

COUNTY ASSEMBLY OF KITUI

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OFFICE OF THE CLERK

INTERNAL MEMO

TO: The Clerk of Assembly
FROM: 1st Clerk Assistant,
Senior Hansard Editor,
REF: CAK /FIN/5/12/VOL.VIII/7
DATE: 6th October, 2020

**SUBJECT: REPORT ON THE AUDITED FINANCIAL STATEMENTS
FOR THE KITUI COUNTY WATER COMPANIES (KITWASCO &
KIMWASCO) FOR THE FINANCIAL YEARS 2015-2016; 2016-
2017 & 2017-2018**

The above subject matter refers.

Forwarded herewith, please find the Public Investments and Accounts Committee Report on the Auditor General reports for both the Kitui Water & Sanitation Company (KITWASCO) and the Kiambere-Mwingi Water & Sanitation Company (KIMWASCO) for the Financial Years 2015-16; 2016-17 and 2017-18 for your necessary action.


JACOB K. KIMANZI

FIRST CLERK ASSISTANT


TEDDY R. MATUKU

SNR HANSARD EDITOR

Mr. Spence
You may approve this document for printing
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1/c h.p. a p
(Memo)
7/10/2020



REPUBLIC OF KENYA



COUNTY GOVERNMENT OF KITUI

THE COUNTY ASSEMBLY

.....

SECOND ASSEMBLY- FOURTH SESSION

.....

Approved
[Signature]
7/10

PUBLIC INVESTMENTS AND ACCOUNTS COMMITTEE

REPORT

ON THE EXAMINATION OF THE REPORT OF THE AUDITOR-GENERAL ON THE FINANCIAL STATEMENTS FOR THE KITUI WATER AND SANITATION COMPANY LIMITED (KITWASCO) AND KIAMBERE-MWINGI WATER SANITATION COMPANY LIMITED (KIMWASCO) FOR THE FINANCIAL YEARS ENDED 30TH JUNE, 2016, 2017 AND 2018.

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List of acronyms/abbreviations

BOD	Board of Directors
MD	Managing Director
IPSAS	International public Sector Accounting Standards
KIMWASCO	Kiambere - Mwingi Water and Sanitation Company
KITWASCO	Kitui 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)
UFW	Unaccounted For Water
NRW	Non-Revenue Water
PIAC	Public Investments and Accounts Committee
UFW	Unaccounted For Water
PAA	Public Audit Act
EACC	Ethics and Anti-Corruption Commission
PPDA	Public Procurement and Disposal Act
FY	Financial Year
A G	Auditor-General
PSASB	Public Sector Accounting Standards Board
IFRS	International Financial Reporting Standards.
PFMA	Public Finance Management Act
CIS	Customer Information System
NWCPC	National Water Conservation and Pipeline Corporation
EACC	Ethics and Anti-Corruption Commission

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.

Chairperson's Foreword

Honourable Speaker, on behalf of the Public Investments and Accounts Committee (PIAC), and pursuant to Standing Order 179 (6), it is my pleasant duty and honor to present to the House the report of the Committee on the audited financial statements of Kitui Water and Sanitation Company Limited (KITWASCO) and Kiambere-Mwingi Water and Sanitation Company Limited (KIMWASCO) for three consecutive Financial Years (2015/2016, 2016/2017 and 2017/2018).

The Committee, in an endeavor to meet the tight constitutional timelines, has had to be innovative in its approach to dealing with the backlog of unexamined audited accounts occasioned by a time lag between when the reports are presented to the House by the office of the Auditor-General and slotting of the reports in the Order Paper for consideration by the Committee. This cyclical challenge stretches the committee's limited time, delays examination of the reports and undermines effective interrogation of witnesses

Outbreak of the Coronavirus (COVID-19) which saw the House suspend its calendar for seven months also impacted negatively on the Committee's work plan. Honourable Speaker, all other committee suffered similar fate. The Committee has now set for itself a target of up-to-date examination of audited financial statements beginning with 2017/2018 financial year.

Inadequate performance by the Accounting Officers is another challenge which the Committee encountered, from time to time. On several occasions, the responses were inadequate, unsatisfactory, and not accompanied by supporting documents, thus delaying and making the work of the Committee difficult.

Honourable Speaker, legislative organs exercise oversight over governments operations to ensure accountability and prudence in the exercise of public duty. Nonetheless, oversight function is often misconstrued as adversarial and fault-finding exercise intended to embarrass governments in exercise of delegated power.

Those who hold this line of thinking should be reminded that the relationship between parliamentary exercise of oversight and Executive (government) compliance with principles of leadership and governance is obligated by the Constitution and it is an essential part

of combating corruption, checking executive tendency towards dictatorship and promoting democratic governance.

The County Assembly exercises oversight over County revenue and its expenditure pursuant to Article 185 (3) of the Constitution through PIAC which, in turn, derives its mandate from Standing Order No. 185. This report is a culmination of a long journey walked by PIAC in the scrutiny of value for money, efficiency and effectiveness of public spending and in holding the County Government and its officers to account for the delivery of public services.

Honourable Speaker, the Committee is ever cognizant of the enormous responsibility bestowed upon it by the Constitution and House Standing Orders. This responsibility, inevitably, comes with high public expectations.

The Committee held a total of 15 sittings during which it received both written and oral evidence from Accounting Officers on audit queries raised by the Auditor-General.

Honourable Speaker, the Office of the Auditor-General (OAG) continues to meticulously highlight cases of questionable expenditure of public funds in its annual reports. There is, however, a real risk of reducing this serious contribution by the OAG into a mere ritual if no action is taken on those findings.

Where satisfied of a prima facie case that the Management did not comply with Financial Regulations regarding utilization of public funds, the Committee has made referrals of the person(s) culpable for financial malfeasance to the relevant investigative agencies for further investigation and appropriate legal action. .

In some cases, the Committee has invoked the provisions of Article 226(5) of the Constitution and recommended that the concerned officers make good the losses that have arisen under their watch, upon conclusive investigations by the relevant investigative agencies. The County Assembly must breathe life to this progressive constitutional provision that has, apparently, been in limbo since the promulgation of the Constitution in 2010.

In conclusion, **Honourable Speaker**, I wish to thank the Committee Members for the non-partisan spirit demonstrated during the

course of the hearings. Special thanks go to the offices of the speaker and clerk to the county assembly for facilitating the committee in discharge of its mandate.

I would also like to acknowledge the support of the two Managing Directors and core staff of the two companies who took their time to attend the hearings. Their attendance and contributions guided the Committee's deliberations during the course of reviewing the issues raised by the Auditor General.

Profound thanks are equally due the representatives from Audit Service for their invaluable inputs during the hearings, especially in explaining the queries raised in the Report and verification of documents submitted during the investigations. This acknowledgement would be incomplete without mentioning the staff of the PIAC Secretariat, (Jacob Kimanzi and Teddy Matuku) who worked tirelessly, formulating the Committee's findings into this Report.

Honorable Speaker, on behalf of the Committee, I now wish to table the report and urge the House to adopt it and the recommendations therein.

.....
**HON. ALEXANDER MUNUVE MBILI, MCA
CHAIRPERSON, PUBLIC INVESTMENTS AND ACCOUNTS
COMMITTEE.**

1.0 INTRODUCTION

1.1 Establishment of the committee

The Public investments and Accounts Committee was established on Tuesday, 10 March 2020, pursuant to Standing Order 185

1.2 Committee mandate

The 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*

The primary mandate of PIAC is therefore to oversight the expenditure of public funds by county Ministries, Departments and agencies, to ensure value for money and adherence to government financial regulations and procedures.

1.3 Guiding principles

In the execution of its mandate afore-stated, PIAC is guided by core constitutional and statutory principles on public finance management, as well as established customs, traditions, practices and usages. These principles include:

Constitutional Principles on Public Finance

Article 201 enacts fundamental principles that “...shall guide all aspects of public finance in the Republic...”

The principles are:

- (a) There shall be openness and accountability, including public participation in financial matters;
- (b) The public finance system shall promote an equitable society, and in particular—

- (i) The burden of taxation shall be shared fairly;
- (ii) Revenue raised nationally shall be shared equitably among national and county Governments; and
- (iii) Expenditure shall promote the equitable development of the country, including by making special provision for marginalized groups and areas;
- (c) The burdens and benefits of the use of resources and public borrowing shall be shared equitably between present and future generations;
- (d) Public money shall be used in a prudent and responsible way; and;
- (e) Financial management shall be responsible, and fiscal reporting shall be clear.

Honourable Speaker, PIAC places a premium on these principles, among others, and has been guided by them in the entire process that has culminated in this Report.

Direct Personal Liability

Article 226(5) of the Constitution provides that:-

“If the holder of a public office, including a political office, directs or approves the use of public funds contrary to law or instructions, the person is liable for any loss arising from that use and shall make good the loss, whether the person remains the holder of the office or not”.

PIAC considers this Constitutional provision as the basis for holding each individual Accounting Officer and other Public Officers directly and personally liable for any loss of public funds under their watch.

The Committee has and will continue to invoke this provision in its recommendations to hold those responsible personally accountable. This is also intended to serve as a deterrent measure.

Obligations of Accounting Officers

Section 149 (1) of the Public Finance Management Act, 2012 provides, inter alia, that:

“An accounting officer is accountable to the County Assembly for ensuring that the resources of the entity for which the officer is designated are used in a way that is lawful and authorized and effective, efficient, economical and transparent.”

This provision obligates all accounting officers to appear before the County Assembly's PIAC to respond to audit queries in their respective Ministries/Departments.

And section 156 (1) of the same PFM Act stipulates that: *"If an Accounting Officer reasonably believes that a public officer employed by a county government entity has engaged in improper conduct in relation to the resources of the entity, the accounting officer shall:-*

- (a) Take appropriate measures to discipline the public officer in accordance with regulations; or
- (b) Refer the matter to be dealt in terms of statutory and other conditions of employment applicable to that public officer."

PIAC strongly holds the view that these provisions of the law were intended to be fully applied to give effect to the high principles in Article 201 of the Constitution stated hereinabove, to ensure prudent and responsible use of public funds.

The Committee has, accordingly, applied these provisions to recommend diverse disciplinary actions, investigations and surcharging of various persons found to bear responsibility for breaches of the law and/or responsible for the loss or wastage of public funds.

1.3 Committee membership

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

- | | |
|----------------------------------|------------------|
| 1) Hon. Alexander Munuve Mbili- | Chairperson |
| 2) Hon. Beatrice Velesi Musyoka- | Vice Chairperson |
| 3) Hon. Anthony Kyusya Mbiti- | Member |
| 4) Hon. Alex Wambua Mwangangi- | Member |
| 5) Hon. Alex Mutambu Nganga- | Member |

1.4) Technical staff

Honourable Speaker, the following staff of the Audit Service provided technical assistance to the Committee during the course of the hearings:

- | | |
|----------------------|---------------------------------|
| 1) Francis Kiguongo- | Director (Audit Service) |
| 2) James Njuru- | Deputy Director (Audit Service) |
| 3) Patrick Muriuki- | Manager (Audit Service) |

1.5) Committee Secretariat

- | | |
|---------------------------|-----------------|
| (i) Jacob Kyalo Kimanzi - | Clerk Assistant |
| (ii) Teddy Ray Matuku- | Hansard Editor. |

2.0 GENERAL COMMENTS

1) Tabling of the reports

The reports of the auditor-general on the audited financial statements of KIMWASCO and KITWASCO were laid before the House on 15th July 2019 and thereafter referred to the Public Investment and Accounts Committee (PIAC) for consideration, report writing and submission of its findings to plenary.

2) Audit opinions

While interrogating the reports, the committee noted that the Auditor-General expressed various audit opinions on the audited accounts. **Honourable Speaker**, a few words on the types of audit opinions and the differences between them may be helpful to the non-technical reader.

- **Modified opinions** are classified as either an adverse opinion or a disclaimer of opinion.
- **An unqualified opinion**, the most desirable, arises where the financial statements provide a true and fair view of financial position and performance.
- **An adverse opinion**, which sits in the middle of my options - is issued where the auditor has sufficient and appropriate audit evidence of a material and pervasive nature that the financial statements do not present a true and fair view.
- **A disclaimer of opinion**, the least desired, is considered more serious than an adverse opinion and arises where the auditor does not have sufficient and appropriate audit evidence to form an opinion, one way or the other, to make a judgment on the financial statements.

3) Devolution of water services in Kenya

Articles 6, 174, 175, and 176 of the Constitution of Kenya (2010) created a two-tier system of governance comprised of one National Government and 47 County Governments. The responsibility to

provide water and sanitation services in Kenya is now devolved and a function of County Governments.

In addition, article 43 of the Constitution of Kenya entrenches water and sanitation as a constitutional right by recognizing the right to “reasonable standards of sanitation” and “clean and safe water in adequate quantities.” this obligation, as per article 21, should be delivered by the county governments and requires them to take steps to ensure they progressively realize this right.

Kitui County Government owns two Water Service Providers (WSPS), Kitui Water and Sanitation Company (KITWASCO) and Kiambere-Mwingi Water and Sanitation Company (KIMWASCO). These WSPS are licensed and regulated by the Water Services Regulatory Board (WASREB) to provide water services in the county, in accordance with a set of regulations and quality standards established by WASREB.

However, the two WSPS (KITWASCO and KIMWASCO) currently serve roughly one-third (390,000) of the total county population (1,221,001) due to various constraints that include limited infrastructure coverage, inefficient operations, inadequate water resources, urbanization, and unprecedented demand or population growth. The remainder of the county population is partly served by rural sources or schemes that play a critical role in closing the water access gap.

3.0 GENERAL OBSERVATIONS AND RECOMMENDATIONS

3.1 Introduction

The Committee wishes to draw the attention of the House to the following general observations arising from the Committee proceedings, evidence taking, subsequent deliberations and findings that relate to the fiscal year under review: -

1) Poor Water Supply

Both companies (KITWASCO and KIMWASCO) have failed to achieve their stated mission of providing quality, reliable and 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.

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.

Committee recommendation

It is therefore imperative for the water companies to make strenuous efforts to improve availability, accessibility and sustainability of water supplies to consumers by undertaking rehabilitation of the dilapidated water and sanitation infrastructure and establishment of a good monitoring system to quickly identify sections needing repair for timely intervention.

The County Government/ TANATHI water services board (TAWSB), which is the asset developer and holder on behalf of KITWASCO and KIMWASCO should collaborate with the other undertakers in ensuring these practical recommendations are implemented.

2) Non-Revenue Water / Weak Financial Performance

Both Companies experienced high levels of Non-Revenue Water (NRW) also known as Unaccounted for Water (UFW). For example in 2015/2016 FY, out of the 3,242,432 cubic meters (m³) of water produced by KITWASCO only 1,225,362 (m³) was sold resulting to UFW of 2,017,070 (m³) which is 62.2 %. This was 37.2 % over and above the allowable loss of 25% as per the Water Services Regulatory Board guidelines. The Auditor-General stated that the UFW of 37.2 % resulted in a loss of sales estimated at KSHS. 107,350,827.

KIMWASCO, on its part, produced 621, 880 (m³) during the same period with 379,524 (m³) billed to customers. This, according to the Auditor-General resulted in UFW of 242,356 (m³) or 39 % occasioning loss of sales estimated at Kshs. 21,400,035. In total, both companies' incurred loss of sales amounting to Kshs. 128,750,862. The Auditor-General sounded an alarm that "the significant level of UFW if not addressed could negatively impact on the companies' profitability and their long term sustainability".

Committee recommendations

The Committee recommends that the Management should;

The County Government /TANATHI Water Services Board (TAWSB) should ensure that the two underperforming utilities are restructured to improve efficiency and to address their future commercial viability and the required financial and Management resources.

The Management should focus on;

- Rehabilitation of the dilapidated water and sanitation infrastructure and establishment of a good monitoring system to quickly identify sections needing repair for timely intervention.***
- Ensuring 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.***
- Stepping up surveillance along the pipeline networks to arrest and prosecute people involved in illegal connections and vandalism of the supply systems. This should be supplemented with door-to-door impromptu checks for illegal consumption.***

3) Poor Records Management

The Committee condemned chronic weaknesses in record keeping terming it an impediment to accountability. Lack of supporting documents for transactions raised significant audit reservations during the years under review.

The Committee believes that in some instances, the loss and or unavailability of supporting documents was not genuine but intended to cover up for financial misconduct. The Committee emphasized the importance of proper record keeping as institutions' memory, essential for retrieval of information, evidence on official transactions, financial reporting, proper accountability, and prevention of dishonesty,

The Committee recommends that both utilities put in place measures so that documents are properly filed and produced upon request. This should include developing registries staffed with well trained and experienced clerks for proper filing and safekeeping of documents.

4) Management override of internal controls

The Committee noted cases where management override of controls occurred specifically with regard to custody of financial records, procurement procedures, budget implementation, and management of revenue. The committee reckons that management override of controls, is a subset of fraud where officials deliberately circumvents internal controls in place mostly for personal benefit.

The committee attributed the high number of irregularities and incidence of malfeasance to failure to comply with a well-structured internal control system. The committee believes these deficiencies were as a result of weak internal audit units, which failed to raise the red flag over malpractices.

Committee recommendation

The Committee recommends that the Management should ensure that internal control processes are made to work effectively. This should be done by putting in place viable internal audit units to assist in enforcing objective appraisal of systems, effectiveness of risk management and operations, reliability of financial and management reporting and compliance with laws and regulations.

5) People issues

Low levels of accrual accounting and financial reporting competence among finance staff -staff are generally not skilled to prepare accrual-based financial statements, and there is not enough capacity to show for the training carried out over several years in preparation for International public Sector Accounting Standards (IPSAS).

