

**-KWALE COUNTY**



**COUNTY ASSEMBLY OF KWALE**

**SECOND ASSEMBLY – SECOND SESSION**

**REPORT**

**OF THE**

**COMMITTEE ON PUBLIC INVESTMENT AND ACCOUNTS**

**ON THE**

***THE FINANCIAL STATEMENTS OF***

***KWALE WATER AND SEWERAGE***

***COMPANY FOR YEAR ENDED***

***30<sup>TH</sup> JUNE 2016***

***DATED 2/5/2018.***

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**LIST OF ACRONYMS AND ABBREVIATIONS**

1. CEC - County Executive Committee.
2. HON - Honourable.
3. KWAWASCO - Kwale Water and Sewerage Company.
4. SRC - Salaries and Remuneration Commission.
5. IFRSNO.1 -International Financial Report Standard number one.
6. CWSB -Coast Water Services Board.
7. PAYE -Pay as You Earn.
8. FY -Financial Year.

**PREFACE.**

**Mr Speaker sir**, one of the salient roles of the Public Accounts Committee is the examination, in the context of the autonomy and efficiency of the county public investments, whether, the affairs of the county public investments, are being managed in accordance with sound financial or business principles and prudent commercial practices.it is therefore in this regard that the committee has come up with this report.

**COMMITTEE MANDATE.**

The Committee on County Public Investment and Accounts is one of the Select Committees established pursuant to provisions of *Standing Order No. 186* tasked with the responsibilities:-

- (a) The examination of the accounts showing the appropriations of the sum voted by the County Assembly to meet the public expenditure and of such other accounts laid before the County Assembly as the Committee may think fit.
- (b) The examination of the reports, accounts and workings of the county public investments;
- (c) The examination, in the context of the autonomy and efficiency of the county public investments, whether the affairs of the county public investments, are being managed in accordance with sound financial or business principles and prudent commercial practices:

Provided that the Committee shall not examine any of the following, namely:

- (i) Matters of major County or National Government policy as distinct from business or commercial functions of the public investments;
- (ii) Matters of day-to-day administration; and,
- (iii) Matters for the consideration of which machinery is established by any special statute under which a particular county public investment is established.

**ACKNOWLEDMENT.**

**Mr Speaker Sir**, I want to sincerely thank the members of the Public Accounts and Investment Committee for their dedication throughout the period of compiling of this report, the office of the Speaker and the Clerk for their support and adequate facilitation.

**BACKGROUND.**

**Mr Speaker sir**, the office of the Auditor General has the mandate to audit and report on the accounts of the national and county governments under article 229 of the Constitution of Kenya and Public Audit Act, 2003.

It is in this regard that the committee is privileged to table a report of the **Financial Statements Kwale Water and Sewerage Company limited for the year ending 30<sup>th</sup> June 2016.**

**COMMITTEE MEMBERSHIP.**

The County Assembly Select Committee on Public Investments and Accounts was constituted on October, 2017 comprising of the following Members:-

- |                                |            |
|--------------------------------|------------|
| 1. Hon. Patrick Mangale Nyawa  | - Chairman |
| 2. Hon. Melda Nyakiti          | - V/Chair  |
| 3. Hon. Raia Mkungu            | - Member   |
| 4. Hon. Mweruphe Jackson Ngoro | - Member   |
| 5. Hon. Alfred Ruwa Bavu       | - Member   |

**Mr Speaker sir**, it is in this regard that I present before this honourable house the report on the **Financial Statements of Kwale Water and Sewerage Company limited report for the year ended 30<sup>th</sup> June 2016.**

***Public Investment and Accounts committee Report. 2/5/2018***

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**Hon Patrick Mangale Nyawa**

