REPUBLIC OF KENYA

COUNTY GOVERNMENT OF KITUI

THE COUNTY ASSEMBLY

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FIRST ASSEMBLY- FOURTH SESSION

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PUBLIC INVESTMENTS AND ACCOUNTS COMMITTEE

REPORT

ON THE AUDITED FINANCIAL STATEMENTS OF THE LOCAL WATER COMPANIES FOR THE 2014/2015 FINANCIAL YEAR

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LIST OF ABREVIATIONS / ACRONYMS

KITWASCO-	Kitui Water and Sanitation Company
KIMWASCO-	Kiambere - Mwingi Water and Sanitation Company
MWI-	Ministry of Water and Irrigation
WARMA-	Water Resources Management Authority
WSRB-	Water Services Regulatory Board.
WSP-	Water Service Providers
WAB-	Water Appeals Board
WSTF -	Water Services Trust Fund
TAWSB-	Tanathi Water Services Board (TAWSB)
PIAC-	Public Investments and Accounts Committee
UFW-	Unaccounted For Water
PIC-	Public Investments Committee
PAA-	Public Audit Act
EACC-	Ethics and Anti-Corruption Commission
PPDA-	Public Procurement and Disposal Act
FY-	Financial Year
Hon-	Honourable
MCA-	Member of County Assembly
A G-	Auditor-General
PSASB-	Public Sector Accounting Standards Board
IFRS-	International Financial Reporting Standards.
IPSASB-	International Public Sector Accounting Standards (Accrual Basis)
PFMA-	Public Finance Management Act
NRW-	Non-Revenue Water
CIS-	Customer Information System

GLOSSARY OF TERMS

Non-Revenue Water-Water that has been produced and is “lost” before it reaches the customer.

Unaccounted-For-Water- The difference between the quantities of water supplied to the network and the metered quantity of water used by the customers. This definition relates to Non-Revenue Water.

Revenue Water- Refers to the volumes of water that are billed during the reference period, regardless of whether those bills are paid or not by the customers.

Access To Water- The proximity to a water source by the community. “A household is considered to have access to improved water supply if it has sufficient amount of water for family use, at an affordable price, available to household members without being subject to extreme effort, especially to women and children.

Water Scarcity- Lack of sufficient available water resources to meet the demands of water usage within a region.

Improved Sanitation Facilities- Defined as including connection to a sewer or septic tank system, pour-flush latrine, simple (or double) pit or ventilated, improved pit latrine, again allowing for acceptable local technologies.

Sanitation- Defined as an access to, and use of, excreta and wastewater facilities and services that ensure privacy and dignity, ensuring a clean and healthy environment.

Collection Efficiency- The percentage of the total amount billed that is collected, i.e. amount collected divided by amount billed.

Consumption -The volume of water that can be accounted for by legitimate use, whether metered or not.

Water Losses-The difference between system input volume and authorized consumption.

Waste-Water- Arises from wasteful use by the consumer or from defective fittings. It occurs as customer side leakage and as such is not part of UFW/NRW.

Billed Metered Consumption- Is an authorized consumption that is directly measured. It is the quantity of water that is metered and generates revenues through the periodic billing of the consumer.

Billed Un-metered Consumption-Is an authorized consumption that is based on an estimate or flat fee. This billing method is used for customers that do not have meters. Estimated use is often based on historical or average use data. The fee may vary for different types of customers such as residential or industrial.

Unbilled Authorized Consumption-Consists of known uses, condoned by the utility, for which no revenue is received. Unbilled authorized consumption can be either metered or un-metered. Unbilled authorized consumption is shown in yellow in Figure 2-1. Some examples might include filling city street cleaner trucks or a city swimming pool, flushing water lines or sewers, or water used by the fire department. All are legitimate water uses, with the full cognizance of the utility.

Unbilled Metered Consumption-Is that quantity of water that does not generate revenues but which is accounted and not lost from the system. Water used in the treatment process or water provided without charges are examples of these quantities. The PWS does not bill a charge for this water.

PREFACE

Hon. Speaker;

On behalf of the Members of the Public Investments and Accounts Committee (PIAC), I beg to move the adoption of the Report of the Committee on the audited financial statements of the Kitui Water and Sanitation Company (KITWASCO) and Kiambere - Mwingi Water and Sanitation Company (KIMWASCO) for the 2014/2015 Financial Year.

KITWASCO and KIMWASCO were established/incorporated in 2006 and 2009 respectively under the Companies Act CAP 486 of the laws of Kenya.

In Section 5 of the Public Finance Management Act (PFMA), 2012 and Section 200 PFM County Governments) Regulations, 2015, the two utilities are defined as County Corporations and their functions are devolved as set out in Part II of the Fourth Schedule of the constitution (2010).

Their core functions, as outlined in their mission statements, are extending water supply and sanitation services by continually improving and expanding water and sanitation infrastructure and attaining self-financial sustainability through expansion of customer base and appropriate costing of the services rendered.

As public utilities, the two companies must adhere to the fiscal responsibility principles espoused in Article 201(a), (d) and (e) of the Constitution and ensure public money is applied lawfully and in an effective way.

They must also adhere to Article 227 of the Constitution (on public procurement) & Public Procurement and Disposal Act, 2015, the budgeting process as guided by Section 128 of PFMA, 2012, the provisions of the Companies Act, 2015 in as afar as corporate governance is concerned and Water Act, 2002 and Water Service Regulations, 2007.

THE KEY INSTITUTIONS IN THE WATER SECTOR

Hon. Speaker,

KITWASCO and KIMWASCO are classified as Water Service Providers (WSPs). This is under the existing Institutional and Legal Framework for Water Management and Monitoring Mechanisms.

The decentralized framework which resulted from the Water Act of 2002 describes the WSPs as state-owned utilities but which are commercialized to improve performance and run like businesses within a context of efficiency, operational and financial autonomy, accountability, and strategic, but authorized to undertake minor investments.

They actually offer direct provision of water and sewerage services as agents of the Water Services Boards. The WSPs may be community groups, non-governmental organizations (NGOs), autonomous entities established by the Local Authorities or private sector. The Water Services Trust Fund (WSTF) assists in financing the provision of water services to areas without adequate water services.

Other bodies created under the framework with explicit roles and responsibilities which are relevant to the findings, observations and recommendations by the committee include;

- The Ministry of water and irrigation (MWI) - Responsible for policy development and implementation, sourcing finances, supervision of water sector institutions.
- The Water Resources Management Authority (WRMA) - Responsible for regulation of Water Resources issues such as water allocation, source protection and conservation, water quality management, and pollution control.

- The Water services regulatory board (WSRB) - Responsible for regulation of water and sewerage services provision, including issuing license, setting service standards and guidelines for tariffs and price, providing mechanisms for handling complaints.

- The Water services board (WSB) - Licensed by the WSRB to be responsible for the efficient and economical provision of water and sewerage services within its area of jurisdiction. The WSB is the asset developer and holder. It is the responsibility of the WSB to develop and give the assets to the service providers to use and maintain for the provision of services. However, direct provision of water and sewerage is undertaken by water service providers (WSPs) which are agents of WSBs except where the WSRB is satisfied that the procurement of such agents is not possible or that provision of services by such agents is not practicable.

- The Water appeals board (WAB) - Responsible for the determination of appeals and disputes.

COMMITTEE MANDATE

The Public Investments and Accounts Committee is established pursuant to the provisions of Standing Order No. 185 with the following terms of reference:-

- **To examine the reports and financial statements of the public investments;**
- **To examine the reports, if any, of the Auditor - General on the public investments; and**
- **To examine, in the context of the autonomy and efficiency of the public investments, whether the affairs of the public investments are being managed in accordance with sound financial or business principles and prudent commercial practices**

In discharging its function, the Committee was guided by the following laws and regulations;

- ✓ The Public Finance Management Act, 2012,
- ✓ Public Finance Management, (County Governments) Regulations, 2015,
- ✓ Public Audit Act, 2015,
- ✓ Public Procurement and Disposal Act, 2015,
- ✓ Proposed Public Procurement and Disposal Regulations, 2016
- ✓ The Water Act, 2002, Companies Act, 2015,
- ✓ Corporate Governance Guidelines for Water Companies,
- ✓ County Assembly Standing Orders and
- ✓ The Constitution of Kenya.

