# COUNTY ASSEMBLY OF NAKURU

## THE HANSARD

**Wednesday, 23rd November, 2016**

*Assembly Building*

*The House met at 9.55 am*

*[The Temporary Speaker (Hon. Eunice Muriithi) in the Chair]*

## PRAYERS

## PAPER(s)

REPORT ON FINANCIAL STATEMENT OF NAKURU COUNTY WATER COMPANIES FOR THE YEAR ENDED 30TH JUNE 2014.

**The Temporary Speaker** (Hon Eunice Muriithi): The Chairperson Committee on Public Investment and Accounts…Hon Vitalis you may take it up. Order Members! So we can get to hear the report from the PIAC committee.

**Hon Vitalis Okelo**: Thank you very much Hon Temporary Speaker, I would like to table this Report from the Nakuru County Public Investment and Accounts select Committee on the Auditors General Report on the Financial Statements of the Nakuru County Water Companies for the year ended 30th June 2014.

**PREFACE**

Honorable Temporary Speaker,

On behalf of the Members of the Nakuru County Assembly Public Investments and Accounts Committee, I beg to move the adoption of the Report of the Committee on the Financial Statements of Water Companies for the year ended 30th June 2014.

**Introduction**

The Public Accounts and Investments Committee is a Select Committee established under Standing Order No. 188 and is responsible for the examination of the working of Public Accounts and investments.

1.1 Mandate of the Committee

The Committee is mandated to:-

(a) Examine the accounts showing the appropriation of the sum voted by the House to meet the public expenditure and of such other accounts laid before the House as the committee may think fit.

(b) Examine the reports and accounts of the public investments;

(c) Examine the reports, if any, of the Auditor General on the public investment;

(d) 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 Committee shall however not examine:-

(a) Matters of major Government policy as distinct from business or commercial functions of the public investments;

(b) Matters of day-to-day administration; and,

(c) Matters for the consideration of which machinery is established by any special statute under which a particular public investment is established.

The Committee has power, under the provisions of the Constitution, the State Corporations Act (Cap. 446) and the Public Audit Act (Cap.412), to summon witnesses, examine them under oath and receive evidence.

1.2 **Committee Membership**

The Committee is comprised of the following Members:-

(1) Hon. Peter Palang'a - Chairperson

(2) Hon. Jane Simita - Vice Chairperson

(3) Hon. Khadija Shabaan - Member

(4) Hon. Paul Chebor - Member

(5) Hon. Vitalis Okelo - Member

(6) Hon. John Macharia - Member

(7) Hon. Daniel Ambale - Member

## 1.3 **Challenges experienced by the Committee**

The committee noted that reshuffling of committee membership since the period of collecting evidence from witnesses and compiling the report has led to delays in tabling this report. The committee noted that Witnesses took so long to appear before the committee thus derailing the operations of the committee. Members noted time allocated for the committee is too little in comparison to the work they are supposed to handle.

## 1.4 **Committee Proceedings**

The Committee held sittings in which it closely examined and heard evidence from witnesses. In its inquiry into the audit response of the water companies for the year ended 30th June 2014, the Committee heard and received both oral and written evidence from the witnesses. The records of evidence adduced, documents and notes received by the Committee form the basis of the Committee's observations and recommendations as outlined in the Report and can be obtained through the Hansard reports of the Committee sittings available in the County Assembly of Nakuru.

## 1.5 **Committee's Objectives**

These observations and recommendations if taken into account and implemented will enhance accountability, effectiveness, transparency, efficiency, prudent investment and financial management in the public investments sector.

# 2.0 **REPORT ON NAKURU COUNTY WATER COMPANIES**

## 2.1 NAKURU WATER AND SANITATION SERVICES

### 2.1.1 Property, Plant and Equipment

**Audit Query**

As previously reported, the Property, Plant and Equipment balance of Kshs.112, 991,523 as at 30th June 2014 includes Network Extension amounting to Kshs. 2,003,287. However, as per the Service Provision Agreement, the ownership of development and water distribution assets vests in Rift Valley Water Service Board. The company can therefore only incur capital expenditure in relation to assets development with prior approval from the Board and thereafter put in a reimbursement claim for the expenditure incurred. Under the circumstances, the

Kshs. 2,003,287 used in the network extension should have been treated as operational expenses as opposed to capital expenditure.

Management Response

It is true that the asset ownership of water infrastructure and assets vests with the Water Service Boards (WSB).However according to Water Services Regulatory Board (WASREB) guidelines, the company is allowed to invest in minor extension of water and sewer networks from any surplus funds realized after meeting the entire recurrent financial obligations. WASREB and Rift Valley Water Services Board (RVWSB) are aware of the minor investments done by the Company since it is part of the conditions they attach to the Water tariff in the projected revenues and expenditures (Current and recurrent).

The RVWSB as the principal recommends a tariff for its agent (NAWASSCO) which is approved by the Regulator (WASREB). After the approval of the tariff the Company prepares a budget based on the tariff which is approved by the Board of Directors.

