk on the protection of sensitive information. This is contrary to Section 18 of Data Protection Act, 2019 which requires registration of data controllers and data processors.

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

3.0 Employees in Acting Capacity

Review of the staff payroll revealed that during the year under review, four (4) staff had been in an acting capacity in various positions. As at 30 June, 2023, the employees had acted for more than six (6) months contrary to Section C.14(1) of the Public Service Commission Human Resource Policies and Procedures Manual, 2016. No plausible explanation was provided on why the posts had not been substantively filled.

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

4.0 Use of Old Water Tariffs

Review of the Company's records revealed that the Company charged customers based on tariffs approved on 18 July, 2014 that were to be applied from 2014 to 2017. However, the tariffs have since lapsed and the Company has continued to use the same old tariffs for six (6) subsequent years without approval.

In the circumstances, the tariffs charged are irregular since the same have not been approved.

5.0 Non-Compliance with Fiscal Responsibility Principles on Wage Bill

The statement of profit or loss and other comprehensive income and as disclosed in Notes 8 and 9 to the financial statements reflects amounts of Kshs.111,678,957 and Kshs.104,485,698 in respect to administration and establishment, and selling and distribution expenses respectively which further includes Kshs.56,301,630 and Kshs.33,941,328 all totalling to Kshs.90,242,958 on staff salaries and wages. However, the Company incurred 38% on salaries as a percentage of operation and maintenance cost of Kshs.237,392,410 contrary to Paragraph 3.2 of the performance report of Kenya's Water Service Sector 2020/2021 from WASREB, issue Number 14/2022 on Performance Analysis and Ranking under economic efficiency which states that the personnel expenditure for any Company ranked as large Company should not exceed 30% as percentage of Operation and Maintenance Cost.

In the circumstances, Management was in breach of the WASREB Guidelines.

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

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

Basis for Conclusion

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 controls, 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.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

As required by the Kenyan Companies Act, 2015, I report based on the audit, that;

- i. 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;
- ii. In my opinion, adequate accounting records have been kept by the Meru Water and Sewerage Services Registered Trustees, so far as appears from the examination of those records; and,
- iii. The Meru Water and Sewerage Services Registered Trustees' financial statements are in agreement with the accounting records and returns.

Responsibilities of Management and those Charged with Governance

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and for maintaining effective internal controls 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 controls, risk management and governance.

In preparing the financial statements, Management is responsible for assessing the Meru Water and Sewerage Services Registered Trustees' ability to continue to sustain services, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Management is aware of the intention to liquidate the Meru Water and Sewerage Services Registered Trustees or to cease operations.

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

In addition to the responsibility for the preparation and presentation of the 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 are responsible for overseeing the Meru Water and Sewerage Services Registered Trustees financial reporting process, reviewing the effectiveness of

how Management monitors compliance with relevant legislative and regulatory requirements, ensuring that effective processes and systems are in place to address key roles and responsibilities in relation to governance and risk management, and ensuring the adequacy and effectiveness of the control environment.

Auditor-General's Responsibilities for the Audit

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

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

Further, in planning and performing the audit of the financial statements and audit of compliance, I consider internal controls in order to give an assurance on the effectiveness of internal controls, risk management and governance processes and systems in accordance with the provisions of Section 7(1)(a) of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution. My consideration of the internal controls would not necessarily disclose all matters in the internal controls 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 controls 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 Meru Water and Sewerage Service Registered Trustees policies and procedures may deteriorate.

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

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

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

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


 FCPA Nancy Gathungu, CBS
AUDITOR-GENERAL

Nairobi

08 March, 2024



MERU WATER AND SEWERAGE SERVICES REGISTERED TRUSTEES

Annual Reports and Financial Statements for the year ended June 30, 2023

14. Statement Of Profit or Loss & Other Comprehensive Income for the Year Ended 30 June 2023.

	Notes	2022-2023	2021-2022
		Kshs	Kshs
TURNOVER	6	218,510,168	197,255,722
Other Income	7	20,172,659	43,533,889
Total Operating Income		238,682,827	240,789,611
EXPENSES:			
Administration and Establishment	8(a)	(111,678,957)	(118,167,759)
Selling and Distribution	9	(104,485,698)	(100,640,057)
Depreciation of property, plant and equipment	8(b)	(19,343,061)	(20,006,801)
Amortisation of intangible assets	8(c)	(1,884,694)	(2,620,804)
		(237,392,410)	(241,435,421)
Surplus/(Deficit) from Operating Activities		1,290,417	(645,810)
Net Finance Costs	10	(136,703)	(368,399)
Surplus/(Deficit) Before Taxation		1,153,715	(1,014,208)
Taxation	12(a)	29,967	2,039,856
Surplus/(Deficit) after Taxation		<u>1,183,682</u>	<u>1,025,648</u>



MERU WATER AND SEWERAGE SERVICES REGISTERED TRUSTEES

Annual Reports and Financial Statements for the year ended June 30, 2023

15. Statement of Financial Position As At 30 June 2023

	Notes	2022-2023	2021-2022
		Kshs	Kshs
ASSETS			
NON-CURRENT ASSETS			
Property, plant & equipment	13	224,584,461	229,842,189
Intangible assets	14	4,397,620	6,115,210
		<u>228,982,081</u>	<u>235,957,399</u>
CURRENT ASSETS			
Inventory	15	4,552,650	5,201,148
Receivables and prepayments	16	63,341,136	81,594,817
Tax asset	12(c)	14,851,484	14,339,674
Cash and cash equivalents	17	84,214,395	65,793,953
		<u>166,959,666</u>	<u>166,929,592</u>
CURRENT LIABILITIES			
Consumer deposits	19	50,681,361	49,372,468
Payables and accruals	20	114,220,607	120,870,788
		<u>164,901,968</u>	<u>170,243,256</u>
WORKING CAPITAL		<u>2,057,698</u>	<u>(3,313,663)</u>
NET ASSETS		<u>231,039,779</u>	<u>232,643,733</u>
FINANCED BY			
Grants	18	609,996	692,155
Revenue reserves		205,881,627	204,697,944
		<u>206,491,623</u>	<u>205,390,099</u>
NON-CURRENT LIABILITY			
Deferred grant income	24	24,548,156	27,253,634
TOTAL		<u>231,039,779</u>	<u>232,643,733</u>

The financial statements were approved by the Board of Directors on 27th September, 2023 and signed on its behalf by;