**Chairman, Public Investment and Accounts Committee.**

**Signature ..... Date .....**

**Hon Melder James Nyakiti**

**Vice chairman, Public Investment and Accounts Committee**

**Signature ..... Date .....**

**Hon Raia Mkungu**

**Member, Public Investment and Accounts Committee**

**Signature ..... Date .....**

**Hon Ngoro Mweruphe**

**Member, Public Investment and Accounts Committee**

**Signature ..... Date .....**

**Hon Alfred Ruwa Bavu**

**Member, Public Investment and Accounts Committee**

**Signature.....Date.....**



**COMMITTEE OBJECTIVES.**

**Mr Speaker sir**, the committee main objective in this report is:

- (a) The examination of the accounts showing the appropriations of the sum voted by the County Assembly to meet the public expenditure and of such other accounts laid before the County Assembly as the Committee may think fit.
- (b) The examination of the reports, accounts and workings of County Public Investments;
- (c) The examination, in the context of the autonomy and efficiency of the county public investments, whether the affairs of the county public investments, are being managed in accordance with sound financial or business principles and prudent commercial practices.

**METHODOLOGY.**

**Mr Speaker sir**, in compilation of this report the committee used the following methods to gather information:

1. Interviewing the key officers from the Kwale Water and Sewerage Company.
2. Review of applicable legislations and regulations
3. Examination of vouchers, cash books, vote books, bank statements, tenders and contract documents, store documents and other related records
4. Review of minutes of meetings especially where there are resolution affecting management of cash.
5. Physical inspection/verification of documents.

**COMMITTEE REPORT.**

The Committee scrutinized the Auditor General report on the Financial Statement of KWAWASCO for FY 2015/2016, which had raised some queries. The Committee met with the management of KWAWASCO on 3<sup>rd</sup> and 4<sup>th</sup> April, 2018 who then responded to the queries raised by the Auditor General as below.

**1. PRESENTATION OF FINANCIAL STATEMENTS.**

The financial statements availed for audit reflected the following anomalies;  
Note 7 to the financial statements on administration expenses includes bank charges and commissions amounting to Kshs. 1,229,798. However the International Financial Reporting Standards No. 1 on presentation of financial statements requires finance costs to be presented separately. Further, Note 13 to the financial statements reflects a revenue reserve surplus of Kshs. 47,487,451 (2014/15 Kshs. 50,063,600) whereas the actual revenue reserve is a deficit of Kshs. (47,487,451) 2015/12016; Kshs. (50,063,000).

In the circumstances, the financial statements do not comply with the requirements of the International Financial Reporting Standards No.1 on presentation.

**Management response.**

Mr Speaker Sir, the management responded as follows:

**Bank charges-** According to the financial template the expenses are divided into three categories i.e. Direct costs, Employment costs and Administrative costs. All along we have been reporting as per this template for Financial statement of 2013/2014, 2014/2015 and for consistency we had to report it under administrative cost. However for subsequent reports as advised will be according to IFRS no.1.

The accounts are prepared using quick book accounting software, during preparation the reports are, transported to excel and finally to word document, the reserve was put as (50,063,000) in 2015/2016 and (40, 028,666) in 2014/2015. However on exporting to excel the brackets () were not integrated.

**Committee observations.**

Mr Speaker Sir, the Committee made the following observations:

1. The management admitted that it had not adhered to International Financial Reporting Standards No.1 while presenting its financial statements.
2. The management promised to abide by the IFRSno.1 when presenting its financial statements in its subsequent reports.
3. The management did not counter check on its financial statements before presenting to the board and auditors.

**Committee recommendations**

Mr Speaker Sir, the Committee recommends as follows:

1. The management shall ensure compliance with IFRS no.1 when preparing financial statements.
2. That the management shall ensure that the final financial statements presented to external boardies, agencies and institutions are accurate.

**2. INACCURACIES IN THE FINANCIAL STATEMENTS.**

- i. The financial statements availed for audit reflected the following inaccuracies; The Cash flow statement includes an amount of Kshs. 3,960,000 that was not an actual cash flow as indicated in note 9 to the financial statements on additions to motor vehicles.

**Management response.**

**Ford Ranger** - Ksh. 3,960,000 was an amount which was to be advanced to KWAWASCO as a loan from the financier (Equity bank) to purchase a car which did not materialize, the technical advisors Delloitte and Touche advised us to treat it as though we received it as we were anticipating to receive the money from the financier.

- ii. Note 3 to the financial statements for the year ended 30<sup>th</sup> June 2016 reflects revenue of Kshs. 124,544,115. However, their casted figure is Kshs. 124,547,115 resulting in unexplained or unreconciled variance of Ksh.3, 000.