The reasons why regulator allows the investment of the surplus funds in minor investments is to avoid the accumulation of cash in the bank since the company is not required to pay dividends to the shareholder (County Government of Nakuru). This therefore allows the company to plough back its profits in the areas with no water and sewer network with an aim of attaining 100% coverage

**Current Status**

The Company does not agree with the opinion of the Auditor General because we obtained all the approvals from WASREB and RVWSB to incur minor capital expenditure and as such no reimbursement claim for the expenditure is required since we are only utilizing the surplus to invest in minor capital projects as contained in the approved tariff and budgets.

The company has continued to invest in minor capital works which are included in the approved tariff and annual budgets hence compliance with WASREB guidelines and RVWSB Service Provision Agreement. (Appendix I & II).

**Committee Observations**

1. Assets are owned by the National Government

2. There was no loss of funds.

3. The company is allowed to make minor investments as per the agreement with the RVWSB.

4. Kshs. 2,003,287 was used in Network Extension.

**Committee Recommendations**

1. All assets be surrendered to the CG under their respective ministry since Water is a devolved function.

2. The Agreement should be reviewed by all the stakeholders to align it with the C.G Act and other related regulations.

2.1.2. Non-Current Accounts Payables

**Audit Query**

The balance of payables stood at Kshs.180, 197,815 as at 30th June 2014. The balance comprise of Kshs.168, 490,370 and Kshs.11, 707,446 due to National Water Corporation and Employees Statutory Deductions respectively. These liabilities were allocated to the company at the time of its inception in 2004 from the then Ministry of Water Development. Although, the company had sought to have the liabilities taken over by the National Treasury through the Rift Valley Water Service Board, no evidence was provided for audit to show the request was granted. Consequently, the accuracy of non-current account payables balance of Kshs.180, 197,815 as at 30th June 2014 could not be ascertained.

**Management Response**

In accordance with the provisions of the Water Act 2002, the company assumed responsibility of providing water and sanitation services in the jurisdiction of the defunct Municipal Council of Nakuru (MCN) with effect from 1 June 2004.To facilitate this service provision, certain operational assets and liabilities were assigned by the Director of Water- Ministry of Water Resources Management and Development. The operational assets included customer accounts amounting to Kshs.443, 091,806 while the operational liabilities included amounts due to National Water Corporation Kshs 168, 490, 370, and employees' statutory deductions Kshs.11, 707,446. These amounts were assigned to the company for the time being subject to a resolution by the Treasury –Ministry of Finance.

The company has over the years tried to collect the customer arrears in order to settle the above liabilities but it has not been successful and balances have remained in our books since 2004. The largest debt of Kshs. 228M owed by the defunct MCN has never paid and it is part of the liabilities which were handed over to the Transitional Authority by the Local Authorities.

The company on the 16th June 2011 wrote to the Rift Valley Water Services (RVWSB) requesting them to negotiate on its behalf with the then Ministry of Water and irrigation, National Treasury and National Water Conservation and Pipeline Corporation to write off the liability of Kshs.168, 490,370.We have not received any response but we have reminded them so that this matter could be resolved.

As regards the employees' statutory deductions, the company entered into negotiations with LAP Trust and agreed to settle the amount of Kshs. 4,280,188 owed to them once the funds are available. NSSF amount of Kshs.7, 427,258 will also be settled once the funds are available.

**Current Status**

The Company is following up with RVWSB to have the amount of Kshs168, 490,370 owed to National Water Conservation and Pipeline Corporation written off by the National Treasury. (Appendix III)

As regards Employees statutory deductions of Kshs.11, 707,446 (NSSF Kshs 7,427,258 and LAP Trust Kshs 4,280,188, the Company has started paying LAP TRUST to be cleared before June 2017. The Company will start paying NSSF once the debt to LAP TRUST is cleared.

**Committee observations**

1. There is a strained relationship between RVWSB and the water Company (NAWASCO)

2. The company inherited liabilities from the Ministry of Water Resources Management and Development

3. Kshs.11, 707,446 statutory deductions were not remitted as they were supposed to by the company

4. Several correspondences have been made to request National Treasury to write off the debt through RVWSB by NAWASCO.

5. To date no response from the National Treasury on the said liabilities.

6. The Company owes employees.

7. The company acknowledged paying the accrued statutory deductions

**Committee Recommendations**

1. The C.G should intervene or petition the National Government to compel the National Treasury to take over the liabilities inherited at inception amounting to Kshs. 168,490,370.

2. The company to ensure all Statutory Deductions are remitted as expected.

2.1.3 Receivables and Prepayments

**Audit Query**

The statement of financial position as at 30th June 2014 reflects receivables and prepayments balance of Kshs. 431,586,702 which includes trade debtors' balance of Kshs. 228,566,929 inherited from the defunct Municipal Council of Nakuru (MCN) in the year 2004 when the Water Company was incorporated. The recoverability of the balance is doubtful as it has not been acknowledged and factored in the books of the County Government.

**Management Response**

In accordance with the provisions of Water Act 2002, Nakuru Water and Sanitation Services Company was assigned the responsibilities of providing water and sanitation services in the jurisdiction of the defunct Municipal Council of Nakuru and its environs from 1st June 2004.To facilitate this provision, certain operational assets and liabilities were assigned by the then Director of water-Ministry of Water Resource Management and Development. The operational assets included customer arrears amounting Kshs 443M which included Kshs 249M to be paid by Municipal Council of Nakuru (MCN), the only shareholder of the Company.