MR.PATRICK MUGENDI
Ag.Chief Executive Officer

CPA LYDIAH MUKAMI
Head of Finance
ICPAK M/No.22817

DR.MWORIA MUGAMBI
Chairman of the Board



MERU WATER AND SEWERAGE SERVICES REGISTERED TRUSTEES

Annual Reports and Financial Statements for the year ended June 30, 2023

16. Statement of Changes in Equity for the Year Ended 30 June 2023

		Revenue Reserves	Total
		Kshs	Kshs
At 30th June 2021		<u>203,672,297</u>	<u>203,672,297</u>
Surplus/(Deficit) for the year		1,025,648	1,025,648
At 30th June 2022		<u>204,697,944</u>	<u>204,697,944</u>
Surplus/(Deficit) for the year	12(d)	1,183,682	1,183,682
	12(e)		
At 30th June 2023		<u>205,881,627</u>	<u>205,881,627</u>



17. Statement Of Cash Flows for The Year Ended 30 June 2023

	Note	2022-2023	2021-2022
Cash Flows From Operating Activities		<u>Ksh</u>	<u>Ksh</u>
Surplus/(Deficit) before taxation		1,153,715	(1,014,208)
Adjustments for:			
Depreciation	13	19,343,062	20,006,801
Deferred income	7	(2,787,637)	(3,247,413)
Gain on disposal		(41,545)	(1,764,317)
Amortization of intangible assets	14	1,884,694	2,620,804
Interest Income	7	(3,212,286)	(3,059,830)
Totals		<u>15,186,289</u>	<u>14,556,044</u>
Surplus/Deficit before changes in working capital		16,340,004	13,541,837
Increase/Decrease in Inventory		648,498	535,793
Increase/Decrease in Receivables and prepayments		18,253,681	(5,781,700)
Increase in Consumer deposits		1,308,894	2,481,990
Increase in Payables and accruals		(6,650,181)	7,001,039
		13,560,891	4,237,122
Cash Generated from Operations		<u>29,900,895</u>	<u>17,778,959</u>
Taxation Paid	12 (b)	(481,843)	(3,897,434)
Net Cash From/(Used In) Operating Activities		<u>29,419,052</u>	<u>13,881,525</u>
Cash Flows from Investing Activities			
Purchase of Intangible assets	14	(167,104)	(88,398)
Proceeds from the sale of fixed assets		104,062	2,295,533
Purchase of fixed assets	13	(14,147,852)	(30,252,835)
Net Cash From/(Used In) Investing Activities		<u>(14,210,894)</u>	<u>(28,045,700)</u>
Cash Flows from Financing Activities			
Interest received	7	3,212,286	3,059,830
Net Cash From/(Used In) Financing Activities		<u>3,212,286</u>	<u>3,059,830</u>
Increase/(Decrease) In Cash And Cash Equivalents		18,420,444	(11,104,345)
Cash And Cash Equivalents At Beginning Of Year		<u>65,793,953</u>	<u>76,898,298</u>
Cash And Cash Equivalents At End Of The Year		<u>84,214,395</u>	<u>65,793,953</u>



MERU WATER AND SEWERAGE SERVICES REGISTERED TRUSTEES

Annual Reports and Financial Statements for the year ended June 30, 2023

18. Statement Of Comparison of Budget & Actual Amounts for The Period Ended 30 June 2023

	Original budget	Adjustments	Final budget	Actual on comparable basis	Performance difference	% utilization
	2022-2023	2022-2023	2022-2023	2022-2023	2022-2023	%
	Kshs	Kshs	Kshs	Kshs	Kshs	
TURNOVER						
Water Revenue	166,266,110	-	166,266,110	162,707,875	(3,558,235)	-2%
Sewer Revenue	26,877,691	5,685,187	32,562,878	32,783,321	220,443	1%
Other Revenues	11,400,000	4,266,722	15,666,722	15,848,104	181,383	1%
Bottled Water Revenue	11,020,896	(3,496,356)	7,524,540	7,170,868	(353,672)	-5%
Sub-Total	215,564,697	6,455,553	222,020,250	218,510,168	(3,510,082)	-2%
OTHER INCOME						
New Connection fees	8,955,840	(2,792,336)	6,163,504	6,699,001	535,497	9%
Interest income	1,000,000	1,901,573	2,901,573	3,212,286	310,713	11%
Water bowser income	54,545	120,175	174,720	159,800	(14,920)	-9%
Miscellaneous income	15,385	742,453	757,838	842,691	84,853	11%
Exhauster Revenue	4,189,000	2,146,960	6,335,960	6,429,700	93,740	1%
Deferred Income	-	-	-	2,787,637	2,787,637	
Gain on disposal	-	-	-	41,545	41,545	
Sub-Total	14,214,770	2,118,825	16,333,595	20,172,659	3,839,063	
TOTAL REVENUES	229,779,467	8,574,379	238,353,846	238,682,827	328,982	
ADMINISTRATION AND ESTABLISHMENT EXPENSES						
Salaries, Wages and Allowances	56,967,288	(1,325,605)	55,641,683	56,301,630	(659,947)	-1%
Staff Welfare	12,101,062	-	12,101,062	11,765,941	335,121	3%
Repairs and Maintenance	2,525,551	1,347,425	3,872,976	1,922,186	1,950,790	50%
Office Supplies	2,367,468	(146,446)	2,221,022	2,122,236	98,787	4%
Training	5,660,879	640,309	6,301,188	6,025,193	275,995	4%



MERU WATER AND SEWERAGE SERVICES REGISTERED TRUSTEES

Annual Reports and Financial Statements for the year ended June 30, 2023

Statement Of Comparison of Budget & Actual Amounts for The Period Ended 30 June 2023 Cont'd