IPSAS and accrual accounting training that is backed by testing and certification is required. Finance staff should be required to undertake fresh training and take tests for IPSAS certification.

6) Inadequate funding for the audit service

Severe funding constraints continue to be a major impediment to achieving the statutory and constitutional mandates of the office auditor-general and the office is not able to self-fund significant amounts of fieldwork. As was the case in previous years, the national budget, the mandate of the office and public expectations have been increasing. However, the annual audit budget remains inadequate.

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 to the National Assembly and County Assemblies as required under Article 229 (4) of the constitution.

7) Delays in availing documents for audit verification

The Committee expresses concern that the companies continue to entertain inordinate delays in availing documents for audit verification. The Committee reckons that Accounting Officers who fail to avail documents for inspection at the time of audit without good cause must be held responsible for the payment of the monetary value attached to such documents.

Further, the Committee recommends that such trends will not be tolerated or taken lightly, and that the Committee may proceed to prepare its report without the evidence of the Accounting Officers who will subsequently be named.

4.0) EXAMINATION OF THE MAIN AUDIT REPORTS

1) REPORT ON THE EXAMINATION OF THE REPORT OF THE AUDITOR-GENERAL ON THE FINANCIAL STATEMENTS FOR THE KITUI WATER AND SANITATION COMPANY LIMITED (KITWASCO) FOR THE YEAR ENDED 30TH JUNE 2016.

Basis for adverse opinion

1.0 Inaccurate Statements of Cash Flows

The statement of cash flow had an adjusting figure of Kshs.587, 074 for depreciation while the actual depreciation charge for the year as

disclosed in note 8 to the financial statements was Kshs.935, 091 leading to an unexplained variance of Kshs. 348,017.

Further, included in the cash flow statement were changes in payables of Kshs.22, 827,715 while the confirmed figure was Kshs.22, 858,019. In addition, prior year adjustments of Kshs.7, 397,856 were not explained or supported.

Also, the purchase of fixed assets figure of Kshs.596, 132 differed with the figure for additions of property, plant and equipment of Kshs.292, 757 in note 8 to the financial statements.

In the circumstances, the accuracy and completeness of the statement of cash flows as at 30 June 2016 could not be confirmed.

Management response

The Managing Director Mr. Geoffrey Kitonga Kiita accompanied by the Finance Manager Mr. Josphat Kamuli and Internal Auditor Mr. Clement Muinde appeared before the Committee on 16th October and 28th November 2019, and 24th January 2020 to adduce evidence on the audited Financial Statements of KITWASCO for the three consecutive Financial Years (2015/2016, 2016/2017 and 2017/2018).

In evidence to the Committee, the MD indicated that;

- The difference in depreciation figure of kshs. 587,074 (i.e. 935,091-348,017) arose due to adjustment in depreciation following the change of depreciation policy as advised by the auditors from straight line to reducing balance.
- The variance in payables was due to prior year adjustment of the opening balance of the fixed assets by kshs 30,304 which was wrong.
- The addition for fixed assets on computers and furniture totaled kshs 292,757.

Prior year adjustment figure of kshs 7,397,856 is explained as below:

	ITEM	AMOUNT	EXPLANATION
1	OB Cash and Bank	30,779	Adjustment of OB which was wrong
2	OB Account receivable	(8,092,200)	Adjustment of OB of accounts receivable

3	Adjustment of amortization	(296,719)	PYA due to change in amortization policy from SLM to RBM
4	OB Creditors	(1,100,545)	Adjustment of creditors OB that could not be matched to a supplier after reconciliation.
5	Lease fee- TAWSB	16,856,541	Being recognition of lease fee for TAWSB
	NET PYA	7,397,856	

Committee observations

The Committee, upon interrogation of evidence submitted by the management;

- (i) Concurred with adjustments made on the depreciations but stated that the company ought to have made a proper disclosure on the alterations.***
- (ii) Observed that the opening balances should have been restated to take care of the prior year adjustments.***
- (iii) Noted that, for asset addition, the client conceded that the correct balance was not reflected.***

Further, the Committee attributes the errors of omission and commission in the cash flow statement to either;

- (iv) Carelessness, lack of information, misinterpretation of data or sheer incompetence on the part of accounting staff.***
- (v) Deliberate falsification, alteration, or manipulation of material financial records and supporting documents to cover up for malpractices.***

Committee recommendations

The committee recommends that;

- (i) *The Management should always ensure that the financial statements and other information included in the annual reports are checked and reviewed for completeness and accuracy prior to audit. All amendments to financial statements and information should be done before the annual audit commences.*
- (ii) *The Ethics and Anti-Corruption Commission (EACC)/Directorate of Criminal Investigation (DCI) should dig up into this matter and fix accountability if established that some errors of omission and commission in the financial statements were meant to cover up for fraud.*

2.0 Cash and Cash Equivalent

During the year under review, the Company had cash and cash equivalents balance of Kshs.11, 990,757. However, not all bank reconciliation statements were availed for audit review. Further, no proper cash books were maintained. In addition, no board of survey on cash was carried out on 30 June 2016 to ascertain the accuracy of the cash at hand balance of Kshs.98, 373. The post office and M-Pesa pay bill accounts which reflected balance of Kshs.395, 775 and Kshs.634, 984 respectively did not have the necessary supporting documents.

Included in the bank reconciliation statement for KCB account 1 1 13757604 was a negative balance of Kshs. 1,800,000 that was not explained.

In the circumstances, the accuracy of the cash and cash equivalents balance of Kshs. 11, 990,757 as at 30 June 2016 could not be confirmed.

Management response

In reply, the MD stated that;

- The Cash Book was printed then but only for the expenditure account.
- Regular reconciliations will be conducted including for all other collection accounts. The Management and auditors have agreed on this.
- There is a schedule supporting the cash at hand balance of kshs. 98,373.

- Supporting documents for bank, post office and M-pesa transactions were not availed for audit inspection on time but the documents were later submitted to the auditors for review.
- Kshs. 1,800,000 cited as a negative balance in the KCB account related to a transfer from the revenue account done on 31.03.2016 and cleared in the following month. However this was carried as a reconciling item but later cleared.

Committee observations.

The Committee;

- (i) ***Strongly condemns the practice of late submission of documents to auditors, stating that it undermines the credibility and authenticity of such documents. The delay, the Committee noted, provides an opportunity for manipulation of documents, encourages 'creative' accounting practices in the public sector and delays the finalization of audit reports at the expense of taxpayers. This is exemplified, for example, by the fact that schedules submitted for audit review lacked official certification.***
- (ii) ***Faulted the Management for non-performance of bank reconciliations terming it dereliction of duty. Further, the Committee admonished the Management for overdrawing the KCB bank account leading to unnecessary bank charges. The Committee noted that the post office and m-pesa pay bill accounts had kshs. 395,775 and kshs. 634,984 respectively which could have been used to meet the expenses. In view of these apses, the Committee believes that the Management lacked control over the post office and m-pesa pay bill accounts.***

Committee recommendation

The Committee recommends that;

- (i) ***The Management should ensure regular Bank Reconciliations are performed by 10th day of each month.***
- (ii) ***The Committee invokes the powers of the EACC/DCI in carrying out conclusive investigation into this matter and recommend prosecution of individuals found culpable of mishandling public funds.***

3.0 Receivables and Prepayments

As reported in the previous year, the receivables and prepayments balance of Kshs. 55,495,071 includes water debtors inherited from National Water Conservation and Pipeline Corporation in 2006 amounting to Kshs.16, 322,542. However, sufficient documentary evidence in support of the water debtors of Kshs.16, 322,542 as at 30 June 2016 were not made available for audit review.

Further, the receivables and prepayments increased by Kshs.17, 876,901 from Kshs.37,618,170 as at 30 June 2015 to Kshs.55,495,071 as at 30 June 2016.

In addition, the Company made a provision for bad and doubtful debts of 15% (Kshs. 9,202,782) of gross debtor's balance of Kshs.55, 495,071 as at June 2016. However, the actual provision ought to have been Kshs.8, 324,261 which is 15% of Kshs.55, 495,071 leading to an over provision of Kshs.878, 521. Evidently, the Company did not institute proper mechanisms in the collection of its debts during the year under review.

However, and 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.

Further, included in the receivables and prepayments was an item VAT recoverable of Kshs.3, 338,961. However, the amount has not been supported by accounting schedules showing how it was arrived at.

In view of the foregoing, it has not been possible to ascertain the accuracy and recoverability of the receivables and prepayments balance of Kshs.55, 495,071 as at 30 June 2016.

Management response

The MD submitted as follows'

- The debtors amounting to Kshs 16,322,542 were reconciled and found in the system as part of the company's debtors.
- The Company has appointed a team including a debt collector to assist in collection of both current and old debts.
- The debtors amounting to Kshs 55.4 million were a net of provision of 15%.

- Receivables (from debtors and recoverable VAT totaled) totaled Kshs 64 million. Auditors concurred with this explanation.
- The 15% general provision on bad debts was approved by the Board of Directors (B.O.D) on 28th September 2015.
- A schedule on the VAT recoverable of Kshs 3.3 from KRA has been submitted for audit review. The VAT recoverable had grown to Kshs. 30,469,204 million as at 30th June 2019
- In July 2019, the Company invited KRA to verify the amount for the purpose of getting a refund.

Committee observations

From the submissions and evidence adduced by the witnesses, the Committee observes that;

- (i) ***The Company (KITWASCO) stands to lose since recoverability of the dues from the NWCPC and KRA (Kshs. 16,322,542 and Kshs. 3,338,961 respectively will not be possible without credible supporting documents.***
- (ii) ***Collection of revenue was characterized by laxity. This is exemplified by the outstanding debts dating back to 2006, a duration fourteen years. It was also marked by defective and weak accountability systems.***

Further, the Committee;

- (i) ***Castigates the Management for availing the supporting documents way out of the audit cycle stating that unavailability of supporting documents was a clear testimony of poor record keeping and weak internal controls by the Management.***
- (ii) ***The Committee understands that officials involved in corruption and fear for the security of their jobs are unlikely to want to keep records.***
- (iii) ***Noted that during the relevant period, the Company maintained its allowance for doubtful accounts at 15% of accounts receivables at fiscal year-end. This rate appeared to be high since most public entities peg the allowance at 2.5 to 5 %.***

Further, the Management could not explain how the debts were judged as uncollectible. Further, no timeframe was provided for judging the debts as uncollectible.

- (iv) *The Committee has reservations that as the level of bad debt rose, the Company may have arbitrarily disregarded its write-off procedures in order to avoid taking write-offs. This may have enabled the utility improperly to understate its bad debt expense and thereby falsely inflate earnings.*

It may have also enabled the firm to avoid increasing its allowance for doubtful accounts above 15% at fiscal year-end, as it should, and thereby conceal the rising level of its uncollectible receivables.

Committee recommendations

The Committee recommends that;

- (i) *The Company should adopt a practical write-off policy based on historical experience and restructure its revenue generating machinery to over-turn the downward performance and ensure all revenue due is collected.*
- (ii) *The Management must ensure that more monthly reviews of status of debtors is carried out (maintain up-to-date records of debtors) and any difficult cases of default should be reported to the appropriate authorities for necessary action including legal action.*
- (iii) *Management ensure that documentary evidence in support of the water debtors and approval by the Board for the provision of 15 % on bad debts is availed for audit inspection not later than 90 days after adoption of this report by the House.*
- (iv) *Worried that the write-offs might have been manipulated to benefit individuals, the committee invites the EACC/DCI to carry out further investigation with a view to having suspects prosecuted if corruption, economic crimes and abuse of office are confirmed and to have the lost amount recovered.*

The Committee awaits progress report on implementation of these recommendations by the Management not later than 90 days after adoption of this report by the House.

Unsupported Expenditure

4.1 Motor Vehicle Running Expenses

The financial statements reflect administrative expenses totaling to Kshs.63, 070,751 as at 30 June 2016. However, included in this expenditure were motor vehicle running expenses of Kshs.1,451 ,025 which further included Kshs.661,263 and Kshs. 128,662 for purchase of motor vehicle tyres and assorted spares respectively all totaling to Kshs.789,925. However, invoices, requisitions and specifications for the tyres including quotations from the pre-qualified garages were not availed for audit review.

In the circumstances, the propriety of the expenditure of Kshs.1, 451,025 as at 30 June 2016 could not be confirmed.

Management response

In evidence to the Committee, the MD indicated that the invoices and requisitions detailing the specifications for the tyres were submitted for audit inspection.

According to audit verification report by the PIAC, this issue has been laid to rest with Management providing all documentary evidence relating to the above query.

The Committee noted that had the Accounting Officer acted in time as per the Constitutional timelines on audit, this matter would not have been an audit query.

The Accounting Officer should in future address the Auditor General's Management letters expeditiously and avail all the required audit documents for verification in time to avoid unnecessary and time wasting audit queries.

4.2 Management of Fuel

Included in the administrative expenses balance of Kshs.63, 070,751 was Kshs.4, 414,951 for fuel expenses which further included Kshs.3, 733,379 in respect of fuel purchased from Kitui Riverside Service station on various dates during the financial year.

However, examination of the payment vouchers indicated that the fuel register was poorly maintained as the writing was disorderly and in some cases ineligible. In other pages the writings were in pencil.

Further there were no monthly motor vehicle returns showing the fuel consumption, total mileage, and any defects and the condition of the vehicle.

In the circumstances, the propriety of the fuel expenditure of Kshs.4, 414,951 as at 30 June 2016 could not be confirmed.

Management response

The MD, in his reply, said that Fuel Registers for the motor vehicles, motor cycles and pumping machines (generators) for the various boreholes were maintained during the relevant period. He said proper records are kept and disclosures made on additional information entered in the fuel registers as recommended by the Auditor-General.

Committee observations

The Committee;

- (i) Noted the issue as an indication of internal control weakness which might have been exploited leading to fraud and other irregularities.***
- (ii) Cited the reckless manner in which the fuel register was maintained as a clear dereliction of duty by the concerned officer whom the Appointing Authority should sanction in terms of Section 156 (1) (a) (b) of the PFM Act, 2012.***

Committee recommendations

- (i) The Committee recommends that the Management should formulate a policy to guide and control the distribution and usage of fuel. In addition, the use of a log book and fuel register must be introduced to record and reconcile the distribution and usage of fuel.***

Furthermore, the Management should forward a detailed breakdown (indicating recipient's signatures) on how the quantities of fuel consumed during the period under review were distributed.

- (ii) The Committee recommends that EACC / DCI investigate this matter and hold suspects accountable if malpractices are established.***

4.3 Out Standing Imprest

Included in the administrative expenses balance of Kshs.63, 070,751 was an unsurrendered imprest of Kshs.349, 992 which has remained outstanding for more than six months. Further, no imprest register was maintained.

In the circumstances, the accuracy and recoverability of the outstanding imprest of Kshs.349, 992 as at 30 June 2016 could not be confirmed.

Management response

The MD, in his reply, submitted a schedule supporting the outstanding imprest of Kshs. 349,992. He explained that some documents got misplaced in mid-2016. This happened after the documents were handed over to TANATHI and County Government for audit.

Committee observations

- (i) *Failure to provide accountability for six months was contravention of accounting instructions which stipulate that imprests should be accounted for within 7 days of their disbursements. This not only portrayed weak controls over management of imprests but amounted to gross neglect of duty on the part of the Accounting Officer.*
- (ii) *Further, the failure to have the imprests retired within the stipulated time violated Regulations 93(5), 93(6) and 93 (7) of the Public Finance Management (County Governments) Regulations, 2015. The Regulations are reproduced below;*
 - *Regulation 93(5):- A holder of a temporary imprest shall account or surrender the imprest within seven (7) working days after returning to duty station.*
 - *Regulation 93(6):- In the event of the imprest holder failing to account for or surrender the imprest on the due date, the Accounting Officer shall take immediate action to recover the full amount from the salary of the defaulting officer with an interest at the prevailing Central Bank Rate.*
 - *Regulation 93 (7):-If the Accounting Officer does not recover the temporary imprest from the defaulting officer as provided for in this regulation he or she commits an offence as provided under the Act.*

(a) That the Company had lost on account of imprest defaulting and this was not in the interest of taxpayers

Committee recommendations

The Committee recommends that the Accounting Officers;

- (i) Must immediately take necessary steps to ensure that all outstanding imprests within their jurisdictions are fully recovered failure to which the appointing authority should institute disciplinary action against them for gross neglect of duty.*
- (ii) Should institute measures to ensure that government financial regulations and procedures on imprests including the requirement that imprest should be surrendered within 7 days after completion of the assignment, be strictly adhered to within their jurisdictions.*
- (iii) Disciplinary action should be taken including recovery of unsurrendered imprests from salaries on officers with outstanding imprests.*

Based on the forgoing, the Committee advised the auditors to make follow-up on the issue in the subsequent audit. By the same token, the Committee promised to take an unfriendly decision against all those concerned if the issue is reported again.

5.0 Customer Deposits

Included in the payables and accruals balance of Kshs.69,813,250 were customer deposits which increased by Kshs.2,260,905 from Kshs.13,666,396 as at 30 June 2015 to Kshs.15,927,301 as at 30 June 2016. However, the respective bank balance for the customer deposit was Kshs.8, 704,936 resulting in an unexplained and unreconciled variance of Kshs.7, 222,365.

In the circumstances, the propriety and accuracy of the customer deposits balance of Kshs. 15,927,301 as at 30 June 2016 could not be confirmed.

Management Response

The balances of Kshs. 15,927,301 and Kshs 8,704,936 represents a liability to the company arising from customer deposits for new connections and the actual bank balance in that account respectively.