**Management response.**

**Revenue-**

It was a casting error, instead of punching "286" it was punched as "289". Minor water sales were Ksh.94, 286,334 and we have availed a comprehensive schedule to support the same not indicated in the accounts as Ksh. 94,289,334.

- iii. Note 4 to the financial statements reflect an amount of Kshs. 35,505,550 as cost of bulk electricity for the year 2014/2015. However the audited financial statements for the year 2015/2016 indicate Ksh, 35,501,550 resulting in an unexplained and unreconciled variance of Kshs. 4,000.

**Management response.**

**Bulk Electricity-** The opening balance of bulk electricity was also a casting error, the figure remained to be Ksh. 35,505,550 and not 35,501 550.

- iv. Note 17 to the financial statements for the year ended 30<sup>th</sup> June 2016 reflects an amount of Ksh.41, 313,663 as other payables. However the casted figure in the supporting schedule availed for audit review amounted to Kshs.38, 312,763 resulting to unexplained or unreconciled variance of Kshs.3, 000,900. As a result, the accuracy and completeness of the financial statements for the year ended 30<sup>th</sup> June 2016 could not be confirmed.

**Management response.**

**Other payables-** The variance of Ksh. 3,000,900 was a casting error, where the PAYE item was casted as Ksh. 32,324,117 and the actual figure for PAYE was Ksh. 35,325,017 We have provided a schedule to support the figure of Ksh. 41,313,663.

**Committee observations.**

Mr Speaker Sir, the Committee made the following observations.

- i. The management misrepresented its receipts by showing an amount of Kshs. 3,960,000 in its cash flow statement which they had not received.
- ii. The management did not counter check on its financial statements before presenting them to the board and auditors.

**Committee recommendations.**

Mr. Speaker Sir, the Committee recommends as follows.

- i. The management shall ensure that in their subsequent reports that receipts entered are not based on assumptions.
- ii. That the management shall ensure that the final financial statements are counter checked to ensure they are accurate before presenting them to the board and other external agencies or institutions.

**3. FINANCIAL PERFORMANCE.**

The Company recorded a profit of Kshs. 2,576,149 for the year ended 30<sup>th</sup> June 2016 (2014/2015 loss of Kshs.10,034,934) thus reducing the accumulated deficit from Kshs.50,063,600 to Kshs.47,487,451 as at 30 June 2016. In addition the total current liabilities of Kshs.168, 030,460 exceeded the total current assets of Kshs.154, 478,227 resulting to a negative working capital of Kshs.13, 552,233. This is an indication that the Company may not be able to settle its obligations when they fall due. Therefore the Company's going concern is threatened and its continued existence depends on continued financial support by its creditors and bankers.

**Management response.**

The Company is currently working under negative working capital of Ksh. 13, 552,233 as picked by the auditors. This has been contributed by the fact that Coast Water Service Board bills KAWAWASCO an average of Ksh. 8,000,000 per month as bulk water and we pay bulk electricity for our boreholes to an average of Ksh. 4,000,000. As part of strategy, the management has contested to CWSB for the higher bulk water bills so that they can be manageable as we pay for bulk electricity which is their mandate, furthermore the management is extending new lines to increase new connections which will translate to increased revenue.

**Committee observations.**

Mr. Speaker Sir, the committee observed the following.

- i. That the company is operating on a negative working capital of Kshs. 13,552,233.
- ii. The company's going concern is threatened and its continued existence depends on continued financial support by its creditors and bankers.

**Committee recommendations.**

Mr. Speaker Sir, the committee recommends as follows.

- i. The management shall ensure that it reduces its liabilities by cutting down on unnecessary expenditures at the company.

**4.0 NON-CURRENT ASSETS.**

**4.1 PROPERTY, PLANT AND EQUIPMENT.**

The statement of financial position as at 30<sup>th</sup> June 2016 reflects property, plant and equipment balance of Kshs. 17,127,180. Included in the balance of Kshs. 17,127,180 is Kshs. 10,294,916 being cost of assets acquired during the year. However the asset register availed for audit had neither values nor dates when the assets were acquired intangible assets in form of software for billing system during the year at a cost of Kshs. 550,000. However the balance was not reflected in these financial statements as at 30<sup>th</sup> June 2016.