Motor Vehicle Running Expenses	2,899,469	760,614	3,660,083	3,484,982	175,101	5%
Telephone and Email	3,078,576	-	3,078,576	3,051,456	27,120	1%
Audit Fees	464,000	-	464,000	464,000	-	0%
Travelling and Subsistence	2,961,408	4,478,875	7,440,283	6,721,521	718,762	10%
Directors' Fees and Allowances	3,541,004	400,000	3,941,004	3,919,748	21,256	1%
Meetings and Conferences	1,445,272	(888,168)	557,104	506,020	51,084	9%
Electricity and Generator expenses	542,644	213,336	755,980	785,034	(29,053)	-4%
Advertising and Public Relations	1,672,806	(771,030)	901,776	967,465	(65,689)	-7%
Social activities and Donations expenses	491,900	604,426	1,096,326	1,013,605	82,721	8%
Hospitality expenses	417,745	1,304,566	1,722,311	1,884,704	(162,393)	-9%
Legal, Professional Fees & Levies	2,555,160	646,584	3,201,744	2,958,329	243,416	8%
Security	2,075,892	(163,612)	1,912,280	1,903,567	8,713	0%
Personal Protective equipment(PPE'S)	2,361,100	(965,303)	1,395,797	1,375,314	20,483	1%
Insurances	1,591,224	658,197	2,249,421	2,018,558	230,863	10%
Postage	102,951	(102,951)	-	-	-	
Decrease in provision for doubtful debts	-	-	-	905,114	(905,114)	
Games & Sports - Wasca	2,268,200	(1,225,560)	1,042,640	1,060,405	(17,765)	-2%
General Office Expenses	30,000	23,500	53,500	57,010	(3,510)	-7%
Assorted Tools	402,200	75,000	477,200	464,940	12,260	3%
Sub-Total Admin. & Est. Expenses	108,523,799	5,564,157	114,087,956	111,678,957	2,408,999	
Depreciation	14,572,090	4,990,647	19,562,737	19,343,061	219,676	1%
Amortization of intangible assets	1,348,200	536,494	1,884,694	1,884,694	-	0%
Total Admin. & Est. Expenses	124,444,089	11,091,298	135,535,387	132,906,712	2,628,675	
SELLING AND DISTRIBUTION EXPENSES						
Salaries, Wages and Allowances	32,664,622	-	32,664,622	33,941,328	(1,276,706)	-4%
License fee	9,148,381	(192,073)	8,956,308	8,873,903	82,406	1%
Repairs and Maintenance	4,563,092	(1,743,950)	2,819,142	2,766,887	52,255	2%
Rehabilitation-sewer system	180,000	(139,920)	40,080	37,350	2,730	7%
Assorted Tools	1,048,300	(706,200)	342,100	345,100	(3,000)	-1%
Travel and subsistence	899,592	1,065,461	1,965,053	1,935,741	29,312	1%
Excise Duty	1,702,776	300,000	2,002,776	1,930,424	72,352	4%
Office supplies	619,745	325,281	945,026	902,795	42,232	4%



MERU WATER AND SEWERAGE SERVICES REGISTERED TRUSTEES

Annual Reports and Financial Statements for the year ended June 30, 2023

Statement Of Comparison of Budget & Actual Amounts for The Period Ended 30 June 2023 Cont'd

Operation & Maintenance pipeline	16,868,788	(1,779,677)	15,089,111	15,379,509	(290,398)	-2%
Electricity	11,460,185	1,378,871	12,839,056	14,132,675	(1,293,620)	-10%
Chemicals and laboratory expenses	6,549,200	(300,000)	6,249,200	6,109,047	140,153	2%
Motor Vehicle Running Expenses	4,557,056	411,582	4,968,638	4,939,622	29,016	1%
Bottling Plant Expenses	6,368,477	(1,951,181)	4,417,297	4,325,914	91,382	2%
Minor works	4,888,628	(40,116)	4,848,512	4,520,324	328,187	7%
Night flow measurements	336,000	(246,000)	90,000	90,000	-	0%
Exhauster Expenses	2,129,089	1,013,479	3,142,568	3,352,551	(209,983)	-7%
Water Analysis	867,000	-	867,000	902,528	(35,528)	-4%
Total Selling & Dis. Expenses	104,850,931	(2,604,443)	102,246,488	104,485,698	(2,239,210)	
Bank charges	184,447	(52,562)	131,885	136,703	(4,818)	-4%
Withholding tax	300,000	140,086	440,086	481,843	(41,757)	-9%
Total Finance costs	484,447	87,524	571,971	618,545	(46,575)	
TOTAL EXPENSES	<u>229,779,467</u>	<u>8,574,379</u>	<u>238,353,846</u>	<u>238,010,955</u>	<u>342,890</u>	
Tax paid in the year				481,843		



19. Notes To the Financial Statements

1. General Information

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

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

2. Statement of Compliance and Basis of Preparation

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

The financial statements have been prepared and presented in Kenya Shillings, which is the functional and reporting currency of the entity. The financial statements have been prepared in accordance with the Public Finance Management Act, the State Corporations Act, and International Financial Reporting Standards (IFRS). The Cash flow statement is prepared using indirect method. The accounting policies adopted have been consistently applied to all the years present.



Notes to the financial statements (cont'd)

3. Application of New and Revised International Financial Reporting Standards (IFRS)

i. New and amended standards and interpretations in issue and effective in the year ended 30 June 2023.

Title	Description	Effective Date
IFRS 17 Insurance Contracts (issued in May 2017)	The new standard establishes principles for the recognition, measurement, presentation and disclosure of insurance contracts issued. It also requires similar principles to be applied to reinsurance contracts held and investment contracts with discretionary participation features issued. The objective is to ensure that entities provide relevant information in a way that faithfully represents those contracts. <i>The Company does not issue insurance contracts</i>	Effective for annual periods beginning on or after 1 st January 2023.
IAS (International Accounting Standards) 8- Accounting Policies, Errors, and Estimates	The amendments, applicable to annual periods beginning on or after 1st January 2023, introduce a definition of 'accounting estimates' and include other amendments to IAS 8 to help entities distinguish changes in accounting policies from changes in accounting estimates. <i>(There were no amendments on the financial statements for the year ended.30th June 2023)</i>	The amendments are effective for annual reporting periods beginning on or after January 1, 2023.
Amendments to IAS 1 titled Disclosure of Accounting Policies (issued in February 2021)	The amendments, applicable to annual periods beginning on or after 1st January 2023, require entities to disclose their material accounting policy information rather than their significant accounting policies. <i>(There were no changes to the accounting policies disclosed)</i>	The amendments are effective for annual periods beginning on or after January 1, 2023.

Title	Description	Effective Date
Amendments to IAS 12 titled Deferred Tax Related to Assets and Liabilities arising from a Single Transaction (issued in May 2021)	The amendments, applicable to annual periods beginning on or after 1st January 2023, narrowed the scope of the recognition exemption in paragraphs 15 and 24 of IAS 12 (recognition exemption) so that it no longer applies to transactions that, on initial recognition, give rise to equal taxable and deductible temporary differences.	The amendments are effective for annual periods beginning on or after January 1, 2023.