The difference of Kshs 7,222,365 represents the amount the company borrowed to settle various liabilities including interest and penalties to the Kenya revenue authority. The borrowing had been approved by the board of directors. The amount has since been paid back on a monthly basis.

Committee observations

The Committee observes that;

Documents submitted (Minutes of Board of Directors meeting held on 13th October 2015) show that the Board approved a request by the Management to borrow Kshs. 2 million from the customers' deposit account to settle various liabilities.

But the Management ended up borrowing Kshs. 7,222, 365 exceeding the approved amount by Kshs. 5, 222, 365.

The list of customers' deposits submitted for audit review was inadmissible for lacking certification.

Committee recommendation

The EACC / DCI undertake investigation into this matter and hold suspects accountable if cases of fraud, corruption or other financial improprieties are established

Other Matter

1.0 Provision for Court Cases

Included in the administrative expenses balance of Kshs.63, 070,751 was Kshs. 1,500.000 for provision of court cases resulting from pending court cases. The outcome of the cases is not known.

Management Response

In evidence to the committee, the Accounting Officer indicated that The Provision for Court Cases was based on the salaries of the affected staff. He told the Committee that the status of the case involving the Managing Director was still in court.

The Committee acknowledges explanation by the Accounting Officer that the case is ongoing and its outcome remains unknown. The auditors verified the report and advised the Committee to close the issue.

2.0 Unaccounted for Water (UFW)

During the year under review, the Company produced 3,242,432 cubic meters of water. According to the Company's records the volume sold was 1,225,362 cubic meters of water resulting to UFW of 2,017,070 cubic meter which is 62.2%. This is 37.2% over and above the allowable loss of 25% in accordance with the Water Services Regulatory Board guidelines. The UFW of 37.2% may have resulted in a loss of sales estimated at Kshs. 107,350,827.

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

Management Response

The MD explained that the Management has put in place measures to lessen the intensity of Non-Revenue Water levels which is bearing fruit.

Committee observations

From the submissions and evidence adduced by the witness, the Committee attributed the high NRW levels to the following;

- (i) Uncontrolled leakage resulting from ageing/bursts pipes and/or storage tanks, a situation worsened by lack of leak detectors.*
- (ii) Rampant theft of water through illegal connections and inefficient, incorrect and false meter readings and billings resulting from defective and nonfunctional meters leading to estimated readings/averaged bills.*
- (iii) 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 recommendations

To address the above challenges, the company should;

- (i) **Overhaul the dilapidated water infrastructure in order to curb the high UFW levels which is a huge setback to revenue Collection going by the fact in 2015/2016 the company incurred a loss of sales estimated at Kshs. 107,350,827.**
- (ii) **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.**
- (iii) **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.**
- (iv) **Enforce applicable fines and penalties on willful damage to meters, bypasses, illegal connections, loss of meters, illegal boreholes and other malpractices.**
- (v) **Step up surveillance along the pipeline network to arrest and prosecute the people involved in illegal connections and vandalism of the supply systems. This effort should be supplemented with door-to-door impromptu checks for illegal consumption.**
- (vi) **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.**
- (vii) **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.**
- (viii) **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 with the water users.**

- (ix) *The County Government /Tanathi Water Services Board which is the asset developer and holder on behalf of KITWASCO and KIMWASCO should work together in ensuring these practical recommendations are fully implemented.*

3.0 Irregularities in Billing

As reported in the previous year, 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

In evidence to the committee, the Managing Director indicated that;

- The billings in question were done through estimation mainly because some meters were stuck, invisible or the meter readers found certain gates closed leaving the management with no option but to estimate.
- Further, the estimates were system generated by averaging the previous three month's consumption. However, through advice from the utility's technical team the Management gradually changed the class of meters (class c) and has improved the quality of repairs to reduce the number of averaged bills.
- Currently the company uses a more superior billing system and most of the billing issues identified have been sorted out.

Committee observations

The Committee observes that;

- (i) *Estimated billing is 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 losses to the company.*
- (ii) *The billing irregularities may 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.*

Committee recommendations

The Committee recommends that the Management should;

- (i) Always ensure that customer meters are replaced before they lose accuracy from wear and that meter reading should be accurate and complete. The committee believes that with correct meter selection, sizing, installation, reading and maintenance the problem of unaccounted for water will effectively be solved.**
- (ii) 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.**
- (iii) 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.**
- (iv) 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.**
- (v) With possibility of the billing system having been manipulated to facilitate fraud, the Committee invites the EACC to dig up into this matter and fix accountability if malpractices are established.**
- (vi) The County Government and Tanathi Water Services Board should work together in ensuring these recommendations are implemented to improve provision of water services in the county.**

4.0 Irregularities in the Management of Billing System

As reported in the previous year, 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 firm had quoted in the proposal that the cost of the supply was to be Kshs. 1,500,000 exclusive of VAT.

In a letter dated 9 September 2014, the firm wrote to the Company indicating its intention to hand over the project implementation to another firm- Open Arch Systems of P. O. Box 1355- 10400 Nanyuki. On 27 October 2014, the Company wrote to the new firm requesting for its 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 firm.

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 respect of this matter. However, reportedly, the 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

In evidence to the Committee, the Accounting Officer submitted a signed contract for the billing software and other relevant documents for audit inspection. He explained that the system was later opened after the Management and supplier reached an agreement and a payment of kshs 300,000 made.

Committee observations

The Committee observes that;

- (i) The procurement process was characterized by poor planning and record keeping which are catalysts of corruption in public organizations. Non-availability of the contract documents might have been masterminded to circumvent accountability.***

- (ii) *This issue has remained an audit query due to failure by the Management to avail the contract documents for audit inspection.*
- (iii) *It beats logic that the Management purchased the software without gauging its ability to pay for the annual maintenance fees.*
- (iv) *Switch-off of the billing software impacted negatively on revenue collection.*

Committee recommendations

The Committee recommends that;

- (i) *All documents relating to the above mentioned issues be submitted to the auditors for verification not later than 90 days after adoption of this report by the House and warns that if those issues reappear in the 2018/2019 audit report, the Management would be held responsible for perjury.*
- (ii) *The EACC/DCI should conduct a full scale investigation in respect of all the issues queried by the Auditor-General relating to this irregular procurement and fix accountability.*

5.0 Overall Financial Performance

During the year under review, the Company incurred a deficit of Kshs.333, 617 (2015:Kshs.20, 932). Further, the overall financial performance of the company maintained a demand trend over the last three years. This trend does not augur well for service sustainability for the company.

Management Response

The MD submitted as follows, that;

- The company has taken measures to enhance overall performance which has resulted in steady increase in customer connections, production of water, billing figures and revenue collection.

Committee observations

- (i) *The company underperformed generally owing to weak management structures, processes and systems.*
- (ii) *During the relevant period, the financial position of the company did not reflect a true and fair view of the state of its affairs.*

Committee recommendations

- (i) *The Management should embrace sound financial management practices to increase the company's profitability and its working capital.*
- (ii) *The Management should improve on its performance failure to which they be replaced with a competent team to overturn the fortunes of the company.*

2) EXAMINATION OF THE REPORT BY THE AUDITOR-GENERAL ON THE FINANCIAL STATEMENTS OF KIAMBERE-MWINGI WATER AND SANITATION COMPANY LIMITED FOR THE YEAR ENDED 30TH JUNE 2016.

Basis for qualified opinion.

1:0 Share capital

As reported in the previous year, 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 put in place measures to regularize the anomaly as at 30 June 2016.

Management response

In evidence to the committee, The Managing Director Mr. Paul Kinuba indicated that;

- The Water Act 2002 created a number of institutions under the water sector. These included the Water Services Boards mandated to develop water infrastructure and provide water services.
- The Act provided for creation of water companies to be agents of the Water Services Boards in provision of water services so that they could concentrate on infrastructure development.

- Kiambere-Mwingi Water & Sanitation Company was incorporated by Tanathi Water Services Board (TAWSB) in May 2009 with a share capital of Kshs. 100,000 divided into 5,000 shares of Kshs. 20 each.
- These shares were distributed among eleven individual stakeholders identified by the TAWSB. However, they were not required to pay for the shares in understanding that they were holding them in trust for the TAWSB and that they would hand them over to new directors when their terms expire.
- The Company has resolved to amend its Memorandum & Articles of Association to conform to the Companies Act 2015 and Water Act 2016.
- The amended Memorandum & Articles of Association provides for the County Government of Kitui to own and pay for all the company's shares as the owner of the company.
- The amended document was adopted by the Company's AGM and approved by the Board of Directors.
- The amended document was forwarded to the County Ministry of Agriculture, Water & Livestock Development for signing by the C.E.C.M in charge of Water Services, C.E.C.M in charge of Finance and the County Secretary so as to be registered with the Registrar of Companies.

Committee observation

The Committee observes that;

The Committee observed that the law is very clear on subscription by individuals to memorandum of a public company.

Section 360 (1) of the company's act, 2015 is reproduced below; "a subscriber to the memorandum of a public company who takes shares of the company as a result of an undertaking given in the memorandum shall pay for the shares, and any premium on the shares, in cash.

Committee recommendations

The Committee recommends the Management ensures that;

- The shares are paid for as a matter of urgency and notify the committee through Action Taken Note. This should be done not later than 90 days after adoption of this report by the house.***

Details of payments are forwarded to auditors for verification so that this query which has been recurring since from the 2015/2015 financial year is cleared by the Auditor-General.

- (ii) *The Articles and Memorandum of Association are amended to bring on board the County Government to improve on how the company is governed and owned.*

2:0 Unaccounted For Water (UFW)

During the year under review, the Company produced 621,880 cubic meters of water. However, only 379,524 cubic meters was billed to customers resulting in an Unaccounted for Water (UFW) of 242,356 cubic meters or approximately 39% of the total volume produced which is over and above the allowable 25%. The UFW resulted in a loss of sales estimated at Kshs. 21,400,035.

The significant level of UFW may negatively impact on the Company's profitability and its long term service sustainability.

Management response:

The MD conceded to the audit observation and explained as follows, that;

- The Company recorded Non-Revenue Water (NRW) of 39% which he attributed to physical losses (mainly through pipe bursts and leakages) and commercial losses (mainly through inaccurate meters and illegal connections).
- The high level of UFW is due to the deterioration of the main Kiambere-Mwingi water pipeline which he said was nearing the end of its useful life having outlived its design period of 15 years.
- Rehabilitating the damaged sections will cost Kshs. sh.256,961,250.00 according to assessment done by the utility.
- The company cannot meet the cost hence its decision to turn to the county government for help.
- Weak sections of PVC and GI distribution pipelines are being replaced with PPR & HDPE pipes that are less prone to bursts and leakages. Also customer meters which are more than eight years are being replaced before they lose accuracy from wear.
- Management has established Non-Revenue Water team with a mandate of identifying and proposing solutions to other factors contributing to the substantial loss of water.

- These measures have enabled the company to contain NRW at below 40%.

Committee observation and recommendation

The Committee restates its observations and recommendations under paragraph 3.0 above (KITWASCO) 2016/2017 Financial Year regarding efforts to realize high revenue generation for the utility and attain the path of profitability and its long term sustainability.

Other matter: ethnicity

A review of the staff bio data revealed a skewed county/ethnicity representation in the Water Company. The Company has a total of 39 employees who represent only 5 ethnic communities of the country. Out of the total 39 employees, 30 (77%) come from the dominant ethnic community in the area. The remaining 23% is distributed as tabulated below:

Ethnic Community	Number of Employees	Percentage %
Kamba	30	76.9%
Meru	5	12.8%
Luo	2	5.1%
Masai	1	2.5%
Kikuyu	1	2.5%
Total Staff	39	100%

In the circumstance, the Company is in the breach of the County Government Act, 2012.

Management response:

The MD conceded to the audit query and explained that most staff of the Company were inherited from Tana and Athi River Development Authority (TARDA) hence Management’s inability to conform to the constitutional requirements on recruitment of the workers. He however, assured that diversity will be considered in future recruitments.

Committee observations

The Committee observes that;

- (i) Ethnic inequality and imbalance in public institutions erodes confidence and trust in the institutions. Institutions that have flouted employment guidelines should address the anomaly.**
- (ii) The constitution does not allow discrimination in employment and public institutions have a duty to adhere to provisions of the national cohesion and integration act, the employment and the county government acts on equal opportunities for all Kenyans.**
- (iii) Section 65(1) (e) of the county governments' act, no. 17 of 2012 says "at least 30 per cent of jobs should go to members of ethnic groups not dominant in a county".**

Committee recommendations

- (i) The Management should ensure inclusivity and embed the constitutional requirements during subsequent recruitments.**
- (ii) The Management regularly perform ethnic audits to ascertain ethnic distribution in the company.**

3) EXAMINATION OF THE REPORT BY THE AUDITOR-GENERAL ON THE FINANCIAL STATEMENTS OF KITUI WATER AND SANITATION COMPANY LIMITED FOR THE YEAR ENDED 30TH JUNE 2017.

Basis for qualified opinion

1.0 Accuracy of Financial Statements

1.1 Accuracy of Financial Statements

The statement of financial position for the year under review reflects cash and cash equivalents of Kshs.21, 188,152 as at 30 June 2017. However, note 13 of the notes to the financial statements indicates Kshs.22, 288,152 resulting in an unexplained and unreconciled variance of Kshs. 1,100,000.

In addition, the statement of cash flow as at 30 June 2017 shows operating surplus before working capital changes of negative Kshs.410, 196. However, a recasting of the respective figures

showed that the Kshs.410,196 ought to have been positive Kshs.410,196

Management Response

In evidence to the committee, the MD indicated that;

- The cash and bank disclosure in note 13 was wrongly captured as Kshs 22,288,152. The correct balance was Kshs 21,188,152 as tabulated in the table with the bank balances under the same note.
- The operating surplus before working capital changes in the Cash flow was a result of an error in transferring the figures from excel to word where Kshs. 410,196 was captured as Kshs (410,196). However the casting gives a +410,196.

Committee Observation

According to audit verification report by the PIAC, this issue has been laid to rest with Accounting Officer providing all documentary evidence relating to the above query.

The Committee considered and verified the evidence adduced by the witnesses and in that regard it declares the matter resolved. However, the committee reprimands the management for late submission of documents which led to an unnecessary audit query.

1.2 Undisclosed Deferred Tax

Note 17 of the notes to the financial statements reflected a deferred tax of Kshs. 21,745,433. However, the deferred tax was not recognized as a liability in the statement of financial position as required by International Accounting Standard (IAS) number 12.

In addition, the statement of changes in equity reflected balances in respect to capital fund and surplus reserved as at 30 June 2016. However, the balances that were required for this audit ought to have been as at 30 June 2017.

Consequently, the accuracy and completeness of the financial statements as at 30 June 2017 could not be confirmed.

Management Response

The Accounting Officer submitted as follows;

- The date on the Schedule of Changes in Equity was not amended to reflect the period under consideration as 2016/2017 but erroneously remained 2015/2016.

- The Management has filed Computation for the deferred tax for the years 2014 to 2017 and including 2018. The computed figure is a tax asset as per the taxable income computation where the company has cumulatively made losses.

Committee observations

The Committee attributed the errors of omission and commission in the financial statement to either;

- Carelessness, misinterpretation of data or sheer incompetence on the part of accounting personnel.***
- Lack of information due to poor keeping of financial and accounting records and overall weak internal control system. For instance documents submitted for verification did not indicate whether the deferred tax was an asset or liability.***

Committee recommendations

The Management should;

- Maintain an effective system of internal control designed to provide reasonable assurance that periodic financial reporting will comply with the conditions set in the International Financial Reporting Standards (IFRS), NO. 12 of May of 2011.***
- Always ensure that financial statements and other information included in the annual reports are checked and reviewed for completeness and accuracy prior to audit. All amendments to financial statements and information should be done before the annual audit commences.***
- The Management should ensure adequate training and capacity building of its Public Finance Management staff (accountants, finance officers and supply chain management officers) to cope with the current and emergent standards on financial reporting.***

Action must be taken against accountants who do not keep proper records and/or fail to report in compliance with the IPSAS framework, or do not present records as and when required by law.

The Committee awaits progress report on implementation of these recommendations by the Management not later than 90 days after adoption of this report by the house.

2.0 Doubtful Rate on the Provision of the Bad and Doubtful Debts

Section 4 (1) of the summary of accounting policies at page 32 of the financial statements for the year under review sets a rate of 15% provision for bad and doubtful debts. However, the rate was not supported by Board resolution as required by the Code of Governance for State Corporations, Chapter 1 Section 1.2 (i) (c) issued by the Public Service Commission and State Corporation Advisory Committee in January 2015.

In the circumstance, the authenticity of the rate used for the provision of bad and doubtful debts could not be established as at 30 June 2017.

Management Response

In evidence to the Committee, the Accounting Officer indicated that;

- The 15% general provision on Bad debts was approved by the Board of Directors in September 2015.
- In the absence of minutes for the BOD meeting to date, the Management has resolved to seek approval of the Board on whether the provision should be general or specific.

Committee observations

The Committee;

- (i) *Noted that during the relevant period, the company maintained its allowance for doubtful accounts at 15% of accounts receivables at fiscal year-end.*
- (ii) *However, the Management did not explain how the debts were judged as uncollectible. Further, the Management erred by determining the rate (15%) without approval of the board.*
- (iii) *Further, no timeframe was provided for judging the debts as uncollectible.*
- (iv) *The Committee is concerned that as the level of bad debt rose, the company may have arbitrarily disregarded its write-off procedures in order to avoid taking write-offs. This could enable the company improperly to understate its bad debt expense and thereby falsely inflate earnings.*

It could also enable the company to avoid increasing its allowance for doubtful accounts above 15% at fiscal year-end, as it should, and thereby conceal the rising level of its uncollectible receivables.