The company made various efforts to collect these amounts from MCN without any success and MCN continued to demand services. MCN only agreed to offset their lease fees with their monthly bills w.e.f from July 2009 but the amount was not sufficient to cover their monthly bills.

The CECs representing County Government in NAWASSCO Board have been promising to take up the matter with the County Government with a view of ensuring it's paid but no money has been paid to date.

The MCN transferred its unpaid water bills to the Transition Authority which has been confirmed that it is included in the list held by the Transition Authority and we hope that we shall be paid once the National Government agrees to settle debts owed by the defunct Local Authorities through the County Governments

**Current Status**

This is amount is still outstanding although a committee involving NAWASSCO managers and County government senior officers met on 3rd December 2014 and resolved that the water debt of Kshs 247 million should be considered for payment .( Appendix IV).

**Committee Observations**

1. The debt of Kshs.249M have not been paid.
2. The company have been making efforts to recover the money.
3. There is laxity in paying the debts by the County Government of Nakuru.

**Committee Recommendations**

1. The County Government to consider the debt by having a budget allocation.
2. The debt should be captured in the Debt Resolution Paper of the County.

2.1.4 Un-remitted LAP-TRUST Deductions

**Audit Query**

Included in the payables and accrued expenses balance of Kshs. 254,351,609 are LAP-TRUST dues amounting to Kshs.20, 427,820 which were inherited from the defunct Municipal Council of Nakuru in 2004. Although the Board of directors passed a resolution on 17th September 2010 to pay the outstanding dues, the resolution has not been effected as at 30th June, 2014.

**Management Response**

The un-remitted employees' deductions toward LAPTRUST was due to financial constraints facing the Company as results of low tariff which was not cost recovery. The tariff charged to our customers for water and sanitation services had expired in May 2012 and our application to the Regulator, WASREB took long to be approved until 29th April 2014 and was effected as from 1st July 2014.

The approved tariff is cost recovery and we have planned to start remittance of the deductions in August 2015 to be completed before June 2016.

**Current Status**

We now have a new tariff in place and we have started remitting the deductions to LAPTRUST with an aim clearing the arrears before June 2017.

Committee Observations

1. The company did not remit the statutory deductions as required.

2. There is a new approved tariff in place.

3. The committee managed to ascertain that the company have a laid down plan to pay Lap trust by end of June 2017.

Committee Recommendations

1. The company should remit its statutory deductions without fail.

2. The company to prepare and submit to the C.A a progress report of the statutory deduction by April 2017.

**OTHER MATTERS**

The following other matters were raised but the Auditor General did not give a qualified opinion:-

2.1.5 Financial Position

**Audit Query**

During the year under review, the Company recorded a deficit of Kshs.47, 674,699 from a surplus of Kshs.43, 151,093 reported in 2012/2013. This resulted to an increase in accumulated losses from Kshs.98, 840,976 in the previous year to Kshs.146, 515,675 as at 30th June 2014. In view of this trend, the Company sustainability as a going concern is in doubt.

**Management Response**

The deficit of Kshs.47, 674,699 was mainly attributed to the following:

•Increase of electricity expenses by Kshs. 61,166,877 from Kshs 113M in 2012/2013 to Kshs 175m in 2013/14 as shown in note 6 of the Financial Statements. This has marginally reduced because of the interventions by the Government through the Energy Regulatory Authority. (Appendix V)

•None cost recovery tariff. The tariff which we were using during the year under review had expired in May 2012 and the Regulator, WASREB took long to approve our new tariff until May 2014 implemented in July 2014. The new tariff has increased our monthly revenue form Kshs 51.6M to Kshs 66.1M an increase of 28%. (Appendix V1)

•Non-revenue water (NRW). This had stood at 44% as at the end of the year under review but in the current year 2014/15 it has reduced to 35% which has also increased our revenues. (Appendix V11)

**Current Status**

The company reported a profit of Kshs 59.8 million in the financial year 2014/15 and it expects to continue improving its profitability. (Appendix VIII)

**Committee Observations**

1. Kshs. 47,674,699 was reported as a loss in the year under review.

2. There was a change in tariff for profitability

3. The company has made some efforts by implementing the new tariff and coming up with measures to curb N.R.W

4. There was lack of prioritization of expenditure leading to losses.

**Committee Recommendations**

1. The company to prioritize their expenditure

2. The company to work extra hard to reduce N.R.W

3. The company to partner with donors and other well-wishers especially by fast-tracking metering of water.

4. The CG to work on improving the dilapidated water networks and pipes to reduce UFW

5.The CEC in charge of Environment and Natural Resources to embark on monitoring and evaluation of work done by the water company by introducing performance appraisal.

2.1.6 Unaccounted for water

**Audit Query**

The Company realized revenue of Kshs. 619,378,923 from the sale of 7,090,823 m3 of water which was approximately 52% of the total quantity of 13,694,944 m3 produced during the year. The remaining balance of 48% of the total volume represented uncounted for water (UFW) which is 23% over and above the allowable loss of 25% as set out in Schedule E of the Service Provision Agreement (SPA) between Rift Valley Water Service Board and NAWASSCO. The UFW may have resulted to a loss of water sales estimated at Kshs. 576,865,810. The significant level of UFW has negatively impacted on the company's profitability and long term sustainability.