**Management response.**

Under the water service provider's agreement infrastructure development is carried out by CWSB, hence all assets belong to the Board. Most of the assets the company is using did not come with ownership documentation hence KWAWASCO cannot claim ownership.

For the assets which the company bought on its own, we have availed a comprehensive schedule of the asset register for your confirmation.

In regard to Kshs. 550,000 of the intangible assets the developer had not given any invoice and we could not claim ownership.

**Committee observations.**

Mr. Speaker Sir, the committee observed the following.

- i. That most of the KWAWASCO assets were donated by CWSB with no documentary evidences hence cannot claim ownership.

**Committee recommendations**

Mr. Speaker Sir, the committee recommends as follows.

- i. That KWAWASCO management should sit with CWSB to reconcile their financial statements asset register before finalizing on them.

**4.2 PURCHASE OF MOTOR VEHICLE.**

Included in the property, plant and equipment balance of Kshs. 17,127,180 as at 30<sup>th</sup> June 2016 is an addition of Kshs. 4,950,000 relating to a motor vehicle (Ford Ranger XLT) acquired at a cost of Kshs. 3,960,000 by the Company through asset financing from a bank and the balance of Kshs. 990,000 paid by the Company. A company was awarded the tender to supply the vehicle which was delivered on 31 January 2016. However, the asset financing arrangement with the bank did not materialize resulting in repossession of the vehicle by the supplier for non-payment of Kshs. 3, 950,000 although the Company had paid a down payment of Kshs. 990,000.

**Management response.**

The company engaged the supplier after the financier failed to honor her obligation and so far KWAWASCO has paid substantial amount. Repayment of the vehicle is still on-going with a repayment of Ksh. 500,000 done to the supplier.

**Committee observations.**

Mr. Speaker Sir, the Committee observed the following.

- i. That the Ford Ranger XLT registration number KCE 778D was repossessed by the supplier CMC Motors for non-payment.
- ii. That KWAWASCO has so far paid Kshs.1,490,000 in respect of purchase of Ford Ranger XLT KCE 778D after a period of two years.
- iii. The Committee ascertained that the Ford Ranger XLT registration number KCE 778D is still at CMC workshop/yard.

**Committee recommendations.**

Mr. Speaker Sir, the Committee recommends as follows.

- i. The management shall prioritize payment of the balance remaining so that the company does not suffer losses in case the supplier decides to auction the vehicle.

**4.3 WATER METERS.**

Records availed for audit revealed that the Company received Water Meters worth Kshs. 1,455,000 from the County Government of Kwale. However, it is not clear and

the management has not explained how the water meters were accounted for in these financial statements.

Consequently, the accuracy and completeness of the property, plant and equipment balance of Kshs. 17, 127,180 as at 30<sup>th</sup> June 2016 could not be confirmed.

**Management response.**

The company received water meters from the County Government hence ownership remains with the County therefore putting the same in KWAWASCO financial statement would mean duplication.

**Committee observations.**

Mr. Speaker Sir, the Committee observed the following.

- i. That the laid down Government procedure for issuance and receipt of stock (Water meters) was not followed.

**Committee recommendations**

Mr. Speaker Sir, the Committee recommends as follows.

- i. That KWAWASCO management should ensure that they reconcile receipt of water meters with the County Department of Water services to ensure that laid down Government procedure on issuance and receipt of stock is followed.

**5.0 TRADE AND OTHER RECEIVABLES.**

The statement of financial position as at 30<sup>th</sup> June 2016, reflects a balance of Kshs.140,754,109 in respect of trade and other receivables as at 30 June 2016, included in the balance is Kshs. 259,415 and Kshs. 518,989 being staff imprest and debtors respectively. These amounts have been outstanding for a very long time and there was no evidence that the management has made effort to recover the same.

Consequently, it has not been possible to confirm the recoverability of trade and other receivable balance of Kshs. 778,404 and that trade and other receivable balance of Kshs. 140,754,109 as at 30 June 2016 is fairly stated.