Hon. Speaker,

The Reports of the Auditor-General on the Audited Financial Statements of KIMWASCO and KITWASCO were laid before the House on 27th July 2016 and 20th September 2016 respectively and thereafter referred to the Public Investment Committee (PIC) for consideration and report writing in line with the County Assembly Standing Order No. 179.

While interrogating the Reports, the committee noted that the Auditor-General delivered an adverse opinion on KITWASCO. This means that there are so many fundamental misstatements in the accounts that they are completely wrong and misleading.

KIMWASCO on its part received a Qualified Opinion which implies that the financial statements are fairly presented except that there are specific material misstatements, such as an incorrect accounting policy, debtors which are not recoverable, an undisclosed fraud or insider loan, unsupported & unauthorized expenditures.

COMMITTEE MEMBERSHIP

As currently constituted, the Committee consists of the following Members:

1)	**Hon Robinson Mativo,**	**MCA**	**-Chairperson**
2)	**Hon. Phoebe Kisee,**	**MCA**	**-Vice Chairperson**
3)	**Hon Mwendwa Munyoki**	**MCA**	**-Member**
4)	**Hon. Hussein Mwandia,**	**MCA**	**-Member**
5)	**Hon. Peter Mutemi,**	**MCA**	**-Member**

PROCEEDINGS OF THE COMMITTEE

The Committee held ten (10) Sittings in which it closely examined the audited financial statements and the Reports thereon by the Auditor General for the Financial Year (FY) ended 30 June 2015.

In its inquiry into whether or not the affairs of the public investments were managed in accordance with sound business principles and prudent commercial practices, the Committee heard and received both oral and written evidence from the Managing Directors (Accounting Officers) of the two water companies and other relevant witnesses.

The recommendations on the issues raised by the Auditor General for the two Corporations are found under appropriate sections of the Report of each particular company.

These Observations and Recommendations, if taken into account and implemented, will enhance accountability, effectiveness, transparency, efficiency, prudent management, commercial viability and value for money in County Corporations and the public investments sector as a whole.

The records of evidence adduced, documents and notes received by the Committee form the basis of the observations and recommendations of the Committee as outlined in the Report and can be obtained in the Minutes of the Committee proceedings hereto annexed.

THE CHALLENGES FACED BY THE COMMITTEE WHILE EXECUTING ITS FUNCTION

(a) Some auditees appeared before the Committee with very little information which was unhelpful to the committee in its bid to do a complete investigation.

(b) The unacceptable behavior of certain witnesses who appeared before the Committee to plead or fake ignorance of the queries they were being asked to respond to which prolonged the sittings.

(c) Failure to furnish the Auditor-General's office with advance copies of written responses on the audit queries. This was necessary so as to allow the auditors ample time in scrutinizing the responses and preparing briefing notes required for effective interrogation of witnesses on issues raised by the Auditor-General. For instance, KITWASCO had not submitted their answers by the time they appeared before the committee on 13th October 2016. That made the proceedings to end prematurely as the auditors could not prosecute their part efficaciously without reference points. The Committee holds the view that this is reprehensible conduct that compromises the audit cycle, and must be strongly discouraged by all means.

(d) The inability by the Auditor-General to release audit reports on time. The committee is concerned that presentation of the reports to the County Assembly is always late on a cyclical basis. This challenge undermines effective interrogation of the reports. However, the committee acknowledges that the delay in publication of the reports is due to resource constraints.

(e) Inadequate budget. This affects the committee's work especially with regard to Report Writing as insufficient days are allocated for huge workload. This subjects the members and secretariat to mental and physical strain as they are forced to work overdrive and at very odd hours to meet deadlines.

COMMITTEE RECOMMENDATIONS

a) **When appearing before the PIAC for interrogation in relation to audit queries, Accounting Officers should be fully equipped with complete records and information. Additionally, they must ensure that the audit service is issued with advance copies of written responses to allow for ample time in examination of the same.**

b) **By the nature of its very complex, sensitive and demanding mandate and the fact that it occupies a heightened status within the overall financial scrutiny framework, PIAC must be accorded special treatment in terms of resource allocation. The number of days allocated for report writing retreats should be commensurate with volume of work to be undertaken.**

c) **There is need for the Auditor-General's office to be adequately resourced in terms of funds and personnel to improve its performance and timely submission of audit reports as required under Article 229 (4) of the constitution.**

These challenges notwithstanding, though, PAC is nonetheless proud to have discharged its mandate with honor and valor, as expected of it by the Constitution, Standing Orders, customs and traditions of this Honourable House.

COMMITTEE GENERAL OBSERVATIONS AND RECOMMENDATIONS

Firstly, the committee wishes to state that finalization of audit reports does not mark the end of accountability process as such reports will have practical value only if the relevant authorities address the pertinent issues raised.

Failure to implement suggestions and recommendations on audit reports by PIAC undermines the oversight role of the County Assembly. In that regard, the committee takes great exception to the slow pace at which the recommendations of this House arising from the previous audit reports (for the FY 2011/2013, 2014/2015) are being implemented by the County Executive (various county ministries/departments), the Ethics and Anti-Corruption Commission (EACC) and other government agencies.

The committee holds the view that the functions of legislative oversight should advance beyond mere investigation and recommendation. Thus, there is need for this House to ensure that recommendations of committees which after adoption becomes resolutions of the County Assembly are fully implemented by the authorities' concerned if meaningful progress in the fight against corruption is to be realised.

It is therefore imperative for this House to ensure that the Committee on Implementation whose mandate is to follow up and enforce implementation of the decisions/resolutions passed by the County Assembly takes its work more seriously.

To deliver on its function, the committee should invoke the relevant law(s) to get things done. Part (3) of Standing Order 188 states that ''the committee may propose sanctions against any member of the county executive committee who fails to report to the relevant select committee on implementation status without justifiable reasons''.

Further, Section 53(1) of the Public Audit Act (PAA), 2015 states that '' the relevant accounting officer of a state organ or public entity shall within three months after parliament has considered and made recommendations on the audit report-

(a) Take the relevant steps to implement the recommendations of parliament on the report of the Auditor-General; or

(b) Failure to comply with the provisions of subsection (1), the accounting officer shall be in contempt of parliament or county assembly and upon determination by parliament or relevant county assembly, parliament or relevant county assembly may recommend administrative sanctions such as removal as the accounting officer, reduction in rank among others.

Section 31 (1) of PAA states that within three months after parliament or the county assembly has debated and considered the final report of the Auditor General and recommendations, a state organ or a public entity that had been audited shall, as a preliminary step, submit a report on how it has addressed the recommendations and findings of the previous year's audit.

Hon. Speaker,

The 1st Annual Report of PIC has closely examined and scrutinized audited financial statements of the two (2) water companies. In its examination and scrutiny of the audited financial statements of the utilities, the

Committee's primary approach was to elicit background information as to why particular course of financial and/or management actions were or were not taken.

This was done keeping in mind the relevant public financial management principles, public finance regulations, public procurements and asset disposal legislation, public procurement & asset disposal regulation, International Public Sector Accounting Standards (IPSAS) and International Financial Reporting Standards (IFRS) relevant for commercial county/state corporations.

The Committee was also guided by the mandate and objectives that each of the Corporation is expected to achieve.

From the proceedings, evidence taken, and subsequent deliberations, the Committee wishes to draw attention to the following general observations.