Committee recommendations

- (i) The company should adopt a practical write-off policy based on based on historical experience.***
- (ii) Also, minutes of the meetings by the board of directors for the relevant period be forwarded to the audit office for inspection.***
- (iii) The Committee, worried that the write-offs may have been manipulated to benefit individuals, invites the EACC to dig up into the matter and fix accountability should malpractices are detected.***

The committee awaits progress report on implementation of these recommendations by the management not later than 90 days after adoption of this report by the house.

3.0 Non-Revenue Water

During the year under review, the Company produced a total of 2,985,445 cubic metres (m³) of water. However, records made available for audit verification indicated that only 1,147,436 m³ was distributed and charged to the consumers. The balance of 1,838,009 cubic meters or approximately 62% of the total volume produced was not charged. However, the Water Service Regulatory Board (WASREB) guidelines allows a maximum loss of 25% for every cubic meter (m³) of water produced and hence only 746,361 m³ loss was allowed for the 2,985,445 cubic meters (m³) produced by the Company. The loss of 1, 091, 648 m³ (37%) of water produced at an estimate cost of Kshs.91, 807,597 (Kshs.84.1 per cubic meter m³) during the year under review was therefore non-allowable loss.

The significant level of unaccounted for water may negatively impact on the Company's profitability and its long term sustainability.

Management Response

The high NRW levels are as a result of various factors. The company has taken drastic measures to address the issues which are already giving a positive impact in terms of improved performance.

Committee observations and recommendations

The Committee restates its observations and recommendation under paragraph 2.0 above (other matter) (KITWASCO) 2015/2016 in respect of measures to be taken to realize high revenue generation by the company and attain the path of profitability and its long term sustainability.

4.0 Procurement of Chemicals

Note 6 of the notes to the financial statements reflected a balance of Kshs. 97,628,671 in respect of operating expenses which included Kshs. 4,363,559 spent on procurement of chemicals as at 30 June 2017. However, the supporting schedules availed for audit verification reflected an expenditure of Kshs.3, 765,824 on chemicals resulting to unexplained variance of Kshs.597, 735.

Further, the procurement documents including procurement plan, tender documents and contracts in relation to the procurement of the chemicals stated at Kshs.4,363,559 as at 30 June 2017 were not made available for audit review.

Consequently, the accuracy, propriety and value for money of the Kshs.4, 363,559 expenditure as at 30 June 2017 could not be ascertained.

Management Response

The accounting officer submitted the relevant documents for audit inspection.

Committee observation

The committee;

- (i) Condemned management's inattentiveness in handling documents, stating that records are a valid source of information.*
- (ii) Noted that the missing documentation was a sign of weak internal controls and counselled that in the absence of effective internal control measures, fraud and other irregularities may have occurred.*

Committee recommendation

The Committee invites the EACC to carry out 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.

5.0 Prior Year Adjustment

The statement of Changes in Equity reflected prior year adjustments totaling Kshs. 11, 596,539. However, no supporting documents were made available for audit verification. Further, the statement of cash flow reflected prior year adjustment of Kshs. 11,600,592 leading to unexplained and unreconciled difference of Kshs. Kshs.4, 053.

In the circumstances, the accuracy of the statement of changes in equity and by extension the statement of financial position as at 30 June 2017 could not be confirmed.

Management Response

The Accounting Officer submitted as follows;

- The composition of the Prior year adjustment figure is as listed in note 16 to the financial statements.
- The figure of Kshs 4,053 was a restatement of the opening balance.

Committee observations

The committee;

Condemned the practice of late submission of documents to the auditors, stating that it undermined the credibility and authenticity of such documents.

This delay, the committee noted, provides an opportunity for manipulation of documents, encourages 'creative' accounting practices in the public sector and delays finalization of audit reports at the expense of the Kenyan public.

Committee recommendations

The Committee recommends the Management ensures that;

- (i) *Measures are put in place, so that documents are properly filed and produced upon request.*
- (ii) *Regular reconciliations are conducted so as to detect and correct any errors in a timely manner.*
- (iii) *EACC / DCI should initiate an investigation with a view to prosecute and surcharge the concerned officers in accordance with the law if malpractices are detected.*

6.0 Payables and Accruals

Note 15 of the notes to the financial statements showed that the payables and accruals increased by Kshs.25,935,193 from Kshs.69,813,250 as at 30 June 2016 to Kshs.95,748,443 as at 30 June 2017. Included in the Kshs.95,748,443 was Kshs. 18, 1 96,193 in respect to Kenya Revenue Authority (KRA) taxes which increased by Kshs. 10,265,401 from Kshs. 7,930,792 reported in 2015/2016 financial year. This huge increase of unpaid KRA taxes may attract interest and penalties which are avoidable should the company comply with the KRA rules and regulations.

In the circumstances, it was not possible to ascertain that the management had instituted proper financial management systems to enable settling of debts as they fall due.

Management Response

The Accounting Officer submitted as follows;

- The increase in KRA liability by Kshs 7.9m from Kshs 10.2m to Kshs 18.1m was necessitated by the booking of additional liabilities arising from reconciliations of KRA tax payable (interest and penalties).
- The issue of settlement of the arrears is also being addressed as the company continues to pay the monthly obligations as they arise.
- The Management has put in place measures to pay other outstanding statutory deduction (i.e. pensions and NSSF).

Committee observations

The Committee observes that;

- (i) ***Failure by the Management to remit taxes and revenue to KRA contravened provisions of KRA Act No. 2 of 1995, Section 78 of***

the PFM Act 2012 and Section 4 of Tax Procedures Act No. 29 of 2015.

- (ii) *The law requires that all PAYE deductions made from employees by employers as tax should be remitted to the taxman by the ninth of every month.*
- (iii) *Failure to remit PAYE attracts punitive penalties and interest, whichever is greater, of 25 per cent of the amount of the tax involved.*

Committee recommendation

- (i) *Laws governing statutory/VAT deductions should be complied with by deducting all taxes on incomes and remitting the same to KRA in a timely manner as provided for in the relevant legislation and financial regulations.*
- (ii) *Management reach out to KRA and agree on payment plans for the amounts owed.*
- (iii) *Further, Management institute proper financial management systems to enable settling of debts as they fall due.*

Other Matter

1.0 Budget and Budgetary Control

The total budgeted expenditure for the year under review was Kshs.180,400,000 while the actual expenditure was Kshs.151, 954,211 resulting into an under-expenditure of Kshs.28, 445,789. Further, an analysis of the budget revealed the following issues:

1.1 Over-Expenditure

During the year under review, fifteen (15) expenditure items with a budgeted amount of Kshs.53, 938,440 had an actual expenditure of Kshs. 73,858,027 thereby exceeding their budget by Kshs.19, 919,587 as follows;

Audit Components	Budgeted Amount (Kshs.)	Actual expenditure Kshs.	Over Expenditure Kshs.	
Salaries & Wages	31, 400,000	31, 976,550	576,550	2%

Leave/Transfer Allowance	502,500	670,034	167,534	33%
Staff Training	173,940	565,450	391,510	225%
Postage	50,600	97,829	47,229	
Stationery & Printing	595,000	873,130	278,130	470/0
Gratuity /Pension	1,400,000	8,160,041	6,760,041	4830/0
Cleaning Materials	5,000	29,383	24,383	488%
Taxes	10,995,000	11,026,267	31267	0%
Staff welfare	80,000	478,728	398,728	4980/0
Staff insurance	6,400	22,650	16,250	254%
Transport Hire	80,000	81,400	1,400	2%
Internet & E-Mail services	90,000	122,416	32,416	
Repair of water systems (Boreholes, pipes & fittings)	6,660,000	9,673,198	3,013,198	45%
9% remittance TAWSB and WASREB Arrears		9,301,693	7,601,693	447%
Bank charges	200,000	779,258	579,258	290%
Total	53,938,440	73,858,027	19,919,587	37%

However, no supplementary budget was made available for audit review to support the Kshs. 19,919,587 over expenditure.

In the circumstance, the expenditure may have been incurred irregularly.

Management Response

In evidence to the Committee, the Managing Director indicated that there were clear instances of under-budgeting in the following areas:

- Pensions due to booking of additional liability following reconciliation with the administrator.

- TAWSB and WASREB due to payments after threats of legal action. There was also an over provision on the amount due from TWSB for lease.
- Repairs increased due to breakdown of power panels at Masinga.
- The others were cases of mis-posting of expenses to expenditure votes they were budgeted for.
- Some of the other items were under budgeted in the year.

Committee observation

The committee noted that;

- (i) *Where a service is forecast to overspend against its budget, it should be made clear why this is the case and how the excess is to be funded.*
- (ii) *If the forecast overspend is material, immediate and firm management action should be expected to be detailed in a report.*
- (iii) *Company lacked monitoring mechanism to enforce appropriate spending and that the practice of over-expending budgetary allocations defeats the principle of appropriation.*

Committee recommendations

- (i) *The Management must ensure that budgets are executed in accordance with appropriations and rules to prevent cases of unauthorized expenditures.*
- (ii) *Spending agencies should be able to assess the adequacy of their own budgetary systems to avert financial stress in the course of implementation of budgets.*

1.2 Under-Expenditure

During the year under review, thirty (30) expenditure items with a total budget of Kshs.1 1 1 ,641 ,560 had an actual expenditure of Kshs.88,162,793 resulting to an under-expenditure of Kshs.23,478,767 with some items having had no expenditure at all as follows;

Components	Current year final budget (Kshs.)	Actual expenditure (Kshs.)	Over/Under (Kshs.)	

Wages(CASUALS Unskilled labour	3,740,500		(3,740,500)	-100%
Staff uniforms	100,000		(100,000)	-100%
Medical Expense	2,500		2,500	-100%
WASPA	100,000		100,000	-100%
Performance Contracting			(100,000)	-100%
Advertisement	340,000		(340,000)	-100%
Office Mobile Phone	8,000		(8,000)	-100%
Staff welfare	50,000		50,000	-100%
Genset Hire	20,000		(20,000)	-100%
Annual General Meeting (AGM)	390,000	20,000	(370,000)	-95%
Insurances(Motor vehicles & Motorbikes)	500,000	139,872	(360,128)	-72%
To u Allowance	1600,000	574,228	925,772	-62%
Office expenses	170,400	70,449	99,951	-59%
Repair & maintenance of Computers (software & hardware) And computer Consumables	450,000	205,451	(244,549)	-54%
Entertainment	1,000,000	541,831	(458,169)	-46%
Board Expenses	2,594,460	1,444,180	(1,150,280)	-440/0
Networking /Internet/Internet connection	400,000	230,652	169,348	-42%
Licences/ professional fees renewal	646,700	426,100	220,600	-34%
Social Responsibility	100,000	66,450	33,550	-34%
Telephone & Postage	874,000	614,707	(259,293)	-30%
Staff Travel & Subsistence	3,800,000	2,675,967	1,124,033	-30%
News a er & periodicals	180,000	129,700	50,300	-28%
Chemicals	5,400,000	4,363,559	1,036,441	-19%

Motor vehicle Running repairs and maintenance including GK A907	2,539,000	2,084,263	(454,737)	-18%
Rent	34,000	28,000	(6,000)	-18%
SPA and Related Issues	102,000	85,000	17,000	-17%
Electricit Masin a and Others	80,000,000	68,738,723	(11,261,277)	-14%
1% wasreb	1, 100,000	965,486	134,514)	-12%
Motor Vehicle Running Fuels	5,400,000	4,758,175	(641,825)	-12%
	111	88,162,793	23,478,767	-21%

It was not explained why the under expenditure of Kshs.23, 478,767 (see table above) was not appropriated to other priority expenditure items through a supplementary budget to ensure maximum efficiency on the available resource.

Management Response

The MD in his reply stated that Most of the budget items with under-expenditure were due to either lack of finances to fund and carry out the activities as budgeted or stringent cost control measures.

Committee observation

The Committee;

- (i) ***Lamented that failure to spend kshs.23, 478,767 deprived Kitui residents of essential water services.***
- (ii) ***Noted that the company lacked monitoring mechanism to enforce appropriate spending and that the practice of under-expending budgetary allocations defeats the principle of appropriation.***
- (iii) ***Stated that the management should have sought additional funds through supplementary budget.***

Committee recommendation

The Management should ensure continuous reconsideration of budgets is enforced to serve as an early warning signs for possible under spending and to avert financial stress in the course of implementation of budgets.

4) EXAMINATION OF THE REPORT BY THE AUDITOR-GENERAL ON THE FINANCIAL STATEMENTS OF KIAMBERE-MWINGI WATER AND SANITATION COMPANY LIMITED FOR THE YEAR ENDED 30TH JUNE 2017.

Basis for qualified opinion.

1:0 Share capital

As reported in the previous year, 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 explanation for this unsatisfactory state of affairs as at 30 June 2017.

Management response

In evidence to the committee, The Managing Director Mr. Paul Kinuba indicated that;

- The Water Act 2002 created a number of institutions under the water sector. These included the Water Services Boards mandated to develop water infrastructure and provide water services.
- The Act provided for creation of water companies to be agents of the Water Services Boards in provision of water services so that they could concentrate on infrastructure development.
- Kiambere-Mwingi Water & Sanitation Company was incorporated by Tanathi Water Services Board (TAWSB) in May 2009 with a share capital of Kshs. 100,000 divided into 5,000 shares of Kshs. 20 each.
- These shares were distributed among eleven individual stakeholders identified by the TAWSB. However, they were not required to pay for the shares in understanding that they were holding them in trust for the TAWSB and that they would hand them over to new directors when their terms expire.
- The Company has resolved to amend its Memorandum & Articles of Association to conform to the Companies Act 2015 and Water Act 2016.

- The amended Memorandum & Articles of Association provides for the County Government of Kitui to own and pay for all the company's shares as the owner of the company.
- The amended document was adopted by the Company's AGM and approved by the Board of Directors.
- The amended document was forwarded to the County Ministry of Agriculture, Water & Livestock Development for signing by the C.E.C.M in charge of Water Services, C.E.C.M in charge of Finance and the County Secretary so as to be registered with the Registrar of Companies.

Committee observation and recommendation

The Committee restates its observations and recommendations under paragraph 1.0 above (KIMWASCO) (2015/2016) in pressurizing the Management to ensure the even individuals pay for the shares in order to have the matter which has been recurring for three cleared by the Auditor-General.

Other matter:

1.0 Lawfulness and effectiveness (VFM) in use of public money

1.1 Ethnicity

As reported in the previous year, review of the staff bio data revealed that the Company had a total of 39 employees who represent only 5 ethnic communities of the country. Out of the total 39 employees, 30 (77%) come from the dominant ethnic community in the area while the remaining 23% is distributed as tabulated below:

Ethnic Community	Number of Employees	Percentage %
Kamba	30	76.9%
Meru	5	12.8%
Masai	1	2.5%
Kikuyu	1	2.5%
Luo	2	5.1%
Total Staff	39	100%

The Company did not ensure that at least 30% of its employees came from other ethnic communities other than the dominant community as required by Section 7 (2) of the National Cohesion and Integration Act, 2008.

In the circumstances, the Company was in breach of the Law.

Management response:

The MD conceded to the audit query and explained that most staff of the Company were inherited from Tana and Athi River Development Authority (TARDA) hence Management's inability to conform to the constitutional requirements on recruitment of the workers. He however, assured that diversity will be considered in future recruitments.

Committee observations and recommendations

The Committee restates its observations and recommendations under paragraph 1.0 above (other matter) KIMWASCO (2015-2016 financial year in respect of embedding the constitutional requirements during recruitment.

1.2 Non Revenue Water (NRW)

During the year under review, the Company produced 698,582 cubic meter (m³) of water. However, only 425,435 m³ was billed to customers. The balance of 273,147 m³ or approximately 39% of the total volume produced represented Non Revenue Water (NRW) which was over and above the allowable loss of 25% as provided by Schedule E, Section 85 of the Water Service Regulatory Board (WASREB) guidelines. Therefore, although 39% of the 698,582 cubic meter (m³) total water produced during the year was NRW, only 174,646 m³ (25%) with an estimated sale price of Kshs. 15,421,242 (Average price/m³= Kshs. 88.3) was an allowable loss while the balance of 98,501 m³ (14%) with an estimated sale price of Kshs. 8,697,638 was a non-allowable loss. The total NRW of 39% may have resulted in a loss of water sales estimated at Kshs. 24,118,880.

In the circumstances, the significant high level of NRW if not addressed will negatively impact on the Company's profitability and its long term sustainability.

Management response:

The MD conceded to the audit observation and explained as follows, that;

- The Company recorded Non-Revenue Water (NRW) of 39% which he attributed to physical losses (mainly through pipe bursts and

leakages) and commercial loses (mainly through inaccurate meters and illegal connections).

- The high level of UFW is due to the deterioration of the main Kiambere-Mwingi water pipeline which he said was nearing the end of its useful life having outlived its design period of 15 years.
- Rehabilitating the damaged sections will cost Kshs. sh.256,961,250.00 according to assessment done by the utility.
- The company cannot meet the cost hence its decision to turn to the county government for help.
- Weak sections of PVC and GI distribution pipelines are being replaced with PPR & HDPE pipes that are less prone to bursts and leakages. Also customer meters which are more than eight years are being replaced before they lose accuracy from wear.
- Management has established Non-Revenue Water team with a mandate of identifying and proposing solutions to other factors contributing to the substantial loss of water.
- These measures have enabled the company to contain NRW at below 40%.