**Management Response**

It is true that water produced is lost through technical or commercial ways. This is a great concern to the company and has been shared with the Regulator (WASREB), Rift Valley Water Services Board (RVWSB) and the County Government of Nakuru who have promised to upgrade the old water network in order to seal the leakages.

The company has addressed the commercial losses by metering all the customers and establishing an illegal use detection unit which investigates and identifies illegally connected consumers. Our main Zone (Central Zone) has been isolated, territories marked (Freehold, Flamingo, Kimathi, Pangani, Lakeview, Racetrack) and a performance contract has been signed with the Zone Manager. This same model will be up scaled to the other 4 remaining Zones.

As regards the technical losses, the role of the company is limited to proper management and introduction of efficiency measures. The bulk of the water is lost through dilapidated network which was built many years ago (1940s) and requires over Kshs. 600 million to replace. This is the work of the Government through Rift Valley Water Service Board (RVWSB) who is the asset developer or the County Government now that water is a devolved function. The company is only an agent who is provided with the assets to provide water and sanitation services. Rift Valley Water Service Board and the County Government of Nakuru are aware of this issue and its magnitude.

It is important to note that UFW cannot be controlled to Zero level since the funds required for doing so is high and uneconomical. The acceptable level worldwide has been set at 25% as the best practice since below this level the cost incurred is higher than the benefits accruing. This is what the water regulator accepts and companies are expected to reduce to this level of 25%. Currently we are at an average of 35% and we plan to achieve below 30% during the next financial year.

The company is also continuing to receive grants from Water Service Trust Fund to lay proper water networks with a view of reducing the UFW.

Because of the above measures that we put in place the UFW significantly reduced from 48% in 2011 to 35% in 2015

Ongoing activities which will further reduce the UFW include:

- Installation of territory meters
- Patrolling and maintaining the network
- Determination of technical losses by carrying out night flow measurements
- Realignment of the distribution network within the Zones and territories
- Removal of spaghetti pipes
- Meter calibration, servicing, replacement and sealing
- Identification of illegal connections

## Current Status

Currently the UFW has reduced to an average of 35% and more efforts are being undertaken to reduce it further to acceptable levels of 25%.However a lot of resources are required to upgrade the old dilapidated water networks to reduce water losses through leaks and bursts (Appendix IX)

## Committee observations

1. There was huge loss of water

2. There was no value for money

3. The company has come up with ways to curb the growing menace

4. There was a great improvement from loss of 48% to 35%.

Committee Recommendations

1. The company should adhere to guidelines set by the Water Regulator which set allowable loss at 25%.

2. The CG to intervene in installation of meters, repairing the dilapidated pipes and water networks

3. The company to be clear on the implementation of their in-house policies.

2.2 NAKURU RURAL WATER AND SANITATION SERVICES

2.2.1 **Non-Current Assets:**

The statement of financial position as at 30 June 2014 reflects non-current assets balance of Kshs 20,620,858. However, the company did not maintain fixed assets register to record the cost or valuation, accumulated depreciation and location of assets. Consequently the carrying value and completeness of the non-current assets balance of Kshs 20,620,858 as at 30 June 2014 could not be confirmed.

In addition, Note 4 to the financial statements reflects computer and equipment depreciation charge for the year of Kshs 98,402. However, recomputation of this charge using the straight line policy at the rate of thirty (30%) percent results to a figure of Kshs 657,363. The depreciation for the year has therefore not been correctly stated. In the circumstances, the accuracy of the statements of cash flow and the carrying values of the net non-current assets as at 30th June, 2014 could not be confirmed.

**Management Response**

i. **Fixed assets register**

We have now opened and maintain an updated fixed assets register (copy attached as Annex I). All procured non-current assets are recorded in the register. It indicates the cost or valuation, current year and accumulated depreciation and location of assets.

ii. Depreciation charge on computers and equipment

We have amended our policy on depreciation to be in line with the computation of depreciation on computers and equipment. We have adopted the reducing balance method of depreciation for computers and equipment.

**Committee Observations**

1. The company did not maintain an asset register by the time of the audit.

2. During the committee visit it was noted that the committee have a well maintained asset register.

3. The depreciation amount was wrongly entered.

4. The statement of the cash flow could not be confirmed due to inaccuracy in the depreciation amount.

5. The company items were not serialized.

**Committee Recommendations**

1. The company should comply with the recommended guidelines for proper records keeping.

2. All the company items should be serialized for accountability purposes.

2.2.2 **Debtors:**

**Audit Query**

As previously reported, the debtors balance of Kshs 281,095,471 as at 30 June 2014 includes an amount of Kshs 167,206,140 or 59% of total debtors which has remained outstanding from the Director of water of the then ministry of water since the company's inception in 2006. The recoverability of this debt is doubtful. In addition, no schedule of debtors confirming the names of person, entities and a break down from each individual person. Therefore the accuracy and full recoverability of the debtors' balance of Kshs 281,095,471 as at 30 June 2014 could not be confirmed.