(The Directors have assessed the applicable standards and amendments. Based on their assessment of impact of application of the above, they do not expect that there will be a significant impact on the company's financial statements.)



Notes to the Financial Statements (Cont'd)

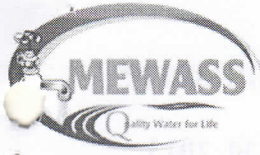
Application of New and Revised International Financial Reporting Standards (IFRS)

ii. *New and amended standards and interpretations in issue but not yet effective in the year ended 30 June 2023.*

Title	Description	Effective Date
Amendments to IAS 1 titled Classification of Liabilities as Current or Non-current (issued in January 2020, amended in October 2022)	The amendments, applicable to annual periods beginning on or after 1st January 2024, clarify a criterion in IAS 1 for classifying a liability as non-current: the requirement for an entity to have the right to defer settlement of the liability for at least 12 months after the reporting period	The amendments are effective for annual periods beginning on or after January 1, 2024. Earlier application is permitted.
Amendment to IFRS 16 titled Lease Liability in a Sale and Leaseback (issued in September 2022)	The amendment, applicable to annual periods beginning on or after 1st January 2024, requires a seller-lessee to subsequently measure lease liabilities arising from a leaseback in a way that it does not recognise any amount of the gain or loss.	The amendments are effective for annual periods beginning on or after January 1, 2024. Earlier application is permitted.

Title	Description	Effective Date
Amendments to IAS 1 titled Non-current Liabilities with Covenants (issued in October 2022)	The amendments, applicable to annual periods beginning on or after 1st January 2024, improve the information an entity provides about liabilities arising from loan arrangements for which an entity's right to defer settlement of those liabilities for at least twelve months after the reporting period is subject to the entity complying with conditions specified in the loan arrangement.	The amendments are effective for annual periods beginning on or after January 1, 2024. Earlier application is permitted.

(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).



Notes to the financial statements (cont'd)

iii. Early adoption of standards

The entity did not early – *adopt any new or amended standards in year 2022/2023*

4. Summary of Accounting Policies

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

a) Revenue recognition

Revenue is measured based on the consideration to which the entity expects to be entitled in a contract with a customer and excludes amounts collected on behalf of third parties. The entity recognizes revenue when it transfers control of a product or service to a customer.

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



Notes to the financial statements (cont'd)

Summary of Accounting Policies

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

b) In-kind contributions

In-kind contributions are donations that are made to the Entity in the form of actual goods and/or services rather than in money or cash terms. These donations may include vehicles, equipment, utilities 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 but disclosed

c) Property, plant and equipment

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



Notes to the financial statements (cont'd)

Summary of Accounting Policies

d) Depreciation and impairment of property, plant and equipment

Freehold land and capital work in progress are not depreciated. Capital work in progress relates mainly to the cost of ongoing but incomplete works on buildings and other civil works and installations. Depreciation on property, plant and equipment is recognized in the income statement on a reducing balance basis to write down the cost of each asset or the re-valued amount to its residual value over its estimated useful life. The annual rates in use are:

Item	Rates
Freehold Land	Nil
Buildings	2.5%
Water Treatment plant	2.5 %
Furniture and equipment	12.5 %
Plant and machinery	12.5 %
Water meters	20 %
Motor vehicles, including motorcycles	25 %
Computers and related equipment	30 %
Amortization of intangible assets	30 %
Office equipment, furniture and fittings	12.5%
Workshop equipment	33.3%
Pipes and fittings	12.5 %

A full year's depreciation charge is recognized both in the year of asset purchase and none in the year of asset disposal.



Notes to the financial statements (cont'd)

Summary of Accounting Policies

e) Intangible assets

Intangible assets with finite useful lives that are acquired separately are carried at cost less accumulated amortization and accumulated impairment losses. Amortization is recognized on a reducing balance basis over their estimated useful lives. The estimated useful life and amortization method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

Intangible assets with indefinite useful lives that are acquired separately are carried at cost less accumulated impairment losses.

f) Amortization and impairment of intangible assets

Amortization is calculated on the straight-line basis over the estimated useful life of the intangible asset. All intangible assets are reviewed annually for impairment. Where the carrying amount of an intangible asset is assessed as greater than its estimated recoverable amount, an impairment loss is recognized and the asset is written down to its estimated recoverable amount.

g) Inventories

Inventories are stated at the lower of cost and net realizable value. Cost comprises direct materials and, where applicable, direct labour costs and those overheads that have been incurred in bringing the inventories to their present location and condition. Cost is calculated using the weighted average cost method. Net realizable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution.

h) Trade and other receivables

Trade and other receivables are recognized 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. Bad debts are written off after all efforts at recovery have been exhausted and when the necessary approval to write off is granted.



Notes to the financial statements (cont'd)

Summary of Accounting Policies

i) Taxation

i) Current income tax

Current income tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting date in the area where the Company operates and generates taxable income. Current income tax relating to items recognized directly in net assets is recognized in net assets and not in the profit or loss statement. 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. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

J) Deferred tax

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

Deferred tax liabilities are recognized for all taxable temporary differences, except in respect of taxable temporary differences associated with investments in controlled entities, associates and interests in joint ventures, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future. Deferred tax assets are recognized for all deductible temporary differences, the carry forward of unused tax credits and any unused tax losses. Deferred tax assets are recognized to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilized, except in respect of deductible temporary differences associated with investments in controlled entities, associates and interests in joint ventures, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.



Notes to the financial statements (cont'd)

Summary of Accounting Policies

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

k) 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 authorized public officers and/or institutions which were not surrendered or accounted for at the end of the financial year.

l) Borrowings

Interest bearing loans and overdrafts are initially recorded at fair value being received, net of issue costs associated with the borrowing. Subsequently, these are measured at amortized cost using the effective interest rate method. Amortized cost is calculated by taking into account any issue cost



Notes to the financial statements (cont'd)

Summary of Accounting Policies

and any discount or premium on settlement. Finance charges, including premiums payable of settlement or redemption are accounted for on accrual basis and are added to the carrying amount of the instrument to the extent.

m) Trade and other payables

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

n) Retirement benefit obligations

The Entity provides retirement benefits for its employees. The scheme is funded by contributions from both the company and its employees. The company also contributes to the statutory National Social Security Fund (NSSF). This is a defined contribution scheme registered under the National Social Security Act.

o) Budget information

The budget for FY 2022-2023 was approved by the Board of Directors on 27th June 2022. 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.