DELAY IN AVAILING DOCUMENTS TO THE AUDITOR- GENERAL

The Auditor General issues management letters to Accounting Officers to take action on audit queries before the final audit report is produced. However, The Committee observed that there were several cases where the management of the companies failed to act on the letters or acted late, leading to audit queries that would have otherwise been avoided.

Frivolous reasons given for this delay include: poor record keeping or no record kept, documents could not be traced at the time of audit, documents are with line ministry or agency and documents were not ready at time of audit. This delay provides an opportunity for manipulation of documents by rogue officers, encourages 'creative' accounting practices in the public sector and delays the finalization of audit reports at the expense of the Kenyan public.

The Committee recommends that:-

(a) **The management (Accounting Officers) must at all times comply with the audit timelines as specified in Section 68(k) of the PFM Act 2012 and must take appropriate measures to resolve any issues arising from audit which may remain outstanding as required by Section 68(l) of the PFM Act 2012.**

(b) **The management (Accounting Officers) who submit or delay the submission of audit documents be held personally liable and be surcharged for such delays.**

(c) **In future, the Committee will name and shame Accounting Officers who do not take the audit process seriously, especially those who fail to act on its directives and the Auditor General's management letters. The committee will hold them personally responsible, with the attendant sanctions. Conversely, the Committee will duly commend the best performers.**

NON-COMPLIANCE TO THE PUBLIC SECTOR ACCOUNTING STANDARDS BOARD (PSASB) REGULATIONS

The Kitui Water and Sanitation Company (KITWASCO) did not company with the guidelines set by the Public Sector Accounting Standards Board while preparing its annual financial statements. The regulations require companies incorporated under the Companies Act to prepare their financial statements using the International Financial Reporting Standards (IFRS) but the company management opted for the International Public Sector Accounting Standards (Accrual Basis) hence violating PSASB guidelines as stated by the Auditor-General.

The committee faulted the company management for preparing its accounts based on unrecommended standards and recommends that going forward the company should always ensure its Financial Statements are prepared in accordance with internally accepted standards for the sake of credibility.

POOR KEEPING OF ACCOUNTING RECORDS

This was more prevalent at KITWASCO. The weak and inadequate maintenance of accounting records affects the audit cycle as verification of documents in support of certain payments/expenditures is made impossible. For instance, the management was initially not in a position to produce supporting documents in respect of a Ksh 1.5 million contract entered between the management and computing development strategies for supply of a billing software and expenditures totaling Ksh 3,938,267 incurred in respect of transport, subsistence and entertainment allowances paid to company staffs. The Company was also on the spot for failing to keep proper records of debtors amounting to Ksh 16,322,542. These debtors were inherited from the National Water Conservation and Pipeline Corporation in 2006 and most of whom remain unknown.

The committee observed that poor recording keeping affects the entire accounting function, with the result that reporting and auditing may become virtually impossible. Fraud becomes difficult to detect. Debt management also suffers because the records of borrowing may be held by a different government offices or may be incomplete. Virtually all approaches to improved financial management rely upon more efficient use of information, but these approaches cannot succeed if financial records are badly managed.

The Committee observed that in some instances, the unavailability of accounting documents was not genuine but intended to cover up for malpractices.

It further observed that lack of proper documentation of the debtors exposed the company to possible loss through bad debts.

The committee strongly recommends that the management should institute measures to ensure that proper record keeping systems are put in place failure of which those responsible should be sanctioned for negligence of duty. The management should bear in mind that Auditor-General is empowered by the constitution to have free access, at reasonable times, to all accounting documents/records held by public institutions.

WEAK FINANCIAL PERFORMANCE

The Auditor-General reported that KITWASCO'S overall financial performance during the year under review appeared wanting as its revenue went down by Kshs.3,259,831 from Kshs.100,591,107 to Kshs.97,331,276 even as its current liabilities went up by Kshs.10,832,027 from Kshs.36,153,508 to Kshs.46,985,535. He observed that ''this trend, if not reversed, does not augur well for the company's future''.

The Committee observed that the weak financial performance of the company is attributable to inept management and ineffective work force among other factors.

The Committee recommends that:

(a) **The County Government through the line ministry of Agriculture, Water and Irrigation liaises with Tanathi Water Services Board (TAWSB) to ensure that the two underperforming utilities are restructured to improve efficiency for the benefit of the taxpayers and to address their future commercial viability and the required financial and management resources.**

(b) **The two water companies should put in place strategies for their independent financial sustainability and continued financial existence.**

NON-REVENUE WATER

Both companies experienced high levels of Unaccounted for Water (UFW) now better known as Non-Revenue Water (NRW). The Auditor-General reported that out of the 2,667,185 cubic meters of water produced by KITWASCO, 1,093,181 cubic meters was consumed resulting to NRW of 1,574,004 cubic meters or 59 % which is 34 % over and above the internationally tolerated set guidelines of up to 25%.

KITWASCO, on its part, produced 539,558 cubic meters with the volume billed to customers being 316,483 cubic meters. This, resulted in NRW of 223,075 cubic meters or 41 %.

The huge volumes of water lost resulted in loss of sales estimated at Kshs.98, 260,395 for KITWASCO and Kshs.19, 697,523 for KIMWASCO which totaled Ksh 117,957,918.

The Auditor-General sounded an alarm that '' the significant level of UFW may negatively impact on the Companies' profitability and their long term service sustainability''

The committee attributed the high level of UFW and its continued persistence to physical (or technical) losses and administrative (or commercial) losses. It opined that the physical losses occurred largely through leakage brought about by the ageing pipes and storage tanks while administrative losses resulted from illegal connections; lack of leak detectors; defective and nonfunctional meters; flat rate tariff due to lack of meters; inefficient, incorrect and false meter readings and billings.

The committee also observed that the existing water supply networks (i.e. piping) inherited from previous undertakers must have long passed their economic life hence increasing Non-Revenue Water through frequent bursts and leakages.

It was further observed as follows, that;

- The high NRW level was a surrogate for poorly run water utilities that lacked the governance, the autonomy, the accountability, and the technical and managerial skills necessary to provide reliable service.
- The two utilities lacked adequate monitoring systems for assessing water losses and regional reporting systems that would collect and consolidate information on water utility performance.
- The companies are behind the rapidly advancing technology in Automatic Meter Reading (AMR) Systems and Automated Metering Infrastructure (AMI) which offers outstanding capabilities to water utilities in improving their efficiency in capturing customer consumption data, identifying wasteful usage and leakage, and other enhancements to improve revenue capture and manage water and revenue losses.

- Reduction of the high water losses was critical to efficient resource utilization, efficient utility management, enhanced consumer satisfaction, and postponement of capital-intensive additions to capacity.
- The inefficient water billing and revenue collection system ought to be replaced by an up-to-date customer database.
- The high value of Non-Revenue Water seriously affected the financial viability of water utilities through lost revenues and increased operational costs. The perpetual loss was responsible for the sustained lack of funds needed to expand services or to maintain the water systems.