The Committee Restates Its Observations And Recommendations Under Paragraph 3.0 Above (KIMWASCO) 2016-2017 Financial Year Regarding Efforts To Realize High Revenue Generation For The Company And Attain The Path Of Profitability And Its Long Term Sustainability

1.3 Budget and budget control

During the year under review, the Company had an approved expenditure budget of Kshs. 104,030,456. However, a comparison of the approved budget with the actual expenditures revealed that the Company over spent in seven items by Kshs. 4,609,334 as follows:

Expenditure Item	Approved Budget Kshs.	Actual Expenditure Kshs.	Variance Kshs.	Budget Absorption %
Casual wages	400,000	498,738	(98,738)	125
Motor vehicle fuel	1,980,000	3,032,324	(1,052,324)	153
Motor vehicle maintenance	1,800,000	2,265,742	(465,742)	126
Printing & photocopy	6,000	8,569	(2,569)	143
Staff training	700,000	838,300	(138,300)	120

Office general expenses	72,000	81,832	(9,832)	114
TAWSB	2,036,000	4,877,829	(2,841,829)	240
Total	6,994,000	11,603,334	(4,609,334)	166

No supplementary budget covering the Kshs. 4,609,334 over expenditure was made available for audit review.

In the circumstances, it was not possible to ascertain the source and authority of the Kshs. 4,609,334 over expenditure as at 30 June 2017.

Management response

The Accounting Officer explained as follows;

- The motor vehicle running expenses (fuel & maintenance) and TAWSB lease fee constituted Kshs. 4,359,895 (95%) of the overall expenditure of Kshs. 4,609,334. The motor vehicle running expenses increased as a result of significant increase in water trucking during the period as a result of prolonged drought.
- The lease fee by Tanathi Water Services Board was budgeted as 4% of the water sales.
- During compilation of the financial statements, however, 9% lease fee was recorded because formal agreement to reduce the fee had not been made by close of the period under review.
- To address the problem of over expenditure in future, the company adopted the policy of compiling supplementary budget for approval by the Board when need arises.

Committee observations and recommendations

The Committee restates its observations and recommendations under paragraph 1.1 above (other matter) (KITWASCO) 2016-2017 financial year regarding prudent execution of budgets.

- 5) EXAMINATION OF THE REPORT BY THE AUDITOR-GENERAL ON THE FINANCIAL STATEMENTS OF KITUI WATER AND SANITATION COMPANY LIMITED FOR THE YEAR ENDED 30TH JUNE 2018.

Basis for adverse opinion

1.0 Accuracy of Financial Statements

1.1 Accuracy of the Comparative 2017/2018 Balances

The financial statements for the year ended 30 June 2018 reflects Kshs.105,520,459 in respect to 2016/2017 comparative balances of eight (8) items while the audited 2016/2017 financial statements reflects Kshs.53,489,519 resulting to unexplained net variance of Kshs.52,030,940 as shown below.

Item	Note	Opening Balances in the 2017/2018 Financial Statements Kshs.	Closing Balances as per Audited 2016/2017 Financial Statement Kshs.	Variance Kshs.
Trade and other receivables	11	89,693,992	84,617,571	5,076,421
Payables and accruals 9% Lease fee Tanathi WSB	14	1,342,527	13,425,227	(12,082,700)
Prior year adjustments Reinstatement of correct closing balance- ett cash	16	4,052	(4,052)	8,104

Item	Note	Opening Balances in the 2017/2018 Financial Statements (Kshs.)	Closing Balances as per Audited 2016/2017 Financial Statement (Kshs.)	Variance (Kshs.)
Deferred Tax Asset — Balance Brought forward	17	(8,387,553)	(13,374,622)	4,987,069
Deferred Tax Asset — (Charae)/ Credit for the year	17	(120,868)	(8,370,810)	8,249,942

Capital Management Capital reserve	Risk	Page 50 item (iv)	(453,887)	(8, 106,675)	7,652,788
Capital Management Retained earnings	Risk	Page 50 item (iv)	11,845,658	(14,697,120)	26,542,778
Capital Management Prior ear	Risk	Page 50 item (iv)	11,596,538		11,596,538
Total			105,520,459	53,489,519	52,030.940

In the circumstances, the accuracy of the financial statements balances for the year ended 30 June 2018 could not be ascertained.

Management Response

In evidence to the committee, the Managing Director indicated that the corrections were made in agreement with the auditors at the start of the audit (as captured below) but were not incorporated in the final document.

Item	Variance	Explanation
Trade and other receivables	5,076,421	Error in transferring comparative figures
Payables and accruals - Tanathi WSB	(12,082,700)	Error in transferring data where 13,425,227 is recorded as 1,342,527
Prior Year Adjustments - Petty cash	8,104	Negative opening balance of Kshs (4,052) recorded as positive opening balance
Deferred Tax Asset - Balance brought forward	4,987,069	Deferred tax asset for 3 years was (13,374,622). In 2017 (8,370,810) and 2018, (9,691,001) respectively.
Deferred Tax Asset - charge/credit for the year	8,249,942	Error in transferring the opening balance.

Capital management - Capital Reserve	risk	7,652,788	Error in transferring comparative figures. Later corrected and forwarded to the auditors.
Capital management - Retained Earnings	risk	26,542,778	Error in transferring comparative figures. Later corrected and forwarded to the auditors.
Capital management - Prior Year	risk	11,596,538	Error in transferring comparative figures. Later corrected and forwarded to the auditors.

Committee observations

The Committee;

- (i) ***Noted that there existed the risk that errors, omissions, fraudulent entries could not be uncovered where there was no effective monitoring through constant reconciliation of the cashbook and bank statements.***
- (ii) ***The discrepancies could have resulted from; carelessness, misinterpretation of data or sheer incompetence on the part of the accounting personnel. The committee does not rule the element of creative accounting to conceal malpractices.***
- (iii) ***The unexplained variance is clear evidence that regular reconciliation of accounts was not being performed.***

Committee recommendations

The Management should ensure that;

- (i) ***Regular reconciliations are conducted so as to detect and correct any errors in a timely manner.***

- (ii) *The EACC / DCI should carry out further investigation into this matter and hold suspects accountable if theft of public funds is confirmed and to have the lost amount recovered.*

1.2 Balances with Errors

The financial statements for the year ended 30 June 2018 reflects Kshs.249,603,441 in respect to opening balances of four (4) items while the re-casted balances is Kshs.249,622,854 resulting to unexplained net variance of Kshs.19,413 as shown below.

Item	Note	Balance in Financial Statement (Kshs)	Financial Statements Re-Casted Balances (Kshs.)	Variances (Kshs.)
Administrative expenses	3	37,145,893	37,145,890	3)
Operating expenses	6	95,697,038	95,697,039	1
Depreciation charge for the year	9	548,480	543,481	(4,999)
Trade and other Receivables	11	116,212,030	116,236,444	24,414
Total		249,603 ,	249,622,854	19,413

In the circumstances, the accuracy of the financial statements balances for the year ended 30 June 2018 could not be confirmed.

Management Response

The Accounting Officer in his reply presented the following details;

Item	Variance	Explanation
Administrative	(3)	Rounding off difference
Operating Expenses	1	Rounding off difference
Depreciation for the year	(4,999)	Error in data transferring where 548,480 was typed as
Trade and other receivables	24,414	Error in opening balances for water tankering.

Committee observations and recommendations

The committee restates its observations and recommendations under sub-paragraph 1.1 above (KITWASCO) 2017-2018 financial year regarding preparation of complete and accurate financial statements.

1.3 Variances Between Balances in the Financial Statements and the General Ledger

The financial statements for the year ended 30 June 2018 reflects a balance of Kshs.322,293,959 on nine (9) items while the respective general ledgers reflects a balance of Kshs.289,651,934 on the same items resulting to unexplained net variance of Kshs.32,642,025 as shown below.

Variances between Balances in the Notes to the Financial Statements and the Ledger				
Items	Financial Statements	Notes to the Financial Statements Balances Kshs	Ledger Balances Kshs	Variances Kshs
Depreciation	Note 6	543,480	543,481	1
Bank charges	Note 7	512,348	429,315	83,033
Deferred tax asset note	Note 11	9,691,001	(22,928,014)	32,619,015
Balance brought forward				
Payables and Accruals	Note 14	97,414,994	97,558,048	143,054
Sub-Total		108 161 823	75,602,830	32,558,993
		statement of Comparison of Budget and Actual Amount Balances		
Transfer from County/National Government	Statement of Comparison of Budget and Actual Amount	79,587,243	79,587,242	1
Other Income		1,189,612	1 189,618	6
Admin Expenses		37,145,893	37, 145,890	3
Use of Goods & Services		95,697,040	95 697,039	1

Finance Costs	512,348	429,315	83,033
Sub-Total	214,132,136	214,049,104	83,032
Grand Total	322,293,959	289,651,934	32,642,025

In the circumstances, the accuracy of the financial statements balances for the year ended 30 June 2018 could not be confirmed.

In the circumstances, the accuracy of the financial statements balances for the year ended 30 June 2018 could not be confirmed.

Management Response

The Accounting Officer in his reply presented the following details;

Item	Variance	Explanation
Depreciation	(1)	Rounding off difference
Bank charges	83,033	Adjustment done in the financial statements not
Deferred Tax Asset - Balance brought forward	32,619,015	The correct ledger balance is 9,691,001 as explained in note 17 and not (22,928,014)
Payables and Accruals	(143,054)	The correct balance is Kshs 97,414,994 and not Kshs 97,558,048
Transfer from County/National	(1)	Rounding off difference
Other Income	(6)	Rounding off difference
Finance costs	83,033	Adjustment done in the financial statements not

Committee observations and recommendations

The committee restates its observations and recommendations under sub-paragraph 1.1 above (KITWASCO) 2017-2018 financial year regarding preparation of complete and accurate financial statements.

1.4 Inaccuracies in the Statement of Changes in Equity

The statement of changes in equity for the year ended 30 June 2018 reflect Kshs.22,040,407 in respect to prior year adjustments whose details were not availed for audit verification and which could be a balancing figure in the financial statements.

In the circumstances, the accuracy of the financial statements balances for the year ended 30 June 2018 could not be confirmed.

Management Response

The various items comprising the Prior Year Adjustment figure of Kshs 22,040,407 are as listed in note 16. (*See annex 1-attached to the report*)

Committee observation

- (i) *The committee, in its reaction, noted that financial statements cannot be useful if they are based on unreliable and inaccurate recordings of transactions.*

Committee recommendations

The committee recommends that;

- (i) *The variances should be corrected and evidence filed appropriately for audit verification not later than 90 days after adoption of this report by the house.*
- (ii) *The Management ensure measures are fully implemented and repeat situation avoided.*
- (iii) *The EACC / DCI should carry out further investigation into this matter and hold suspects accountable if theft of public funds is confirmed and to have the lost amount recovered.*

1.5 Inaccuracies in the Statement of Cash Flows

The statement of cash flow for the year ended 30 June 2018 reflects Kshs.22,364,157 in respect to prior year adjustments whose details were not vailed for audit verification and which could be a balancing figure in the financial statements.

In the circumstances, the accuracy of the financial statements balances for the year ended 30 June 2018 could not be confirmed.

Management Response

The MD submitted as follows;

- The various items comprising the Prior Year Adjustment figure are as listed in note 16 totaling to Kshs 22,040,407.

- The difference between this figure and Kshs 22,364,157 is Kshs 323,751 which is the surplus reserve in the previous year. (*See Annex 1 attached to the report*)

Committee observation and recommendation

The committee restates its observations and recommendations under paragraph 1.4 above (KITWASCO) 2017-2018 financial year regarding failure to avail details in respect to prior year adjustments and inaccuracy of the financial statements.

2.0 Bank and Cash Balances

Note 12 to the financial statements as at 30 June 2018 reflects Kshs.14, 988,400 in respect to bank and cash balances. However, bank confirmation for Post Office bank account with balance of Kshs. 1,909,892 was not availed for audit review. Further, the cash in hand is reflected as Kshs.91 ,336 while the cash survey certificate reflects Kshs.9,335 resulting to unexplained variance of Kshs.82,001. In addition, the Kenya Commercial bank (KCB) — expenditure account cash book was overdrawn by Kshs.2,493,505 and the amount was offset in cash and cash equivalent balance contrary to IAS 32 which over rules offsetting of assets.

In the circumstances, the accuracy of Kshs.14, 988,400 in respect to bank and cash balances as at 30 June 2018 could not be confirmed. In addition, the Company is in breach of the accounting standards.

Management's response

The Accounting Officer explained as follows;

- The make-up of Bank and Cash Balances is explained in note 12.
- The Post Office certificate was not received from the bank as at the time of the audit.
- The Petty cash difference of Kshs 82,001 reflected advances to the Staff included in Petty cash balance. The offsetting of the overdrawn expenditure account by Kshs 2,493,505 has been noted and will be disclosed separately in future.

Committee observations

The committee suspects that the errors of commission and omission could have been masterminded to circumvent accountability.

Committee recommends that the Management should;

- (i) Maintain an effective system of internal control designed to provide reasonable assurance that periodic financial reporting will comply with the conditions set in the International Financial Reporting Standards (IFRS).***
- (ii) Ensure that financial statements and other information included in the annual reports are checked and reviewed for completeness and accuracy prior to audit. All amendments to financial statements and information should be done before the annual audit commences.***
- (iii) Produce the documentary evidence justifying the balance of kshs. 1,909,892 held in the KCB account at the time of the audit for audit inspection. This should be done not later than 90 days after adoption of this report by the House.***
- (iv) The Accounting Officer should recover the salary advances amounting to kshs. 82,001 from the officers who received the money.***
- (v) The Committee invites EACC / DCI to carry out further investigation into this matter and hold suspects accountable if theft of public funds is confirmed and to have the lost amount recovered.***

3.0 Bank Charges

Note 7 to the financial statements for the year ended 30 June 2018 reflects Kshs.512, 348 in respect to bank charges. However, the Company operates an M-pesa paybill number which had a balance of Kshs.329, 441 as at 30 June 2018 but the respective bank charges could not be confirmed since the M-pesa statement was not available for audit review. In addition, no documents were made available to show that these bank charges have been included in the financial statements for the year under review.

In the circumstances, the accuracy of Kshs.512, 348 in respect to bank charges for the year ended 30 June 2018 could not be ascertained.

Management Response

The Accounting Officer explained that the M-pesa paybill statement submitted was submitted for audit review and that no charges are incurred on M-pesa paybill number but only when transfers are made.

Committee observations

The committee;

- (i) ***Emphasized the relevance of proper record keeping as a sine qua non in modern public administration.***
- (ii) ***Faulted the management for inability to produce the supporting documents at the time of audit leading to unnecessary audit query.***

Noted that delay in production of documents provides an opportunity for manipulation of documents. The committee doubted the authenticity of the Safaricom M-pesa statements submitted for audit inspection for lacking certification.

Committee recommendations

- (i) ***The committee recommends that all transactions, from inception to completion, should be supported by the relevant documentations and these should be numbered and cross referenced, so that in cases of missing documents, such documents can be easily traced.***
- (ii) ***The financial statements are adjusted accordingly to reflect the non-disclosures and submitted for audit verification.***

4.0 Board of Directors Allowances and Expenses

Note 8 to the financial statements for the year ended 30 June 2018 reflects Kshs. 1, 410,000 in respect to board of director's allowances and expenses. However, included in the expenditure is an amount of Kshs.655, 000 which was not supported by the relevant committee meeting minutes as shown below:

Date	Cheque/No.	Amount Kshs.)	Name of the Committee
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20-09-17	5986	24,000	Finance Meeting
25-09-17	5990	6,000	Sitting Allowance (Committee not indicated)
18-10-17	6150	27,000	Technical Meeting
23- 17	6155	60,000	Strategic Plan Validation (Full Board)
31- 17	3	60,000	Technical and Finance Committee
02- 17	9	27,000	Human Resource Committee
18-12-18	6036	18,000	Sitting Allowance (Committee not indicated)
22-01-18	6203	42,000	Subsistence Allowance (Committee not indicated)

Date	Cheque/No.	Amount Kshs.)	Name of the Committee
05-02-18		12,000	Subsistence Allowance (Committee not indicated)
15-02-18	6322	175,000	Full Board
16-02-18	6327	66,000	Full Board
19-02-18	6334	12,000	Sitting Allowance (Committee not indicated)
27-02-18	6378	54,000	Subsistence Allowance (Committee not indicated)
06-03-18	6381	51,000	Special Full Board
23-03-18	6421	6,000	Sitting Allowance (Committee not indicated)

29-03-18		6436	15,000	Sitting Allowance (Committee not indicated)
Total			655,000	

In the circumstances, the propriety, accuracy and value for money of the Kshs.655, 000 in respect to board of directors' allowances for the year under review could not be ascertained.

Management Response

The MD in his reply stated that the Copies of the signed register indicating the date and which committee met had been submitted for audit inspection. However the subsistence allowances charged to Directors allowances were not for committee sittings but for other engagements like trainings.

Committee observations

Upon scrutiny of documents submitted for audit verification, the committee discovered the following;

- (i) *Although the attendance register had been filed, the register was hand written unlike others where matters of the board are properly typed and properly headed to show location or venue, the meeting time.*
- (ii) *Also the attendance register was not closed/ruled after the last attendee inserted his name to avoid alterations especially where such a register could have been used as a basis to pay sitting allowances. In addition, the list does show the amount paid to board member giving room for manipulation.*
- (iii) *Further the register was not properly headed to show the institution where the members were conducting their business.*

Committee recommendations

The committee recommends that;

- (i) *The Management should avail the original register for audit inspection not later than 90 days after adoption of this report by the House.*

- (ii) *The Accounting Officer should be surcharged to have the kshs. 655, 000 paid irregularly recovered.*

(See annex 2 attached to the report)

5.0 Undisclosed Deferred Tax

Note 17 to the financial statements for the year ended 30 June 2018 reflects Kshs.9,691 ,00I in respect to a deferred tax. However, as reported in the previous financial year, the differed tax was not recognized as a liability in the statement of financial position as required by International Accounting Standards (IAS) number 12.