In addition to the Basis difference, adjustments to amounts in the financial statements are also made for differences in the formats and classification schemes adopted for the presentation of the financial statements and the approved budget. A statement to reconcile the actual amounts on a comparable basis included in the statement of comparison of budget and actual amounts and the actuals as per the statement of financial performance has been presented



Notes to the Financial Statements (Cont'd)

Summary of Significant Accounting Policies

p) Comparative figures

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

q) 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, 2023.

5. Significant Judgments and Sources of Estimation Uncertainty

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

a) Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. The Entity 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 Entity. Such changes are reflected in the assumptions when they occur.

b) Useful lives and residual values

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

- The condition of the asset based on the assessment of experts employed by the Entity



Notes to the Financial Statements (Cont'd)

Summary of Significant Accounting Policies

- The nature of the asset, its susceptibility and adaptability to changes in technology and processes
- The nature of the processes in which the asset is deployed
- Availability of funding to replace the assets

c) 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 Entity did not have any offsetting arrangements in place during the reporting period.

d) Financial Risk Management

The Entity activities expose it to a variety of financial risks including credit and liquidity risks and effects of changes in foreign currency. The Entity'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 Entity does not hedge any risks and has in place policies to ensure that credit is only extended to customers with an established credit history.



Notes to the Financial Statements (Cont'd)

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

i) Credit risk

The Entity has exposure to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when due. Credit risk arises from cash and cash equivalents, and deposits with banks, as well as trade and other receivables and available-for-sale financial investments. 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 Entity. The amounts presented in the statement of financial position are net of allowances for doubtful receivables, estimated by the Entity's management based on prior experience and their assessment of the current economic environment.

The carrying amount of financial assets recorded in the financial statements representing the Entity maximum exposure to credit risk is made up as follows

	Fully performing	Impaired	Total
	Kshs.	Kshs.	Kshs.
At 30 June 2023			
Trade receivables	57,433,676	20,389,205	77,822,881
Bank balances	<u>84,209,025</u>	-	<u>84,209,025</u> (Excludes cash at hand)

At 30 June 2022			
Trade receivables	67,463,376	19,484,091	86,947,467
Bank balances at hand)	65,789,348	-	65,789,348 (Excludes cash

Less than 1 month between 1-3 months over 4 months Total

At 30 June 2023				
Trade Receivables	<u>16,219,553.85</u>	<u>977,528.35</u>	<u>60,625,799</u>	77,822,881
At 30 June 2022				
Trade receivables	<u>4,702,802</u>	<u>14,420,097</u>	<u>67,824,567</u>	86,947,467



Notes to the Financial Statements (Cont'd)

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 Entity has recognized in the financial statements is considered adequate to cover any potentially irrecoverable amounts.

ii) Liquidity risk management

Ultimate responsibility for liquidity risk management rests with the directors who have built an appropriate liquidity risk management framework for the management of the entity's short, medium and long-term funding and liquidity management requirements. The Entity manages liquidity risk through continuous monitoring of forecasts and actual cash flows

The table below represents cash flows payable by the Entity 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	between 1-3 months	over 4 months	Totals
At 30 June 2023				
Trade payables	<u>3,200,986</u>	<u>2,100,314</u>	<u>59,082,623</u>	64,383,923
At 30 June 2022				
Trade payables	9,452,306	3,852,014	53,096,361	66,400,681

e) Market risk

The board has put in place an internal audit function to assist it in assessing the risk faced by the entity on an ongoing basis, evaluate and test the design and effectiveness of its internal accounting and operational controls. Market risk is the risk arising from changes in market prices, such as interest rate, equity prices and foreign exchange rates which will affect the entity's income or the value of its holding of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return. Overall responsibility for managing market risk rests with the Audit and Risk Management Committee.

The company's Finance Department is responsible for the development of detailed risk management policies (subject to review and approval by Audit and Risk Management Committee) and for the day to day implementation of those policies. There has been no change to the entity's exposure to market risks or the manner in which it manages and measures the risk.



Notes to the Financial Statements (Cont'd)

i) Foreign currency risk

The Entity does not have transactional currency exposures

ii) Interest rate risk

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

iii) Management of interest rate

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

f) THE WATER SECTOR REFORMS

The Constitution of Kenya 2010 under the Fourth Schedule placed water and sanitation services to the County Governments. Similarly, the Water Act 2016 provides for the County Governments to establish Water Service providers. The County Assembly of Meru passed the Meru County Water and Sanitation Services Act 2014 to manage the provision of water and sanitation services within Meru County urban areas.

6	TURNOVER	2022-2023 Kshs	2021-2022 Kshs
	Water Revenue	162,707,875	153,713,175
	Sewer Revenue	32,783,321	25,866,266
	Other Revenue	15,848,104	9,987,902
	Bottled Water Revenue	7,170,868	7,688,379
		<u>218,510,168</u>	<u>197,255,722</u>

Other Revenue includes Reconnection penalties, customer connection repair charges



MERU WATER AND SEWERAGE SERVICES REGISTERED TRUSTEES

Annual Reports and Financial Statements for the year ended June 30, 2023

Notes to the Financial Statements (Cont'd)

7	OTHER INCOME	2022-2023	2021-2022
		Kshs	Kshs
	New connection fees	6,699,001	6,797,932
	Interest income	3,212,286	3,059,830
	Bowser water income	159,800	67,600
	Miscellaneous income	842,691	6,080,403
	Exhauster Revenue	6,429,700	3,685,900
	Deferred Income	2,787,637	3,247,413
	Gain on disposal	41,545	1,764,317
	Revenue Grants	-	3,579,746
	WSTF Liquidity Grant	-	15,250,747
		<u>20,172,659</u>	<u>43,533,889</u>
8	ADMINISTRATION AND ESTABLISHMENT EXPENSES		
	Salaries, Wages and Allowances	56,301,630	52,143,361
	Staff Welfare	11,765,941	11,105,839
	Repairs and Maintenance	1,922,186	6,291,306
	Office Supplies	2,122,236	1,774,144
	Training	6,025,193	6,873,171
	Motor Vehicle Running Expenses	3,484,982	3,708,411
	Telephone and Email	3,051,456	2,962,616
	Audit Fees	464,000	464,000
	Travelling and Subsistence	6,721,521	9,276,903
	Directors' Fees and Allowances	3,919,748	4,456,514
	Meetings and Conferences	506,020	1,284,460