**Management response.**

The management recovered the staff imprest and debtors from their salaries for those who are still working for the company but there is a balance for some staff who left the company either deceased or left long time ago. A List for those who could not be recovered has been provided.

**Committee observations.**

Mr. Speaker Sir, the Committee observed the following.

- i. That the management failed to provide a list of staff who had an outstanding staff imprests and debtors of Kshs. 259,415 and Kshs. 518,989 respectively.

**Committee recommendations.**

Mr. Speaker Sir, the Committee recommends as follows.

- i. The management shall fast truck the process of recovering outstanding staff imprest and debtors for staff who are either still working or left the company.
- ii. The management shall write off the outstanding staff imprests and staff debtors of staff who are deceased.

**6.0 CASH AND BANK BALANCE.**

**6.1 BANK OVERDRAFT.**

The statement of financial position as at 30 June 2016 reflects a balance of Kshs. 13,724,118 in respect of cash and bank balances. Records availed for audit review indicated that the Company had overdrawn its expenditure account to the tune of Kshs.107, 000. However, the overdrawn amount has been set off against cash and bank balance of Kshs. 13,831,118 contrary to the requirement of International Financial Reporting Standards No. 1 on presentation which requires that assets should not be set off against liabilities but be disclosed separately in the financial statements.

**Management response.**

The financial statement was done for consistency but in the subsequent financial reports it will be reported as prescribed by IFRS NO. 1.

**Committee observations.**

Mr. Speaker sir, the Committee observed the following.

- i. The Management failed to abide by the IFRS NO.1 when presenting financial statements.

**Committee recommendations.**

Mr. Speaker sir, the Committee recommends as follows.

- i. That the management shall ensure future subsequent reports abide by the IFRS no.1 when presenting financial statements.

**6.2 UNBANKED WATER SALES.**

The statement of comprehensive income reflects an amount of Kshs. 124,544,115 in respect of revenue (water sales) out of which Kshs. 80,662,857.10 was received in cash as per the records availed for audit verification. However, only Kshs. 78,939,013.00 was banked in the Company's collection account resulting in unbanked cash of Kshs. 1,723,844.10.

Consequently, the accuracy and completeness of cash sales of Kshs. 80,662,857 for the year ended 30 June 2016 could not be confirmed.

**Management response.**

The company adopted Mpesa transfer and direct banking hence cutting out short banking from cashiers. KWAWASCO affirms that the Mpesa and direct banking adds up to Ksh. 80,662,857.

**Committee observations.**

Mr. Speaker Sir, the Committee observed the following.

- i. That there was a variance of unbanked cash of Kshs. 1,723,844.10.
- ii. The Management failed to avail the Mpesa statement and reconciliation statement of Ksh. 1,723,844.10 hence cash sales of Kshs. 80,662,857 could not be verified.

**Committee recommendations.**

Mr. Speaker Sir, the Committee recommends as follows.

- i. That management shall ensure all receipts are banked.
- ii. That the Mpesa statement and reconciliation statement is availed before the committee within 30days after the adoption of this report failure to which the Accounting Officer shall be surcharged the unbanked cash of Kshs. 1,723,844.10.

**7.0 NON-CURRENT LIABILITIES.**

**7.1 SERVICE GRATUITY.**

The statement of financial position as at 30<sup>th</sup> June 2016 reflects an amount of Kshs.12,342,534 in respect of non-current liabilities out of which, Kshs. 3,505,133 relate to service gratuity. However, a list of all staff on contract and the provision done as at 30 June 2016 was not availed for audit.

In the circumstance, it was not possible to confirm that Kshs. 427, 728 paid as service gratuity was provided for and that the balance of Kshs. 3,505,133 is fairly stated as at 30 June 2016.

**Management response.**

List of staff on contract and the computation of gratuity of Ksh. 427,728 as observed by the auditors has been provided for committee scrutiny and verification.

**Committee observations**

Mr. Speaker Sir, the Committee observed the following.