Consequently, the accuracy and completeness of the balances reflected in the statement of financial position as at 30 June 2018 could not be confirmed.

Management Response

In evidence to the Committee, the Managing Director indicated that deferred tax was computed to Kshs 9,691,001.

The Committee considered the advice of the Auditor-General that computation on the deferred tax was provided and matter is properly addressed. The Committee therefore declares the matter resolved.

6.0 Unremitted Tax and Other Statutory Deductions

Note 3 to the financial statements for the year ended 30 June 2018 reflects a balance of Kshs.37,145,893 in respect to administrative expenses which include Kshs.299,994 in respect to taxes, penalties, and interest. However, records availed for audit review indicated that the Company incurred Kshs.660, 228 due to non-remittance of Pay As You Earn (PAYE) to Kenya Revenue Authority (KRA) contrary to Section 37(1) of Income Tax Act, 1974 which states that an employer paying emoluments to an employee shall deduct therefrom, and account for tax thereon, to such extent and in such manner as may be prescribed. In addition, the Kshs.660, 228 is not included in the Kshs.299, 994 in the accounts payable and hence understating the taxes, penalties, and interest balance with the same amount.

In the circumstances, the Company is in breach of the law thereby incurring cost which should have been avoided. In addition, the accuracy of Kshs.299, 994 in respect to taxes, penalties, and interest for the year ended 30 June 2018 could not be confirmed.

Management Response

The MD submitted as follows;

- A comprehensive tax audit for the period January 2010 to December 2014 was conducted in early 2015. It was determined that the company owed Kshs 48.7 million in principal, Interest and penalties.
- The Company objected on 8th September 2015 and upon providing documents and explanation the liability was reviewed to Kshs 23.7 out of which 7.6 has been paid. Of the balance of 16 million 8.4 is interest and Kshs 2.8 penalty which the company intends to apply for waiver upon clearing the principal amount of Kshs 4.8 million.

(See annex 3)

Committee Observations

The committee;

- (i) ***Noted that although there is considerable effort to clear the outstanding tax obligations, more efforts need to be done to pay taxes due.***
- (ii) ***Faulted the Management for failing to remit deductions from PAYE on time attracting penalties from KRA.***

Committee recommendation

- (i) ***Laws governing statutory/vat deductions should be complied with by deducting all taxes on incomes and remitting the same to KRA in a timely manner as provided for in the relevant legislation and financial regulations.***
- (ii) ***Management ensure any amount withheld, should be remitted to KRA on or before the 9th day of the following month.***

7.0 Purchase of Water - Drought Mitigation

Note 6 to the financial statements for the year ended 30 June 2018 reflects a balance of Kshs.95, 697,038 in respect of operating expenses which includes Kshs.999, 865 in respect to purchase of water-draught mitigation which was meant for provision of water to areas severely affected by draught. However, a list of the beneficiaries, delivery notes and invoices to support this expenditure were not availed for audit verification.

In the circumstances, it has not been possible to confirm the validity and value for money for the Kshs.999, 865 in respect to purchase of water-draught mitigation for the year ended 30 June 2018.

Management Response

The MD in his reply stated that the expenditure of Kshs 999,865 was funded by Tanathi Water Services Board. The Board requested for the original file from the company for purposes of audit and which was handed over to them. The file was still with TANATHI at the time of the audit.

Committee observation

Upon scrutiny of documents submitted for audit inspection, the committee;

- (i) Condemned chronic weaknesses in management's record keeping terming it termed an impediment to accountability. Some crucial records were handwritten and had lots of cancellation.*
- (ii) Termed the missing file (original copy) as a ploy to circumvent accountability since the management should have been left with a copy.*
- (iii) Discovered that list of delivery of water did not indicate the quantities of water delivered creating room for manipulation of the document. This made calculation of the cost incurred impossible. Further the trucks used in the water-tracking were not identified.*

Committee recommendation

The EACC / DC should carry out further investigation into this matter and fix accountability should malpractices be discovered.

8.0 Presentation of the Financial Statements

The Company's financial statements for the year ended 30 June 2018 did not include project implemented by the entity, inter- entity transfers and recording of transfer from other government entities.as stipulated by the Public Sector Accounting Standards Board (PSASB).

Further, the Board stipulates that the statement of comparison of budget and actual amounts should have totals and should be shown after the statement of cash flow and before notes to the financial statements. However, the Company' statement of comparison of budget and actual amounts is shown as part of the notes to the financial statements and it has no expenditure totals and hence incomplete.

In addition, the statement of Director's responsibility should be dated and signed by three (3) directors. However, the statement of Director's responsibility is signed by the Managing Director and the chairman.

Further, PSASB stipulates that the head of finance should be one of the signatories of the statement of financial position of the Company and he should also indicate his/her name and Institute of Certified Public Accountant (ICPAK) membership number. However, the head of finance and his details are omitted in the financial statements for the year ended 30 June 2018.

In addition, PSASB stipulates that the financial statements should include the Board of Directors' and management teams' passport — size, names and key professional/academic qualifications. However, these details are not included in the financial statements for the year under review in respect to two (2) directors and one management team member.

In addition, the Other Incomes and Administrative Expenses are both referenced as note 3 to the financial statements and therefore the financial statements are not accurate.

In the circumstances, the presentation of the financial statements was therefore not in accordance with the recommended PSASB format.

Management Response

The Accounting Officer stated that the issues raised here have been noted and will be observed in the subsequent financial statements.

Committee observations

- (i) ***The Committee faulted the Management for disregarding PSASB format in preparation of the financial statements reiterating that financial statements cannot be useful if they are based on unreliable and inaccurate recordings of transactions.***

Committee recommendations

The committee recommends that;

- (i) The financial statements are adjusted accordingly to reflect the non-disclosures and corrective measures be fully implemented to avoid a repeat situation.**
- (ii) Further, the management should invest in applications that will result in swift and high-quality financial reporting. That will also help in mitigating risk and speed up the reporting cycle.**
- (iii) Also, the management should employ qualified accounting personnel to improve on financial reporting.**

Other Matter

1.0 Budget Control and Performance

1.1 Receipt Analysis

The statement of comparison of budget and actual amounts for the year ended 30 June 2018 reflects budgeted revenue of Kshs.188,070,590 and actual revenue of Kshs.168,533,553 resulting to an under- realized revenue budget by Kshs.41 ,524,284 on two items and over- realized revenue budget by Kshs.21 ,987,243 on one revenue item as shown below

The statement of comparison of budget and actual amounts for the year ended 30 June 2018 reflects budgeted revenue of Kshs.188,070,590 and actual revenue of Kshs.168,533,553 resulting to an under- realized revenue budget by Kshs.41 ,524,284 on two items and over- realized revenue budget by Kshs.21 ,987,243 on one revenue item as shown below:

Item/Component	Budget (Kshs)	Actual (Kshs)	Over (Kshs)	Under (Kshs)	Percentage
Sale of Goods	125,694,590	87,756,694		37,937,896	
Transfer from County/ National Govt	57,600,000	79,587,243	21,987,243		

Other Income	4,776,000				
Totals	188,070,590	168,533,553	21,987,243	41,524,284	

The excess collection of Kshs.21 ,987,243 (12%) over the budgeted revenue may be a pointer to very low set targets hence there is need for the management to review its budgeting mechanism with a view to coming up with a more realistic revenue budget to achieve higher revenue growth.

The Company failed to actualize its budget by Kshs.41, 524,284 or 22% an indication that some of the programmes and activities that had been planned were not implemented. There is need therefore for management to review its budget making process with a view to formulating a realistic budget that would be actualized for service delivery to the water consumers.

Further, the under collection of Kshs.41, 524,284 may be a pointer of revenue leakages hence there is need to institute effective control measures

Management Response

In reply, the MD presented the follows details;

Item	Over/Under	Explanation
Sales of Goods	37,937,896 (Under, 30%)	Sales target not reached due to high NRW levels.
Transfer from County/National Govt	21,987,243 (Over, 38%)	<ul style="list-style-type: none"> •Increased subsidy from the county due to high cost of power. •Unbudgeted support for drought mitigation of Kshs 1 million from Tanathi WSB.
Other Income	3,586,388 (Under, 75%)	Budgeted for sewer income but the sewer system didn't come into operation as anticipated.

Committee observations

- (i) *The Committee attributed the disparity in revenue collected visa-a-vis revenue projected to over-ambitious budgeting and planning, emanating from the use of unrealistic basis of budgeting or corruption.*

Committee recommendations

The Committee recommends that the management should ensure;

- (i) *They pass budgets with realistic estimates or projections, stating that overestimating projected revenues results in pending bills.*
- (ii) *They restructure the revenue generating machinery to over-turn the downward performance on revenue collection.*

1.2 Expenditure Analysis

The statement of comparison of budget and actual amounts for the year ended 30 June 2018 reflected a budgeted expenditure of Kshs.188,070,590 and actual expenditure of Kshs.168,537,110 resulting to an under-expenditure of Kshs.23,790,947 in three (3) of items and over-expenditure of Kshs.4,257,466 in three (3) items of the Budget as follows;

Item/Component	Budget (Kshs)	Actual (Kshs)	Over (Kshs)	Under (Kshs)	
Compensation of Employees	34,186,932	33,281,673		905,259	
Admin Expenses	33,250,931	37,145,893	3,894,962		
Use of Goods and Services	116,492,728	95,697,040		20,795,688	
Advertisement	340,000	490,156	150,156		44%
Finance Costs	300,000	512,348	212,348		
BOD	3,500,000	1,410,000		2,090,000	
Total	188,070,591	168,537,110	4,257,466	23,790,947	

The under expenditure of Kshs.22, 885,688 translates to an equivalent expected but denied services to Water Company customers. There is need therefore for the management to re-look at its budgeting mechanism with a view to focusing on areas which will improve service delivery to the Company's water consumers.

In addition, the over absorption of Kshs.4, 257,466 is an indicator of the Company's improper budget planning process. Further, there was no evidence of a supplementary budget for the over-expenditure of Kshs.4, 257,466 contrary to Section 43 (2) of the Public Finance Management (County Governments) Regulations 2015 which states that County government entities shall execute their approved budgets based on the annual appropriation legislation, and the approved annual cash flow plan with the exception of unforeseen and unavoidable spending dealt with through Emergency Fund, or supplementary estimates.

Management Response

In reply, the MD presented the following details;

Item	Over/Und	Explanation
Compensation for employees	905,259 (Under, 3%)	
Admin Expenses	3,894,962 (Over, 12%)	Fuel costs were higher due to increased water tracking due to drought.
Use of Goods and Services	20,795,688 (Under,	We had budgeted for sewer expenses but the sewer did not
Advertisement	150,156 (Over, 44%)	Due to cost of recruitment of the MD, Finance manager and Technical manager
Finance Costs	212,348 (Over, 71%)	This was under-budgeted

BOD	2,090,000 (Under, 60%)	We had anticipated training on governance for the directors which was never done in the year.
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Committee observation

The Committee faulted budget manager for;

- (i) Non-adherence to the spending maximum defined in the budgets.***
- (ii) Incurring over-expenditure without a supplementary budget***

Committee recommendation

The Committee recommends that the Management should always ensure they seek additional funds through supplementary budget.

Basis for Conclusion

1.0 Expiry of Appointment of Directors

Note 8 to the financial statements reflects an expenditure of Kshs.1 410,000 in respect to board of director's allowances and expenses.

However, the Company did not have a substantive Board of Directors during the year under review and even at the time of this audit in February 2019 since the term of the Board of Directors in place had expired as detailed below:

Name of Director	Position held in the Board	Date of Appointment	Expiry Date
Rev. Joseph Simba	Chairman	26.2.2006	25.2.2009
Everlvin Mutia	Director	18.5.2010	17.5.2013
Hadiiah Mohamed	Director	7.7.2011	6.7.2014
Patrick Kiusva	Director	25.2008	1 .5.201 1
Saida A.Mwikaa	Director	26.2.2006	25.2.2009

The Company is therefore in contravention of Section 34 of its Articles of Association which states that there shall be a board which shall consist of a chairman and such other number of directors as the board may from time determine.

Further, the Company is also in contravention of Section 132. (1) of the Company Act, 2015 which state that a public company shall ensure that at a general meeting of the company a motion for the appointment of two or more persons as directors of the company by a single resolution is moved only if a resolution that it should be so moved has first been agreed to by the meeting without any vote being cast against it

In the circumstances, the Company is in breach of the law and its Articles of Association.

Management Response

In evidence to the Committee, the MD indicated that;

- The County Government is handling the appointment of a substantive Board of Directors (BOD) for the Company following the expiry of the term of the previous substantive BOD.
- the County has already advertised for the positions through the County Public Service Board
- The county executive committee Member (CECM) for the Ministry of Agriculture, Water and Livestock Development issued a letter extending their term in office until there's a new Board in place because there couldn't be vacuum.

Committee observations

The committee;

- (i) *Faulted the management for making irregular payments since the term of the substantive Board of Directors had expired.*
- (ii) *Reckons that the Minister had no powers to extend the term of members of the board hence the purported extension was null and void.*

Committee recommendations

- (i) *In view of the above, the Committee recommends that the Accounting Officer be surcharged to have the kshs 410,000 paid illegally recovered.*

- (ii) *The management should apply a third rotation rule as per Section 132(1) of companies' act 2015 as advised by the audit service.*

2.0 Payables and Accruals

Note 14 to the financial statements as at 30 June 2018 reflects a balance of Kshs.97, 414,994 in respect to payables and accruals. However, as reported in the previous financial year, the payables and accruals increased by Kshs. 1,666,551 from Kshs.95,748,443 as at 30 June 2017 to Kshs.97,414,994 as at 30 June 2018. Included in the Kshs.97, 414,994 was Kshs.16,871 , 187 in respect to Kenya Revenue Authority (KRA) Taxes which decreased by Kshs. 1,325,006 from Kshs. 18, 196, 193 as at 30 June 2017 to Kshs. 16,871 , 187 as at 30 June 2018. The unpaid KRA taxes may attract huge interest and penalties and also attachment of the Company's properties which may result to legal actions that are avoidable should the Company comply with KRA rules and regulations.

In the circumstances, it has not been possible to ascertain that the management had instituted proper financial management systems to enable settling of debts as and when they fall due.

Management Response

The Company is addressing the issue of unpaid KRA taxes as earlier explained.

Committee observations and recommendations

The Committee restates its observations and recommendations under paragraph 6.0 above (KITWASCO) 2016-2017 financial year in respect of settling the tax obligations to KRA in order to have the issue which has been recurring since from 2016/2017 financial year is put to rest and to avert further interest and penalties and legal actions by the parties involved.

3.0 Non-Revenue Water

Note 1 to the financial statements reflects Kshs.87, 756,694 in respect to sale of water for the year ended 30 June 2018. Records made available showed that the Company produced a total of 2,723,427 cubic meters (m³) of water during the year under review. However, only 968,098 cubic meters was billed to customers. The balance of 1, 755,329 cubic meters (approximately 64%) of the total water produced, with a sale price of Kshs.149,202,965 (at Kshs.85 per

cubic meter) represents Non-Revenue Water(NRW) which is over and above the allowable loss of 25% as provided by schedule E of the Water Service Regulatory Board (WASREB) guidelines.

In the circumstances, the Company significantly exceeded the allowable NRW loss of 25% by 39% or approximately 1, 074,472 cubic meter with a sale price of approximately Kshs.91, 330,120 which if not addressed will negatively impact on the Company's profitability and its long- term sustainability.

Management Response

In evidence to the Committee, the MD Conceded that the company has been experiencing high NRW levels due to various factors. However, he said, measures have already been put in place to address the problem and positive results are being experienced.

Committee observations and recommendations

The committee restates its observations and recommendations under paragraph 2.0 above (other matter) (KITWASCO) 2015-2016 and paragraph 3.0 (KITWASCO) 2016/2017 financial year on having efforts put in place to realize high revenue generation by the company and attain the path of profitability and its long term sustainability.

4.0 Doubtful Rate on the Provision for Bad and Doubtful Debts

Note 11 to the financial statements reflects Kshs.116,212,030 in respect to trade and other receivables which includes Kshs.13,406,792 in respect to 15% provision for bad and doubtful debts. However, and as reported in the previous financial year, the rate of 15% was not supported by a Board resolution as required by the Code of Governance for State Corporations, Chapter 1 Section 1.2(i)(c) issued by the Public Service Commission and State Corporation Advisory Committee in January 2015 which stipulates that the Board should set and oversee the overall strategy and approve significant policies of the organization.

In the circumstances, the management is in breach of the Code of Governance.

Management Response

The Managing Director, in his reply explained that the general provision for bad debts of 15% was approved by the Board of Directors (BOD) on 28/09/2015. He said the Company intends to forward the issue to the BOD for approval since the Management has ascertained the total debtors and their status.

Committee observation and recommendation

The Committee restates its observations and recommendations under paragraph 2.0 above (KITWASCO) 2016-2017 financial year in respect of bringing the EACC on board for further investigation and ensuring the company adopts a practical write-off policy based on historical experience to minimize losses.