**Management Response**

i. **Director of Water Debt Kshs 167,206,140**

As advised by the Auditor General in the June 2014 Audit Report, the company has treated the outstanding amount from the Director of Water of Kshs 167,206, 140 as Bad and doubtful debt in the financial statements for the year ended 30th June, 2015.

ii. **Debtors Schedule**

We were not able at the time of the audit to provide a debtors schedule due to the bulkiness of the reports. As requested we have now provided to this committee the schedule of all our debtors (Annex II). In addition, the company has created a credit control unit to analyze and aid in recovering of old debts.

**Committee Observations**

1. There is an outstanding debt of Kshs. 167,206,140 owed to the company by the Ministry of water.

2. The debt has taken long to be paid and there seems to be no efforts to offset it.

3. The list of debtors was submitted to the committee and as stated in the management response they are quite bulky.

**Committee Recommendations**

1. The company to treat the said debt as a bad debt which should be removed from the books of accounts of the company.

2. The company to come up with a mechanism of demanding debts owed to them. The committee demand that all debts be paid within one year.

3. The company to do a report to the County Assembly on the credit control unit analysis three months after the adoption of the report on their progress

2.2.3 **Creditors:**

**Audit Query**

The creditors' balance of Kshs 248,807,367 as at 30 June 2014 includes amount owed to Rift Valley Water Services Board of Kshs 153,680,891.00 in respect of an agency account. However, no reconciliation has been made available to confirm whether the balance agree with the books of Board for this agency account. In the circumstance. The accuracy of the creditor's balance Kshs 248,807,367 could not be confirmed.

**Management Response:**

The company entered into a Service Provision Agreement (SPA) (Annex III) on 12th September, 2006. Under the SPA provisions, the company was accruing agency fees to Rift Valley Water Services Board at a rate of 29% of its revenue billed amounts. This amount was untenable due to the nature of the company infrastructure and operational challenges. This led to accumulation of agency account.

As a standard procedure, we expected the Auditor to circularize for the creditors value to confirm the accuracy of the aforementioned carrying value of creditors.

Committee observations

1. RVWSB turned down invitation to appear before the committee to shed light on various issues.

**Committee Recommendations**

1. The company should not honour the debt of Kshs. 153,680,891.00

2. A forensic audit should be done to ascertain existence of the debt.

3. The matter should be taken by other institution such as senate since RVWSB refused to appear before the committee.

2.2.4 **Customer Deposits:**

**Audit Query**

The statement of financial position as at 30 June 2014 reflects customer deposits of Kshs 23,039,384 which has not been supported by a listing indicating the persons and entities that paid the deposit, bank reconciliation statement and bank certificate to confirm existence of the amount of Kshs 23,039,384. In the circumstance, the accuracy of the customer deposit balance of Kshs 23,039,384 could not be confirmed.

**Management Response**

The company inherited an existing customer base that had earlier on paid their deposits to subsequent operators (Ministry of Water, National Water Corporation and Rift Valley Water Services Board).

The company took over provision of water services in July 2007, from then up to 30th June, 2014 the company had collected deposits from new applicants amounting to Kshs 9,625,082 (Annex IV). The amounts collected has been re-invested overtime in rehabilitations and renewal of dilapidated infrastructure and buying of water meters in addition to refunds.

In addition, we are engaging with the Auditor General on a review of the carrying amounts for the customer deposits so to restate the amounts to only the amounts collected by the company.

**Committee Observations**

1. The management did not satisfactorily answer to the audit query.

2. The committee could not ascertain deposits for persons and entities amounting to Kshs.23, 029,284 as the company did not provide the list indicating the persons and entities that paid the deposits.

3. The company did not provide bank reconciliation statement and a bank certificate to confirm the existence Kshs.23, 039,384.

4. The company provided deposit of the new customers amounting to Kshs. 9,625,082 which was not part of the audit query.

5. There was poor handing over from the previous management.

**Committee Recommendations**

1. A forensic audit should be done to confirm the listing of persons and entities that did the deposits amounting to Kshs. 23,039,384.

2. A forensic Audit should be done to ascertain the existence of Ksh. 23,039,384.

3. A forensic Audit should be done to establish how Kshs. 23,039,384 was spent.

4. The company should keep records of their depositors at all times.

5. Proper handing over should be done to enhance transparency and accountability.

2.2.5 Unsupported Expenditure:

**Audit Query**

The statement of comprehensive income for the year ended 30 June 2014 reflects expenditure in respect of supply for production of Kshs 13,956,685. However, the company did not provide supporting documents including goods received notes, purchase invoices, stores requisition vouchers and store ledger cards in respect of expenditure amounting Kshs 1,627,731 for audit verification. Consequently, the propriety of the expenditure as at 30th June 2014 could not be confirmed.

**Management Response**

Procured supplies for production are delivered at the water treatment works in Turasha, Gilgil. Our staff maintain all the requisite records including stores ledger cards (S3). We have attached the S3 cards (Annex V) for information. The Stores Ledger and Stock Control Cards are duly updated accordingly taking into account the chemicals received and issued out.