- i. The management availed a list of members of staff who were on contract and computation of service gratuity amounting to Ksh.427, 728 for committee scrutiny and verification. It was therefore concluded that the balance of Kshs. 3,505,133 was fairly stated.

**Committee recommendations**

Mr. Speaker Sir, the Committee recommends as follows.

- i. That Management shall ensure all relevant documents are availed to the auditors during the time of audit.

**7.2 CUSTOMER DEPOSITS.**

The statement of financial position reflects a figure of Kshs. 8,837,401 in respect of customer deposits. During the year, the Company received Kshs. 2,225,976 being customer deposits, however, no deposit register was availed for audit verification. Further, Kshs. 1,000,000 was used to pay power bills, contrary to the requirements of service provider's agreement on operation of customer deposit account.

Consequently, it was not possible to ascertain the correctness and completeness of the customer deposits of Kshs. 8,837,401 as at 30<sup>th</sup> June 2016.

**Management response.**

Customer deposit register has been availed before the committee for verification.

**Committee observations.**

Mr. Speaker Sir, the Committee observed the following.

- i. That the customer deposit register was availed before the committee for scrutiny and verification.
- ii. That Kshs. 1,000,000 was used to pay power bills contrary to the requirements of service provider's agreement on operation of customer deposit account.
- iii. That the management has not yet refunded the Kshs. 1,000,000 used to pay power bills despite a commitment to refund the same in the same financial year.

**Committee recommendations.**

Mr. Speaker Sir, the Committee recommends as follows.

- (i) That the management shall avail all necessary documents to the auditors during the time of audit.
- (ii) The management shall ensure that Kshs. 1,000,000 withdrawn from the customer deposit account is refunded.

**8.0 TRADE AND OTHER PAYABLES.**

**8.1 ADVANCE FROM COUNTY GOVERNMENT.**

The statement of financial position as at 30<sup>th</sup> June 2016 reflects trade and other payables balance of Kshs. 168,030,460. Included in this balance is trade creditors of Kshs. 114,971,311 out of which Kshs. 5,000,000 was an advance from County Government of Kwale. The agreement availed for audit verification indicates that the company was to settle the debt before the end of the financial year 2014/2015. However, as at 30<sup>th</sup> June 2016 the Company had not settled the advance.

Further, the Kwale Water Company's current account in respect of Coast Water Services Board had a balance of Kshs. 71,876,648 as at 30<sup>th</sup> June 2016. However, records maintained by the Board indicated a balance of Kshs. 221,378,555 resulting in unreconciled or unexplained variance of Kshs. 149,501,907.

In addition, the management failed to produce documentary evidence to support accruals and sundry (project funding) balance of Kshs. 11,745,486. Consequently, the accuracy and completeness of the trade and other payables balance of Kshs. 168,030,060 as at 30<sup>th</sup> June 2016 could not be confirmed.

**Management response.**

The company did not settle the debt due to weak cash flow which has been a critical issue for long.

**Committee observations.**

Mr. Speaker Sir, the Committee observed the following.

- i. Records availed before the committee showed a letter done by the Chief Officer Department of Water Services to KWAWASCO asking for refund of the advance of Kshs. 5,000,000 but there was no agreement between the County Department of Water Services and KWAWASCO to effect the same.
- ii. That the County Department of Water Services advanced Kshs. 5,000,000 to KWAWASCO that had not been appropriated for without any agreement entered into between the two parties.
- iii. That KWASCO has to date not paid the sum advanced to it by the County Department of Water Services despite a request to refund within the same Financial Year 2015/2016.

- iv. That there was an alleged disparity of unreconciled balance of Kshs. 149,501,907 between Coast Water Service Board and Kwale Water and Sewerage Company.
- v. That the management availed invoices, delivery notes and local purchase orders amounting to Kshs, 11,745,486 owed to trade creditors before the Committee for verification and scrutiny.

**Committee recommendations.**

Mr. Speaker Sir, the Committee recommends as follows.

- (i) The management shall ensure that Kshs. 5,000,000 advanced to Kwale Water and Sewerage Company is paid to the County Department of Water Services.
- (ii) That any future financial engagements and commitments made between KWAASCO and County Government of Kwale shall be entered into with a clear concise agreement.
- (iii) The KWAASCO management should engage Coast Water Service Board to reconcile the disparities and update on their trade payables.