MERU WATER AND SEWERAGE SERVICES REGISTERED TRUSTEES

Annual Reports and Financial Statements for the year ended June 30, 2023

Notes to the Financial Statements (Cont'd)

		2022-2023	2021-2022
		<u>Kshs</u>	<u>Kshs</u>
	Electricity and Generator expenses	785,034	442,939
	Advertising and Public Relations	967,465	1,134,846
	Donations and Subscriptions	388,900	280,100
	Social activities expenses	624,705	130,000
	Hospitality expenses	1,884,704	711,575
	Fees & Levies	2,958,329	6,129,491
	Security	1,903,567	1,958,000
	Personal Protective Equipment (PPE'S)	1,375,314	1,342,415
	Insurances	2,018,558	2,007,463
	Postage	-	58,134
	Increase in provision for doubtful debts	905,114	446,116
	Games & Sports - Wasca	1,060,405	2,507,480
	General Office Expenses	57,010	10,300
	Assorted Tools	464,940	668,175
a	Total Administration & Establishment Expenses	111,678,957	118,167,759
b	Depreciation	19,343,061	20,006,801
c	Amortization of intangible assets	1,884,694	2,620,804
		<u>132,906,712</u>	<u>140,795,364</u>



MERU WATER AND SEWERAGE SERVICES REGISTERED TRUSTEES

Annual Reports and Financial Statements for the year ended June 30, 2023

Notes to the Financial Statements (Cont'd)

	2022-2023	2021-2022
	<u>Kshs</u>	<u>Kshs</u>
9 SELLING AND DISTRIBUTION EXPENSES		
Salaries, Wages and Allowances	33,941,328	30,164,968
License fee	8,873,903	7,844,162
Repairs and Maintenance	2,766,887	1,632,958
Rehabilitation-sewer system	37,350	146,340
Assorted Tools	345,100	330,950
Travel and subsistence	1,935,741	1,657,550
Excise Duty	1,930,424	1,624,304
Office supplies	902,795	1,227,193
Operation & maintenance - pipelines	15,379,509	15,884,683
Electricity	14,132,675	11,664,835
Chemicals and laboratory expenses	6,109,047	3,991,276
Motor Vehicle Running Expenses	4,939,622	4,521,318
Bottling Plant Expenses	4,325,914	4,983,931
Minor works	4,520,324	11,756,545
Night flow measurements	90,000	336,200
Exhauster Expenses	3,352,551	1,714,875
Water Analysis	902,528	712,500
Non-revenue water activities	-	445,470
	<u>104,485,698</u>	<u>100,640,057</u>



Notes to the Financial Statements (Cont'd)

10	NET FINANCE COSTS	2022-2023 Kshs	2021-2022 Kshs
	Bank charges	136,703	368,399
		<u>136,703</u>	<u>368,399</u>

11	SURPLUS BEFORE TAXATION	2022-2023	2021-2022
	The surplus/(deficit) before taxation is stated after charging:		
	Depreciation	19,343,062	20,006,801
	Board of Directors emoluments	3,919,748	4,456,514
	Auditor's remuneration	464,000	464,000
	Net finance costs	136,703	368,399
	Interest income	3,212,286	3,059,830

12 TAXATION

a) Corporate Tax

The Entity's current tax charge is computed in accordance with income tax rules applicable on surplus generated during the year.

	2022-2023 Kshs	2021-2022 Kshs
Surplus as per the accounts	1,153,715	(1,014,208)
Add: Non allowable expenses	22,808,738	23,439,750
	23,962,453	22,425,542
Less: Allowable expenses	(21,274,708)	(25,977,649)
deferred income for the year	(2,787,637)	(3,247,413)
Taxable income	(99,891)	(6,799,521)
Corporate Tax	(29,967)	(2,039,856)

b) Taxation paid

	2022-2023 Kshs	2021-2022 Kshs
Withholding tax on interest income	481,843	458,975
Corporate Tax	-	3,438,459
	481,843	3,897,434



MERU WATER AND SEWERAGE SERVICES REGISTERED TRUSTEES

Annual Reports and Financial Statements for the year ended June 30, 2023

Notes to the Financial Statements (Cont'd)	2022-2023	2021-2022
c) Tax Asset	<u>Kshs</u>	<u>Kshs</u>
This represents Tax payments to the Kenya Revenue Authority as at the end of the financial year. The Entity has recognised principal Taxes and no interest and Penalties. The application for waiver of interest and Penalties is pending with the KRA.	<u>14,851,484</u>	<u>14,339,674</u>
d) Surplus/ (Deficit) after Taxation	<u>1,183,682</u>	<u>1,025,648</u>
e) Equity as at 30th June 2023	<u>205,881,626</u>	<u>204,697,944</u>



MERU WATER AND SEWERAGE SERVICES REGISTERED TRUSTEES

Annual Reports and Financial Statements for the year ended June 30, 2023

Notes to the Financial Statements (Cont'd)

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.
COST/VALUATION												
At 1st July 2021	7,507,945	14,386,226	16,722,534	43,569,087	6,750,112	77,578,634	9,731,669	81,880,748	126,399,167	19,344,974	403,871,097	
Additions	-	-	815,802	1,576,550	-	8,344,915	565,400	7,662,078	-	11,288,090	30,252,835	
Capitalized WIP	-	-	-	-	-	-	-	10,118,984	-	(10,118,984)	-	
Disposal	-	-	-	(7,831,798)	-	-	-	-	-	-	(7,831,798)	
At 30th June 2022	7,507,945	14,386,226	17,538,336	37,313,840	6,750,112	85,923,549	10,297,069	99,661,810	126,399,167	20,514,080	426,292,134	
At 1st July 2022	7,507,945	14,386,226	17,538,336	37,313,840	6,750,112	85,923,549	10,297,069	99,661,810	126,399,167	20,514,080	426,292,134	
Additions	-	-	901,981	1,261,240	-	6,101,948	3,050,224	9,000	-	2,823,459	14,147,852	
Capitalized WIP	-	-	-	-	-	-	2,380,700	1,074,836	-	(3,455,536)	-	
Disposal	-	-	(127,585)	-	-	-	-	-	-	-	(127,585)	
At 30th June 2023	7,507,945	14,386,226	18,312,732	38,575,080	6,750,112	92,025,497	15,727,993	100,745,646	126,399,167	19,882,003	440,312,401	



Notes to the Financial Statements (Cont'd)

Property, plant and equipment worth Kshs 19,269,448 donated to Meru Water and Sewerage Services at Inception by the Government of Kenya and the Government of Japan are included in these financial statements. These include computers, furniture and fittings, laboratory equipment, motor vehicles and motor cycles, office and workshop equipment and water meters. Assets of an undetermined value which were originally under the Meru Municipal Council and the then Ministry of Environment and Natural Resources are not included in these accounts. These include all distribution and storage tanks, structures and works at the water treatment plant, buildings, water pipes network, master meters, structures and works at the sewer treatment, sewerage conduit pipes networks and all the land on which these items are constructed. The Entity utilizes all these assets to provide water and sewerage services to the residents of Meru Municipality and its environs.