**Committee observations**

1. By the time of the audit, the company had no provided the document.

2. The company provided the necessary documentation to the committee for audit verification.

**Committee Recommendations**

1. The company to provide the necessary documentation to the A.G during the time of Audit.

2.2.6 Unaccounted For Water

**Audit Query**

During the year under review, the company produced 8,368,557 cubic meters (m3) of water. However out of this volume, only 3,017,802 M3 was billed to customers. The balance of 5,350,755 m3 or approximately 64% of the total volume represented unaccounted for water (UFW). This quantity is 37% above allowable loss of 25% by the Water Services Regulatory Board guidelines. The UFW may result in a loss of sales estimated at Kshs 140,457,319 at the m3 rate of Kshs 35 billing. The significant level of UFW has negatively impacted on the company's profitability and long run sustainability.

**Management Response**

The company inherited an old and dilapidated infrastructure and very low metering of consumers, which has contributed a lot to the high Unaccounted for Water (UFW) loses. Our metering ratio has been very low at 30% meaning that most of our consumers are billed on average.

To address the above challenges, we have come up with mitigation measures to arrest the situation by adopting the following strategies: buying 100 meters every month, making it mandatory for a new connection to be metered, undertake pipelines renewal and rehabilitation works, partnering with other organizations/donors for UFW management (SNV, PEWAK and RVWSB). In addition, the company has put up a proposal to the county government for the purchase and supply of 4,000 meters in the next financial year (2016/2017).

Our monthly running UFW as at March 2016 was 56.8% (Annex VI) down from a high of 65% in June 2015. This is a reflection of our efforts to managed water losses.

**Committee Observations**

1. The quantity of water lost was 37% above the allowable loss of 25% by the Water Services Regulatory Board guidelines.

2. The committee noted that the management was making efforts to curb the menace. The mitigation measures included buying meters per month, mandatory metering of new connection among others.

3. The company has partnered with organizations such as SNV, PEWAK and RVWSB undertaking pipeline renewal and rehabilitation works.

**Committee Recommendations**

1. The company should strive to achieve the recommended allowable loss by the Water Services Regulatory Board Guidelines.

2. The CG should chip in with budgetary allocation to increase metering and improve the infrastructure.

2.2.7 Sustainability

**Audit Query**

During the year under review, the company recorded a loss of Kshs 21,947,641 which increased its accumulated loss to negative Kshs 261,570,045 as at 30th June, 2014 from negative Kshs 194,622,404 as at 30th June, 2013. In addition, the company was not able to remit statutory deductions of Pay As You Earn (PAYE) and other deductions of Kshs 25,667,349 and Kshs 30,742,989 respectively. In addition, the company is operating with negative working capital considering huge doubtful debts from ministry of water. It is evident that the company's performance is dismal and is also experiencing difficulties in settling its obligations as and when they fall due. However, the financial statements have been prepared on a going concern basis, on assumption that the company will continue to receive support from the government and creditors.

**Management Response:**

The company has put in place measures to ensure sustainability of its operations. We have raised our billing to an average of Kshs 15 million per month meaning we are now billing on average Kshs 180 million annually. With our billing/revenue collection efficiency of above 95%, we are now able to sustain operations excluding major investments. We have submitted a proposal for a review of our water tariff. We have been operating on an old water tariff revised in 2010 (Annex VII) and considering that operational costs like water treatment chemicals and electricity among others have been on an upward trend. In addition, RVWSB have been supportive for not demanding immediate payment of the long overdue agency account. We have increased our metering ratio through monthly purchase of water meters, in addition, we have continued to put in place organizational structure that is ensuring closer supervision of our operational staff and minimize illegal connections.

**Committee observations**

1. The company was operating at a loss by the time of the Audit.

2. Currently, the committee observed there is improvement in Revenue Collection.

3. The company no longer experience difficulties in meeting its obligations.

**Committee Recommendations**

1. The CG of Nakuru should come up with a mechanism to take over services from RVWSB since water have been devolved.

2. The CG should have budgetary allocation for the company.

3. The Company should submit performance/progress report quarterly to the County Assembly.

4. The CEC Environment to come up with regulations harmonizing operations of the water sector since it's a devolved function.

## 2.3 NAIVASHA WATER AND SEWERAGE COMPANY

### 2.3.1 Property plant and equipment

The property, plant and equipment balance of Kshs. 32,392,265 includes Buildings, Water &Sewer works. Water meters, Computers and tool and equipment. However, the company did not maintain asset register and no valuation report was presented for audit verification. It was therefore not possible to confirm the existence and valuation of the non-current asset balance as at 30th June 2015.

**Management Response**

The noncurrent assets were derived from the financial reports. The accumulation of assets is captured within an established asset register. Valuation of noncurrent assets is supposed to a function of the National Government.

**Committee Observation**

1. The company did not maintain an asset register by the time of the audit.

2. The company did not give a valuation report to the A.G

3. During the first visit of the committee, the asset register they had prepared did not conform to the standards set by the A.G

4. During the second visit, they did provide an asset register complying with the Standards as set by the A.G

**Committee Recommendations**

1. The company should maintain an asset register at all times.

2. They should submit the asset register whenever requested for by the A.G to avoid audit queries

3. The asset register should be updated every time they acquire or dispose of any item.

4. The Company to serialize all its assets at any given time.

2.3.2 **Receivables**

The current asset balance of Kshs. 83,138,663 includes an amount of Kshs 80,447,900 in respect of trade receivables. Among the trade debtors is a balance of Kshs 10,408,510 owed by various water consumers, with some outstanding since 2008. It was noted that the Company has not developed a credit policy to address overdue debtors as required by clause 13.1.5 of its financial regulation policies and procedurals manual of July, 2009.