**8.2 AUDIT FEES.**

Included in the trade and other payables under Note 17 are trade creditors figure of Kshs.114,971,311 out of which Kshs.2,128,000, is an audit fees owed to the office of the Auditor General. Further the Company failed to disclose the audit fees balance separately. This is contrary to Section 41 of the Public Audit Act, 2015, which requires that the funds of the Office of the Auditor-General shall consist of audit fees charged at rates prescribed by the Auditor-General. As a result, the Board breached the law.

**Management response.**

We took the recommendation and subsequent financial statements Audit fees will be reported separately as required by Section 41 of the Public Audit Act, 2015.

**Committee observations.**

Mr. Speaker Sir, the Committee observed the following.

- i. That the management failed to abide by Section 41 of the Public Audit Act, 2015 when presenting Audit fees in the financial statements.

**Committee recommendations.**

Mr. Speaker Sir, the Committee recommends as follows.

- i. That the management shall in future reports abide by Section 41 of the Public Audit Act, 2015, when presenting financial statements.

**9.0 UNREMITTED STATUTORY DEDUCTIONS.**

As reported in the previous year, the trade and other payables balance of Kshs.168,030,460 as at 30 June 2016 includes other payables of Kshs.41,313,663 out of which Kshs.32,324,117 is in respect of unremitted Pay As You Earn. Kenya Revenue Authority (KRA) has instituted a recovery process for unpaid taxes and imposed a tax penalty of Kshs.14, 805,454 which has been included in these financial statements.

The penalty payable to KRA on account of unremitted Pay As You Earn constitutes a nugatory expenditure to the Company.

**Management response.**

The company negotiated with KRA for payments of the arrears and we have provided the schedule of some of the payments schedules done in regard to that for your confirmation.

**Committee observations.**

Mr. Speaker Sir, the Committee observed the following.

- i. The employer failed to remit statutory deductions to Kenya Revenue Authority amounting to Kshs. 32,324,117.
- ii. That Kenya Revenue Authority had imposed a tax penalty of Kshs. 14,805,454 for failure to remit statutory deductions.
- iii. That the company has been unable to pay the outstanding statutory deductions amounting to Kshs. 32,324,117 and its imposed tax penalty of Kshs. 14,805,454 as it operates on a negative working capital.

**Committee recommendations.**

Mr. Speaker Sir, the Committee recommends as follows.

- i. That the management shall prioritize payment of the statutory deductions to avoid auction of Company's fixed assets.

**10.0 NON-REVENUE WATER.**

Records availed for audit revealed that during the year under review, the Company produced 2,655,398 cubic meters of water, out of which only 1,668,040 cubic meters were billed to customers at Kshs. 124,544,115. The balance of 987,358 cubic meters or approximately 37% of the total volume represented Unaccounted for Water (UFW). The UFW may have resulted to loss of sales during the year estimated at Kshs. 44,421,110.00 charged at the rate of Kshs, 45 per cubic meter.

The significant level of UFW may negatively impact the Company's profitability and its long term sustainability. Further there was no evidence that the management has put strategies in place to reverse the trend.

**Management response.**

Non-revenue water can be either technical or commercial loss. Commercial loss may be due to non-working meters, stopped meters, or what we call under mango meter reading (false meter readings). This loss accounts for almost 25% of the 37%. The company has put down strategies to reverse this trend by acquiring and replacement of non-working meters, operationalize a water meter servicing team, establishing inspection unit within its rank and introduction of DMAs for closer inspection.

The company has come up with rapid response team to address water leakages and bursts.

**Committee observations.**

Mr. Speaker Sir, the Committee observed the following.

- i. That the management confirmed that non-revenue water stands at 67% instead of 37% as picked by auditors.

**Committee recommendations.**

Mr. Speaker Sir, the Committee recommends as follows.

- i. That the management shall find new strategies to ensure that Unaccounted for Water (UFW) is minimized so as to reverse the trend.