		2022-2023	2021-2022
14	INTANGIBLE ASSETS	<u>Kshs</u>	<u>Kshs</u>
	COST		
	At July 1	19,387,393	19,298,995
	Additions	167,104	88,398
	At June 30	19,554,497	19,387,393
	AMORTISATION		
	At July 1	13,272,183	10,651,379
	Charge for the year	1,884,694	2,620,804
	At June 30	15,156,877	13,272,184
	NET BOOK VALUE		
	At June 30	<u>4,397,620</u>	<u>6,115,210</u>

15	INVENTORIES	2022-2023	2021-2022
		<u>Kshs</u>	<u>Kshs</u>
	Pipes and fittings	3,260,767	3,438,018
	Electrical fittings	4,730	-
	Chemicals	517,104	797,232
	Other items	770,050	965,897
		<u>4,552,650</u>	<u>5,201,148</u>



MERU WATER AND SEWERAGE SERVICES REGISTERED TRUSTEES

Annual Reports and Financial Statements for the year ended June 30, 2023

Notes to the Financial Statements (Cont'd)

16	RECEIVABLES AND PREPAYMENTS	2022-2023	2021-2022
		<u>Kshs</u>	<u>Kshs</u>
	Trade receivables	77,822,881	86,947,467
	Provision for doubtful debts;		
	-Dormant accounts	(14,007,685)	(11,988,160)
	-General	(6,381,520)	(7,495,931)
		57,433,676	67,463,376
	Other receivables, deposits and prepayments	5,907,460	14,131,441
		63,341,136	81,594,817

17	CASH AND CASH EQUIVALENTS	ACCOUNT NO.	2022-2023 Kshs	2021-2022 Kshs
	Cash in Hand		5,370	4,605
	Cash at Bank	Standard Chartered bank	0102063431800	22,757,257
		Equity Bank Limited	1040299452042	5,432,846
		Mpesa Collection account	918350	552,558
	Fixed Deposits	Equity Bank Limited	1040384067705	3,466,364
		Equity Bank Limited	1040384251185	50,000,000
		Equity Bank Limited	1040384319708	2,000,000
			84,214,395	65,793,953



MERU WATER AND SEWERAGE SERVICES REGISTERED TRUSTEES

Annual Reports and Financial Statements for the year ended June 30, 2023

Notes to the Financial Statements (Cont'd)

18	GRANT	2022-2023 Kshs	2021-2022 Kshs
	Balance as at 1st July	692,155	791,245
	Less: Transfer to Revenue Reserves	(82,159)	(99,090)
	Balance at 30th June	609,996	692,155

19. CONSUMER DEPOSITS

These are refundable deposits paid by customers.

The deposits are refunded when water services to a customer are terminated.

2022-2023 Kshs	2021-2022 Kshs
50,681,361	<u>49,372,468</u>

20	PAYABLES AND ACCRUALS	2022-2023 Kshs	2021-2022 Kshs
	Trade payables	69,402,233	70,197,227
	Other payables and accruals	44,818,375	50,673,561
		<u>114,220,608</u>	<u>120,870,788</u>

21	STAFF COSTS	2022-2023 Kshs	2021-2022 Kshs
	Staff costs include:		
	Contribution to retirement benefit scheme	5,691,214	5,178,063
	Contribution to statutory pension scheme	728,000	250,800
	Contribution to benevolent fund	126,300	118,400
	Other salaries, wages and allowances	60,437,049	56,967,456
		<u>66,982,563</u>	<u>62,514,719</u>



Notes to the Financial Statements (Cont'd)

22	COMPENSATION OF KEY MANAGEMENT PERSONNEL	2022-2023 Kshs	2021-2022 Kshs
	Basic salary	13,303,668	10,329,369
	Other allowances	5,832,603	6,059,484
	Retirement benefits	4,124,127	3,404,758
		<u>23,260,398</u>	<u>19,793,611</u>

23. NUMBER OF EMPLOYEES

The total number of employees as at 30th June 2023 were 108 composed of 64 on permanent and 44 on short term contract.

2022-2023	2021-2022
108	103

24	DEFERRED GRANT INCOME	2022-2023 Kshs	2021-2022 Kshs
	Balance bfwd	27,253,634	30,401,957
	Capitalized grants	(2,705,478)	(3,148,323)
		<u>24,548,156</u>	<u>27,253,634</u>

25. CONTINGENT LIABILITIES

The Entity has a Kshs.17,853,494 claim in respect of a Land ownership dispute where Water Treatment /Storage Tanks are located. The Entity is vigorously defending itself through the court.

The Entity lawyers are defending the Trust. A provision has been made in these accounts for this claim.

2022-2023 Kshs	2021-2022 Kshs
17,853,494	17,853,494



Notes to the Financial Statements (Cont'd)

26. Incorporation

Meru Water & Sewerage Services Registered Trustees (MEWASS) is incorporated under the Trustees (Perpetual Succession) Act Cap 164, of the Laws of Kenya

27. Events After The Reporting Period

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

28. Currency Risk

The Entity operates wholly within Kenya and its assets and liabilities are reported in the local currency. The Entity held no foreign currency as at 30th June 2023

29. Currency

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



20. Appendices

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.