COMMITTEE RECOMMENDATION

The committee recommends as follows, that;

Both KITWASCO and KIMWASCO should;

(a) **Develop a strategic and business plan, which clearly spells out the direction the companies are moving towards and with achievable benchmarks.**

(b) **Accord special attention to reduction of water losses to economic and acceptable levels in order to preserve the valuable resources and guarantee continuous supplies to customers.**

(c) **Ensure Timely Response to Pipe Bursts, Leakages and Sewer Blockages. Repair of pipe bursts, water leakages and unblocking of sewer blockages should be done within the shortest time possible after being reported.**

(d) **Step up surveillance along the pipeline networks to arrest and prosecute wreckers involved in illegal connections and vandalism of the supply systems. This should be supplemented with door-to-door impromptu checks for illegal consumption.**

(e) **Undertake rehabilitation of the dilapidated water and sanitation infrastructure and establishment of a good monitoring system to quickly identify sections needing repair for timely intervention. Replacement of the aging analog (mechanical) meters with computerized devices (pre-paid water metering services) will improve efficiency and accord both the consumers and the utilities the following benefits;**

  - **With prepaid metering, the consumer will be in control of their own water usage, as they decide how much water to purchase. This will avoid situations where the users can be charged for water not consumed which is prevalent with analog meters.**

  - **Prepaid metering solution generally bring discipline, as consumers will be to budget for their water bill. With the system customers will be forced to monitor their water use and immediately sort out leaking taps and other problems hence aiding water conservation. They will also be more stringent in turning taps off when there is no water to avoid loss when supplies are restored. The same discipline will also have to be practiced by the water companies which will to stop letting treated water gush out of major pipes for days as they**

no longer load such losses on the bills of unwary users. Currently, the water companies appear lax about mending or replacing burst water pipes.

- **The pre-paid metering will ensure that the companies are paid in advance for water supplies hence ensuring good cash flows which can be used to upgrade systems.**

(f) **Develop a customer service Charter to express the company's commitment to giving an efficient, effective, professional and high quality customer service. The Charter would serve as an affirmation of the firm's commitment to the Water Sector Reforms as enshrined in the Water Act 2002.**

(g) **Adopt an efficient customer Information System (CIS) to enable an accurate management in terms of Commercial Data, Technical Data, Meter Reading, Billing, Revenue Collection, Outstanding Debts, Action Plan, Statistics and key business indicators, parameters.**

(h) **Realize that employees are the most valued assets of any company and therefore, the two companies should constantly look for better ways to uphold and improve staff welfare. In the same vein, non-performing employees who fail to strive for improvement should be relieved of their duties for the sake of moving the corporations forward in terms of performance and profitability.**

(i) **The County Government through the line ministry of Agriculture, Water and Irrigation should liaise with Tanathi Water Services Board (TAWSB) which is the asset developer and holder on behalf of the two water companies (KITWASCO and KIMWASCO) to ensure these practical recommendations are fully implemented to improve water access and delivery to local residents.**

POOR WATER SUPPLY

Both companies have failed to achieve their stated mission of providing quality, reliable & adequate potable water and basic sanitation services through sound planning and effective utilization of available resources.

This underachievement has resulted from weak management structures, processes and systems which subjects customers to poor services quantified by inconsistent supply of water, perpetual rationing and low coverage of users among other shortcomings.

As a result of these weaknesses, water users do with intermittent service adapted to enable services to different users at different times. This piped water service delivers water to customers for less than 24 hours in one day, and is used because the available supply and the hydraulic capacities of the water supply systems are too weak.

Water rationing has persisted due to lack of sufficient available water resources to meet the demand of water usage. Continuous supply is also hampered by high electricity tariffs which causes reduction of pumping hours. During interaction with the utility managers, the committee established that the companies have been struggling to keep up with high electricity bills. For instance, on average KITWASCO, spends Ksh 8 million monthly on electricity bills totaling to Ksh 96,000,000.00 per year. This subjects the already financially troubled utility to further strain.

Quite often, water users are treated to prolonged periods of interruption of supply occasioned by disconnection of electricity at the water pumping stations due to unpaid bills. The prolonged outage paralyzes operation of the water pumping machines which interferes with the pumping schedule and steady flow of water to consumers.

Other challenges which contribute to poor water supply include high water losses, insufficient revenues to cover operating costs due to low billing and collection efficiency, dilapidated and poor functioning infrastructure and endemic corruption. At the heart of the corruption problem lies weak/poor governance, ineffective sector management, and little accountability.

The committee underscored the fact that water is an indispensable good and the precious gift of nature which is required for all human activities and therefore the most crucial for sustaining life.

It further observed that water is a basic need and human right as provided in Article 43 (1) (d) of the Constitution. Thus, to exclude people from access to water means to deprive them of the basis of their existence; and a lack of access to sanitation systems is a threat to living quality because it can cause serious diseases.

It is therefore imperative for the water companies to make strenuous efforts to improve availability, accessibility and sustainability of water supplies to consumers.

The committee attributed the companies' failure to deliver on their core responsibility to the following factors;

- Low investments to expand water resources and extend and upgrade the supply systems and storage facilities. This perpetuates scarcity of water leading to low coverage and endless rationing making the companies unable to meet the existing demand. The scarcity levels are exacerbated by high UFW levels which causes low revenue collection hence subjecting the companies to financial constraints and inability to cover the costs of water treatment and delivery, repair of infrastructure repair as well as replacement and conservation of the available water resources.
- High electricity costs. This is occasioned by the fact that the utilities solely rely on hydro-power to pump water not only from the treatment plants to the consumers, but also from the water intake points to the treatment plants.
- Poor policies, mismanagement, entrenched corruption and lack of accountability in governance are further obstacles to sustainable improvement of access to water in areas served by KIMWASCO and KITWASCO.

To fully meet the rising demand for safe water services and ensure uninterrupted supply, the companies should focus on upfront investment in increased coverage; reduction of the high water losses; rehabilitation and expansion of existing schemes; sustainable demand management and construction of new water supply schemes.

Priority should be accorded to mega projects for remarkable transformation. For instance, the on-going River Athi-Kanyangi-Maluma-Mutomo-Ndakani-Ikutha-Kanziko Water Project which is being implemented in a partnership by the County Government and World Vision-Kenya at a cost of Ksh 800 million is a step in the right direction. The project which is mapped as a flagship project and is expected to service a large area will address the perennial water shortage experienced in the

Southern region. Hence, the committee recommends that similar projects should be replicated in other parts of the county to boost accessibility of the indispensable commodity.

Such effort should be supplemented with construction of additional sand dams, water pans, earth dams, sinking of wells and drilling of boreholes to boost supplies and coverage. To come up with high-yielding borehole projects, undertakers should opt for satellite /geospatial technology in mapping the available water resources for exploitation. Although application of this technology is costly, it will certainly assist in solving the water problem once and for all. This is because it is a more reliable and permanent solution and its application can be realized through donor support.

The use of electricity in running the water pumping machines should be supplemented with solar energy to do away with high bills. This is because Solar Power, which is a viable option, is cheaper, reliable and readily available. The move will help in curbing the regular blackouts and disconnection of power owing to unpaid bills which paralyses operation of the pumping machines interrupting supplies to customers every now and then. The switchover should be fast-tracked cconsidering that Kitui County has a huge potential for production of green energy owing to its sunny climatic conditions.

The companies should embrace transparency, accountability and good water governance; efficiency; clear institutional framework; and encouraging pro-poor focus, strategies and programmes, among others so as to make better use of economies of scale.

They should also be run on sound policies and strategies and develop an elaborate conservation plan for sustainable management of water resources in order to attain their stated objectives. Repair/and or replacement of the dilapidated infrastructure should be prioritized to enhance efficiency in water supplies and revenue collection.

The County Government/ Tanathi Water Services Board (TAWSB), which is the asset developer and holder, should collaborate with the other undertakers in ensuring these practical recommendations are implemented. The help of donors in undertaking mega water projects should be considered.

ACKNOWLEDGEMENT

In conclusion, Mr. Speaker, ~~-~~the Committee wishes to record its appreciation to the Office of the Speaker and the Clerk of the County Assembly for facilitating the work of the Committee in fulfilment of its mandate. The Committee is also grateful to the Managing Directors of the two water companies and various witnesses who appeared and adduced evidence before it.

Last but not least, the Committee sincerely thanks the staff of the County Assembly and Office of the Auditor General for the services they rendered to the Committee. It is their commitment and dedication to duty that made the work of the Committee and production of this Report possible.