**Management Response**

The policy on management of debtors is captured in the finance manual which was recently developed. Under the finance manual clause 2.5.8, the company is allowed to provide for bad debts at 20% for accruing for more than 3 years. Out of the Kshs 81m the company tabled to the finance and administration committee a total of Kshs 12,504,152 to be written off. The table below demonstrates the aging of the receivable

| Aging | Accounts Receivable | | Provision bad debts |
|---|---|---|---|
| 0-60 | 13,078,102 | 0% | 0 |
| 61-180 | 6,382,205 | 0% | 0 |
| 180-365 | 1,983,554 | 0% | 0 |
| >365 | 62,520,761 | 20% | 12,504,152 |
| | 83,964,623 | | 12,504,152 |

**Committee observations**

1. The company lacked a policy on management of debtors by the time of the audit.

2. The company was in the process of developing a credit policy framework.

3. The credit policy framework was not yet submitted before the board of Directors by the time the management appeared before the committee.

**Committee recommendations**

1. The credit policy framework should be in place 3 months after the adoption of the report.

2. The implementation of the same should be followed to the latter.

3. The C.A to be furnished with the performance/progress report on the effects of the credit policy framework to the company.

4. The company should prepare an analyzed list of the bad debts and separate it from the current liabilities.

2.3.3 **Current Liabilities**

The current liabilities balance of Kshs. 34,590,113 includes payables totaling to Kshs. 32,210,141. Out of this amount, there is unremitted statutory deductions of Kshs. 3,580,181 which is likely to increase the liability of the Company through penalties and interest.

**Management Response.**

The Company was having liquidity challenges during that time but since 2014 July all the remittances for the statutory deductions have been done on time. In the 2016/17 budget, we have factored the payments of all the unremitted statutory deductions.

**Committee Observation**

1. The company had an outstanding unremitted statutory deduction debt of Ksh.3, 580,181.

2. The company was making efforts to pay the amount as demonstrated before the committee by the management.

**Committee Recommendations**

1. The committee should be remitting statutory deductions promptly as required by law.

2. The C.A to be furnished with a progress report by the company three months after the adoption of the report.

2.3.4 **Untraceable Accounts**

Included in the income for water and sewer charge is Kshs. 3,719,730, which could not be traced to any individual customer. As a result the income balance of Kshs. 80,095,614 for the year ended 30 June 2014 could not be confirmed as fairly stated.

**Management Response.**

The untraceable accounts came into place since the Company was not having a billing system, hence errors and double registration of customers. The company has so put up GIS systems to manage the connections and we have also marked out all the connections on the ground as a quick way of identifying the unknown customers. The company has set a target to reduce the unknown accounts to zero by the end of 2016/17 Financial year.

**Committee Observation**

1. The company did not have a billing system.

2. Kshs 3,719,730 could not be traced to any individual customer or entity.

**Committee Recommendations**

1. The company to provide a progress report three months after adoption of the report with an update of the GIS system the company put in place to manage the connections.

2. The company to update the billing system.

2.3.5 Unsupported Payments for Legal Fees

The Company paid a creditor, for legal fees an amount of Kshs. 5,000,000 during the year. However, there were no details of the services rendered and how the figure was computed. It is therefore not possible to confirm if the Company received value for the money spent.

**Management Response**

During a full board meeting held on 5th May 2011 it was brought to the attention of the Company Board by the former Managing Director, Mr. James Gichana, that the company owed Nyakundi & Co Advocates Kshs 8,004,000 in terms of legal fees. The fee emanated from a purported legal dispute between company and RVWSB. The determination of the case is not clear and the company was not in a position to furnish the Auditors with the basis of paying the amount. Our efforts to get the information from RVWSB were also not fruitful. The issue was discussed by the current BOD and they resolved to have the matter dealt with by the County Government of Nakuru who are the major shareholders of the Company.

The Management has also handled the matter internally as it has put up a Registry Office with a custodian for the security of all documents and also streamlined the Accounts Section, redeploying the Accountant who was there during the period to a Management Accountant and the Expenditure duties handed over to another Accountant within the Company.

**Committee Observation**

1. The company had paid 5M to Nyakundi & Co Advocates for legal fees.

2. There were no specific services rendered by Nyakundi & Co Advocates.

3. The committee could not ascertain if there was value for money.

**Committee Recommendations**

1. The company should highlight the services rendered by Nyakundi & Co Advocates.

2. A forensic audit should be done to establish the services rendered by Nyakundi and if there was value for money.

2.3.6 **Unaccounted for Water**

During the year under review the Company produced 970,778 cubic meters ($m^3$) of water. However, only 580,196$m^3$ were billed to customers at Kshs. 73,268,551. The balance of 390,581$m^3$ or approximately 40% of the total volume represented Unaccounted for Water (UFW). According to the Water Services Regulatory Board guidelines, this quantity is 15% above the allowable loss of 25%. The abnormal loss of 15% of the water produced resulted in loss of sales estimated at Kshs. 18,317,137. The significant level of UFW may negatively impact on the Company's profitability and long term sustainability.