Ref: No.	Issue or observations From Auditor	Management Comments	Status (Resolved/ Not Resolved)	Time Frame
1.0	<p>Long Outstanding Trade Receivables</p> <p>Note 16 to the financial statements reflects gross trade receivables balance of Kshs.86,947,467 which includes balances totaling Kshs.71,444,986 that fell due between the years 1992 and 2005. The Management has however, not provided evidence of efforts to recover or write off the overdue debts, contrary to Section 83(2)(f) of the Public Finance Management (County Governments) Regulations, 2015 which requires that entities pursue debtors with appropriate sensitivity and rigor to ensure that amounts receivable by the county government are collected and banked promptly.</p> <p>In the circumstances, the recoverability of the receivables balance of Kshs.71,444,986 could not be confirmed.</p>	<p>The management admits the query and states that in order for MEWASS to improve its debt collection various strategies have been deployed to address the issue which includes establishing a debt collection unit, disconnection of water services for non-payment and issuance of demand notices to the defaulting customers. Additionally, customers who had outstanding debts were engaged and entered into debt settlement plans.</p>	Not-Resolved	30/06/2024



Progress on follow up of auditor recommendations (Cont'd)

2	<p>Un-valued Land The statement of financial position reflects property, plant and equipment balance of Kshs.229,842,188 which includes land balance of Kshs.7,507,945 as disclosed in Note 13 to the financial statements. The land includes two parcels of land measuring (0.101 Ha) each and valued at Kshs.340,000 and Kshs.3,300,000, which were bought in 2013 and 2014 respectively. The valuation certificates were however, not provided for audit review. In the circumstance, the accuracy and valuation of the Kshs.3,640,000 comprising of Kshs. 340,000 and Kshs.3,300,000 could not be confirmed.</p>	<p>The management admits that the value attached to the land is the purchase price hence historical in nature. In order to have present value of the land, the management wrote to the County Land Valuer for the purpose of undertaking valuation of the land.</p>	Not-Resolved	30/06/2024
	<p>Other Matter</p>			
1	<p>Budgetary Control and Performance. The statement of comparison of budget and actual amounts reflects final receipts budget and actual on comparative basis of Kshs.247,542,187 and Kshs.240,789,611 respectively, resulting to under collection of Kshs.6,752,576 or 3% of the budget. Similarly, the Company expended Kshs.242,262,794 against a budget of Kshs.247,542,187 resulting to under-expenditure of Kshs.5,279,393 or 2% of the budget. Based on the approved estimates, under funding and expenditure affected the planned activities and may have impacted negatively on service delivery to the public.</p>	<p>The budget for the financial year 2021-2022 was prepared on the assumption that more raw water would be available for production and distribution to the customers hence generate revenue as projected. However, due to factors beyond control of the entity like changes in climatic conditions the water available for production and distribution was affected thus revenues not achieved as budgeted. The budgeted expenditure for the year was based on the revenues which were expected to be earned. However, due to revenues not earned there was a resultant under expenditure of 2%.</p>	Not-Resolved	30/06/2023



Progress on follow up of auditor recommendations (Cont'd)

	Issue or observations From Auditor	Management Comments	Status (Resolved /Not Resolved)	Time Frame
1	<p>Non-Compliance with Staff Ethnic Diversity-Review of the staff establishment provided for audit revealed that the Company had a staff establishment of one hundred and four (104), out of which 97 or 93% were from the dominant ethnic community. This is contrary to Section 7(2) of the National Cohesion and Integration Act, 2008 which states that no public establishment shall have more than one third of its staff from the same ethnic community. Further, Note 23 to the financial statements, on number of employees reflects 103 employees while the staff establishment reflects 104 employees resulting to a variance of one (1). In the circumstances, Management was in breach of the law. In addition, the actual number of employees could not be confirmed.</p>	<p>The management takes cognizant of Section 7(1) and (2) of the National Cohesion and Integration Act, 2008. This is attested by placing job openings in newspaper of national wide circulation in order to give qualified Kenyans equal opportunity to apply</p>	<p>Not Resolved</p>	<p>30/06/2023</p>



MERU WATER AND SEWERAGE SERVICES REGISTERED TRUSTEES

Annual Reports and Financial Statements for the year ended June 30, 2023

Progress on follow up of auditor recommendations (Cont'd)

<p>2</p>	<p>Non-Compliance with Fiscal Responsibility Principles on Wage Bill The statement of profit or loss and other comprehensive income and as disclosed in Notes 8 and 9 to the financial statements reflects amounts of Kshs.52,143,361 and Ksh.30,164,968 in respect to staff salaries and wages respectively. The salaries and wages totaled to Kshs.82,308,329 which is 34% of the operation and maintenance cost of 241,435,421. The expenditure was incurred contrary to provisions of Paragraph 3.2 of the performance report of Kenya's Water Service Sector 2020/2021 from WASREB, issue Number 14/2022 on Performance Analysis and Ranking under economic efficiency which states that the personnel expenditure for any Company ranked as large Company should not exceed 30% as percentage of Operation and Maintenance Cost. The Management was therefore in breach of the law.</p>	<p>The management is committed to work towards lowering the percentage of personnel emoluments as recommended by the Water Services Regulatory Board. This will be made possible by scouting for more water sources and distributing it to the customers hence increase the revenues.</p>	<p>Not Resolved</p>	<p>30/06/2024</p>
----------	--	---	---------------------	-------------------



MERU WATER AND SEWERAGE SERVICES REGISTERED TRUSTEES

Annual Reports and Financial Statements for the year ended June 30, 2023

Progress on follow up of auditor recommendations (Cont'd)

Ref	Issue or observations From Auditor	Management Comments	Status (Resolved/Not Resolved)	Time Frame
3.0	<p>Use of Old Water Tariffs-Review of the revenue records revealed that the Company billed customers based on tariffs approved on 18 July, 2014 through the Kenya Gazette Notice No.4984 which were to be applied from 2014 to 2017. The Management has however, not changed the tariffs five (5) years since the expiry of the old approved tariffs. The Company has not proposed new water tariffs for approval by the Regulatory Board. In the circumstances, the tariffs charged are irregular since the same have not been approved.</p>	<p>The management states that the Water Services Regulatory Board categorizes MEWASS as large water service provider by virtue of having water connections exceeding 10,000 (Ten Thousand). This category requires that for any tariff review, there has to be a social economic survey conducted. MEWASS engaged a consultant who is at the tail end of completing all the required processes towards tariff review. The application for the tariff review will be forwarded to the regulator who is expected to review and advise MEWASS to conduct Stakeholders' consultation. The management informs the committee that an advert for the tariff review consultancy was placed in the newspapers</p>	Not Resolved	30/06/2024

Patrick Mugendi
Ag. Chief Executive Officer
Date.27/09/2023