Mr. Speaker,

On behalf of the Members of the Public Investments Committee, I beg to table the first Report of the Public Investments Committee on the Audited Financial Statements of the two County Corporations and urge the House to adopt it and the recommendations therein.

SIGN: ………………………………………………………………

HON. ROBINSON M. MATIVO, MCA

CHAIRPERSON, PUBLIC INVESTMENTS COMMITTEE

DATE: ………………………………………………………………

ADOPTION OF THE FIRST REPORT ON THE AUDITED FINANCIAL STATEMENTS OF THE KITUI WATER AND SANITATION COMPANY (KITWASCO) AND KIAMBERE-MWINGI WATER AND SANITATION COMPANY (KIMWASCO) FOR THE 2014/2015 FINANCIAL YEAR.

We, members of the Public Investments and Accounts Committee have, pursuant to Standing Order 179, adopted this report and hereby affix our signatures to affirm our approval and confirm its accuracy, validity and authenticity:-

Members	**Signature**
Hon. Robinson Mutwii Mativo	…………………………….
Hon. Phoebe Kisee	…………………………….
Hon. Peter Maithya Mutemi	………………...…………..
Hon. Alex Mwendwa Munyoki	…………………………….
Hon. Hussein Mwandia	…………………………….

This report was compiled by Jacob Kimanzi (1st Clerk Assistant) and Teddy Matuku (Snr. Hansard Editor).

Sign: ………………………………….. Date: ……………………………………..

Sign: ………………………………….. Date: ……………………………………..

CONSIDERATION OF THE REPORT OF THE AUDITOR GENERAL ON THE AUDITED FINANCIAL STATEMENTS OF KITWASCO

Basis for Adverse Opinion

1.0 ACCURACY AND COMPLETENESS OF THE FINANCIAL STATEMENTS

A review of the financial statements and the respective supporting schedules revealed differences in 19 items which were not explained resulting to an overall understatement of Kshs.17, 844,732. In the circumstances, the accuracy of the financial statements as at 30 June 2015 could not be confirmed.

Management response

Mr. John Kameta, the Ag. Managing Director (KITWASCO) accompanied by Mr. Geoffrey Kitonga (Commercial Manager) and David Musyoka (Accountant) appeared before the Committee on 13th and 31st October 2016 to adduce evidence on the audited Financial Statements of the company for the 2014/2015 Financial Year.

The management attributed the difference in the nineteen (19) items to incomplete schedules of various Ledgers which resulted from switching-off of the billing software towards the end of the financial period. The switch-off, according to the MD, resulted from a disagreement pitting the management and supplier of the software over payment of annual maintenance fee. Disabling of the program interfered with the accounting system, the officials regretted noting that it resulted in under casting and over casting of figures, errors of omission and commission leading to the overall understatement of the Kshs.17, 844,732.

Committee observation

From the submissions and evidence adduced by the management, the Committee made the following findings, observations and recommendations;

a) The management was under obligation to ensure clear and responsible financial reporting as encouraged by law. The relevant provisions are reproduced below;

- Article 201(e) of the constitution states that financial management shall be responsible, and fiscal reporting shall be clear.
- Section 149(2)(b) of PFMA, 2012 require Accounting officer(s) to keep financial and accounting records that comply with the Act;
- Section 210(1) (l) of PFM Regulations, 2015 require a Public officer in county corporations to maintain proper books of accounts.

  Thus the management was in breach of law for coming up with inaccurate financial statements.

b) That the management's explanation regarding discrepancies on the 19 items was flimsy and as such the committee believed that the understating of the Ksh 17,844,732 resulted from false accounting characterised by the following;

- Deliberate/out right falsification, alteration, or manipulation of material financial records, supporting documents, or business transactions, intentional omissions or misrepresentations of events, transactions, accounts, or other significant information from which the financial statements were to be prepared,
- Deliberate misapplication of accounting principles, policies, and procedures used to measure, recognize, report, and disclose business transactions and also intentional omissions of disclosures

or presentation of inadequate disclosures regarding accounting principles and policies and related financial amounts.

- Deliberate effort to underplay liabilities, expenses, and losses in a bid to cover up theft or financial losses.
- Carelessness, lack of information, misinterpretation of data or sheer incompetence on the part of accounting staff.

c) The committee underscored the fact that preparation of reliable and accurate Financial Statements was crucial in providing the company with a sound basis for analyzing results of its operations.

Committee recommendation

(a) **The company should always ensure that preparation of financial statements comply with the internationally accepted accounting standards for the sake of credibility.**

(b) **The management should implement stringent measures to curb fraudulent and inaccurate financial reporting. This should include adoption of well-designed and adequate internal controls (policies and procedures) to prevent fraud, theft and accounting errors.**

(c) **Further, today's global economy organizations are highly dependent on technology and thus the IT systems in which they invest can play a significant role in overall financial reporting and business success. It therefore makes business sense for the company's management to invest in applications that will result in swift and high-quality financial reporting. This will also help in mitigating risk and speed up the reporting cycle.**

(d) **The Ethics and Anti-corruption Commission (EACC) should dig up into this matter and fix accountability should it be discovered that some accounting records were falsified to cover up for corruption.**

2.0 NON-COMPLIANCE TO THE PUBLIC SECTOR ACCOUNTING STANDARDS BOARD (PSASB) REGULATIONS

The Public Sector Accounting Standards Board (PSASB) guidelines require companies incorporated under the Companies Act to prepare their financial statements using the International Financial Reporting Standards (IFRS). However, as stated in note no. 1(a) of the notes to the accounts, Kitui Water and Sanitation Co. Ltd, which is incorporated under the Companies Act, prepared its accounts on the basis of the International Public Sector Accounting Standards (Accrual Basis) contrary to the requirements of the IPSASB guidelines. The Company is therefore in breach of the PSASB guidelines.

Management response

The MD admitted the audit query and submitted that the Company did not comply with the PSASB guidelines in preparing the Financial Statements owing to lack of accounting software. He revealed that the company used to have a software previously but it was switched-off by the supplier following a disagreement with the management over payment of annual maintenance fee. He regretted that closure of the software affected the accounting system as production of billing reports became impossible. This, he said, forced the company to rely on collection figures instead of the billing data in preparing the statements which lead to cash based accounting rather than the recommended accrual basis.

Committee observation

(a) **After analysing the submissions and evidence adduced by the witnesses, the Committee opined that no convincing reasons were given as to why the management opted to use IPSAS instead of IFRS in preparing the Financial Statements and why the same changes were not disclosed in the accounting framework as required by law.**

(b) **Further, the management did not come out clearly on what measures it would take to ensure the company complies with PSAB regulations**.

(c) **The management might have deliberately misapplied accounting principles, policies, and procedures to circumvent accountability.**

Committee recommendation

(a) **The Committee recommends that the company should, in future prepare accurate Financial Statements based on the accepted reporting standards.**

(b) **The Appointing Authorities must ensure that attendant sanctions are applied against Accounting Officers who fail to comply with the statutory obligations meant to achieve prudent management of public finances.**

3.0 RECEIVABLES AND PREPAYMENTS

As reported in the previous year, the receivables and prepayments balance of Kshs.37, 618,171 includes water debtors inherited from National Water Conservation and Pipeline Corporation in 2006 amounting to Kshs.16, 322,542.

However, the management did not provide sufficient documentary evidence to support them. Further, the receivables and prepayments increased by Kshs.8,662,849 from Kshs.28,955,322 as at 30 June 2014 to Kshs.37,618,171 as at 30 June 2015.

Evidently, the Company did not Institute proper mechanisms in the collection of its debts during the year under review. In addition, the Company made a provision for bad and doubtful debts at the rate of 15% of Kshs.1,502,007 of gross debtors balance of Kshs.39,120,178 as at June 2015.

Although the company disclosed under note 1 (e) to the financial statements that a provision of 15% general reserve has been made on bad and doubtful debts, no Board approval of the policy has been provided for audit verification.