5.0 Audit fees

Note 14 to the financial statements reflects Kshs.97,414,994 in respect to trade payables and accruals which includes Kshs.896,000 in respect to outstanding audit fees since 2013/2014 which is payable to the Office of Auditor- General. However, this is contrary to Section 41 (1)(c) of the Public Audit Act, 2015 which states that the funds of the Office of the Auditor-General shall consist of audit fees charged at the rates prescribed by the Auditor-General.

In the circumstances, the nonpayment of audit fees constrains the operations of the Office of the Auditor-General and the Water Company is also in breach of law.

Management Response

The Accounting Officer stated that the outstanding audit fees as well as other account payables are being addressed as the company endeavors to collect more revenue to settle all outstanding liabilities.

Committee observations

This matter has remained an audit query for eight years due to failure by the Management to settle the liability which is obligated by law.

Committee recommendations

The Committee invokes Section 41 (1) (c) of the Public Audit Act, 2015 and hereby recommends that the Management should source for funds to settle the debt as soon as it is practical so the matter is dropped by the Auditor-General.

Meanwhile, the Committee advises the Auditor-General to invoice the Management for payment. Failure to act, the management should be deemed unfit to hold public office.

6.0 Progress on follow up of Auditors Recommendations

The financial statements for the year under review at page 50 and 51 reflects a progress on follow up of Auditors recommendations showing that three (3) issues/observations raised in the 2016/2017 Auditor-General's report have been implemented while the implementation of one (1) was ongoing. However, this progress on follow up of Auditors recommendations is incomplete as the issues reflected therein relates to only four (4) out of eight (8) issues raised in 2016/2017 Auditor-General's report. In addition, no documentary evidence was made available to show any action being taken by management towards resolving the audit issues.

In the circumstances, the issues raised in the 2016/2017 Auditor-General's report has remained unresolved as at 30 June 2018 thereby defeating the whole purpose of including the progress report in the financial statements.

Management Response

The Accounting Officer conceded to the audit observation stating that the issue had been noted and the company will take the necessary measures to implement all audit recommendations arising from previous audits.

In its reaction, the committee sought know how many recommendations are outstanding and how far has the company gone in the implementation to avoid piling up of so many issues and avoid repeat paragraphs in the future.

Committee observation

The Committee observed that;

The key objective of audit is to rectify situations hence it defeats purpose if recommendations by the Auditor-General are not implemented.

Committee recommendation

The Committee recommends that all pending audit recommendations should be implemented within (90) days or accounting officers who fail to do so be deemed / declared unfit to hold public office pursuant to Section 53 of the Public Audit Act, 2015.

7.0 Ethnic Diversity in Employment

The Company staff establishment at the time of the audit revealed a total of 103 staff, out of which 95 (92%) were from one community contrary to Section 65 (1) (e) of the County Government Act, 2012 which requires that at least 30% of vacant post at entry level to be filled by candidates who are not from the dominant community.

In the circumstances, Kitui Water and Sanitation Company was in breach of law.

Management Response

In evidence to the Committee, the Managing Director stated that the issue had been noted and the Management will embed constitutional requirements future recruitments.

Committee observations and recommendations

The committee restates its observations and recommendations under other matter (KIMWASCO) 2015/2016 financial year in respect of ensuring recruitment is in line with constitutional requirements and diversity is achieved.

8.0 VAT Recoverable from KRA

Note 1 1 to the Financial statements reflect Kshs.116,212,030 in respect to trade and other receivables which includes Kshs.30,469,204 in respect to Value Added Tax (VAT) recoverable from KRA and which was not supported by documentary evidence on how it was computed. Further, there was no evidence on the progress made by management to recover the Kshs.30, 469,204 from Kenya Revenue Authority contrary to Chapter 1 Section 1.2(i)(c) of the Code of Governance for State Corporations, issued by the Public Service Commission and State Corporation Advisory Committee in January 2015 which states that the Board should set and oversee the overall strategy and approve significant policies of the organization.

In the circumstances, the Board was in breach of its governance responsibility.

Management Response

The MD stated that measures are already in place towards recovery of the refundable VAT. He said the Management invited officials from the Kenya Revenue Authority for audit early July 2019 which they conducted. The Management is waiting for their final report to proceed with the recovery.

Committee observation

The committee could not ascertain if the claim was genuine in view of lack of documentary evidence of how the figure (Kshs.30, 469,204) was computed.

Committee recommendation

The Management should avail documentary evidence to prove that the recoverable VAT is genuine and that progress has been made towards recovery of the money Kshs.30, 469,204) from the taxman.

6) EXAMINATION OF THE REPORT BY THE AUDITOR-GENERAL ON THE FINANCIAL STATEMENTS OF KIAMBERE-MWINGI WATER AND SANITATION COMPANY LIMITED FOR THE YEAR ENDED 30TH JUNE 2018.

Basis for adverse opinion.

1:0 Presentation of the financial statements

The financial statements for the year under review did not include a statement of profit and loss and other comprehensive income and a statement of budget and actual amounts as prescribed by the International Public Sector Accounting Standards Board (PSASB). In the absence of the statement of comparison of budget and actual amounts, it has not been possible to analyze the Company's budgetary controls and performance for the year under review. Further, the Company's financial statements included a statement of comprehensive income instead of a statement of profit and loss and other comprehensive income as required by PSASB.

In addition, PSASB stipulates that the statement of financial position of the Company should reflect the name, signature and Institute of

Certified Public Accountant of Kenya (ICPAK) membership number of head of finance. However, the head of finance did not indicate his ICPAK membership number in the statement of financial position for the year ended 30 June 2018.

In the circumstances, the presentation of the financial statements for the year under review was not in accordance with the prescribed accounting standards.

Management response:

In evidence to the committee, the MD indicated that;

- The Company's 2016/2017 Financial Statements comprised of three main components namely statement of comprehensive income, statement of financial position and statement of cash flow. It is after the draft audit report was released that the Management realized that the statement of comprehensive income should have been named Statement of Profit and Loss and Other Comprehensive Income as per the Public Sector Accounting Standards (PSASB). By then it was too late to change the statements. However, the Management has since adopted the new accounting standards.
- In the same financial statements, comparison of budget and actual amounts was included as an appendix as was the practice previously. It was realized after the draft audit report was released that this should have been placed below the statement of cash flow. Again it was too late to change the statements.
- Further, the 2016/2017 financial statements reflected the name and signature of the company Accountant as the current head of finance who had not obtained ICPAK membership number as he was yet to sit for his final CPAK exams. He is scheduled to sit for the exams in November 2019 after which he anticipates to qualify for ICPAK membership to meet the new ICPAK requirements.

Committee observations

The committee states that;

- (i) ***Financial Statements are an expression of governments' accountability to legislative organs/ parliaments and civil society on how well it has exercised its responsibilities as custodian of the public purse. The statements should therefor provide a true and fair view of financial position and performance of public entities.***

- (ii) ***The erroneous preparation of the Financial Statements was a clear indication of carelessness, negligence and incompetence on the part of the company's accounting personnel.***

Committee recommendation

The Committee recommends that the Management should put in place to ensure its accounts are prepared in compliance with Internationally Acceptable Standards.

2:0 Financial Performance

The Company's statement of comprehensive income for the year under review reflects Kshs. 87,591,201 in respect to total income and Kshs. 101,915,327 in respect to total expenditure resulting to a loss of Kshs. 14,324,126. This loss has consequently reduced the revenue reserves by Kshs. 14,324,126 from negative Kshs. 13,660,284 as at 30 June 2017 to negative Kshs. 28,457,030 as at 30 June 2018.

In addition, the Company's financial position as at 30 June 2018 reflects Kshs. 25,371,049 in respect to total current assets against Kshs. 38,398,142 in respect to total current liabilities resulting to Kshs. 13,027,093 in respect to excess current liabilities over current assets. The Company's liquidity position is therefore in doubt as it may not be able to meet its current liabilities as and when they fall due which could threaten its going concern. The Company may therefore have to rely on its creditors and governments grants to remain afloat.

In the circumstances, if proper strategies are not put in place to reverse the trend, the Company is likely to face financial challenges in future which could threaten its going concern.

Management response:

In evidence to the Committee, the MD indicated that;

- The water level at the Kiambere dam - the only source of water for the Kiambere-Mwingi water supply project dropped so low in 2017 due to prolonged drought between August and October. Water could not be pumped at the time. This was followed by unusually heavy rains between mid-November 2017 and early April 2018 which significantly reduced demand for piped water. The two events caused reduction of revenue generation by the company and the net effect was a loss of Kshs. 14,324,126 during the period under review.
- Further, the electricity subsidy from the County Government of Kitui reduced by Kshs. 3,908,698 in terms of unpaid electricity bill

at the close of the period under review. This impacted on the Company's profit and loss statement.

- In addition, out of the total current liabilities of Kshs. 38,398,142, Kshs. 19,764,981 was provision for lease fee to Tanathi Water Services Board. However the company had undertaken to pay only Kshs. 5,894,026.00 and this was communicated to TAWSB. However, the process of waiving the balance is yet to be concluded.
- Overall, the Company has put in place strategies to improve its financial status going forward. This includes launching of five year strategic plan in June 2018 that is currently under implementation and proposing new water tariffs for approval.

Committee observations

- (i) ***The Company underperformed generally owing to weak management structures, processes and systems which threatens its sustainability.***
- (ii) ***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.

3:0 Share Capital

As reported in the previous years, 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 contrary to Section 360 (1) of the Company's Act, 2015 which states that a subscriber to the memorandum of a public Company who takes shares of the Company as a result of an undertaking given in the memorandum shall pay for the shares, and any premium on the shares, in cash. The Company has not provided explanation for this unsatisfactory state of affairs as at 30 June 2018.

In the circumstances, the Company was in breach of the law. In addition, the validity and accuracy of share capital of Kshs. 100,000

reflected in the financial position as at 30 June 2018 could not be ascertained.

Management response

In evidence to the committee, The Managing Director Mr. Paul Kinuba indicated that;

- The Water Act 2002 created a number of institutions under the water sector. These included the Water Services Boards mandated to develop water infrastructure and provide water services.
- The Act provided for creation of water companies to be agents of the Water Services Boards in provision of water services so that they could concentrate on infrastructure development.
- Kiambere-Mwingi Water & Sanitation Company was incorporated by Tanathi Water Services Board (TAWSB) in May 2009 with a share capital of Kshs. 100,000 divided into 5,000 shares of Kshs. 20 each.
- These shares were distributed among eleven individual stakeholders identified by the TAWSB. However, they were not required to pay for the shares in understanding that they were holding them in trust for the TAWSB and that they would hand them over to new directors when their terms expire.
- The Company has resolved to amend its Memorandum & Articles of Association to conform to the Companies Act 2015 and Water Act 2016.
- The amended Memorandum & Articles of Association provides for the County Government of Kitui to own and pay for all the company's shares as the owner of the company.
- The amended document was adopted by the Company's AGM and approved by the Board of Directors.
- The amended document was forwarded to the County Ministry of Agriculture, Water & Livestock Development for signing by the C.E.C.M in charge of Water Services, C.E.C.M in charge of Finance and the County Secretary so as to be registered with the Registrar of Companies.

The Committee observation and recommendation

the Committee restates its observations and recommendations under paragraph 1.0 above (KIMWASCO) (2015/2016) regarding payment for shares by the eleven individuals in order to have the matter which has been recurring for six years now dropped by the Auditor-General.

Other matter

1.0 Audit fees

Note 15 to the financial statements reflects Kshs. 29,321,947 in respect to payables and accruals which includes Kshs. 928,000 in respect to accumulated audit fees (since 2013/2014 financial year) which is payable to the Office of Auditor General in accordance to Section 41 (1) (c) of the Public Audit Act, 2015 which states that the funds of the Office of the Auditor General shall consist of audit fees charged at the rates prescribed by the Auditor General.

In the circumstances, the water Company is in breach of the law.

Management response:

Citing financial statements, the MD stated that the Company has been making annual provision of Kshs. 232,000 as audit fees but the Office of the Auditor General has not been issuing invoices for the last four years. He said the Company paid for the invoices issued earlier and will pay for the outstanding invoices once they are issued.

Committee observation and recommendation

The Committee restates its observations and recommendations under paragraph 5.0 above (other matter) (KITWASCO) 2017-2018 financial year regarding payment of the audit fees so that the issue which has been recurring for eight years now is cleared by the Auditor-General.

2. Non-Revenue Water

Note 2(a) to the financial statements reflects Kshs. 49,903,830 in respect to sale of water for the year ended 30 June 2018. Appendix 2 to the financial statements shows that the Company produced a total of 656,187 cubic meters (m³) of water during the year under review out of which only 398,364 cubic meters was billed to customers. The balance of 257,823 cubic meters (approximately 39%) of the total water produced, with total sales value of Kshs. 22,843,118 at a rate of Kshs. 88.6 per cubic meter represents Non Revenue Water (NRW) which is over and above the allowable loss of 25% as provided by schedule E of the Water Service Regulatory Board (WASREB) guidelines.

In the circumstances, the Company significantly exceeded the allowable NRW loss of 25% by 14% or approximately Kshs. 8,308,575 (93,776.25 per cubic meter at Kshs. 88.6 per cubic meter) which if not

addressed will negatively impact on the Company's profitability and its long term sustainability.

Management response:

The MD conceded to the audit observation and explained as follows, that;

- The Company recorded Non-Revenue Water (NRW) of 39% which he attributed to physical losses (mainly through pipe bursts and leakages) and commercial losses (mainly through inaccurate meters and illegal connections).
- The high level of UFW is due to the deterioration of the main Kiambere-Mwingi water pipeline which he said was nearing the end of its useful life having outlived its design period of 15 years.
- Rehabilitating the damaged sections will cost Kshs. sh.256,961,250.00 according to assessment done by the utility.
- The company cannot meet the cost hence its decision to turn to the county government for help.
- Weak sections of PVC and GI distribution pipelines are being replaced with PPR & HDPE pipes that are less prone to bursts and leakages. Also customer meters which are more than eight years are being replaced before they lose accuracy from wear.
- Management has established Non-Revenue Water team with a mandate of identifying and proposing solutions to other factors contributing to the substantial loss of water.
- These measures have enabled **the company to contain NRW at below 40%.**

Committee observation and recommendation

The Committee restates its observations and recommendations under paragraph 3.0 above (KITWASCO) 2016/2017 financial year in respect of efforts/measures which should be taken to realize high revenue generation for the utility and attain the path of profitability and its long term sustainability.


Signed.....

Date 30th September, 2020

**Hon. ALEXANDER MUNUVE MBILI, MCA
CHAIRPERSON, PUBLIC INVESTMENTS AND ACCOUNTS
COMMITTEE.**

ADOPTION OF THE REPORT ON THE AUDITED FINANCIAL STATEMENTS OF THE KITUI WATER AND SANITATION COMPANY (KITWASCO) AND KIAMBERE-MWINGI WATER AND SANITATION COMPANY (KIMWASCO) FOR THE 2015/2016, 2016/2017 AND 2017/2018 FINANCIAL YEARS.

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:-

S/No	Name	Signature
1	Hon. Alexander Munuve Mbili	
2	Hon. Beatrice Velesi Musyoka	
3	Hon. Anthony Kyusya Mbiti	
4	Hon. Alex Mutambu Nganga	
5	Hon. Alex Wambua Mwangangi	



ANNEX 1
 Qs 1.4 & 1.5

2. Management 5,600,000

16. PRIOR YEAR ADJUSTMENTS

2016/2017

Recognition of customer deposit loan	1,619,462
Reversal of 15% prov for leave 2015/16	(551,980)
Reversal of suspense account CB 2015/16	(292,173)
Reversal of staff advance not recognized in expense	7,000
Reinstatement of correct closing balance – petty cash	4,052
Adjustment of Statement of Change in Equity OB	(9,457)
Subsidy payment of accrued electricity bill 2015/16	(12,365,338)
	<u>(11,596,538)</u>

2017/2018

OB for Statement of Changes in Equity excluding capital	323,751
Correction Kyangunga OB	(57,145)
Reversal of Electricity other areas corrections 2016-17	(666,507)
Reversal of prov for leave 2015/16 and recognize 2017-2018	(670,034)
Staff gratuity error correction	424,811.2
Recognize Staff gratuity additional liability after recon	118,114.43
Additionla invoice – KEL Chemicals	176,579.92
Recognize previous yrs invoice – KEL	682,400
Adj for payment to Miamba Construction prev yr	(20,536.86)
Recognize payment to Eslon in the prev yr	(636,316.10)
Adj for payments of Bowser sales in OB	303,800
Reversal of inventory stock take 2016-17	1,804,193
Recognize expense under Drought mitigation account	22,860
Reversal of Bad debts – 2016-2017	(14,932,513)
Recognize omitted payments to Nairobi Iron Mongers	(268,300)
Deferred tax asset recognition for prior years	(8,508,420.63)
Correction of OB Accounts receivable	24,414
Correction of OB – Matheka Electricals	(18,500)
Adj of Exp Account OB (Stale cheques)	(143,057.25)

(22,040,406.49)

17. Deferred Tax Asset Note

	<u>FY 2018</u>	<u>FY 2017</u>
Balance b/f		
(Charge)/Credit for the year	(8,508,421)	(8,387,553)
Prior year adjustments	(1,182,581)	(120,868)
Balance c/f	-	-
	<u>(9,691,001)</u>	<u>(8,508,421)</u>

RELATED PARTIES DISCLOSURES

The entity has related parties which includes :

1. **The County Government of Kitui**

The Company operates under a subsidized tariff whereby the County Government of Kitui subsidises by a way of paying a portion of the electricity bills. Under the New Constitution of Kenya 2010 and the Legal Notice No. 164 devolved the water and sanitation services to the County Governments. Hence, the Company is offering services on behalf of the County Government and is 100% owned by the county.