**11.0 ADMINISTRATIVE COSTS.**

**11.1 DIRECTORS EMOLUMENTS.**

The statement of profit and loss and other comprehensive income reflects administrative costs of Kshs. 41,030,289. The costs include an amount of Kshs. 2,083,150 paid as director's emoluments as reflected in Note 7 to the financial statements out of which Kshs. 1,280,000 was paid as sitting allowance. However, the appointment letters availed for audit indicated that each director was to be paid an allowance of Kshs. 11,000 per sitting instead of Kshs. 20,000 per sitting paid by the company. No explanation was provided for this anomaly.

Under the circumstances, it was not possible to confirm the regularity of Kshs. 1,280,000 paid as sitting allowance for the year ended 30 June 2016.

**Management response.**

The approval of Ksh. 20,000/= per sitting was made in a full board meeting.

**Committee observations.**

Mr. Speaker Sir, the Committee observed the following.

- i. There were no attendance registers for the board sittings availed before the committee for verification.
- ii. The increase in sitting allowances for the board was as a result of a request by the secretary to the Board.
- iii. No minutes of the board sittings were availed before the committee for verification in support of the paid sitting allowances.
- iv. The management failed to produce SRC circular that guided the increment of sitting allowances for the board members.
- v. Board members were paid sitting allowances of Kshs.20, 000 per sitting contrary to Kshs. 11,000 per sitting as stated in the appointment letters.

**Committee recommendations**

Mr. Speaker Sir, the Committee recommends as follows.

- (i) The Accounting Officer shall ensure proper maintenance of attendance register and minutes of the board sittings.

- (ii) The Accounting Officer shall be guided by the Salaries and Remuneration Commission circulars in paying board sitting allowances.
- (iii) That the Accounting Officer be held accountable to ensure that any excess amounts paid as sitting allowances to the Board of Directors, contrary to the appointment letter and Salaries and Remuneration Commission circular is recovered within 30days after the adoption of this report failure to which the Accounting Officer shall be surcharged of the same.

## **11.2 INSURANCE.**

The statements of profit and loss and other comprehensive income reflect an amount of Kshs. 41,030,289 in respect of administrative costs out of which Kshs. 687,823 relates to insurances costs for the year under review, however, records on insurance contract agreements and valuation reports were not availed for audit verification.

Under the circumstances, the validity of insurance cost of Kshs. 687, 823 incurred in the year ended 30<sup>th</sup> June 2016 could not be confirmed.

### **Management response.**

We have availed documents to support the insurance contract agreement and evaluation report for your confirmation.

### **Committee observations.**

Mr. Speaker Sir, the Committee observed the following.

- i. The management failed to avail the contract agreements and evaluation reports to the auditors and the committee for scrutiny and verification.

### **Committee recommendations.**

Mr. Speaker Sir, the Committee recommends as follows.

- i. The management shall ensure that all relevant documents are availed to the auditors during the time of audit.
- ii. The management shall ensure that all contract agreements and evaluation reports are availed before the committee within 30days after the adoption of this report

failure to which the Accounting Officer shall be surcharged an amount of Kshs. 687,823.

**COMMITTEE GENERAL OBSERVATIONS.**

Mr. Speaker Sir, the Committee generally observed the following.

1. That from the management responses KWAWASCO is experiencing serious financial constraints evidenced by weak cash flows and negative working capital. It can therefore be concluded that the Company cannot stand on its own and its continued existence depends on continued support from creditors and the County Government.

**COMMITTEE GENERAL RECOMMENDATIONS**

Mr. Speaker Sir, the committee generally recommends as follows.

2. That Kwale Water and Sewerage Company be immediately dissolved and be taken over by the County Department of Water Services to undertake the operations of water services in the County.

**Mr Speaker sir**, I again wish to thank the members of the assembly, the office of the Speaker and the office of the Clerk for their support during the period of compilation of this report.

**Mr Speaker sir**, I now table the report of the Financial Statements of Kwale Water and Sewerage Company for the year ended 30<sup>th</sup> June 2016.

Thank you.

**SIGNATURE .....** **DATE.....**

**HON PATRICK MANGALE**

**CHAIRMAN, PUBLIC INVESTMENT AND ACCOUNTS COMMITTEE.**