In the circumstances, it has not been possible to confirm the accuracy and recoverability of the receivables and prepayments balance of Kshs.37,618,171 as at 30 June 2015.

Management response

The management submitted as follows;

- The company inherited debtors totaling Ksh 16,322,542 from National Water Conservation and Pipeline Corporation (NWCPC).

- KITWASCO on its part had debtors amounting to Ksh 2,420,898.00 which raised the total figure to 18,743,350 as at 30th June 2015.

- The switch-off of the billing software affected accuracy of customer bills which consequently interfered with revenue collections.

- The company implemented the following measures to boost collections;

  - ✓ Issue of demand notices
  - ✓ Engagement of a debt collector
  - ✓ Continuous disconnections.
  - ✓ Servicing of customer meters
- The 15% provision for bad and doubtful debts was approved by the Board of Directors during a meeting held on 28th September 2015.

Committee observation

(a) From the submissions and evidence adduced by the witnesses, the Committee observed that the company stood to lose as recoverability of the debt totalling Ksh 16,322,542 inherited from NWCPC could not be possible without credible supporting documents.

(b) That this matter had remained an audit query owing to the unavailability of the supporting documents, which might not have been genuine but intended to cover up for malpractices.

(c) That the management of the company was characterized by weak internal control systems and weak corporate governance which may have paved the way for exaggeration of debt.

(d) That the collection of revenue was characterized by laxity and defective systems. This is evidenced by the outstanding debts.

Committee recommendation

(a) **The management should maintain up-to-date records of debtors and ensure measures are put in place to collect outstanding debts and compliance reported to the PIAC through Action Taken Note.**

(b) **The management must also ensure that more monthly reviews of status of debtors is carried out and any difficult cases of default should be reported to the appropriate authorities for necessary action.**

4.0 DIRECTORS' EXPENSES

Included in the Directors' expenses of Kshs.2, 159,226 is an amount of Kshs.180, 700 for purchase of air tickets for board members and senior management staff trip to Mombasa whose supporting documents were not availed for audit review. In the circumstances the propriety of the board expense figure of Kshs.2, 159,226 as at 30 June 2015 could not be confirmed.

Management response

The Ag. Managing Director explained that expenditure of Ksh 180,700 was spent on a benchmarking trip to Mombasa which involved senior officials of the company. He said the amount spent had been budgeted for and approval granted under Minute no. 11/31/03/2015. He said the management was in possession of a payment voucher and supporting schedule in respect of the expenditure.

Committee observation

(a) **From the submissions and evidence adduced by the witnesses, the Committee faulted the management for availing the supporting documents way out of the audit cycle and believed that the expenditure in question might have been fraudulent.**

(b) **The Committee further observed that the unavailability of the requisite documents was a clear testimony of poor record keeping, poor internal controls and non-adherence to the Public Finance Management laws and regulations by the company's management.**

(a) **Further, the committee suspected that non-availability of the documents could have been masterminded to cover up for frauds and corruption.**

Committee recommendation

(a) **The committee gives the management a duration of 30 days after adoption of this report by the County Assembly to ensure the Ksh. 180,700 spent irregularly is recovered from the beneficiaries and compliance reported to PAC through Action Taken Note. The management should be held responsible and be surcharged for the unsupported expenditure if the money is not recovered from the recipients.**

(b) **The management should institute strict measures to ensure that proper record keeping systems are put in place.**

(c) **The management should ensure that all expenditures are accounted for and are incurred as per the laid down government financial regulations.**

5.0 CASH AND CASH EQUIVALENTS

The cash and cash equivalents balance of Kshs.14, 855,650 as at 30 June 2015 could not be confirmed as no bank confirmation certificate for the post office collection account was made available for audit review. Similarly Mpesa Paybill balance of Kshs.87, 551 was not supported by any documentary evidence. The customers' deposit account balance of Kshs.11, 286,913 in the financial statements differs with the balance in the adjusted cashbook of Kshs.11, 256,134 by Kshs.30, 779.

In the circumstances, the cash and cash equivalents balance of Kshs.14, 855,650 as at 30 June 2015 could not be confirmed.

Management response

The management responded by referring the committee to Post Office Bank and Mpesa pay bill confirmation certificates. .

Committee observation

(a) **The Committee was satisfied with the management's response and classified the audit query as resolved. This is after the Ag MD submitted for audit, documents supporting the balance in question to the satisfaction of the Auditor General.**

(b) **The Committee noted that had the management ensured timely action on the Auditor General's management letter, this matter would not have been an audit query.**

Committee recommendation

The Committee recommends that the management should institute measures to ensure that the Company always acts in time on the Auditor General's management letters to forestall audit queries.

6.0 UNSUPPORTED EXPENDITURES

Included in the administrative expenses figure of Kshs.52,316,023 as at 30 June 2015 is Kshs.3,167,815 and Kshs.770,452 for staff transport and subsistence and entertainment expenses respectively. Further, included in the Kshs.3,167,815 and Kshs.770,452 is Kshs.1,454,417 and Kshs.260,440 paid out as subsistence allowance and to an hotel respectively without supporting documents.

Consequently, the administration expenses balance of Kshs.52,316,023 for the year ended 30 June 2015 could not be confirmed.

Management response

The MD explained that most activities of the Company did not require formal reports which has been the tradition. He said the company's measure of success on certain activities is pegged on completion of the activities that result in the desired output/outcome.

He said the concerns raised by the committee on transport and subsistence allowances for staffs had been noted and corrective action would be taken as per the advice given by the committee. He said the Ksh 264,480 was paid to North Coast Beach Hotel in respect of accommodation charges for senior management officials who were on benchmarking mission in Mombasa.

Committee observation

From the submissions and evidence adduced by the witnesses, the Committee observed as follows;

(a) That the inaccessibility of the supporting documents for the expenditures totaling Ksh 1,814,857 may have been orchestrated to cover up for malpractices.

(b) That the lack of the documents cast the propriety of the expenditure in doubt and revealed poor internal controls and non-adherence to the PFM regulations by the management.

The Committee recommendations

(a) **The management must always ensure that all the expenditures incurred are fully supported and accounted for failure of which they must be held personally responsible and be duly surcharged for all the unsupported expenditure.**

(b) **The management should always ensure that public funds are used prudently and existing laws and regulations should be adhered to in all procurement processes and payments.**

(c) **The Ethics and Anti- Corruption Commission (EACC) should carry out further investigation into this matter with a view to holding suspects accountable should theft of public of funds be confirmed and to have the lost amount recovered.**

Other Matter

1. UNACCOUNTED FOR WATER (UFW)

During the year under review, the Company produced 2,667,185 cubic meters of water. According to the Company's records the volume sold was 1,532,095 cubic meters of water resulting to UFW of 1,135,190 cubic meter which is 42.56%.

However, the billing statement made available showed a consumption of 1,168,693 while the actual consumption revealed a consumption of 1,093,181 cubic meters.

The balance of 1,574,004 cubic meters or approximately 59% of the total volume is UFW which is 34% over and above the allowable loss of 25% in accordance with the Water Services Regulatory Board guidelines. The UFW of 59% may have resulted in a loss of sales estimated at Kshs.98,260,395.

The significant level of UFW if not cleared may negatively impact on the Company's profitability and its long term sustainability.

Management response

The MD responded as follows, that;

- The volume of water produced by the company remains static at 2,667,185 cubic meters.
- As at the time of audit, the level of water sold reduced to 1,093,181 cubic meters from 1,532,095 cubic meters. This difference resulted from inconsistent occasioned by the closure of the billing software.

- The main factors which contributed to high levels of Unaccounted For Water included bursting of the main pipeline at Kyathivo area, illegal connections, and use of the commodity on construction of Masinga phase 11 dam as well as on testing of the newly built pipelines and water tanks.