2. **Tanathi Water Services Board**

3. **Water Services Regulatory Board**

The Company is regulated by Water Service Regulatory Board who is also the regulator for the water and sanitation sector. Further the company pays a regulatory levy of 1% of revenues billed

4. **Others**

- Board of Directors
- Key management

CONTINGENT LIABILITES

Legal claims against the entity are with regard to 3 suspended staff who have filed cases against the company.

ANNEX 12
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VAT Recoverable

30,469,204	15,184,2
<u>116,212,030</u>	<u>89,693,992</u>

12. BANK AND CASH BALANCES

Cash at bank 14,897,064 21,175,122
 Cash in hand

91,336	13,030
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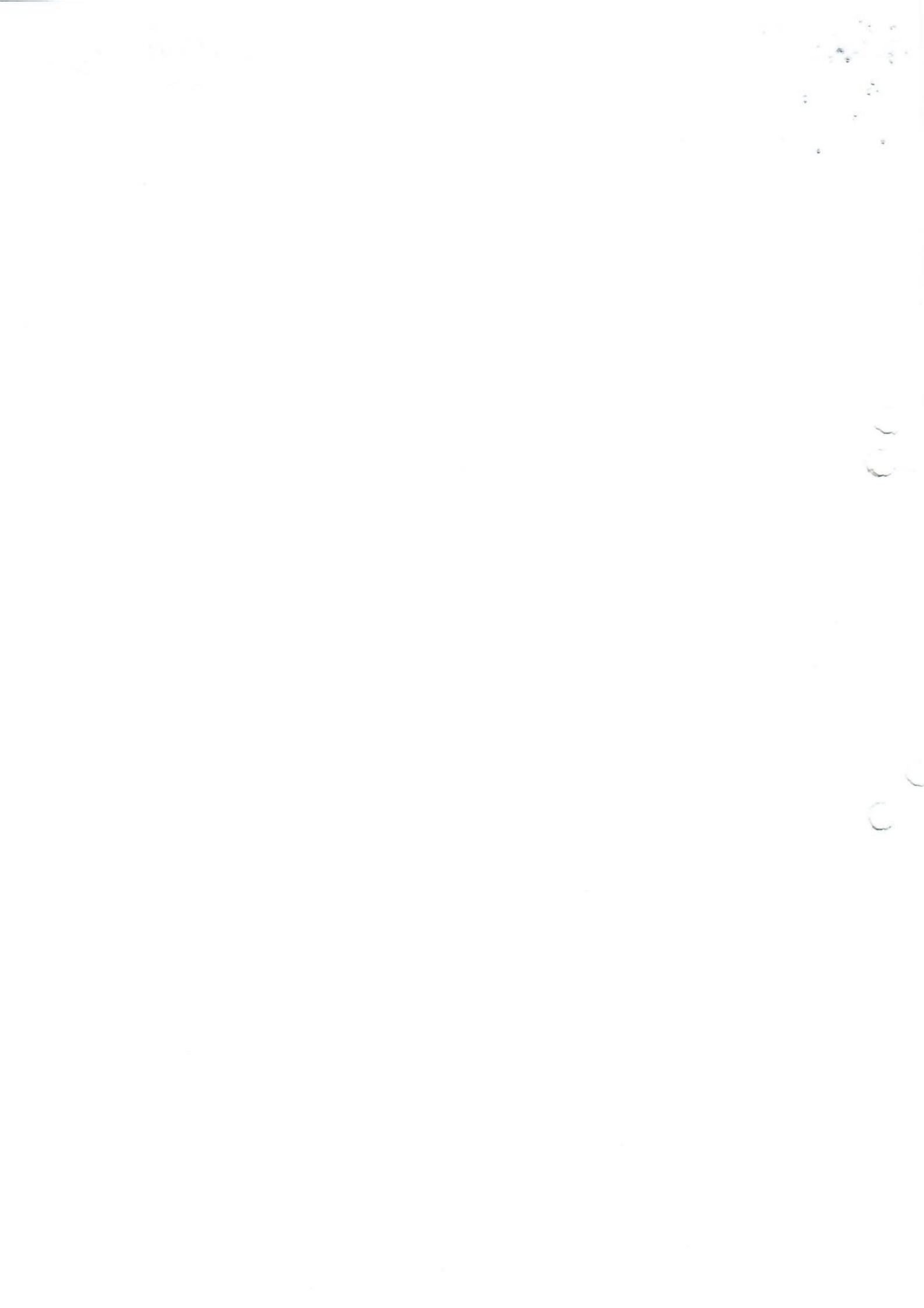
<u>14,988,400</u>	<u>21,188,152</u>
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The bulk of the cash at the bank was held at KCB the company's main bankers

Financial institution	Account number	2017 -2018	2016 2017
A) Current account			
KCB Customer deposit	1 108997538	14,221,796	14,248,060
KCB Revenue a/c	1 106008197	192,003.11	5,289,747
KCB Gratuity a/c	1110300336	470,559	478,728
KCB Drought mitigation	1205316566	5,834	36,220
KCB Expenditure a/c	1113757604	(2,493,504.78)	(549,183)
Cooperative bank	0114130067900	139,067	657,249
Post office		1,909,892	741,311
Post bank	07441 300613	121,977	19,545
Mpesa paybill	813235	329,441	253,445
Total		14,897,064	21,175,122

13 LOAN FROM CUSTOMERS DEPOSIT ACCOUNT

Purchase of New Motor vehicle KBN 544E	333,336	333,336
Purchase of Motor vehicle KBG 046 C	680,794	680,794
Chemicals and materials for repair of water system	19,462	19,462
Payment of 9% lease fee	270,884	270,884
Electricity and KRA	357,862	357,862



ANNEX 2
Q-4.5

NAME	ID	SIGN
① PATRICK KIUSYA	11518196	Signature
② SAO A. MWIKHA	3271214	Signature
③ Rev JOSEPH M SIMBA	5270876	Signature

FINANCE COMMITTEE MEETING HELD ON 21-7-2016 X

1. REV. JOSEPH SIMBA
2. JUNE MAWIA
3. EVELYN KYENI
4. JOHN KAMETA
5. GEOFFREY KIYA

FINANCE COMMITTEE MEETING HELD ON 29-7-2016

1. REV. SIMBA JOSEPH
2. JUNE MAWIA
3. EVELYN KYENI
4. JOHN KAMETA
5. GEOFFREY KIYA

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HUMAN RESOURCE COMMITTEE MEETING
HELD ON 5th AUGUST 2016.

- | | | |
|----|--------------------|----------|
| 1. | JACOB MWITA | 8364771 |
| 2. | June Kangato | 13673079 |
| 3. | Rev JOSEPH M SIMBA | 5270826 |
| 4. | EVELYN MWITA | 3666610 |

Shiraz
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AUDIT COMMITTEE MEETING HELD ON 17/03/20

<u>NAME</u>	<u>ID</u>	<u>SIGN</u>
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- | | | |
|---|--------------------|----------|
| ① | PATRICK KINSYA | 11518196 |
| ② | SAYO A. MWIKWA | 0271245 |
| ③ | Rev JOSEPH M SIMBA | 5270826 |

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FULL BOARD MEETING HELD ON 8th SEP 2016

NAME	ID	SIGN
1. Rev JOSEPH M. SIMBA	5270826	Signature
2. EVELYN MUIA	3666610	Signature
3. Kennedy Mutahi	206094	Signature
4. SAIB ABDALLAH	1271249	Signature
5. JUNE M. KASYA	13673019	NO
6. PATRICK KIOSYA	11573196	(Patrick)

NO Minute



SPECIAL FULL BOARD MEETING - 23/9/2016

1. JACOB MWITA	8364771	Shupe
2. Patricia Mwangi	11518196	Patricia
3. Evelyn Mwangi	3666610	Evelyn
4. Said Abubakar	0211215	Said
5. Kennedy Mutahi	2667441	Estahl
6. Khadija A Mohd	0575009	Khadija
7. June M. Kanyasi	13673015	1st
8. Kyun Kangie	9974472	Sh.

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No minutes

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SPECIAL FULL BOARD MEETING - 23/9/2016

- | | |
|--------------------|----------|
| 1. JACOB MWITA | 8369771 |
| 2. Patricia Mwangi | 11518196 |
| 3. Evelyn Mwangi | 3666610 |
| 4. Sarah ABBALEHI | 0271215 |
| 5. Kennedy Mutahi | 24682441 |
| 6. Khadija A Mohd | 0575009 |
| 7. June M. KANYATI | 13672019 |
| 8. Kyun Kang'e | 9974472 |

Shirone
~~Patricia~~
~~Evelyn~~
~~Sarah~~
~~Kenya~~
~~Khadija~~
~~June~~
~~Kyun~~







no minutes

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Full Board Meeting - 06/10/2016

Name	ID. No.	Signature
1. PATRICK KUSYA	11518196	
2. SAID ABDALWA	0271219	
3. Rev JOSEPH M SIMBA	3205270826	
4. EVELYN MWITA	3666610	
5. Khadija A. Mohd	0575009	
6. Kyuu Wange	0974472	

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SPECIAL Full BOARD MEETING
27/10/2016

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|----|--------------------|------------|---------------------------|
| ① | Rev Joseph M Simba | 5270826 | Joseph M Simba |
| ② | Kennedy Mubari | | Esther |
| 3. | EVELYN MWINA | - 3666610 | Esther |
| 4. | JARIS A. MWIKAA | - 0271219 | Esther |
| 5 | Jane M Kanyati | - 13673019 | Esther |
| 6 | Byron Kamuk | - 0974472 | ll |

AUDIT COMMITTEE MEETING
HELD ON 16/12/2016

- | | | | |
|----|--------------------|----------|-------------------|
| 1. | JARIS A. MWIKAA | 0271219 | Esther |
| 2. | Khadija A. Mohd | 0575009 | Esther |
| 3. | Patricia Kinyo | 11518196 | Esther |
| 4. | Rev Joseph M Simba | 5270826 | Esther |

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Full BOARD MEETING 22/12/2016

1	✓ Rev JOSEPH M SIMBA	5270826	Signature
2	Jacob Mutua	8364771	Signature
3	✓ PATRICK KIUSYA	11518196	Signature
4	NATHAN K. VUNGO	22524074	Signature
5	EVELYN K. MUTIA	3666610	Signature
6	✓ KHADIJA A. MOHAMED	0575009	Signature
7	✓ Sam A. MUKA	0271219	Signature

NOT SIGNED.

FULL BOARD MEETING ON 05/01/2017

SN	NAME	ID	SIGNATURE
1	Rev JOSEPH M SIMBA	5270826	Signature
2	Kennedy Mutua	92607441	Signature
3	Patricia Kiusya	11518196	Signature
4	Samuel Abdallah	0271219	Signature X
5	EVELYN MUTIA	3666610	Signature
6	Nathan K. Vungo	22524074	Signature

AGM - OFFICIAL MEETING 9th JAN, 2017


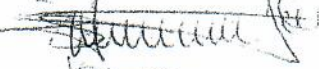


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1	Rev. JOSEPH M SIMBA	05270826	Signature

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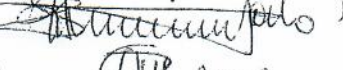

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AUDIT COMMITTEE MEETING
HELD ON 23/02/2017

NAME	ID	SIGN
1. SAID ABDALLAH	0271219	
2. Rev JM SIMBA	5270826	
3. Khadija A Mohamed	0575009	
4. PATRICK KUSYA	11518196	

STAFF MEETING - ATTENDED BY BOD
(SPECIAL) 28/2/2017

1. SAID ABDALLAH	0271219	
2. Rev. JM SIMBA	5270826	
3. PATRICK KUSYA	11518196	
4. JUNE KAYATI		
5. JACOB MWANDIKWA		
6. EVELYN MUTIA		

TECHNICAL COMMITTEE MEETING
HELD ON 16/03/2017

NAME	ID	SIGN
1. PATRICK KUSYA	11518196	
2. Rev JOSEPH M SIKUSA	5270826	
3. SAID ABDALLAH	0271219	
4. John Kimetg		

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FINANCE COMMITTEE MEETING - 10/4/2017

NAME	ID	SIGN
KANYASI JUNE MUNDIA	13698019	_____
RSV. JOSEPH SIMBA		
EVELYN MUTIA - 3666610		_____

HUMAN RESOURCE COMMITTEE MEETING HELD ON 11/04/2017

NAME	ID	SIGN
1. JACOB MUTIA	8364071	_____
2. JUNE KANYASI	13678019	_____
3. EVELYN MUTIA - 3666610		_____

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FULL BOARD MEETING ON 13/4/2017

1	Rev Joseph M. Sumbwa	5270826	
2	Jacob Muta	8364771	
3	JUNE M. KANYATI	13673019	
4	SARA ABDALLAH	0271219	
5	EVELYN MUTIA	3666610	

KITWASCO - FINANCE COMMITTEE MEETING HELD ON 5TH JUNE 2017

PRESENT

1	JUNE M. KANYATI	13673019	
2	Rev Joseph M. Sumbwa	5270826	
3	EVELYN MUTIA	3666610	
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OK

KITWASCO SPECIAL FULL BOARD MEETING 22/6/2017

1	JACOB MUTIA	8364771	
2	JUNE KANYATI	13673019 X	
3	EVELYN MUTIA	3666610	
4	PATRICK KUSYA	11518196	
5	MURPHY MUTIA	2267446	

KITWASCO CMT + BOB MEETING HELD ON 21/9/2017

1	PATRICK KUSYA	11518196	
2	EVELYN MUTIA	3666610	

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KENYA REVENUE AUTHORITY

ISO 9001:2008 CERTIFIED

DOMESTIC TAXES DEPARTMENT

P051191908Z

The Managing Director
Kitui Water and Sanitation Limited
P. O. Box 341 - 90100
Nairobi

17th February 2017

J.A
Tom were the last person to do meet with KRA. Arrange we meet we do miss this letter on
1/3/17

I A/c not
kindly try to understand for
discuss now
next meeting
17/2/2017



Dear Sir,

RE: OBJECTION DECISION

We refer to your objection notice and a follow up letter dated 8th September 2015.

Following the additional documentation and explanations from your representatives, the additional liability from the audit has been revised as follows:

1) Corporation Tax

	TOTAL	2012	2011	2010	2009
	KSHS	KSHS	KSHS	KSHS	KSHS
Profit / (Loss)		13,999,085	-7,546,023	-10,990,322	6,702,712
Revised Income		6,558,203	-13,562,441	-10,990,322	6,702,712
Add:					
1) Bad Debts General		6,295,032	5,263,623	4,029,198	0
2) Depreciation		1,116,257	857,936	944,706	602,684
3) Donations		10,000	10,000	0	0
Total Additional Income		13,969,492	-7,440,882	-6,016,418	7,305,396
Principal Tax	6,382,467	4,190,848	0	0	2,191,619
Section 72 D	1,276,494	838,170	0	0	438,324
Section 38 TPA Interest	5,149,972	2,967,120	0	0	2,182,852
TOTAL	12,808,933	7,996,137	0	0	4,812,795

2) WITHHOLDING TAX (WHT)

	TOTAL	2013	2012	2011	2010	2009
B) WHT	KSHS	KSHS	KSHS	KSHS	KSHS	KSHS
1) Audit Fees	0	0	200,000	100,000	100,000	100,000
2) Strategic Plan	0	0	300,000	0	0	0
TOTAL	0	0	500,000	100,000	100,000	100,000
Principal Tax	40,000	0	25,000	5,000	5,000	5,000



Section 35 Penalty	4,000	0	2,500	500	500	500
Section 38 TPA Interest	24,000	0	12,750	3,150	3,750	4,350
TOTAL	68,000	0	40,250	8,650	9,250	9,850

3) PAY AS YOU EARN (PAYE)

	2014	2013	2012	2011	2010	2009
	KSHS	KSHS	KSHS	KSHS	KSHS	KSHS
Honoraria	0	360,000	360,000	360,000	360,000	360,000
Directors' Allowances	2,201,034	2,000,940	1,804,084	1,528,452	708,269	968,872
Airtime	248,006	275,562	306,180	340,200	378,000	420,000
Gratuity	1,820,930	1,655,391	1,504,901	1,368,092	1,243,720	1,119,348
TOTAL	4,269,970	4,291,893	3,975,165	3,596,744	2,689,989	2,868,220
Principal	1,280,991	1,287,568	1,192,550	1,079,023	806,997	860,466
Less: WHT Credits	83,922	0	324,305	0	0	0
Balance	1,197,069	1,287,568	868,245	1,079,023	806,997	860,466
Section 37 ITA	299,267	321,892	217,061	269,756	201,749	215,117
Section 38 TPA	311,238	489,276	434,122	668,994	597,178	740,001
TOTAL	1,807,574	2,098,736	1,519,428	2,017,773	1,605,923	1,815,583
TOTAL DUE	10,865,018					

We further acknowledge payments made on account towards settling the above liability as follows:

Date	Kshs
29/9/2015 - PAYE	2,000,000
14/10/2015 - PAYE	3,000,000
7/12/2015 - PAYE	500,000
28/1/2016 - PAYE	500,000
25/2/2016 - PAYE	500,000
11/11/2016 - PAYE	1,147,998
TOTAL	7,647,998

Kindly, make arrangements to clear the outstanding balance of Kshs 16,093,953 (12,808,933+68,000 + 10,865,018 Less 7,647,998) immediately.

If you wish to appeal against this decision, please do so as provided for under Section 52 (1) of Tax Procedures Act, 2015.

Yours faithfully,



H. Ligare

For: Chief Manager, Regional Audit Centre – Nairobi East