**Management Response**

For the Company to manage NRW to the recommended 25% or less, a reasonable investment is required. Recently, the Company has commenced the necessary investments in the reduction of UFW which includes; installing DMA meters to closely monitor where most water is being lost, it has also purchased leak detection equipment and pipe detectors, pipe repair materials and we have a dedicated NRW team. Implementation of the caretaker approach has already started. It will be done progressively starting with a pilot area Kabati and Site and service.

**Committee Observation**

1. The company lost water beyond the allowable loss by the regulator.

**Committee Recommendations**

1. The CG to have budgetary allocation to curb the menace.

2. The company to encourage public private partnership to enable them deal with unaccounted for water.

3. The company to provide a progress report to the C.A three months after the adoption of the report to ensure UFW is reduced.

4. The company to follow the laid down guidelines by the regulator to ensure the company get to profitability.

**Other matters**

2.3.7 Operations and maintenance

**Audit Query**

The operations and maintenance figure of Kshs. 11,878,427 includes an expenditure of Kshs. 2,906,672 in respect of procurement of various goods and services as shown below:

| Date | Cheque No | Payee | Amount (Kshs) | Details |
|---|---|---|---|---|
| 07.02.14 | 25 | Calmex Construction | 150,000 | Renovations of water kiosks |
| 26.02.14 | 26 | Calmex Construction | 220,172 | Renovations of water kiosks |
| 24.01.04 | 23 | Nairobi Genmongers | 814,500 | Water meters and accessories |
| 11.11.13 | RTGS | Stavic Electricals | 800,000 | Electrical Services for repair of pumps |
| 21.01.14 | 1677 | Summit General Suppliers | 880,000 | Repairs and maintenance |
| 21.01.14 | 1676 | Summit General Suppliers | 842,000 | Repairs and maintenance |
| Total | | 2,906,672 | | |

No evidence was presented to prove that competitive bidding was used to identify the suppliers in accordance with section 26(3) (b) of the public procurement and Disposal Act 2005. Therefore, it was not be possible to confirm if the Company obtained value for the funds used.

**Management Response**

The company was not following the due procedures during Eng. James Gichana's tenure (the former Managing Director) as procurement systems were not in place. This issue was picked by the Kenya National Auditors. However, In March 2014, the Company constituted Procurement committees with letters of appointment as attached and also placed an advert in May 2015 for the purchase of goods as per PPDA guidelines. Procedures have been duly followed as all the expenditures since have passed the various procurement committees.

**Committee Observation**

1. There was no procurement committee at the time of the audit

2. Public Procurement Act 2005 was faulted by the company

3. There was no proper handing over from the previous management to the new management.

**Committee Recommendations**

1. The company should adhere to Public Procurement Act at all times.

2. Actions should be taken to those faulting the Public Procurement Act 2005.

3. There should be proper handing over.

2.3.8 Company Shareholding

**Audit Query**

The memorandum of Association of Naivasha Water, Sewerage and Sanitation Company Limited indicates that 4,997 shares are held by Municipal Council of Naivasha which is now defunct. Other shareholders are three officials of the defunct local authority who hold a share each.

It was noted that under the new Government structure, the County Government of Nakuru is the successor of Municipal Council of Naivasha and major shareholder of the Company. As at the time of Audit, the Company had amended the instruments of incorporation but had not registered them with the registrar of Companies Act Cap 486. This may give undue advantage to the officers who were holding shares in trust before transition.

**Management Response**

Following a special Annual General Meeting resolution the Company shareholding was transmitted to the County Government of Nakuru. The resolution was filed with the registrar of Companies in June 2015.

**Committee Observation**

1. The company had amended the instruments of incorporation but had not registered.

2. The MCN owned 4,997 shares.

**Committee Recommendations**

1. The company should at all times comply with the Companies Act 486 to avoid audit queries.

Madam Temporary Speaker I wish to table the Report

*(The Report was laid on the Table)*

**The Temporary Speaker** (Hon Eunice Muriithi): Thank you very much Hon Vitalis. Members you now have the report and Hon. Members you are mandated to peruse through it to find out what the committee discovered and how they compiled the report.

## NOTICE OF MOTION

ADOPTION OF THE NAKURU COUNTY PUBLIC INVESTMENT AND ACCOUNTS COMMITTEE ON AUDITORS GENERAL REPORT FOR THE FINANCIAL STATEMENTS OF NAKURU COUNTY WATER COMPANIES FOR THE YEAR ENDED 30TH JUNE, 2014

**Hon Vitalis Okelo:** Thank you very much, I wish to give a Notice of Motion on a Report by the Nakuru County Public Investment and Accounts Select Committee on the Auditor's General Report on the Financial Statements of Nakuru County Water Companies for the year ended 30th June 2014. I beg to give

**The Temporary Speaker** (Hon Eunice Muriithi): Thank you very much Hon Vitalis. Hon Members we stand adjourned until today at 2.30 pm.

*(The House rose at 10.05 am)*