- Measures put in place to improve on water supply and revenue collection includes;

  - ✓ The re-activation of the billing software.
  - ✓ Establishment of a non-revenue water management team.
  - ✓ Replacement of the poor quality HDPE pipes with PPR pipes which are of superior quality.
  - ✓ Servicing of the zonal and customers' meters.
  - ✓ Replacement of the faulty air valves on the main lines

Committee observation

From the submissions and evidence adduced by the witnesses, the Committee attributed the high NRW level, which resulted in loss of sales estimated at Ksh.98, 260,395 to;

(a) Uncontrolled leakage resulting from ageing/bursts pipes and/or storage tanks, a situation worsened by lack of leak detectors.

(b) Rampant theft of water through illegal connections.

(c) Inefficient, incorrect and false meter readings and billings.

(d) Lack of meters, defective and nonfunctional meters leading to estimated readings/averaged bills.

(e) Uneconomic tariffs: The tariffs charged on water provided to consumers by the company might be low to the point that they are not in consonance with the economic cost of providing the service. Hence, the tariff policy was most likely a major contributor to the utility's financial problems. This is mainly because the capital for expansion of the service and also for the maintenance is derived from user charges.

Committee recommendation

To address the above challenges, the company should;

(a) **Step up surveillance along the pipeline network to arrest and prosecute the people involved in illegal connections and vandalism of the supply systems, some of whom could be rogue employees of the company who facilitate illegal consumption in exchange for kickbacks. This effort should be supplemented with door-to-door impromptu checks for illegal consumption.**

(b) **Enforce applicable fines and penalties on willful damage to meters, bypasses, illegal connections, loss of meters, illegal boreholes and other malpractices.**

(c) **Ensure Timely Response to Pipe Bursts, Leakages and Sewer Blockages. The company should ensure that repair of pipe bursts, water leakages and unblocking of sewer blockages is done within the shortest time possible after being reported.**

(f) **Overhaul the dilapidated water infrastructure (piping) in order to curb the high UFW level which is a huge setback to revenue collection.**

(g) **Replace the aging mechanical meters with computerized devices to improve efficiency. This is because mechanical meters become less accurate as they grow older, and the human element of inputting the information into the company's computer can introduce mistakes.**

(h) **Develop an ICT platform that will enable water consumers to use a mobile phone to send their own water meter readings, query and receive current water bills, then pay using mobile money such as Safaricom's MPESA and Airtel's ZAP.**

(i) **Ensure that a complete customer billing (CIS) software is adopted to enable a very accurate management in terms of Commercial Data, Technical Data, Meter Reading, Billing, Revenue Collection, Outstanding Debts, Action Plan, Statistics and key business indicators, parameters.**

(j) **Review the level of tariffs to harmonize them with the economic cost of providing the water services. In order to gain acceptance, WASREB which is responsible for determining the water tariffs should ensure that the water pricing system is developed with full consultation of the water users.**

(k) **The County Government /Tanathi Water Services Board which is the asset developer should work together in especially ensuring the dilapidated supply infrastructure is overhauled for the benefit of consumers.**

2. IRREGULARITIES IN BILLING

A review of some of the billings made during the year revealed that some customer accounts were billed even though the current and previous meter readings were the same.

The explanation given was that the affected meters could have been faulty and that the readings were an estimate.

Failure by the Company to replace the faulty meters may lead to huge losses of revenue as some clients may not be billed at all despite having used the water.

Management response

The MD admitted acknowledged that billing mistakes were happening more than they should, but pointed out that the management would take measures to rectify the situation. He submitted as follows;

- **That estimation of customers' bills was occasioned by malfunction and invisibility of some meters as well as inaccessibility of some gated houses which were always locked when the officers responsible for meter reading went to perform the task.**

- **The estimated bills are system generated and averaged based upon customers' accounts for the previous three months.**

- **The company is banking on advice from its technical team to replace the malfunctioning meters with a view to improving the quality of repairs and doing away with estimation of customers' bills.**

Committee observation

(a) That estimated billing was prone to manipulation and may have resulted in massively inflated bills- hitting consumers hard in the wallet. Alternatively, some customers may have been undercharged occasioning loses to the company.

(b) That the billing irregularities must have resulted from faulty analog meters, defective billing system and non-reading of meters which if not attended to would occasion continuous losses in revenue through errors of omission and commission.

(c) The water meters were not being repaired regularly as the law requires of public assets and facilities. This is evidenced by the fact that all the faulty ones remained unattended for some time resulting in averaged bills. This was a violation of sections 19(d), 19(f), 55, 58, and 60 of the Water Service Regulations, 2007.

Committee recommendation

(a) **The company should embrace relevant technology to improve its efficiency on systems of customer metering, meter reading, billing and enforcement that prevent consumption data error - and revenue loss - from occurring.**

It should focus on the rapidly advancing technology in Automatic Meter Reading (AMR) Systems and Automated Metering Infrastructure (AMI) which offers outstanding capabilities to water utilities to improve their efficiency in capturing customer consumption data, identifying wasteful usage and leakage, and other enhancements to improve revenue capture and manage water and revenue losses.

(b) **The management must always ensure that customer meters are replaced before they lose accuracy from wear and that meter reading should be accurate and complete. The committee believe that with correct meter selection, sizing, installation, reading and maintenance the problem of unaccounted for water will effectively be solved.**

(c) **The management should also focus on improving the quality of repairs to reduce the number of averaged bills. For the company to charge customers more realistically for the service they consume, it is only effective water metering that would make such pricing possible.**

(d) **The company should gradually replace aging mechanical meters with computerized devices to improve efficiency. This is because mechanical meters become less accurate as they grow older, and the human element of inputting the information into the company's computer can introduce mistakes.**

(e) **The Ethics and Anti-Corruption Commission (EACC) should dig up into this matter and fix accountability should it be ascertained that the billing irregularities were motivated by a desire by the officers' responsible to obtain money fraudulently.**

(f) **The County Government and Tanathi Water Services Board should work together to ensure these practical recommendations are implemented.**

3. IRREGULARITIES IN THE MANAGEMENT OF THE BILLING SYSTEM

The Company contracted a firm known as Computing Development Strategies of P.O Box 379106- 0200 Nairobi for the supply and implementation of a billing system known as Promics Billing Software.

The signed contract was not made available for audit review. However, on enquiry the procurement of the system was done in the financial year 2012/2013 through quotation number KITWASCO/016/012-013.

The supplier had quoted in his proposal that the cost of the supply was to be Kshs 1,500,000 exclusive of VAT.

In a letter dated 9/09/2014, the supplier wrote to the Company indicating their intention to hand over the project implementation to another company - Open Arch Systems of P.O Box 1355- 10400 Nanyuki. On 27 October 2014, the Company wrote to the supplier requesting for his commitment to continue with the project implementation with the terms and conditions of the contract as per the tender document.

No communication was obtained again from the supplier. In a letter dated 1 November 2014, the firm, Open Arch Systems, wrote to the Company indicating their willingness to take over the project and adhere to the terms of the original contract.

No other communication was made available for audit in review respect of this matter. However, it was reported that Open Arch Systems took over the project and continued with its implementation.

On 30 June 2015, the Open Arch Systems switched off the system reportedly due to the Company not being able to meet annual maintenance fees of Kshs.300,000, an amount which the Company was not willing to pay.

In the absence of the contract document, it was not possible to confirm the terms and conditions of the contract agreement.

Management response

The management responded by availing the contract document for verification

Committee observation

(a) With irregularities surrounding this transaction including the management's decision to use quotation method instead of open tendering as provided in the PPDA, the committee cited indications of fraud in the procurement of the billing software. This is exemplified by the reluctance by the management to submit the contract documents for audit review which rendered confirmation of the terms and conditions of the contract agreement impossible. The unavailability of the contract documents may have been masterminded to cover up for pilferage.

(b) The committee further observed that the procurement process was characterized by poor planning and poor record keeping. The switch-off of the software over non-payment of annual maintenance fee contributed to low collection of revenue. This was also a case of wasteful expenditure on the part of the management.

(c) The committee faulted the management for opting to procure the software if they were not in a position to pay the annual maintenance fees.

(d) The law was clearly violated especially sections121 of PFMA, 2012 and 45 and 47 of PPDA, 2005.

The Committee recommends as follows:-

(a) **The officer(s) responsible for the irregular purchase of the software should be held personally liable for loop holes in the procurement laws used to procure the package. The Head of Procurement at the time of the occurrence should be held personally liable for abusing and misapplying the procurement laws in the procurement of the software and possible collusion with the supplier. The management should ensure that disciplinary action is taken against the officers involved.**

(b) **That going forward, the management must ensure that government financial regulations and procedures are strictly adhered to in all procurement processes and payments.**

(c) **The committee invites Ethics and Anti-Corruption Commission (EACC) for further investigation into this matter with a view to holding suspects accountable should theft of public funds be confirmed and to have the lost amount recovered.**

4. OVERALL FINANCIAL PERFORMANCE

During the year under review, the Company made a surplus of Kshs.20,932 as compared to a deficit of Kshs.8,506,051 in the previous year.

However, the overall financial performance of the Company appeared wanting as its revenue went down by Kshs.3,259,831 from Kshs.100,591,107 as at 30 June 2014 to Kshs.97,331,276 as at 30 June 2015 even as its current liabilities went up by Kshs.10,832,027 from Kshs.36,153,508 as at 30 June 2014 to Kshs.46,985,535 as at 30 June 2015.

This trend, if not reversed, does not augur well for the company’s future.

Management response

The MD submitted as follows;

- The decline in revenue collection during the 2014/2015 period to was due to switch-off of the billing software and Interruptions emanating from the construction of Masinga Phase II dam

- The issues had been concluded and operations normalized.

- The revenue collection had improved and liabilities reduced significantly.

- A strong system of internal controls had been put in place and compliance enforced to ensure the company's statement of financial position is in agreement with the books of accounts.

Committee observation

(a) The company underperformed generally owing to weak management structures, processes and systems.
(b) The committee specifically attributed the overall weak financial performance to poor management of the water resources which led to a decline in revenue collection.

Committee recommendation

The management should embrace sound financial management practices to increase the company's profitability and its working capital.

CONSIDERATION OF THE REPORT OF THE AUDITOR GENERAL ON THE AUDITED FINANCIAL STATEMENTS OF KIMWASCO

Basis for Qualified Opinion

1. UNACCOUNTED FOR WATER (UFW)

During the year under review, the company produced 539,558 cubic meters of water. However, only 316,483 cubic meters of water was billed to customers resulting to an Unaccounted for Water (UFW) of 223,075 cubic meters or approximately 41% of the total volume produced which is over and above the allowable loss of 25%.

The UFW resulted in a loss of sales estimated at Kshs.19, 697,523.The significant level of UFW may negatively impact on the Company's profitability and its long term service sustainability.

Mr. Paul Kinuba (Managing Director) accompanied by Mr. Caleb Mwanzia (accountant) appeared before the Committee on 27th October 2016 to adduce evidence on the audited Financial Statements of KIMWASCO for the 2014/2015 Financial Year.

MANAGEMENT RESPONSE

The Managing Director admitted the audit query and attributed the high level of UFW to the deterioration of the main Kiambere-Mwingi water pipeline which he said was nearing the end of its useful life.

He elaborated that the pipeline, had already completed its design life span of 15 years hence becoming leaky due to impairment. However, he pointed out that the management, had identified the weak sections in need of repair.

Regarding waters meters, he explained that some of them had become inaccurate after wearing out and required replacement.

He revealed that the management had reached out to the Water Services Trust Fund (WSTF) funding with a view to rehabilitating the obsolete pipeline and replacing the malfunctioning meters.

In addition, a Non–Revenue Water Team had been established with a mandate of identifying and proposing solutions to other factors contributing to the substantial loss of water.

Committee observation

The committee agreed that the water pipes had to inevitably break down over time as age and other factors such as shifting geology and corrosive soils take their toll and underscored the need for the aging Infrastructure to be overhaul to curb the persistence wastage. It further attributed the high UFW level to inefficient billing system.

The company's financial viability remained at stake with the substantial loss of sales estimated at Ksh 19,697,523.

(a) Rapidly advancing technology in Automatic Meter Reading (AMR) Systems and Automated Metering Infrastructure (AMI) offers outstanding capabilities to water utilities to improve their efficiency in capturing customer consumption data, identifying wasteful usage and leakage, and other enhancements to improve revenue capture and manage water and revenue losses.

Committee recommendation

(a) **The management should undertake rehabilitation of the water and sanitation infrastructure and establish a good monitoring system to quickly identify infrastructure-needing repair to stop leakage and wastage.**

(b) **Further, the management should ensure timely response to pipe bursts, leakages and Sewer blockages and step up surveillance along the pipeline network to arrest and prosecute people interfering with the supply system.**

(c) **To realize high revenue generation and attain the path of profitability, the utility ought to adopt an efficient systems of customer metering, meter reading, billing, and enforcement that prevent consumption data error - and revenue loss - from occurring.**

2. SHARE CAPITAL

As previously reported, the Kiambere-Mwingi Water and Sanitation Company Limited was registered with a share capital of Kshs.100, 000 divided into 5,000 shares of Kshs.20 each.

The shares were distributed to eleven individuals who have not paid for the shares. The Company has not provided explanations for this unsatisfactory state of affairs as at 30 June 2015.

Management response
The MD admitted the audit query and explained that the 11 individuals held the shares on behalf of the communities they represented and hence were not required to pay for the shares.

He said the Tanathi Water Services Board through its legal and Corporate Affairs Manager had offered the same advice to the Company. The shares, Mr. Kinuba added, were to be transferred to new directors after the term for the serving ones expired.

He said the company has always indicated a share capital of Ksh. 100 in its Financial Statements.

Committee observation

1. The committee referred to the provisions of the companies Act governing allotment of shares and determined that the management had breached the law concerning the way it handled this matter.

2. It further faulted the management for failing to adhere to the recommended accounting standards on this issue, which contributed to preparation of misleading financial statements.

Committee recommendation

The management should amend the Articles and Memorandum of Association to bring on board the county government and ensure the promoters pay up the money

3. STATEMENT OF CHANGES IN EQUITY

The statement of changes in equity as at 30 June 2015 reflects, under revenue reserves, a prior year adjustment of negative Kshs.1,418,279 made up of profit for the year of Kshs.1,998,547 and an unexplained figure of negative Kshs.580,268.

In the circumstances, the accuracy of the statement of changes in equity could not be ascertained as at 30 June 2015.

Management response

The management explained that the figure of Ksh 1,998,547 featured as the profit for the 2014/2015 Financial Year had no connection with the with the prior year adjustment of negative Ksh 1,418,279.

He further explained that the figure of Ksh 580,268 did not represent a difference between the profit recorded during the year under review and prior year adjustments as treated in the audit report.

He said the audit query had been cleared by the Auditor-General and submitted a letter to that effect.

Committee observation

(a) **The Committee was satisfied with the management's response and classified the audit query as resolved. This is after Mr. Kinuba submitted a letter from the Auditor-General's office confirming that the matter had been cleared.**

(b) **The Committee noted that had the management ensured timely action on the Auditor General's management letter, this matter would not have been an audit query.**

Committee recommendation

The Committee recommends that the management should institute measures to ensure that the Company always acts in time on the Auditor General's management letters to forestall audit queries.

Annexures

i Minutes of the meetings
ii Verbatim Report on the proceedings